

CHAPTER XXV.

Plan for the Government of the Currency.

It is at present a general opinion with all our political economists and statesmen, that there is a demand for money by the country, which as regularly presents itself to the banks in discount of good commercial bills, as the demand for any other commodity presents itself in the market, and is determined by the consumption of it; and that the issues of bank paper are the consequence of high prices and not the cause. The fallacy of this opinion, it is, we trust, unnecessary further to illustrate. Money comes into the market by the balance of foreign trade, not in consequence of the high, but in consequence of the low price of commodities; and from the banks, either from the same cause producing a balance of payment in London bills to their respective districts, or in consequence not of a demand for currency, but of a demand for capital, determined by the interest which the banks charge proportioned to the market rate. And in all cases the influx of money into the market, whether it proceed from the balance of fo-

reign trade, or the issues of banks, is not the effect, but the cause of high prices.

It is also the general opinion, that the circulation of the bank of England controuls that of the country banks; and it no doubt did so during the war, when the issues of the country banks were made upon home bills, and they had no means of providing against an unfavourable balance of payments. But when their issues come to be founded upon deposits in London, at a low rate of interest, they will be glad to avail themselves of any demand for money, either from a bad harvest or otherwise, to withdraw their deposits from London and lend them out on better interest at home. It may consequently be two or three years or more before the balance of payments in favour of London, after a demand for money has arisen, exhausts their deposits. In the mean time an artificial scarcity might be caused, or a real one aggravated; while probably before their deposits were exhausted, the sudden demand for money might cease; a contraction of currency follow; and prices fall as much below the national level until the deposits in London were restored, as they had been above it. Thus prices might be kept in a state of great vacillation without the issues of the country banks ever coming within the controul of the Bank of England's circulation.

Independent of this, every contraction of bank issues necessarily determines the balance of foreign payments in favour of the nation, and a spring tide of metallic currency, if we may so term it, flows to the metropolis. This the more effectually of course determines the balance of payments in favour of the country, and enables the country banks the more speedily to re-issue their notes upon deposits in London. But the balance of payments will continue in favour of the country until its circulation is upon a level with that of London, however much it may have been increased above the amount necessary, with its ordinary consumption, to maintain the national prices. Thus every low state of prices will be as necessarily followed by a state of prices proportionately high. Prices will rise as much above the national level as they were previously below it, until the metallic money which has come into the country has again disappeared, and the circulation of London is brought to its proper level. The gold which is now flowing into the country in such abundance, is only a temporary visitor: it will be ultimately re-expelled, if the present system of currency continues, by prices as high as they are now low; and without some change, the lovers of gold and cheap corn will find themselves most sadly deceived.

With a metallic or a paper currency, which could not be issued by country banks at pleasure, these effects would not be produced. When the circulation of London exceeded that of the country, and determined the balance of payments in its favour, if the country banks could not increase their issues, money, with which to pay the balance, would have to be sent from the metropolis, and its circulation would be diminished as that of the country increased. No mountain of currency would therefore rise in London to be re-expelled by excessive prices; but by the internal balance of payments, the circulation would equalize itself, and when prices came to the national level, they would not rise above it.

Now to put the currency on this footing, seems absolutely necessary, unless we wish corn to continue subject to those fluctuations in price which we have experienced during the last 30 years.

It is perhaps unnecessary to contend that paper is a better circulating medium than gold. It is determined by practice, which at least in practical matters, is the only correct mode of coming at the truth. People in this country who have no theories upon the subject, universally prefer paper. It is more portable, forgeries are more easily detected, at least with the notes of country banks, and it is in all re-

spects more convenient; while every plain man sees that bank notes answer the purpose of money just as well as a metallic currency. In Russia also, I understand, paper is preferred. Before it was issued in excess, and the precious metals were still in circulation, it bore a premium or agio of one per cent. and in this country I am persuaded that merchants would on the average rather give 5 or 10 shillings per cent. for paper, than submit to the inconvenience of receiving their payments in metallic money.

Presuming, therefore, that the present notes of the country banks are found to be as good a description of money as need, for any useful purpose, to be invented, I venture to submit the following Plan for the government of the currency:—

1st. Let an enquiry be made by a committee of parliament into the circulation of all the banks in the kingdom, at different periods, in order to ascertain, as far as possible, the amount of currency necessary in different districts, to maintain any given level of prices.

2nd. Let public banks be established in different parts of the country, with proper capitals, and to each bank a certain amount of circulation be assigned; for which, let both the bank and the state be security to the public.

