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A HISTORY

OF

American Currency

WITH CHAFTBSS ON

THE ENGLISH BANK RESTRICTION

AND

AUSTRIAN PAPER MONEY

^ , I.'

William a Sumner

Professor of JhiUUal 6\* Social Sdena

in Yale College

TO WHICH n AFI-ENDKO

\*\*THE BULLION REPORT\*\*

■ ^ ^

NEW YORK

HENRY HOLT AND COMPANY

1878

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Batered acoordmg to Act of Concren\* in the year 1874, by

HENRY HOLT,

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PREFACE.

T N the autumn of 1873 I published in the ' Fi-

^ nancier," four or five short sketches of those

portions of history which are most instructive in

regard to doctrines of currency. The plan was

•J

n, to leave the historical facts to tell their own story

^ without comment It succeeded so far that man^

F

'^. persons who do not believe that financial laws

vary with the period, the climate, or the conti-

nent, read them with interest, and drew the infer-

ences of which it seemed to be important that we

should all be convinced. I was asked to re-pub-

lish the sketches in permanent form. In acceding

to this request, however, I desired to present

these chapters of history more completely, and I

determined also to incorporate with this project

another plan which I had formed, viz., to edit

the Bullion Report Two of the articles referred

to treated of the paper money in the American

IV PREFACE.

colonics, and the crisis of 1819. These have been

expanded here into an outline sketch of the his-

tory of American currency. I regard the history

of American finance and politics as a most impor-

tant department which lies as yet almost un-

touched. The materials even are all in the rough,

and it would require very long time and extensive

research to do any justice to the subject. I hope,

at some future time, to treat it as it deserves, and

I should not now have published anything in re-

gard to it, if I had not felt that it had, at this

juncture, great practical importance, and that

even a sketch might be more useful perhaps than

an elaborate treatise. It follows from this ac-

count of the origin and motive of the present

work, that it does not aim at any particular unity,

but consists of three distinct historical sketches,

united only by their tendency to establish two or

three fundamental doctrines in regard to cur«

rency.

YaU College, March, 1874.

J

CHAPTER I.

HISTORY OF AMERICAN CURRENCY.

THE English Government made no objection

to the emigration of the Puritans to New

England, save that they carried money out of the

reahn. The earliest settlers carried very little;

other forms of capital were more valuable to

them, and they had no use for it, save in

exchanges amongst themselves, .Yet Winthrop

wrote to his son, in 1630, especially to bring ^^150

or ;^200 in money. Later settlers brought

money to exchange for cattle, seed, and other

forms of capital which the first colonists had

already accumulated. In this form, the law that

every conmiunity will have so much of the

precious metals as it needs for its exchanges\*

vindicated itself in their case.

• See p. 25a

2 HISTORY OF AMERICAN CURRENCY.

Of the value of money amongst them we may

judge from the following incidents :

A married clergyman was allowed £2P V^

annum.

Josias Plaistowe, having stolen four baskets of

corn from the Indians, was to repay eight and

be fined ;^5.

Carpenters, sawyers,\* joiners, and bricklayers

(whose services were in great demand, and had

a monopoly price), were forbidden to take over

1 2d. and afterwards 2S. per day. Penalty, los.

to giver and taker.

Magistrates had 3s. 6d. and deputies 2s. 6d.

per day.

Ed. Palmer, being found guilty of extortion

in charging 13s. 4d. for the wood- work of the

Boston stocks, was fined ;^5, and condemned

to sit in the stocks one hour.

•In January, 1631, the crops having failed in

England, and no crop having yet been raised

in Massachusetts Bay, grain was at famine

prices. Including freight, wheat was 14s. per

bushel, peas los. Indian com from Virginia

HISTORY OP AMERICAN CURRENCY. 3

I OS. Many catde died. A cow was worth

;^25 or £zo.

The President of Harvard College was con-

demned to pay an usher ;^20 for flogging him.

WAMPUMPEAG CURRENCY.

When exploring parties penetrated to Long

Island Sound, they found along its coasts tribes

of Indians far more civilized than those who had

been met farther north. The cause or indication

of their superiority was that they had a circulat-

ing medium. This consisted of beads of two

kinds, one white, made out of the end of a

periwinkle shell, and the other black, made

out of the black part of a clam shell. These

beads were rubbed down and polished as articles

of ornament, and arranged in strings or belts into

jewelry, being objects of real beauty when the

colors were artistically combined. These beads

and belts were used by the Indians themselves

as money, and were real money. They re-

garded one black bead as worth two white.

This money was called wampumpeag, or wam-

pum, or peag.

4 HISTORY OF AMERICAN CURRENCY.

The colonists began to use it first for ex-

changes with the Indians, and then amongst

themselves. It was first made legal tender only

for 1 2d. in Massachusetts, but by custom it be-

came the prevailing currency. The white man

also proved his superiority by counterfeiting it.

A fathom or belt of wampum consisted of 360

beads. One fathom of white would buy furs

which were valued at 5s. sterling, and one fathom

of black would buy furs worth ids. Therefore,

360 white beads, &» 6od.

6 beads, «« i penny.

360 black ^eads, »» i2od.

3 beads, ss j penay.

These were the rates at which the peag first

circulated among the colonists, and its oper-

ation is in many respects worthy of study. It

was, for the Indians, in their limited community,

a perfect money. They divided their labors,

some hunting and fishing, some, who lived on

the shore, making peag. They made as much

as they chose or could. It was a product of

labor, and subject to demand and supply. It was

valued as jewelry, and when thus made up and

HISTORY OF AMERICAN CURRENCY. 5

appropriated, it passed out of circulation. Prices

must have fluctuated in it according to the active

circulation which extended several hundred miles

inland westward. It was subject to deterioration

by wear and use.

When the colonists, who were in exchange

relations with a world which used gold and

silver, began to use it, other currency laws came

into operation. It was not exportable, would not

satisfy foreign debts, was not desired by the

whites, save for the conventional purpose of

money.

BARTER CURRENCY.

The colonists began, soon after the settlement

of Massachusetts Bay, to use a barter currency,\*

ostensibly because they had not money enough :

really because they wanted to spare the world's

currency to purchase real capital, which was their

true need. The currency history of this country

has been nothing but a repetition of this down to

the present hour. It has always been claimed

that a new country must be drained of the

\* In 1635 mtisket bullets were used for change at a farthing apiece, legal

tender for sums under I2d.

6 HISTORY OF AMERICAN CURRENCY.

precious metals, or that it could not afford so

expensive a medium. The new country really

needs capital in all forms. The only question is,

whether, being poor and unable to get all that

it wants, it can better afford to do without

foreign commodities or without, specie currency.

No sound economist can hesitate how to decide

this question. The losses occasioned by a bad

currency far exceed the gains from imported com-

modities. The history of the United States from

the landing of Winthrop to to-day is a reiterated

proof of it. The best protection to native man-

ufactures is to keep a due proportion of the

national capital in a specie circulation, and do

without, or find substitutes for, or lea rn to make,

the thing^s which the people cannot afford to

buy from older and more advanced countries.

Credit, in its legitimate forms, is priceless to a \*

new community, but when used in illegitimate

forms, as in a pure credit currency, or in a cur-

rency into which credit enters as an indefinable

element, it makes legitimate credit impossible.

This history will do little more than to expose

the errors involved in mistaking credit currency

HISTORY OF AMERICAN CURRENCY. • 7

for money, and money for capital — errors which

are repeated to-day by the new States — and to

show the bad results of those errors.

The barter currency was inferior to gold and

silver in cost. When com and beaver, and, in

fact, all other products, were made legal tender,

no one would pay debts in specie. It was

hoarded and paid away for imports.

A barter currency is also the most rapid of all

currencies in its depreciation. If a cow will pay

taxes, the leanest cow will be given. If com

will pay a debt, the corn which is of poorest

■

quality, or damaged to a certain extent, will be

given.

If a large number of commodities are made le-

gal tender, the poorest quality of the commodity,

which may be cheapest at the time of payment,

will be given. Credit operations are therefore

made almost impossible.

Some ludicrous complaints, on the part of

the tax-gatherers, scattered up and down in

the records, bear witness to the fact that this

was all experienced in New England. The

more barter currency was used \*' because money

8 HISTORY OF AMERICAN CURRENCY.

was scarce," the scarcer money became. Prices

rose to fit the worst form of payment which

the seller might expect.

Accordingly, in 1640, prices having risen so

much that the nominal "penny" in the barter

currency had fallen, we find the Massachusetts

Court re-rating wampum at four of the white and

two of the black for a penny, to the amount of

1 2d\* Interest was 8 per cent.

During the ten years, then, from 1630 to 1640,

the specie brought over, and that gained by

trade with the West Indies and Virginia (not yet

great) had been steadily exported. Merchants

had found the colony a good market In 1640,

Winthrop tells how the merchants came and

drained off the people's cash. That he should

not have understood the case is not strange, but

that people nowadays should not have learned

from the experience of two centuries and a half,

and the teachings of science, any better than to

repeat the same theory, is astonishing.

HISTORY OP AMERICAN CURRENCY.

DISTRESS.

Meantime silver prices had, of course, fallen

enormously. Now came other circumstances to

prostrate the colony. The emigrants ceased to

come, on account of the prospect of a new state

of things favorable to them at home. Merchants

came, but no longer found a market. The pro-

ject of moving away was broached and earnestly

debated in the colony. This tended to still fur-

ther depress the price of all fixed improvements

and stock. Cows were valued in taxation, in

1646, at £^ ; horses four years old, £6.

In the first years, 1630--1640, 22,000 peo-

ple came over. For some time after 1640 more

went back than came. The settlers had gained

by sales of stock, etc., to successive new arrivals.

A farmer had clothed his family on one cow sold

annually from his stock. ;^ 192,000 had been

spent on the colony, "a dear purchase, if they

had paid nothing to the Council of Plymouth

and nothing afterwards to the sachems of the

country/'

lO HISTORY OF AMERICAN CURRENCY.

NE W INDUSTRIES.

Under the new circumstances they turned

to new industries, and, so far from being ruined,

were far better off. In 1641 corn would buy

nothing, but was legal tender for debts. They

turned to ship-building, carrying between Vir-

ginia and the West Indies, fishing, seal fishing on

the Isle of Sable, and lumbering. These indus-

tries all prospered. In 1643 the crop failed, and

com was sold only for ready money or for cattle,

at 1 2d. more per bushel than for cash.

In 1648 it was necessary to order that only

such peag as was unbroken and of good color

should pass — legal tender up to 1 2d.

In 1649 the colony treasurer was forbidden to

take peag. The inhabitants began to reject it, but

the court then ordered that peag should be legal

tender for 40s., the white at eight and the black

at six for a penny. Disputes arising about the

barter currency for taxes, three appraisers were

provided for, one to be chosen by the treasurer,

the second by the owner, and the third by the

marshal

HISTORY OF AMERICAN CURRENCY. u

THE ''PINE-TREE'' COINAGE.

Coin was now coming in freely by the trade

with the West Indies. The buccaneers also

spent a great deal of their booty in the colonies,

but it all just as steadily went out In 1652

Massachussets set up a mint at Boston to coin

this metal and try to keep it in circulation.

They coined shillings, sixpences, and three-

pences, and continued to do so for many years,

but, as it was a breach of the prerogative to coin,

they dated all the coins 1652. The coins were

to be of sterling alloy, f}- fine, and the shilling

worth lod. sterling. The mint master had i5d.

in 20s. for coining. As silver was worth 5s. 2d.

sterling per oz., if the New England shillings had

been equal to lod. sterling each, silver should

have been worth 6s. 2^ New England currency

per oz., but as the mint master kept i5d. out of

every 20s., silver was worth 6s. yd. New England

currency per oz.^ if the coin was up to its own

standard. It would therefore have been 22 per

cent worse than sterling. The English Mint de-

clared it not of even weight or fineness, and if

12 HISTORY OF AMERICAN CURRENCY.

was taken in England only at 25 per cent dis-

count. The normal rate, therefore, was 6s. 8d,

per oz. The law forbade exportation on penalty

of forfeiting all visible estate. Of course this re-

strained but it did not prevent it. This currency,

known as the "pine-tree" currency, forms the

standard by which calculations were made from

thjs time on.

Meantime the barter currency was continued,

and another act passed in 1654 provides that all

contracts in kind shall be so satisfied. In 1655, ^

constable brought catde to the treasurer for taxes

which were so poor that he would not take them.

In 1657 another prays for relief because, having

taken boards for taxes, the treasurer would not

allow him as much as he allowed for them. In

1658 it was ordered that no man should pay

taxes in "lank" cattle. In fact the barter cur-

rency continued general.

In 1655 the colony accounts allow for £2>^ ids.

peag burned with the treasurer's house, and con-

tain an entry of eighteen strings of peag at six a

penny.\*

\* For this, and many other citations from the Colonial Recordsi I am ia^

iebted to Felt's Mass. Currency.

HISTORY OF AMERICAN CURRENCY. 13

Accordingly, the silver money no sooner ap\*

peared than it was either smuggled out of the

country or clipped. The principle laid down by

Sir Thomas Gresham in Queen Elizabeth's time,

that a better and a worse currency cannot circu-

late together, but that the worse will drive out

the better, was the only secret. If the better

currency could not be exported, it was clipped

down to the rate of the inferior currency, or

rather below it, in order to be on the safe side,

■

and pay rather less than more than one need.\*

The silver which came to the colony consisted

for the most part of Spanish pillar coins. On

account of the heavy mint charges these were not

taken to the mint. They were not allowed to

be circulated. The dollar, or piece of eight, was

worth 4s. 6d. sterling, or 6s. New England cur-

ency. In 1672 a law was passed allowing these

pieces to circulate at 6s. and other pieces in

proportion. In 1675 ^^ vcCxviX, was leased again,

in spite of prohibitions from England. In the

\* In 1873 the United States coined a " trade dollar" ¥rith the purpose

«f gietting a share of the China banking and exchange bosincsSb The project

was in eveiy way fallacious, but the dollars were made worth $1.03 in gold.

•ad, coming into circulation in Nevada, were clipped.

14

HISTORY OF AMERICAN CURRENCY.

same year, 25 per c6nt. discount on barter taxes

was allowed for cash, and afterwards 50 per cent.

In the same year, it was provided that, instead of

transporting barter payments of taxes to and

from the treaSury, the transfers should be made

by paper orders. Meantime, the coin was sent

to England and to the other colonies, and was

extremely scarce in Massachusetts.

In 1686 a bank was proposed, to issue notes.

Its history is obscure, and though it seems to

have made issues, they soon disappeared. An-

dros stopped the mint about 1688. It formed one

of the chief charges against the colony on account

of which the charter was revoked in 1684.

THE FIRST EXPEDITION AGAINST CANADA,

AND PAPER MONEY.

In 1690 an expedition was fitted out against

Canada, the payment for which was to come from

the booty. It came back not only without

booty, but in great misery. The soldiers were

clamorous for pay, and it was to satisfy their de

mands that the first paper money was issued.

This expedition cost the colony ;^50,ooa

HISTORY OF AMERICAN CURRENCY. jj

£7,000 were issued in notes from 5s. to £$, re-

ceivable for taxes, and for goods paid into the

treasury for taxes.

Sir William Phipps tried to sustain the paper by

giving coin for some of it, but the soldiers disposed

of it at one-third discount The issues were lim-

ited to ;^40,ooo, and ;^io,ooo in the treasury were

ordered burned in 169 1. In 1692 it was ordered

that the bills be received at 5 per cent, advance

over coin at the colonial treasury, and the Court

promised to redeem them in money within twelve

months. This kept the paper at par for twenty

years. In the same year legal interest was re-

duced to 6 per cent. The barter currency now

ceased for a time, or at least became less

common. Felt and Bronson both quote Madam

Knight's letter that, in Connecticut, there were

four prices : " pay," "pay as money," "money,"

and " trusting." The merchant asked his cus-

tomer how he would pay before fixing the price.

" Pay " was barter at the government rates.

"Money" was Spanish or New England coin,

also wampum for change. " Pay as money " was

barter currency at prices % less than the govern-

16 HISTORY OF AMERICAN CURRENCY.

ment rates. " Trusting " was an enhanced price,

according to time. A sixpenny knife cost I2d.

in pay, 8d. in pay as money, and 6d. in coin.

Paper was now issued to pay the annual charges

of the colony of Massachusetts, but it was also

drawn in by taxes, and it does not appear that

the amount in circulation at any one time

«

was excessive. In 1702, money being scarce,

taxes slowly paid, and government affairs hin-

dered, ;^ 1 0,000 were issued, secured on the im-

port and excise, and ;^6,ooo taxes were voted.

By this tax all the bills out were to be withdrawn

and destroyed. In 1704 a royal proclamation

fixed the value of Spanish and other foreign

coins, not at sterling rates, but apparently on the

basis of the New England coinage. Little heed

was paid to it. The current rates of the coins

obeyed other than royal laws.

•«

SECOND EXPEDITION AGAINST CANADA-

DEPRECIATION

In 1709, another expedition against Canada

being intended, ;^30,ooo in bills of credit were

issued, and ;^ 10,000 of the old were reissued. The

HISTORY OF AMERICAN CURRENCY. ij

preparations dragged on for two years, and, in

1 71 1, ;^ 1 0,000 more were issued to pay military

expenses. New Hampshire, Rhode Island, Con-

necticut, New York, and New Jersey joined in this

expedition, and now began to issue bills of credit.

The Massachusetts bills had hitherto been held

close, and provisions for redemption by taxes in

a year or two had always been made. They had

been put out in payment of government ex-

penses, and had thus been a kind of exchequer

bills.

In 1 709 the time for redemption was set at 4

years; in i7ioat 5 years; in 171 1 at 6 years;

this injured the credit of the bills at the same

time that they became redundant. The depreci-

ation now began. The paper was legal tender,

its acceptance being enforced from time to time

by more and more stringent enactments.

COLMAN'S BANK.

The mystery of banking was now attracting

attention the world over. The Land Bank in

England about 1685, the Austrian enterprises of

1700, John Law's scheme of 171 5, the South

l8 HISTORY OF AMERICAN CURRENCY.

Sea Company founded in 171 1, hear witness to

it The Massachusetts people were not behind

the age. In 171 5 John Colman and others pro-

posed a bank based on land and issuing notes.

They proposed to build a bridge over Charles

r'iver, which was scouted as impracticable. The

Council (upper house of the General Court, al-

ways conservative) forbade them to make public

proposals or print notes until the General As-

sembly could act on their plans.

LOAN BANK.

There was a great clamor for more paper

money of some sort, and those who opposed all

paper joined those who opposed the Bank in car-

rying a scheme for a public issue. This was the

first of the loan banks \* which were created in

nearly if not quite all the colonies before the Rev-

olution. In the process of time certain new de-

\* \*\* Bank," as the word was used before the Revolutionary War, meant

enly a batch of paper money, issued either by the government or a corpor-

ation. The impression seems to have remained popular, that the essentia]

idea of a l)ank is the issuing of notes. Gouge, accepting this definition,

assailed all " banking." The notes issued in banks, or masses as loans,

were pure paper money, and may be distinguished from the Treasury

notes issued for the current expenses of government.

HISTORY OF AMERICAN CURRENCY. 19

velopments were added, which were supposed to

perfect the system. To take one of the most

perfect specimens, which enjoyed the approval ol

Franklin,\* and which was made in Pennsylvania

in 1723, the plan was as follows: the issue was

for ;f 15,000, put in the hands of commissioners

in each county, according to the taxable assess-

ment The commissioners loaned the bills at 5

per cent, on mortgage of land. The loan was for

16 years, payable iV annually, and the interest

was to defray the expenses of government. In-

stalmqpts repaid during the first 10 years of the

period were to be loaned out again only for the

remainder of the period.

Rhode Island was the most unfortunate of all

«

the colonies in her currency legislation. She

kept peag longer than any of the others, and

plunged into paper issues more recklessly than

any. The loan bank system she tested to the

bitter end.

\* The great philosopher was not milnassed in his judgment. He printed

the billsy having written a pamphlet in favor of them, and he sa3rs, " It was

a very profitable job and a great help to "me.\*' Looking back upon it

later, -he aigues t^ it was a good thing, '' though I now think there are

limits beyond which the quantity may be hnrtfuL" — Works ^ II. 254.

20 HISTORY OF AMERICAN CURRENCY.

The first "bank" in that colony was for

;^30,ocx), issued in\* 171 5, for 10 years. In 1728

the time was extended to 13 years, and then 10

years more were allowed for the repayment, with-

out interest beyond the first 13 years. In 1721 a

second bank was issued of ;^40,ooo for 5 years,

extended in 1728 to 13 years, interest payable in

hemp or fiax. It was intended to act as a

bounty on those articles. In 1731 the same col-

ony laid a bounty on flax, hemp, whale oil, whale-

bone, and codfish.\*

As this system of public loans is nqj^ ad\*

vocated by the so-called "labor-reformers," it

is especially worth while to know that it has

been subjected here to a full experiment, and

what its results were. Hutchinson says that the

people of Massachusetts must have wondered

that no one had before hit upon this marvellous

expedient for paying the expenses of govern-

ment. The persons who obtained loans in

the ninth and tenth year of the bank period,

complained that they must pay back in seven or

\* Potter, R. I. Paper Money in Phillips' Colon, and Contin. Paper Cur-

len^t I. 100.

HISTORY OF AMERICAN CURRENCY. 2 1

six years, whereas others enjoyed the loan for six-

teen years. The banks were accordingly \*' con-

tinned," or renewed continually. New claimants

who desired to come under this shower of

wealth\* clamored for new banks on the ground

of "justice" and ''equality." All who had re-

ceived loans joined as a compact body in favor

of further issues. All new issues to others de-

preciated the currency, and enabled them to pay

back more easily. However, they did not in

many cases pay at all, either principal or inter-

est. Having accumulated large arrears they de-

camped, and, when process issued, could not

be found. The mortgaged estates were found

entangled in inextricable confusion. The legis-

latures, composed largely of men in the system,

would allow no extreme measures. Foreclosures

were rare, and did not pay for the trouble

and excitement they caused. The paper became

a political issue, and Douglas says the parties

were no longer Whig or Tory, but Creditors and

Debtors — the latter in the majority. Felt says

that some of the loans of 17 14 in Massachusetts,

made for five years, were out over thirty years.

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In 1 715 there was a petition from Boston mer-

chants for more paper, which was laid over.

Governor Shute recommended the Assembly

to take measures to revive the low state of trade.

They issued ;^ioo,ooo of bills, "because bills

were scarce." These were issued on loan. Sil

ver rose to 12 s. per oz.

South Carolina had issued bills in 171 2 for

war expenses. "This emission fell a third the

first year, a half the second, and continued to

depreciate."

Felt quotes a writer who said: "The evils

of litigation abound. People of estates cannot

raise money, unless they dispose of them at half

their value. Individuals depending on their

labor are forced to take for their toil from one-

half to two-thirds in goods, while their creditors

imperiously demand cash of them. The private

bank\* does not receive encouragement from the

legislative authorities. ;f 50,000 ought to be laid

out for building a bridge over Charles river, so

that workmen might be employed and currency

\* Tha « are hints tliat it liad made issneai

HISTORY OF AMERICAN CURRENCY. 23

enlarged, as well as the public accommodated,

and ruin will come unless more bills of credit

are emitted." This was in 1719.

In 1 720 trade was stagnant, and there was a

great cry for more bills. Let it be ob-

served how this complaint is heard again

every four or five years, although the amount

of paper was continually increasing. It is

the best instance in history of the way in which

a country "grows up" to any amount of cur-

rency. Here was a sparse population in a new

country with untouched resources, and it seemed

to them necessary to have recourse to artificial

issues of currency to "make business brisk;"

to get up enterprises for the sake of " making

work ;" and to lay bounties on products in order

to enable the people to carry on production. The

distress was real, but it came from turning their

backs on what nature offered them gratuitously,

and violating the laws by which they might have

profited by these gifts.

The commissioners of the New England colon\*

ies passed a resolution deprecating further issues

of paper, but it had no effect. Widows, orphans,

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and salaried men suffered gready from the de-

preciation. Hutchinson, referring to the tempta-

tion to trustees, says : " The influence which a

bad currency has on the morals of a people is

greater than is generally imagined. Numbers

of schemes for public and private emissions were

proposed as remedies. The only effectual one,

the utter abolition of the bills, was omitted."

Expeditions were favored for the purpose of

bringing about issues of paper, and public works

were advocated for the same reason. In 1721

Massachusetts issued ;^ 100,000, and forbade

buying and selling silver. Hutchinson says:

" Such an act can no more be executed than an

act to stop the ebbing and flowing of the sea.'\*

;^500 in paper were now equal to ;^i8o sterling.

In 1720 Parliament passed an act forbidding

any companies to carry on banking without a

charter.

In the same year the treasury of Massa

chusetts ceased to allow 5 per cent, premium on

bills. ;^ 5,000 were issued in this year, redeem-

able from 1726 to 1730.

. The royal instructions forbade the governor to

HISTORY OF AMERICAN CURRENCY.

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sign any acts for emitting bills, and the history

of the next twenty years is a story of long

conflicts between successive governors and the

Lower House on this question. Governor Shute

gave it up and went home. Lt.-Gov. Dummer

signed a bill issuing ;^30,ooo in 1724.

In 1727 Woods patent for coining pennies of

English value was issued. They were to be so

rated in the paper as to circulate. They were

very unpopular because they reflected on the

paper and marked its depreciation. In this year

^^50,000 were issued to help redeem the issue

of 1 7 16. On this ground Dummer signed it.

The council also wanted to redeem the ;^30,ooo

issue of 1724, but the House would not agree.

In 1728 the redemption of the ;^ 100,000 loan

being enforced by orders from England, ;^6o,-

000 more were allowed, "because bills were

scarce."

Hutchinson comments on this : " It would be

just as rational, when the blood in the human

body is in a putrid and corrupt state, to in-

crease the quantity by luxurious living, in order

to restore it to health." Interest was now

2

26 HISTORY OF AMERICAN CURRENCY.

charged on the loan at 4 per cent., because low

interest encourages business. The natural rate

was 8 per cent A great speculation in unoc

cupied lands had sprung up in the last year

Enough new towns were, laid out for the whole

existing population.

During the administrations of Burnet and

Belcher the war over paper issues went on, but

the restriction was enforced to issue only for gov-

ernment expenses. The injunction was also to

reduce the outstanding amount to ;^30,ooo, but

this was not obeyed.

BANKS.

The colony being no longer allowed to issue

bank projects revived. As a concession, J[^'j6, 500

were allowed in 1733 for public expenses, and

the year 1741 was fixed as a terminus for all out-

standing issues. This year (1733) was one of

great distress throughout New England. Trade

was stagnant and ''money scarce." Rhode

Island issued ;^ 100,000. The Boston merchants

agreed not to receive them, and themselves

issued /"i 10,000, redeemable in silver at 19s. per

HISTORY OF AMERICAN CURRENCY. 27

oz., one tenth of the issue each year for ten

years, without reissue. Some of them broke the

engagement and received the Rhode Island bills,

and all the notes flowed in together. Silver

rose to f 7s. per oz. The merchants' notes were

hoarded.

In 1734 Governor Belcher recommended the

withdrawal of paper money and bounties on

hemp and naval stores, so as to turn the balance

of trade.

In 1737 "new tenor" bills were issued, to

circulate at the rate of one for three of the old.

Felt quotes an act showing that a system of

counterfeiting had grown up by which a counter-

feit part was pasted on a mutilated bill, raising

its denomination. ;^ 170,000 of outstanding bills

must, by law, be redeemed before 1742.

THE LAND BANK.

In 1739 the Land Bank scheme was revived.

The scheme was this : a number of land owners

formed a company and mortgaged their est&tes

to it for its notes, giving 3 per cent, per annum

interest in merchandise, and 5 per cent, per

28 HISTORY OF AMERICAN CURRENCY.

annum on the principal in the same currency. A

mechanic, with two sureties, might have j^ioo

stock. The notes were payable after twenty

years \*' in manufactures of the province." The

preamble of the schedule of this bank recites that

it is organized " in order to redress the existing

circumstances which the trade of this province

labors under for want of a medium." This bank

was the most prominent factor in the political

movements of the next ten years, and even later

it turns up, from time to time, a cause of perplexity

and distress to the government and the surviving

stockholders.

THE SPECIE BANK.

Another bank was proposed to counteract the

Land Bank. It was called the Specie Bank, and

was to issue /\* 120,000 in notes redeemable in

fifteen years, in silver, at 20s. per oz. Both

went into operation, but, in 1740, Parliament

declared the old Joint Stock Companies' Act,

passed after the South Sea bubble (1720), to be

of force in the colonies. Both banks were there\*

fore forced to vind up.

HISTORY OF AMERICAN CURRENCY. 29

The Land Bank resisted its fate by social and

political intrigues, and became a political issue

between its friends and its enemies. The large

merchants had refused its notes, but the small

dealers had taken them, and ;^35,582 were out

For a thorough-going application of the paper

theory, nothing has ever been proposed any-

where, much less put in operation, which could

equal this. A note for $1 payable twenty years

hence in gold without interest, when interest is 3

per cent., is worth 55 cents, or, if interest is 6

per cent, 3 1 cents. If payable in any one of a

dozen commodities it is payable in that one which

twenty years hence may be the cheapest. At

what rate, then, ought a man who to-day gives

wheat for the note to make the exchange?

These notes were based on nothing, floated on

nothing, and represented nothing definable. The

system of money which consists in " basing,"

\*' floating," and "representing" was, therefore,

here in perfection.

The governor made war on this bankr with

all his energy, as unlawful and pernicious, con\*

trary to the act of Parliament and to his instruc\*

30 HISTORY OF AMERICAN CURRENCY.

tions. Finding that some civil and military

officers were engaged in it, he removed them.

This called forth a protest from Samuel Adams

and John Choate, as an invasion of personal

liberty. There can be no doubt that the bitter-

ness engendered by this conflict was one great

cause of the Revolution. Two great economic

errors were amongst the causes of that war.

One, the attempt of the colonies to issue paper

in which they were in error as to the question

of political expediency ; the other, the attempt to

carry out the "colonial system," by which the

#

colonies were used as means of aggrandizing the

mother country, in which the latter was at fault

There is no tribunal to decide such questions.

They work themselves out in history.

The instructions forbidding the governor to

allow paper issues contained one exception. He

might issue for the expenses of government.

This was the gap through which the issues were

still continued, though more moderately. In

1 74 1 all outstanding notes were to be cancelled.

As that year approached, it was found impracti-

cable to call in all in one year by tax, no steps in

HISTORY OF AMERICAN CURRENCY. 31

that direction having been taken. Taxes were

provided for retiring them in 1741, '2, and \*3.

At the same time the governor was allowed to

approve issues beyond ;^30,ooo for expenses,

to tide over the withdrawal of the old. A new

set of bills was now issued to circulate at the

''ideal" rate of 6s. 8d. per oz. silver. These

now became the " new tenor/' and those of 1737,

" middle tenor." Subsequently it became neces-

sary to distinguish " new tenor first," and " new

tenor second." Similar stratification existed in

the paper of Rhode Island and Connecticut. If

the new tenor bills depreciated they were to pass

at current rates, that is, were not legal tender for

their face. The depreciation was to be ascer-

tained and published by commissioners, but these

persons were restrained by public opinion from

ever stating the depreciation at its true amount.

One commissioner who did rate it truly was

overwhelmed by a storm of abuse. The new

tenor bills fell to 7s. gd. per oz., but were

hoarded. In 1741 old tenor were at 29s. per

oz. ; new tenor Massachusetts, 9s. 8d. ; new

tenor Connecticut, 8s. ; new tenor Rhode Island.

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6s. 9d. ; old Specie Bank of 1733, one-thbd

better than colony bills;\* Specie Bank of 1740,

issued at 20s. per oz., were at that rate ; Land

Bank not quotable. Mr. Hutchinson, the histo-

rian, and subsequently governor of Massachusetts,

very wisely advised Governor Belcher to try to

put down the Land Bank in some other way than

by invoking the authority of Parliament. Colonial

independence was enlisted on the side of the

bank, and insurrection was feared.

In 1743 Massachusetts proposed to the

other New England colonies to appoint commis-

sioners to agree on joint action for doing away

with the bills. They refused to do so. '\* Money '\*

was now scarce as ever again, the better kinds of

paper being hoarded, and only the worst paper

of all the colonies circulating in any. The

governor of Massachusetts, in 1 744, said that of

;^400,ooo Rhode Island bills in circulation

^^380,000 were in Massachusetts. The people

of the latter colony had lost ;^2 5,000 on this sum

in nine months. In 1744 the amount of bills in

Massachusetts was scarcely diminished.

HISTORY OF AMERICAN CURRENCY.

EXPEDITION AGAINST LOUISBOURG.

33

The governor now took it into his head to

capture Louisbourg, on Cape Breton, from the

French. The New England colonies joined in

this enterprise. Nothing more was heard of the

royal instructions, but bills were issued as they

were needed to prepare this expedition. It was

popular, as all expeditions against the French

were popular. It appealed to the love of advent-

ure — ^always great in a new country, and it met

the wishes of those who wanted more paper.

All the authorities agree that the enterprise

was wild and reckless, and that it only succeeded

by a succession of strange and lucky accidents.

However, succeed it did ; the town was captured,

and the colonies were greatly elated by their

military glory.

As a result of this expedition the paper issues

of the colonies in 1749 reduced to old tenor,

were:

Massachusetts ^2,466, 712

Connecticut 281,000

Rhode Island. ... 550,000

New Hampshire 450,000

a\*

^4 HISTORY OF AMERICAN CURRENCY.

RESUMPTION IN MASSACHUSETTS.

Parliament voted to ransom Louisbourg from

the colonies. The sum coming to Massachusetts

was v^ 1 38,649 sterling, which at eleven for one,

the ruling exchange, would nearly cancel the

paper. Hutchinson proposed that they should

ask Parliament to ship to them their share of the

payment in silver dollars and copper coins, and

that these should be used to cancel the paper as

far as they would go, the rest to be called in by

tax. After considerable opposition this course

was adopted. The silver was sent over and ex-

changed. Prices were adjusted to this new

measure, and the silver remained in circulation

when it no longer had a meaner rival. The

'\* shock " which was apprehended did not occur.

The only shock was to Rhode Island and New

Hampshire, who found their trade transferred to

the " silver colony," and their paper suddenly and

heavily depreciated. The West India trade of

Massachusetts had been largely done through

Newport. It was now transferred to Salem and

Boston. In 1752. a Newport merchant, Joseph

HISTORY OF AMERICA N^ CURRENCY. 35

Whipple, who was deputy governor at the time,

failed. Failures "had been almost unknown in

Newport," and Mr. Whipple was constrained to

resign his office.

The apprehensions of loss and danger from

the change in Massachusetts led to some demon-

strations of riot, but the change took place so

quiedy and easily that these fears were not real^

ized and the tumult subsided. Trade had been

immediately before (1749-50) at the lowest ebb.

Ship-building and fisheries had declined, and

people were moving away. Trade now revived

steadily and rapidly, and we hear no more of

" scarcity of money " until the next violation of

the laws of circulation.

The following table shows the depreciation of

Massachusetts paper :

XX. ON LON- SILVER PER OZ. IN

DON. THE CURRENCY.

1702 133 6 loi

1706 13s 7

1713 150 S

1716 17s 9 3

I717 , 225 12

1722 270 14

I

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XX. ON LON- SILVER PER OZ. IW

XX>N. THX CURRENCY.

»fsS 340 18

1730. •• 380 90

1737 ; 500 26

1741 ^<iO 28

1749 1,100 60

The following table shows the depreciation of

the paper of the several colonies :

1740 1748

New England 525 1,100

New York x6o 190

Pennsylvania 160 180 and 190

Maryland 200 200

North Carolina 1,400 1,000

South Carolina 800 750

Virginia 120 and 125

Douglas, though bitterly opposed to paper

money, opposed violently the plan of Hutchin-

son. His own history shows that he was irasci-

ble and impracticable. He thought the measure

too sudden, and wanted to use the English pay-

ment by drawing bills of exchange on long time

and selling them for the bills of credit If a con-

traction had been practicable it ought certainly to

HISTORY OF AMERICAN CURRENCY. 37

have been gradual and careful, but this was out

of the question with a currency sunk to ^V ^^ ^^^

denomination, and a bankruptcy could not be too

sharply and definitely accomplished when re-

solved upon.

ACTION OF CONNECTICUT.

His plan was followed in Connecticut, the bills

being drawn at three years' date, and the conse-

quence was that the paper was not withdrawn

before the next war called for new issues.

ACTION OF RHODE ISLAND.

Rhode Island went on upon the paper system.

In 1750 the paper-money party were in the as-

cendant, and the ninth bank was issued for

;^25,ooo. It was for the purpose of giving

bounties on manufactured wool, and whale and

cod fisheries. "In June, 1751, the act was

amended. The bounties were abolished ; that on

manufactured wool as being displeasing to Eng-

land, the others as useless." Rate in 1750:

Notes of ninth bank, 6s. 9d.=:i3s. 6d. new tenor

38 HISTORY OF AMERICAN CURRENCY.

=54s. old tenor. Rate in 1757: 6s. gd. of ninth

bank=i6s. new tenor=64s. old tenor. In 1756,

new bills were issued at 6s. 8d. per oz., payable

in two years, called " lawful money," and some

efforts at reform began to be made. The notes

were no longer legal tender, and in 1 763 a scale

of depreciation was fixed for the settlement of

old debts by the courts. It put one Spanish

milled dollar, of the value of 4s. 6d. sterling, at

£^ in old-tenor notes in 1763.\*

LEGAL-TENDER PAPER ABOLISHED.

In the year 1751 Parliament passed an act for-

bidding any more legal-tender paper issues, and

allowing no issues, save in the form of exchequer

bills, redeemable by taxes in a year, bearing in-

terest, or, in case of war, similar issues redeema-

ble in four years. The colonies now set to work

earnestly, though with only partial success, as

above shown, to retire their old issues.

A new war with the French in 1 756 involved

them once more in war expenditures, and bills of

\* See Potter /. r., and Arnold's Rhode Island.

HISTORY OF AMERICAN CURRENCY. 39

the above description were issued. They were

of small denominations, bore interest, and circu-

lated only until the interest accumulated so much

as to make them worth hoarding. Remittances

were continually received from England to par-

tially reimburse the colonies for their expenses,

and by these funds, and by taxes, the bills were

redeemed to such an extent as to save them from

great depreciation.

Early in the eighteenth century Virginia

adopted tobacco as a currency. It was depos-

ited in warehouses, and the receipts for it passed

as currency. It was a true money, but not a

good one, as it naturally fluctuated considerably

in value. In 1755 Virginia issued paper

money.\*

North Carolina issued paper to build a palace

for the governor. A similar project was started

in New Jersey, but it never passed the legislat-

ure.

\* PhiQips\* C>Ioo. and Continent. Paper Money\* VoL L

40

HISTORY OF AMERICAN CURRENCY.

DOUBLE STANDARD TRIED IN MASSACHU-

SETTS— OTHER COLONIAL ISSUES.

Scarcely had specie come into circulation in

Massachusetts when it was found that, although

the remittance had been in silver, gold from the

West Indies began to stay in the colony. The

question of making it legal tender as well as sil-

ver soon began to be agitated. It circulated of

course, not being legal tender, at its weight.

An act was passed in 1762 to make gold legal

tender at 2id. per grain. At this rate it was

more profitable for the debtor to pay in gold than

in silver. The currency was depreciated five per

cent, by this operation, and, as Hutchinson de-

clared at the time must follow, this drove sil-

ver out of circulation. Some hints also show that

barter currency was still allowed in the payment

of taxes. Silver now became scarce, and the

next stage was a new agitation in 1 767 for paper

money.

In 1768 the House resolved that "in order to

prevent the unnecessary exportation of money, of

which this province has of late been so much

HISTORY OF AMERICAN CURRENCY. 41

drained," they will do without foreign superflui-

ties, and encourage the manufactures of this

province. The same doctrine has been preached

and avowed ever since, as the sum and essence of

political economy, but it has been a signal failure.

The colony was drained of money (silver) be-

cause it had adopted another legal tender, gold,

which, though the best money for large exchan-

ges, was so rated that it was the cheapest means

of payment. It alone therefore remained, and the

other metal was exported. It was not, however,

exported for nothing, and no resolutions could

make the people desist from using foreign super-

fluities which came back to pay for it. The same

violation of coinage laws was twice repeated under

the federal constitution, as we shall see below.

In the same year (1768) the Massachusetts Coun-

cil petitioned the House of Commons for relief

from the new tax laws, pleading the great scar-

city of money, which they ascribe to the balance

of trade being against them.

Mr. Hickcox, writing on the New York paper

money,\* says that the colony traded in 1720 with

\* Albany, 1866, page 21.

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Madeira, the West Indies, and England. He ex-

pressed still more explicitly the theory underlying

the above view on the subject. Tl\e trade " to

the West Indies was wholly to the advantage of

New York, while that to Madeira was to our loss,

the province consuming more wine from thence

than could be purchased with its commodities.

The money imported from the West Indies was

not sufficient, however, to preserve a specie cur-

rency, a large amount being necessary to balance

the exchange with England."

The errors involved in this way of looking at

the matter were most clearly exposed in connec-

tion with the " Bullion Report," and will be found

noticed in Chapter IJ.

In 1 763 Parliament declared any colonial acts

for issuing paper money void. Franklin wrote

a pamphlet in opposition to this act. He saiJ

that gold and silver owe their value chiefly to the

estimation in which they happen to be among the

generality of nations and the credit given to the

opinion that they will continue to be so held.

\*'Any other well-founded credit is as much an

equivalent as gold or silver." When exchange rose

HISTORY OF AMERICAN CURRENCY. 43

he thought that this was only an advance in ex

change, not a fall in paper. In 1773 Parliament

allowed any bills issued by any colony to be a

tender at its treasury. In 1774 Massachusetts

was out of debt

In 1775 representatives of the colonies of Con-

necticut and Rhode Island met the Congress oi

Massachusetts to concert measures for the war.

It was agreed, as their money was paper and

they could not offer anything else, that this should

be allowed to pass in Massachusetts.

CONTINENTAL PAPER MONEY.

The colonies now went into the Revolutionary

War, many of them with paper already in circu-

lation, all of them making issues for the expenses

of military preparations. The Continental Con-

gress, having no power to tax, and its members

being accustomed to paper issues as the ordinary

form of public finance, began to issue bills on the

faith of the " Continent," Franklin earnestly ap-

proving. The first issue was for 300,000 Spanish

dollars, redeemable in gold or silver, in three

44 HISTORY OP AMERICAN CURRENCY.

years, ordered in May and issued in August,

1775-

Paper for nine million dollars was issued before

any depreciation began. The issues of the separ-

ate colonies must have affected it, but the popular

euthusiasm went for something. Pelatiah Web-

ster,\* almost alone as it seems, insisted on taxa-

tion, but a member of Congress indignantly asked

if he was to help tax the people when they could

go to the printing-office and get a cartload of

money. In 1776, when the depreciation began,

Congress took harsh measures to try to sustain

the bills. Committees of safety also took meas-

ures to punish those who '' forestalled " or " en-

grossed," these being the terms for speculators

who bought up for a rise. The tyranny of the

government was of course only a stimulus to the

private committees. It is natural to suppose that

malicious and criminal persons assumed the duty

of public regulators, and committed those acts

of violence and wrong which equal or surpass

anything of the kind under any despotism, but

such an error as a legal-tender act, enforced by

\* Political Essays. Philadelphia, 1791.

HISTORY OF AMERICAN CURRENCY. 45

pains and penalties, is responsible for the second-

ary evils which are sure to flow from it. Web-

ster says of the paper : \*' We have sufiered more

from this cause than from every other cause or

calamity. It has killed more men, pervaded and

corrupted the choicest interests of our country

more, and done more injustice than even the arms

■ •

and artifices of our enemy." The enemy, perceiv-

ing the terrible harm the Americans were doing

themselves, thought it well to help on the move-

ment. They counterfeited the bills and passed

them through the lines.

At the end of 1779 Congress was at its wits'

ends for money. Its issues had put specie en-

tirely out of reach, and the cause was in danger

of being drowned under the paper sea.

Webster says : '\* The people of the States at

that time had been worried and fretted, disap-

pointed, and put out of humor by so many tender-

acts, limitations of prices, and other compulsory

methods to forcei^value into paper money, and

compel the circulation of it, and by so many vain

funding schemes, declarations of promises, all

which issued from Congress, but died under the

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most zealous efforts to put them into operation

and effect, that their patience was all exhausted.

I say these irritations and disappointments had

so destroyed the courage and confidence of the

people, that they appeared heartless and almost

stupid when their attention was called to any

new propositions."

The French alliance helped more by giving

means of procuring loans in Europe than by mili-

tary assistance. Congress promised to limit its

issues to $200,000,000, and tried a new form of

note ; also loan offices and lotteries. Over 350,-

000,000 were issued in all, but it is doubtful if

more than 200,000,000 were out at any one

time.

In the spring of 1780 the bills were worth

two cents on the dollar, and then ceased to cir-

culate. Specie now came into circulation, being

brought by the French, and also that expended

by the English passing the lines. The paper

was now worth more for an advertisement or a

joke than for any prospect of any kind of re-

demption. A barber's shop in Philadelphia was

papered with it, and a dog, coated with tar, and

HISTORY OF AMERICAN CURRENCY. 4;

the bills stuck all over him, was paraded in the

streets.

On account of the peculiar character of Ameri-

can society, there are few family traditions of the

Continental currency ; but the contemporary lit-

erature shows that the suffering it caused .was

wide-spread and intense. It fell most heavily on

the most patriotic and most helpless. Phillips

quotes a letter addressed by a lady • to the

\*\* Pennsylvania Packet" in 1779, saying that her

father had left her a competence which her

guardian had invested in real estate six years

before. He now proposed to pay her fortune in

paper. It is only a single instance.

" The gradual depreciation was urged as a

reason why the notes should not be redeemed at

par. It was said to operate as a tax ; as a most

equal tax, because it acted in proportion to the

amount held. The rich suffered largely on their

vast sums; the needy but slightly on their

scanty pittances. How fallacious these reason-

ings, with which the Congress and the people

solaced themselves, are,- must be apparent.

Poor consolation it was to those who had been

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beggared confiding in the honor and in the hon-

esty of their country, to hear that their ruin

had merely been a gradual tax; to know that

from the operation of tender laws their property

had been taken away and given to others ; to

see the wealth accumulated by the dishonest

multitudes of contractors and the many defraud-

ers of that unhappy period, and to feel that it

had been plundered from their own coffers for

the aggrandizement of such people." \* The

trouble is that the government cannot make a

forced loan by legal tender issues, without giving

the opportunity for private individuals to take

" forced loans " from their neighbors.

'\* If it saved the State, it has also polluted the

equity of our laws, turned them into enemies of

oppression and wrong, corrupted the justice of

our public administration, destroyed the fortunes

of thousands who had most confidence in it, en-

ervated the trade, husbandry, and manufactures

of our country, and went far to destroy the

morality of our people." t

^ Phillips : Colonial and Continental Paper Currency, II. I75»

f Webster /. r. 175, note. "

HISTORY OF AMERICAN CURRENCY. 49

It ought to be noticed that this paper was

vaunted as " the safest possible currency," which

\*' nobody could take away."

BANK OF NORTH AMERICA.

December 31, 1781, the Bank of North Amer-

ica was chartered with a capital of $400,000. It

took its origin in a union of citizens of Philadel-

phia, formed in the preceding year, to supply the

army with rations. They were allowed to form

a bank, and, as it seems, issue notes to buy the

articles required. Congress ordered bills drawn

on American ministers abroad to be deposited in

the bank as a guarantee of payment. $70,000

in specie were subscribed in 1782 by individ-

uals, and the remainder by the government out

of the proceeds of a foreign loan. It issued

convertible notes, redeemable in Spanish dollars ;

but the people were slow to take them. Accord-

ing to the story given by Gouge, the Bank was

not over strong, and tried to keep up its credit

by parading and handling over its stock of silver.

However, it made large dividends, and was at-

tacked by a rival which it was obliged to absorb,

8

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and secondly by an effort to have its charter re-

pealed. The latter effort was successful so far

as the state charter was concerned. It went on

under the charter of the Continental Congress

until 1 788, when it was re-chartered by Pennsyl-

vania. It exists yet.

RENEWED AGITATION IN FAVOR OF PAPER

MONEY.

In 1785 and 1786 an insurrectionary move-

ment, known as Shay's Rebellion, broke out in

New England. It was an insurrection of debtors

who were suffering from the collapse of the

currency and return to specie values. They

clamored for paper.

" No desperately indebted people can long en-

dure a regular, sober government" This insur-

rection was put down by force, but Massachu-

setts passed a law delaying the collection of

debts.

In Rhode Island this movement was not

riotous, but took the form of a political move-

ment. The paper money party carried the elec-

tions in 1 786, and began a new period of this

HISTORY OF AMERICAN CURRENCY. 51

mania for their colony. ;^ioo,ooo were issued

by a vote of the rural districts against the cities.

The bills were to be loaned on mortgage of land

for fourteen years. They depreciated at once

Merchants refused to deal, and closed theii

shops. The fermers retaliated by refusing to

bring produce to the cities, and thus the urban

and rural populations were pitted against one

another in a ridiculous warfare which brought

business to a stand-stilL In Providence it was

agreed to enter into intercourse for necessaries

so far as parties could agree, and to borrow $500

to send abroad for grain. The farmers met and

petitioned the Assembly to enforce the penal

laws in favor of the paper money. By these

laws cases involving legal tender took precedence

of all others, and must be tried within three days

after complaint entered, without jury, and with

three judges a quorum. The decision was final.

The fine for the first offence was from £6 to

;^30, and for the second offence, from ;^io to

;^5a A protest by the representatives o( the

large towns against this law was not allowed to

be recorded.

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John Trevett, of Newport, complained of John

Weeden, a butcher, for refusing bank paper.

The five judges agreed that the act was uncon-

stitutional. A special session of the Assembly

was convened, before which the judges were sum-

moned to " assign the reasons and grounds " of

the late decision. Three judges came. Two

were sick. The hearing was postponed. A

test act was prepared and sent to the towns for

approval, but it went too far. Only five towns

approved. It proposed to disfranchise any one

who refused the bills at equality with metal.

With all this, money was so scarce that land

rents were paid in com, and barter became com-

mon.

It was now determined to pay off the debt of

the colony, except the 4 per cents, one quarter at

a time, in the bills received for taxes. Any

holder of colony securities who did not come up

to take his notes within a set time forfeited his

securities. The whole debt was paid off in this

way within two years. Three months after it

was issued, the paper stood six for one gold.

The question of ratifying the new constitution

HISTORY OF AMERICAN CURRENCY. 53

now coming up, the paper money party was for

state rights, and the specie party for the federal

constitution.

In the spring of 1787 there were twenty bills

in equity filed in court for the redemption of

mortgaged estates. " The suitors came prepared

with paper money in handkerchiefs and pillow-

cases to redeem their lands." It was moved to

have the bills counted, and the tender recorded,

but the coiut held that it had nothing to do with

the money before rendition of judgment, nor was

it for them to be instrum'fental in proving a ten-

der. They refused to entertain any motion with

the latter intention. The Assembly next removed

four of the judges who declared the legal-tender

act unconstitutional. In June, 1787, the paper

was at eight for one. In 1 789 it was at twelve

for one. In September of that year the action of

the legal-tender act was suspended ; October 1 2

the depreciation was legally fixed at eighteen for

one, and debtors were allowed to pay in produce.

If paper-money issues, tariff laws, and bounties

on exports can make a nation great and prosper-

ous, Rhode Island ought to have been the first

54 BISTORY OF AMERICAN CURRENCY.

State in the union in point of wealth, though the

last to enter it

The historian, Arnold, apologizes for her dila-

toriness in joining the union by the extraordinary

degree of liberty her citizens had enjoyed, and

their jealousy of having it curtailed. They may

have had la LiberU in Rhode Island ; they did

not have liberty.

It appears that all the provinces were strug-

gling with paper issues during the period of the

old confederation. Specie was scarce in some,

and plentiful in others^ according to the amount

of paper outstanding. The Congress of the con-

federation had not the power to tax, and its

efforts to obtain the consent of the States to its

fiscal legislation fsuled. Its certificates of in-

debtedness were worth only twelve or fifteen

cents on the dollar. A coinage law was passed

in 1786, but no coins of gold or silver were

struck. Copper coins were made, but they were

below standard and depreciated.

HISTORY OP AMERICAN CURRENCY. 55

ASSUMPTION OP THE STATE DEBTS.

One of the first acts of the Federal Congress

was to provide for the settlement of the out-

standing accounts. $21,500,000 were appor-

tioned to the States to assume their indebted-

ness, subscriptions being received in their paper

at a discount, but as the federal debt at once rose

in value, the transaction was very favorable to

the holders of State obligations. The amount

actually assumed was $18,271,814. At the

same time the States were credited with advances

made to the confederation, and charged their

quota of its expenditure. Thus some appeared

as creditors and others as debtors. The debtor

States never settled the account The creditor

States were paid. The whole transaction was

criticised by Mr. Gallatin \* as unwise and waste-

ful It met with much opposition, especially from

the South, and there were always rumors of bar-

gain in connection with this act and the. removal

of the capital to Washington.

\* Sketcb of the finances of the United States. 1796.

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BANKING ON CONVERTIBLE CURRENCY.

We come now to the period in which the cur-

rency consisted more or less of bank-notes, nom-

inally convertible, issued by chartered banks.

The system to which it has most analogy is that

of the Scotch banks, although of these latter

only three are chartered, the others being joint-

stock companies and partnerships. We shall

have abundant proof that this system of free

banking requires, as its indispensable conditions,

moderation, sagacity, and scientific knowledge on

the part of the bankers. Without these qualities

in the managers, it is as wild as any scheme of

paper money. Men who believe that "bank-

ing " consists in making paper issues and loaning

them, making them as large as possible and stim-

ulating them By all artificial means, and discour-

aging conversion as much as possible, may, as

we shall see, bring down more ruin on the com-

munity by this engine than by any other.

The Bank of North America had already been

founded. Its success in earning dividends led to

other similar enterprises. Massachusetts char-

HISTORY OF AMERICAN CURRENCY. 57

tered the Massachusetts Bank in 1784. Soon

after^a bank was chartered in New York and

another in Maryland.

PAPER MONEY AND THE FEDERAL CONSTITU^

' TION

In 1787 the Federal constitution was framed.

It contains a clause that no State shall '' coin

money, emit bills of credit, or make anything but

gold or silver coin a tender in payment of debts."

The framers of the document thus fixed their con-

demation of the old paper system, and the people,

smarting under recent experiences, acquiesced.

It was proposed in the constitutional conven-

tion to give to Congress the right to emit bills

of credit, but the proposition was defeated nine

States to two. (Madison Papers, III. 1,344.)

Two questions have been raised under this

clause : i. Can a State authorize banks to do what

it cannot do itself? As the confederation had

already chartered the Bank of North America, it

does not seem that the " bills of credit " were un\*

derstood to cover bank notes. The courts have

held that a State may authorize bank issues when

8\*

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itself owns all the stock, the legislature appoints

the directors, the faith of the State is pledged for

the redemption of the bills, and they are receiva-

ble for public dues, provided the capital is paid in

and the bank may be sued. (Story, 4th ed., L

227, note.)

2. Can the national government do what the

States cannot do under this clause ? The legal-

tender cases have recently decided this ques-

tion in the affirmative\* Mr. Gallatin said, in

183 1, of Congress : " As this body has no author ^

ity to make anything whatever a tender in pay-

ment of private debts ^ it necessarily follows that

nothing but gold and silver coin can be made

a legal tender for that purpose, and that Con-

gress cannot authorize the payment, in any

species of paper currency^ of any other debts but

those due to the United States." This is only

important as showing the belief of prominent pub-

lic men on this point in earlier times. For them

it was a simple matter of course that Congress

could not pass a legal-tender act of any kind,

how much less one which should apply to exist-

ing contracts. The legal-tender decision did as

HISTORY OF AMERICAN CURRENCY. 59

great a wrong as the Dred Scott decision, and •

the latter instance shows us that it is not useless

to discuss a constitutional question, even after the

court has decided it It will not probably take a

war to overthrow the principle of the legal-tender

act, but it niay take a national bankruptcy.

THE FIRST BANK OF THE UNITED STATE 3.

The first»United States Bank was chartered by

Congress in 1791. Its capital was $10,000,000,

to be paid, one-fourth in cash, the rest in bonds

of the United States. The charter was to run

for twenty years. It issued no bills under $10.

Other banks were now formed very rapidly.

The following list is given by Gouge, though he

says that it is not full :

Banks Banks Banks

chartered. chartered. chartered.

1792 8 1799 3 1806 4

1793 3 1800 2 1807 9

1794 o 1801 3 1808 I

1795 5 1802 4 1S09 3

1796 I 1803 15 1810..... 8

1797 o 1804 10 1811 II

1798 o 1805 4 1S12 19

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COINAGE.

In 1794 the first silver was actually coined,

the dollar weighing 416 grs., 1485 parts pure to

179 parts alloy. Its pure contents were, there

fore, 371.25 grs. Gold was first coined in 1795,

the eagle weighing 270 grs., H fine, so that one

dollar contained 24.75 grs. pure gold. It will be

observed that where two metals are thus made

legal tender, and there is both a silver " dollar "

and a gold "dollar," the question of relative

value of the two metals is involved. It was as-

sumed in the above rating that silver was to gold

as 15 to I. We have had one instance before us

already when Massachusetts, in 1761, overrated

gold in the coinage and drove out silver. If the

rating should be correct at the time of passing

the coinage law, yet the fluctuations which are

continually taking place in the relative value of

the two metals would in time disturb the rela-

tions, and only one metal would circulate, viz., the

cheaper one. France has changed to a silver

currency only, and then to a gold currency only,

by these fluctuations since her mint law fixed

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the relation in the coinage. The ratio of 15 to i

was, at this time, unjust to gold. The actuaT

market value being i5i to i. We shall have oc-

casion to notice the operation in this case.

BANK ISSUES IN NEW ENGLAND.

The development of banking took place first

in New England. It was of the kind later known

as '• wild-cat " banking. The new financial

machine seemed so powerful and beneficent that

all that was necessary was to work it to the ut-

most. Notes under $5 were not allowed in

Massachusetts until 1805, but after that smaller

denominations were allowed, and finally notes

were issued as low as 25 cents, and, by the law

that paper drives out specie to the lowest denom •

ination to which it is issued, there was no specie

in the New England States. The stock of specie

in bank was insignificant, and was moved from

bank to bank to meet the inspectors' visits. The

downfall came in 1809. One bank in Massa-

chussetts had $40 in specie; another nothing.

The system of subscribing to capital by notes

was, as it appears, universal. The Farmers

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Exchange Bank of Gloucester, R. L, founded in

1804, was probably the worst case. Its capital

was $1,000,000. Only $19,141.86 were ever

paid in, and of this the directors withdrew what

they paid in, leaving- $3,081. 11. One Dexter

bought out eleven of the directors for $1,300

each, paid out of the bank's funds. He borrowed

of the bank $760,265\* When it failed it had

$86.46 in specie; bills out unknown; the com-

mittee estimated them at $580,000. South of

New England banks were fewer, and there was

no disturbance. Silver was plentiful in the West

The exportation from Mexico was through the

United States.

After this crash, the New England States passed

severe banking laws, with penalty of twelve per

cent, interest on all notes not redeemed on de-

mand. In 18 13 the New England Bank was

chartered as a bank of redemption at Boston, in

order to keep the paper of banks in the adjacent

country at par. It accomplished this object, but

was exceedingly unpopular with its country cli-

ents. This was the origin of the Suffolk Bank

system.

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BANK ISSUES IN THE MIDDLE STATES

m

The banking mania now broke out in the

Middle States. In 1810 Pensylvania found it

necessary to forbid the issue of notes by incor-

porated companies — bridge companies, etc.

The charter of the Bank of the United States ex-

pired in 181 1, and its renewal met with such

vigorous opposition that it was defeated\* The

constitutionality of the charter by Congress was

doubted from the outset This bank, so far as

we can judge from the information we have in

regard to it, was soberly managed, successful,

and beneficial in restraining the issues of the

smaller banks\* It was on this latter account es-

pecially, snd also because others desired to form

small banks, that a strong party was formed

against the renewal of its charter. The same in-

fluence defeated its efforts to get a charter from

the State of Pennsylvania. Great fears were en-

tertained that a severe crisis must follow the

winding up of the United States Bank, but they

were not realized.

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The note circulation of the banks of the coun\*

try in 1 8 1 1 is estimated t{y Gallatin at 46^000,000.

The field being thus cleared, twenty-five char-

ters were passed through the Pennsylvania legis-

lature in 181 2-13, but all vetoed. In the follow-

ing session forty-one banks, with $17,000,000

capital, were chartered by Pennsylvania over the

veto. In a report to' the Pennsylvania Senate

made in January, 1820, by a committee of which

Condy Raguet was chairman,\* it is stated that at

this time prices were low in New England, and

specie was flowing thither.

The country being now at war, Mr. Eppes,of

the Ways and Means Committee, thus explained

the financial measures by which it was proposed

to carry on war (Winter of 1813 — 1814).

There were $75,000,000 bank capital, and

$100,000,000 circulation and discounts (depos-

its). Deduct forty-seven millions circulation re-

quired; there remain fifty-three millions, \*'of

which we propose to borrow thirty millions." In

181 2 the government borrowed six millions from

\* Extracts are given in the appendix to Ragviet's Currency and l^nlrm^

Pliiladelidiia, 184a

SISTORY OP AMERICAN CURRENCY. 65

banks, and four millions from individuals at par.

In 1 813 it borrowed twenty millions, allowing

one hundred and thirteen for one hundred paid.

In 18 14 it borrowed fifteen millions; twelve mil-

lions nett, allowing one hundred and twenty-five

for one hundred received. No more was to be

had. No tax was laid until January i, 1814. The

loans nearly all came from the Middle States, the

New England States being strongly opposed to

the war, as foolish, unnecessary, a help to Napo-

leon, and completing the ruin begun by the em^

bargo.

The revenue fdr 181 2, '13, and '14 was twelve

millions. The peace expenditures had been

eight millions. Treasury notes for one year were

issued in 181 2 to the amount of three millions,

interest at five and two-fifths per cent., receivable

in taxes. Six millions were issued in 1813 ; eight

millions in 1814. By 18 14 prices were rapidly

advancing, business was brisk,, and importations

were great Pennsylvania notes were at fourteen

per cent, discount. It was complained at Phila-

delphia that silver flowed to New England and

was there exported. The importations came

66 HISTORY OF AMEEICAJ^ CURRENCY.

through New England. There was, therefore,

now an " adverse balance of trade," between the

Middle and New England States. It was also

claimed that the New Englanders were buying

bills drawn for the supply of English troops in

Canada with their surplus silver.

The New England Bank having collected over

$100,000 worth of the New York bills which

flooded New England, sent them home for redemp-

tion. The silver was loaded and on its way to Bos-

ton, when the Collector of New York stopped it

at Chester, and ordered it to the Manhattan

Bank, of which he was a director. He said he

suspected that it was to be sent to Canada. The

President of the United States ordered it to be

given up.

On the 30th August, 18 13, the directors of the

chartered banks of Philadelphia published a cir-

cular, in which they said that, on account of the

blockade, exportation of produce was impossible.

Hence specie had been exported, and " as the im-

portation of foreign goods in the Eastern States

has been very large, it has for many months past

occasioned a continual drain from the bank."

HISTORY OF AMERICAN CURRENCY. 6f

They also refer to the English bills of exchange\*

For a time they had been able to draw from the

Southern States (the New Orleans banks sus-

pended because \*\* a contraband trade was draw-

ing off the specie "), but this was no longer possi

ble. '' It became a serious consideration whethei

the banks should continue their exertions to draw

within their vaults the specie capital of the coun-

try, and thus facilitate the means of exporting it

from the United States, or whether they should

suspend the payment of specie before their means

were exhausted."

This plausible explanation appealed to the pop-

ular prejudice against exporting silver, but evi-

dently concealed the true relation of facts. The

silver went to New England unquestionably. On

the I St June, 1811, the banks of Massachusetts

held $1,709,000 in specie ;

1812 $3>9i5»ooo.

1813 6,171,000.

1814 7,326,000.

1815 3»9iS'C<x>-

1816 1,270,000.

It went thither because there was a sound cur-

68 HISTORY OF AMERICAN CURRENCY.

rency and low prices there, and went away from

the Middle and Southern States because displaced

by redundant paper and consei^uent high prices.

It was because the Pennsylvania tianks had issued

paper until it was at a discount, that, when they

got the silver into their vaults, they could not keep

it there, but it was demanded of them and ex-

ported. When the New Englanders took it they

gave something for it, and there was an unusual

importation from New England. They also used

it. Having far more than they needed, they ex-

ported it either directly to Europe or by buying

bills payable in London, and increased their im-

ports. I know of no more complete illustration

of the true doctrine, and of the error by which it

is beclouded

There was at the same time a movement of

specie to Ohio, Kentucky, and Tennessee, where

there were no banks.

SUSPENSION OF 1814.

In 1 814 all the banks, save the New England

banks, suspended. In the year 181 5 the Penn-

sylvania banks increased their loans $10,000,000.

HISTORY OF AMERICAN CURRENCY. 69

Business was active and prices high. The mer\*

chants agreed to the suspension if specie pay-

ments should be resumed after the war. Small

coin disappeared and tickets were used. Notes

were depreciated from twenty to fifty per cent

Importations, especially of articles of luxury, in-

creased. Credit was great and expanding, prices

continually rising.

The Secretary of the Treasury now began to

be engaged in the money-market. He tried to

get the banks to come to some agreement

which should bring about a uniform currency,

but he failed. He then ordered that taxes

should be received only in specie, Treasury

notes, or notes of banks which received Treas-

ury notes at par. The banks received them

at par when they were at or above par in the

market, but not otherwise. The banks which

took Treasury notes issued bills for them, so

that the issues of the Treasury stimulated those

of the banks. The notes of the latter when

issued accumulated in the banks which did not

take Treasury notes, so that the Treasury

received the notes of debtor banks when it

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would not receive those of creditor banks.

At the same time, while loans increased three

per cent on capital, there was $3,000,000 less

mercantile discount, the rest being on govern-

ments, and the • government Treasury held bank

notes instead of Treasury notes. These bank

notes would not pass thirty miles from the place

at which they were issued. The paper prosper-

ity was now in full tide (181 5). Gouge quotes a

pamphlet of Mr. Matthew Carey, in which he

called this the " golden age " of Philadelphia.

The ideas about money and currency which

had prevailed in England in 1810 and 181 1 ndw

appeared here, as they always appear where paper

money is in use. It was said that silver had

risen (though the Pennsylvania Senate Committee

say this notion was abandoned by the end of

181 5), and that a dollar was an ideal unit Dr.

BoUman proposed a scheme for a National Bank

to issue notes redeemable in six per cent gov-

ernment stock, which would keep them from de-

preciation and tie them to a fixed value. State

banks were to issue notes and redeem them in

HISTORY OF AMERICAN CURRENCY. 71

this paper. Carey said it was a " magnificent "'

plan.

Madison recommended another national bank,

but vetoed the first bill: — for a specie bank,

as not adapted to the currency. Peace was

ratified in February, 181 5, and the Conservatives

now held that a national bank was necessary

to hold the State banks in check. They did

not want it to begin under a suspension. A

second charter was passed. The capital was to

be $35,000,000.

There were immense importations in this

y6ar. The English merchants exported enor-

mously\* after peace was declared, anticipating

demand. These goods were forced to sale here

as well as elsewhere. The prices proved un-

remunerative to the foreign owners, and also ruin-

ous to the injudicious enterprises which, having

been undertaken here under the protection of

war, had taken permanent form. These were

by no means so numerous or extensive as is

sometimes asserted and generally believed, but

there were such. This brought us the boon

\* See Chapter II. pi aSj.

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of our first strong protective tariff, though the

average duties were only about thirty per cent on

dutiable. The principle of protection had been

adopted in 1789, and the rates of duty, very low

at first, had been steadily increased by successive

enactments. The tariff of 18 16 was avowedly

carried as a realization of the " American sys-

tem," but afterwards it came to be referred to, in

the retrospect, as a British free-trade tariff.

The great importations gave the government

a large surplus revenue. It had $22,000,000

nominal balance in the Treasury, but it consisted

of bank-notes which could only circulate in a

small district around their place of issue, and the

places where the government was creditor and

held the notes were not the places where it want-

ed to pay its floating debt New seven per cent

notes were issued to pay the quarterly interest,

and, to pay the interest at Boston, January i,

181 7, the government was obliged to borrow

$500,000 of the United States Bank before it

opened. Banks which were government depos-

itories refused to pay government drafts, save for

current expenses, and they controlled other

HISTORY OF AMERICAN CURRENCY. 73

banks because they held government deposits

in the bills of the latter.

SECOND UNITED STATES BANK.

On January ist, 18 17, the Second United

States Bank opened. By the charter its capital

was to consist of $7,000,000 government subscrip-

tion, 7,000,000 specie, and $21,000,000 gov-

ernment stock or specie. It began business

with $1,400,000 in specie, $14,000,000 in stocks,

and the rest in stock notes. $2,800,000

were soon due on the second instalment, but

this would come for the most part from notes or

discounts of the bank itself. Only $32,400 of it

were paid in specie. The third instalment was

still worse. The bank discounted its own stock

at par to enable the instalment to be paid.

" The discounts, the payment of the second in-

stalment, the payment of price to the owner,

the transfer, and the pledge of the stock were,

as it was termed, simultaneous operations." In

August, 181 7, the bank discounted its own

stock at 125. The facilities for stock-jobbing

were excellent, and they were used.

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RESUMPTION.

Congress resolved that after February 20th,

1817, only specie, Treasury notes, and notes of

specie-paying banks ought to be taken by the

national Treasury. The banks refused to resume

before July, 181 7. New York passed a law im-

posing twelve per cent, interest on notes not re-

deemed, and the banks finally agreed to resume on

February 20th, if the United States Bank would

extend its discounts as they contracted. This was

agreed to. The bank allowed $30,000,000 dis-

counts the first year, and the Committee of the

Pennsylvania Senate say that it more than made

up for the contraction of the State banks, and

that the resumption was only nominal.

The Western banlcs were still comparatively

sound, silver being at six per cent, premium there,

and fourteen per cent, in Philadelphia. The

Southern banks had joined the inflation. There

were fourteen banks in Virginia, North and South

Carolina, and Georgia, in 18 14, and twenty-three

in 18 1 5.

In 1817 a case at Richmond, after specie pay-

HISTORY OF AAf ERICA JN" CURRENCY. 75

ments were resumed, gives an insight into the

state of things. A man having presented ten

one-hundred-dollar notes for redemption was

refused. He could not get a lawyer to take

a case against the bank for a long time. Fi-

nally, having obtained judgment, the sheriff was

sent to collect. The president of the bank was

taken before the court, but refused to pay. The

bank wis closed by the sheriff, but soon after

opened and went on.

The inflation during this year was increased

by the government paying off eleven millions of

the public securities held by the bank. The

note circulation at this time is estimated at one

hundred millions. It is to be noticed that the

banks were as recalcitrant about giving statistics,

either to the Secretary of the Treasury or private

investigators, as about any of their other duties,

so that we have no trustworthy statistics.

CONDITION OF THE UNITED STATES BANK.

In March, 18 18, the discounts of the United

States Bank were forty-three millions, eleven

millions on stock. The notes could not be signed

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fast enough. It had two millions in specie. Ouf

knowledge of its affairs at this time is derived

from the report of Mr. Cheeves, who became its

president during this year, and three years after-

wards delivered a report stating how he found

the bank, and what he did to save it. It now

had eighteen branches, but never over $3,000,000

specie in them all. Its operations in the West

drew that region into the prevailing mania.

Its branches paid out their own notes and helc^

those of the State banks as far as possible. They

redeemed their own notes by drafts on the East

They thus obtained the specie of those States,

and the States had credits at New York for the

value of the same, which they used for enlarged

purchases. The West therefore now entered

on the " golden age." There were forty-three

banks in Kentucky, ten in Tennessee, and eight in

Ohio in 1 8 18.

The bank now bought seven millions bullion

in the West Indies at a cost of $800,000 ex-

penses. It was exported as fast as it was im-

ported. In April, 18 18, fifteen months after

the bank started, it was doubtful whether it was

HISTORY OF AMERICAN CURRENCY, jj

solvent. Energetic measures of contraction were

adopted. It was ordered that discounts be

reduced by November ist, $2,000,000 at Bal-

timore, $2,000,000 at Philadelphia, $700,000

at Richmond, $500,000 at Norfolk. $4,500,000

contraction was accomplished, but more was

urged, as silver was yet at ten per cent, premium.

The parent bank refused the notes of its

branches, and they of each other, and called on

the State banks to pay balances in specie. It

was proposed that the government should issue

Treasury notes, and a meeting was held at Phila-

delphia, Mr. Carey in the chair, which appointed

a conunittee to petition Congress to pass a law

forbidding the exportation of specie. The com-

mittee refused to serve.

In November, Congress appointed a committee

of investigation, which reported a resolution that

a scire facias should issue for the forfeiture of

the charter of the United States Bank. This

was lost, forty members of Congress being stock-

holders. John Randolph said a man might as

well go to Constantinople and preach Christianity,

as to go to Congress and preach against banks.

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Mr. Cheeves now became President, vtc$

Mr. Wm. Jones. The total contraction this year

was six millions, all in the North and East

The issues in the South and West were increas-

ing.

On April i, 1819, the state of the bank was:

specie, $126,745.28; notes, $6,000,000; due

other banks, $79,125.99 ; due government, $500,-

000; due Barings, $900,000. There were

$267,978.09, in the mint, and $250,000 specie

on the way from the West. The New York and

Boston branches were in worse condition. The

Baltimore branch had given $3,000,000 discounts,

of which the parent bank had no knowledge,

apparently from corrupt motives. $1,671,221,

were lost there. The total losses to date were

$3,500,000. Dividends for $4,410,000 had been

paid, of which $1,348,553 had been gained by in-

terest on public securities. Net loss over $500,-

000. The bank now took the most energetic

measures to save itself, and in seventy days was

once more solvent, but it had ruined the com\*

munity. The " golden age " was now far in the

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past, and was seen to be only a gilt -paper age after

all. The ruin was almost universaL

CRISIS OF 1819.

In August, 1 8 19, 20,000 persons were seeking

employment in Philadelphia, and there was a

similar state of things in New York and Bal-

timore. Thirty trades which employed 9,672

persons in 1 816, at Philadelphia, employed only

2,137 in 18 19. Trades which employed 1,960

persons, at Pittsburg, in 18 15, employed only

672 in 18 1 9. The papers were filled with adver-

tisements of sheriff's sales.

All this was used as an argument then, and

has been so used since, to prove that we needed

"protection to American industry."

The committee of the Senate of Pennsylvania,

already referred to, ascribed the distress to

abuses of banking, and a similar committee of

the House traced it back to the expansion of

banking in 1814. "In consequence of this most

destructive measure, the inclination of a large part

of the people, created by past prosperity, to live

by speculation and not by labor, was greatly in-

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creased. A spirit in all respects akin to gambling

prevailed. A fictitious value was given to all

kinds of property. Specie was driven from cir-

culation as if by common consent, and all efforts

to restore society to its natural condition were

treated with undisguised contempt."

Niles' Register, quoted by Gouge, says of

the prevailing extravagance : " The prodigality

and waste of some of these [speculators] were

almost beyond belief. We have heard that the

furniture of a single parlor possessed (we can-

not say owned) by one of these cost $40,000.

So it was in all the great cities — dash — dash —

dash — vendors of tape and bobbins transformed

into persons of high blood, and the sons of re-

spectable citizens converted into knaves of rank —

through speculation and the facilities of the abomi-

nable paper-money system."

Lan4 in Pennsylvania was worth on the aver-

age, in 1809, $38 per acre; in 1815, $150; in

1 8 19, $35. The note circulation of the country

in 181 2 was about 45,000,000; in 181 7, 100,000,-

000; in 1819, 45,000,000.

The newspapers of 1819 contain numerous ac«

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counts of riots, incendiary fires, frauds, and rob-

beries. The House committee spoke of the

" change of the moral character of many of our

citizens by the presence of distress." The dis-

tress extended to New England, but was less

severe there than elsewhere. In the West it

was intense. In Kentucky stay laws were

passed which were distinctly unconstitutional,

but, the court having so decided them, a new court

was appointed which reversed the decision. Old

■

Court and New Court became political issues.

The New Court party carried the State until 1826,

when the disorganization and misery occasioned

by the laws led to a revulsion, and the laws were

set aside. Similar laws were passed«in Tennes-

see, Gen. Jackson vigorously opposing. The

banks of the South pretended to pay specie, but

Gouge quotes an eye-witness in regard to the

proceedings of the Darien Bank, Georgia.

One who presented a bill must make oath in the

bank before a justice i5f the peace that the bilJ

was his own, and that he was not an agent for

any one. He must also make this oath before

the cashier and five directors, and must pay

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$1-3 7 J ^^ G2ich bill. The United States Bank

protested $500 of the bills of the Bank of

Georgia, and sold them at auction. When

specie was demanded,. cents were counted out at

the rate of $60.00 per day-

Stagnation and distress lasted throughout

1820. Prices were at the lowest ebb and liquida-

tion went slowly on. Wheat was at 20 cts. per

bushel in Kentucky. A man in Western Virginia

stopped Niles' Register because one barrel. of

flour used to pay a year's subscription ; now

three barrels would not. At Pittsburg flour was

$1 per barrel, boards 20 cts, per hundred, sheep

$1. Imported goods were at old prices. The

banks settled down to quiet regularity. Notes

were for the most part brokers' merchandise, but

others circulated at a discount only equal to the

cost of transporting specie from the place of issue

to the place of circulation. Money was plentiful

in the hands of those who had no debts to pay,

where of course it must settle whenever the

social machinery comes to a stand-still. They

would not lend or invest, though the papers were

filled with advertisements. Rent of a given

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house in Philadelphia fell from $1200 to $450,

fuel from $12 to $5.50, flour from $10.00 to

$4,50, beef from 25 cents to 8 cents per lb.

Printing was little done. School-books were a

drug. Niles says that five years before, stores

on Market Street were cut in two and then not

enough. Dwelling-houses were in great demand.

The stores were now reunited, and houses more

than enough. The population of Baltimore de-

creased 10,000 between 1 81 5 and 1820. Rents

on Market Street were $250,000 less in 1820 than

in 1815. Wages were low on half time.

In 1820 Virginia forbade notes under $5.

During 1821 the general stagnation continued.

Liquidation went on slowly. Investments were

only gradually taken up as confidence revived.

In April of that year Kentucky notes exchanged

for silver 210 for 100. Tennessee notes were at

10 per cent, discount until 1830. Comptroller's

warrants were issued in Alabama, which, in order

to make them more attractive, were printed on

silk paper.

In June an expansion began, and by October

there was a well-marked upward movement, but

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in the fall of 1822 there was a reaction, woollen

and cotton goods falling 50 per cent in a few

weeks in December. In 1823 the circulation of

the United States Bank was very low — $4,081,-

842, but there was a great creation of banks, and

insurance and other companies at New York.

Later in the year the United States Bank receiv-

ed the notes of all its branches, and began to

expand.

CRISIS OF 1825.

In 1824 all the banks expanded. Pennsylva-

nia re-chartered the banks of 18 14. A new tariff

was obtained raising duties to 35 per cent., and a

grand era ©f prosperity was expected. In the

spring of 1825 fifty-two charters were petitioned

for in New York for banks and insurance com-

panies. When charters could not be obtained of

New York, they were obtained in New Jersey,

and the banks were established on the west bank

of the Hudson. In Kentucky there was anarchy.

Alabama and Tennessee notes were at a discount.

Indiana, Illinois, and Missouri were still suffering

from the " relief" system (stay laws against the

collection of debts, etc.). The New York and

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Boston city banks were fighting the country issues,

which, being current and depreciated, drove out

the better notes of the city banks. The Bank

of the United States increased its issues over

3,000,000.

In the meantime business was reviving in

England, manufactures especially being very

prosperous, and creating a great demand for raw

materials.\* Heavy orders for cotton ran its

price up here to 27 cents. Com was pulled up

to plant cotton, and an active speculation in it

began. The excess of exports over imports of

specie in 1825 were $2,646,290. The excess of

exports over imports of merchandise were $549,-

023. In July the fall in prices in England

brought a fall here. Fifty failures took place in

New York before December. Banks failed in

large numbers. The United States Bank was in

trouble. The government wanted to pay off

seven millions through the bank, but delayed

this operation at the request of the latter,

giving occasion to one of Jackson's subsequent

charges against it. When it was done the bank

^ See Chapter II. p. 302,

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became debtor to the State banks and could not

redeem its notes, explaining that bills drawn to

pay English troops in Canada and for the forma-

tion of a bank in New Orleans had shortened

specie supplies. It will be observed that the

outflow of specie must always take place in that

form which at the moment gives greatest profit,

though the catise is always the same, and the

usage is to explain the cause by the form of the

export. The causes mentioned could have had

no effect whatever unless there had been over-

issues.

In 1826 there was dulness and reaction

throughout the year. The cotton crop was poor.

There were applications for charters for 123

banks and insurance companies in New York,

which were refused. In April, 1826, ten or twelve

failed and a run followed ; but the banks held out

In this year the importations of merchandise

exceeded the exportations by $5,202,722; the

importations of specie exceeded the exportations

by $2, 1 76,433. The method of importation was to

buy bills, get long credit for duties, and send the

cargos, as soon as received, to auction. The auc-

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tioneer's notes were discounted, new bills bought^

and the transaction repeated as long as rising

prices and easy credit made it possible.

The crisis of 1825 was by no means so great

in this country as in England. The country was

not yet recovered from the convulsion of 18 19.

The We'stern States especially had, as yet, not •

escaped from the effects of that crisis. The

speculation here was led off by the excitement in

England^ especially in cotton. The joint-stock-

company mania seems also to have broken out

here by contagion or sympathy^ The banks,

instead of applying any check to the unhealthy

movement, or using any conservative measures,

joined freely in the excitement The crisis was

not a bank crisis. Suspensions were not in

fashion, 'and the few banks which did suspend

failed. The prudent refusal of the New York

legislature to grant the charters asked for during

the last two years was amply justified.

In 1827 money was plentiful. In 1828 it was

plentiful until May,, when there was great

scarcity, renewed in September. In May, 1828,

the highest protective tariff before 1864 was

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passed. The percentage of duties on total im\*

ports in 1830 was 30.93, and on dutiable, 47.46.

In 1829 money was scarce until July, when it be-

came plentiful. President Jackson opened the

attack on the United States Bank in his first

message in December of that yeat. In 1830

money was plentiful. An English writer of the

period speaks of specie as flowing to America

from all parts of the world, and Niles' Register

quotes a contemporary as complaining of the

«

over-abundance of silver, and wishing some gulf

might open to swallow it The Bank of the

United States increased its loans. During 1831

it continued this movement, increasing its loans

from forty to sixty millions, as President Jackson

charged, in order to manufacture popularity. In

October, 1831, the money-market became strin-

gent. In 1832 the United States Bank still

further extended its discounts to seventy mil-

lions.

INVESTMENTS OF FOREIGN CAPITAL.

About the year 1 830 American securities be-

gan to attract English investments. Some stock

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of the United States Bank had been held by

foreigners from still earlier date, but large trans-

fers of it occurred late in the twenties. State and

canal stocks were also sold abroad in 1828-1832.

The opportunities for remunerative investment of

capital in this country waited only for improved

transportation to present themselves. Canals

were the first movement in this direction, and

steamboats the next; but, in the decade from

1830 to 1840, railroads being introduced, the

industrial development of the country went on

with gigantic strides. At the same time the old

restrictive system was partially broken down,

first by the freeing of some raw materials in

England under Mr. Huskisson's administration,

then by the modification of the Navigation Acts,

extorted from England by Prussia in 1825, by

which the trade with the British West Indies

was opened — an advantage which did not accrue

to the United States, on account of diplomatic

mistakes (this country claiming as a right what

was offered as a privilege) until 1 830, and thirdly

by our lame compromise tariff.

The interesting period whose history we have

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next to pursue, cannot be understood if ob«

served from a narrow standpoint, and inter\*

preted by subordinate incidents. The intro-

duction of the new means of intercourse

produced a development of industry so great as

to amount to a revolution, so sudden as to

create a convulsion. It required for its guid-

ance, above all, financial skill ; for it caused a

strain upon the existing capital of society be-

yond what it was able to bear. This led to the

usual resort to credit, and to credit in its most

explosive forms, bank discounts and paper cur-

rency. The downfall at the end of the decade

was the result of too headlong a career of pros-

perity, or of the intoxication which comes to men

when they find themselves in control of un-

dreamed-of powers of production. The two

greatest commercial nations, England and the

United States, wiere natiu-ally the first to avail

themselves of the new inventions, and they felt

the crisis the most severely. They were tied

together by the capital loaned by the elder to

• the younger nation. Some asserted at the time

that specie currency would hold the two to-

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gether, and render every circumstance of the one

important to the other; others affirmed the

same of paper currency. Neither party was on

the right track. Evidently the bond which

bound them was the. credit extended to America

by England, and the crisis in either country can\*

not be understood without reference to the

events and movements in the other.

CURRENCY AND TARIFF AS POLITICAL ISSUES.

Unfortunately during this period — ^the period in

which financial and fiscal questions were studied

and understood by the American people better

than at any other time in our history — those

questions were made issues in party politics. I

see no reason why they should not be political

issues. Indeed, I am convinced that such ques-

tions never will be settled until they become

political issues. But the reason why the strug«

gles of the thirties proved so fruidess in the end

was that parties did not divide according to in-

telligent conviction in regard to tariff and hard-

money, but parties already formed took sides on

these questions. President Jackson, elected as

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much for military prestige as anything, had im\*

bibed from what he had seen of paper money in

Tennessee and Kentucky a fierce, but hot too in-

telligent, detestation of it He committed his

friends and the democratic party to hard money.

Thus thousands of men who were democrats on

previous iissues became hard«money men with-

out knowing why. Mr. Clay committed himseU

to protection without any thorough knowledge

or true conviction of the principles involved.

He carried the Whig party (proper exceptions

being understood) into the support of protection.

Mr. Webster, originally free trader and hard-

money man by the convictions of a sober and

clear reason, gave his support to protection be-

cause Massachusetts had been turned from a

commercial into a manufacturing State, and, as

he thought, could nbt go back. He advocated

the bank originally for the purpose of checking

paper issues by hundreds of petty banks. In

the party contest he found himself committed to

the bank so far that he could not draw back even

if he wished. Mr. Calhoun, a protectionist in

1816, when it was thought that cotton needed

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protection, turned free trader when the South

came to bear the burden of protection without

any benefit. Thus it appeared to be a mere

question of interest. If Thomas H. Benton's

story is correct, the compromise tariff of 1833 was

made to save \* Mr. Calhoun from a trial for trea-

son, and to enable Mr. Clay to retire from a po-

sition from which he found it impossible to

advance on account of his enemies, or to re\*

treat on account of his friends. Looking at the

history of these three men, one is forced to be

lieve, that if any one of them had been less

politic and more honest to his convictions, he

might have been far more successful. It remains

yet for some statesman to show that the

commonplaces about ''yielding to circum-

stances " and " doing what you can " are only a

petty wisdom ; that, so far from being the grand

principles of politics in a republic, the latter is just

the place for that man to succeed who, by show-

ing that he understands himself, and knows

whither he wants to go, proves to the mass that

he is fit to lead. The time must come when the

people will learn that to rule by the small men is

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the most expensive and ruinous of all methods oi

government. History will, moreover, set its

verdict upon the position of the South in 1832,

selling their product in a free market and buy-

ing their manufactures in one loaded by obstruc-

tive taxation; that, although the means they

employed were unlawful, and their conversion

to free trade was due to self-interest, yet their

grievance was great and their protest was just

Probably this will come about when the farmers

of the West, who have inherited the grievance

of the South, shall have learned, as they will

learn, what it is which really afflicts them, and

shall have broken the system to pieces. The

history we have now to. follow will show that

when existing political organizations take up

scientific questions as party capital, they use

them only to support ambition, and the questions

reach no satisfactory or permanent solutions.

It is a vital question for the republic whether

parties shall form and reform around issues as

they arise, or whether the issues shall arise under

and inside of permanent party organizations.

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WAR BETWEEN THE ADMINISTRATION AND

THE UNITED STATES BANK.

In 1832 the bank petitioned for a renewal of

its charter which was to expire in 1836. In

speaking in favor of a renewal, Mr. Webster

said:

\*\* A disordered currency is one of the greatest

political evils. It undermines the virtues neces-

sary for the support of the social system, and en-

courages propensities destructive to its happi-

ness. It wars against industry, frugality, and

economy, and it fosters the evil spirits of extrav-

agance and speculation. • Of all the contrivances

for cheating the laboring classes of mankind,

none has been more effectual than that which de-

ludes them witn paper money. This is the most

effectual of inventions to fertilize the rich man's

field by the sweat of the poor man's brow.

Ordinary tyranny, oppression, excessive taxation,

these bear lighdy on the happiness of the mass

of the community, compared with fraudulent cur-

rencies and the robberies committed by depreci-

ated p^er. O jr own history has recorded for

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our instruction enough, and more than enoughi

of the\* demoralizing tendency, the injustice, and

the intolerable oppression on the virtuous and

well disposed, of a degraded paper currency,

authorized by law, or any way countenanced by

government."

The bill passed both Houses, and was vetoed

by the President on the loth July. It being now

evident that the bank must expire unless some

influence could be brought to bear to change the

President or win two-thirds of Congress, a vio-

lent warfare was begun by the bank. The

power of its interest at the time is attested

by any amount of evidence. Mr. Wm. Gouge

published his work on the History of Paper

Money in 1833, in which he bears the strong-

est testimony to the power of the bank corpo-

rations throughout the country. The expressions

used now in the West in regard to railroad

corporations are not stronger than those used

by many writers at the period under review in re-

gard to \*\* banking " — by which they meant the is-

sue and loan of notes nominally convertible but

really inconvertible, and thus subject, in their ex-

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pansions and contractions, to nothing but the will

of the bankers themselves. It is certain that the

banks paid no more heed to the laws of the State

than they did to the laws of prudence or of

banking, science, and that they paid very little

heed to either. This veto was the cause of some

genuine anxiety and of sonie manufactured fears

in regard to the business future, and played a

prominent part in the political canvass of 1832.

Jackson defeated Clay, the latter representing

bank, tariff, and internal improvements, by 288

to 49 in the electoral college.

The President, in his message in December,

1832, recommended the sale of the seven millions

stock of the United States Bank which was

owned by the nation, and the appointment of a

committee to investigate its affairs. Bank shares

fell from 112 to 104, but on a favorable report by

the Treasury agent they recovered to 112. This

report showed over seventy-nine millions assets ;

liabilities, thirty-seven millions ; leaving forty-two

millions : thirty-five millions capital, and seven

millions surplus. But when the Government de-

sired to pay the three per cents., in July, 1832,

6

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the bank agreed to pay the interest on them un-

til October, if the payment might be delayed so

long. It then negotiated a loan of five millions

from Barings to make the payments of drafts on

government deposits held by it, which would be

made to carry out the payment of this stock.

The reason given for negotiating this loan was

fear of cholera. These operations raised ques-

tions of the safety of the public deposits, but the

Committee of Ways and Means (Polk dissenting)

offered a resolution that the deposits were safe.

It was passed, 109 to 46. The motion to sell out

the public shares was lost, 102 to 91, through

the influence of the bank, which, as was after-

wards discovered, had a large number of debtors,

attorneys, and stockholders in the House-

THE COMPROMISE TARIFF.

In 1833 was passed the compromise tariff, by

which duties were reduced gradually to 20 per

cent, in 1842. This tariff was deceptive and com\*

plicated. It had no principle of economic science

at its root — neither protection nor free trade. It

was patched up as a concession, although it really

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made very little, and its provisions were so in-

tricate and contradictory that it produced little

revenue. Specific duties were unaffected by it,

and these included books, paper, glass, and

sugar. It did not run its course without impor-

tant modifications in favor of protection, for it

could not bind future Congresses, and the doc-

trine of the horizontal rate of 20 per cent. — a

doctrine which has no scientific basis — produced

an increase on many articles. It raised the cost

of cheap woollens, much worn, and, as it did not

provide for any other source of revenue, it was

certain that it could not last. It was a compro-

mise between Clay and Calhoun only, but it gave

Calhoun the chance to say, as he did often, that

the warlike attitude of South Carolina, in 1832,

coerced national legislation. It taught Southern-

ers to believe that a warlike attitude was all

which was necessary ; and the violation of the

act in 1842 was used with immense force to jus-

tify the repeal of the Missouri Compromise. It

would lead me away from r.iy present subject to

unravel the effects of the tariff, but I insist

strenuously upon this, that the political and finan-

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cial history of the country axe interwoven

throughout, and that neither the currency nor the

tariff nor the politics can be satisfactorily treated,

save as a whole. Take the statistics, and review

them in view of the tariff only, and your in-

ferences are vitiated by the currency. Take the

same data, and look at the currency only, and

you go astray because you neglect the tariff.

Neglect the political intrigues which wove the

two together, and you cannot explain the motives

of legislation. You argue from the authority of

common conviction, when the true explanation is

log-rolling.

REMOVAL OF THE DEPOSITS.

After Congress adjourned, September 22, 1833,

the President ordered Mr. Duane, the Secretary

of the Treasur}^ to remove the public deposits

from the United States Bank. He refused to do

so, and was displaced by Mr. Taney, who did it,

The order was that collectors should send no

more money to the bank, but to authorized de-

positories, to be chosen amongst the State banks.

There was no positive and sudden transfer of the

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amount in bank, but it was proposed to draw for

it at the proper intervals.

The war was now in full blaze. The bank had

circulated documents during the canvass of the

previous year, showing its services and merits.

Against this proceeding I see no valid objec-

tion. The documents were \*' political," because

the question of the bank's existence had become

political. It was justified in defending itself.

But in August, 1833, it altered its policy. It

rapidly contracted its loans, giving as a reason

the necessity of providing for the transfer of

the deposits, a reason which the facts did not

warrant

On the assembling of Congress, December,

^^ZZ^ ^^ message announced the step taken, giv-

ing as grounds the misconduct of the bank in at-

tempting to control the election, and the unsound-

ness of the institution. The President also charged

the bank with now creating an artificial strin-

gency in order to make itself appear necessary to

the community. The bank question occupied a

great part of the session. Mr. Clay attacked

the President for removing the Secretary. The

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Senate resolved (28 to 18) that the reasons for re

moving the deposits were unsatisfactory, and that

the President had usurped unconstitutional power

over the Treasury by removing the Secretary.

The House never noticed the resolution, but re-

solved (134 to 82) that the bank ought not to be

rechartered nor the deposits restored.

DISTRESS OF 1834.

The recharter of the bank being now defi-

nitely refused, a number of small banks were or-

ganized to take its place. But before they could

get into operation the contraction of the bank had

time to operate upon the market. Many deputa-

tions came up to Congress to complain of distress,

and many memorials were sent up. The excite-

ment was great throughout the country. It was

asserted, however, on the other side, that all this

distress was manufactured by the bank interest,

in order to gain a recharter, and that loans were

refused to some and granted freely to others, who

used them to charge usurious rates, Benton

asserts that two cases were discovered, one in

which a broker received $1,100,000 to use in this

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way, for which he charged 2\ per cent per month.

Prices did fall very slightly in 1834 as compared

^with 1833, taking them over 80 articles, but some

\*

advanced, and the fall on none was great

The aggregate amount of loans and of circu-

lation in the country increased steadily all these

years.\* I have not been able to find any state-

ment of the loans of 1833, but the circulation, even

of the United States Bank, was not contracted in

1834, and, taking the whole number of banks, there

was an increase. The business of the country

was increasing quite as rapidly, and it is" impossi-

ble to ascribe the fluctuations of prices to the sole

action of the currency. The fears, real or manu-

factured, of a crisis on the winding up of the na-

tional bank, account for the decline which took

place.

CHANGES IN THE COINAGE.

By the law of 1 789 the exchange of sovereigns

(H of a guinea) for American coin was fixed at

$4.44^. It is not known how this ratio was de-

termined. The old exchange of a Mexican dol«

• See Uble, p. 123.

104

HISTORY OF AMERICAN CURRENCY.

lar was 45'. (>d. sterling, but Gallatin says that there

was no specimen of that coin which was worth

this estimate. The coinage law under which

coins were first struck in 1794 and 1795 fixed the

ratio of gold to silver at i to 1 5, the silver dollar

being 416 grains, 371.25 grains pure, and the

gold dollar 27.0 grains, 24.75 grains pure, the al-

loy counting for nothing. The actual rate of gold

to silver was at that time different in different

countries, but in England it was 15.2 to i. Gold

was therefore underrated in the coinage, and it

was easier for a debtor to get silver to the amount

of one dollar than gold to the amount of one idol-

lar. Silver accordingly became the real measure

used, and gold bore a premium.

The Qontentsof a sovereign are ii3.cx)i grains

(full weight 123.274), supposing it to be up to

standard, 916^ in the 1000 fine. Our mintl in

1839 and again in 1863, declared it to a^say

only 916.5 in the 1000. At the ratio of 15.2 tof i,

371-25 grs. pure silver would be equal to 24.424

grs. pure gold, and a sovereign would be worth

$4,626 of American silver. In American gold the

same coin would be worth $4,565. In 1831 Gal-

HISTORY OF AMERICAN CURRENCY. 105

latin took 15.6 to i as the existing ratio in Eng-

land, at which rate a sovereign was worth $4.75

in our silver. The difference between the coin-

age rating and the true value of the metals was

thus greater in 1830 than in 1795, and gold was

at a premium, on the average, in 1830, of five per

cent, selling price.

The figures above given show the par of the

coins grain for grain, but coins are worth

more than bullion, being manufactured, that is, an

ounce of gold in coin must buy more goods than

an ounce of gold in bullion. The difference is

the cost of manufacture. Gallatin says that it took

two months to coin bullion left at the mint, which

involved a loss of one per cent, interest. There

was no seigniorage or charge for coining. In

England there was no seigniorage, and the loss

of interest was represented by the difference be-

tween the mint price of bullion, £1 ^7^\* io\d. per

ounce, and the market price, which was then gen-

erally £i 17s. 6d.\* that is, it cost 4^. to get an

ounce coined. If coins are exported they lose

\* Smce 1844 the Bank is obliged by law to give its notes at £$ lys. gd>

for aU bullion offered, reducing the difference between coin and bullion.

5\*

Io6 HISTORY OF AMERICAN CURRENCY.

the value of their own\* coinage, and must pay that

of the country to which they go. Freight and

insurance must also be paid. The cost of coin-

ing here being one per cent., the cost of freight

etc., one per cent, more, and the cost of English

coinage a slight addition, coin could not be ex-

ported unless exchange was a fraction over two

per cent, above par. When an American had to

pay $4,656 to discharge one pound sterling debt,

he would ship gold. He could not ship silver to

profit until he had to pay $4,845 for a pound

sterling. From 1795 ^^^^ 182 1 exchange was

almost always favorable to this country. After

1 82 1 it often ruled adverse. Gold was shipped.

The following table from Senate document 290,

1st Ses. 26th Congress, shows the movement from

1824-1833, the gold and silver not having been

separated before 1824 in the returns. The fig-

ures are in thousands :

HISTORY OF AMERICAN CURRENCY, \o^

1

GOLD BULLION.

COLO COIN.

SILVER BULLION.

SILVER COIN. .

Excess of

Excess

of Ex

ports.

Excess of

Imports.

Excess of

Exports.

Excess of

Imports.

Excess

of Ex-

ports.

Excess of

Imports.

Excess of

Exports.

1824

1825

1826

1827

1828

1829

1830

I83I

1832

^^33

II. 9

151.0

100.5

82.4

55.9

35.3

104.6

144.5

94.4

21.4

34.9

62.5

127.9

199.0

231.0

'67.'6

189.8

229.0

. • . • . .

133-5

16. 1

3^9-4

357-9

436.9

419-3

422.4

623.2

1,025.1

482.7

480.9

297.8

998.9

2,116.7

478.9

2,612.8

5»553-5

1,102.6

4,438.4

3»i27.8

349-3

144. 1

•

The following table shows the amount of both

metals coined in the same years, two figures be-

ing omitted :

GOLD.

ULvm.

1824

$93-2

$1,752.4

1825

^56.3

1,564.5

1826

99.2

2,002.0

1827

r3i-5

2,869.2

1828

140. 1

1,575.6

1829

295-7

1,994.5

1830

643.1

2,495.4

I83I

714.2

3-175-6

1832

798.4

2,579-0

1833

978.5

2,759-0

The strong movement of metal to this country

Io8 HISTORY OJ^ AMERICAN CURRENCY.

is apparent. In great part it was a real transfer

of capital. Of all the gold which came in and was

coined the Secretary of the Treasury said, 1836,

that not over $1,000,000 remained in the country

in 1834, "and of that small amount only a very

diminutive portion was in active circulation."

The feet is certain that the law of the mint gave

the country a silver currency only, and that gold

was exported or melted.

The par of exchange with Great Britain re-

mained at $4.44, and this being taken as 100, ex-

change was quoted at 105, 106, etc.

These circumstances had attracted attention at

various times, and efiforts had been made to

change the law. Congress, however, hesitated

to touch so delicate a matter as the coinage,

especially as even experts could not tell accu-

rately what the real ratio of gold to silver was.

President Jackson, being determined to introduce

a specie currency, the matter was necessarily

taken in hand. By an act of June 28th, 1834, the

gold eagle was made to weigh 258 grs., standard

.899225, that is, its pure contents were 232 grs.,

or 23.20 grs. to the dollar. Under this regula-i

HISTORY OF AMERICAN CURRENCY. 109

tion Sliver was to gold as 16 to i. This ratio

was fixed upon in a blaze of exultation about the

recent discoveries of gold in North Carolina,

which, though known to exist since 1801, had

only been developed since 1828, and extravagant

hopes were entertained of finding '' a new Peru "

in the mountains of Georgia and the Carolinas.

It was thought by some that it would "encourage

the miners " to overrate gold in the coinage. In

1837 silver and gold were both made exactly

nine-tenths fine, but the pure contents of the sil-

ver dollar remained the same as before, the gross

weight being reduced to 412.5 grs. The gold

dollar now contained 23.22 grs. fine.