3rd. Let each bank pay government for this

currency, a per centage, say 3 per cent., lend it out in the manner most agreeable to its interests, and keep it in circulation or not at its own pleasure.

4th. Let a board of commissioners be established in London, under whose management the currency may be placed; and to this board let every bank send weekly or monthly returns of the state of the circulation, the supply and demand for London bills, and such other information as the commissioners deem necessary for their government.

5th. Let these commissioners have an office for the deposit of bullion, and purchase all that comes into the country, at the mint price, or a little above the mint price. Let them pay for it by receipts or notes of not less, say, than a £100 each; and let any bank, either in London or any other part of the country, to which these notes or bullion receipts may be presented, be obliged to discount them, not with old notes, but by an issue of new notes over and above their stated circulation, and then return them to the board of commissioners.

6th. When a demand for bills upon London, exceeding the supply, occurs in any district, let the demand be met by the drafts of its bank upon the commissioners for bullion, and let the notes received in demand for these bills be cancelled. If these drafts are present-

ed for payment in bullion to be exported, or for any other purpose, let them be paid; but if they are remitted to any other part of the kingdom, let the banks, to whom they are presented for discount, issue fresh notes to their amount. In the same manner, let the Bank of England, or such banks of circulation as may be established in London, pay their notes by drafts upon the commissioners for bullion when required, and also issue fresh notes in discount of such drafts when presented, the same as the country establishments.

Now by this plan, while banks could not manufacture money at pleasure, the currency would dilate and contract in the same manner as with a metallic circulation. But, however, we shall take the liberty of considering it more in detail.

1. *Let an Enquiry be made by a Committee of Parliament, into the Circulation, at different Periods, of all the Banks in the Kingdom, in order to ascertain, as far as possible, the Amount of Currency necessary in different Districts to maintain any given Level of Prices.*

The obvious necessity of some such preliminary investigation by a committee of parlia-

ment, or by the commissioners intended to carry the measure into effect, renders any argument on the subject superfluous. The public welfare requires that private banks should be called upon for the information necessary; though justice will of course require that the information thus obtained, be kept secret, and only the general results be published.

2nd. *Let Public Banks be established in different Parts of the Country, with proper Capitals, and to each Bank a certain Amount of Circulation be assigned, for which let both the State and the Bank be Security to the Public.*

Public banks, with proper encouragement, might be established in six months, in every part of the kingdom; and that is as soon as any great national change could be expected to be made. National affairs, like great bodies, must necessarily move slowly. In the great commercial towns, such as Liverpool, it might be necessary to grant charters; as in the minds of some there are prejudices against entering into banks, which charters would obviate. But government cannot possibly have any objection to meet a little prejudice with a little parchment: in fact it is understood that ministers have no such objection. The charters might be

granted for 21 years, and a fine levied upon their renewal. Let those banks that wish for the bauble pay for it. There never was a speculation proposed more to the public taste than these joint stock companies; and I am enabled to say, that there will be no want of subscriptions to them when they are allowed to be set up, even though charters should not be granted.

The currency should also be put upon the most stable footing, so that no demand for gold should ever arise from want of confidence.

This would be most effectually done by both the bank and government being pledged to the public; and as government would have an inspection of the bank affairs, no possible loss could ever arise to the state from it; while the bank being also pledged, no want of confidence in the faith of government could ever materially influence the credit of the currency.

3rd. Let the Bank pay Government for this Currency a per Centage, say 3 per Cent. and lend it out in the Manner most agreeable to its Interests, and keep it in Circulation or not, at its own Pleasure.

The currency belongs to no individual, and is therefore the property of the state. Go-

vernment ought to receive the profits derived from that which is so properly its own. It is the object to make the taxes as little objectionable to individuals as possible, and no tax could fall more imperceptibly upon the public than this would do. The proper business of banks is not to manufacture, but to trade in money. To take from banks, therefore, either private or public, the precarious source of profit which they derive from the circulation of notes, and oblige them to charge a commission upon their discounts instead, would be doing them good and not harm. Experience has proved that those private banks have made the most money upon the average, that have had nothing to do with the circulation at all. I should imagine, that if the banks in Newcastle did not issue notes, but conducted their present business upon the same principles as the banks in Manchester, Liverpool, or London, they would make twice the money.

The per centage which government will be enabled to charge, will depend, in the first place, upon whether they allow more than one public bank in each place or not. If banks are allowed to be set up unlimitedly, of course the bank which conducts the circulation cannot afford to do it for nothing; and the interest must be sufficiently below the common rate to pay with a profit, for the expence and trou-