There were two different dollars after these

changes, as much as before. The silver dollar

remained as before, but the gold dollar was now

worth less than before. The gold dollar had for-

merly been worth in the silver coinage $1,038,

taking the true ratio to be 15.6 to i, which was

asserted by the best authorities to be the true one

at that time. The new gold dollar was worth, at

the same ratio, in the same coin, 97.5 cts. As

before no one would pay a debt with gold "dollars,

no HISTORY OF AMERICAN CURRENCY.

SO now no one would pay with silver dollars.

Silver went out of circulation and became the

better metal to export, while, for the same

reasons, gold became the better remittance this

way. The only silver which could circulate here

was that which was^ worn or clipped until it was

not worth more than silver was rated at in our

coinage. All the worn-down Spanish pillar

pieces came here, because they had a value here

higher than anywhere else in the world. While

the mint was coining fine American pieces, scarcely

one was to be seen in circulation. The people

were obliged to use the smooth shillings, which

produced a quarrel at almost every exchange as

to whether you could \*'see the pillars," until

somebody "crossed" them, and they sank into

unquestionable dimes. They were generally

overrated at that.

Thus, according to the great principle which has

governed our fiscal legislation down to the pres-

ent time, the discovery of gold in the United

States was made, as far as the intention of the

legislators could do it, to render gold more

expensive to the people of the United States

HISTORY OF AMERICAN CURRENCY, m

than it had ever been before. The absurdity o£

attempting to influence the price of gold must,

however, be plain to every one. We might as

well attempt to gain time . for the American peo-

pie by passing a law that all clocks should lose

an hour a day.

Prices of goods adjusted thernselves to the

new dollar. The relations of gold to silver and

to goods the world over remained unaltered, and

the adjustment of values by the exportation ol

silver and importation of gold went on in spite of

all laws. The experiment cost every creditor

2.5 cts. on every dollar due, and the wrong bore

immense interest when this action of the govern-

ment was made a basis of argument, in the legal-

tender cases, to prove that Congress had the con-

stitutional right to issue legal-tender paper, and

interfere with existing contracts, because it had

already debased the coinage — that is, in the mid-

dle of the nineteenth century the United States

had committed the greatest wrong charged

ag^nst the tyrants of the middle ages, and one

«

which no modern despot had dared to repeat,

and therefore it had a right to perpetrate

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another folly which is not yet quite so thoroughly

exposed.

The pound-sterling, being now reckoned in

the current gold of this country, was wprth

$4.8665, if of full weight and standard. This dol-

lar, 23.22 grains of pure gold, remains still the

definition of '\* one dollar " in the United States.

Other coinage laws, to be mentioned below, have

never touched this. The par of exchange for the

sovereign has also remained unchanged, but, as

the coinage expenses must be lost by export, light

coins which cannot be current in England are

sent here as bullion. The mint, in 1863, reported

sovereigns worth, when new, $4.8391 ; on the

average, $4.8206. The old par $4.44, being re-

tained, actual par was 1.09^^. The Chamber of

Commerce of New York petitioned, in 1839, that

this system of reckoning might be changed, and

the exchange quoted in dollars and cents. This

was never done until 1873, ^ind January i, 1874,

the method of quoting 4.86, 4.87, etc., came into

use. In 1853 the law imposed a seigniorage of

one-half of one per cent for coining. The par of

$4.86 is " ideal." If the sovereign weighed and

HISTORY OF AMERICAN CURRENCY. 113

assayed up to this, the seigniorage in this country

for recoining would reduce its value to $4.84.

If the cost of transporation was one per cent., no

sovereigns could come until they were down to

$4.80. If the mint assay is to be taken, they

could not come until they were worth only $4.78.

For the same reasons American gold coin is worth

one-half of one per cent more in coin than a?

bullion. This is lost when it is shipped. Shipment

costs something over one per cent. Taking these

expenses all together at two per cent., if $4,866

of our coin is worth ;^i, no one will pay more

than $4,957 for exchange before shipping. If

$4.84, are worth one sovereign, coin will be

shipped at $4,936, gold.

In 1873 Congress fixed the Custom House val-

uation of a sovereign at $4.86. By the new coin-

age law of the same year the seigniorage on gold

is reduced to i of i per cent, and provision is made

to pay for bullion at the least possible delay.

This has greatly improved our foreign exchange

relations, but the seigniorage is still too high\*.

\* Ernest Scyd : Suggestions in Reference to the Metallic Currency of the.

United States of America. London, 1871 (for private circulation). The

best book on the general subject is the same author's Ballion and Foreij^

Exchanges. London, 1868.

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HISTORY OF AMERICAN CURRENCY.

WAR WITH THE BANK CONTINUED.

In the message, December, 1834, the President

made known to Congress that the bank had re-

tained dividends due the nation on its stock, to

reimburse itself for a draft on the French govern-

ment which it had negotiated, and which had not

been honored because the treaty had not been

ratified by the French Chambers. The bank was

forced by suit to pay the dividends.

He also said that the bank, after contracting

its loans from August, 1833, to June, 1834, had as

suddenly extended them. The amount was sev-

enteen millions. He took this as proof that the

previous curtailment had been wanton and un-

necessary, and placed the bank in the position of

having manipulated the money-market solely to

carry its own point.

In fact the bank, finding that other banks were

taking its place, and that it was robbing itself

without coercing th^ public, had changed its

course.

The deposits were now put in designated banks

which issued no small notes, and which kept one\*

HISTORY OF AMERICAN CURRENCY. 115

third of their circulation represented by specie.

Many banks bought or imported gold in order to

meet this latter requirement. The general gov-

ernment also used its influence successfully with

nearly all the States to have laws passed forbid-

ding small notes.

SMALL NOTES,

The prohibition of small notes is a measure

which is simple, but very important for the re-

sults it effects. The principle is that paper is-

sues displace coin of equivalent denominations.

If paper is issued for sums of $|o and above, it

may be issued to the amount of the coins of that

and higher denominations which the public re-

quire, and no more. If issued for $5, the paper

may be increased by the amount of half-eagles,

which the public formerly used, and no more.

Therefore, if it is desired to use paper to a certain

extent, but not to displace specie entirely, the

simplest way to accomplish this is to limit the

paper to a certain denomination, say $10. Then

half-eagles, and pieces of $3.00, $2.50, and $1

would circulate, and would form a stock, which.

Il6 HISTORY OF AMERICAN CURRENCY.

in the absence of any usury law, might be drawn

into bank in a crisis. At the same time, this re-

striction goes far to make convertibility genuine.

Convertibility in the currency is like conscien-

tiousness in a man — it has many grades, and is

valuable in proportion as it is strict and pure.

The prohibition of small notes does more than

any other arbitrary rule to ensure convertibility.

It also secures to the poor the use of a value cur-

rency for their exchanges, and to the whole com-

munity the same currency for the exchanges which

are made for consumption. These principles were

recognized in England in 1827,\* when the notes

under ;^5 were abolished, and President Jackson's

administration sought to put them in operation

here. The Scotch banks still issue £\ and £2

notes, but they manage them very conservatively,

and their example furnishes no argument. They

seem to be such sagacious bankers as to need no

limitations; therefore they do not need this one;

but when limitations are needed, this is the sim-

plest and most efficacious.

Such were the movements up to 1835, to

ISee page 502.

HISTORY OF AMERICAN CURRENCY. 117

which the subsequent developments must be

traced as their origin. The lowering of the

standard caused a rise in prices. The easy

credit obtained in England for stocks and securi-

ties, the low rates for money here on account

of the multiplication of small banks and increase

of capital devoted to banking, the actual strong

and great development of the country, combined

to encourage a spirit of speculation and enter-

«

prise which, in this country, have never needed

urging.

RAILROAD BUILDING.

To show the actual development which was in

progress, it is sufficient to notice the number of

miles of railroad built in these years. Railroad

building was not a subject of unhealthy specula-

tion, and the crisis did not, as it appears, stop an

unnatural development in this respect, but rather

checked a species of enterprise which, without

it, might have gone on to produce great and

healthy prosperity.

Il8 HISTORY OF AMERICAN CURRENCY.

MILES BUILT. MILES BUILT.

1830. . . . none built. 23 in operation. 1837. . . . 224

1831 72 1838 416

1832 134 1839 389

1833 151 1840 516

1834 253 1841 717

1835 465 1842.... 491

1836. 175 1843.... 159

SPECULATION

The object on which speculation fixed especially

was real estate, either in the Eastern cities or

the Western States. The improved communica-

tion with the East by the Erie Canal (built in

181 7-1825) had done wonders for the develop-

ment of the territory bordering on the lakes.

The advance in values there had been of the kind

to produce a speculative mania. In 1835 the

canal was enlarged and its benefits increased in

a far greater ratio, but the speculative mania

outstripped all reason. It did not follow, from

any of the facts of the case, that mere speculative

holders in the East could realize quick and solid

gains from Western lands. The advantage of

improved communication fell suddenly on those

already settled in the West, and promised sure

HISTORY OF AMERICAN CURRENCY. 119

and steady development to those who should settle

there and wait, but nothing more.

The progress of this mania is best shown

by the returns of sales of public lands. (Sums

in millions.)

1833 ♦3-9

1834 4.8

183s 14.7

1836 24.8

1837 6.7

1838 3.0

City real estate, especially in New York and

some of the Southern cities, was also a favorite

subject of speculation. New York gained by

the canal, becoming from that time the emporium

of the country, but, according to a table given

by Grosvenor, New York city real estate was as-

sessed at 309,000,000 in 1836, and it did not again

reach 300,000,000 until 1851.

The advance in the Southern cities was due to

the advance in cotton, and that had its causes in

England.

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AFFAIRS IN ENGLAND,

After 1832 the monopoly of the Bank of Eng-

land was restricted to a circle of 65 miles around

London. Within that circle strong joint-stock

banks were formed, on unlimited liability, to do a

true banking business, discount and deposit, but

without issues of notes. Beyond that limit joint-

stock banks were formed, which did issue notes

on the American or Scotch plan. They called it

the Scotch plan, but they managed it more in

the American fashion. This extension of bank-

ing fell in with the industrial development already

noticed, and with a great prosperity of cotton,

silk, and iron manufactures, and with a series of

good crops. The natural consequences followed

— rising prices of manufactures, cheap food,

demand for raw materials, easy credit, and hope-

ful speculation. The rapid increase of capital

encouraged railroad building and American in-

vestment.

HISTORY OF AMERICAN CURRENCY. 121

COTTON.

The efiect on cotton is the one which most in-

terests us.

The average prices for the year 1833 were,

iij and 13J. cents, and for 1834, \\\ and I3f.

For 1835 the prices were :

Jan. Feb. Marda. April. May. June. July.

15-18 IS-17 15-17 15-18 16-19 17-19 17-20

Aug. Sept. Oct Nov. Dec. Average.

17-19 17-19 15-18 14-18 14-16 15^18

This was at a time when the supply was in

creasing both from this country and from India,

but it was now certain that cotton was to be the

great American staple until the abolition of corn

laws in Europe. Even at this time there was a

duty of 3 cents per lb. on cotton, levied in 1790

to secure the " home market."

It therefore appeared that the Southern cities

were to see great prosperity as cotton markets,

and at Mobile especially the speculation in real

estate was great. To borrow Grosvenor's fig-

6

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ures once more, real estate in Mobile was as-

sessed as follows :

Rbal Estate. Potxs.

1834 $4,000,000 980

1835 6,000,000 788

1836 18,000,000 617

1837 27,000,000 836

1838 20,000,000 I1487

In 1848, with 1,217 polls, the assessment was

just under nine millions. The cotton culture

does not require nor build up great cities.

BANK EXPANSION

The following table shows the bank expansion

throughout this period. It is taken from Condy

Raguet's " Currency and Banking," ^nd the cir-

culation of specie is added from the report of the

Secretary of the Treasury, 1837. Pitkin (Statis-

tics, pp. 450) gives specie for 1834, at 27.3 mil-

lions. Five figures are omitted in the table.

HISTORY OF AMERICAN CURRENCY. 123

<

1820

1830

1834

1835

1836

1837

1838

1839

1840

•S^

M ^

cTS?

6

2

-a

1

■i

»•€

d 8

iS

\*^

CO

213

2

95

308

19.8

• • • •

282

48

330

200.4

22.1

406

100

506

3241

a • • •

515

43

558

365.1

43.9

559

8

567

457.5

40.

632

2

634

525.1

37.9

^^l

• •

663

485.6

35.1

662

• •

840\*

492.2

45.1

661

61

901\*

462.8

33-1

Oct. 1833, 4.

Jan. 12.

" 18.

23.

28.

«

(It will be observed that the banking capital

went on increasing. The banking capital of this

country in 1854 was only 332 millions.)

It will be evident, from the facts already stated,

that the movements of this period had their ori-

gin in a number of natural and legitimate causes.

The removal of the deposits from the United

States Bank gave a great stimulus to the crea-

tion of small banks, which could not go on in

safety save under a strict system of convertibility.

The administration thus pulled down with one

hand what it built up with the other, by trying

to introduce a specie currency. The bank ex-

\* Branches counted separately.

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pansion, however, was not properly a cause. It

simply went along with and sustained a move-

ment whose causes were independent. It is a

very easy method of explaining mercantile and

industrial movements to ascribe them entirely to

expansions and contractions of the currency,

but, on a currency even nominally convertible,

the currency inflation does not lead off.\* The

mania for sudden riches gets possession of the

community, and the banks fall in with, aid, and

stimulate it. The blame cannot be simply

thrown upon the banks for "causing" the

trouble. They have a certain function to per-

form, and they fail to be faithful to it, and this fail-

ure takes off the legitimate check to over-specu-

lation. Banks collect the capital of the country

from the hands in which it lies idle, and transfer

it to those who lack capital, but could use it to

advantage. Over-speculation is speculation

which outstrips the capital of the country. It is

the pitfall which stands always open in a new

country. The banks being thus the transfer

agents through whose hands the capital passes,

• See page 253.

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are the ones to know and give warring when it

is used up. This they should do naturally by

raising the rate of discount, and the usury law,

which makes this impossible, is fairly chargeable

with a large share of the mischief which is

usually ascribed to bank expansions. For, the

capital passing out of the bank in the form of

discounts and bank-notes, the bank has no

means of profiting by the increased demand for,

and value of, capital save by increasing these

items, that is, passing over to the most perilous

forms of credit, while the public, .obtaining the

notes which represent capital and those which

are credit, precisely in the same form, and, at

first at least, on the same terms, has no warning

when the line is passed.

Condy Raguet gives descriptions of ordinary

bank operations in the period before us, which

were reckless in the extreme, but they were

nearly all devices for evading the usury law.

Men who had embarked in speculations clamored

for increased issues on any terms, in a manner

which- has become very familiar to our experi-

ence. They formed a public opinio 1 which for-

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bade any one to test the foundations of credit

The enhanced prices and expanded credit con-

tinually absorbed the new issues, and no depreci-

ation occurred until a shock to credit, and prices

from outside causes produced a collapse. The

banks suspended, escaped the results of their

share of the folly, and loaned their irredeemable

notes at high rates; but the public, conscious

that it had been humored in its wish by the ex-

cessive issues, could not be severe with them. It

is idle for either party to blame the other. They

went hand-in-hand in folly.

Affairs on the other side of the water were in

much the same condition. There was a new de-

mand for capital there also. The new joint

stock banks in England, and similar institutions

in Belgium and France, pursued much the same

course, though not to the same degree, as our

banks. The note issues of the Bank of England

and of the joint-stock banks were not excessive

and did not increase, but the methods of banking

pursued by the latter were such as to call down

blame from those who had favored joint-stock

banks most zealously, and the rule observed by

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the Bank of England at this time did not prove

sound in practice.

'' DISTRIBUTION'' OR ''DEPOSIT'' OF SURPLUS

REVENUE.

The session of 1835-6 was not marked by

financial legislation, save by one plan proposed

this year and carried out the next, which added

a new element to the financial situation. If there

is any property which is of little value, real estate

or stocks, some plan is sure to be proposed for

selling it to city, tov/n, State, or nation. If the

nation or any subordinate body holds any prop

erty, stocks or real estate, which is valuable, some

one raises the question what to do with it } The

answer is : AVhy do anything ? If the public owns

good property, why not keep it ? But an intrigue

for bringing about the sale is very sure to be

planned by those who want to buy, or for divid-

ing by those who want to receive. The lands

owned by the general government have always

been subject to such intrigues, and at the period

under review many schemes were proposed for

dividing them among the States, though none of

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them actually received shape in Congress. A still

more attractive object for distribution appeared

in the surplus revenue. The public debt was now

nearly extinguished. It stood on the ist January

in each year as follows, in millions.\*

1832 243

1833 • 70

1834 4.7

1835 037

1836 3

1837 3-3

1838 10.4

1839 3.5

1840 5.2

1841 135

1842 • 20.6

There was a surplus in the Treasury, and il

was anticipated that there would be a surplus

until the compromise tariff was in full effect, of

nine millions a year on the average. Mr. Clay

wanted it divided. Mr. Calhoun introduced the

subject. He at first wanted the Constitution

amended to satisfy certain scruples of his, but

soon dropped this notion. Mr. Webster favored

the division. The administration opposed it, and

\* Finance Report, 1872, p. 374.

HISTORY OF AMERICAN- CURRENCY. 129

wanted the lands surveyed and sold at $1.25 per

acre, with a homestead provision for actual set-

tlers, surplus revenue to be spent on national de-

fences. The bill for distributing the income from

lands sold to the States passed the Senate, but

never came up in the House. The Senate passed

a bill in 1836 for ''depositing" the surplus rev-

enue (being regarded as the part which came from

land) with the States, subject to call. The plan

for distribution found no chance in the House,

but that for \*' depositing " was passed by a large

majority. It was declared that the name only was

changed and that the " deposits " could never be

recalled, and so the event proved, but the protest

was unheeded. The President unwillingly signed

the bill, this being the session before the Presi-

dential election. In his next message, Decem-

ber, 1836, he expressed his fears of the measure,

but that whole session was agitated by schemes

for distributing land and revenue, and a second

"deposit" scheme for the surplus of 1837 wa$

passed by the House as a rider on an appropria-

tion bill. The Senate not concurring, the entire

appropriation bill was lost.

6\*

I30 HISTORY OF AMERICAN CURRENCY.

PUBLIC CLAIMS.

Several outstanding claims of the United States

for embargo damages and blockade captures

against France, Spain, Portugal, Naples, and

Denmark were settled at this time, and the pay-

ments were imported in specie in 1837, in fur-

therance of the plan for a specie currency. The

coin was used in public payments, and in the first

instalment of the distribution.

THE " SPECIE circular:'

On the nth July, 1836, the President issued

the famous " Specie Circular," by which he or-

dered agents for the sale of public lands to take

in payment only specie. It was based on the old

law of 1 8 16, mentioned above, by which the Secre-

tary was ordered to receive only specie, or Treas-

ury notes, or notes of specie-paying banks. The

notes of Eastern banks were carried West for a

\*' good circulation," and \*' coon-box banks "were

set up in the Western States, which issued notes

in easy loans to land speculators. These notes

were practically inconvertible, and might be

HISTORY OF AMERICAN CURRENCY. 131

issued in any amount. The consequence was

that the title to land was passing to specula-

tors, and the Treasury was being filled with

worthless paper. The best justification of this

measure was, as Benton says, that ten millions of

paper on its way to the Land Office was arrested

by this circular.

When Congress met (December, 1836) it

passed an act rescinding the specie circular, after

a long and acrimonious debate. The bill was

not sent to the President until the day before the

close of the session, and he did not sign it, so

that it did not become law. In the course of the

debate there were abundant prophecies of coming

trouble. Mr. Calhoun did not vote on the bill,

and in giving his reasons said : " He believed

the state of the currency was almost incurably

bad, so that it was very doubtful whether the

highest skill and wisdom could restore it to

soundness, and it was destined at no distant day

to undergo an entire revolution. An explosion

he considered inevitable, and so much the greater

the longer it should be delayed."

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THE PENNSYLVANIA BANK OF THE UNITED

STATES,

The Bank of the United States, whose char-

ter had . now expired, obtained a charter from

the legislature of Pennsylvania in a section of a

road bill, "by bribery, as subsequent legislative

investigation proved." It had not yet paid back

•the government stock or the government divi-

dends, and it continued to reissue the notes of

the old United States Bank which it received.

THE CRISIS.

One effect of the changes in the coinage in

1834 had been to make gold the better remittance

this way. This being the metal on which Eng-

lish banking was based, the movement had

importance for the English banking and com-

mercial world which silver remittances had never

had. In April, 1 836, the gold reserve of the Bank

of England began to be lowered. This went on

all summer. The speculation had also reached

a point at which the rise was stayed. The Bank

rate was raised to 4J in July, and 5 in September.

HISTORY OF AMERICAN CURRENCY. 133

American bills were refused discount. Prices fell

and money was withdrawn. A Parliamentary

report, which criticised the joint-stock banks se-

verely, added to the prevailing uneasiness.\*

In November, 1836, the Agricultural Bank of

Ireland and the Northern and Central Bank of

Manchester were in difficulties which forced them

to call on the Bank of England for aid. They

received it on condition of winding up. This

was the first blow of the crisis which convulsed

Europe and America. The shock upon the Lon-

don Exchange developed weakness in three

houses doing large business with, and giving

extended credit to, this country, t The importa-

tions here had been very rapidly increasing, and

had been extraordinarily large in 1836. Taking

merchandise only, the excess of imports over ex-

ports had been very large from 1831 on. The

following table shows the excess of imports or

exports of coin and merchandise during this

period :

\* Gilbait's << Banking'' ; Macleod's Dictionary, art. \*' Banking in Eng-

bnd" ; Tooke's " Prices," Vol. II.

t Wilkes, Wilde, and Wiggins, celebrated at the time as " the thret

Ws."

»34

HISTORY OF AMERICAN CURRENCY.

\

•

MERCHANDISB.

SPBCIB.

Excess of Ex-

ports.

Excess of Im-

ports.

Excess of Ex-

ports.

Excess of Im-

ports

1830

I83I

1832

8,900,000

5,900,000

23,500,000

13,600,000

13,500,000

6, 300,000

21,500,000

52,200,000

19,000,000

1,700^000

200,000

B W jap

1833

1834

1835

18-56

4,400,000

15,800,000

6,600,000

9,000,000

4,500,000

14,200,000

\*V JW

1837

1838

1839

1840

184 I

1842

1843

9,000,000

•

44,200,000

3,100,000

25,400,000

400,000

11,100,000

5,006,000

700,000

3,800,000

40,400,000

20,800,000

Thus there had been imported, according

to the statement, during the six years ending Jan.

1st, 1837, over 130,000,000 more merchandise than

had been exported, and a net import of specie in

the same time of over 34,000,000. The move-

ment of the metals I reserve for another section.

It is evident here that the imports had not been

paid for in coin, exported either by the balance

of trade or by the depreciated currency. Allow-

ance must be made for the error in all statements

of export and import due to the method of esti-

mating them. The excess of imports contains

freights and profits. American shipping at this

— \

HISTORY OF AMERICAN CURRENCY. 135

time was steadily increasing. It increased in

spite of this crisis without interruption, and it did

the larger part of the American foreign trade.

The freights, therefore, added little to foreign

payments.

Due allowance being made, it remains true

that the imports had not been paid for in mer-

chandise or metal. They had been balanced by

securities exported — in other words, they had

been bought on longer or shorter credits. It

does not appear from the above figures, or from

any evidence, that any considerable amount of

securities was sent back during the panic ; rather

the contrary. Outstanding business obligations

were, however, called in by English creditors.

The revulsion in England had also acted dis-

astrously on the price of cotton. This ran for

the year 1836 and the beginning of 1837 as

follows :

lt36.

1837.

i

.0

X4-16 14-16

I

15-19 16-19

i4-x7|"-i

1^19

8-ia

e

9

16-19

9

9

<

15-18 1 5-ao

x2-ao

t

ia-90

T3-90

a

x8-x|

136 HISTORY OF AMERICAN CURRENCY.

It remained at the latter figures throughout

1837-

Nowhere had the paper-money mania raged

worse than in Mississippi, where the banks

operated as cotton factors, manufacturing money

to carry cotton, as they needed it. In March

several New Orleans houses were in trouble,

and were forced to apply to the banks there for

extra aid. Next the pressure was felt in New

York, and by April the crisis was general

throughout the country. There were one hun-

dred failures in New York in March, and the

losses were fifteen millions.

The New York and Philadelphia banks, in-

cluding the Bank of the United States, made

advances to the merchants to the amount oi

$ I ,.500, 000; the Bank of the United States

loaning bonds payable in London, Paris, and

Amsterdam. These bonds sold well, but at

rates which made the loans cost the merchants

two per cent, per month, and the United States

Bank held all the best paper which was running

to maturity. \*

\* Madeod. I have not met with mention of this elsewhere.

HISTORY OF AMERICAN CURRENCY, 137

The rule of the Bullion Committee, \* that

banks should discount freely in the face ol

panic, seems to be here obeyed after a certain

fashion, but the committee contemplated the

loan of notes by a bank whose credit cannot fail

in the wildest panic ; not the loan of post notes

(as these " bonds " were), on which the mer-

chants must pay a second discount ; nor the loan

of notes of suspended banks, on which the mer-

chants must suffer a loss. Their rule cannot be

obeyed by banks which work up to the utmost

verge of capital and credit in the best times, and

have no margin for safety in a crisis. The latter

can only suspend, escape all the results of a folly

in which they had full share, and then loan their

notes at exorbitant rates to the merchants who

are yet out in the financial storm. This has

been the process here in every crisis, and prob-

ably will be as long as people stand it without

complaint, t

\* See page 25a

f There is a very erroneoas opinion prevalent, that the En^ish govern\*

ment allows the Bank of England to suspend in a crisis. There is never

any question of the kind. The run on the Bank in a panic is not for gold,

but for notes, that is, for discounts. If, however, there is an export of gold

•t th^ time, the notes are taken to the issue department and gold de\*

manded. According to the charter, the Bank can circulate only fifteen mil

138 HISTORY OF AMERICAN CURRENCY.

In March a meeting was held at New York,

which was addressed by Mr. Webster. He

ascribed the distress to the interference of the

government with the currency, and to the " specie

circular." A committee of fifty was sent to

Washington to ask for the rescinding of the cir-

cular. In the address to the- President (Van

Buren) they said : '\* The value of our real estate

has, within the last six months, depreciated

more than forty millions." " Within the last

two months there have been more than two hun-

dred and fifty failures." "A decline of twenty

millions of dollars has occurred in our local

stocks." "The immense amount of merchan-

Hons in notes on government security, and for all other notes it must have

gold, sovereign for sovereign. If, therefore, there is a drain on its bullion,

it must contract, or keep all notes handed in for gold. This heightei^ the

panic. The action of the government is to recommend the Bank to disre-

gard the clause governing circulation. It promises to ask Parliament for

indemnity. The Bank then discounts freely for solvent parties, but at high

rates. This always kills the panic as panic. The crisis runs its course.

Erroneous assertions have been made to the effect that the whole crisis

comes to an end. This is not the case. Also that the Bank never has to

avail itself of the permission. This also is an error. In 1847 and 1S66

there was no over-issue. Prites fell, the exchanges turned, gold came in,

and the trouble died out in two or three days, but in 1857 the bank issued

;f 900,000 more than the law would have allowed. They were retired again

within a week. Evidently when a bank has over thirty million pounds'

circulation, of which ftfteen millions are secured on government debt» and

the rest by coin, then ^^900,000 over-issue cannot affect its credit. It hai

% reserve strength which it can put forth in a panic.

HISTORY OF AMERICAN CURRENCY. 139

dise in our warehouses has, within the sanie

period, fallen in value at least thirty per cent."

" Within a few weeks not less than twenty

thousand individuals, depending on their daily

labor for their daily bread, have been discharged

by their employers, because the means of retain-

ing them were exhausted." They ascribe all

this, as they say, not to undue extension of mer-

cantile enterprise, but to the attempt to substi-

tute a metallic for a paper currency, the removal

of the deposits, and the specie circular, '\* which

withdrew the gold and silver of the country from

the channels in which it could be profitably em-

ployed." "We therefore ask whether it is not

time to interpose the paternal authority of the

government, and abandon a policy which is b^-

garing the people." In a subsequent meeting,

at which the committee reported that they could

obtain nothing from the President, a resolution

was passed in which the defeat of Mr. Clay's

land bill was alleged as another cause of the

trouble.

In May a run began on two New York banks,

of which one failed. Three banks in Buffalo

I40 HISTORY OF AMERICAN CURRENCY.

failed next The New York -banks then sus^

pended in a body May loth, a law being passed

by the legislature to allow them to suspend for

one year. Amongst the direct causes of suspen-

sion was the demand upon the government de-

posit banks for the first two instalments of the

40,000,000 surplus to be paid in specie into the

State treasuries, under the deposit-distribution

act. These banks having now stopped payment,

the government deposits were locked up, or

must be taken in depreciated notes. The other

banks throughout the Union followed the exam-

ple of the New York banks, the New England

banks holding out longest. The notes of all the

banks fell to a discount, specie disappeared, and

notes of every description were issued. The

New York banks began to contract in order to

be ready to resume, but the actual diminution of

the circulation throughout the country was very

small. Nearly all the banks made money out of

the suspension, and paid large dividends during

the year.

Two instalments of 10,000,000 each having

been paid in specie to the States, one in January

HISTORY OF AMERICAN CURRENCY. 141

and one in April, under the distribution act, and

a deficit in the revenue being probable, a special

session of Congress was called for September,

the government still attempting to continue

specie payments.

The message at the opening of the extra ses-

sion proposed that the Treasury keep its own

deposits (the plan afterwards adopted), and that

a bankruptcy law for banks and corporations

should be passed. Neither was passed. The

President made known an estimated <ieficit of

6,000,000, and proposed to meet it by retaining

the fourth instalment of the surplus to be dis-

tributed, and to issue Treasury notes to provide

for immediate necessities. The third instalment

had been paid on the first of June to the States

in notes. As for. demanding back the '\* deposit,"

no one spoke of it. The States were generally

demanding the fourth instalment.

The Treasury notes were issued, bearing inter-

est, and nmning as low as $50. As for the

fourth instalment, the payment of it was put ofi

until January i, 1839, and then made imperative

on the Treasury. When the appointed day

142 HISTORY OF AMERICAN CURRENCY.

came, however, the Treasury had a deficit and

could not pay it, and it was abandoned by the

States.

Some States were led by this distribution into

expensive improvements and debt, others dis-

tributed it per capita, a few shillings per man,

" which was received with contempt by some,

and rejected with scorn by others ; " others di-

vided it amongst the counties, and others refused

it. As a measure of popularity-hunting, it failed.

We hear a great deal of wailing about the

national debt, and English history is full of such

lamentation, but nations go on prospering while

the debt stands still, and a forty-million surplus

works demoralization far and wide. Where the

carcass is, there will the eagles be gathered.

Recent experience shows us that, even under a

great debt, when there is a surplus revenue

wrung from the people by taxation, it is mor^-

likely to increase the appropriations than t(^^

lessen the debt The project for giving back to

the people money taken from the people by tax-

ation, was opposed to all sense and reason, and

the idea of distributing the proceeds of sales of

HISTORY OF AMERICAN CURRENCY. 143

public lands in largesses was unstatesmanlike to

the last degree.

The distresses of 1837 were aggravated by a

failure of the wheat crop. In that and the fol-

lowing year this country imported bread-stuffs

from the Mediterranean.

MEASURES FOR RESUMPTION.

In January, 1838, several Boston banks were

insolvent The Massachusetts country banks

were in bad condition. The best of them had $ i

in specie for $11 in circulation, and the worst

(Berkshire) i to 25.

A meeting of bank delegates was called by the

New York banks for November 27, "for the pur-

pose of conferring on the time when specie pay-

ments may be resumed with safety, and on the

measures necessary to effect that purpose." The

convention did not meet, on account of the refusal

of the United States Bank.

Meantime the New York banks had been vig-

orously contracting to prepare, for resumption.

Their issues were reduced from $25,480,000,

144 HISTORY OF AMERICAN CURRENCY.

January i, 1837, to $12,920,000, January i, 1838.

The exchanges turned and gold flowed in, the

Bank of England sending ;^ 1,000,000, an act

which Macleod vehemently condemns, seeing

that the exchanges were adverse.\*

Early in 1838 Congress passed an act to for-

bid the Pennsylvania Bank of the United States

from using old notes of the United States Bank :

penalty, on the president or agents, fine not to

exceed $10,000, and imprisonment not less than

one nor more than five years. Meantime, the

bank, finding that it could sell its post notes in

Europe, had issued more of them and made a

business of it.

April 15, 1838, a convention of 143 bankers

met at New York, by invitation of the New York

banks, to discuss resumption. The majority

wanted to resume January i, 1839, but the New

York banks were under the compulsion of State

law to resume May 10, 1838. They resumed on

\* In a sketch of the life of James G. King in the Merchants Magazine

for January, 1854, it is said that he negotiated this loan from the Bank of

England to enable the American banks to resume ; and the object was the

ultimate advantage from setting American business once more in opera-

tion.

HISTORY OF AMERICAN CURRENCY. 145

that day, and nearly all the other banks in the

Union, except those of Philadelphia, followed.

Philadelphia bills were at a discount in New

York, and prices were higher in Philadelphia than

in New York. A balance of trade adverse to

Philadelphia arose between the two cities, with a

movement of specie from Philadelphia.\* The

New York legislature passed a bill in this year

providing for securing bank-notes by a deposit of

stocks.

A committee of New York merchants now

gave a statement of the causes of the suspension

far more correct to the facts than the one made

in the first heat of excitement " The immediate

causes which compelled the banks of the city of

New York to suspend specie payments on the

loth of May last are well known. The simul-

taneous withdrawing of the large public deposits,

and of excessive foreign credits, combined with

the great and unexpected fall in the price of the

principal articles of our exports, with an import

of corn and bread-stuffs, such as had never before

occurred, and with the consequent inability of the

\* Condy Raguet, Currency and Banking.

7

146 HISTORY OF AMERICAN CURRENCY.

country, particularly in the South-western States,

to make the usual and expected remittances, did,

at one and the same time, fall, principally and

necessarily, on the greatest commercial empori-

um of the union."

In July, 1838, the United States Bank called a

convention of bankers at Philadelphia, at which

it was agreed to resume August 13. The exam-

ple of the banks which had resumed made it nec-

essary for others to follow. Thus, at the end of

1838, the great majority of the banks throughout

the country had resumed, at least nominally.

The Bank of the United States had given as a

reason for not resuming with the New York

banks, that it was bound to consider its i^eaker

brethren. All the questions between this bank

and its enemies must be decided now in view

of subsequent developments, which all went to

show that the bank was at this time in no condi-

tion to perform its functions, but was working

mischie£

HISTORY OF AMERICAN CURRENCY. 147

REVIVAL OF BUSINESS.

During the year 1838 there had been a general

revival of trade. The Bank of England rate

was from 2\ to 3|. per cent during the whole of

that year. This led to increased investments irf

American securities. " Bonds of all kinds issued

by the Bank of the United States, by the various

States in the Union, and by numerous private un-

dertakings, were poured upon the English mar-

ket, and found eager purchasers." \* This served

as a further extension of credit on American

debts carried over by the operations of the Bank

of the United States and others from the pre-

vious crisis. It is important, as showing that

besides the strenuous efforts made by Americans

to pay (a fact to which there is the best testi-

mony), and the amount lost in bankruptcy, the

time for liquidating the debts of America to Eu-

rope was greatly extended.

Towards the end of the y^ar there were

symptoms of further trouble. The exchanges

became adverse, and the stock of gold in the

. • GUbort, «< Banking," 21&

148 HISTORY OF AMERICAN CURRENCY.

Bank of England declined until October. In that

month the Bank had ;^2,525,ooo in bullion •

notes, ;^i 7,6 1 2,000; and deposits, ;^6, 734,000,

In May the rate was 5 per cent. ; June 20, 5I ;

August I, 6; September, 6\. In the autumn

the Bank of Belgium failed, and there was a run

on the banks at Paris. \* The Bank of England

borrowed ;^2, 500,000 of the Bank of France

through Barings. After October gold began

to flow into England, and the pressure subsided.

These incidents again reacted on this country.

The suspension had not been followed by any

great reduction of paper here, but had rather

enabled the banks to go on without reducing ; only

at New York, where they were most exposed to

the action of an adverse exchange, and where

the legislature had taken prompt measures of

compulsion, was there a thorough reduction.

THE BANK CRASH OF 1839.

The Bank of the United States during the

year 1838 became involved in cotton specula\*

• Madeod.

HISTORY OF AMERICAN CURRENCY. 149

tions, assuming the troubles to be over, and buy-

ing for a rise. On the revival of business in

England in that year cotton did rise, and in May,

1839, it was at 16 cents, but from that time it de-

clined again. It was not above 12 cents in 1840

(September), not above 11 cents in 1841 (Feb-

ruary), not above 9 cents in 1842 (March), and

not above 8 cents in 1843 (October). It did not

reach 12 cents again until February, 1847. To

the bank this course of the market was ruinous.

It made the utmost exertions to sustain itself by

the sale of bonds in Europe, and by issuing

post notes which were sold in New York and

Boston at 18 to 24 per cent, discount. Several

banks failed in different parts of the Union,

and the struggle to sustain specie payments

became very severe. Throughout the Western

'States, especially in Michigan and Illinois, the

failures were numerous. The banks of Missis-

sippi, which, as above stated, had become exten-

sive dealers in cotton, of which they were carry-

ing large quantities, were nearly all ruined, and

their notes, and those of the various joint-stock

companies which had issued notes, were at from

150 HISTORY OF AMERICAN CURRENCY.

25 to 60 per cent, discount The State of

Michigan was engaged in building raikoads, and

was involved in debt The roads were sold to

incorporated companies at a loss of almost their

entire cost Alabama had created a debt of

fifteen millions to found a banking system. This

was nearly all lost In 1838 Mississippi bor-

rowed seven millions in bonds to found banks.

This debt was repudiated.

It afterwards came out that the Bank of the

United States was carrying on operations at this

time for which no condemnation could be too

severe. As the New York banks were stagger-

ing under the effort to avoid new suspension,

which the United States Bank eagerly desired,

it took the step of selling exchange in New

York, and using the notes and checks obtained in

order to make a run on the New York banks for •

specie, which it shipped to meet the exchange^

when it fell due. This almost incredible action

is stated and described in detail by Mr. Cow-

perthwaite, formerly assistant cashier of the

bank, in an explanatory letter to Mr. Biddle,

published with other similar documents, in Niled\*

HISTORY OP AMERICAN CURRENCY. 151

Register, April 24, 1841. It, however, met a

fit reward. The United States Bank was deeply

in debt to Europe, and relied on the success

of its manoeuvre to meet the bills, but it drew

. so rapidly and recklessly that it could not send

notice of the drafts, and on the i6th of Sep\*

tember, 1839, one of its drafts was refused at

Paris. It then tried to effect loans in Holland,

and, failing, it applied to the Bank of England,

where the rate was now 6 per cent. This Bank

was itself in as severe straits as at any time in

its history, but it loaned a small sum. Macleod

quotes the New York Evening Post on the

operations of the bank at home, showing that it

owed from ten to twenty millions in New York

and $800,000 in Boston. It appears that the

prestige of the bank was not broken until this

time, and that the question between it and its

opponents was held open. On the loth of Oc-

tober, 18J9, it closed its doors and was followed

by nearly all the banks in the South and West

The New England and New York banks held

out bravely, but, taking the country over, this was\*

the real collapse of the banking system^ which

152 HISTORY OF AMERICAN CURRENCY.

had been growing up. 343 out of 850 banks

closed entirely, and 62 partially. Of the govern-

ment deposits some two millions were lost

The second suspension lasted in Pennsylvania

until January 15, 1841, being limited by statute.

As soon as the Bank of the United States opened

#

a run upon it began, and it closed finally on Feb-

ruary 4, 1 84 1. This led to a third suspension,

and specie payments were not definitely resumed

until March 18, 1842.

The London Bankers' Circular \* said that four

million pounds sterling of the stock of the United

States Bank was held by Englishmen, ;^20,ooo

by the people of Guernsey. Its capital was a

total loss, and the seven millions United States

stock subscribed into the capital of the bank by

the government is mentioned by the Secretary^ of

the Treasury (Finance Report, 1872, p. 18) among

the items of the debt for which no cash ever

came into the Treasury, Le.^ it was created for

this purpose.

The speculation in Western lands and city

lots burst in 1837, but the banks escaped by

\* Quoted bj Benton.

HISTORY OP AMERICAN CURRENCY. 153

suspension. As will be seen by the table

given above,\* the currency was not greatly re-

duced in 1837 and 1838, and, as will be seen by

the diagram opposite p. 227, prices of staple ar-

ticles were arrested in their fall in 1838. The

blow fell upon speculative investments, articles of

luxury, and imported articles, the prices of which

always feel paper inflation most. Nor was the

fall of prices from 1839 to 1843 due to any forced

contraction of the currency. The more correct

explanation of the phenomena is that the des-

truction of , the banking system brought with it

a collapse of the industry of the country. The

revulsion was so complete that it could not be

arrested until industry came almost to a stand-

still and took a fresh start. 1841 was considered

comparatively a year of prosperity, but on Jan-

uary I, 1844, ^^^ banks held forty-six millions in

specie against forty-four millions of circulation,t

and money was easy at z\ ^tnd 4 per cent. The

year 1843 was one of the gloomiest in our indus-i

trial history. The grand promise of ten years

\* Page 123.

t Hunt's Magaime, July, 1844. The returns were probably incomplete.

7\*

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before was now entirely obscured. Mortgaged

property was passing into the possession of

mortgagees. Factories were idle. Trade was

dull, investments slow. All the natural advanta-

ges of the country were present unimpaired, but

the haste to realize them had brought ruin which

time only could repair. The year 1843 was one

in which the ideal of some economists was real-

ized. We exported forty millions more merchan-

dise than we imported, and we imported twenty

millions more specie than we exported, but the

significance of these facts was simply this : we

were paying up for the grand times of the years

before. It was like the spendthrift living low to

recover his position, and we were doing it by

producing mainly for export, at prices low

enough to suit the creditors. The patient being

in this low state the doctors gave him another

dose of protective tariff, and, as he got better,

they have published the case in their almanacs

ever since.

HISTORY OF AMERICAN CURRENCY. 155

MOVEMENTS OF SPECIE, 1830-1840.

The case^ we have had to deal with hitherto

have presented us with the simple phenomenon

of the export of the precious metals and increased

importations of commodities, due to the repetition

of the grossest error possible in currency — the at-

tempt to use two kinds of circulating medium, one

inferior to the other. In no other way than this

can a country be " drained of its specie," and in

no other way can a permanent and heavy " balance

of trade" against it be brought about\* It may in-

deed send money abroad to support armies, or to

buy food, or for foreign investment, but these are

arbitrary acts, not effects of the laws of trade.

Their influence is also slight and temporary, for

the specie tends at once to return, if it is needed,

to where it was. The United States do not need

to contemplate either of these contingencies.

The case now before us is different We have

here a large excess of imports over exports, a vitia-

ted currency, and at the same time a flow of specie

towards the country.

\* See p. 263.

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The Secretary of the Treasury speaks of the

movement of specie which escapes the Custom

House. He does not seem to place implicit re-

liance on his statistics, and it must be understood

of them that they are not trustworthy, either as

to goods or specie, save for general results. The

fact, however, may be accepted as true, that the

movement was as here shown.

There were certain arbitrary interferences with

the natural movement. The banks were induced

by government regulations to import specie, and

the government itself caused payments this way

to be made in coin at every opportunity. By al-

tering the rating of gold to silver also it made gold

a profitable remittance to this country until .the

metals and prices had adjusted themselves to the

new arrangement. The operations of the Bank of

the United States in 1839 were of a character to

traverse all natural laws, and render scientific

inferences extremely difficult.

None of these things, however, could have

kept the specie in the country, if there had not

been other causes at work.

Condy Raguet says that there were but very

HISTORY OF j^MERICAN CURRENCY. 157

few small notes in the country until after the sus-

pension of 1837. The h^tbit of calling for specie

had never been formed, and it was sternly discoun-

tenanced by public opinion. It is indeed extraor-

dinary that, as the currency increased so rapidly,

it should not have depreciated, for the fact, as

shown by public documents, is that it did not de-

preciate niore than the cost of transporting specie

from the place of issue to the place of circulation ;

but this fact is a strong support of the opinion

stated above, that the bank expansion onl)rkept

pace with the speculative expansion and rise of

prices, and that the issues, although opposed to all

sound rules of banking, and sure in the end to

prostrate banks and dealers .together, were not

made faster than they were called for.

Beyond and below all these circumstances we

must look for a more permanent law of the move-

ment of the metals, and we find it in the scientific

principle which these things only modify more or

less. The metals move away from the country in

which prices are high to the country in which prices

are low, that is, they go from the countries where

they have low value to the countries where they

158 SISTOjRY of AMERICAN CURRENCY.

have high value. Evidently in a natural state of

things there would be some things in each country

(those for whose production that country has the

best advantages) which would be lower in price,

would be given in larger quantity for a given

quantity of the precious metals, in that country

than in others. The movement of metal from

country to country would in that case be very

slight, but whenever the average of prices in one

country rose above the average in others, an out-

flow -of specie would bring them down to the

level, and whenever they fell below the average,

an influx would raise them. Some argue that high

prices make prosperity: others that low prices

make prosperity. ^ligh and low prices are only

relative terms, and in fact have no meaning when

we embrace the production of the world. The true

place for prices in each country to occupy is in

their due relation to the general average the\*

world over, for then each country gets the utmost

possible gain from its relative advantage in those

things which it can produce best. The movement

of specie would therefore be, if the whole world

used the metals and regulated prices by them

HISTORY OF AMERICAN CURRENCY. 159

without interference^ as regular, as self-controlled,

and as beneficent as the movement of the tides.

This, too, is the grand fundamental reason why in-

convertible paper is a suicidal folly in the country

which adopts it

In the case before us prices were unduly in-

flated by speculation and over-issues in nearly all

the countries of Europe, as well as in this coun-

try. Hunt's Merchani s Magazine for July, 1844,

gives a table of English prices showing that il

the prices for fifty articles in

1833 be taken as 1,000

1834 wonld be it099

1835 " ifiSo

1836 « 1,346

1837 " 1,133

This relative inflation in the countries with

which our relations were closest, shielded us from

the efiects which must have followed if their

finances had been in a sound condition.

There was one thing, however, which was

dearer here than in Europe, and which therefore

made this the best market for those who

wanted to sell or lend it, and that was capital\*

l6o HISTORY OF AMERICAN CURRENCY.

As has been said above, the country was new, its

natural advantages undeveloped, and only just

made available by improved means of commmu-

nication. The remuneration for all sorts of in-

vestment was high. In the crisis of 1837 the

crash was not in production^ but in those real es-

tate investments which were to become profitable

by the results of productive labor. Even in 1837,

and especially in 1838, the European invest-

ments in American securities were, as we have

seen, very large in amount. When the Bank of

the United States finally failed it owed in Europe

over fifteen millions. Its failure, with the total

loss of its capital, much of which was owned

in Europe, the failure of many injudicious enter-

prises, and, above all, the repudiation of in-

debtedness by several of the States, ruined

American credit abroad. Up to 1840, however,

that credit had been high, and it was acknowl-

edged that in 1837 the American merchants had

generally exerted themselves to the utmost to

meet their obligations. These continual loans

and investments from Europe kept down the ex-

changes. They were transferred, as far as it was

HISTORY OF AMERICAN CURRENCY, i^i

proiitable to do so. In goods, for the rest, in

specie, and the surplus import of merchandise

and specie, was, in great part, a real transfer of

capital highly advantageous to all parties con-

cerned. The same may be said in general of that

" increasing indebtedness to Europe " which has

been going on more or less ever since, and has

caused so many good people great anxiety.

FINANCIAL MEASURES FROM 1840 TO 1850.

The second suspension of the United States

Bank in 1839, and its operations of that year, cost

it a great many of its friends. The administra-

tion of Mr. Van Buren clung to the hard-money

policy, and opposed any national bank. But the

fight was not yet over ; in fact, the few next

years were full of financial legislation and of bat-

tles over bank or no bank.

In 1840 the Independent Treasury Act was

passed, by which the government was to take

the custody of its own funds. It was not passed

without fierce opposition, especially from those

who saw in the specie circular the beginning ol

all the woes of the country. As that had with-

i;62 HISTORY OF AMERICAN CURRENCY.

drawn the support of the government acceptance

from the bank issues, so this would withdraw the

public funds from use as banking capital. The

specie circular did indeed withdraw powerful

support from the bank-notes, which enjoyed

credit while the government received them,

which they did not possess when refused at the

Treasury, but if A is a man of doubtful credit,

and gains confidence by being supposed to be a

friend of B, an honest man, and if B declares that

he is not a friend of A, A may lose the credit he

enjoyed, and be ruined ; but who except A will

lay the blame of that ruin on B ? The Independ-

ent Treasury Act accomplished the "divorce

of bank and State," and we, who have that battle

to fight over again, can see in it only wise states-

manship.

It was proposed in England that the holders of

State bonds should try to get Congress to as-

sume the State debts as had been done in 1791.\*

Sydney Smith wrote a letter to Congress peti-

tioning that this might be done,t and represent-

• See page 55.

t The text of it IS in McCnlioch's Diet., Art <« Fii]id«»»\*

HISTORY OF AMERICAN CURRENCY, ifij

tng that he and other liberals had staked both

their word and their money on the honor of the

American Republic. After a strong contest res-

olutions were passed to crush any hopes of suc-

cess in such an attempL The opposition was

based, not on the impropriety of the assumption

of State debts by the general government, but on

the necessity of resisting the dictation of foreign

bankers. The foreign bankers were only trying

to collect their debts, and this story, colored by

tradition, still injures American credit, especially

in England.

In 1841 Mr. Harrison became President, and

called an extra session of Congress for May 31st

of that year. This session was held under Mr.

Tyler, and was marked by some of the worst

legislation ever passed since the Constitution

was adopted. Mr. Tyler had become a whig,

though formerly a democrat. To this he owed

his place on the ticket, and it soon seemed to the

whigs that with President Harrison they had lost

the victory, for which they had waited so long

and worked so hard.

The first act of the session was the repeal of

l64 HISTORY OF AMERICAN CURRENCY.

the Independent Treasury Act. Mr. Clay had

proposed three other important measures for the

session: a national bank» an increase of duties,

and a land distribution bill. Before any of these

latter could be acted on, a Bankruptcy Act was

introduced by the Senator from Mississippi

This act was bargained off for the Bank Act and

the Distribution Act, and the three went through

together.

Benton says of the Bankrupt Act : " It applied

to all persons in debt — allowed them to com-

mence their proceedings in the district of their

own residence no matter how lately removed to

it — allowed constructive notice to creditors in

newspapers — declared the abolition of the debt

where effects were surrendered and fraud not

proved." He says that the number of men who

had failed and wanted to get clear of encum-

brances for starting anew was estimated at one

hundred thousand.

The Land Distribution Bill was the new form

of the bill for assuming the State debts. The

income from public lands (less than one and

a half millions in 1846) was to be divided

HISTORY OF AMERICAN CURRENCY. 165^

amongst the States to help them pay their debts

($170,000,000). It contained a proviso that if

duties above 20 per cent should ever be laid, this

act should be suspended. When the tariff was

passed it contained a proviso that it should not

suspend the Land Distribution Act, but it was

vetoed.

The Compromise Tariff had cut down the rev-

enue from customs without providing any other

resource. During its first years it had produced

a surplus, but its last years, falling in with the

" hard times," had left a deficiency. The debt

increased as follows :

Jan. I, 1840 •5>"S,o77.63

Jan. I, 1841 6,737,398.00

Jan. I, 1842 15,02^,486.37

July I, 1843 27,203,450.69

From this time it decreased until 1847.

As for the bank, President Tyler took a whim

in regard to the word \*' Bank." He wanted it to

be called the Fiscal Agent, or something " fiscal."

He vetoed two bills passed for incorporating

such an institution, the relations of which to the

1 66 HISTORY OF AMERICAN CURRENCY.

Treasury promised great mischief, if either had

gone into operation.

The Treasury, being still unable to pay specie

by the failure of a loan authorized at the special

Session, began to pay congressmen in Treasury

notes. Benton caused one of the checks to be

protested in January, 1842. Specie payments

were soon after resumed by the government, and

did not cease until 1862.

Two tariffs having been vetoed in 1842, be-

cause they provided for the distribution of the

revenue from public lands, a third was passed,

which raised duties above twenty per cent, and

so suspended distribution.

In 1843 the Bankruptcy Act was repealed,

having been found in its operation to be worse

for debtors than for creditors. The man who

availed himself of it could obtain no further

credit

Thus the legislation of these years came to

nothing but the new tariff, and the excitement of

party contests only served to keep the country

anxious, and to restrain it from entering on the

new career. The government was now, how-

HISTORY OF AMERICAN CURRENCY. 167

ever, fixed in the hard-money system, and the

sub-treasury system, by which it was so entirely

severed from the money-market that, fortunately,

the bankers and merchants could afford to laugh

at the insignificance of the government on their

arena\* Its position was never so strong or

sound as when, in this point of view, it was most

ridiculous.

The nation had too much energy and too vast

opportunities to long remain inactive. From

1844 ^^f things began to mend. Banks began

to expand once more with the growth of trade.

Prices advanced, and in 1846 a new tariff once

more relaxed the restrictions of trade. In 1847

the failure of the crops in Europe gave a market

for bread-stuffs, of which nearly ^j^ million dol-

lars' worth were exported. The total exports of

that year were larger than for any preceding year,

158,000,000. The imports of specie exceeded

the exports by more than 22,000,000. The abo-

lition of the corn laws in England opened a per-

manent market for the surplus product of the

West, and the setdement of that portion of the

country took new form. As soon as the famine

1 68 HISTORY OF AMERICAN CURRENCY.

was felt in Ireland, its population began to apply

the only true cure of the trouble — emigration —

and the revolutionary struggles on the continent

in the year 1848 contributed to increase emigra-

tion to this country by their failure.

IMMIGRATION.

FROM IRS- TOTAL.

LAND.

184s 44,82i Ii4»37i

1846 51\*752 154\*4x6

1847 105\*536 234.968

1848 "2,934 226,527

1849 159\*398 297\*024

The extension of railroads kept pace with the

other developments^ which it in turn helped to

multiply.

MILEAGE OF RAILROADS.

WESTERN TOTAL.

STATES.

1845 374 4,633

1846 419 4,930

1847 608 5,578

1848 679 5,996

1849 727 7,36s

185a 1,276 9,021

1851 1,846 10,98a

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Finally, the discovery of gold in California in

1 847 added another powerful element to the in-

dustrial development of the time.

PERIOD FROM i85o-i86j.

The outlook in 1850, with abundant emigra-

tion, a new empire arising on the Pacific, the

prospect of becoming the granary as well as the

cotton-field of the world, ship-building increasing

year by year, and no cloud of war or political

disturbance visible, was very flattering. The

only hindrances to a speedy realization of these

golden dreams were want of capital and want of

technical and scientific training. Railroad build-

ing at the West must, in the nature of things,

outstrip the settlement of the region. It is the

chief form in which capital is applied to the set-

tlement of the country, but evidently it is a case

in which the returns from the investment cannot

be immediate, and in every such case in which

the supply goes ahead of the demand there is

especial need of care, foresight, and judgment.

For the supply of capital there was recourse

8

I70 HISTORY OF AMERICAN CURRENCY,

naturally to the older countries. The injury

done to American credit in 1837-40 had hardly"

yet been healed, but in 1854 it was estimated by

the Secretary of the Treasury, on reports called

for by him, that there were 200,000,000 dollars

woith of State, railway, and other bonds and

bank-stock held abroad.\* In 1857 the amount of

English capital invested here was estimated at

400,000,000. While naturally turning to the older

countries for supplies of capital, there has always

been a certain prejudice here against foreign in-

vestors. Our ''foreign indebtedness" has been

a cause of serious and sincere anxiety to many,

but the more we can borrow, so long as we know

how to invest it productively, the better, and our

credit — our power to borrow abroad — is the pos-

session which it is most essential for us to pre-

serve intact

CAPITAL AND CURRENCY.

Our other resource when straitened for capital,

the one to which we had betaken ourselves be-

fore, was now also employed — a multiplication <A

\* lie said that the amount was not greater in 1853 than in 1829.

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the paper representatives of capital. Capital is

that portion of all the previous product of a na-

tion which at any given time is available for new

>

production. This will be a certain amount of

tilled land, houses, buildings, stock, tools, food,

clothing, roads, bridges, etc., etc., which have

been made and are ready for use in producing,

transporting, and exchanging new products.

These things are all the product of labor, and re-

quire time for their production. Nothing but

labor spent upon them can produce others, and

time is required for this labor to issue in new and

increased possessions. Currency only serves to

distribute this capital into the proper hands for its

most efficient application to new production.

Banks, it must be repeated, only facilitate the

transfer of capital from hands where it is idle, or

is distributed in too small quantities, into hands

■

by which it will be usefully employed, being col-

lected in the necessary amounts. Currency,

therefore, is not capital, any more than ships are

freight; it is only a labor-saving machine for

making easy transfers. Banks do not create

wealth, they only facilitate its creation by distrib-

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uting capital in the most advantageous manner.

If, therefore, currency is multiplied, it is a delusion

to suppose that capital is multiplied, or, if "money

is plenty," by artificial increase of its representa-

tives, it is only like increasing the number of

tickets which give a claim on a specific stock of

goods — the ticket-holders would be deceived and

could, in the end, only get a proportional divi-

dend out of the stock. If banks not only lend

capital but also lend " coined credit," some time

or other a liquidation must come, there must be

an effort to touch the capital which the notes pre-

tend to convey. Then it is found that they rep-

resent nothing ; then " credit breaks down," and

there must be a settlement, a liquidation, a divi-

dend, and a new start We do not get away

from the facts at all. The real amount of capital

which we possess is divided up, and we have to

make up our minds that we possess only 50 or

75 per cent, of what we thought we possessed.

We put smaller figures for everything, and recon-

cile ourselves to smaller hopes, but the experi-

ence is soon forgotten, and the old process of

inflation and delusion begins again.

HISTORY OF AMERICAN CURRENCY. 173

Some have wondered that we go on in this way

with a grand crisis only once in twenty years,

while ths oldest and most prudent nations have

one every ten years. The explanation no doubt

is, that the future which we discount so freely

honors our drafts on it Six months' restraint

avails to set us right, and our credit creations, as

anticipations of the future product of labor, be-

come solidified. So long as we understand that

we have anticipated future production, and must

apply that production to make good the anticipa-

tions, we run on without very great risk, but when-

ever we lose our heads in the intoxication of our

own achievements, look on the credit anticipations,

which are only fictitious capital, as if they were

real, use them as already earned, build other

credit expansions upon them, do away with our

value money and export it to purchase articles of

luxurious consumption, then we bring a con-

vulsion and a downfall. The mistake is then

realized, the lesson is taken to heart for a little

while, but a new generation grows up which for-

gets or never knew the old experience, and the

mistake is repeated The relations of trade are

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often spoken of as a machine^ and such indeed

they ought to be — a complex machine, with parts

so regulated that it can go on at any speed and

for any length of time, without danger of any-

thing more than an occasional and temporary de-

rangement ; but this reckless, although skilful, ex-

tension of groundless credit is more like the per-

formance of the juggler who keeps first three,

then four, then five, and so on, balls in the air at

once. If he goes on continually increasing the

number, it is physically certain that he will sooner

or later miss one of them, and the whole will fall

to the ground in confusion.

BANK EXPANSION.

The bank expansion from 1 848-1 851 was as

follows :

CIR& DEF. SPEC.

1848 . • . • 128,500,000 108,200,000 46,300,000

1849 .... 114,700,000 91,100,000 43,600,000

1850 ..., 131,300,000 109,500,000 45,300,000

1851 .... 155,100,000 128,900,000 48,600,000

These figures are not as trustworthy as one

might wish. They represent the status on Jan-

uary I, or as near that date as possible, and minor

HISTORY OF AMERICAN CURRENCY. 175

fluctuations are not represented. A well-defined

movement, however, was apparent before 1851.

The currency set towards the financial centres,

country banks keeping their balances generally in

New York. These balances were required in the

fall, and the withdrawal of them produced con-

traction and stringency at that season. Weekly

bank statements were not made by any banks

until August 6, 1853, when the New York banks

began the custom, and others gradually followed.

In 1 85 1 there was an export of gold with un-

£a.vorable exchange, and a drain upon the banks.

As no reports were published, the extent of this

drain was not known, but a writer in 1857 states

that it amounted to twelve millions in June and

July, and that the stock remaining in the New

York banks was only six millions. The con-

sequence was a sharp contraction and great suffer-

ing, which finally caused the Secretary of the

Treasury to buy bonds for the relief of the market.

The same course of events, more or less

marked, occurred throughout this period. Cur-

rency flowed to New York during the summer,

was loaned on call (interest being paid for depos-

i;6 HISTORY OF AMERICAN CURRENCY.

its), was withdrawn in the fall, producing con-

traction of loans and stringency.

It was asserted at the time that the worse the

currency the more mobile it will be, and the as-

sertion is true ; but it is still more true that when

the currency is unequally bad it will flow to the

financial centres. Gold was being exported as a

commodity all the time, but the exchanges showed

the pressure of the redundant paper at New

York, and caused a demand of gold for export

with chronic overtrading. This was, according to

the doctrines of the Bullion Report (discussed in

Chapter II), a warning that the issues were ex-

cessive. The New York banks of course felt the

weight of the evil. The warning came to them

in actual experience, but the pressure of; the

country issues, which were never regulated by the

exchanges at all, continued, and the metropolitan

banks do not seem to have taken measures to

restrain them.

The usury law, although disregarded in pri-

vate practice, made it impossible for the banks

to publish a usurious rate, and thus control dis-

counts by this means. They could only exert a

HISTORY OF AMERICAN CURRENCY. 177

direct contraction on their issues and loans when-

ever the drain upon them made it necessary,

and the pressure of this was, of course, most

severe in the city itself.

STATE OF AFFAIRS IN 1853-4.

In 1853 the fears of war in Europe produced

anxiety with regard to financial affairs both in

England and here. The bank rate was at 5 per

cent, throughout the autumn in London. Rail-

road building here amounted to 2,452 miles in

that year. Stock speculation was unusually

active throughout the winter and spring, and

prices were high. Undefined fears of the effects

of a European war led to greater restraint in

loans during the summer, and stocks suffered a

fall. Many of the earlier speculations in exports

to California had proved disastrous, and their

results now accumulated. The discovery of a

fraudulent issue of two millions of New York and

New Haven Railroad stock was followed by sim-

ilar discoveries in regard to some other stocks,

and the result was a panic on the exchange.

8\*

178 HISTORY OF AMERICAN CURRENCY.

CIS. DEp. spsax.

Jan. I, 1854 $204,600,000 188,100,000 59,400,000

\*< 1855 186.900,000 190,400,000 53,900,000

\*' The prosperity which prevailed almost uni-

versally up to the middle of last year [1853] had

made our business men so confident in their own

strength that all classes had expanded their en-

gagements far beyond the protection of their

own resources, and were exposed to the storm

which began to gather on every side\* The first

great shock to credit was the discovery of the

Schuyler fraud, which brought to a stand nearly

all those works of internal improvement for

whose successful completion a large share of

public confidence was so necessary. From that

moment sacrifice began ... The war in

Europe created more or less money pressure

abroad, and capitalists there were less liberal in

their investments here, at a time when their as-

sistance would have been most acceptable," The

wheat crop was small and the cotton production

lessened by the pressure of cholera. '\* A worse

panic began in the interior, and especially in the

West and North-west. In Ohio, Indiana, lUi-

HISTORY OF AMERICAN CURRENCY. 179

nois, Michigan, Wisconsin, Iowa, and Missouri,

and, to some extent, in the States on the south

of the Ohio, a large circulation of bank-note?,

mostly of the free banks, had been obtained

through expenditures for railroad purposes, and

the general expansion of business. When the

contraction began, this circulation came in-

rapidly, and found the banks wholly unprepared

to meet it • . . All the banks which held

balances at the East drew for them, and borrowed

to the extent of their credit besides, while be-

tween twenty and thirty, perhaps more, of insti-

tutions which were really solvent were com-

pelled to suspend payment. A large number of

private bankers were carried down in the crash,

and the distress became general. .

During all this severe pressure in the money

market, and general disturbance of public conli

dence, it is a cause for congratulations, that the

mercantile community have stood the trial so no-

bly. . . • The reason of this may be found

in the increased supply of metallic currency re-

maining in the country. Over one hundred mil\*

lions in gold coin have been added to the circu-

\

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lation of the United States since the discovery

of gold in California. Thus, although the rates

of interest have been high for nearly eighteen

months, there has been no such scarcity of

money as has been felt in former periods of

commercial embarrassment, . . . The

banks have been severely tried, but those in our

largest cities (with the exceptions before

noticed) have mostly stood the shock un-

moved." \*

CRISIS OF 1857.

In 1856 railroad building once more extended

to 3,642 miles, nearly all in the Western States.

The spring of 1857 being very late, and the

prospect for the crops bad, many prophecies of

trouble were published, but, as the season

turned out well, the fears were dispelled, and

scarcely any one seems to have apprehended the

coming trouble. A fall in stocks, however, took

place in the summer, to the great embarrass-

ment of the large number of persons who held

call loans for which they had given stock collat«

\* Merch. Mag. : December, 1854.

HISTORY OF AMERICAN CURRENCY. i8i

eral. The first actual shock was the failure, on

the 24th of August, of the Ohio Life and Trust

Co., which had borrowed largely on call in New

York, and loaned the funds where they were not

immediately available. The liabilities were

about seven millions. The credit of this institu-

tion had been very high, and its failure was fol-

lowed by a general desire to test the foundations

of credit. Such an attempt could not do other-

wise than produce a general downfall.

1855-^.

1856-7.

»

Perct sp«cie

to cir.

Per cL specie

to dr. and

deposits.

Peret. specie

to dr.

Peret. specM

1 cir. and

deposits.

Eastern States

Middle States

Western States

South-western States.

Southern States

14.

37.35

21.5

50.4

27.4

8.4

11.79

15.8

28.7

15.4

134

37.2

18.3

41.6

21.7

8.18

"5

13.2

24.2

13.2

Average.

30.13

16.01

26.44

14.056

At this period no rule seems to have governed

issues save to keep one-third of the circulation in

specie, and in some States even this dwindled

down to one tenth or one-twelfth. Such a rule,

l82 HISTORY OF AMERICAN CURRENCY. ,

however,, is entirely fallacious, as any other arbU

trary rule of reserve must be, and it proved in the

time of trial that there was no strength to endure

any shock.

The New York banks expanded and con-

tracted\* in 1857 as follows:

LOANS.

BPBOB.

OSCULATION.

Doosrrs.

Jan. 3, 1857.

109, 100,000

11,100,000

8,600,000

95,800,000

Apr. 4, 1857.

114^1300,000

11,500,000

8,800,000

97,300,000

July 3. 1857-

115,000,000

12,800,000

8,900,000

98,800,000

Aug. 8, 1857.

122,000,000

11,700,000

8,900,00a

94,400,000

Aug. 29, 1857.

116,500,000

9,200,000

8,600,000

84,800,000

Oct. 17, 1857.

97,200,000

7,800,000

8,000,000

52,800,000

Nov. 28, 1857.

94,900,000

24,300,000

6,500,000

79,500,000

Dec. 12, 1857.

96,500,000

26,000^000

1

6,300^000

75,300,000

The loss of the steamship "Central America"

with over a million of treasure enhanced the

stringency.

A large number of failures of banks and firms,

especially brokers, produce dealers, and persons

depending on Western collections, took place in

September, Bills on the seaboard were hardly

obtainable in the interior at 10 and 15 percent,

premium. On the 1 2th and 13th of September the

banks of Philadelphia, Washington, Baltimore.

HISTORY OF AMERICAN CURRENCY. 183

and many interior towns suspended. Stocks fell

40 or 50 per cent, and 20,000 persons were

thrown out of work in New York City within a

fortnight. The universal demand of the banks

was for relief by expansion, but the contrary

course was pursued with the utmost vigor.

There was indeed no room for expansion. The

utmost resources had\* been employed in good

times, and there was no reserve strength. The

hoarding of currency which takes place at all

such times still further enhanced the trouble.

The "panic" immediately followed, but, as

was said often at the time, it broke out first in-

side the banks. When it was seen that no help

was to be expected, and that the banks of New

York and Boston were likely to suspend, there

oegan a run on the deposits. On the 13th of

October the New York banks (with one excep-

tion) suspended. They were followed in a few

days by the Boston banks, and by the others

who had hitherto held out, with only a few

exceptions.

Exchange now fell to 100 and even to 90, and

bills were not saleable. Exports almost ceased,

1 84 HISTORY OF AMERICAN CURRENCY.

and gold began to move this way. The increase

in the stock in bank appears in the above table.

The New York banks agreed to take country

bills at par, interest to be charged after Decem-

ber isL The country issues, thus encouraged,

formed remittances, which were redeemed by

drafts against the produce which they caused to

be forwarded.

The state of things was better in New Orleans

than elsewhere. The banks there had been

stronger than anywhere else. Of nine banks,

only four suspended at all, and they only for a

few days.

The Pennsylvania legislature authorized the

suspension until May. In New York the Con-

stitution forbade the legislature to authorize sus-

pension of specie payments either directly or in-

directly. The judges of the Supreme Court,

however, met and agreed not to grant any in-

junction unless the bank was insolvent or guilty

of fraud. Thus even a constitutional provision

proved as ineffectual as any law had ever been —

I will not say to prevent a suspension, for the

suspension was inevitable, but to enforce a

HISTORY OF AMERICAN CURRENCY. 185

system of banking which would not lead to sus-

pension, and the plan of securing circulation by

pledge of stocks proved unavailing to allay a

panic

The Secretary of the Treasury interfered

again in this case by purchasing bonds.

In the inquiries which were made as to the

causes of the crisis, the state of the currency was

generally recognized as the root of the trouble.

The over-trading, over-importation, stock specu-

lation, extravagance, etc., were generally ascribed

to this, but there were some who found other

causes for the crisis. One writer, after enumerat-

ing these secondary incidents as causes, gave

another, as the immediate occasion, and that was

— ^the telegraph. He thought nothing could

cure the trouble permanently but a protective

tariff. Others ascribed it almost entirely to the

payment of interest on deposits, and some States

passed laws forbidding this. The payment of

interest on deposits is like every other business

risk, — ^the man who undertakes it must measure

his own ability to do it, and the lender or depos-

itor must judge whether the person or institu\*

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tion to ivhom he lends can do what is under\*

taken.

The newspapers were also filled with homilies

on extravagance and exhortations to "confi-

dence/' but the matter is, in a panic, that the con-

fidence, so long entertained, is now recognized

as unfounded It is the force of the truth which

makes the trouble, and how can it avail to try to

«

make men still delude themselves ? In general,

however, the fact was recognized, that the great

means of keeping the business of the country

sound, so far as any thing can control haste for

riches, is to keep the currency sound, and that J:he

only way to keep the currency sound is to have

it actively and actually converted into coin.

Convertibility is not enough, if it is only nominal,

and if no one tests its reality because public

opinion frowns on such an act, or bank displeas-

ure follows it.

The pressure passed away in the course of the

winter. The liquidation was rapid, and by

spring business vTas again in motion. The New

York banks resumed on the 1 2th of December,

and others followed gradually and informally. In

HISTORY OF AMERICAN CURRENCY. 187

the spring money was very easy, and United

States Treasury notes were sold at an average of

4i- per cent interest.

In the meantime the surplus revenue had been

applied to the reduction of the public debt, which^

in 1853, was 67,000,000, and in 1857 (July ist),

29,000,000. In March, 1857, the tariff was re-

duced to an average of 20 per cent on dutiable

imports.

ALTERATION OF THE COINAGE.

The law of 1834, having underrated silver in

the. coinage, had the effects described above

(page no). In March, 1853, a law was passed,\*

similar to the English law of 18 16, to obviate

the difficulty of throwing either one or the other

metal out of circulation. On this plan, silver is

purposely overrated in the coinage so that it is

worth 'more as coin than as metal. There is,

therefore, a loss in exporting or melting it The

silver dollar was not altered, but it had disap-

peared and ceased to be a coin of the country.

The fractional coins were made to weigh : 50 cts.,

\* Seep. 292.

1 88 HISTORY OP AMERICAN CURRENCY.

192 grains standard (nine-tenths fine) ; 25 cts., 96

grains. At the rate of 15.625 to i for silver to

gold, two half dollars are worth .9533 of a gold

dollar. This fractional silver was coined by the

government out of purchased metal, and not upon

demand of holders of bullion. These coins were

therefore made legal tender only for sums less

than five dollars. It is evident that this was no

depreciation of the coinage.

The reaction from the crisis of 1857 was so

rapid and complete that its lesson was only par-

tially learned. Things went on until the war

very much in the old way. The state of the cur-

rency is sufficiently shown by the following

table:

ABOUT ciitc DBrosrrs. loans.

Jan. I, 1857 .... 2I4« 700,000 230,309,000 684,400,000 58,300,000

1858 .... 155,200,000 185,900,000 583,100,000 74,400,000

1859 .... 193,300^000 259,500,000 657,100,000 104,500,000

i860 .... 207,100,000 253,800,000 691,900,000 83,500,000

x86i .... 202,000,000 257,200,000 696,700,000 87,600,000

1862 .... 183,700,000 296,300,000 646,300,000 102,100,000

1863 .... 238,600^000 393,600,000 648,600^000 101,200^000

In March, 1858, Mr. Balfour, of Boston, classi\*

fied the note issues of the country as follows :

HISTORY OP AMERICAN CURRENCY. 189

Notes for

. $1

to the amount of

7,000,000

«

2

II

li

4,000,000

«

3

II

<i

3,000,000

a

5

li

II

15,000,000

a

10

II

■

II

5,000,000

«i

80

II

II

13,000,000

«

50

II

II

12,000,000

II

100

II

II

8,000,000

11

Soo

II

II

35,000,000

II

1,000

II

II

30,000,000

11

5,000

II

II

2,000,000

Total ....

1.^4.000.000

THE CURRENCY AT THE OUTBREAK OF THE

WAR.

No year in American history has been more

prosperous than was the year i860. The cotton

crop of that year was unprecedented, reaching

4,600,000 bales. The grain crops, although not

so extraordinary, were very good. After the

election in November the attitude of the South-

ern States created great anxiety in commercial

circles. Business was contracted, imports de-

clined, and finances were arranged in anticipation

of a coming storm. Foreign exchanges fell, and

gold began to be imported, prices being low and

imports suspended.

I90 HISTORY OF AMERICAN CURRENCr.

m

During the winter, the Southern members ol

Congress took their departure, and, after the in-

auguration of President Lincoln, increased reven-

ues being required, the tariff was revised. The

opposition to protection being withdrawn, this

tariff revision, undertaken for revenue, was car-

ried out in the interest of protection, and in a

manner hostile to revenue, thus weakening the

country at the very moment when it needed its

utmost strength. This result being at once ex-

perienced, an effort was made at the extra session

of Congress to secure a modification of the pro-

tective features, but without success\* The

country was once more embarked on the protect-

ive policy, which received an extension in the fol-

lowing years unexampled save by the most unen-

lightened nations on earth.

The opinion being circulated that the war was

to be short, and that the people would not sub-

mit to taxation, the financial measures of the ses-

sion were confined to the provision for 50,000,-

000 of demand notes, 250,000,000 of 7^^ Treas-

ury notes to run three years, and a six per cent

loan of 250,000,000 to fund the Treasury notes.

HISTORY OF AMERICAN CURRENCY. 191

A property tax was apportioned amongst the

States, but part of it was repealed as impractica-

ble, part was paid by charges for sums expended

in fitting out troops, and it produced no active

revenue to the general government. Its nett

result was to establish the machinery which\*

was afterwards used in collecting internal

revenue.

The people were in the meantime contracting

their expenses, closing up their engagements,

practising economy, and in general adjusting

their affairs to war circumstances in the manner

which common-sense dictated. The banks were in

a conservative position, and the weak ones were

strengthening themselves to the utmost of their

ability\* The imports were small and the exports

large, for, although cotton was no longer an avail-

able export, the grain crop was large and sold

at good prices. The exports of merchandise ex-

ceeded the imports by 67,000,000, and the im-

ports of specie exceeded the exports by 16,000,-

000. This movement began in November, i860,

and lasted until December, 1861. Evidently the

natural laws which bring to every financial situa-

192 HISTORY OF AMERICAN CURREXCY,

tion its own cure were here in full operation, ^n

the fall of 1 86 1 the government borrowed loc,-

000,000 in gold of the banks, in two instalments,

and 50,000,000 more in its own paper.

Such was the situation when Congress met

in December, 1861. Never did any man have

such an opportunity to win immortality as a

financier as was now offered to Mr. Chase.

The situation had at this moment few difficulties.

The people were less sanguine that the war

would be short than they had been in the previ-

ous summer. They had contracted their ex-

penses to the lowest point, and production was

reduced to the necessary supply for consump-

tion. They held their disengaged capital ready

to the demand of the government, if it should act

with promptness and decision, and support its

own credit Nor was it the capital of the country

alone which was available. War taxes must and

always do trench upon income. It was the

active productive power of the nation, which

might be turned to war making, which was the

great resource. The nation was not only willing

to be taxed, but itself understood generally

HISTORY OF AMERICAN CURRENCY. 193

that only when it was being taxed could it give

full credit to its own paper promises. The

Congress, moreover, was ready to give to the

Secretary all he asked. If he had been the min-

ister of the Czar he could not have disposed

more absolutely of the national resources. All

that was needed was a firm, clear, bold policy,

showing that he understood himself and the situa-

tion.

The Treasury report presented no such policy.

It did not take the lead at all. It discussed

government paper disparagingly, suggested a

national banking system tentatively. It only

showed that the nation was drifting into financial

embarrassments for want of a policy. The real

financial question of the day was : whether we

should carry on the war on specie currency, low

prices, and small imports, or on paper issues,

high prices, and heavy imports. The alternative

was not understood because no one distinctly

comtemplated the latter course, but it was sure

to be the result of drifting under no policy.

The complications with England about the

Trent case came upon the reaction of disappoint-

194 HISTORY OF AMERICAN CURRENCY.

ment at the message and report, and in Decem-

ber gold began to be exported. On the 17th

of that month the New York banks stoutly re-

solved that suspension was unnecessary, but the

drain upon their gold went on as follows :

December 7 42,300,000

" 14 39,400,000

" 21 36,800,000

" 28 , .' . 29,300,000

January 4 23,900,000

From this time it began to increase again, and

was 30,000,000 on March 8.

SUSPENSION.

In the last days of December, 1861, all the

banks suspended. This they did without any

earnest attempts to avoid it, and certainly without

any necessity. Instead of regarding a suspen-

sion as a calamity to be submitted to only after

years of war, when the national resources should

be actually exhausted (as the suspension of the

Bank of England proved that it is), many looked

upon it as the natural preparation for war.

This suspension greatly complicated the sit-

HISTORY OP AMERICAN CURRENCY. 195

uation. Gold rose to a premium of one or two

per cent, at which it remained until April. The

202,000,000 of bank paper, or rather the 150,-

000,000 in the Northern States, proved the

stumbling block in the way of all sound financial

measures. The influx of the precious metals

in the previous year together with the supply

from California, and the amount previously

existing, gave 200 or 250 millions of gold in the

Northern States on the ist of December, 1861,

together with 150,000,000 of bank paper, an

amount amply sufficient to float government

loans, or to allow 200,000,000 of government

notes to be issued, if the bank-notes had been

withdrawn. This specie, however, could not stay

in the country, if the bank-notes remained, filling

the channels of circulation, and not subject to re-

demption, so soon as the government made any

additions.

The specie borrowed by the government from

the banks, and expended, would have found its

way back to the banks if unimpeded in its cir\*

culation, that is, if it had been the only currency ;

but, with irredeemable notes afloat and gold

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at a premium, this gold was withdrawn and

hoarded, and only appeared again to be sold at

the high premium two or three years after.

The government could not borrow more gold

of the banks, having exhausted their stock, and,

if it borrowed further, must take irredeemable

notes which might be multiplied to any amount

This was made the great argument for the Legal

Tender Act, and was another way in which the

bank-notes clogged the movements of the gov-

ernment

The economy of convertible paper issues is

assumed and repeated by many persons who

have never taken the pains to analyze that econ-

omy to see wherein it consists, and how great it

is. I am not prepared to take \*' total absti-

nence " ground against paper issues, because I

believe that they may be made useful and econo-

mical, though we have not yet learned how to

do it, but whenever the account is made up of

the advantage and cost to the American /«3//V of

their bank issues, there will be a heavy charge

on account of the loss and mischief they caused

at the outbreak of the war, to say nothing of the

HISTORY OP AMERICAN CURRENCY. 197

previous losses from panics and commercial

crises which they helped to bring about.

It would be tedious and unnecessary to follow

here the various financial manoeuvres of the win-

ter of 1861 and 1862. It is a simple record ol

temporary makeshifts alternating with one an-

other, frittering away the credit of the government,

disregarding its true resource in the patriotism

of the people, and offering large profits to those

who handled the government loans. Of the

banks, those which clung to the old-fashioned

principles of finance, disapproved of the course

things were taking, and refused to participate,

found themselves losing. Those which fell in

with the new order of things made enormous

profits.

THE LEGAL TENDER ACT.

The embarrassments of the government be-

coming greater and greater, the bill for an issue

of legal tender notes was hastily prepared and

offered in the House. Mr. E. G. Spaulding, of

Buffalo,\* claims to have been the author of this

• Fbaadal History of the War.

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act, and no counter-claimant has ever arisen.

The act was earnestly opposed by some of the

oldest and best members of both houses, but it

wfas pressed as '\* necessary," and forced through

with the energy and decision which, earlier in the

session, so much needed to be exerted in another

direction. So far as I know, Mr. Owen Lovejoy

is the only man who is on record as having put

his finger on the irredeemable bank-notes as the

greatest evil in the situation. The bill was

signed on the 25th February, 1862.

This act was passed, as the debate shows, as a

temporary war measure. On the part of its ad-

vocates, Mr. Thaddeus Stevens at the head, it

was urged and probably believed, that the legal

tender clause would prevent depreciation and

give credit to the notes.

Pelatiah Webster wrote in 1791: "The fatal

error, that the credit and currency of the conti-'

nental money could be kept up and supported by

acts of compulsion, entered so deep into the

minds of Congress, and of all departments of ad-

ministration through the States, that no con\*

siderations of justice, religion, or policy, or even

HISTORY OF AMERICAN CURRENCY. 199

experience of its utter inefficacy, could eradicate

it. It seemed to be a kind of obstinate delirium,

totally deaf to every argument drawn from jus-

tice and right, from its natural tendency and

mischief, from common sense, and even common

safety. This ruinous principle was continued in

practice for five successive years, and appeared in

all shapes and forms, i. e. in tender acts, in limi-

tations of prices, in awful and threatening decla-

rations, in penal laws with dreadful and ruinous

punishments, and in every other way that could

be devised, and all executed with a relentless

severity, by the highest authorities then in being,

viz., by Congress, by assemblies and conventions

of the States, by committees of inspection (whose

powers in those days were nearly sovereign),

and even by military force ; and, though men of

all descriptions stood trembling before this mon-

ster of force, without daring to lift a hand against

it, during all this period, yet its unrestrained

energy proved ever ineffectual to its purposes, but

in every instance increased the evils it was de-

signed to remedy, and destroyed the benefits it

was intended to promote. At best its utmost

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effect was like that of water sprinkled on a

blacksmith's forge, which indeed deadens the

flame for a moment, but never fails to increase

the heat and force of the internal fire. Many

thousand families of full and easy fortune were

ruined by these fatal measures, and lie in ruins to

this day, without the least benefit to the country,

or to the great and noble cause in which we

were then engaged.

" I do not mention these things from any pleas-

ure I have in opening the wounds of my country,

or exposing its errors, but with a hope that our

fatal mistakes may be a caution and warning to

future financiers, who may live and act in any

country which may happen to be in circum-

stances similar to ours at that time."

Here was a warning from our own history of

what must be the tendency of any legal tender

law, whether more or less stringent So far from

sustaining, it could only injure the credit of the

paper.

The precedent of the English Bank Restric-

tion was frequently and erroneously referred to,

and inferences were drawn which were simply

HISTORY OP AMERICAN CURRENCY. 20I

ignorant iThe spirit of the debate was that of

panic. The finances had been allowed to drift

into a serious condition, and then, instead of ap-

plying cool and calm reason to find out and cor-

rect mistakes, recourse was taken to the last

and most desperate resources. The financial in-

terests of a great nation for an indefinite future

were staked upon a desperate resource, to tide

over a temporary exigency. When the lessons

of history were quoted they were answered by

the flag and the eagle. When caution was

urged in view of possible future exigencies, it

was answered by prophecies of military suc-

cess and denunciations of rebels. When the

need of deliberation was urged, it was answered

by clamor in regard to the necessities of the

government When it was said that irredeemable

paper had always wrought ruin, it was answered

that our resources were unlimited, and that these

precedents did not make a rule for us. When it

was prophesied that the paper would depreciate,

and that we should not be able to retrace our

steps, the prophets of evil were indignantly

pointed to the "pledged faith" of the United

9\*

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States, and asked if they thought that would be

violated. The inference that the notes must be

made legal tender, because the government

needed money, was never analyzed, and its fal-

lacy never shown. The question whether it is

necessary to issue legal tender notes is a ques-

tion not of law, but of political economy > and

political economy emphatically declares that it

never can be necessary. The proposition in-

volves an absurdity. Whatever strength a na-

tion has is weakened by issuing legal tender

notes.\* One might as well say that it is neces-

sary to open the veins of a weak man who has a

heavy physical task to perform. All history

shows that paper money with a forced circulation

is not a temporary resource. It cannot be taken

up and laid down as we choose. It is a mischief

easily done but most difficult to cure.t

\* See the extracts from the debate of 1819, especially Lord GrenvilkPi

ipeech, p. 2^.

f See Chapter III.

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20J

EFFECTS OF LEGAL TENDER ISSUES

The notes were first issued in April, 1862,

Gold began to rise and to be exported. The

following table from the " Merchants' Magazine,"

for July, 1862, shows how immediate and direct

was the effect.

(Five figures omitted.)

April 12

" 19

" 26

May 3

" 10

" 17

" 24

" 31

June 7

" 14

"23

GOV.

PAYT\*S.

4.6

12.5

24.7

22.7

17.1

9.8

ia4

6.8

1;

BANK

DBFOSITS.

93-7

95.1

iot.8

109.6

"5-5

120.0

122.6

125.4

"55

125.6

126.6

spsas.

34-5

34.6

35.2

35.1

32.2

3a 2

3a6

34-3

3»-2

311

31-0

KXPORT

SPi-ClB.

.6

I.L

•7

IS

i.o

•9

.8

1.6

2.0

3- 1

GOLD.

PREMIUM.

I\*

I\*

li

2\*

3i

3f

3i

3f

4i

7

BXCH. ON

LONIX>N.

12

12\*

13\*

14

14

»5

i4i

15

18

21

High gold and exchange stimulated exports,

for high nominal prices were realized, but, as

home prices advanced, and the foreign prices of

export were governed by foreign circumstances,

these large returns proved fallacious, and the

heavy pressure on the Western agricultural in-

terest began, which led to an outburst, in 1873,

of loud and ill-directed complaints. Heavy

imports followed upon heavy exports of mer-

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chandise and gold, and the paper inflation and

fictitious prosperity enabled people to pay heavy

duties, large gold premium, and high exchange

for the imported articles. The mills, forges,

and factories were active in working for the gov-

ernment, while the men who ate the grain and

wore the clothing were active in destroying, and

not in creating capital. This, to be sure, was

war. It IS what war means, but it cannot bring

prosperity.

One immediate effect of the Legal Tender Act

was to destroy our credit abroad. Stocks were

sent home for sale, and, as Bagehot shows, \*

Lombard Street was closed to a nation which had

adopted legal tender paper money. No sales of

bonds could be made in England until the war

closed, and the amount of legal tender to be

issued was finally fixed by facts. The loans at

home were scarcely more successful. Much was

said in Congress about the disgrace of "shin-

ning " through Wall Street to borrow money for

national use, and a foolish pride of seeing the

bonds quoted at par, led to such restrictions on

\* Preface to the last edition of the \*' English Constitution.\*'

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the Secretary that he was obliged to resort to the

most disadvantageous transactions with lenders,

and to continue paper issues until a six per cent,

bond sold at par indeed, but for a currency worth

from 60 to 70 cents on the dollar. The notes he

paid out to government creditors were accumu-

lated in banks, and then deposited again in the

United States Treasury at five per cent.

By August all specie had disappeared from

circulation, and postage-stamps and private note-

issues took its place. In July a bill was passed

for issuing stamps as fractional currency, but in

March, 1863, another act was passed providing

for an issue of 50,000,000 in notes for fractional

parts of a dollar — not legal tender. For many

years the actual issue was only 30,000,000, the

amount of silver fractional coins in circulation in

the North, east of the Rocky Mountains, when

the war broke out In 1872 this issue was forced

up to between 40 and 50,000,000, producing a

redundancy and enhancing retail prices.

The Legal Tender Act provided for funding

the notes in six per cent. 5-20 bonds. Very few

were so funded even with money at four per

2o6 HISTORY OF AMERICAN CURRENCY.

cent., an instructive fact for those who now

hope to fund the outstanding notes by simply

allowing it to be done. However, this fixed the

price of a six-per-cent. bond at par in paper, and,

as the Secretary might not sell below the market

price, he could not negotiate with bankers on

terms which allowed them a profit This clause

was, therefore, repealed.

The interest on the bonds was payable in gold,

duties being payable in gold, but the 50,000,000

of notes issued in August, 1861, and 10,000,000

in February, 1862, were receivable for all dues.

They were at a premium just less than gold, for

the payment of duties, and very little gold came

in until these notes had all been paid in. During

1862, the government bought gold to pay inter-

est. It was not until 1863 that the popular sales

of bonds afforded a steady resource of means of

payment, and the duties produced a gold income

for paying interest. The advance of prices,

however, had vastly increased the expenditure

of the government, and the sum total of the debt

is increased to an amount, which it would be

idle to try to estimate, by the paper inflation.

HISTORY OF AMERICAN CURRENCY. 207

On the 25th of February, 1863, the National

Bank Act was passed, but it did not go into oper

ation, and did not affect the situation, until two or

three years afterwards.

On the 23d of March, 1863, Congress passed

the 900,000,000 Loan Act, allowing the Secretary

to borrow that sum in ten-forty bonds at not

more than six per cent, or 400,000,000 of it in

Treasury notes at not over six per cent., legal

tender, redeemable in paper in three years, or

150,000,000 of it by issuing legal tender notes.

All the old notes which were fundable in six

per cent, bonds were called in, and exchanged

for new notes not so fundable, and the Secretary

was allowed to sell bonds below the market

price.

Gold being at 140-150, that is, the paper dol-

lar worth 65 or 70 cts., 75,000,000 ten-forties

were taken at about par at six per cent. The

Secretary was now led to try the ten-forties at 5

per cent., but the currency was not sufficiently

depreciated to float them at or near par, and they

were not taken. He then used his alternatives,

issuing 175 millions one and two year Treasury

HISTORY OF AMERICAN CURRENCY.

notes. Gold rose to 200-220 or above, making

the paper worth 45 or 50 cts., at which point the

5 per cent ten-forties floated. The amount sold

up to October 31st, 1865, was $ 172,770,10a

Mr. Spaulding reckons up the paper issues which

acted more or less as currency, on January 30th,

1864, at $1,125,877,034. 812,000,000 bore no

interest He disapproves of the 900,000,000 Loan

Act on account of the discretion it allowed to the

Secretary, and the inflation to which it led ; but

a policy like that of the Legal Tender Act collects

errors as it advances, and those who inaugurate

It should know that they can never control it, nor

throw off responsibility for its ultimate conse-

quences.

June 17th, 1864, Congress forbade time rates

for gold. The effect was to enhance the premi-

um, and, on July 2d, the law was repealed. The

Legislature of New York had previously at-

tempted to stop speculation in gold by forbidding

banks to loan on bills of foreign exchange, one of

the most legitimate operations in banking.

By an act of June 30, 1864, the greenbacks

are not to exceed 400,000,000, and " such addi-

HISTORY OF AMERICA]^ CURRENCY. 209

tional sum, not exceeding 50,000,000, as may be

temporarily required for the redemption of tem-

porary loans/'

TJIE TARIFF.

By successive amendments during the years

1 86 1- 1 866, the tariff had been extended to' cover

over 1,500 different articles, and had been ad-

justed and readjusted, by those who had the

manipulation of it, until it had established an

iron-bound system of protection. The duties

collected in 1865 were 54 per cent, of the dutia-

ble imports. Such a rate was hostile to revenue.

It produced 84.9 millions.\*

The internal taxes had also been multiplied on

what Mr. Wells aptly described as the Donny-

brook Fair principle — ^wherever you see an article,

tax it. In 1866 the receipts from internal taxes

were 309. 2 millions, and from customs 1 79,000,000.

The patriotism and devotion with which the

American people recognized the necessity of tax-

ation and submitted to it, are not surpassed in

\* Fmance Report, 1871.

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history ; but their sacrifices were abused on the

one hand by interested parties, so that the taxes

were paid without accomplishing the object, and,

on the other hand, their sacrifices were wasted

by unscientific taxation.

The increase of internal taxation was made a

pretext for increase of duties, but when, under

Mr. Wells' recommendations, internal taxes were

gradually abolished, no reduction of duties fol-

lowed. After 1870 some reductions were made,

but now, in 1874, with a threatened deficit of

revenue, the great need of the country is for

some man to introduce thorough and comprehen-

sive reforms in the interest of revenue — to per-

form the rdle of Sir Robert Peel in the early

forties.

The people of the United States have a patri-

otic attachment to the \*\* greenback," because they

think that it " saved the country." A gallant

Senator, who is an advocate of inflation, re-

cently grew indignant at the opponents of paper

money for reflecting on the " blood-stained green\*

back." Under the contagion of the poetry, one

might reply that the fear now is, lest, if the Sen-

HISTORY OF AMERICAN CURRENCY. 211

ator has his way, the greenback may not yet also

be stained with tears.

On the 31st of October, 1S65, the total debt

was,. $2,808,549,437.50; the greenbacks issued,

$428,160,569; the National Bank notes, 185,-

000,000; State Bank notes, 65,000,000; fractional

currency, $26,057,469.20\*; total currency, $704,-

000,000.

CONTRACTION OR INFLATIONS

The war being ended, the financial question

took this form: Shall we withdraw the paper,

recover specie, reduce prices, lessen imports,

and live economically until we have made up the

waste and loss of war, or shall we keep the

paper as money, export all our specie which has

hitherto been held in anticipation of resumption,

buy foreign goods with it, and go on as if nothing

had happened ?

Mr. McCulloch, who was now Secretary of

the Treasury, proposed to contract the inflated

paper, and pursue the former alternative. On

the 1 8th of December, 1865, the House voted,

\* Spaukling.

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144 to 6, to authorise a contraction of 10,000,000

in the next six months, and of 4,000,000 per

month after that This operation went on until

January, 1868, but, in the meantime, the National

banks were going into operation, being allowed

300,000,000 of circulation, 150,000,000 appor-

tioned by population, and 1 50,000,000 by banking

capital, and their notes more than compensated

for the greenbacks withdrawn. During the year

1867, also, war fears being laid aside, speculation

had sprung up and begun to absorb the redun-

dant paper. The turning point at which the

greenback contraction met the bank-note expan-

sion was January, i868. On January i, 1866,

the banks stood as follows :

Circulation. Deposits. Loans.

213,200,000. 513,600,000. 498,300,00a

During the whole year 1 866, there was a

superabundance of currency at New York, and

money ruled at 5 to 7 per cent for the best 60

day two name paper.

January ist, 1867, the banks stood:

Circulation. Deposits. Loans.

291,000,000. 555yioo,ooO| 608^400,000.

HISTORY OF AMERICAN CURRENCY. 213

In Januarj' there was a crisis in stocks, and

the rate was 8 to 10 for the same paper as above.

For the next six months the money market was

dull and easy. In July many dry-goods firms

failed, and rates were 8 to lo. August and Sep-

tember were easy, but in October the rate was

again lo.

On the first day of January, 1868, the banks

stood :

Circulation. Deposits. Loans.

394,300,000. 531,800,000. 616,600,000.

At this juncture outcries were raised against

contraction by those who were engaged in the

movement of expansion, though, in regular busi-

ness, credit was still kept in the narrow bounds

to which it had been reduced during the war,

and the people at large, understanding that the

Legal-Tender Act was a war measure, and ex-

pecting in good faith that resumption must follow

peace, had made their arrangements accordingly.

Congress forbade any further contraction, and we

turned to the second of the above alternatives,

which we have since consistendy followed.

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PAPER MONEY WITH A FIXED LIMIT,

The era of paper money on which we then

entered has one peculiar feature, unprecedented,

so far as I have been able to learn, in the history

of paper money. Our paper money is redundant y

but fixed in amount. The greenbacks stood,

when Mr. McCuUoch's contraction was arrested,

at 356,000,000. The bank-notes were fixed at

300,000,000, but subsequently, July, 1870, 54,000,-

000 more were authorized. The fractional cur-

rency was fixed at 50,000,00a The bank-notes

have never quite reached 350,000,000, and the

fractional has never reached its limit. The with-

drawal of the three-per-cent. compound interest

notes, which had been held as bank reserves,

operated as a contraction, but the allowance to

the country banks to keep \ of their reserves in

the redemption cities operated as expansion.

Allowing for these variations, the limit of legal

currency was fixed, until the Fall of 1873, at

750,000,000. Nearly every nation which has

ever used paper money has fixed its amount, and

set limits which it has solemnly promised again

HISTORY OF AMERICAN CURRENCY. 215

and again not to pass, but such promises are

vain. The intention, when they are made, is

honest, but it is impossible to keep them. A

man might as well jump off a precipice intending

to stop half way down. It remains to be seen

whether we too, when the redundancy is ab-

sorbed by high prices and excessive credit, will

break over the limit, as every other nation has

done, under the inevitable constraint which it

then imposes, — ^but the phenomena thus far, are

those of a redundant paper with a fixed limit

COURSE OF THE MARKET.

To trace out its operation would require a his-

tory of the money market for the last six years.

The inflation of credit which went on all over the

country so soon as it was understood that specie

payments were indefinitely postponed, is only

imperfecdy presented in the following table show-

ing the state of the National Banks at different

dates.

2i6 HISTORY OF AMERICAN CURRENCY.

1868

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1872, Oct I

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Millions.

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294.4

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292.7

292.8

574-3

546.2

291. 1

542.1

302.2

561.9

307.7

602.1

333-4

625.7

336.2

66S.9

339-0

622.6

Millions.

6x6.6

655.7

644.9

686. 3

688.8

7193

768.3

7894

872.5

908.8

940.2

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29.7

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22.9

25.3

19.3

25.8

20.5

24.5

ao.7

\* A£. Clearings at

N. Y. per annum.

28.4 thous. miUionfw

37.4

27.8

29-3

32.6

33.9

In 1868 the market was easy, save in March

and April, when the rate varied from 8 to 12, and

in October, November, ^.nd December, there

being a lock-up in November, and the Western

demand making itself felt. In 1869, the market

was stringent throughout the year. It was de-

clared in October, to be " worse than for eight

years." Stock speculation was active, and it was

remarked that it was continually absorbing more

and more currency. The redundant paper in

\* The annual aggr^ate clearings from 1853 to 1862 averaged 5,000^-

000,000. In 1863 they were 14,000,000,000 and rose steadily. This

is introduced only as a general indication of the increase of transactions.

HISTORY OF AMERICAN CURRENCY. 217

New York was absorbed, and the state of things

was realized which was to come three years later

for the country at large.

The high rates of 1869 drew funds to New

York for loan on stock security. The year

1870 was marked by great ease. Money flowed

into New York in abundance. Rates on call

were from 4 to 6, and on best paper 6 to \*]k

throughout the year. The only excitement was

in July and August, at the breaking out pf the

war in Europe.

In 1 87 1, the demand of funds for railroad

building became very marked. The market was

easy until September, when it was quoted strin-

gent, though rates were not high. This lasted

during the autumn, and was ascribed to the

'\* movement of the crops."

In 1872, there was nothing remarkable until

the crop movement began again, when the rates

advanced sharply, and commercial paper could

not be quoted. The Secretary of the Treasury

issued 5,000,000 of the 44,000,000 withdrawn by

Mr. McCuUoch. His efforts to withdraw these

10

2i8 HISTORY OF AMERICAN CURRENCY.

again kept the market stringent, and rates exces-

sive, throughout the winter.

During these years large quantities of Ameri

can securities were negotiated in Europe. These

were very moderately estimated — for the first

three-quarters of 1873 — at 100,000,000.

In 1873, the farmers' movement against the

railroads impaired confidence in railroad bonds as

an investment. When the crop movement began

again the demand of the country banks led to a

demand from the city banks upon the brokers,

and precipitated a panic on the stock exchange.

The failure of several large banking houses

engaged in the sale of railroad bonds increased

the excitement. The closing of the stock ex-

change, and suspension of the city banks, ob-

liged the country banks to contract their loans,

and brought the industry of the country to a stand-

still. There was little or no '\* panic" outside of

New York, but it is evident that a crisis in the

operation of the paper money had been reached,

and that crisis involved a reduction of prices and

business. As the stock exchange was the place

at which the redundent currency was employed.

HISTORY OF AMERICAN CURRENCY. 219

the crisis was first developed there, by the de-

mand for the return of the surplus. The shock,

however, was transferred to the regular indus-

tries of the country. The expansion by the issue

of a part of the 44,000,000 gradually restored the

prices of stocks, but production was restrained,

and the effect which lasts yet, and promises to

last longest, is the reduction of wages.

During the crisis greenbacks were hoarded,

which was thought to prove "how good they

were." If the currency consisted of clam-shells,

and a crisis should come, in which it was to be

feared that clam-shells might be scarce, clam-shells

would be hoarded ; much more if there was fear

that the next currency might be pebbles.

Studying these facts in the light of the previ-

ous history, we perceive that the annual pressure

in the autumn, increasing in force from year to

year, was a premonition of the effect which must

be apprehended whenever the expansion of credit

and prices should have absorbed the entire redun-

dancy of the currency. We have seen in the

history of the Massachusests colony that each

new issue was followed in a few years by a new

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crisis, and an outcry about hard times and scarce

money. The law which governs this is apparent.

The rise of prices and multiplication of credit

operations will go on to absorb any amount of

currency whatever. If then, the amount be fixed,

the expansion must come up to and press against

this fixed barrier. This pressure will become ap-

parent first at that season of the year at which the

normal requirement is greatest. At that time

there will be great distress occasioned by the

need of withdrawing currency from the use in

which it is engaged. As it cannot be imported,

and the law forbids its increase, there is no relief.

It must be withdrawn, and the consequences

must be endured. Then it is said that the cur-

rency is not elastic, and schemes are invented for

making it so ; but no device whatever can make it

elastic. An elastic body is one which will both

expand and contract, but a paper currency never

contracts itself. Any device which has elasticity

for its object will have expansion for its effect.

In its more general effects, the paper currency

with a fixed limit produces a steady advance in

the rate of interest, and also a reduction of prices.

HISTORY OF AMERICAN CURRENCY. 22 1

These effects are both traceable in the history of

the last five years. The whole story which pre-

cedes goes to show that the value of-a paper cur-

rency depends on its amount At the time of

issue, or during a war in which the issuer is en-

gaged, it depends in some degree on his credit ;

but when it settles down in peace as the normal

medium of exchange, its value comes to depend

almost purely on its amount This amount, of

course, is relative to the requirements of the

country for the purpose of performing its ex-

changes. What the requirement is,^ however,

no man can tell. There is no rule for finding it.

It does not depend on population, or wealth, or

the amount of the exchanges. It bears no fixed

relation to any known or ascertainable quantity.

An agricultural country wants more, for the same

■

population and wealth, than a manufacturing

country. A sparsely populated country wants

more, other things being equal, than a densely

populated one. A country in which the means

of communication are poor wants more, other

things being equal, than a country with good

means of communication. It is idle to attempt to

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compute it at so much per head, or so much per

thousand of wealth. Currency is economized

also by banking arrangements and clearing-

house processes ; the requirement is reduced by

railroad extension, and all facilities of communi\*

cation.

How far these conflicting influences have af-

fected the actual requirement of the United

States for circulating medium on a specie basis

no one can even guess. It is properly an empir-

ical question. We can only try. If we had a

currency of specie value, we should get just as

much as we need, and then we should know how

much that is, but then, too, we should no longer

care. Statisticians would be interested in it, but

the finance and business of the country would

not hang upon it

If, then, we assume that, on the whole, this;

country does require more than it had in 1861,.

this increase of the normal requirement goes on

inside of and -snder the paper expansion. It

produces a pressure on the inflated speculative

prices from within, at the same time that they are

restrained without by the fixed limit of the

. HISTORY OF AMERICAN CURRENCY. 223

paper. The effect must be a reduction of prices;

and such a reduction having occurred within the

last five years is the best proof that the currency

requirement is greater than it was.\*

In view of all this, the notion of " growing up "

to the fixed volume of the currency receives its

just appreciation. The London " Economist " un-

fortunately seemed to lend some countenance to

this notion during the month of October, 1873,

and it' was taken up on this side of the water by

some who enjoyed considerable influence as con-

servative authorities.

If we suppose the requirement of currency to

increase from the growth of wealth and popula-

tion faster than it decreases from improved com-

munication and banking facilities, then a certain

growing may be admitted, but, as it goes on, it

exerts a slow, gradual, and pitiless contraction

on prices, broken only, in Spring and Fall, by a

succession of commercial crises. If then, there

was backbone enough in the nation to endure

this without havmg recourse to expansion, the

growth might go on for ten or twenty years, by

\* See the Diagram at the end of this Chapter.

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which time perhaps 750,ooo,ocx) of currency

might be the specie requirement. No historical

precedents exist to guide us in judging whether

this process would indeed go on under such cir-

cumstances. As a matter of speculation, I am

inclined to believe that the actual course of

things would be that after every crisi3 wages

would fall, industry would be checked, and the

country would be slowly and gradually arrested

in its entire industrial life^ The nearest analogies

are in the history of Massachusetts,\* and in the

history of England from 1812 to iSig.f Evi-

dently, before any such state of things came

about we should break out of the restraints in

some way, but then there would be an end of the

growing up. According to present appearance,

the first shock is to push us into inflation, and so

the hypothesis falls to the ground.

However, to pursue the supposition, granting

everything, when we grow up to 750,ooo,ocx>, we

cannot resume. At that point there may be no

premium on gold, and prices may be at specie

level, but there would still be no specie in the

\* See p. 2 J. t See p. 28a

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country\* To carry on specie payments would re-

quire at least 250,000,000 of gold. We must

either buy this, and cancel an equal amount of

paper to make room for it, or wait to grow up

250,000,000 more.

No notion which has been propounded in regard

to our situation is more plausible, or involves

more practical impossibilities than this of resump-

tion by " growing up."

If, now, anyone is disposed to believe that there

are any circumstances in this country, which are

so different from those of other countries that in-

ferences from the history of the latter are of no

value for the former, here is the history of the

currency of this country, briefly and cursorily pre-

sented, but sufficiently to show how, from the very

outset, our industrial development has been crip-

pled by bad arrangements in this respect. Eng-

lish writers have lately given up the discussion of

currency questions, and have taken the tone of

passing by people who bother their heads about

this subject as " possessed." The same tone has

10\*

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been borrowed here by a certain school which im-

ports its tone even more than its ideas. No one

knows what a sick and weary subject paper money

is unless he has made it a specialty. I have

stated, below,\* in its more proper connection, the

distinction which is here to be observed ; when

the currency is sound it takes care of itself, and

other considerations of far higher scientific char-

acter come in to require attention : when the cur-

rency is redundant, irredeemable paper, it floats

everything, and becomes a prime consideration.

The English are fortunate in having experience

only of a sound currency, and being able to make

light of evils they do not know, although they

must yet again take up the subject, for, that the

Bank Act of 1844 is not a scientific settlement of

the currency question, is proved by the fact that

it could not be imitated by any other nation.

For us, the currency question is of the first im-

portance, and we cannot solve it, nor escape it, by

ignoring it. We have got to face it and work

through it, and the best way to begin is, not by ,

wrangling about speculative opinions as to untried

• Page 253.

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schemes, but to go back to history, and try to get

hold of some firmly established principles, from

which we can proceed with some confidence and

a certain unanimity.

We often boast of the resources of our coun-

try, but we did not make the country. What

ground is there for boasting here ? The question

for us is : What have we made of it ? No one

can justly appreciate the natural resources of this

country until, by studying the deleterious effects

of bad currency and bad taxation, he has formed

some conception of how much, since the first

settlers came here, has been wasted and lost

EXPLANAIION OF THE DIAGRAM.

The heavy line being token as zero point, or equality of exports and

imports^ the !''■'' line shows the excess of exports or imports of mer-

chandise^ by its variations above or below that line, exports being reckoned

downwards, and imports upwards. The line marks the excess of

imports or exjtorts of specie in the same manner. Tlie dotted Line

denotes the amount of bank or other paper per capita^ The light dotted

line between the year 1848 and the end shows the production of gold io

California.

The line of prices at the top of the diagram is made by adding the lower

annual averages given in the Finance Report of 1863 down to that year.

From 1864-1873 the line is formed by adding the January quotations from

the table given in the Finance Report for 1873. Over eighty articles are in-

cluded in each, but they are not the same articles. Therefore the scale is

rewritten to bring the starting point in 1864 even with the ending point

in 1863, and the two parts should only be compared for relative fluctua-

tions. In the last-mentioned table a himdred-weight of iron and of hemp

was taken, instead of a ton of each, as given, and railroad bars were struck

out because not given in 1864. Evidently the relation between the prkxs

of 1863 and 1864 does not appear at alL

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CHAPTER II.

THE ENGLISH BANK RESTRICTION.

T N the year .1795, ^^^ currency of the British

•\*- Islands consisted of the notes of the Bank of

England, the English country banks, the Scotch

banks, the Bank of Ireland, and the Irish coun-

try banks, and of coin. By the monopoly clause

of the charter of the Bank of England, no bank-

ing firm consisting of more than six partners

could issue demand notes in England. Strong

joint stock banks were therefore illegal, but

tradesmen of every grade set up as " bankers,"

and issued notes. These were the " country

banks." They were not chartered banks, but

private bankers who issued notes. The Scotch

system was a perfectly free one. \* There were

three great chartered banks. The others were

joint stock companies and free partnerships^

and they conducted their business solely on

business responsibilities. After some unlucky

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experiments in fancy banking, during the last

century, they settled down to solid, conserva-

tive methods of operation. They meet with

encomiums on every hand, and they deserve

them, but the reason why they deserve them is

lost sight of by those who fix their attention on

the system. The system is the best conceivable ;

but it involves one indispensable condition of

success. It requires vigilance, sagacity, science,

and moderation on the part of the bankers. The

freer any system is, the more it requires these

characteristics. The Scotch banks have suc-

ceeded because their managers have possessed

these qualities. The same system, on a \*\* paper

basis," or managed by unreasoning and ignorant

avarice, is a short road to ruin. The Bank of

Ireland and the Irish country banks were very

similar in their organization and relations to the

English banks.

The circulation of the Bank of England, in

February, 1795, was ;^i4,oi7,5io; its specie,

;^6,i27,720. The circulation of the English

country banks at this time is not known, no sta-

tistics having been collected. It was estimated

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in the parliamentary debate of 1 8 1 1 to have been

from four to six millions. The amount of specie

in circulation in 1795 was estimated in the same

debates at from twenty-five to forty millions.

The Lords' Committee, in 18 19, gave this estimate

for the circulation before the Restriction :

Coin ^25,000,000

Bank of England notes 10,500^000

Country notes and Scotch notes. .. 7,000,000

Total for England and Scotland.. ;i£'42,5oo^ooo

Lord Liverpool estimated the coin, in 1 797, at

thirty millions ; Mr. Rose, at forty millions ; Tooke,

after reviewing the evidence, thinks it was at

most twenty-two and a half millions.

CAUSE OF THE RESTRICTION.

In 1 796, the great powers being allied against

France, and England assisting chiefly by sub-

sidies, Pitt began to draw upon the Bank for the

necessary supplies. Originally the Bank was

forbidden to lend to government, except by per-

mission of Parliament, but Pitt took advantage

of an act of indemnity which was asked for in

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1793 to cover previous cases in which the Bank

had done this, to make the act so read as to

repeal the prohibition entirely. His drafts be-

coming more and more exhaustive to the specie

of the Bank, it proceeded to contract its notes.

To the alarm thus occasioned, came, in addition,

a rumor of intended invasion. A run on the

country banks followed, which precipitated a

demand on the Bank of England. In February,

J 797, the specie reserve was but litde over one

million. The Bank was meanwhile contracting

its circulation with all its energy, and had reduced

it in February, 1797, to nine millions. The di-

rectors declared to the Bullion Committee, in

1 8 10, that they thought this had been a grave

error and had greatly enhanced the crisis. The

necessities of the government, in the meantime,

were greater than ever.

Under these circumstances an Order in Council

was issued forbidding the Bank to pay specie

until the will of Parliament could be known.

This order was issued on the 27th of February,

and was extended to the Bank of Ireland on the

2d of March, 1797. Tooke (\*\* Prices," L 204),

eestriction: 233

says that the suspension might have been avoided

by one or two days' more perseverance, and that

the run on the Bank of Ireland was over before

the order to suspend was received. The di-

rectors of the Bank of Ireland did not want to

suspend. On the 3d of May, Parliament passed

an act suspending payments in England and

Scotland until the 24th of June. Notes under

;^5 were at the same time allowed to be issued.

From the manner in which this suspension came

about, by an injunction of the government, it is

known as the Bank Restriction.

ACTS CONTINUING THE RESTRICTION.

On the 22d of June, 1797, the^Restriction was

continued until one month after the next meeting

of Parliament On the 30th of November, 1797,

it wa^ continued until six months after the war

should close. On the 3d of Jan., 1799, the

Bank, having over seven millions of bullion,

declared itself ready to pay sums under £^ in

coin, and to redeem its notes dated before Janu\*

ary ist, 1798. Its notes had increased from

eleven to sixteen millions. April 30th, 1 802, the

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Peace of Amiens having been concluded, the

Restriction was extended until March ist, 1803,

although the Bank was ready to resume. Feb-

ruary 28th, 1803, it was extended until six weeks

after the next meeting of Parliament. On the

13th of December, 1803, war having been de-

clared, the Bank Restriction was extended until

six months after the ratification of a definitive

treaty of peace. On the i8th of July, 18 14, Na-

poleon having abdicated, and peace being antici-

pated, the Restriction was extended until March

25th, 18 1 5. March 2d, 181 5, it was continued un-

til July 5th, 18 16. March 21st, 18 16, it was con-

tinued until July 5th, 18 18, in order, as the

preamble to the act stated, to give the Bank

time to prepare for resumption. May 28th,

181 8, this preamble was repeated before another

act which extended the Restriction until July

5th, 18 1 9. The Bank took no measures of pre-

paration for resumption until after the act of 18 19,

to be mentioned below.

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BANKNOTES NOT LEGAL TENDER.

The, bank-notes were never made legal ten-

der. The question whether they were to be

such was put to Mr. Pitt in the House when

the Restriction was ratified. He replied that

they were to be so from the Bank to the public

When pressed on this point, especially by Mi

NichoUs, who asked, " whether it was his inten

tion that the notes of the Bank of England

should be a legal tender from the Bank to the

public creditor," and declared that, if so, it was

an act of insolvency, the minister evaded a reply.

In 1801, Mr. Grigby demanded of Oakes &

Co., country bankers, gold for a five-guinea note

issued by them. They offered a £% Bank of

England note and five shillings. He refused the

note, and demanded gold, and as he could not

get it, he sued. He gained the suit at the as-

sizes, and the question of law being reserved for

the four judges of Common Pleas, they all

agreed that the pisuntiif was in his rights, and

that notes were not legal tender between man

and man.

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period three or four shillings per ounce higher

than non-exportable gold. Tables showing the

gold premium differ, some of them quoting do^

mestic and some of them exportable gold.

When the question of the Restriction came up

at the Peace, in 1802, it was argued that resump-

tion was impossible because the exchanges were

adverse. Lord King and Mr. Fox argued that

to resume was the way to make them fiaivorable.

Their doctrine was that the redundancy of the

paper was the cause of the premium on gold and

the adverse exchange, but they found no hearers.

The bank-notes in February, 1802, were fifteen

millions, the specie in bank seven millions.

In 1804, the exchanges with Dublin became ad

verse to that place, and a parliamentary committee

was appointed to investigate the cause.

They ascribed the outflow of gold from Ire-

land to England to the redundancy and deprecia-

tion of the Irish paper. The doctrines they l^d

down were the same which were afterwards em-

bodied in the Bullion Report, but this Irish report

never attracted much attention.

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COMMERCIAL AFFAIRS.

In 1806, Napoleon declared, by his Berlin de-

cree, the coast of England under blockade, and

forbade all trade with her. England retaliated

by the Orders in Council blockading all port^ of

France and her allies. The Americans, who, as

the chief neutral carriers, were the greatest suf-

ferers, retaliated in the following year by the em-

bargo, forbidding their ships to trade with either

belligerent

In 1806, the French invaded Spain. In 1807,

Russia entered into an alliance with France. In

the same year the English made an attack on

Buenos Ayres and effected a lodgment there.

These political and military events had impor-

tant effects on trade.

As the Baltic and Spain were closed, active

speculations in timber and wool, of which the

supplies were thus cut off, sprang up. The new

opening in South America was also eagerly seized

upon for speculative trade. At the same time

great public works (bridges over the Thames,

etc.,) were in progress, and a joint stock company

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mania broke out. The years 1808, 1809, and

18 10 were marked by the progress of these spec-

ulative movements.

l\*he Bank in the meantime was extending its

issues. Following the February quotations still,

we find that the note circulation in 1806 was 17

millions; in 1807, 16.9 millions; in 1808, 18.1 mil-

lions; in 1809, 18.5 millions; in 1810, 21 millions.

This increase, however, is, in itself, a matter of

very small moment. It is upon other incidental

political and financial circumstances, which acted

and reacted upon one another in the most com-

plicated manner, and in regard to which our in-

formation is very meagre and unsatisfactory, that

the results to be noticed depended. No one has

ever made a thorough and comprehensive an-

alysis of all the forces which were here in action,

and divergent opinions have naturally arisen

where men looked at the facts only in a certain

point of view, or took account of only a certain

limited range of facts. The present object is

only to trace the broadest features of the situa\*

tion, and deduce incontroverted inferences.

The country bank circulation is of the first im-

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■

portance amongst the factors which we have here

to take into account, but unfortunately it is impos-

sible to ascertain what it was. Its expansion,

however, is certain, from the fact that the number

of these banks, which had been 270 in 1797, was

600 in 1808, and 721 in 18 10. Their circulation

was estimated at 25 or 30 millions. That these

issues were feeding the speculation is evident

It appears also that some very small notes were

in circulation. Cobbett gives a representation of

a seven-shilling note issued at Tunbridge Wells.

(VoL xviii. 172.)

The premium on gold was also steadily advanc-

ing during these years. In 18 10, McCuUoch puts

the price of bullion at £^ los. per oz., or 15 per

cent, depreciation of the notes. The Bullion

Committee put the depreciation at 1 5 J per cent

It makes a difference, as stated above, whether

exportable or non-exportable gold is quoted.

THE BULLION REPORT.

The state of things above described attracted

public attention, and in January, 18 10, Mr. Horner

moved for a committee '' to inquire into the high

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price of gold bullion and to take into considera-

tion the state of the circulating medium^ and of

the exchanges between Great Britain and foreign

parts." The report of this committee was pub-

lished in August, 1810, but did not come up for

discussion in the House until May, 181 1.

THE QUESTIONS AT ISSUE.

As\*soon as the witnesses began to be examined,

it appeared that there was a widespread belief

that it was not the paper which had depreciated,

but the gold which had advanced — a notion which

has been advanced in other periods of paper

money. The witnesses were bankers, merchants,

and bullion brokers, and included the Governor

and Deputy- Governor of the Bank of England.

The first question to which the committee ad

dressed itself was, therefore, this : Is the bank-

note depreciated in value ? Is that the cause of

the premium on gold, or is there some other } To

us such a question may seem idle, but it certainly

was not so when the Governor and Deputy-Gov-

ernor of the Bank of England, and the Chancel-

lor of the Exchequer, took the negative. As

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there was no public quotation of bullion, transac-

tions being illegal, and men handled \*\* guineas"

and \*' shillings" in paper in ordinary trade, it is

not so surprising that such a notion might at

any rate be popular. It was assisted further by

the great dislike to admitting that Bank of Eng-

land notes were '\* depreciated " like the paper

money on the continent

There were facts also tending to show that dis-

turbances in the value of the precious metals

were taking place. Gold was growing dearer

from obstructions in the supply, from hoarding,

and from demand for war expenditures.\*

Tooke (" Prices," I. 130) infers that " there

must have been a greatly increased demand for

the precious metals and a consequently increased

value of them during the war, more than suffi-

cient to compensate for the utmost quantity

spared from circulation as coin in this country, or

even for the utmost rate of annual increase from

\* The eager demand for bullion in England b shown by an incident

mentioned by Chevalier. The French Treasury, by transactions with its

agents in 1806, came into possession of drafts of the Sponisli Government

OD bullion in Mexico, but since the battle of Trafalgar England controlled

the sea, and France could not bring over the metoL A Dutch bank nego-

tiated a transaction between the belligerents by which the French Treasury

realized its drafts, and an English frigate brought the treasure to England.

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the mines," that Is, that the enhancement of the

value of gold equalled the depreciation of paper.

J. S. Mill thinks that this is proved, but Cheva-

lier (Ec. PoL III. 454) puts the matter in the

right light. If gold had risen there ought to

have been less of it, and prices should have been

lower. The bank paper, therefore, even if not

absolutely increased, was in excess relatively to

what it ought to have been and would have

been under specie payments. Prices, if not be-

low old specie figures, were relatively inflated.

I abstain from pursuing this suggestion, but re-

gard it as the key to a correct solution of the con-

tradictions in which many of the best authorities

on this subject have been involved.

The second question which the committee

had to consider, was: Why are the exchanges

18 or 20 per cent against England?

The importance of this inquiry for us may not

be at once apparent We have very wisely

separated the quotations of exchange from those

of gold. We quote exchange in gold, and thus

the fluctuations of the two are kept separate and

presented independently. But when there was

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no quotation of gold, evidently the exchange

rates were the indicator on which the variations

between paper and bullion were marked.

But this is not all. The witnesses, almost

without exception (and the exceptions were not

clear and precise in their opinions), maintained

that the adverse exchange was due to an adverse

balance of trade or of payments. The question

involved was, therefore, this : Is an adverse bal-

ance of trade the explanation of an outflow of

gold ? — or : Is a favorable balance of trade the

force to which we must look to bring an influx of

gold? There is no question in finance which

now demands our study so imperatively as this

one. The false notions of the balance of trade

infest almost every discussion of our present cir-

cumstances which one reads or hears. It is as«

sumed that the movement of the precious metals

from country to country is caused by the bal«

ance of trade one way or the other, and, as the

movement of the metals is a phenomenon of the

first importance in any question of resumption^

the reasoning which starts with this doctrine is

all fallacious. The balance of trade was exploded

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by Quesnay and his followers a century ago, and

was gibbeted in the Bullion Report, but it stalks

the money market and the national treasury

to-day, an uneasy ghost, which it seems im-

possible to lay.

It is a vexatious task, and one which always

makes a scientific man feel ridiculous, to set vig-

orously to work to demolish an old error which

no well-informed man any longer holds, but, in

our present situation, and under our political sys-

tem, popular errors are of the utmost importance,

and no pains should be spared in patiently expos-

ing them. The fallacy here is in the word "bal-

ance." If it means equilibrium, it may be used

correctly to denote the equality of exports and

imports, but then it regulates itself, and no power

can control it\* If it means remainder, and sug-

gests analogies of book-keeping, it is a mere

myth to which no fact corresponds, and is to be

entirely rejected. This question will be noticed

further when we come to speak of the debate

on the report.

The third question which the committee had

to consider was offered by the conduct of the

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Bank. It is to be noticed that the English

inconvertible paper was a bank issue of no fixed

amount, while our present paper money was

issued to an arbitrary limit at which it was estab-

lished. The question, therefore, was : How

shall the Bank know when it has given the

country just the amount which it requires, and

when it passes the limit so that its issues become

excessive? Under a convertible system they

found out, of course, by a demand on them for

gold for exportation (clandestine or open, as the

case might be). They could not, generally speak-

ing, press notes on the public beyond the require-

ment, though with a usury law and a law

against export this would be possible to some

extent

They therefore went on during the specie

times, to discount all good bills, at short date,

for real transactions, at five per cent, and

never troubled themselves about gold or the

exchanges. They pursued the same course un-

der the Restriction, and the question before the

committee was : Whether these conditions were

sufficient, in the absence of convertibility, to

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guard against inflation, or whether the Bank

might inflate while observing this rule ?

This question has the highest importance for

us, if we are to have " free banking " on paper.

The report of this committee is perhaps the

most important document in financial literature.

Its doctrines have been tested both ways, by dis-

belief and by belief, by experiment of their oppo-

sites and by experiment of themselves. They

are no longer disputable. They are not matter

of opinion or theory, but of demonstration.

They are ratified and established as the basis of

finance. They may be denied, as the roundness

of the earth was denied even five years ago, and

as Newton's theory of the solar system was de-

nied until within twenty-five years, but they have

passed the stage where the scientific financier is

bound to discuss them.\*

\* On account of the interest attaching to this document and its historical

and scientific importance, it is given in full in the Appendix. In the notM

on the report the subordmate points in which it is regarded as erroneoi

€r questionable are noticed.

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SUMMARY.

The doctrines of this report may be summed

up thus :

1. The value of an inconvertible currency de-

pends on its amount relatively to the needs of the

country for circulating medium (only to a very sub-

ordinate degree on the security on which it is

based or the credit of the issuer).

2. If gold is at a premium in paper the paper is

redundant and depreciated. The premium meas-

ures the depreciation.

3. The limit of possible fluctuations in the ex-

changes is the expense of transmitting bullion

from the one country to the other. If it costs

2 per cent to transmit bullion, the fluctuations of

the exchange due to the ratio of imports and ex-

ports never can exceed two per cent, above or be-

low par. Par of exchange is the par of the

metals, weight for weight, in the two coinages.

- 4. If there is a drain of the precious metals, it

is due, aside from exportations to purchase food

or pay armies, etc., to the presence of an inferior

currency of some sort in the country it leaves.

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5. If the inferior currency be removed, the ex-

changes will be turned, the outflow will stop, and,

if any vacuum is created, gold will flow in to sup-

ply it

Gold will not flow in while the inferior currency

.fills the channels of circulation.

6. In the presence of a panic the duty of the

Bank is to discount freely for all solvent parties.

The still more fundamental laws involved are

these :

1. The amount of gold in the world will suffice

to perform the exchanges of the world. If there

be more or less, it will only affect the average

level of prices the world over.

2. Every nation will have that portion of the

stock of gold in the world which is proportioned

to its trade. Each nation will have just as much

as it needs.

3. A better and a worse currency cannot circu-

late together. The worse will drive out the

better.

The committee also incidentally condemn the

usury law and the law forbidding the exportation

of the precious metals.

RESTRICTIOlSr. 25 1

The discussion of these doctrines in the House

and by the public will be noticed below. The

reader will have a more correct impression of the

attitude in which the doctrines of the report came

up for discussion; if we present the events in

their chronological order.

THE CRISIS OF 1810.

The Report of the Bullion Committee was or-

dered printed in June, 18 10, and was before the

public in August of the same year. Meantime,

in July, 1 8 10, the bubble burst. The accounts of

the Bank were not published at this time and the

amount of the discounts was not known. A mo-

tion of Mr. Huskisson on April 5th, 181 1, to call

on the Bank for such a return, was negatived.

The Bullion Committee had called for a statement

of discounts, and had received a paper under

promise of secrecy. It leaked out in some way,

and a set of figures were circulated, but their cor-

rectness seems always to have been in doubt.

Macleod stated that the discounts in 1795 were

;^2,946,50o; in 1809, ;^i5»4757oo; and in 1810^

;^20,o7o,6oo.

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A report was made in 1832 of the state

of the Bank from 1778 to 183 1. It is given

in Tooke's " Prices/' vol. II. There is a similar

table (Feb. reports) in McCulIoch's Adam Smith,

p. 508, and Diet, of Commerce, art " Banks."

The two are combined in the diagram opposite p.

310, which presents the movements of the note

circulation and bullion for each six months during

the period 1790 to 1830.

Mr. Baring, in his evidence before the Bullion

Committee, and Mr. Huskisson in his speech on

the motion above referred to^ bear ample testi-

mony to the repetition of the old phenonemon of

speculation under inflated paper issues. The en-

terprises undertaken were indeed of the most ex-

travagant kind. For instance, speculations in

South America took ludicrous shapes, being in no

way adapted to the circumstances of that country.

A company was formed to send out Scotch milk-

maids to make butter in Buenos Ayres. But

when the milkmaids saw the beasts they had to

deal with they shrank from the encounter. A

corps of laborers was required to secure the ani-

mals at milking time, and when the butter was

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made it was found that the people preferred

oil

The question of prices during this period leads

to difficult and controverted questions which lie

beyond the limits set for the present undertaking.

The standard work on the subject is Tooke's

" Prices," in which a certain view is very ably

defended. Mr. Tooke combated the popular

notion, which seeks the explanation of all price

fluctuations in the fluctuations of the amount of

currency. It is permitted to doubt, however,

especially in view of American experience,

whether he made sufficient allowance for ^he

radical differences between a convertible and

an inconvertible currency, when he discussed

the period of the Restriction on the same princi-

ples which he applied with so much justice to the

convertible system. The popular metaphor of

\*' floating," although it is not well analyzed, is

very apt On a system of even nominal con-

vertibility the motives of speculation and of price

fluctuations lie outside of the currency in indus-

trial and commercial circumstances. Speculation

in the widest and best sense controls the amount

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of the currency. On an inconvertible system

the amount of the currency controls speculation.

If it is not redundant its effect is slight ; if it is

very excessive, it "floats" everything, and be-

comes the controlling consideration. No one

believes that an inconvertible currency suspends

the operation of any of the economic laws which

govern prices, but, if it is redundant, it decides

whether the fluctuations in price of a unit of

a given commodity shall be above and below $r

or above and below $2. Every contraction or

expansion alters this general level.

It is certainly erroneous to believe that redun-

dant inconvertible paper increases all prices

equally. It is one of its hardships that it in-

creases prices of merchandise more than wages ; of

luxuries and comforts more than of staple articles ;

that is, it lessens the command of laborer, artisan,

and farmer over comforts. The articles taken into

account by Tooke are all staple articles, and he

shows that these had not increased in price up to

1 8 1 o. As a test of his argument, which cannot be

regarded as conclusive, since it only shows in

general that there were ordinary economic

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causes to account for the direction up or down of

every fluctuation of each article, but never meas-

ures the exact force of such causes, I have com-

bined the prices given by him in his tables at

periods corresponding to those for which the

state of the currency is given in the diagram,

(opposite p. 310) and inserted a line of prices.

This balances off incidental causes, and ought to

show whether the average of prices underwent any

influence from the amount of the currency or not.

There is no accord with the amount of the Bank

of England circulation, but there is an unknown

factor of country-bank circulation of which we

have no estimate, save for the years 18 10-18 18.

(See p. 284) The uppermost line in the diagram

represents the total circulation during these

years. The parallelism of the price line with it

is evident. Also the general parallelism of the

price line with the '\* price of gold " line is appar-

ent, and, if the latter may be taken to indicate

the fluctuation of the total amount of paper, then

an influence • of the amount of paper on the

general average of prices seems undeniable. It

is to be remembered that the English paper was

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never recklessly inflated, and that, up to 18 10, it

was managed very conservatively ; secondly, that

the control of the anlount of currency over prices

is more immediate and complete the more redun-

dant it is (it seems that, up to 18 10, at least,

there had been no such inflation as to float

prices) ; and thirdly, that political and military

events were at this time exerting great and

sudden effects on prices. The fluctuation of five

hundred shillings on the price line in the first six

months of 1 8 1 7, was due to one article — oil. In

the next six months, hops advanced two hundred

shillings. The downfall in 181 8 was due to the

crisis.

The warehouse system had been introduced

during the last four or five years, and large

stocks of colonial produce were being carried

by means of the expanded discounts above indi-

cated. Manufactured goods found no market

save as they could be smuggled to the continent

The raw materials on which speculation had fas-

tened consequently fell in price. Commerce was

almost at a stand-still. The goods exported to

South America found no market, for the South

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Americans had nothing with which to buy, and

the foolish enterprises in that direction could, of

course, bring in nothing but shame and loss.

British goods in the Baltic towns were confiscated,

and the climax was reached when a period of

fine weather restored hopes of the harvest, and

ruined those who had been led by the bad

weather early in the season to speculate for high

prices in grain. " The crash began in July with

the failure of some great commercial houses. In

August a London bank stopped; and several

country banks were brought down by its fall.

Wild fluctuations in prices followed, and in No-

vember, the number of bankruptcies in England,

which had usually been under one hundred, had

risen to two hundred and seventy-three, ' besides

stoppages and compositions,' as the Commercial

Report declared, 'equal in number to half the

traders in the kingdom.' Manufacturers no

longer trusted the merchants nor employed the

operatives. In Manchester, ' houses were stop-

ping not only every day but every hour.'

" The commissions of bankruptcy for the year

now amounted to two thousand three hundred

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and fourteen, of which twenty-six were against

bankers. The hunger of the operative classes,

end the outcry against machinery as the main

cause, prepared the events of the succeeding- dark

years. \*

PUBLIC DISCUSSION OF THE BULLION

REPORT.

The Bullion Report falling in the midst of this

period attracted universal attention. It was

hotly discussed in all assemblages of merchants

and bankers, and called forth a swarm of pamph-

lets. It was evident that the witnesses before

the committee had fairly represented the opinions

which were almost universal in the business com-

munity, and they were all contrary to those of

the report It was insisted that the paper had not

depreciated; that paper was the best money;

that to use gold and silver was barbarous and

behind the age ; that " guineas were an incum-

brance" (although De Yonge was prosecuted

for selling this incumbrance for export — ^a point

^ Harriet Martineau's Hist, of Eng. L 294.

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vrhich Cobbett was fond of reiterating) ; that a

pound sterling was an " ideal unit ; " that a pound

sterling was the interest on £^2^ 6s. 8d., at three

per cent, which would be ;^i ; that paper money

supplied capital, made money plenty, and caused

prosperity; that the country had grown up to

the increased currency; that the war could not

be carried on without paper ; that the balance of

trade " of course " drew off the gold ; that it was

impossible to resume while the exchanges were

adverse; that Great Britain was in the debtor

relation, and could not resume while she was so.

In short, there is no possible fallacy now preached

in the United States about paper money which

was not then and there brought forward, with

the single exception of the ''elasticity" notion.\*

As their paper was not fixed in amount, that

notion had no place. It seems that there can be

no new fallacy to be discovered in regard to

paper money. The field is exhausted.

^ The reader who is curious to pnrsae this analogy is referred to Cob-

bett's Register, vols. 18 and 19. Cobbett's Paper vs. Gold goes over

the whole subject of paper money in detaiL The quotations from contem-

poraneous literature, the letters from persons who dissented from hb viewi^

and the allusions to current events, combine to form a picture of the timei

which is in striking analogy with all which we now see and experience.

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THE PARLIAMENTARY COMMITTEE ON THE

COMMERCIAL CRISIS.

On the 7th March, 181 1, a committee of the

House on Commercial Credit reported. They

attributed the crisis to overtrading, failure of

South American speculations, and also to the

warehousing system. A meeting of merchants

in London passed resolutions to the effect that the

crisis was mainly due to storing a large stock of

goods in bond which the warehousing system had

encouraged. The wealth and credit of England

thus seemed to them to have caused its calamity.

It was proposed in Parliament to issue six mil-

lions of Exchequer bills in loans to merchants and

manufacturers, to enable them to tide over the

crisis. Those who favored this plan adopted the

above explanation of the crisis, though nobody

explained how the colonial producers had forced

Englishmen to carry their stocks for them while

the continent was closed. The opponents urged

that the currency was really redundant and was

the favoring circumstance of the speculation, and

that the issue of Exchequer bills would cause

RESTRICTION. 261

further expansion and enhance the difficulty.

The bill was passed, but only two millions were

ever taken up.-

THE DEBATE IN THE HOUSE.

Mr. Horner opened the debate on his Re-

port on the 6th May, 181 1, in a very able

speech, giving an elucidation of the principles of

the report. He had entered upon the investiga-

tion with no prejudices and no special knowledge

of the subject, but he brought to bear upon it the

resources of a well-trained mind, and a single de-

termination to accept such results as might ap-

pear upon a full and careful investigation.

The propositions he advocated had, therefore,

the character of scientific results, and the man

who could so undertake an important inquiry in

the face of popular clamor and prejudice, gave

promise of the highest statesmanship. " He

died," in 18 17, " at the age of thirty-eight, pos-

sessed of greater public influence than any

other private m.in."

I know of no more instructive documents for

the student of finance than the debates of 181 1

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and 1819. They do not cover the more abstruse

questions in regard to the regulation of a con-

vertible currency, questions which yet require

attentive study and a definite solution, but they

avail to establish those fundamental propositions

in regard to the meaning and function of money,

which, if a man once thoroughly grasps them,

guarantee him against the most flagrant fallacies

which obscure the subject of currency, and en-

able him to perceive these fallacies whenever

they recur in the thousand and one " schemes"

which are now daily set afloat

Of the three questions involved in the report,

as stated above : Is the paper depreciated ? Why

are the exchanges adverse? How ought the

bank to regulate its issues ? — the first and third

have no great importance for us. No one denies

that our paper is depreciated, unless it be those

who think that we have "grown up" to the cur-

rency, though that notion seems to have gone out

of fashion again. The question of regulating an

inconvertible bank paper is not our question, be-

cause our paper is fixed in amount But the

second question of the Bullion Committee has

RESTRICTION. 263

great importance. It is the one in regard to

which doctrines opposed to thos6 of the Bullion

Report are most frequently affirmed and most

profoimdly believed amongst us, and there is no

hope of any exit from our circumstances until we

get to understand the laws which govern the dis-

tribution of the precious metals and those laws of

currency which are connected therewith. It will

be remembered, as stated above, that the ques-

tion about the exchanges is really this question :

If the exchanges are adverse to such a degree as

to produce a serious and prolonged outflow of the

precious metals, where must we look for the

cause ? Is it due to the balance of payments or

to some deterioration of the currency ? Or, to put

the same question in another form : If we desire

to produce an influx of gold, to what force must

we look to cause it ? Must we look to the " bal-

ance of trade," or can we do anything in the mat-

ter save sit still and wait for the balance of trade

to turn ? Can we bring it about by correcting

some error in the currency ?

The answer to these questions giren in the

report and by those who supported it is, that the

264 ^^^ ENGLISH BANK

balance of imports and exports never can move

the exchanges either above or below par more

than just enough to start a movement of bullion.

On a specie system, any outflow of bullion would

bring down prices and immediately make a remit-

tance of goods more profitable than one of bul-

lion, and, if the exportation of bullion was arti-

ficially continued (as, for instance, to pay the ex-

penses of a foreign war), it would' reduce prices

until a counter-current would set in and restore the

former relative distribution all the world over. If

all nations used specie, or even paper and specie,

in only due proportion, it would be as impossible

for one nation to be drained of specie as for New

York harbor to be drained of water by the tide,

and, on the same supposition, it would be as

absurd for the Secretary of the Treasury or a

committee of Congress to regulate the currency

as for the same powers to see to it that New

York harbor gets its fair share of water on

every tide. If a country produces gold, its sur

plus product goes out as a commodity, without an

unfavorable exchange, and does not here come

into account. If therefore, there is an outflow ol

RESTRICTION.

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gold, serious and long-continued, accompanied by

an unfavorable exchange, it is a sign that there

is an inferior currency behind the gold, which is

displacing it. The surplus of imports of goods

above the exports of goods is nothing but the

return payment for this export of gold, and is

not a cause, but a consequence. If, finally, we

want to turn this tide and produce an influx,

therfe is only one way to do it, and that is sim

ply to remove the inferior currency. As for

waiting for the balance of trade to turn and

bring gold into a country which has a depreciated

paper currency, one might as well take His stand

at the foot of a hill and wait for it to change

into a declivity before climbing it.

The authorities of the Bank strenuously denied

that their issues, so long as they were made at 5

per cent, on bills representing real transactions,

at three months' date, could become excessive,

or that the bank issues could affect the ex-

changes. The committee and their supporters

held that this rule would not be a guarantee

against inflation, but that, if the exchanges were

adverse and bullion was being exported, it was

13

266 THE

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Mr. Horner offer

the most importai

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1. That the lega

silver only.

2. That a shilt

silver, I'WV fine.

RESTRICTION. 267

3. That a 'guinea" is A of a troy pound of

gold, U fine.

4. That Bank of England notes promise to pay

pounds sterling, a pound being if of a guinea

as above.

5. That Bank of England notes are depreci-

ated — ^are not worth what they stipulate to pay.

6. That the reason of this is an excessive is-

sue.

7. That the exchanges have been greatly de-

pressed (or, as we should say, very high\*), for

a long time, partly owing to heavy payments

abroad, but chiefly to the depreciation of the

notes.

8. That the Bank ought to regulate its issues

by the price of bullion and the exchanges.

9. That the remedy is to return to converti-

bility.

10. That .the law extending the Restriction be

amended so as to resume in two years.

\* The English quote exchanges by the amount of the foreign currency

which £1 will pay. This is not without exception, any more than our own

custom of quoting dollars and cents required to pay a unit of the foreign

currency, but it is the prevailing usage. High and low are therefore used in

an inverted application in the two countries. Low exchange in this usagv

tends to an exportation of bullion.

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Mr. Rose criticised the report paragraph by

paragraph, showing that it was contradictory to

the evidence offered to the committee. This was

perfectly true; the committee took the facts of

their witnesses, but interpreted them in the sense

diametrically opposed.

Mr. Thornton (member of the committee)

cited the experience of the Bank of Paris. In

1 80s it advanced indirectly on government antic-

ipations. '\* The consequence of this transaction

was an augmentation of the paper of the Bank of

Paris. A drain of their cash followed ; the dili-

gences were found to be carrying off silver into

the departments, which the bank, with a view to

its own safety, had continually to bring back, with

much expense and trouble. The circulating med-

ium of the metropolis had now become evi-

dently excessive. Greater facilities were af-

forded for borrowing in that quarter than in

other places, and the country wished to partake

in those opportunities of extending purchases

which the metropolis enjoyed. But the paper of

the bank would not circulate in the departments.

It was therefore necessary first to exchange it for

RESTRICTION. 269

coin, and the coin being then carried away from

Paris, the plenty of circulating medium would

equalize itself through the French territory. . . .

There arose a premium on silver at Paris, and an

unfavorable exchange between Paris and the de-

partments of France, and this was proportionate

to the expense and trouble of bringing back the

silver from the departments. . . . The Bank of

Paris at length stopped payment. The government

was consulted. The bank was directed to reduce

its paper, and in the course of three months, hav-

ing pursued this principle, it opened without

difficulty. The discount on its paper, or, in other

words, the premium on coin, had varied from i to

10 or 12 per cent., but after the reduction of paper

it ceased. The exchanges of France with foreign

countries had also turned about 10 per cent

against that country."

Mr. Vansittart opposed the resolutions. He

argued that the committee ought to have recom

mended the repeal of the restriction on the ex-

portation of the metals, in order to carry out

their own principles. This was true ; but he argued

that it was illegal to export, therefore the com-

270 TH^ ENGLISH BANK

mittee were in the position of recommending by

implication what was illegal He denied that

there was any '\* standard " in England, or ever

had been, consisting of any weight of metal of a

certain fineness, but asserted that it was the pre-

rogative of the Crown to regulate the value of

money. The proof of this was that silver was

legal tender by tale up to £2^^ but everybody

knew that the current shillings were worn below

weight ; therefore, because a man- might put off

smooth shillings on his creditor for a debt under

;^25, there was no standard of what a shilling

ought to be in England. Also the law allowed

guineas to be legal tender until worn i grain and

a fraction below weight, therefore there was no

fixed weight from and below which this grain and

a fraction was to be reckoned.

He also made a great point of demanding to

know whether ''depreciation" meant depreciation

relatively to bullion or to commodities, or refer-

red to the credit of the issuer. No one took the

trouble to reply that it made no difference with

the fact.

He became the hero of the occasion by propos\*

RESTRICTION. 271

ing counter-resolutions, that the pound sterling has

no relation to any weight of metal of a given fine\*

nesSj and that bank-notes " have hitherto been^ and

are at this timey held in public estimation to be

equivalent to the legal coin of the realm^^ and gen\*

erally accepted as such^ in all pecuniary transact

tions to which such coin is lawfully applicable.\*\*

Guineas were at the time at 15 or 20 per cent

premium, and members of both houses testified in

the debate that, although specie had disappeared,

and all prices were set in paper, yet there were

two prices everywhere, when metal was offered.

This gentleman afterwards became Chancellor

of the Exchequer and champion of the Sinking

Fund, which was kept up by borrowing at a

higher rate than it yielded. He ended life as

Lord Bexley.

Mr. Huskisson (one of the committee) pointed

to the fact that Spanish dollars^ which had been

imported for use as " change," and which were

worth 4s. 6d. in English coinage, had been rated

at 5s., and then, as the depreciation went on, that

it had been necessary to rate them at 5s. 6d. to

keep them in circulation. He asked whether

272 ^^^ ENGLISH BANK

the believers in " abstract currency " ever heard of

an abstract payment or an abstract dinner. Ad-

verting to the notion that J[^\ was 3 per cent of

;^33 6s. 8d., he asked, pertinently enough,

whether this would not fit any conceivable depre-

ciation. The conception of ;^i was necessary to

define £12^ 6s. 8d., which again was necessary to

the definition of ;^i.

Mr. Morris stated a case which occurred in

1 80 1, in which a creditor had refused tender of

notes, and the court unanimously sustained him

in his position that gold only was legal tender.

Mr. Parnell (one of the committee) took more

clear and decided ground in some respects than

any one else. All parties generally agreed in

sparing the Bank. He refused to join them.

" If, instead of one bank having been estab-

lished with so immense a capital, and such great

exclusive powers, the trade of banking had been

left free, and several banks had been allowed to

grow up with the improving wealth of the coun-

try, the public would have derived equal accomo-

dation, without any of the risk or any of the evils

to which it has been exposed by the enormous

RESTRICTION. 2 73

power that has been given to this one establish-

ment" He declared that the paper was in an

unsound state before 1797. He stated the fun-

damental doctrine that " a countr/ will always

have as much coin as it wants, provided no

impolitic act of legislation interferes to force it

out of circulation." He attacked the small notes,

declaring that the notes under ;^5 displaced coin

equal to their amount.

Mr. Manning, who spoke for the Bank, de

clared himself \*' one of those old-fashioned, prac-

tical men who thought the balance of payments

an article of great importance in the regulation o!

the exchanges." Showing that the foreign remit-

tances had been ;^26,ooo,ooo the last year, he

argued that the price of gold must have advanced.

Mr. A. Baring, who had been on the commit-

tee, and enjoyed high authority, gave more

weight to the balance of payments than the com-

mittee, but joined them to a certain extent in

attributing the unfavorable exchange to the paper.

He thought the true cause for anxiety was the

debt and not the paper issue.

«

Mr. Sharp (of the committee) showed that

18\*

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at Hamburg and Amsterdam, where there was

no suspension, but where military oppression was

at its harshest, the exchanges were favorable,

and that at Paris, the only other place on the

continent where inconvertible paper had not been

issued, but where war expenditures were highest,

exchanges were favorable and there was no

drain of the metals.

The Chancellor of the Exchequer, Mr. Perce-

val, did not enter very deeply into the question.

His point Wi\*s, that no excess of circulation had

been proved. He said that gold was not the

standard, nor silver, but gold a7id silver bound

down by law to a certain relation to each other.

Unfortunately for this notion, no law can possibly

bind them together.

Mr. Canning made by far the most eloquent

speech on the subject. He advocated the resolu-

tions of Mr. Horner, but thought it inexpedient to

resume at that time. He wanted the resolutions

passed, except the one for resuming in two years,

in order to place the House on the record for

sound financial ideas. Referring to the Chancel-

lor's assertion that the excess had not been

RESTRICTION. 275

proved^ he said that it was impossible to prove

any such thing. No relation exists between the

aggregate transactions and the requirements for

currency, nor, if there did, would it be possible to

ascertain the aggregate transactions. The rise

in prices is a symptom, but only a symptom.

There is no excess unless there is depreciation,

and if there is depreciation there is excess. The

only pertinent question is, therefore, whether there

is depreciation.

" The noble lord (Castlereagh) has indeed

devised a singular definition of this measure

[of value]. He defines it to be a ' sense of

value in reference to currency as compared

with commodities.' . . . ' A sense of value ! '

but whose sense ? With whom is it to originate ?

and how is it to be communicated to others ?

Who is to promulgate, who is to acknowledge,

or who is to enforce it ? How is it to be de-

fined ? and how is it to be regulated ? What

ingenuity shall calculate, or what authority con-

trol its fluctuations ? Is the sense of to-day the

same as that of yesterday, and will it be un-

changed to-morrow ? It does fill me with aston-

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ishment that any man of an accurate and reason-

ing mind should not perceive that this wild

and dangerous principle (if principle it may be

called) would throw loose all the transactions of

private life, all contracts and pecuniary bar-

gains, by leaving them to be measured from day

to day, and from hour to hour, by no other rule

than that of the fancies and interests of each in-

dividual, conflicting with the fancies and interests

of his neighbor."

" No dream, it must be owned, could be more

extravagant than the visions of those practi-

cal men who have undertaken to refine away

the standard of the currency of the realm into a

pure abstraction. There is indeed something

perfectly ludicrous in the inconsistency and injus-

tice with which they impute a love of abstraction

to their opponents, while they are themselves

indulging in the most wanton departures from

substance and reality. ' Beware of abstractions,\*

say they to the Bullion Committee when they

find fact and law laid down as the foundation of

its report. ' Beware of abstractions,' say they,

to the honorable and learned chairman of the

RESTRICTION. 277

committee, when they find in his first seven

resolutions nothing like theory or imagination,

but a clear, concise, — a dry and faithfiil recap-

itulation of those rules which the statutes of the

country have established for the weight and fine-

ness of its coin. . . . And this admonition

comes from whom? — from the inventors and

champions of ' abstract currency ' — from those

who, after exhausting in vain every attempt to

find an earthly substitute for the legal and ancient

standard of our money, have divested the pound

sterling of all the properties of matter, and pur-

sued it, under the name of the ' ideal unit,' into

the regions of nonentity and nonsense ! "

" In addition to the motives of policy, there

are, as I have heard this night, not without as-

tonishment and dismay, considerations of justice

which preclude any systematic reduction of the

amount of our paper currency. Such a reduc-

tion, it is argued, would change the value of ex-

isting contracts and throw into confusion every

species of pecuniary transactions, from the rent

of the great landed proprietor down to the

wages of the peasant and the artisan. Good

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God ! what is this but to say that the system erf

irredeemable paper currency must continue for-

ever ! What is it but to say that the debts in-

curred, and the contracts entered into, under the

old established legal standard of the currency,

including the debts and contracts of the state

itself, are now to be lopped and squared to a

new measure, set up originally as a temporary

expedient ? "

Referring to Mr. Vansittart's resolution about

paper and gold being equal, he said :

" Speaking impartially, I must say that if I had

seen this proposition anywhere but where it is,

fairly printed and numbered in the right honora-

ble gentleman's series, I should have thought it

an invention of his antagonists, calculated to place

the fallacy of his doctrine in the most glaring and

ridiculous point of view, but carrying the license

of exaggeration beyond pardonable limits, and

defeating its purpose by the grossness of the

caricature."

\*\* Suppose, for instance, ten millions sufficient

to carry on all the transactions of the country :

fabricate fifteen millions of paper instead of ten,

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the whole fifteen will circulate. The only conse-

quence will be that the commodities for which it

is exchanged will rise fifty per cent, in their nom-

inal price. Make those fifteen millions twenty —

the addition will, in like manner, be absorbed

into the enhanced prices of commodities. Ex-

cess of currency cannot be proved to the convic-

tion of those who will not admit depreciation to

be the proof of it."

Mr. Horner's resolutions were defeated by a

vote, on the first, of 151 to 75, and the one for

resumption in two years by 180 to 45.

Mr. Vansittart's counter-resolutions were passed

on the fifteenth of May, the one declaring gold

and paper equal by 151 to 75 ; and so the House

put upon its records that a guinea was equal to a

one-pound note and a shilling, when ;^ioo paper

would buy only. £%6 in gold.

In this debate the " theorists" and the " prac-

tical" men found themselves in sharp contrast.

The Bullion Committee took the evidence ol

their witnesses as to fact but gave their own ex-

planation of the facts. They carried the best

thinkers in the House with them, but found the

. 28o "^ii^ ENGLISH BANK

practical bankers and city men, and the great

mass who did not understand the matter, and

who had an invincible dislike to admitting that

bank-notes were depreciated, against them. In

this case, as always, theory and practice are in-

separable. The city men had a theory of their

facts. It was really one theory against another;

the one drawn from a narrow routine : the other

a philosophical and scientific generalization from

a broad range of facts. The theorists were

beaten, and the nation went on for eight years'

further experiment of the paper. We have now

to pursue the verdict of history and experience

as between the two parties.

RESTRICTION. 2 8 1

nary course of manufacture, particularly of the

hardware manuiacturei was broken up. The

factor \* stepped in between the employer and

the operative, and made his market of the neces-

sities of both, leaving them discontented with each

other. The employer sold off his stock at a loss,

and the workmen made inferior wares by means

of advances from the factor for materials."!

Nature seemed to make common cause with

war and bad finance. The winter of 1812 was

extraordinarily severe, and the accidents by flood

and fire were numerous. Crimes began to mul-

tiply in that accord between physical distress and

moral decay so often noticed. Wages were

down at starvation point. Spinners had 7s. 6d.

per week in a time of high prices for the neces-

saries of life. The recent introduction of ma-

chinery and the extension of the factory system

would have caused an inevitable period of pres-

sure on hand-workers. Now these causes fell in

with others to enhance the distress. The arti-

sans, in striking analogy with our own farmers

\* The appearance of the " mtddle>man " otight to be notioecL

t Martmean's Hi8(i>xy of England, L 329.

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at the present time, sought their foe in tbc

nearest and most palpable shape in which the

bad circumstances of the time pressed upon

them. They attacked the machines, burned the

factories, and united in riotous disturbances.

The corn laws were in full force, and prevented

the relief which might have come from other

countries in time of scarcity, while manufacturers

were entangled in a mesh of restrictions of every

description, more ruinous even than Napoleon's

Decrees or the Orders in Council. "The war

and famine price [of grain] of 1 8 1 2 was reached

again in the latter part of 18 16, 181 7, and 18 18.

The golden days of the deity that is found in

no mythology — the anti-Ceres — were returned

But the people were starving. Misery and in-

surrection filled the land." The harvest of 181 5

was abundant, and to prevent importations, all

such were prohibited when wheat was under

80s. In 18 16, in spite of this law, the agricul-

turists were once more \*' in distress." The

years when thej\* were not so, down to the repeal

of the corn laws in 1846, were the few years

when nature refused her bountiful returns.

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In 1 8 14 peace was restored, and it was be-

lieved that commerce must at once revive. An-

ticipating this, enormous exportations were made

to the continent and to the United States.

" The shippers found to their cost, when it was

too late, that the effective demand on the conti

nent for colonial produce and British manufac-

tures had been greatly overrated, for, whatever

might be the desire of the foreign consumers to

possess articles so long out of their reach, they

were limited in their means of purchase, and

accordingly the bulk of the commodities ex»

«

ported brought very inadequate returns."

They found that it is impossible to '\* inundate '\*

a country with foreign commodities, or to " drain

off its bullion " by foreign trade, if it does not

want to be drained. As for a true exchange of

goods, the laws hampered it by all sorts of re-

strictions and prohibitions.

Thus, in 18 16, after the long endurance of the

war, and the dragging misery of 181 2, '13, and '14,

broken only by fitful gleams of prosperity, this

\*' overtrading " prostrated commerce and manu\*

factures together, and agriculture was no better off.

I

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THE E.VGLISH BANK

Turning now to the currency to observe its

movements contemporaneously with these expan«

sions of speculation, we find a great difficulty in

the impossibility of estimating the country bank

circulation. The best information we have is

given in the report of the Lords' Committee of

1 8 19. They gave two estimates as follows. The

rate of gold per oz. is added from McCuUoch's

Adam Smith.

(Fiye figures omitted.)

Ttftntr tJf

Country

Country

England.

Banks.

xst Est.

Total.

Banks.

2d Est.

TotaL

GoU

per canoe.

£>

%.

d.

I8I0

22.5

21.3

43-9

21.8

44.3

4

10

I8II

23.2

20.9

44.2

21-5

44.8

4

4

6

I8I2

23.2

20.0

43-2

19.9

43-1

4

15

6

I8I3

24.0

22.3

46.3

22.5

46.6

5 '

I

I8I4

26.9

21.6

48.5

22.7

48.6

5

4

I8I5

26.8

20.3

47.2

19.0

45-8

4

13

6

I8I6

26.5

155

42.0

150

41.6

4

13

6

I8I7

28.2

158

44.1

15.8

44.1

4

I8I8

27.2

20.0

47.2

20.5

47.7

4

The steady expansion until 181 6 is at once ap-

parent, and its effect on prices is distinctly shown

by the gold premium, which advances with the

expansion of the paper. In 18 16, when the re-

vulsion came, the country banks failed in great

numbers. The contraction of their issues was so

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great that, though the Bank of England tncreasea

its issues in 18 17, the gold premium fell, and

the paper was within a few pence of par. Re-

sumption at this time would scarcely have cost a

struggle. However, no effort of this kind was

made. On the contrary, no sooner was the im-

mediate crisis over, than a new expansion com-

menced. (See the diagram at the end of this

chapter.)

The harvest failing in 1 8 1 7, the price of wheat

rose above 80s., and the ports were opened ;

speculation in grain was active during that

year. 1818 presented the same phenomena, but

now were added speculations in silk, wool, cotton,

and other raw materials. Imports were double

or treble what they had been in 1 8 1 6.

In 181 7, the Bank voluntarily undertook to

redeem its notes dated before Jan. ist, 181 7, but,

adhering to the doctrine that the issues could not

aHect the exchanges, it continued to expand the

circulation, while paying out gold. The laws

against exportation having fallen into neglect, a

run upon the Bank began, and a rapid exporta-

tion to France took place. The government

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ordered the Bank to cease paying\* specie. Ac-

cording to the doctrines of the Bullion Report, to

expand the circulation with gold at a premium

and the exchangees adverse, and then pay on de-

mand, was as certain to produce exportation as

it would be, if a tub full of water should be lifted

on one side, that the water would run out. The

fact seemed to fall in with this doctrine.

Another incident which co-operated in the finan\*

cial situation of 1818 was the reduction of interest

on the Exchequer bills. This, coming just at a

time when several foreign nations were anxious

to negotiate loans, led to a great exportation ot

coin for investment in such loans, the rate ol

interest offered being higher than the new rate

for Exchequer bills. On a specie basis, and with

no usury law, such a movement could have no

perils ; but in the existing circumstances, the Bank

was led to make more advances on government

securities and augment the inflation. It paid off

by contract with government those who refused

to hold the securities at the lower rate.

The most powerful cause, however, which was

at work, and the one of which the last-mentioned

RESTRICTION. 287

was only a secondary form, was the reduction oh

paper issues on the continenL The loans were

contracted to accomplish this. If it had not been

that these issues had produced abnormal relations

throughout Europe and America, which, as soon

as they were rectified and the normal state of

things restored, must produce a redistribution ot

the metals, the loans would have had no impor-

tance. The force of this cause it is impossible to

estimate, but it lay at the bottom of the fluctua-

tions of bullion at the Bank during the years 181 6

•o 1819.

The crash came in the fall of 18 18, and numer-

ous failures occurred during the winter. By

February the Bank of England circulation had

fallen to 25.1 millions. The subject of cash pay-

ments was now once more forced on public atten-

tion.

THE COMMITTEES OF \Zi<).

Both Houses of Parliament appointed commit-

tees on the Resumption. Each committee ren-

dered two reports consecutively. These reports

were not in themselves very able documents, but it

N

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appeared from the reports, and from the evidence

of the persons examined, that the public convic-

tion in regard to the questions discussed in 181 1

had entirely changed. It was now admitted by all

but very few that the currency was depreciated,

and that the adverse exchanges and outflow of

gold were consequences of the presence of de-

preciated paper, and must last so long as the

paper remained — consequently, that, to resume

specie payments, the whole problem was to get

rid of the paper. These doctrines were disputed

by no one save, strangely enough, the directors

of the Bank of England. They passed a reso-

lution that they could see no good ground for

the opinion that the Bank had "only to reduce

its issues to obtain a favorable turn in the ex-

changes, and a consequent influx of the precious

metals.\*'

There was, however, a strong party of city

men who opposed resumption, and petitioned

against it on account of the ruin which contrac-

tion would bring upon the country. The Bank

of England also offered a " Representation "

opposed to any legislation fixing a time for re-

RESTRICTION. 289

sumption. The difficulties involved in contraction

no one denied.

It was agreed on all sides that the movement

must be gradual and careful, if made at all. Thus

the question was narrowed down to this: Is it

expedient, in view of the effects of the suspen-

sion which we have experienced, and in view of

the benefits of a sound currency, to set to work

manfully to endure the distress for the sake of

the good ? On that issue the city men took the

negative, the statesmen the affirmative.

The plan proposed for resumption, was founded

on Ricardo's theory of curr,ency, more familiarly

known as the Hamburg currency.

On this plan, metal may be deposited in the

Bank, being weighed and assayed, and its value

in a set denomination is put to the credit of the

depositor. No coin is used, but generally busi-

ness is done by transfers on the Bank's books of

credits thus made. When payments out of Bank

are demanded, they are made in ingots, weighed,

assayed, and stamped. It was proposed that

the Bank should redeem its notes in ingots of

sixty ounces weight after February ist, 1820,

18

ago THE ENGLISH BANK

and until the ist of October, 1820, at £,^ is. per

ounce; from October ist, 1820, to May ist,

182 1, at ;^3 19s. 6d. ; from May ist, 1821, to

May ist, 1823, at £,^ 17s. lo^d. ; and after May

ist, 1823, in coin on demand. This was amended

so that it should pay in ingots at ;^3 1 7s. lojd.

after May ist, 1822, instead of May ist, 1821.

THE DEBATE OF 1819.

Mr. Peel opened the debate. He said : " He

was ready to avow, without shame or remorse,

that he went into the committee with a very

different opinion from that which he at present

entertained, for his views of the subject were

most materially different when he voted against

the resolutions brought forward tn 181 1, by Mr.

Horner, as the chairman of the Bullion Commit-

tee. Having gone into the inquiry determined

to dismiss all former impressions which he might

have received, ... he had resolved ... to adopt

every inference which authentic information or

mature reflection should offer to his mind. . . .

He conceived them [the principles of the Bullion

RESTRICTION. 291

Report], to represent the true nature and laws of

our monetary system."

" All the witnesses examined before the com-

mittee strongly recommended the establishment

of this [metal] standard, one witness alone ex-

cepted, who was an advocate for the indefinite

suspension of cash payments. But when this

witness was asked whether the indefinite suspen-

sion of cash payments was to exist without any

standard of value, he answered : \* No — the pound

should be the standard.' He was required to

define what he meant by the pound. His answer

was, \* I find it difficult to explain it, but every

gentleman in England knows it.' The commit-

tee repeated the question and Mr. Smith an-

swered, \* It is something which has existed in

this country for eight hundred years — three hun-

dred years before the introduction of gold.' "

" Sir Isaac Newton . . . entered on the ex-

amination of this subject, but that great man came

back to the old, the vulgar doctrine, as it was

called by some, that the true standard of value

consisted in a definite quantity of gold buUioa

Every sound writer on the subject came to the

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same conclusion — ^that a certain weight of gold

bullion, with an impression on if denoting it to be

of that certain weight and of a certain fineness,

constituted the only true, intelligible, and ade-

quate standard of value, and to that standard

the country must return, or the difficulties of our

situation would be aggravated as we proceeded."

" That the excess of commercial speculation

which led to such evils was the consequence ot

an over-issue of paper currency was a fact not to

be disputed."

" If the continuance [of this system] should be

sanctioned by the House, let it not be imagined

that they ought to measure its future evils by its

past."

Silver had been demonetized in 1816, and the

shillings since that time pass current at six per

cent above their value as metal. Gold is the

^ only legal tender for sums above £2. The

object of this law is to avoid the effect of fluctu-

ations in the value of the two metals as compared

with each other. The United States passed a

similar law in 1853. (See p. 187.)

It was believed by many that this law would

RESTRICTION. 293

prove fatal to resumption in gold, and that only

silver would circulate. The provision that silver

should be legal tender only for 40s. precluded

any such danger.

Mr. Tierney objected to the proposed scheme

for resumption. He wanted to have the Bank

thrown on its own responsibility to resume on

a set day, the government repaying, as was

proposed, ;^io,ooo,ooo of the advances of the

bank before the day of resumption. He was

a very able man, with a reputation for pugnacity.

For instance : " The House did not withdraw

its confidence from the Bank from any doubt

of its wealth or integrity, but from a conviction

of its total ignorance of the principles of political

economy."

Alderman Hey gate denied inflation and de-

preciation.

Sir H. Parnell said that any one who still

denied this would pay little heed to any further

elucidation. He said: ^' There was another

subject so connected with the question before

the House that he thought it peculiarly entitled

to the consideration of Parliament He meant

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the usury laws, for it was evident that if those

laws remained in their present state they must

operate very injuriously with regard to the sup-

ply of capital for the purposes of trade, by

diminishing the means of obtaining discounts/\*

Mr. Gurney (banker) opposed resumption.

He dreaded the effects of contraction, and

wanted the standard lowered so that i oz. of

gold should be £\ os. 6d.

Mr. Canning closed the debate, saying that

it was '\* the unanimous determination of Parlia-

ment that the country should return, as speedily

as possible, to the ancient standard of value

in the establishment of a metallic currency."

[Loud and universal cries of " Hear ! hear ! "]

In the House of Lords, the Marquis of Lans-

downe said : \*\* He hoped the country would

never again hear of the theories founded on

the abstract idea of a pound sterling as a unit,

or a bank-note and a shilling being in public

estimation equal to a guinea ; on the tendency

of gold\* to fly to other countries where it was

dearer, without producing any change of value,

and other absurdities of that kind. These

RESTRICTION. 295

theories, which had been so ruinous to the

country, deserved to be stigmatized as they

were by the bill before their lordships, every

enactment of which declared their falsehood.

By acting on them the country had been over-

whelmed by an oppressive mass of debt and

grinding system of taxation, all the evils of

which were augmented by the fluctuation of

values."

Lord Liverpool thought that the restriction

had enabled the country to go through the war.

Also, that the opposition to the plan pro-

posed really raised the question, not of resum-

ing sooner or later, but whether to resume at

all.

Lord Lauderdale thought that the demoneti-

zation of silver had done great mischief, turned

the exchanges, and driven out gold in 181 7;

that the paper was not really depreciated, but

at par with silver coinage ; that it was quackery

to say the Clearing House economized cur-

rency; and that the plan proposed, together

with the mint law, would bring ruin.

Lord King said that if no day was fixed^

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the Bank would not get ready, as it had\* not

since the Peace.

Lord Grenville said that, " having considered

this restriction as one of the greatest calam-

ities under which this suffering country had

labored ; having frequently had occasion to la-

ment and deplore the part which he had him-

self taken on its original proposition in pro-

longing it for the term of the then existing

war ... he could not help expressing his

joy and satisfaction that the country was at

last arrived at that period in which it could

look forward with certainty to the repeal of this

injudicious and unfortunate measure." He de-

clared that an irredeemable paper currency was,

under any circumstances, a greater evil than good ;

that " he hoped it would be recorded of him

as his decided conviction, that in proportion to

the danger under which the country labored,

he would almost say, in proportion to the

extent of that danger, was the impolicy and

desperate madness of such a measure as they

were now considering how to rescind . . .

He could show how the miseries of 1816

RESTRICTION. 297

followed on the issues of the preceding year ;

he could show how the excessive issues of

r

country paper, which could not maintain itself

like bank paper by legislative enactment, led

to a fearful depreciation, and without any

fault of individuals, by the mere force of the

system, involved the whole kingdom in one

general desolation. Not only its trade and

commerce, but its agriculture, its landed in-

terest, even classes the most remote from con-

nection with, or even knowledge of, the paper

system, found themselves suddenly consigned

to total and inexplicable ruin. If their lord-

ships could see at their bar, not merely the

victims of commercial failure, but those numer-

ous persons of all ages, sexes, and classes,

who had unconsciously suffered without even

understanding how or whence the evil fell upon

them, such a spectacle would fill their lord-

ships with horror; and he sincerely believed

that not only would no voice be raised for the

maintenance of such a system in commerce, but

not even in war.

18\*

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He also urged strongly the necessity of makiDg

the Bank independent of government.

The bill was passed, and the government hav-

ing repaid ;^io,ooo,<x)0 of the advances of the

Bank, which was recognized as an indispensable

condition of resumption, the act went into opera-

tion. At the same time the law forbidding the

exportation of the precious metals was repealed

OPERATION OF FEELS ACT OF 1819.

A great fall of prices took place in 18 19 as a

sequel to the operations of 18 18. Tooke denies

strenuously that the operation of the act caused

this fall. There was no run upon the Bank for

gold, partly because the people did not care for

it, partly because the plan of ingot redemption

did not tempt them to do so, but chiefly because

the fall in prices turned the exchanges and there

was no profit on exportation. The Bank steadily

contracted its issues, and the country banks were

forced to do the same. The issues and the price

of gold were as follows :

RESTRICTION.

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Bank of Ens-

land notes.

Bullion in Bank

of England.

Price of gold per

ounce.

Feb.

I819

1820

I82I

X822

1823

25.1

234

23.8

18.6

18.5

4.T

4.1

II.8

II.O

10.3

£. a. d.

416

3 19 "

3 17 loi

The Bank resumed payment, by its own wish

and the permission of PiHiament, on May i, 182 1.

Peel's act would, under any circumstances of

trade, have enforced contraction and accom-

plished resumption, but under the series of events

of the following years, it is certain that it had no

direct effect whatever. The revulsion and fall of

prices, and shock to credit of 18 19 repeated the

opportunity of 181 7. The exchanges became

favorable, more currency was needed, as always

in a time of crisis, and the Bank contraction which

did not beg^n until late in 18 19 (the circulation

was higher in August than in February) took

place easily, as confidence was restored and notes,

becoming abundant, flowed to the Bank, without

exerting any pressure on the market, unless it

might be the negative one of restraining specula-

tion. Peel's act had only the indirect effect of

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, setting a time for resumption which was under-

stood to be in earnest, whereas former dates

fixed had been practically indefinite adjournments.

England is the only country which, after falling

into the use of inconvertible depreciated paper,

has returned to specie payments save through

bankruptcy. It did so by taking advantage of

the revulsion following ♦a commercial crisis to

reduce the amount of the paper.

On issuing from the era of redundant and de-

preciated paper, it is necessary to turn to prices

as the test and indication of economic circum-

stances. (See p. 253.) The inquiry into prices,

however, is the most difficult and delicate which

\* the economist is called upon to undertake, atld

one of the most perilous, whenever undertaken

piecemeal, or without skill, or to support a theory.

Tooke investigated prices during this period

with a skill which is universally acknowledged,

and proved conclusively that the fall which took

place was not due to contraction. Gold was con-

tinually coming into circulation and filling up

any vacuum caused by the contraction.

The years 1819-1822 were years of abundant

RESTRICTION. 301

harvests and low prices for grain, and the agri-

cultural interest was accordingly in distress.

There were, however, additional causes for this

distress. During the war, the high prices had

led the farmers to increase their expenditures and

raise their style of living. Poor lands had also

been hired at high prices and brought under culti-

vation. These injudicious ventures could not be

sustained in times of peace and plenty, and those

who had embarked in them found themselves

ruined. In 1822 Mr. Western led an assault upon

Peel's bill as the cause of the distress, and the

resumptfon then went through its last and se-

verest peril. It is true that the proposition of

Mr. Western for a committtee of inquiry into the

action of the bill was negatived by a heavy vote,

out it appeared that there were some active and

influential men who wanted to return to paper, and

others who thought a great mistake had been made

in not accepting the depreciation and reducing the

standard, and they were supported by a clamorous

party suffering under distress. They did at last

secure the concession that the notes under £^

were allowed to circulate until 1832, instead of

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THE ENGLISH BANK

being withdrawn in 1824 as the law then pro-

vided.

Meanwhile manufactures were steadily recover-

ing, and wages were advancing in purcha^g

power by the fall of grain and imported com-

modities.

CRISIS OF 1825, AND ABOLITION OF SMALL

NOTES,

In the year 1824 the interest on the govern-

ment five per cent, stock was reduced to 4 per cent

the Bank engaging to pay off the dissentients.

One result of this was to lead to large invest-

ments in foreign loans. The prosperity of man-

ufactures led to large importations .of cotton and

other raw materials. Joint stock companies were

organized to engage in all sorts of enterprises

some of them fanciful and absurd, and a great

speculation in South American mines began.

The state of the Bank was :

Notes.

BuUioa.

Feb.

1823

18.5

10.3

it

1824

19.7

13-8

a

1825

20.7

8.7

«

1826

254

2.4

<4

1827.

21.8

10.1

RESTRICTION. 303

In 1823-4 the Bank, being strong in- bullion

extended its discounts, thus sustaining the ad«

vancing movement by the usual mode under

the convertible system. But at the end of 1824

the exchanges became adverse, and an outflow

of bullion began. The Bank, nevertheless, con-

tinued to extend its issues. In May, 1825, prices

suddenly fell. The speculation came to a crisis ;

country banks failed in large numbers ; one of the

large London banking houses failed, and all had

to undergo severe runs. It was not until somer

months later that the mercantile community sus-

tained the shock, but it fell upon them with terri-

ble force. The bank-note now came in to fulfil

its office at such a period. During the rise of

the speculation, the issues had been only grad-

ually and slowly increased, but, in the break-

down of credit, notes were required in large

numbers. The question was whether the Bank

should extend its issues, and run the risk of ruin-

ing itself, or contract, and ruin the public. It

adopted the former course, discounting freely at

5 per cent for all solvent borrowers. The lucky

discovery of a box of ;^i notes which had been

I

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withdrawn, stored away, and forgotten, enabled

them to pursue this policy to the utmost. It

appeared, however, that very few of these last

notes were needed. There are two elements in

every commercial crisis, one the crisis of a false

or exaggerated mercantile movement of some

sort, and second, the panic of those who fear

everything, but they do not know what. The

plan here described is a specific remedy for the

panic element It was prescribed by the Bullion

Report, and thus another of its doctrines was

ratified

The Bank found itself with only ^^2,459, 5 10 ^^

bullion in February, 1826. To the parliament-

ary Committee appointed to investigate the

crisis, Mr. Horsley Palmer testified that the drain

of gold was chiefly due to the £1 notes, these

being in the hands of holders most liable to

panic. Small notes were at this time subject to

a stamp, and the government took the step of

prohibiting any more stamps to be issued.

When Parliament met this step was blamed as

unconstitutional, but the ministers declared that

they had taken the step because, if any day had

RESTRICTION. 305

been fixed beyond which no stamps should be

issued, or if the subject of small notes had come

up for discussion, there would have been a rush

for stamps. They proposed to allow the small

notes already stamped to run until April 5, 1829,

and then to allow no more notes under £^ in

England. The debate on this proposition was

long, and on the part of the opposition uncleat

and not to the point.

The proposition was advocated by Mr. Hus^

kisson^ who said that " a permanent state of cash

payments and a circulation of one and two pound

notes could not co-exist." He urged that specie

was the poor man's currency, and that, while

there were no small notes, commercial crises

might sweep over the mercantile community, but

could not affect the laboring classes.

Mr. Grant said, that " in every wise system

of currency it was a primary element that paper

should be convertible at pleasure into a metallic

currency, and that all small payments and the

great bulk of the circulation should be in gold."

Aldirman Heygate said, that the country

bankers would be forced to withdraw their small

3o6 THE ENGLISH BANK

notes within three years, which would bring ruin.

He said that the act of 1819 was intended to bring

back the old standard, but that it had raised

that standard. The proof was that the coins

-were exported on account of their "fineness

and beauty."

Mr. Attwood propounded a new law of the

distribution of the precious metals : " The share

of the precious metals which any country, rich or

poor, could maintain, if there was any truth in

experience, would be in the proportion of about

half an ounce of gold against a quarter [8

bushels] of wheat, which gave 40s. or 50s. a

quarter of this money, and no more."

Thus the opposition ran over the whole history

of the Restriction and the whole theory of

money, but the question was, whether, having a

convertible currency, they should have in it notes

under ;^5.

Mr. Canning said : " If on the present occa-

sion I am for withdrawing, within a limited time,

the one-pound note from circulation, it is not

from the mere love of theory, but because I have

seen it practically proved in the experience of

RESTRICTION. 307

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years which have elapsed since the Bullion Com

mittee sat, that the circulation of the small notes

cannot co-exist with a metallic currency."

" It is vain to think of introducing gold amidst

the overwhelming spread of small paper circula-

tion. The small paper chokes up all the ordinary

channels of circulation, so that the gold, though

issued from the Bank, cannot flow into them, but

is returned to the source from which it came."

A test-vote, not directly on the question,

showed two hundred and twenty-two in favor,

and thirty-nine against. The small notes were

withdrawn in 1829.

There have been fluctuations enough since

then, and events which have illustrated and

proved some weighty principles of currency, but

they lie beyond the scope of the present under-

taking.

Specie payments could not be regarded as

fixed on a solid basis until the small notes were

withdrawn. In the year 1827, the Bank of Eng-

land directors gave in their adhesion to the doc-

trines of the Bullion Report, and those doctrines,

together with the exclusion of the small notes^

3o8 THE ENGLISH BANK

have been the foundation of the English convert-

ible currency ever since.

The question how to regulate a convertible

currency is still hotly disputed, and is far from a

solution. It seems that art can help nature here

as well as elsewhere, but we may be very sure

that it can so help here only as it does elsewhere,

— by following and assisting, not by supplanting

and coercing.

A convertible currency is, like steel, not a nat-

ural product, but an artificial development, and

in many respects superior, but it is as if we had

not yet discovered the law by which to make

the artificial product so that it should be neither

too brittle nor too elastic, too hard nor too

soft. One thing is very certain — ^that our blun-

dering experiments have hitherto cost us far more

than we have gained or saved.

So much, however, in regard to the laws which

govern paper issues, as was laid down in the Bul-

lion Report, is established beyond dispute. Its

doctrines are the alphabet of modern finance.

The assertion has been many times made, in

the United States, within the last year, that the

RESTRICTION. 309

period of the Restriction, in England, was a

period of prosperity and financial success. A

diligent reading of the appropriate documents,

historical and legislative, has failed to bring to

light any evidence at all to support this notion,

or to lead to acquaintance with any English

authority, contemporaneous or subsequent, who

looks upon this period as anything else than a

time of distress and humiliation.

EXPLANATION OF THE DIAGRAM.

In the following diagrmm, some of the movements of the period of tiK

Bank Restriction are presented in a manner more distinct than any statis-

tics can attain. The Bank of England circulation advanced steadily doriDg

the Restriction, under the rule adopted by the directors (pb 265). So

soon as the crisis of 1818 brought a reduction, and Ped's act of 1819 en-

forced resunAption, the Bank was forced to act upon the principles of the

Bullion Report, though, it still rejected them in theory, and retain its notes

as they came back. So soon as the reduction of the issues began, ereiT-

thing conspired to assist it, and it went on until August, 1822, althoo^

specie payments were nominally resumed in May, .1821. The line at the

top of the -diagram, between 1810 and 1819, represents the total cir-

culation of Bank of England and country-bank notes for the only period

for which we have any estimate of them (see pp. 255 and 284). It shows the

nett reduction in 18 16, though the Bank of Elngland kept up and increased

its notes, and the increase in bullion (lowest line in the diagram) meets k

exactly m accordance with the doctrine enunciated by the buUionistab

When the total notes increased again in 18 17, the bullion declined. When

the Bank of England contracted, in 1819 and 1820, the country banks were

forced to do the same, and the bullion increased. In 1824, nnder new in-

flation, it declined. The sudden increase and decrease of Bank of Engbmd

notes in 1825, was in obedience to the doctrine of the Report in regard to

the method of dealing with a panic (pp. 250, 304).

On the price line, see p. 255. The articles whose prices are miimwH up

each six months are : i cwt. ashes ; i cwt. bristles ; i cwt. cofliee ; i IK

cochineal ; i cwt. copper ; 100 lbs. cotton ; i ton flax ; i ton hemp ; I

cwt. hops ; ic^ cwt. lead ; i lb. indigo ; i ton iron ; 252 gals, oil ; i cwt

butter ; 304 lbs» mess beef; i cwt. rice ; i cwt. saltpetre ; i lb. raw silk;

I lb. cinnamon ; 100 lbs. pepper ; i gal. rum ; i cwt. sugar ; i cwt tallow;

I barrel tar ; i lb. tea ; i load timber ; i cwt tin ; 100 lbs. tobeccO ; I

lb. wool ; 8 bu. wheat. I have varied somewhat from the units of quan-

tity in Tooke\*s tables in order that the fluctuations of each article might

have an equal eflect on the aggregate.

The price of gold is taken from the table in Tooke's <\* Prices^" VdL IL

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CHAPTER III.

AUSTRIAN PAPER MONEY.\*

THE First Austrian National Bank was

founded about the year 1700, bub was

transferred to the authorities of the city of Vien-

na very soon after. This bank issued notes in

moderate amounts, which bore interest and com-

manded a premium. In 1762, this apparently

rich source of wealth was seized upon as a re-

source for the distress of the government, and

from that time to this Austria has been under

the dominion of paper; from that time on, for

more than a century, every year has seen a deficit

in the Austrian finances.

The new notes bore no interest, and were for

sums from five to one hundred gulden. They

" were to be taken everywhere in payment.'\* It

♦

was forbidden to export coin, and base coins of

small denominations were issued. The latter,

\* RqmbUshed from the \*\* Financier" of October 25th, 1873.

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nevertheless, went to a premium in paper as the

notes increased. This increase was at the same

time persistently represented by the government

as a temporary necessity, the Bank having been

allowed to issue notes in return for its advances

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to the government. "In 1802, the country was

flooded with .counterfeit seven-kreutzer pieces."

They nevertheless were at a premium in paper.

In 1807, copper coins were issued so base as to

be on a level with the paper. Meanwhile the

issues had been increasing ; the government had

found that there was no returning on the course

on which it had entered. The wars with Napo-

leon demanded supplies, and there were no re-

sources. The prohibitive system had crushed

the indigenous industry of the country, made

smuggling the most profitable of all forms of busi-

ness, and created a few weak, exotic industries.

Prices had risen so high that the nominal sums

required for army supplies, etc., were enormous.

The note issue in 1796 was 47,000,000; in 1800,

it was 200,000,000; in 1806, it was 449,000,00a

There were, besides, counterfeits in immense

quantities. The laws against counterfeiting or

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being possessed of counterfeits were so severe,

and the difficulty of detecting them so great, that

people feared to take notes at all, and this of

course enhanced the premium.

The succeeding years saw new "patents\*' in

regard to the finances issued every few months ,

each project was more desperate or more tyran-

nical than the last. Trust funds were required

to be invested in public securities or bank-notes,

and deposited with the Bank ; then these were

taken by the State, which became responsible to

the owners. All silver plate was ordered to be

brought to the public offices to be assayed at a

heavy charge. It would be tedious to enumerate

these desperate and revolting financial measures ;

each was brought forward with pleas of necessity,

loud protestations of desire for the national

welfare, confessions of past faults, and promises

that each measure should be final. All of them,

however, proved unavailing.

In 1 8 10, the next stage was reached, a stage

which the student of paper money meets so reg-

ularly in its history, that he anticipates it sooner

or later, in one form or another, in every new in-

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stance. A new class of notes was issued called

"redemption-notes," to represent coin, and to

exchange for paper at the rate of one for three.

By using these, the government prevented its

expenditures from running up such enormous

figures. This plan, and others intended to sup-

port it, failed to attract even the popular

attention ; all confidence in the promises of the

government was lost. The misery was wide and

deep, reaching even the well-to-do classes. Per-

sons on salaries found themselves in the pecuniary

position of day laborers ; the peasants and coun-

try people who tilled the soil had its products

for food, but trade was brought to a stand-stilL

Says Springer, whose history we follow and quote

here and below :

The pecuniary corruptibility of the Austrian civil officers, and

the opinion cherished by all classes, even by the Emperor, that

•'he civil servants did not serve the state honestly, but would at

any time sacrifice its interests to their own, took its origin in

this period. The civil officers carried on afterwards as a liabit

what they had learned in a period of necessity.

The wretchedly paid custom officers connived

at and shared in the smuggling. In 1810 the

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bank-notes fell to 500 for 100, then to 800, and

finally to i>c>95.

This state of things came to a crisis in 181 1.

On the 20th of February of that year a patent

was issued, whose appearance and character the

historian thus describes :

The secret document which was to decide the weal or woe of

millions had been sent out sealed to the government authorities.

They were to break the seals at five o'clock in the morning on

the 15th of March, and to post up the document an hour later.

Long before daybreak, crowds were collected in -the streets of

all the cities waiting for the fateful moment, and betraying as

much excitement as if the report of a decisive battle were ex-

pected. With 'eager haste they drank in every word of the

document . . • which sowed the seeds of hate, and made

distrust of the monarch a universal feeling. Some few could

rejoice : they had unexpectedly become rich. Others, and by

far the most, cursed and lamented. The fate of the beggar

had befallen them in a night.

The bank-notes, of which there were over

a thousand million gulden in circulation, were

reduced by the proclamation to one-fifth of

their nominal value, and were to be exchanged

for redemption-notes, called the Viennese legal-

tender. These latter became, and remain, the

«

Austrian legal-tender currency. The govern-

ment promised to issiie of these only enough to

convert the outstanding bank-notes, viz. : 212

3 1 6 A USTRIAN PAPER MONE Y.

million gulden. Taxes were to be paid in th<5

new currency ; government pensions and salaries

in the same. The debased 30 and 15 kreutzer

coins were to be rated at 6 and 3 kreutzers,

and the interest on the national debt was to

be reduced one-half. The smallest redemption

notes were for 25 gulden, so that the poor-

est people who held i, 2 and 5 gulden notes

could not exchange them. On the other hand,

it was believed that certain persons, who hastily

adjusted their affairs just before the patent

was issued, in a manner to avoid loss, had

received secret information of its contents.

In the following May the redemption-issues

were at 216, and in June at 338; the bank-

notes were at 1,690 to the 100 silver. The

only recourse, in the midst of new necessities,

seemed to be to issue more paper. The solemn

promise of the Emperor in the patent from

whose effects the country was still smarting,

and on which the virulence of popular hate

and the sharpness of popular wit had been

expended, stood in the way of any such issue.

The difficulty was obviated by giving the new

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notes a new name — " anticipation-notes." In

the decree for issuing them it was anxiously

explained that they were only exchequer bills

for anticipating the revenue. At first, 45 mil-

lions were issued, but the issues were secretly

increased to 426 millions. In 18 16, the amount

of paper money was over 638 millions, and, says •

the historian :

Austria offered the strange spectacle of a State buried in the

stillness of death — a grotesque conglomerate of States of dif-

ferent sizes, some of which did not dare, others of which did

not know how, to breathe independently and freely. . . .

Undeniably, the paper money exercised the worst influence on

the morale of the people. Frugality and diligence were lost

virtues. Vulgar pleasure-seeking and wild extravagance be-

came habitual even in the lowest classes. Of what .use to

care for the future ? Why not enjoy to-day all the pleasures of

the senses ? How could any one hesitate to pay 200 gulden

for admission to a ball ? In fact the '\* money " had no value,

and, if one stood reflecting, he might lose ball and money

both. The very fact of speaking continually of large sums,

which, however, in truth amounted to but very small value,

stimulated to frivolity and folly. So the ground was prepared

for developing the celebrated " Viennese" disposition ; and the

loafer-life, in which the hot-spiced pleasures of the palate

seemed the highest good, became indigenous to ''the unique city

of the Emperor."

In 1 8 16, the Austrian National Bank was

founded. It was intended to draw in the paper

money, both as subscription to capital, and

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through the agency of the Bank in the con-

version of treasury notes. Its relation to the

government, which deposited 50 millions in sil-

ver to begin the operation, robbed it of con-

fidence at the outset. It bought the notes at

more than the current rate, so that there

was a profit in buying them on the Bourse

and taking them to the Bank. A run ensued

which forced almost immediate suspension.

Loans were then raised for redeeming the

notes, and the mass of them was reduced to

181 millions.

In 181 7, the Bank shares were once more

offered, and with better success. The Bank

went into operation and still remains, but

government guarantees were given which were

burdensome to the Treasury and robbed the

Bank of independence. Its operations were

mainly transactions with the government; its

means could not be employed in furthering

thfe industry of the country; and to this day

a large part of its assets consist of government

obligations and until these are paid its use-

fulness is crippled. • The '\* anticipation-notes "

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were reduced in number ; their value improved,

and their fluctuations were narrower. In 1827,

these notes were reduced to ninety-nine miU

lions, and in 1840 to ten millions. The period

of peace was employed in this effort, and

with a sound industrial system and no deficit,

an equal amount of energy might have con-

quered the evil. As it was, however, the

notes were redeemed by loans, the deficit was

met by loans, and after 1830 Austria en-

tered on a ruinous policy of armed peace.

The relations with Hungary were bitterly

hostile, and the policy of repression proved

exceedingly expensive. New loans were con-

tinually required ; the energy of refoi-m died

out ; the power to decide on a policy was

wanting ; the dread of confession and of self-

denial was deep-seated ; the habit of putting

off and of seeking temporary makeshifts was

established.

In 1848, a run on the Bank, at the out-

break of the revolution, reduced the coin re-

serve from eighty-five to thirty-five millions.

Forced circulation was given to the bank

3 20 A USTRIAN PAPER MONE K

notes, and the events of that and the follow\*

ing years had the good result of rousing the

nation from its stupor. Baron Von Czoernig,

chief of bureau in the department of com-

merce and industry, details fully the measures

taken to regenerate the nation. Austria was

in the position in 1850 in which Colbert found

France. Efforts were made to reform the tax

system, and important changes were made

in the right direction. The currency also re-

ceived attention, but the history consists of

little more than a record of changes from

one form of paper to another. The defidt

still continued ; the expensive repression in

Hungary seemed more necessary than ever, and

the Crimean war forced Austria once more

to heavy military expenses. The war of 1859

in Italy, and of 1866 with Prussia, produced

new emissions of paper, and Professor Ber-

gius, of Berlin, quotes the Austrian finance

minister as saying, in 1868, that if new

complications should arise in Europe it would

be necessary to issue more paper.

After 1866, however, the repressive policy

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in Hungary was abandoned, and a freer in-

dustrial system was adopted. The panic of

the summer of 1873 is the latest incident in this

miserable story. The journal des Econo--

mistes for June last gave the following ac-

count and explanation of it:

The financial crisis at Vienna was not simply a stock ex-

change crisis, but a general one, an effect of extravagance in

new undertakings, and of a fever of speculation which took

possession of all classes of the population.

After the war of 1866, a large emission of paper money took

place, both on the part of the State and on the part

of the Bank, all legal tender. The abundance of paper

led to a belief in the abundance of capital, and prompted to

undertakings of all kinds. These influences were assisted by

the abundance of the harvests of 1867 and 1868. Urged on

by the opposition, the State encouraged by guarantees of divi-

dends the constmction of railroads which had been neglected

during the war. Speculation also seized upon credit institu-

tions of various kinds, which were multiplied in all the great

centres, on industrial establishments, on constructions in the

cities, and on land. Hence ensued a great quantity of bonds

and securities, good and bad, which there was not time to class-

ify, and which produced a glut. They led to all the financial

expedients usual in such cases, advertisements, reports, emis-

sions of paper, loans of all forms, tempting the prudence of

buyers and provoking the distrust of the Bank of Vienna and

of other credit establishments. The great speculators, finding

their means surpassed, suspended. The smaller ones imitated

them. Strong houses were shaken, and the panic followed

If was necessary to close the Bourse for a day to prevent vio-

lence amongst the speculators. There were great calamities

and some suicides.

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After the crisis measures were taken to find a remedy. Tbe

Chamber of Commerce, the directors of the great financial

establishments, the municipality of Vienna, eta, called on the

government, which, of course, could do nothing. By permit-

ting the Bank to raise its emissions to 500 millions it put the

same in a position to discount and to make advances on na-

tional securities. Fusions and combinations and guarantees are

being planned. The most important relief, however, is given

by the purchases of good securities, which the low prices in-

duce. As for bad securities, they disappear in the general

clearing up. Thus end all crises-— offspring of delusion.

An able writer in the same journal for Septem-

ber gives as the circulation on the 30th of June,

^^IZy 380 millions of treasury notes and 340

millions of bank-notes. The Bank holds 144

millions in specie, " enough to bring its notes

to par if it were not for the treasury notes and

the debt of the State to the Bank, part of which

cannot be realized." In commenting on the

character of the city of Vienna, outwardly gran-

diose and pretentious, but badly drained and

otherwise provided, and upon the light and

frivolous character of the people, the same

writer refers these phenomena to the financial

disorder and paper money as chief causes.

No one can deny that the above is a most

instructive study in political and financial disease.

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The popular mind rests on instances like the

French assignats, or our continental money, as

showing the error of paper money where it

absolutely perishes. It is thought that, short

of this, only alarmists see danger. The story

of Austria shows that an irredeemable paper

currency is a national calamity of the first mag

nitude, of which one may indeed find greater

or less examples, but of which the least is a

peremptory warning to statesmen and financiers.

It is like a disease in the blood, undermining

the constitution and spreading decay through

all the arteries of business. A young and vigor-

ous nation, with a sound political system, may

stand it far better than an old one, with feudal

traditions ; but in its measure and according to

circumstances it is pernicious, if not fatal. It

is not like an acute disease ; it is like an in-

valid state with occasional fever.

We may also infer from Austrian experience

what the " London Economist " recently in-

ferred from ours, that the interference of gov-

ernment with banking is as mischievous as its

interference with any other trade. The Em-

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peror of Austria was not intentionally a lian

When he said he would issue so much and

no more, he meant it. He only did not know

that he was releasing a power which he could

not curb again. He was promising to perform

a financial miracle. His broken promises, how-

ever, cost him and his government all credit

with his people, and it is now frequent subject

of remark in Austria that the more solemn the

asseverations of the government the more ludic-

rous they appear to the people. A govern-

ment which interferes with banking exposes

itself to great danger of error, and such errors

cost it popular confidence sooner than any

others.

CONCLUSION.

T F these chapters of history have been narrated

with any success, they carry their own lesson

with them. There are many who sneer at history

and foreign experience as inapplicable to our cir-

cumstances, and toss off the lessons of history with

impatient contempt, but these very persons never

talk on financial topics for five minutes without

referring to what " the Bank of England does,"

or what "England did" during the Bank Restric-

tion. The only remarkable fact about their ref-

erences is that the facts are often incorrectly

stated, and the inferences illogically and unscien-

tifically drawn. From this it appears that they

object, not to the force of historical arguments,

but to the trouble of correctly informing them-

selves about historical facts.

There are very many, however, who are will\*

ing to learn from history and science, and are led

astray by the sweeping assertions, incorrect refer-

ences, and dogmatism of those they are obliged

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to trust It is for these that these chapters have

been written.

It will be observed, then, that there is nothing

new to be discovered about the operation of papei

money. There is no new invention possible

for making it "as good as gold," no new device

conceivable for making it elastic, no difficulty con-

nected with it which has not been experienced,

no phenomenon of its development for which we

have not abundant analogies. If any qualifica-

tion of these assertions is necessary, it is only

this, that no scheme of intro-convertible bonds

for giving elasticity to a currency of fixed amount

has ever been tried, or, so far as I know, proposed.

This scheme is the only one which fully illustrates

what is derisively called " theory," for it stands

on no facts, appeals to no experience, is deduced

from no observation, but is purely imaginary and

speculative. It has a certain plausibility, but all

the observed phenomena of paper money go to

show that it would make the paper elastic only in

one direction.

For a nation which has fallen into this mistake,

there are only three courses of action which are

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even logically conceivable : to go on, to turn back,

to stand stilL The last is the "growing up"

idea, and may be ruled out at once as impractica-

ble. To try to stand still will inevitably end

in drifting onwards into inflation. It will be

much gained, therefore, if we come to face the

situation as a grim alternative, for such is its

actual character.

To go on to further inflation, whether by free

banking, intro-convertible bonds, or direct issues,

means simply bankruptcy and repudiation. Each

new issue will produce, only for a time, ease and

apparent prosperity, to be followed in a few years

by a new crisis and new distress, then a new

issue, and so on over again. Reform will then be

no longer possible, and we must run the course to

its end, in which the paper disappears as igno-

miniously as the continental notes.

If we choose the other alternative, it is useless to

try to deceive ourselves at all in regard to what it

involves. To talk of resumption and of issuing

the 44 millions, or of establishing free banking on

5-20's, in the same breath, is a contradiction.

If we want specie payments, we must have specie,

328 conclusion:

and, if we want specie, the entire history before

us repeats to weariness that we must get the

paper out of the way. This is the first condition,

and, until we are willing to face it, it is useless to

discuss resumption at all. The doctrines drawn

from the previous chapters are not doctrines of

financial science so much as stumbling-blocks

which lie at the door of that science. We have

seen by abundant evidence, that the movement of

the precious metals from country to country is not

governed by the balance of trade, as is assumed

in nearly all discussions of this subject. An econ-

omist of to-day who makes an assault on the

'\* balance of trade " feels as if he were taking a

sledge-hammer to break through an open door ;

but this doctrine is made the starting-point of

discussing our finances in public documents, in

speeches in Congress, and in most of the pam-

phlets and newspaper articles one meets with.

We have seen, however, that. the transaction is

not one to which the term balance properly applies.

Whenever a nation has complained that an ad-

verse balance of trade was drawing off its specie,

we have seen that an inferior currency of some

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kind was displacing the better one, and that the

increased imports of merchandise were only the

return payments for the gold or silver which had

been dispensed with by employing a cheaper

medium. We have seen also that prices alone

govern the flow of the precious metal, or, more

strictly stated, that the movement of the metals

and the prices of commodities in different coun-

tries act and react upon one another in such a

way as to keep up the exact natural relation of

prices between different countries, and give to

each country in the world's market its full relative

advantage in production. If, therefore, a nation

had a specie currency, a drain upon it by an ad-

verse balance of trade, a foreign payment, or any

other similar cause, would immediately produce a

lowering of prices and a return current of specie

until the natural level was once more restored.

We have also seen that it is an error to say that

there is not enough gold and silver in the world

to perform the exchanges. Whatever gold there

is, is enough. The only difference would be

whether one grain of gold would buy one thou-

sand grains of wheat or one hundred thousand

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We have also seen that the metals will distribute

themselves amongst the nations in exact propor-

tion to their requirements, if there is no interfer-

ence in the shape of inferior currency. If a vac-

uum is left by the destruction of paper, specie

comes in to take its place, as occurred here after

the revolutionary war and after the bank crash o\

.1839. It may have to be bought back, however,

very dear ; that is, by giving many goods for it,

or what is the same thing, goods at low prices.

If the requirement rises above the supply, specie

flows in to fill the gap, as we see after every com-

mercial crisis.

These principles govern the question of re-

sumption. If we want the specie, we here see

how we must go to work to get it. It is not

possible, save by withdrawing a portion of the

paper. When we suspended, we overissued.

The consequence was a rise of prices, increase

of speculation, and export of specie. Large im-

portations of merchandise followed, and exporta-

tion was loaded with disadvantages. The course

of resumption is the opposite in every particular.

When the paper is withdrawn, prices fall, specu-

CONCLUSION. ^^x

lation is restrained, specie flows in. Importa^

tions are discouraged, exportations increase and

go to pay for the gold. It may be added that,

as the former process was smooth and agreeable,

so the latter is hard and distressing. When

the specie is given up, large quantities of it, com-

paratively, are given for little merchandise;

when it is sought again, it must be bought at a

disadvantage.

No nation has eyer had the courage to pursue

this course except England, and she only entered

upon it after two or three commerical revulsions

had destroyed a large part of the paper, never

immoderately redundant ; she entered upon the

effort under the guidance of a high order of

statesmanship ; she took advantage of the fall in

prices and business stagnation following a crisis ;

and her resumption was not complete until after

the withdrawal of the small notes in 1829.

Other nations, like Austria and Russia, have

gone on for generations, sinking deeper and

deeper, crippled in their military and industrial

strength by this inheritance, not knowing how to

endure it or how to get rid of it, or, like France

^^2 CONCLUSION.

and our own colonies, have gone thro jgh bank-

ruptcy and repudiation. These are the alterna«

tives, and it has been well likened to the choice

of a man in a house on fire who jumps out of the

second story rather than wait to be driven up to

the third or fourth or the roof.

If the withdrawal of the paper should be re-

solved upon, the best way to accomplish it is the

one which is simplest and most straightforward;

that is, to raise a surplus revenue and with it

cancel the government issues, It is not consist-

ent with the present purpose to criticise the

various schemes which have been proposed.

They all involve some kind of conversion of one

sort of paper into another, and every such

change complicates a system already far too in-

tricate, and every such change involves chances

of unforeseen events, or of unexpected effects,

for they consist of experiments on totally untried

ground. Some of these schemes involve no ac-

tual reduction of the outstanding paper, and can

lead to nothing but expense and injury to the pub-

lie credit Others do involve a diminution of the

paper and seek to accomplish it without the dis-

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tress which it must occasion. It is certainly most

desirable that any possible application of science

to this end should be invented, but all such plans

involve the danger of political events during the

next five or six years, which cannot now be fore-

seen, and they assume also that the scheme will

be faithfully carried out whenever it begins to

press hard, as at some time it certainly must.

Past experience leads us to doubt whether this

latter assumption would be justified by the event.

Our object here, however, is simply to establish

by history and science, what are the indispensable

conditions of resumption, and to place the prob-

lem in such light that it may be perceived how it

must be attacked, if it is to be solved at all.

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APPENDIX.

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REPORT FROM THE SELECT COMMITTEE ON THE

HIGH PRICE OF GOLD BULLION.

Ordered^ by the House of ComnMus^ to be printed^ 8 June, i8ia

The Select Committee appointed to enquire into the cause

of the High Price of Gold Bullion, and to take into consid-

eration the state of the Circulating Medium, and of the Ex-

changes between Great Britain and Foreign Parts ; — ^and to

report the same, with their Observations thereupon, from

time to time, to the House ; — Have, pursuant to the Orders

of the House, examined the matters to them referred ; and

have agreed to the following Report :

Your Committee proceeded, in the first instance, to ascertain

what the price of gold bullion had been, as well as the rates

of the foreign exchanges, for some time past ; particularly

during the last year.

Your Committee have found that the price of gold bullion,

which, by the regulations of his Majesty's Mint, is 3/. lis, \o\^d.

per ounce of standard fineness, was, during the years 1806,

1807, and 1808, as high as 4/. in the market. Towards the

end of 1808 it began to advance very rapidly, and continued

very high during the whole year 1809 ; the market price of

standard gold in bars fluctuating from 4/. 9^. to 4/. I2x. per oz.

The market price at 4/. lox. is about 15^ per cent, above the

Mint price.

Your Committee have found, that during the three first months

of the present>year, the |>rice of standard gold in bars remained

nearly at the same price as during last year ; viz., from 4/. loj.

to 4/. 12^. per 02. In the course of the months of March and

April, the price of standard gold is quoted but once in Wetten-

hairs tables \ viz., on the 6th of April last, at 4/. 6x. whicli is

rather more than 10 per cent above the Mint price. The last

quotations of the price of gold, which have been given in those

tables, are upon the i8th and 2 2d of May, when Portugal gold

in coin is quoted at 4/. i is. per oz. : Portugal gold coin is about

the same fineness as our standard. It is stated in the same

tables, that in the month of March last, the price of new doub-

loons rose from 4/. 7^. to 4/. 9^. per oz. Spanish gold is from

33<5

APPENDIX.

A\ to 4f grains better than standard, making about \s. per oz.

difference in value.

It appears by the evidence, that the price of foreign gold

coin is general!}' higher than that of bar gold, on account of

the former finding a more ready vent in foreign markets. The

difference between Spanish and Portugal gold in coin and gold

in bars, has of late been about 2x. |>er ounce. Your Committee

have also to state, that there is said to be at present a diifar-

ence of •between jj. and 41. per ounce between the price di

bar gold which may be sworn off for exportation as being

foreign gold, and the price of such bar gold as the dealer wiU

not venture to swear off : while the former was about 4/. lor.

in the market, the latter is said to have been about 4/. 6j'. On

account of these extrinsic differences, occasioned either by tbe

expense of coinage, or by the obstructions of llw, the price of

standard gold in bars, such as may be exported, is that which

it is most material to keep generally in view through the pres-

ent inquiry.

It appeared to your Committee, that it might be of use, in

judging of the cause of this high price of gold bullion, to be

informed also of the prices of silver during the same period.

The price of standard silver in his Majesty's Mint is 5^. 2^. ])er

ounce ; at this standard price, the value of a Spanish dollar is

4^. 4//. or, which comes to the same thing, Spanish dollars are,

at that standard price, worth 4;. \\\d, per ounce. It is stated

in We tten hairs tables that throughout the year 1809, the price

of new dollars fluctuated from 5^. 5</. to 5^. id. per ounce, or

from 10 to 13 per cent, above the Mint price of standard sil-

ver. In the course of the last month, new dollars have been

quoted as high as 5^. %d, per ounce, or more than 15 i)er cent

above the Mint price.

Your Committee have likewise found, that towards the end

of the year 1808, the Exchanges with the continent became

very unfavourable to this country, and continued still more un-

favourable through the whole of 1809, and the three first months

of the present year.

Hamburgh, Amsterdam, and Paris, are the principal places

with which the Exchanges are established at present During

the last six' months of 1809, and the first three months of the

present year, the Exchanges on Hamburgh and Amsterdam

were depressed as low as from 16 to 20 per cent below par;

and that on Paris still lower. The exchanges witli Portugal

have corresponded with the others ; but they are complicated

by some circumstances which shall be explained separately.

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Your Committee find, that in the course of the month of

March last, that is, from the 2d of March to the 3d of April,

tlie exchanges with the three places above mentioned received

a gradual improvement. The exchange with Hamburgh rose

graidually from 29. 4. to 31. ; that with Amsterdam from 31. 8.

^o Z'^' 5' \ ^^21' with Paris from 19. 16. to 21. 11. Since the

3d April last to the present time, they have remained nearly

stationary at those rates, the exchange with Hamburgh, as

stated in the tables printed for the use of the merchants, ap-

pearing as much against this country as 9/. per cent, below par ;

that with Amsterdam appearing to be more than 7/. per cent.

below par ; and that with Paris more than 14/. per cent, below

par.

So extraordinary a rise in the market price of gold in this

country, coupled with so remarkable a depression of our ex-

changes with the continent, very early, in the judgment of your

Committee, pointed to something in the state of our own do-

mestic currency as the cause of both appearances. But before

they adopted that conclusion, which seemed agreeable to all

former reasonings and experience, they thought it proper to en-

quire more particularly into the circumstances connected with

each of those two facts ; and to hear, from persons of commer-

cial practice and detail, what explanations they had to ofifer of

so unusual a state of things.

With this view, your Committee called before them several

merchants of extensive dealings and intelligence, and desired

to have their opinions, with respect to the cause of the high

price of gold and the low rates of exchange.\*

I.

It will be found by the evidence, that the high price of gold

is ascribed, by most of the witnesses, entirely to an alleged

scarcity of that article, arising out of an unusual demand for it

upon the continent of Europe. This unusual demand for gold

upon the continent is described by some of them as being

chiefly for the use of the French armies, though increased also

by that state of alann, and failure of confidence, which leads to

the practice of hoarding.

Your Committee are of opinion, that, in the sound and nat-

ural state of the British currency, the foundation of which is

gold, DO increased demand for gold from other parts of the

^See nots on page 267.

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world, however great, or from whatever causes arising, can have

the effect of producing here, for a considerable period of tiaie,

a material rise in the market price of gold. But before taer

proceed to explain the grounds of that general opinion, they

wish to state some other reasons which alone would have Ifd

them to doubt whether in point of fact, such a demand for gold,

as is alleged, has operated in the manner supposed.

If there were an unusual demand for gold upon the conti-

nent, such as could influence its market price in this conntrr,

it would of course influence also, and indeed in the first instance,

its price in the continental markets ; and it was to be ex()ected

that those who ascribed the high price here to a great demand

abroad, would have been prepared to state that there was a

corresponding high price abroad. Your Committee did not

find that they grounded their inference upon any such informa-

tion ; and so far as your Committee have been enabled to as-

certain, it does not appear that during the period when the

price of gold bullion was rising here, as valued in our paper,

there was any corresponding rise in the |)rice of gold bullion in

the market of the continent, as valued in their respective cur-

rencies. Mr. Whitmore, indeed, the late governor of the bank,

stated, that in his opinion it was the high price abroad which

had carried our gold coin out of this country ; but he did not

offer to your Committee any proof of this high price. Mr.

Greffulhe, a continental merchant, who appeared to be remark-

ably well informed in the details of trade, being asked by the

Committee, if he could state whether any change had tako"

place in the price of gold in any of the foreign markets within

the last year ? answered, " No very material change that I am

aware of." Upon a subsequent day, having had time to refer

to the actual prices, he again stated to the Committee, " I beg

leave to observe, that there has been no alteration of late in

the Mint price of gold in foreign places, nor have the market

prices experienced an advance at all relative to the rise that has

taken place in England ; one of the papers 1 have delivered

shews the foreign prices reduced into sterling money at the

present low rates of exchange, and the excess above our mar-

ket price may be considered as about equal to, the charges

of conveyance." The paper he refers to will be found in the

Appendix; and this statement made by Mr. GretTulhe throws

great light upon this part of the subject ; as it shews,.that the

actual prices of gold in the foreign markets are just so nmch

lower than its market price here, as the difference of exchange

amounts to. Mr. Greffulhe's paper is confirmed by another,

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which has been laid before your Coramiitee. Mr. Abraham

Goldsmid has also stated to your Committee, that during that

part of last year when the market price of gold here rose so

high, its price at Hamburgh did not fluctuate more than from

3 to 4 per cent.

Here your Committee must observe, that both at Hamburgh

and Amsterdam, where the measure of value is not gold as in

this country, but silver, an unusual demand for gold would affect

its money price, that is, its price in silver ; and that as it does

not appear that there has been any considerable rise in the price

of gold, as valued in silver, at those places in the last year, the

inference is, that there was not any considerable increase in the

demand for gold. That permanent rise in the market price ot

gold above its Mint price, which appears by Mr. Greflfulhe's

paper to have taken place for several years both at Hamburgh

and Amsterdam, may in some degree be ascribed, as your Com-

mittee conceive, to an alteration which has taken place in the

relative value of the two precious metals all over the world ;

concerning which, much curious and satisfactory evidence will

be found in the Appendix, particularly in the documents laid

before your Committee by Mr. Allen. From the same cause,

a fall in the relative price of silver appears to have taken

place in this country for some time before the increase of our

paper currency began to operate. Silver having fallen in rela-

tive value to gold throughout the world, gold has a|)peared to

rise in price in those markets where silver is the fixed measure,

and silver has appeared to fall in those where gold is the fixed

measure.

With respect to the alleged demand for gold upon the con-

tinent for the supply of the French armies, your Committee

must further observe, that, if the wants of the military chest

have been latterly much increased, the general supply of En-

rope with gold has been augmented by aH that quantity which

this great commercial country has spared in consequence of

the substitution of another medium of circulation. And your

Committee cannot omit remarking, that though the circum-

stances which might occasion such an increased demand may

k'ecently have existed in greater force than at former periods,

yet in the former wars and convulsions of the continent, they

must have existed in such a degree as to produce some effect.

Sir Francis Baring has very justly referred to the seven years'

war and to the American war, and remarks, that no want of

bullion was then felt in this country. And upon referring for a

course of years to the tables which are published for the use of

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the merchants, such as Lloyd's lists and Wettenhall's Course of

Exchange, your Committee have found that from the middle a(

the year 1773, when the reformation of the gold coin took

place, till about the middle of the year 1 799, two years after

the suspension of the cash payments of the Bank, the market-

price of standard gold in bars remained steadily uniform at the

price of 3/. i is, 6d. [being, with the small allowance for loss by

detention at the Mint, equal to the Mint price of 3/. 17J. io|-f/.]

with the exception of one year, from May, 1783, to May, 1784,

when it was occasionally 3/. i8j. During the same period it is

to be noticed, the price of Portugal gold coin was occasionally

as high as 4/. 2s, ; and your Committee also observe, that it«:as

stated to the Lords' Committee in 1797 by Mr. Abraham New-

land, that the bank had been frequently obliged to buy gold

higher than the Mint price, and upon one particular occasion

gave as much for a small quantity, which their agent procured

from Portugal, as 4/. 8^\*. But your Committee find, that the

price of standard gold in bars was never for any length of time

materially above the Mint price, during the whole period of 24

years which elapsed from the reformation of the gold coin to

the suspension of the cash payments of the Bank. The two

most remarkable periods prior to the present, when the market

price of gold in this country has exceeded our Mint price, were

in the reig^n of King William, when the silver coin was very

much worn below its standard, and in the early part of his

present Majesty's reign, when the gold coin was very much

worn below its standard. In both those periods, the excess of

the market price of gold above its Mint price was found to be

owing to the bad state of the currency ; and in both instances,

the reformation of the currency effectually lowered the market

price of gold to the level of the Mint price. During the whole

of the years 1796 and 1797, in which there was such a scarcity

of gold, occasioned by the great demands of the country bank-

ers in order to increase their deposits, the market price of gold

never rose above the Mint price.

Your Committee have still further to remark upon this point,

that the evidence laid before them has led them to entertain

much doubt of the alleged fact, that a scarcity of gold bullion

has been recently experienced in this country. That guineas

have disappeared from the circulation, there can l>e no ques-

tion ; but that does not prove a scarcity of bullion, any more

than the high price proves that scarcity. If gold is rendered

dear b^ any other cause than scarcity, those who cannot pur-

chase It without paying the high price, will be very apt to con-

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dude that it is scarce. A very extensive home dealer who was

examined, and who spoke very much of the scarcity of gold,

acknowledged, that he found no difficulty in getting any quan-

tity he wanted, if he was willing to pay the price for it. And

it appears to your Committee, that, though in the course of the

last year there have been large axportations of gold to the con-

tinent, there have been also very considerable importations of

it into this country from South America, chiefly through the

West Indies. The changes which have aflfected Spain and Por-

tugal, combined with our maritime and commercial advantages,

would seem to have rendered this country a channel through

which the produce of the mmes of New Spain and the Brazils

pass to the rest of the world. In such a situation, the imports

of bullion and coin give as the opportunity of first supplying

ourselves ; and must render this the last of the great markets

in which a scarcity of that article will be felt. This is remark-

ably illustrated by the fact, that Portugal gold coin is now sent

regularly from this country to the cotton settlements in the

Brazils, Pemambuco, and Maranham, while dollars are remitted

in considerable quantities to this country from Rio Janeiro.

It is important also to observe, that the rise in the market

price of silver in this country, which has nearly corresponded to

that of the market price of gold, cannot in any decree be as-

cribed to a scarcity of silver. The importations of silver have

of late years been unusually large, while the usual drain for In-

dia and China has been stopped.

For all these reasons, your Committee would be inclined to

think, that those who ascribe the high price of gold to an un

usual demand for that article, and a consequent scarcity, assume

facts as certain of which there is no evidence. But even if these

assumptions were proved, to ascribe the high price of gold in

this country to its scarcity, seems to your Committee to involve

a misconception, which they think it important to explain.

In this country, gold is itself the measure of all exchange

able value, the scale to which all money prices are referred.

It is sOy not only by the usage and commercial habits of the

country, but likewise by operation of law, ever since the

act of the 14th of his present Majesty [finally rendered perpet-

ual by an act of the 39th year of the reign] disallowed a legal

tender in silver coin beyond the sum of 25/. Gold being thus

our measure of prices, a commodity is said to be dear^or cheap

according as more or less gold is given in exchange for a given

quantity of that commodity ; but a given quantity of gold it-

self wiU never be exchanged for a greater or a less quantity of

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gold of the same standard fineness. At particular times it may

be convenient in exchange for gold in a particular coin, to give

more than an equal quantity of other gold ; but this diflference

can never exceed a certain small limit : and thus it has hapi>ened

that the Bank, while liable to pay its notes in specie, has under

particular emergencies been put to the necessity of purchasing

gold at a loss, in order to keep up or to repair its stock. Bi.l

generally speaking, the price of gold, being itself measured and

expressed in gold, cannot be raised or lowered by an increased

or diminished demand for it. An ounce of gold will exchange

for neither more nor less than an ounce of gold of the same

fineness, except so far as an allowance is to be made, if the one

ounce is coined or otherwise manufactured and the other is not,

for the expense of that coinage or manufacture. An ounce of

standard gold bullion will not fetch more in our market than

3/. lyj. 10^., unless 3/. 17J. lo^d.y in our actual currency is

equivalent to less than an ounce of gold. An increase or

diminution in the demand for gold, or what comes to the same

thing, a diminution or increase in the general supply of gold,

will, no doubt, have a material effect upon the money prices of

all other articles. An increased demand for gold, and a conse-

quent scarcity of that article, will make it more valuable in

proportion -to all other articles ; the same quantity of gold will

purchase a greater quantity of any other article than it did be-

fore : in other words, the real price of gold, or the quantity of

commodities given in exchange for it, will rise, and the money

prices of all commodities will fall ; the money price of gold

itself will remain unaltered, but the prices of all other com-

modities will fall. That this is not the present state of things

is abundantly manifest ; the prices of all commodities have

risen, and gold appears to have risen' in its price only in com-

mon with them. If this common effect is to be ascribed to one

and the same cause, that cause can only be found in the state

of the currency of this country.

Your Committee think it proper to state still more specifi-

cally, what appear to them to be the principles which goverr

the relative prices of gold in bullion and gold in coin, as well

as of paper circulating in its place and exchangeable for it

They cannot introduce this subject more properly, than by ad-

verting to those simple principles and regulations, on which a

coinage issuing from the King's mint is founded.

The object is, to secure to the people a standard of a deter-

minate value, by affixing a stamp, under the royal authority, to

pieces of gold, which are thus certified to be of a given weight

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And fineness. Gold in bullion is the standard to which the leg«

islature has intended that the coin should be conformed, and

with which it should be identified as much as possible. And if

that intention of the legislature were completely fulfilled, the

coined gold would bear precisely the same price in exchange

for all other commodities, as it would have borne had it con-

tinued in the shape of bullion ; but it is subject to some small

fluctuations.

First, there is some expense incurred in converting bullion in-

to coin. They who send bullion to be coined, and it is allowed

to any one to send it, though they are charged with no seignor-

age, incur a loss of interest by the detention of their gold in

the mint. This loss may hitherto have amounted to about i/.

per cent., but it is to be presumed that the improvements of

the system of the new Mint will cause the detention and con-

sequent loss to be much smaller. This i/. per cent, has

formed the limit, or nearly the limit, to the possible rise cf

the value of coin above that of bullion ; for to . suppose that

coin could, through any cause, advance much above this limit,

would be to assume that there was a high profit on a transac-

tion, in which there is no risk and every one has an opportu-

nity of engaging.

The two following circumstances conjoined, account for the de-

pression of the coin below the price of bullion, and will shew

what must have been the limit to its extent before 1797, the

period of the suspension of the cash payments of the Bank of

England. First, the coin, after it had become current was

gradually diminished in weight by use, and therefore if melted,

would produce a less quantity of bullion. The average dimi-

nution of weight of the present current gold coin below that of

the same coin when fresh from the mint, appears by the evi-

dence to be nearly \L per cent. This evil, in more ancient

times, was occasionally very great. It was particularly felt in an

early period of his present Majesty's reign, and led to the refor-

mation of the gold coin in 1 773. But it is now carefully guarded

against, not only by the legal punishment of every wilful dete-

rioration of the gold coin, but also by the regulation of the

statute, that guineas, of which the full weight when fresh from

the mint is 5 dwts. 9I} grains shall not be a legal tender if worn

below 5 dwts. 8 grs. ; the depreciation thus allowed being at the

utmost I. 11' per cent. A still more material cause of depres-

sion, is the difficulty under which the holders of coin have been

placed when they wished to convert it into bullion. The law

of this country forbids any other gold coin than that which has

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become light to be put into the melting pot, and, with a very

questionable policy, prohibits the exportation of our gold coin,

and of any gold, unless an oath is taken that it has not been

produced from the coin of this realm. It appears by the evi-

dence, that the difference between the value of gold bullion

which may be sworn oflf for exportation, and that of the gold

produced or supposed to be produced from our own coin, which

by law is convertible only to domestic purposes, amounts at

present to between 3^. and 4-f. per ounce.

The two circumstances which have now been mentioned

have unquestionably constituted, in the judgment of your Com-

mittee, the whole cause of that depression of the value of the

gold coin of this country in exchange for commodities, below

the value of bulHon in exchange for commodities, which has

occasionally arisen or could arise at those times when the Bank

paid in specie, and gold was consequently obtainable in the

quantity that was desired ; and the limit fixed by those two

circumstances conjoined, to this excess of the market price of

gold above the Mint price, was therefore a limit of about 5^

per cent. The chief part of this depression is to be ascribed

to that ancient, but doubtful policy of this country, which, by

attempting to confine the coin within the kingdom, has served,

in the same manner as jiermanent restrictions on the export of

other articles, to place it under a disadvantage, and to give to

it a less value in the market than the same article would have

if subject to no such prohibition.

The truth of these observations on the causes and limits of

the ordinary difference between the market and Mint price of

gold, may be illustrated by a reference to the mode, explained

m the evidence, of securing a fixed standard of value for the

great commercial payments of Hamburgh. The ]>ayments in

the ordinary transactions of life are made in a currency com-

posed of the coins of the several surrounding states ; but silver

is the standard there resorted to in the great commercial pay«

ments, as gold is in England. No difference analogous to that

which occurs in this country, between, the Mint and market

price of gold, can ever arise at Hamburgh with regard to silver,

because provision is made that none of the three causes above

specified [the expense of coinage, the depreciation by wear,

or the obstruction to exportation] shall have any operation.

The large payments of Hamburgh are effected in Bank money,

which consists of actual silver of a given fineness, lodged in

the Hamburgh bank by the merchants of the place, who there-

upon have a proportionate credit in the bank-books, which they

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transfer according to their occasions. The silver being assayed

and weighed with scarcely any" loss of time, the first mentioned

cause of fluctuation in the relative value of the current medium

compared with bullion is avoided. Certain masses of it being

then certified (without any stamp being affixed on the metal) to

be of a given quantity and fineness, the value is transferred

from individual to individual by the medium merely of the bank

books, and thus the wearing of the coin being prevented, one

cause of depreciation is removed. A free right is also given to

withdraw, melt, and exiwrt it ; and thus the other and principal

source of the occasional fall of the value of the current me-

dium of payment, below that of the bullion which it is intend-

ed to represent, is also effectually precluded.

In this manner at Hamburgh, silver is not only the measure

of all exchangeable value, but it is rendered an invariable

measure, except in so far as the relative value of silver itself

varies with the varying supply of that precious metal from the

mines. In the same manner the usage, and at last the law,

which made gold coin the usual and at last the only legal ten-

der in large payments here, rendered that metal our measure of

value : and from the period of the reformation of the gold coin

down to the suspension of the Bank payments in specie in 1797,

gold coin was not a very variable measure of value ; being sub-

ject only to that variation in the relative value of gold bullion

which depends u]>on its supply from the mines, together with

that limited variation, which, as above described, might take

place between the market and the Mint price of gold coin.

The highest amount of the depression of the coin which can

take place when the Bank pays in gold, has just been stated to

be about 5^ per cent., and accordingly it will be found, that in

all the periods preceding 1797, the difference between what is

called the Mint price and market price of gold never exceeded

that limit.

Since the suspension of cash payments in 1797, however, it

is certain, that, even if gold is still our measure of value and

standard of prices, it has been exposed to a new cause of vari-

ation, from the possible excess of that paper which is not con-

vertible into gold at will ; and the limit of this new variation is

as indefinite as the excess to which that paper may be issued.

It may indeed be doubted, whether since the new system of

Bank of England payments has been fully established, gold has

in truth continued to be our measure of value : and whether

we have any other standard prices than that circulating medium

issued primarily by the Bank of England and in a secondary

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manner by the country banks, the variations of which in reUr

tive value may be as indefinite as the possible excess of that

circulating medium. But whether our present measure d

value, and standard of prices, be this pap«r currency thus vari-

able in its relative value, or continues still to be gold, but gold

rendered more variable than it was before in consequence of

being interchangeable for a paper currency, which is not at will

convertible into gold, it is, in either case, most desirable for the

public that our circulating medium should again be conformed,

as speedily as circumstances will permit, to its real and l^al

standard, gold bullion.

If the gold coin of the country were at any time to become

very much worn and lessened in weight, or if it should suffer a

debasement of its standard, it is evident that there would be a

proportionable rise of the market price of gold bullion above its

Mint price : for the Mint price is the sum in coin, which is

equivalent in intrinsic value to a given quantity, an ounce for

exami)le, of the metal in bullion ; and if the intrinsic value of

that sum of coin be lessened, it is equivalent to a less quantity

of bullion than before. The same rise of the market price of

gold above its Mint price will take place, if the local currency

of this particular country, being no longer convertible into gold,

should at any time be issued to excess. That excess cannot be

exported to other countries, and, not being convertible into

specie, it is not necessarily returned upon those who issued it;

it remains in the channel of circulation, and is gradually ab->

sorbed by increasing the prices of all commodities. An in-

crease in the quantity of the local currency of a particular

country, will raise prices in that country exactly in the same

manner as an increase in the general supply of precious met-

als raises prices all over the world. By means of the increase

of quantity, the value of a given portion of that circulating

medium, in exchange for other commodities, is lowered : in

other words, the money prices of all other commodities are

raised, and that of bullion with the rest. In this manner, an

excess of the local currency of a particular country will occa-

sion a rise of the market price of gold above its Mint price.\*

\* This is the pomt on which Tooke differed from the Bullion Committee.

Mr. Horner, in his speech, assumed that grain was a general measure of

value, as between different periods, a notion now abandoned, and the same

opinion underlies this passage. Grain was dear, but, as Tooke shows, many

other things were "oppressively cheap." Macleod\*s con^ment is, that

Jiey would have been much cheaper but for the depreciated currency, and

that the Committee ought to have relied entirely upon the goM premium ta

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It is no less evident, that in the event of the prices of com-

modities being raised in one country by an augmentation of

its circulating medium, while no similar augmentation in the

circulating medium of a neighboring country has led to a simi-

lar rise of prices, the currencies of those two countries will no

longer continue to bear the same relative value to each other

as before. The intrinsic value of a given portion of the one

currency being lessened while that of the other remains unal-

tered, the exchange will be computed between those two coun-

tries to the disadvantage of the former.

In this manner, a general rise of all prices, a rise in the mar-

ket price of gold, and a fall of the foreign exchanges, will be

the effect of an excessive quantity of circulating medium in a

country which has adopted a currency, not exi)ortable to other

countries, or not convertible at will into a coin which is expor-

table.

11.

Your Committee are thus led to the next head of their in-

quiry : the present state of the exchanges between this country

and the continent. And here, as under the former head, your

Committee will first state the opinions which they have received

from practical men, respecting the causes of the present state

of the exchange.

Mr. Greffulhe, a general merchant, trading chiefly to the con-

tinent, ascribed the fall of exchange between London and Ham-

burgh, near i8 per cent, below par, in the year 1809, "alto-

gether to the commercial situation of this country with the conti-

nent ; to the circumstance of the imports, and payments of sub-

sidies, &c., having very much exceeded the exports." He stated,

however, that he formed his judgment of the balance of trade

in a great measure from the state of the exchange itself, though it

was corroborated by what fell under his observation. He insisted

particularly on the large imports from the Baltic, and the wines

and brandies brought from France, in return for which no mer-

chandise had been exported from this country. He observed

on the other hand, that the export of colonial produce to the

continent had increased in the last year compared with former

prove their point. He also desires to have it remembered that " excess " of

currenqr is a relative term, and that it must be understood to mean excesi

relatively to the wants of commerce at the time in question, — a limitation

which is to be understood as .f course. (See p. 221. )

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years ; and that during the last year there was an excess, to a

considerable amount, of the exports of colonial produce and

British manufactures to Holland above the imports from

thence, but nt)t nearly equal, he thought, to the excess of im-

ports from other parts of the world, judging from the state ol

the exchange as well as from what fell generally under his ob-

servation. He afterwards explained, that it was not strictly the

balance of trade, but the balance of payments, being unfavour-

able to this country, which he assigned as the principal cause

of the rate of exchange ; observing also, that the balance of

payments for the year may be against us, while the general ex-

ports exceed the imports. He gave it as his opinion that the

cause of the present state of exchange was entirely commer-

cial, with the addition of the foreign expenditure of govern-

ment ; and that an excess of imports above exports would ac-

count for the rates of exchange continuing so high as i6 per

cent, against this country, for a permanent period of time.

It will be found in the evidence, that several other witnesses

agree in substance with Mr. Greffulhe, in this explanation of

the unfavourable state of the exchange ; particularly Mr.

Chambers and Mr. Coninghani.

Sir Francis Baring stated to the Committee, that he consid-

ered the two great circumstances which affect the exchange in

its present unfavourable state, to be the restrictions upon trade

with the continent, and the increased circulation of this coun-

try in paper, as productive of the scarcity of bullion. And he

instanced, as examples of a contrary state of things, the seven

years\* war, and the American war, in which there were the same

remittances to make to the continent for naval and military ex-

penditure, yet no want of bullion ever was felt.

The Committee likewise examined a very eminent continent-

al merchant, whose evidence will be found to contain a variety

of valuable information. That gentleman states, that die ex-

change cannot fall in any country in Europe at the present

time, if computed in coin of a definitive value, or in something

convertible into such coin, lower than the extent of the charge

of transporting it, together with an adequate profit in propor-

tion to the risk attending such transmission. He conceives,

that such fall of our exchange as has exceeded that extent in

the last 15 months, must certainly be referred to the circum-

stance of our paper currency not being convertible into specie ;

and that if that paper had been so convertible, and guineas had

been in general circulation, an unfavourable balance of trade,

could hardly have caused so great a fall in the exchange as to

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the extent of 5 or 6 per cent. He explains his opinion upon

the subject more specifically in the following answers, which

are extracted from different parts of his evidence.

" To what causes do you ascribe the present unfavourable

course of exchange ? — The first great depreciation took place

when the French got possession of the north of Germany, and

passed severe penal decree? against a communication with this

country ; at the same time that a sequestration was laid upon

all English goods and property, whilst the payments for Eng-

lish account were still to be made, and the reimbursements to

be taken on this country ; many more bills were in conse-

quence to be sold than could be taken by persons requiring to

make payments in England. The communication by letters

being also very difficult and uncertain, middle men were not to

be found, as in usual times, to purchase and send such bills to

England for returns ; whilst no suit at law could be instituted

in the courts of justice there against any person who chose

to resist payment of a returned bill, or to dispute the charges

of re-exchange. Whilst those causes depressed the exchange,

payments due to England only came round at distant periods ;

the exchange once lowered by those circumstances, and bullion

being withheld in England to make up those occasional differ-

ences, the operations between this country and the continent

have continued at a low rate, as it is only matter of opinion

what rate a pound sterling is there to be valued at, not being

able to obtain what it is meant to represent."

"The exchange against England fluctuating from 15 to jzo

per cent, how much of that loss may be ascribed to the effect

of the measures taken by the enemy in the north of Germany,

and the interniption of intercourse which has been the result,

and how much to the effect of the Bank of England paper not

being convertible into cash, to which you have ascribed a part

of that depreciation ? — I ascribe the whole of the deprecia-

tion to have taken place originally in ponsequence of the

measures of the enemy, and its not having recovered to the

circumstance of the paper of England not being exchangeable

for cash."

" Since the conduct of the enemy which you have described

what other causes have continued to operate on the continent

to lower the course of exchange? — Very considerable ship-

ments from the Baltic, which were drawn for and the bills ne-

gotiated immediately on the shipments taking place, without

consulting the interest of the proprietors in this country much,

by deferring such a negotiation till a demand should take place

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for such bills : The continued difficulty and uncertainty in car\*

rying on the correspondence between this country and the con-

tinent : The curtailed number of houses to be found on the

continent willing to undertake such operations, either by ac-

cepting bills for English account drawn from the various parts

where shii>ments take place, or by accepting bills drawn from

this country, either against property shipped, or on a s|)ecula-

tive idea that the exchange either ought or is likely to rise ;

The length of time that is required before goods can be con-

verted into cash, from the circuitous routes they are obliged to

take : The very large sums of money paid to foreign ship own-

ers, which in some instances, such as on the article of hemp,

has amounted to nearly its prime cost in Russia : The want of

middle men who as formerly used to employ great capitals in

exchange operations, who, from the increased difficulties and

dangers to which such operations are now subject, are at pres-

ent rarely to be met with, to make combined exchange opera-

tions, which tend to anticipate probable ultimate results."

The preceding answers, and the rest of this gentleman's evi-

dence, all involve this principle, expressed more or less dis-

tinctly, that bullion is the true regulator both of the value of a

local currency and of the rate of foreign exchanges ; and that

the free convertibility of paper currency into the precious met-

als, and the free exportation of those metals, place a limit to

the fall of exchange, and not only check the exchanges from

falling below that limit, but recover them by restoring the bal-

ance.

Vour Committee need not particularly point out in what re-

spects these opinions received from persons of practical detail,

are vague and unsatisfactor);, and in what respects they are con-

tradictory of one another; considerable assistance, however,

may be derived from the information which the evidence of

these persons affords, in explaining the true causes of the pres-

ent state of the exchanges.

Your Committee conceive that there is no point of trade,

considered politically, which is better settled, than the subject

of foreign exchanges. The par of exchange between two

countries is that sum of the currency of either of the two, which,

in point of intrinsic value, is precisely equal to a given sum of

the currency of the other ; that is, contains precisely an equal

weight of gold or silver of the same fineness. If 25 livres of

France contained precisely an equal quantity of pure silver

with 20^. sterling, 25 would be said to be the par of exchange

between London and Paris. If one country uses gold for its

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principal measure of value, and another uses silver, the par be-

tween those countries cannot be estimated for any particular

period, without taking into account the relative value of gold

and silver at that particular period ; and as the relative value

of the two precious metals is subject to fluctuation, the par of

exchange between two such countries is not strictly a fixed

point, but fluctuates within certain limits. An illustration of

this will be found in the evidence, in the calculation of the par

between London and Hamburgh, which is estimated to be

34/3J Flemish shillings for a pound sterling. That rate of ex-

change, which is produced at any particular period by a balance

of trade or payments between the two countries, and by a con-

sequent disproportion between the supply and the demand of

bills drawn by the one u|X)n the other, is a departure on one

side or the other from the real and fixed par. But this real par

will be altered if any change takes place in the cunency of one

of the two countries, whether that change consists in the wear

or debasement of a metallic currency below its standard, or in

the discredit of a forced paper currency, or in the excess of a

paper currency not convertible into specie ; a fall having taken

place in the intrinsic value of a given portion of one currency,

that portion will no longer be equal to the same portion, as be-

fore, of the other currency. But though the real par of the

currencies is thus altered, the dealers, having little or no oc-

casion to refer to the par, continue to reckon their course ol

exchanges from the former denomination of the par ; and in

this state of things a distinction is necessary to be made be-

tween the real and computed course of exchange. The com-

puted course of exchange, as expressed in the tables used by

the merchants, will then include, not only the real difi\*erence of

exchange arising from the state of trade, but likewise the differ-

ence between the original par and the new par. Those

two sums may happen to be added together in the calculation,

or they may happen to be set against each other. If the coun-

try, whose currency has been depreciated in comparison with

the other, has the balance of trade also against it, the comput-

ed rate of exchange will appear to be still more unfavourable

than the real difference of exchange will be found to be ; and

so if that same country has the balance of trade in its favour,

the computed rate of exchange will appear to be much less

favourable than the real difference of exchange will be found

to be. Before the new coinage of our silver in King William' b

time, the exchange between England and Holland, computed

in the usual manner according to the standard of their respec\*

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tive Mints, was 25 per cent, against England ; but the value of

the current coin of England was more than 25 per cent below

the standard value ; so that if that of Holland was at its full

standard, the real exchange was in fact in favour of England.

It may happen in the same manner, that the two parts of the

calculation may be both opposite and equal, the real exchange

in favour of the country by trade being equal to the nominal

exchange against it by the state of its currency ; in that case,

the computed exchange will be at par, while the real exchange

is in fact in favour of that country. Again, the currencies of

both the countries which trade together may have undergone

an alteration, and that either in an equal degree, or unequally ;

in such a case, the question of the real state of the exchange

between them becomes a little more complicated, but it is to be

resolved exactly upon the same principle. Without going out

of the bounds of the present inquiry, this may be well illustra-

ted by the present state of the exchange of London with Por-

tugal, as quoted in the tables for the i8th of May last. The

exchange of London on Lisbon appears to be 67^ ; 67^//.

sterling for a milree is the old established par of exchange be-

tween the two countries ; and 67^ accordingly is still said to be

the par. But by the evidence of Mr. Lyne, it appears, that, in

Portugal, all payments are now by law made one-half in hard

money, and one-half in government paper ; and that this paf^er

is depreciated at a discount of 27 per cent. Upon all pay-\*

ments made in Portugal, therefore, there is a discount or loss

of 13^ per cent, and the exchange at 67^, though nominally at

par, is in truth 13^ per cent, against this country. If the

exchange were really at par, it would be quoted at S^v^

or apparently 13^ per cent, in favour of London, as comj>ared

with the old par which was fixed before the depreciation of the

Portuguese medium of payments. Whether this 13 J per cent,

which stands against this country by the present exchange on

Lisbon, is a real difference of exchange, occasioned by the

course of trade and by the remittances to Portugal on ac-

count of government, or a nominal and apparent exchange oc-

casioned by something in the state of our own currency, or is

partly real and partly nominal, may perhaps be determined by

what your Committee have yet to state.

It appears to your Committee to have been long settled and

understood as a principle, that the difference of exchange re-

sulting from the state of trade and payments between two

countries is limited by the expense of conveying and insuring

the precious metals from one country to the other ; at least,

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that it cannot for any considerable length of time exceed that

limit The real difference of exchange, resulting from the

state of trade, and payments, never can fall lower than the

amount of such expense of carriage, including the insurance.

The truth of this position is so plain, and it is so uniformly

agreed to by all the practical authorities, both commercial and

political, that your Committee will assume it as indisputable.

It occurred, however, to your Committee that the amount of

that charge and premium of insurance might be increased

above what it has been in ordinary periods even of war, by the

peculiar circumstances which at present obstruct the commer-

cial intercourse between this country and the Continent of

Europe ; and that as such an increase would place so nuich

lower than usual the limit to which our exchanges might fall, an

explanation might thereby be furnished of their present unusu-

al fall. Yonr Committee accordingly directed their enquiries

to this point

It was stated to your Committee, by the merchant who has

been already mentioned as being intimately acquainted with the

trade between this country and the Continent, that the present

expense of transporting gold from London to Hamburgh, inde-

pendent of the premium of insurance, is from i^ to 2 ]>er cent. ;

that the risk is very variable from day to day, so that there is no

fixed premium, but he conceived the average risk, for the fifteen

months preceding the time when he spoke, to have been about

4 per cent. : making the whole cost of sending gold from London

to Hamburgh for those fifteen months at such average of the

risk, from 5 J to 6 per 'cent — Mr. Abraham Goldsmid stated,

that in the last five or six months of the year 1809, the expense

of sending gold to Holland varied lexceedingly, from 4 to 7 per

cent for all charges, covering the risk as well as the costs of

transportation. By the evidence which was taken before the

Committees upon the Bank Affairs, in 1797, it appears that the

cost of sending specie from London to Hamburgh in that time

of war, including all charges as well as an average insurance,

was estimated at a little more than 3^ per cent It is clear,

therefore, that in consequence of the peculiar circumstances of

the present state of the war, and the increased difficulties of in«

tercourse with the Continent, the cost of transporting the pre-

cious metals thither from this country has not only been ren-

dered more fluctuating than it used to be, but, upon the whole,

is very considerably increased. It would appear, however, that

upon an average of the risk for that period when it seems to

have been highest, the last half of the last year, the cost and

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insurance of transporting gold to Hamburgh or to Holland did

not exceed 7 per cent. It was of course greater at particular

times, when the risk was above that average. It is evident

also that the risk, and consequently the whole cost of trans-

porting it to an inland market, to Paris, for example, would upon

an average, be higher than that of carrying it to Amsterdam

or Hamburgh. It follows, that the limit to which the exchanges^

as resulting from the state of irade, might fall and continue un-

favourable for a considerable length of time, has, during the

period in question, been a good deal lower than in former times

of war ; but it appears also, that the expense of remitting specie

has not been increased so much, and that the limit, by which

the depression of the exchanges is bounded, has not been low-

ered so much, as to afford an adequate explanation of a fall of

the exchanges so great as from 16 to 20 per cent, below par.

The increased cost of such remittance would explain, at those

moments when the risk was greatest, a fall of something more

than 7 per cent, in the exchange wiih Hamburgh or Holland,

and a fall still greater perhaps in the exchange with Paris ; but

the rest of the fall which has actually taken place, remains to

be explained in some other manner.

Your Committee are disposed to think from the result of the

whole evidence, contradictory as it is, that the circumstances

of the trade of this country, in the course of the last year, were

such as to occasion a real fall of our exchanges with the Conti-

nent to a certain extent, and perhaps at one period almost as

low as the limit fixed by the expense of remitting gold from

hence to the respective markets. And your Committee is in-

clined to this opinion, both by what is stated regarding the

excess of imports from the Continent above the exports, though

that is the part of the subject which is left most in doubt; and

also by what is stated respecting the mode in which the pay-

ments in our trade have been latterly effected, an advance be-

ing paid upon the imports from the Continent of Europe, and a

long credit being given upon the exports to other parts of

the world.

Your Committee, observing how entirely the present depres-.

sion of our exchange with Europe is referred by many persons

to a great excess of our imports above our exports, have called

for an account of the actual value of those for the last five

years ; and Mr. Irving, the Inspector General of Customs, has

accordingly furnished the most accurate estimate of both that

he has been enabled to form. He has also endeavoured to for-

ward the object of the Committee, by calculating how much

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should be deducted from the value of goods imported, on ac-

count of articles in return for which nothing is exported. Tliese

deductions consist of the produce of fisheries, and of imports

from the East and West Indies, which are of the nature of rents,

profits, and capital remitted to proprietors in this country. The

balance of trade in favour of this country, upon the face of the

account thus made up, was :

In 1805 about £ 6,6i6;ooo

" 1806 •\* 10,437,000

" 1807 " 5,866,000

1808 \*\* 12,481,000

1809 " 14,834,000

ff

So far therefore, as any inference is to be drawn from the

balance thus exliibited, the exchanges during the present year,

in which many payments to this country on account of the very

advantageous balances of the two former years may be ex-

pected to take place, ought to be peculiarly favourable.

Your Committee, however, place little confidence in de-

ductions made even from the improved document which the

industry ,and intelligence of the Inspector General has enabled

him to furnish. It is defective, as Mr. Irving has himself stated,

inasmuch as it supplies no account of the sum drawn by for-

eigners (which is at the present period peculiarly large) on ac-

count of freight due to them for the employment of their ship-

ping, nor, on the other hand, of the sum receivable from them

(and forming an addition to the value of our exported articles), on

account of freight arising from the employment of British shipping.

It leaves out of consideration all interest on capital in England

possessed by foreigners, and on capital abroad belonging to

inhabitants of Great Britain, as well as the pecuniary trans-

actions between the governments of England and Ireland. It

takes no cognizance of contraband trade, and of exported and

imported bullion, of which no account is rendered at the Cus-

tom-house. It likewise omits a most important article, the

variations of which, if correctly stated, would probably be found

to correspond in a great degree with the fluctuations of the

apparently favorable balance ; namely, the bills drawn on gov-

ernment for our naval, military, and other expenses in foreign

parts. Your Committee had hoped to receive an account of

these from the table of the House ; but there has been some

difficulty and consequent delay in executing a material part ol

the order\* made for them. It appears from " An Account, as far

as it could be made out, of sums paid for expenses abroa/i ia

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1793-4-5-6," inserted in the Appendix of the Lords' Report on

the occasion of the Bank Restriction Bill, that the sums sc

paid were,

In 1793 £ 3,785.252

" 1794 8.335,591

" 1795 11,040,236

" 1796 10,649,916

The following is an account of the official value of our Im-

ports and Exports with the Continent of Europe, aloue, in

each of the last five years :

1805

1806

1807

1808

[809

IVPORTS.

;fio,oo8,649

8,i97»256

7.973.5«o

4,210,671

9.5Si»857

Exports.

jf15.465.430

X3»y6.386

12,039,590

11,280,490

23,722,615

Balance in iavor

of Great Britain,

reckoned m

Official Value.

£ 5.456,781

5,019,130

4.716,080

7,069,819

14.170,758

The balances with Europe alone in favour of Great Britain,

as exhibited in this imperfect statement, are not far from cor-

responding with the general and more accurate balances before

given. The favourable balance of 1809 with Europe alone, if

computed according to the actual value, would be much more

considerable than the value\* of the same year, in the former

general statement A favourable balance of trade on the face

of the account of exports and imports, presented annually to

Parliament, is a very probable consequence of large drafts on

Government for foreign expenditure ; and augmentation of ex-

ports, and a diminution of imports, being promoted and even

enforced by the means of such drafts. For if the supply of

bills drawn abroad, either by the agents of Government, or by

individuals, is disproportionate to the demand, the price of

them in foreign money falls, until it is so low as to invite pur-

chasers ; and the purchasers, who are generally foreigners, not

wishing to transfer their property permanently to England, have

a reference to the terms on which the bills on England will

purchase those British commodities which are in demand, either

in their own country, or in intermediate places, with which the

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account may be adjusted. Thus, the price of the bills being

regulated in some degree by that of British commodities, and

continuing to fall till it becomes so low as to be likely to afford

profit on the purchase and exportation of these commodities,

an actual exportation nearly proportionate to the amount of the

hills drawn can scarcely fail to take place. It follows, that

tliere cannot be, for any long period, either a highly favourable

or unfavourable balance of trade ; for the balance no sooner

affects the price of bills, than the price of bills, by its re-action

on the state of trade, promotes an equalization of commercial

exports and imports. Your Committee have here considered

cash and bullion as forming a part of the general mass of ex-

ported or imported articles, and as transferred according to the

state both of the supply and the demand ; forming, however,

under certain circumstances, especially in case of great fluct-

uations in the general commerce, a peculiarly commodious re-

mittance.

Your Committee have enlarged on the documents supplied

by Mr. Irving, for the sake of throwing further light on the

general question of the balance of trade and the exchanges,

and of dissipating some very prevalent errors which have a

great practical influence on the subject now under consideration.

That the real exchange against this country with the conti-

nent cannot at any time have materially exceeded the limit

fixed by the cost at that time of transporting specie, your ,

Committee are convinced upon the principles which have been

already stated. Tliat in point of fact, those exchanges have not

exceeded that limit seems to receive a very satisfactory illustra-

tion from one part of the eviderjce of Mr. Greffulhe, who, of

all the merchants examined, seemed most wedded to the opin-

ion that the state of the balance payments alone was suflicient

to account for any depression of the exchanges, however great.

From what the Committee have already stated with respect

to the par of exchange, it is manifest that the exchange between

two countries is at its real par, when a given quantity of gold

or silver in the one country is convertible at the market price

into such an amount of the currency of that country, as will

purchase a bill of exchange on the other country for such an

amount of the currency of that other country, as will there be

convertible at the market price into an equal quantity of gold

or silver of the same fineness. In the same manner the real ex-

change is in favour of a country having money transl.ction8

with another, when a given quantity of gold or silver in the for-

raer is convertible for such an amount in the currency of that

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latter country, as will there be convertible into a greater qnan-

tity of gold or silver of the same fineness.

Upon these principles, your Committee desired Mr, Greffulhe

to make certain calculations, which appear in his answers to

the following questions, viz. :

" Supposing you had a pound weight troy of gold of the

English standard at Paris, and that you wished by means of

that to procure a bill of exchange upon London, what would

be the amount of the bill of exchange which you would procure

in the present circumstances ? — I find that a pound of gold of

the British standard at the present market price of 105 francs,

and the exchange at 20 livres, would purchase a bill of exchange

of 59/. 8j.

"At the present market price of gold in London, how much

standard gold can you purchase for 59/. Sj. ? — At the price of

4/. 12^. I find it will purchase 15 ounces of gold, within a very

small fraction.

"Then what is the difference per cent, in the quantity of

standard gold which is equivalent to 59/. 8j. of our currency as

at Paris and in London ? — About 8^ per cent.

"Suppose you have a pound weight troy of our standard gold

at Hamburgh, and that you wished to part with it for a bill of

exchange upon London, what would be the amount of the bill

of exchange, which, in the present circumstances, you would

procure? — At the Hamburgh price of loi, and the exchange at

29, the amount of the bill purchased on London would be 58/.

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" What quantity of our standard gold, at the present price of

4/ i2«. do ypu purchase for 58/. 4?. ? — About 12 ounces and 3

dwts.

" Then what is the difference per cent, between the quantity

of standard gold at Hamburgh and in London, which is equiva-

lent to 58/. 4$'. sterling? — About 5^ per cent.

" Suppose you had a pound weight troy of our standard gold

at Amsterdam, and wished to part with it for a bill of e.xchange

upon London, what would be the amount sterling of the bill of

exchange which you would procure ? — At the Amsterdam price

of 14^, exchange 31.6, and Bank agio i per cent, the amount

of the bill on London would be 58/. 18^.

" At the present price of 4/. 12^. what quantity of our stand-

ard gold do you purchase in London for 58/. i8j. sterling ? —

12 oz. 16 dwts.

" How much is that per cent. ? — 7 per cent."

Similar calculations, but made upon different assumed data.

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will be found in the evidence of Mr. Abraham Goldsmid. From

these answers of Mr. GrefFiilhe, it appears, that when the com-

puted exchange with Hamburg was 29, that is, from 16 to 17

per cent, below par, the real difference of exchange, resulting

from the state of trade and balance of i)aynients was no more

than $\ per cent, against this country ; that when the computed

exchange with Amsterdam was 31. 6, that is about 15 per cent

below par, the real exchange was no more than 7 per cent,

against this country ; that when the computed exchange with

Paris was 20, that is 20 per cent, below par, the real exchonge

was no more than 8J- per cent, against this country. Aftei

making these allowances, therefore, for the effect of the balance

of trade and payments upon our exchanges with those places

there will still remain a fall of 1 1 per cent, in the exchange with

Hamburgh, of above 8 per cent, in the exchange with Holland,

and 11^ per cent, in the exchange with Paris, to be explained

in some other manner.

If the same mode of calculation be applied to the more

recent statements of the exchange with the continent, it will

perhaps appear, that though the computed exchange is at presenl

against this country, the real exchange is in its favor.

From the foregoing reasons relative to the state of the exchanges,

if they are considered apart, your Committee find it difficult to

resist an inference, tJaat a portion at least of the great fall which

the exchanges lately suffered must have resulted not from the

state of trade, but from a change in the relative value of our

domestic currency. But, when this deduction is joined with

that which your Committee have stated, respecting the change

in the market price of gold, that inference appears to be dem-

onstrated.

HI.

In consequence of the opinion which your Committee enter-

tained, that, in the present artificial condition of the circulating

medium of this country, it is most imi>or!ani- to watch the

foreign exchanges and the market price of gold, youi Conmiittee

were desirous to learn whether the Directors of the Dank of

England held the same opinion, and derived from it a practical

rule for the control of their circulation ; and particularly

whether, in the course of the last year, the great depression of

the exchanges, and the great rise in the ])rice of gold, had sug-

gested to the Directors any suspicion of the currency of the

country being excessive.

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Mr. Whitmore, the late Governor of the Bank, stated to Ac

Committee, that in regulating the general amount of the loans

and discounts, he did \*\* not advert to the circumstance of the

exchanges ; it appearing upon a reference to the amount of our

notes in circulation, and the course of exchange, that they fre-

quently have no connexion." He afterward said, " My opinion

is, I do not know whether it is that of the Hank, that the

amount of our paper circulation has no reference at all to the

state of the exchange." And on a subsequent day, Mr. Whit-

more stated, that \*\* the present unfavourable state of exchange

has no influence upon the amount of their issues, the Hank

having acted precisely in the same way as they did before." He

was likewise asked. Whether, in jegulating the amount of their

circulation, the Bank ever adverted to the difference between

the market and Mint price of gold ? and having desired to have

time to consider that question, Mr. Whitmore, on a subsequent

day, answered it in the following terms, which suggested these

further questions :

In taking into consideration the amount of your notes, out

in circulation, and in limiting the extent of your discounts to

merchants, do you advert to the difference, when such exists,

between the market and the Mint price of gold ? — We do ad-

vert to that, inasmuch as we do not discount at any time for

those persons who we know, or have good reason to suppose,

exj>ort the gold.

\*' Do you not advert to it any farther than by refusing dis-

counts to such persons? — We do advert to it, inasmucli as

whenever any Director thinks it bears upon the question of our

discounts, and presses to bring forward the discussion.

" The market price of gold having, in the course of the last

year, risen as high as 4/. \os, or 4/. I2J., has that circumstance

been taken into consideration by you, so as to have had any

effect in diminishing or enlarging the amount of the outstand-

ing demands ? — It has not been taken into consideration by me

in that view."

Mr, Pearse^ now Governor of the Bank, agreed with Mr.

Whitmore in this account of the practice of the Bank, and ex-

pressed his full concurrence in the same opinion.

Mr, Pearse, — \*\* In considering this subject, with reference

to the manner in which Bank notes are issued, resulting from the

applications made for discounts to supply the necessary want

of Bank no:es, by which their issue in amount is so controlled

that it can never amount to an excess, I cannot see how the

amount of Bank notes issued can operate upon tlie price of

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Bullion, or the state of the exchanges, and therefore I am in-

dividually of opinion that the price of Bullion, or the state of the

exchanges, can never be a reason for lessening the amount of

Bank notes to be issued, always understanding the control

which I have already described.

"Is the Governor of the Bank of the same opinion, which

Vas now been expressed by the Deputy Governor ?

Mr, Whiimore, — " I am so much of the same opinion, that I

never think it necessary to advert to the pripe of gold, or the

state of the exchange, on the days on which we make our

advances.

" Do you advert to these two circumstances with a view to

regulate the general amount of your acjvances ? — I do not ad-

vert to it with a view to our general advances, conceiving it

not to bear upon the question."

And Mr. Ifarman, another Bank Director, expressed his

opinion in these terms — " I must very materially alter my

opinions before I can suppose that the exchanges will be

influenced by any modifications of our paper currency."

These gentlemen, as well as several of the merchants who

appeared before the Committee, placed much reliance upon an

argument which they drew from the want of correspondence in

point of time, observable between the amount of Bank of

England notes and the state of the Hamburgh exchange dur-

ing several years ; and Mr. Pearse presented a paper on this

subject, which is inserted in the Appendix. Your Committee

would feel no distrust in the general principles which they have

stated, if the discordance had been greater ; considering the

variety of circumstances which have a temporary effect on ex-

change, and the uncertainty both of the time and the degree

in which it may be influenced by any given quantity of paper.

It may be added, that the numerical- amount. of notes (suppos-

ing i/. and 2/. notes to be excluded from the statement) did

not materially vary during the period of the comparison ; and

that in the last year, when the general exchanges with Europe

have become much more unfavourable, the notes of the Bank

of England, as well as those of the country Banks, have been

very considerably increased. Your Committee, however, on

the whole, are not of opinion that a material depression of the

exchange? has been manifestly to be traced in its amount and

degree to an augmentation of notes corresponding in point of

time. They conceive, that the more minute and ordinary fluc-

tuations of exchange are generally referable to the course of

our commerce ; t lat political events, operating upon the state

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of trade, may oflen have contributed as well to the rise as to

the fall of the exchange ; and in particular, that tlie first re-

markable depression of it in the beginning of 1S09, is to be as-

cribed, as has been stated in the evidence already quoted, to

commercial events arising out of the occupation of the North

of Germany by the trooi>s of the French Emperor. The evil

has been that the exchange, when fallen, has not had the fall

means of recovery under the subsisting system. And if those

occasional depressions, which arise from commercial causes,

are not after a time successively corrected by the remedy which

used to apply itself before the suspension of the cash pay-

ments of the Bank, the consequences may ultimately be exactly

similar to those which a sudden and extravagant issue of paper

would produce. The restoration of the exchange used to be

effected by the clandestine transmission of guineas, which im-

proved it for the moment by serving as a remittance ; and un-

questionably also in part, probably much more extensively, by

the reduction of the total quantity of the remaining circulating

medium, to which reduction the banks were led to contribute by

the caution which every drain of gold naturally excited. Un-

der the present system, the former of these remedies must be

expected more and more to fail, the guineas in circulation be-

ing even now apparently so few as to form no important remit-

tance ; and the reduction of paper seems therefore the chief,

if not the sole corrective, to be resorted to. It is only after

the Bank shall have for some time resumed its cash payments,

that both can again operate, as they did on all former occasions

prior to the restriction.

The Committee cannot refrain from expressing it to be their

opinion, after a very deliberate consideration of 5iis part of the

subject, that it is a great practical error to suppose that the ex-

changes with foreign countries, and the price of Bullion, are

not liable to be aff jcted by the amount of a paper currency,

which is issued without the condition of payment in specie at

the will of the holder. That the exchanges will be lowered,

and the price of Bullion raised, by an issue of such paper to

excess, is not only established as a principle by the most emi-

nent authorities upon commerce and finance ; but its practical

truth has been illustrated hy the history of almost every state

in modern times which has used a paper currency ; and in all

those countries, this principle has finally been resorted to by

their statesmen, as the best criterion to judge by, whether such

currency was or was not excessive.

In the instances which are most familiar in the history of

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foreign countries, the excess of paper has been usually accom-

panied by another circumstance, which has no place in our sit-

uation at present, a want of confidence in the sufficiency of

those funds upon which the paper had been issued. Where

these two circumstances, excess and want of confidence, are

conjoined, they will co-operate and produce their effect much

more rapidly then when it is the result of the excess only of a

paper of perfectly good credit ; and in both cases an effect of

the same sort will be produced upon the foreign exchanges,

and upon the price of bullion. The most remarkable exam-

ples of the former kind are to be found in the history of the

paper currencies of the British Colonies in North America, in

the early part of the last century, and in that of the assignats

of the French Republic : to which the Committee have been

enabled to add another, scarcely less remarkable, from the

money speculations of the Austrian government in the last

campaign, which will be found in the Appendix. The present

state of the currency of Portugal affords, also, an instance of

the same kind.

Examples of the other sort, in which the depreciation was

produced by excess alone, may be gathered from the experi-

ence of the United Kingdom at different times.

In Scotland, about the end of the seven years' war, banking

was carried to a very great excess ; and by a practice of inserting

in their promissory notes an optional clause of paying at sight,

or in six months after sight with interest, the convertibility of

such notes into specie at the will of the holder was in effect sus-

pended. These notes accordingly became depreciated in com-

parison with specie ; and while this abuse lasted, the exchange

between London and Dumfries, for example, was sometimes

four per cent, against Dumfries, while the exchange between

London and Carlisle, which is not thirty miles distant from Dum-

fries, was at par. The Exiinburgh banks, when any of their

paper was brought in to be exchanged for bills on London,

were accustomed to extend or contract the date of the bills

they gave, according to the state of the exchange, diminishing

in this manner the value of those bills, nearly in the same de-

gree in which the excessive issue had caused their paper to be

depreciated. This excess of paper was at last removed by

granting bills on London at a fixed date ; for the paynent of which

bills, or in other words, for the payment of which excess of

paper, it was necessary in the first instance to provide, by

placing large pecuniary funds in the hands of their I^ondon

correspondents. In aid of such precautionary measures on the

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part of the Edinburgh banks, an act of Parliament prohibited

the optional clauses, and suppressed ten and five shilling notes.

The exchange between England and Scotland was speedily re-

stored to its natural rate : and bills on London at a 6xed date

having ever since been given in exchange for the circulating

notes of Scotland, all material excess of Scottish paper alx>ve

Bank of England has been prevented, and the exchange has

been stationary.

The experience of the Bank of England itself, within a very

short period after its first establishment, furnishes a ver}' in-

structive illustration of all the foregoing principles and reason-

ings. In this instance, the effects of a depreciation of the coin,

by wear and clipping, were coupled with the effect of an ex-

cessive issue of paper.\* The Directors of the Bank of England

did not at once attain a very accurate knowledge of all the

principles by which such an institution must be conducted.

They lent money not only by discount, but upon real securitiesi

mortgages, and even pledges of commodities not perisihable ,'

at the same time, the Bank contributed most materially to the

service of government for the support of the army upon the Con-

tinent. By the liberality of these loans to private individuals, as

well as by the la.'ge advances to government, the quantity of

the notes of the Lank became excessive, their relative value

was depreciated, and they fell to a discount of 17 per cent.

At this time there appears to have been no failure of the pub-

lic confidence in the funds of the Bank ; for its stock sold for

no per cent., though only 60 per cent, upon the subscriptions

had been paid in. By the conjoint effect of this depreciation

of the paper of the Bank from excess, and of the depreciation

of the silver coin from wear and clipping, the price of gold

bullion was so much raised, that guineas were as high as y^s. \ all

that had remained of good silver gradually disappeared from the

circulation ; and the exchange with Holland, which had been

before a little affected by the remittances for the army, sunk

as low as 25 per cent, under par, when the Bank f notes were

\* See a short account of the Bank by Mr. Goclfrey, one of the original

Directors ; and a Short History of the Last Parliament, 1699, by Dr.

Drake ; both in Lord Somers' Collection of Tracts.

f Macleod (Diet, of P. £. I. 303) takes exception to this statement, and

in the form in which it stands, it is liable to be misunderstood. The hiv

tory of American currency shows how much nominal convertibility may dif-

fer from actual convertibility, but notes cannot fall to 17 per cent, discount,

while the Bank offers to pay on demand. The Bank stopped payment in

May, 1696, and then its notes feU to the discount named.

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at a discount of 1 7 per cent Several expedients were tried,

both by Parliament and by the Bank, to force a better silver coin

into circulation, and to reduce the ]3rice of guineas, but with-

out efifect. At length the true remedies were resorted to : first,

by a new coinage of silver, which restored that part of the cur-

rency to its standard value, though the scarcity of money occa-

sioned by calling in the old coin brought the Bank into

straits, and even for a time affected its credit ; secondly, by

taking out of the circulation the excess of Bank notes. This

last operation appears to have been effected very judiciously.

Parliament consented tQ. enlarge the capital stock of the Bank,

but annexed a condition, directing that a certain proportion of

the new subscriptions should be made good in Bank notes. In

proportion to the amount of notes sunk in this manner, the

value of those which remained in circulation began pres-

ently to rise ; in a short time the notes were at par, and the

foreign exchanges nearly so. These details are all very fully

mentioned in authentic tracts published at the time, and the

case appears to your Committee to afford much instruction

upon the subject of their present inquiry.

Your Committee must next refer to the confirmation and

sanction which all their reasonings receive from the labours of

the Committee of this House, which was appointed in a former

Parliament to examine into the causes of the great depreciation

of the Irish exchange with England in 1804. Most of the mer-

cantile persons who gave evidence before that Committee, in-

cluding two Directors of the Bank of Ireland, were unwilling to

adroit that the fall of the exchange was in any degree to be as-

cribed to an excess of the paper currency arising out of the re-

striction of 1797 ; the whole fall in that case, as in the pres-

ent, was referred to an unfavourable balance of trade or of

payments ; and it was also then affirmed, that '\* notes issued

only in proportion to the demand, in exchange for good and

convertible securities, payable at specific periods, could not

tend to any excess in the circulation, or to any depreciation.''

This doctrine, though more or less qualified by some of the

witnesses, pervades most of the evidence given before that

Committee, with the remarkable exception of Mr. Mansfield,

whose knowledge of the effects of that over issue of Scotch

paper, which has just been mentioned, led him to deliver a

more just opinion on the subject. Many of the witnesses be\*

fore the Committee, however unwilling to acknowledge the

real nature of the evil, made important concessions, which

necessarily involved them in inconsistency. They could not|

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as practical men, controvert the truth of the general porition,

that ''the fluctuations of exchange between two countries are

generally limited by the price at which any given quantity of

bullion can be purchased in the circulating medium of the

debtor country, and converted into the circulating medium of

the creditor country, together with the insurances and charges

of transporting it from the one to the other." It was at the

same time admitted, that the expense of transporting gold

from England to Ireland, including insurance, was then under

one per cenf ; that before the restriction, the fluctuations had

never long and much exceeded this limit ; and,, moreover, at

the exchange with Belfast, where guineas freely circulated at

the time of the investigation by that Committee was then i^ in

favor of Ireland, while the exchange with Dublin, where only

paper was in use, was lo/. per cent, against that country. It

also appeared from such imi)erfect documents as it was practi-

cable to furnish, that the balance of trade was then favourable

to Ireland. Still, however, it was contended, that there was no

depreciation of Irish paper, that there was a scarcity and conse-

quent high price of gold, and that the diminution of Irish paper

would not rectify the exchange. " The depreciation of Bank

paper in Ireland" (it was said by one of the witnesses, a

Director of the Bank of Ireland) " is entirely a relative term

with respect to the man who buys and sells in Dublin by that

common medium : to him it is not depreciated at all ; but to the

purchaser of a bill on London, to him in that relation, and un-

der that circumstance, there is a depreciation of lo per cent."

By thus avoiding all comparison with a view to the point in

issue between the value of their own paper and that of either

the then circulating medium of this country or of gold bullion,

or even of gold coin then passing at a premium in other parts

of Ireland, they appear to have retained a confident opinion,

that no depreciation of Irish paper had taken place.

It is further observable, that the value of a considerable

quantity of dollars put into circulation by the Bank of Ireland

at this period was raised to 5J. a dollar, for the professed pur-

pose of rendering the new silver coin conformable to the exist-

ing state of the exchange, a circumstance on which the Commit-

tee animadverted in their Report, and which serves to show that

the Irish paper currency could not stand a comparison with the

standard price of silver, any more than with that of gold bul-

lion, with gold in coin, or with the tlien paper currency of

this kingdom.

A fact was mentioned to that Committee on the evidence

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of Mr. Colville, a Director of the Bank of Ireland, which

though it carried no conviction to his mind of the tendency of

a limitation of paper to lower exchanges, seems very deci-

sive on this point. He stated that in 1753 ^"^ i754y ^^^

Dublin exchange being remarkably unfavourable, and the

notes of the Dublin Bank being suddenly withdrawn, the

exchange became singularly favourable. The mercantile dis-

tress produced on that occasion was great, through the sudden-

ness of the operation, for it was effected, not by the gradual

and prudential measures of the several Banks, but through the

violent pressure which their unguarded issues had brought

upon them. The general result, however, is not the less

observable.

With a view to the further elucidation of the subject of the

Irish exchanges, which so lately attracted the attention of Par-

liament, it may be proper to remark that Ireland has no deal-

ings in exchange with foreign countries, except through Lon-

don, and that the payments from Ireland to the Continent are

consequently converted into English currency, and then into

the currency of the countries to which Ireland is indebted. In

the spring of 1804 the Exchange of England with the Conti-

nent was above par, and the Exchange of Ireland was in such

a state that 118/. lox. of the notes of the Bank of Ireland

would purchase only 100/. of those of the Bank of England.

Therefore, if the notes of the Bank of Ireland were not depre-

ciated, and it was so maintained, it followed that the notes of

the Bank of England were at more than 10 per cent, premium

above the standard coin of the two countries.

The principles laid down by the Committee of 1804, had

probably some weight with the Directors of the Bank of Ire-

land; for between the period of their Report (June, 1804) and

January, 1806, the circulation of the notes of the Bank of Ire-

land was gradually (though with small occasional fluctuations)

reduced from about three millions to 2,410,000/., being a diminu-

tion of nearly one-fifth ; at the same time, all the currency which

had been issued under the name of silver tokens, was by law

suppressed. The paper currency, both of the Bank of England

and of the English country Banks, seems during the same

period to have gradually increased. The combination of these

two causes is likely to have had a material effect in restoring

to par the Irish exchange with England.

The Bank of Ireland has again gradually enlarged its issues

to about 3,100,000/., being somewhat higher than they stood

in 1804, an increiise probably not disproportionate to that

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which has occurred in England within the same period. Per-

haps, however, it ought not to be assumed, that the diminution

of issues of the Bank of Ireland between 1804 and 1806, woukl

produce a corresponding reduction in the issues of private

Banks in Ireland, exactly in the same manner in which a Uiiu-

inution of Bank of England paper produces that effect on the

country banks in Great Britain ; because the Bank of Ireland does

not possess the same exclusive power of supplying any ])art ol

that country with a paper currency, which the Bank of England

enjoys in respect to the metropolis of the empire. The Hank

of England, by restricting the quantity of this necessary article

in that important quarter, can more eflfectually secure the im-

provement of its value ; and every such improvement must

necessarily lead, by a corresponding diminution in amount, to

a similar augmentation of the value of country Bank paper ex-

changeable for it. That the same diminution of the circulation

of private Banks took place in Ireland is more than probable,

for the private Banks, in Ireland are accustomed to give Bank

of Ireland paper for their own circulating notes when required

to do so, and therefore could not but feel the effect of any new

limitation of that paper for which their own was exchangeable.

It is due, however, in justice to the present Directors of the

Bank of England, to remind the House that the susi)ensiQn

of their cash ])ayments, though it appears in some degree to

have originated in a mistaken view taken by the Bank of the

peculiar difficulties of that time was not a measure sought for

by the Bank, but imposed upon it by the Legislature for what

were held to be urgent reasons of state policy and public ex-

pediency. And it ought not to be urged as matter of charge

against the Directors, if in this novel situation in which their

commercial company was placed by the law, and entrusted with

the regulation and control of the whole circulating medium of ihe

country, they were not fully aware of the principles by winch

so delicate a trust should be executed, but continued to con-

duct their business of discounts and advances according to

their former routine.

It is important at the same time, to observe, that under the

former system, when the Bank was bound to answer its notes

in specie upon demand, the state of the foreign exchanges and

the price of gold did most materially influence its conduct in

the issue of those notes, though it was not the practice of the

Directors systematically to watch either the one or the other.

So long as ^old was demandable for their paper, they were

speedily apprised of a depression of the exchange, and a rise ia

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the price of gold, by a run upon them for that article. If at

any time they incantiously exceeded the proper limit of their

ftdrances and issues, the paper was quickly brought back to

them, by those who were temipted to profit by the market price

of gold or by the rate of exchange. In this manner the evil

soon cured itself. The Directors of the Bank having their ap

prehensions excited by the reduction of their stock of gold, and

being able to replace their loss only by reiterated purchases

of bullion at a very losing price, naturally contracted their

issues of paper, and thus gave to the remaining paper, as well

as to the coin for which it was interchangeable, an increased

value, while the clandestine ex)>ortation either of the coin, or

the gold produced from it, combined in improving the state of

the exchange and in producing a corres|>onding diminution of

the difference between the market price and Mint price of gold,

or of paper convertible into gold.

Your Committee do not mean to represent that the manner

is which this effect resulted from the conduct which they have

described, was distinctly perceived by the Bank Directors. The

fact of limiting their paper as often as they experienced any

great drain of gold, is, however, unquestionable. Mr. Bosanquet

stated, in his evidence before the secret Committee of the House

of Lords, in the year 1 797, that ig 1 783, when the Bank exjHiri-

enced a drain of cash, which alarmed them, the Directors took a

bold step and refused to make the advances on the loan of that

year\* This, he said, answered the purpose of making a tem-

porary suspension in the amount of the drain of their specie.

And all the three Directors who have been examined before

yoor Committee, represent some restriction of the Bank issues

as having usually taken place at those i)eriods antecedent to

this suspension of the cash payments of the Bank when they

experienced any material nm. A very urgent demand for

guineas, though arising not from the high price of gold and the

state of the exchange, but from a fear of invasion, occurred in

1793, and also in 1797, and in each of these periods the Bank

restrained their discounts, and consequently also the amoimt of

their notes, very much below the demands of the merchants.

Your Committee question the policy of thus Limiting the accom-

modation in a ])eriod of alarm, unaccompanied with an un-

favorable exchange and high price of bullion ; but they consider

the conduct of the Bank at the two last mentioned periods, at

affording illustration of their general disposition, antecedently

to X797, to contract tlieir loans and their pa|>er, when they

found their gold to be taken from tlienu

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It was a necessary consequence of the suspension of caab

pa3niients, to exempt the Bank from that drain of gold, which, .

in former times, was sure to result from an unfavorable

exchange and a high price of bulHon. And the Directors,

released from all fears of such a drain, and no longer feeling

any inconvenience from such a state of things, have not been

prompted to restore the exchanges and the price of gold to their

proper level by a reduction of their advances and issues. The

Directors, in former times, did not perhaps perceive and

acknowledge the principle more distinctly than those of the

present day, but they felt the inconvenience, and obeyed its

impulse ; which practically established a check and limitation

to the issue of paper. In the present times the inconvenience

is not felt ; and the check, accordingly, is no longer in force.

But your Committee beg leave to report it to the House as

their most clear opinion, that so long as the suspension of cash

payments is permitted to subsist, the price of gold bullion and

the general course of exchange with foreign countries, taken for

any considerable period of time, form the best general criterion

from which any inference can be drawn, as to the sufficiency or

excess of paper cui-rency in circulation ; and that the Bank of

England cannot safely regulate the amount of its issues, without

having reference to the criterion presented by these two circum-

stances. And upon a review of all the facts and reasonings

which have already been stated, your Committee are further of

opinion, that, although the commercial state of this country,

and the political state of the continent, may have had some

influence on the high price of gold bullion and the unfavourable

course of exchange with foreign countries, this price, and this

depreciation, are also to be ascribed to the want of a perma-

nent check, and a sufficient limitation of the paper currency in

this country.

\\\ connection with the general subject of this part of their

report, the policy of the Bank of England ^ respecting the

amount of their circulation, your Committee have now to call

the attention of the House to another topic, which was brought

under their notice in the course of their inquiry, and which in

their judgment demands the most serious consideration. The

Bank Directors, as well as some of the merchants who have

been examined, shewed a great anxiety to state to your Com-

mittee a doctrine, of the truth. of which they professed them-

selves to be most thoroughly convinced, that there can be no

possible excess in the issue of Bank of England paper, so long

as the advances in which it is issued arc nude upon the princi\*

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pies which at present guide the conduct of the Directors, that

is, so long as the discount of mercantile bills are confined to

paper of undoubted solidity, arising out of real commercial

transactions, and payable at short and fixed periods. That the

discounts should be made only upon bills growing out of real

commercial transactions, and falling due in a fixed and short

period, are sound and well-established principles. But that,

while the Bank is restrained from paying in specie, there need

be no other limit to the issue of their paper than what is fixed

by such rules of discount, and that during the suspension of

cash payments the discount of good bills falling due at short

periods cannot lead to any excess in the amount of bank paper

in circulation, appears to your Committee to be a doctrine

wholly erroneous in principle, and pregnant with dangerous

consequences in practice.

But before your Committee proceed to make such observa-

tions upon this theory as it appears to them to deserve, they

think it right to shew from the evidence, to what extent it is

entertained by some of those individuals who have been at the

head of the affairs of the Bank. The opinions held by those

individuals are likely to have an important practical influence ;

and appeared to your Committee, moreover, the best evidence

of what has constituted the actual i>oIicy of that establishment

in its corporate capacity.

Mr. Whitmore, the late Governor of the Bank, 'expressly

states, " The Bank never force a note in circulation, and there

will not remain a note in circulation more than the immediate

wants of the public require ; for no banker, I presume, will

keep a larger stock of bank notes by him than his immediate

^payments require, as he can at all times procure them." The

reason here assigned is more particularly explained by Mr.

Whitmore, when he says, "The Bank notes would revert to us

if there was a redundancy in circulation, as no one would pay

interest for a bank note thai he did not want to make use of."

Mr. Whitmore further states, "The criterion by which 1 judge

of the exact proportion to be maintained between the occa-

sions of the public, and the issues of the Bank, is by avoiding

as much as possible to discount what does not appear to be

legitimate mercantile paper." And further when asked. What

measure the court of Directors has to judge by, whether the

quantity of bank notes out in circulation is at any time exces\*

sive ? Mr. Whitmore states, that their measure of the security

or abundance of bank notes is certainly by the greater or less

application that is made to them for the discount of good paper

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Mr. Pearse, late Deputy-Governor, and now Governor of thr

Bank, stated very distinctly his concurrence in opinion with Mr.

Whitmore upon this particular point. He referred \*\* to the

manner in which bank notes are issued, resulting from the a]>

plications made for discounts to supply the necessary want of

bank notes, by which their issue in amount is so controlled

that it can never amount to an excess." He considers " the

amount of the bank notes in circulation as being controlled by

the occasions of the public, for internal purposes,\*' and that,

\*'\*' from the manner in which the issue of bank notes is con-

trolled, the public will never call for more than is absolutely

necessary for their wants."

Another Director of the Bank, Mr. Harman, being asked, If

he thought that the sum total of discounts applied for, even

though the accommodation afforded should be on the security

of good bills to safe persons, might be such as to produce

some excess in the quantity of the Bank issues, if fully com-

plied with ? he answered, \*\* 1 think if we discount only for solid

persons, and such paper as is for real bond-fide transactions,

we cannot materially err." And be afterwards states, that what

be should consider as the test of a superabundance would be,

" money being more plentiful in the market"

It is material to observe, that both Mr. Whitmore and Mr.

Pearse state that \*\* the Bank does not comply with the whole

demand upon them for discounts, and that they are never in-

duced, by a view to their own profit, to push their issues be-

yond what they deem consistent with the public interest."

Another very important part of the evidence of these gen-

tlemen upon this point, is contained in the following ex-

tract :

^' Is it your opinion that the same security would exist against^

any excess in the issues of the Bank, if the rate of the discount

wcfre reduced from 5/. to 4/. per cent. ? " Answer. — " The

security of an excess of issue would be, I conceive, precisely

the same." Mr. Pearse, — " 1 cor>cur in that answer."

"If it were reduced to 3/. ]>er cent. ? " — Mr. IV/itimore. — " I

conceive there would be no difference if our practice remained

the same as now, of not forcing a note into circulation." Mr.

Pearse, — " I concur in that answer."

Your Committee cannot help again calling the attention of

the House to the view which this evidence presents, of the

consequences which have resulted from the peculiar situation

in which the Bank of England was placed by the suspension ot

cash payments. So long as the paper of the Bank was con«

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vertible into specie at the will of the holder, it was enough,

both iot the safety of the Bank and for the public interest in

what regarded its circulating medium, that the Directors at-

tended only to the character and quality of the bills discounted,

as real ones and payable at fixed and short periods. They could

not much exceed the proper bounds in respect of the quantity

and amount of bills discounted, so as thereby to produce an ex-

cess of their paper in circulation, without quickly finding that

the surplus returned ttpo& themselves in den>and for specie.

The private interest of the Bank to guard themselves against

a continued demand of that nature, was a sufficient protection

for the public against any such excess of Bank paper as

would occasion a material fall in the relative value of the cir-

culating medium. The restriction of cash payments, as has

abready been shown, having rendered the same preventive

policy no longer necessary to the Bank, hats removed that checl^

upon its issues, which was the public security against an

excess. When the Bank Directors were no longer exposed to

the inconvenience of a drain upon them for gold, they naturally

felt that they had no such inconvenience to guard against by a

more restrained system of discounts and advances ; and it was

very natural for them to pursue, as before (but without that sort

of guard and limitation which was now become unnecessary to

their own security), the same liberal and prudent system ol

commercial advances from which the prosperity of their own

establishment had resulted, as well as in a great degree the

commercial prosperity of the whole country. It was natural

for the Bank Directors to believe, that nothing but benefit

could accrue to the public at large, while they saw the growth,

of Bank profits go hand in hand with the acommodations

granted to the merchants. It was hardly to be expected of

the Directors of the Bank, that they should be fully aware d \*

the consequences that might result from their pursuing, after

the suspension of cash payments, the same system which they

had found a safe one before. To watch the operation of so new

a law, and to provide against the injury which might result fi^om

it to the public interests, was the province, not so much of the

Bank as of the Legislature r and> in the opinion of your Com-

mittee, there is room to regret that this House has not taken

earlier notice of all the consequences of that law.

By far the most important 6f those consequences is, that

while the convertibihty into specie no longer exists as a check

to an overissue of paper^ the Bank Directors have not per\*

ceived that the removal ol that check rendered it possible that

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such an excess might be issued by the discount of peifecdy

good bills. So far from perceiving this, your Committee have

shown that they maintain the contrary doctrine with the

utmost confidence, however it may be qualified occasionally

by some of their expressions. That this doctrine is a very

fallacious one, your Committee cannot entertain a doubt The

fallacy, upon which it is founded, lies in not distinguishing be-

tween an advance of capital to merchants, and an addition of

supply of currency to the general mass of circulating medium.

If the advance of capital only is considered, as made to those

who are ready to employ it in judicious and productive under-

takings, it is evident there need be no other limit to the total

amount of advances than what the .means of the lender, and

his prudence in the selection of borrowers, may impose. But

in the present situation of the Bank, intrusted as it is with the

%nction of supplying the public with that paper currency

which forms the basis of our circulation, and at the same time

not subjected to the liability of converting the paper into specie,

every advance which it makes of capital to the merchants

in the shape of discount, becomes an addition also to the mass of

circulating medium. In the first instance, when the advance

is made by notes paid in discount of a bill, it is undoubtedly

so much capital, so much power of making purchases, placed

in the hands of the pierchant who receives the notes ; and if

those hands are safe, the operation is so far, and in this its

first step, useful and productive to the public. But as soon as

the portion of circulating medium in which the advance

was thus made performs in the hands of him to whom it was

advanced this its first operation as capital, as soon as the notes

are exchanged by him for some other article which is capital,

they fall into the channel of circulation as so much circulat-

ing medium, and form an addition to the mass of currency.

The necessary effect of every such addition to the mass is to

diminish the relative value of any given portion of that mass

in exchange for commodities. If the addition were made by

notes convertible into specie, this diminution of the relative

value of any given portion of the whole mass would speedily

bring back upon the Bank which issued the notes as much

as was excessive. But if by law they are not so convertible,

of course this excess will not be brought back, but will remain

in the channel of circulation, until paid in again to the Bank

itself in discharge of the bills which were originally discounted.

During the whole time they remain out, they perform all the

functions of circulating medium ; and before they come to be

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paid in discharge of those bills, they have already been fol-

lowed by a new issue of notes in a similar operation of dis-

counting. Each successive advance repeats the same process.

If the whole sum of discounts continues outstanding at a given

amount, there will remain permanently out in circulation a

corresponding amount of paper ; and if the amount of discounts

is progressively increasing, the amount of paper, which remains

out in circulation over and above what is otherwise wanted for

the occasions of the public, will progressively increase also, and

the money prices of commodities will progressively rise. This

progress may be as indefinite, as the range of speculation and

adventure in a great commercial country.

It is necessary to observe, that the law, which in this coun-

try limits the rate of interest, and of course the rate at which

the Bank can legally discount, exposes hhe Bank to still more

extensive demands for commercial discounts. While the rate of

commercial profit is very considerably higher than five per cent.,

as it has lately been in many branches of our foreign trade, there is

in fact no limit to the demands which merchants of perfectly

good capital, and of the most prudent spirit of enterprise, may

be tempted to make upon the Bank for accommodation and

facilities by discount. Nor can any argument or illustration

place in a more striking point of view the extent to which such

of the Bank Directors as were examined before the Commit-

tee, seem to have in theory embraced that doctrine upon which

your Committee have made these observations, as well as the

practical consequences to which that doctrine may lead in pe-

riods of a high spirit of commercial adventure, than the opin-

ion which Mr. Whitmore and Mr. Pearse have delivered; that

the same complete security to the public against any excess in

the issues of the Bank would exist if the rate of discount were

reduced from five to four, or even to three per cent. From the

evidence, however, of the late Governor and Duputy Governor

o^ the Bank it appears, that though they state the principle

broadly, that there can be no excess of their circulation if issued

according to their rules of discount, yet they disclaim the idea

of acting up to it in its whole extent ; though they stated the

applications for the discount of legitimate bills to be their sole

criterion of abundance or scarcity, they gave your Committee

to understand that they do not discount to the full extent ol

such applications. In other words, the Directors do not act

up to the principle which they represent as one perfectly sound

%nd safe, and must be considered, therefore, as possessing no

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distiiiet and certain rule to guide their discretion in ccHittil>

liug the amount of their circulation.

The suspension of cash i>a3mients has had the effect of com-

roitting into the hands of the Directors of the Bank of England,

to be exercised by their sole discretion, the important charge

of supplying the country with that quantity of circulating n>e«

dium which is exactly proportioned to the wants and occasions

of the public. In the judgment of the Committee, that is a

trust which it is unreasonable to expect that the Directors of

the Bank of England should ever be able todischarge. The most

detailed knowledge of the actoal trade of the country, comlnned

with the profound science in all the principles of money and cir-

culation, would not enable any man or set of n>en to adjust, and

keep always adjusted, the right proportion of circulating me-

dium in a country to the wants of trade. When the currenc3r

consists entirely of the precious metals, or of paper convertib^

at will into the precious metals, the natural process of coca-

merce, by establishing exchanges, among all the different conn-

tries of the world, adjust, in every particular country^ the pro-

portion of circulating medium to its actual occasions, according

to that supply of the precious metals which the tnlDes furnisl\

to the general market of the world. The proportion which is

thus adjusted and maintained by the natural operation of com-

merce, cannot be adjusted by any human wisdom or skilL If

the natural system of currency and circulation be abandoned,

and a discretionary issue of paper money substituted in its

stead, it is vain to think that any rules can be devised for the

exact exercise of such discretion ; though some cautions may

be pointed out to check and control its consequences^ su<^ as

are indicated by the effect of an excessive issue upon ex-

changes and the price of gold. The Directors of the Bank of

England, in the judgment of your Committee, have exercised the

new and extraordinary discretion reposed in them since 1 797, with

an integrity and a regard to the public interest according to their

conceptions of it, and indeed a degree of forbearance in turning it

less to the profit of the Bank than it would easily have admitted

of, that merit the continuance of that confidence which the pub-

lic has so long and so justly felt in the integrity with which its af-

fairs are directed, as well as in the unshaken stability and ample

funds of that great establishment. That their recent policy in\*

volves great practical errors, which it is of the utmost public im

portance to correct, your Committee are fully convinced ; bqt thos\*

errors are less to be imputed to the Bank Directors than to be

stated as the effect of a new system, of which, however it originat\*

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ed or was rendered necessary as a temporary expedient, it might

have been well if Parliament had sooner taken into view all the

consequences. When your Committee consider that this discre-

tionary power of supplying the kingdom with circulating medium

has been exercised under an opinion that the paper could not be

issued to excess if advanced in discounts to merchants in good bills

payable at stated periods, and likewise under an opinion that

neither the price of bullion nor the course of exchanges need be

adverted to, as affording any indication with respect to the suf-

fidency or excess of such paper, your Committee cannot hesi-

tate to say that these opinions of the Bank must be regarded as

in a great measure the operative cause of the continuance of

the present state of things.

IV.

Your Committee will now proceed to state from the informa-

tion which has been laid before them what appears to have been

the progressive increase, and to be the present amount of the

paper circalation of this country, consisting primarily of the notes

of the Bank of England not at present convertible into specie ;

and, in a secondary manner, of the notes of the country bankers

which are convertible, at the option of the holder, into Bank of

England paper. After having stated the amount of Bank of

England paper, your Committee will explain the reasons which

induce them to think that the numerical amount of that paper

is not alone to\*be considered as decisive of the question as to

its excess: and before stating the amount of country bank

paper, so for as that can be ascertained, your Committee will

explain their reasons for thinking that the aniount of the coun-

try bank circulation is limited by the amount of that of the

Bank of England.

X. It appears from the accounts laid before the Committees

upon the Bank affairs in i797) that for several years previous

to the year 1 796, the average amount of bank notes in circii-

lation was between 10,000,000/. and 11,000,000/., hardly ever

falling below 9,000,000/., and not often exceeding to any great

amount 11,000,000/.

The following abstract of the several accounts referred to

your Committee, or ordered by your Committee from the Bank,

will show the progressive increase of the notes from the yeai

179ft ^^ ^^ ^^^ of the last yeaft

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Average amount of Bank of England Notes in cirailati<yu in

each of the following years :

1798...

1799. . . .

1800

1801

1802

1803....

1804...,

1805

1806

1807

1808. . . .

1809....

Notes of £5 and

upwards, including

Bank Post Bilk.

I

ii»527»2SO

12,408,522

13,598,666

13.454.367

13.917.977

12,983,477

12,621,348

12.697,352

12,844,170

13,221,988

13,402,160

14. 1 33.615

Notes under £5.

i»8o7,502

1.653,805

2,243,266

2»7i5,i82

3.136,477

3,864,045

4,723,672

4,544.580

4,291,230

4,183,013

4,132,420

4.868,275

l^ytaL

£

13.334.752

14,062,327

15.841.932

16,169,594

17.054.454

16,847.522

17,345,020

17,241,932

17,135,400

17,405,001

17.s34.580

19,001,890

Taking from the accounts the last half of the year 1809, the

average will be fOund higher than for the whole year, and

amounts to 19,880,310.

The accounts in the Appendix give very detailed returns for

the first four months of the present year, down to the 12th

May, from which it will be found that the amount was then in-

creasing, particularly in the smaller notes. The whole amount

of bank notes in circulation, exclusive of 939,990/. of bank

post bills, will be found on the average of the two returns for

the 5th and 12th May last, to be 14,136,610/. in notes of 5/. and

upwards, and 6,173,380/. in notes under 5/. making the sum of

20,309,990/. and, including the bank post bills, the sum of 21,

249,980/.

By far the most considerable part of this increase since 1798,

it is to be observed, has been in the article of small notes, part

of which must be considered as having been introduced to sup-

ply the place of the specie which was deficient at the period of

the suspension of cash payments. It appears, however, that

the first supply of small notes, which was thrown into circula-

tion after that event, was very small in comparison of their

present amount ; a large augmentation of them appears to have

taken place from the end of the year 1 799 to that of the year

1802, and a very rapid incresAe has also taken place since the

month of May in the last year to the present time ; the augmefr

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tation of these small notes from ist May, 1809, to the 5 th of

May, 18 10, being from the sum of 4,509,470/. tj the sum of

6,161,020/.

The notes of the Bank of England are principally issued in

advances to government for the public service, and in ad-

vances to the merchants upon the discount of their bills.

Your Committee have had an account laid before them, of

advances made by the Bank to government on land and malt,

Exchequer Bills, and other securities, in every year since the

suspension of cash payments ; from which, as compared with

the accounts laid before the Committees of 1797, and which

were then carried back for twenty years, it will appear that the

yearly advances of the Bank to government have upon an aver

age, since the suspension, been considerably lower in iimount

than the average amount of advances prior to that event, and the

amount of those advances in the last two years, though greater

in amount than those of some years immediately preceding, is

less than it was for any of the six years preceding the restriction

of cash payments.

With respect to the amount of commercial discounts, your

Committee did not think it proper to require from the Direct\*

ors of the Bank a disclosure of their absolute amount, being a

part of their private transactions as a commercial company, of

which, without urgent reason, it did not seem right to demand

a disclosure. The late Governor and Deputy Governor how-

ever, at the desire of your Committee, furnished a comparative

scale, in progressive numbers, showing the increase of the

amount of their discounts from the year 1790 to 1809, both in-

clusive. They made a request, with which your Committee

have thought it proper to comply, that this document might

not be made public ; the Committee, therefore, have not placed

it in the Appendix to the present report but have returned

it to the Bank. Your Committee, however, have to state in

general terms, that the aniount of discounts has been progres-

sively increasing since the year 1 796 ; and that their amount

in the last year (1809) bears a very high proportion to their

largest amount in any year preceding 1797. Upon this par-

ticular subject, your Committee are only anxious to remark,

that the largest amount of mercantile discounts by the Bank, if

it could be considered by itself, ought never, in their judgment,

to be regarded as any other than a great public benefit, and

that it is only the excess of paper currency thereby issued, antf

kept out in circulation, which is to be considered as the evil

But your Comiuittee must not omit to state one very impor-

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tant principle, that the mere numerical return of die amoant of

bank notes out in circulation, cannot be considered as at all

deciding the question whether such paper is or is not excessive.

It is necessary to have recourse to other tests. The same

amount of paper may at one time be less than enough, and at

another time more. The quantity of currency required will

vary in some degree with the extent of trade ; and the increase

of our trade, which has taken place since the suspension, must

have occasioned some increase in the quantity of our currency.

But the quantity of currency bears no fixed proportion to the

quantity of commodities ; and any inferences proceeding upon

such a supposition would be entirely erroneous. The effective

currency of the country depends upon the quickness of circu-

lation, and the number of exchanges performed in a given lime,

as well as upon its numerical amount ; and all the circumstan-

ces, which have a tendency to quicken or to retard the rate of

circulation, render the same amount of currency more or less

adequate to the wants of trade. A much smaller amount is

required in a high state of public credit, than when alarms

make individuals call in their advances, and provide against ac-

cidents by hoarding ; and in a period of commercial security

aiMl private confidence, than when mutual distrust discourages

pecuniary arrangements for any distant time. But, above all,

the same amount of currency will be more or less adequate, in

proportion to the skill which the great money-dealers possess in

managing and economizing the use of the circulating medium.

Your Committee are of opinion, that the improvements which

have taken place of late years in this country, and particularly

in the district of London, with regard to the use and economy

of money among bankers, and in the mode of adjusting com-

mercial payments, must have had a nmch greater effect than

has hitherto been ascribed to them, in rendering the same sum

adequate to a much greater amount of trade and payments

than formerly. Some of those improvements will be found de-

tailed in the evidence : they consist principally in the increased

use of bankers' drafts in the common pa3rments of London ; the

oontrivance of bringing all such drafts daily to a common re-

ceptacle, where they are balanced against each other ; the in-

termediate agency of bill-brokers ; and several other changes

in the practice of London bankers, are to the same effect, of

rendering it unnecessary for them to keep so large a deposit of

money as formerly. Within the London district, it would cer-

tainly appear, that a smaller sum of money is required than

formerly, to perform the same number of exchanges and amount

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of payments, if the rate of prices had remained the same. It

is material also to observe, that both the policy of the Bank of

England itself, and the comi)etition of the country bank paper

have tended to compress the paper of the Bank of England,

more and more, within I^ndon and the adjacent district. All

these circumstances must have co-operated to render a smaller

augmentation of Bank of England paper necessar) to supply

the demands of our increased trade than might otherwise have

been required ; and shew how impossible it is,\* from the numer-

ical amount alone of that paper, to pronounce whether it is ex\*

cessive or not : a more sure criterion must be resorted to ; and

such a criterion, your Committee have already shewn, is only

to be found in the state of the exchanges, and the price of

gold bullion.

The particular circumstances of the two years which are so

remarkable in the recent history of our circulation, 1793 and

1797, throw great light upon the principle which your Commit-

tee have last stated.

In the year 1 793, the distress was occasioned by a failure of

confidence in the country circulation, and a consequent pres-

sure upon that of London. The Bank of England did not

think it advisable to enlarge their issues to meet this increased

demand, and their notes, previously issued, circulating less

freely in consequence of the alarm that prevailed, proved in-

sufficient for the necessary payments. In this crisis, Parlia-

ment applied a remedy, very similar, in its effect, to an enlarge-

ment of the advances and issues of the bank ; a loan of ex-

chequer bills was authorized to be made to as many mercantile

persons, giving good security, as should apply for them ; and

the confidence which this measure diffused, as well as the in-

creased means which it afforded of obtaining bank notes

through the sale of the exchequer bills, speedily relieved the

distress both of London and of the country. Without offering

an opinion upon the expediency of the particular mode in

which this operation was effected, your Committee think it an

important illustration of the principle, that an enlarged accom-

modation is the true remedy for that occasional failure of con-

fidence in the country districts, to which our system of paper

credit is unavoidably exposed.

The circumstances which occurred in the beginning of the

year 1797, were very siniilar to those of 1793 ; — an alarm of

invasion, a run upon the country banks for gold, the failure of

some of them, and a run upon the Bank of England, forming

a crisis like that of 1793\* for which, perhaps, an etTectuai reni«

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edy might have been provided, if the Bank of England hstd

had courage to extend instead of restricting its accommodations

and issue of notes. Some few persons, it appears from the Re-

port of the Secret Committee of the Lords, were of this opin-

ion at the time ; and the late Governor and Deputy Governor <^

the Bank stated to your Committee, that they, and many of the

Directors, are now satisfied from the experience of the year

1 797f that the diminution of their notes in that emergency in-

creased the public distress : an opinion in the correctness of

which your Committee entirely concur.

It appears to your Committee, that the experience of the

Bank of England in the years 1793 and 1797, contrasted with

the facts which have been stated in the present report, suggests

a distinction most important to be kept in view, between that

demand upon the Bank for gold for the supply of the domestic

channels of circulation, sometimes a very great and sudden

one, which is occasioned by a temporary failure of confidence,

and that drain upon the Bank for gold which grows out of an

unfavourable state of the foreign exchanges. The former,

while the Bank maintains its high credit, seems likely to be best

relieved by a judicious increase of accommodation to the coun-

try ; the latter, so long as the Bank does not pay in specie,

ought to suggest to the Directors a question, whether their is-

sues may not be already too abundant.

Your Committee have much satisfaction in thinking that the

Directors are perfectly aware that they may err by a too scanty

supply in a period of stagnant credit. And your Committee

are clearly of opinion, that although it ought to be the general

policy of the Bank Directors to dmiinish their paper in the

event of the long continuance of a high price of bullion and a

very unfavourable exchange, yet it is essential to the commer-

cial interests of this country, and to the general fulfilment of

those mercantile engagements which a free issue of paper may

have occasioned, that the accustomed degree of accommoda-

tion to the merchants should not be suddenly and materially

reduced ; and that if any general and serious difficulty or ap-

prehension on this subject \*should arise, it may, in the judg-

ment of your Committee, be counteracted without danger, and

with advantage to the public, by a liberality in the issue of

Bank of England paper proportioned to the urgency of the

particular occasion. Under such circumstances, it belongs to

the Bank to take likewise into their own consideration, how far

it may be practicable, consistently with a due regard to the im-

mediate interests of the public service, rather to reduce their

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paper by a gradual reduction of their advances to government^

than by too suddenly abridging the discounts to the merchants.

2. Before your Committee proceed to detail what they have

collected with respect to the amount of country bank paper,

they must observe, that so long as the cash payments of the

Bank are suspended, the whole paper of the country bankers

is a superstructure raised upon the foundation of the paper of

the Bank of England. The same check, which the converti-

bility into specie, under a better system, provides against the

excess of any part of the paper circulation is, during the present

system, pravided against an excess of country bank paper, by

its convertibility into Bank of England paper. If an excess of

paper be issued in a country district, while the London circula-

tioiv does not exceed its due proportion, there will be-a local

rise of prices in that country district, but prices in London will

remain as before. Those who have the country paper in their

hands will prefer buying in London where things are cheaper,

and will therefore return that country paper upon the banker

who issued it, and will demand from him Bank of England notes

or bills upon London ; and thus, the excess of country paper

being continually returned upon the issuers for Bank of England

paper, the quantity of the latter necessarily and effectually litDits

the quantity of the former. This is illustrated by the account

which has been already given of the excess, and subsequent limi-

tation, of the paper of the Scotch banks, about the year 1 763. If

the Bank of England paper itself should at any time, duiing the

suspension of cash payments, be'issued to excess, a correspond-

ing excess may be issued of country Bank pai>er which will not

be checked ; the foundation being enlarged, the superstructure

admits of a proportionate extension. And thus, under such a

system, the excess of Bank of England paper will produce its

effect upon prices not merely in the ratio of its own increase,

but in a much higher proportion.

It has not been in the power of your Committee to obtain

such information as might enable them to state, with anything

like accuracy, the amount of country bank paper in circula-

tion. But they are led to infer from all the evidence they have

been able to procure on this subject, not only that a great

number of new country banks has been established within these

last two years, but also that the amount of issues of those whirh

are of an older standing has in general been very considerably

increased : whilst on the other hand, the high state of mercantile

and public credit, the proportionate facility of converting at short

notice all public and commercial securities into Bank of Eng-

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land paper, joined to the preference generally given wichlfi the

limits of its own circulation to the paper of a well-established

country bank over that of the Bank of England, have prob-

ably not rendered it necessary for them to keep any laige

permanent deposits of Bank of England paper in their

hands\* And it seems reasonable to believe that the total

amount of the unproductive stock of all the country banks,

consisting of specie and Bank of England paper, is much less»

at this period, under a circulation vastly increased in ex-

tent, than it was before the restriction of 1797. The tempta-

tion to establish country banks, and issue promissory notes,

has therefore greatly increased. Some conjecture as to the

probable total amount of those issues, or at least as to their

recent increase, may be formed, as your Committee conceive,

from the amount of the duties paid for stamps on the reissna-

ble notes of country banks in Great Britain. The total amount

of these duties for the year ended on the loth of October,

1808, ap|)ears to have been 60,522/. 15 j. 3d., and for the year

ended on the 10th of October, 1809, 175,129/. 17X. id. It

must, however, be observed, that on the loth of October, 1808,

these duties experienced an augmentation somewhat exceeding

one-third ; and that some regulations were made, imposing ltm«

itations with respect to the reissue of all notes not exceeding

2/. 2j., the effect of which has been to produce a much more

than ordinary demand for stamps or notes of this denomination

within the year 1809. Owing to this circumstance, it appears

impossible to ascertain what may have been the real increase

in the circulation of the notes, not exceeding 2/. 2X., within the

last year; but with respect to the notes of a higher value, no

alteration having been made in the law as to their reissue,

the following comparison affords the best statement that

can be collected from the documents before the Committee, of

the addition made in the year 1809, to the number of those

notes.

Number of Country Bank Notes exceeding 2/. 2^. each, stamped

in the years ended the loth of October, 1808, and loth of

October, 1809, respectively :

x8o8« tSoo.

No. No.

Exceeding £7, 2, and not exceedbg £1 5 666,071 922,073

Exceeding £^ 5, and not exceeding ;^20 I98f473 3^006

Exceeding ;f 20, and not exceeding £'^0. ....... ^,425

Exceeding ;f 30, and not exceeding £yy 674

Exceeding £10^ and not exceeding j^xoo ^61 1

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Assuming that the notes in the first two of these classes,

were all issued for the lowest denomination to which the duties

respectively attach, and such as are most commonly met wiih

in the circulation of country paper, viz., notes of 5/. and 10/.

[although in the second class there is a considerable number of

20/.] and even omitting altogether from the comparison the

notes of the three lasc classes, the issue of which your Committee

understands is in fact confined to the chartered banks of Scot-

land, the result would be, that, exclusive of any increase in the

number of notes under 2/. 2s. the amount of country bank

paper stamped in the year ended the loth of October, 1809,

has exceeded that of the year ended on the loth of October,

1808, in the sum of 3,095,340/. Your Committee can form no

positive conjecture as to the amount of country bank paper can-

celled and withdrawn from circulation in the course of the last

year. But considering that it is the interest and practice of the

country bankers to use the same notes as long as possible ; that,

as the law now stands, there is no limitation of time to the re-

issuing of those not exceeding 2/. 2J.; and that all above that

amount are reissuable for three years from the date of their

first issuing ; it appears difficult to suppose that the amount of

notes above 2/. 2X. cancelled in 1809, could be equal to the

whole amount stamped in 1808 : but even upon that supposi-

tion, there would still be an increase for 1809 in the notes of

5/. and 10/. alone, to the amount above specified of 3,095,340/.

to which must be added an increase within the same period of

Bank of England notes to the amount of about 1,500,000/.

making in the year 1809, an addition in the whole of between

four and five millions to the circulation of Great Britain alone,

deducting only the gold which may have been withdrawn in the

course of that year from actual circulation, which cannot have

been very considerable, and also making an allowance for some

increase in the amount of such country paper, as, though stamped,

may not be in actual circulation. This increase in the general

paper currency in last year, even after these deductions, would

probably be little short of the amount which in almost any one

year, since the discovery of America, has been added to the

circulating coin of the whole of Europe. Although, as your

Committee has already had occasion to observe, no certain

conclusion can be drawn from the numerical amount of paper

in circulation, considered abstractedly from all other circum-

stances, either as to such paper being in excess, or still less as

to the proportion of such' excess ; yet they must remark, that

the fact of any very great and rapid increase in that amount

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when coupled and attended with all the indications of a depro

ciated circulation, does afiford the strongest con&matory evi-

dence, that from the want of some adequate check, the issues

of such paper have not been restrained within their proper

limits.

Your Committee cannot quit this part of the subje<:t without

further observing, that the addition of between four and five mil-

lions sterling to the paper circulation of this country, has doubtless

been made at a very small expense to the parties issuing it,

only about 100,600/. having been paid thereupon in stamps to

the revenue, and probably for the reasons already stated, no

corresponding deposits of gold or Bank of England notes being

deemed by the country banks necessary to support their addi-

tional issues. These parties, therefore, it may be fairly stated,

have been enabled under the protection of the law, which vir-

tually secures them against such demands, to create within the

last year or fifteen months, at a very trifling expense, and in a

manner almost free from all present ris)^ to their respective

credits as dealers in paper money, issues of that article to the

amount of several millions, operating, in the first instance and

in their hands, as capital for their own benefit, and when used

as such by them, falling into and in succession mixing itself with

the mass of circulation of which the value in excliange for all

other commodities is gradually lowered in proportion as that

mass is augmented. If your Committee could be of opinion

that the wisdom of Parliament would not be directed to apply

a proper remedy to a state of things so unnatiu-al, and teeming,

if not corrected in time, with ultimate consequences, so preju-

dicial to the public welfare, they would not hesitate to declare

an opinion, that some mode ought to be derived of enabling

the state to participate much more largely in the profits accru-

ing from the present system ; but as this is by no means the

policy they wish to recommend, they will conclude their obser-

vations on this part of the subject, by observing that in propor-

tion as they most fully agree with Dr. Adam Smith and all the

most able writers and statesmen of this country, in considering

a paper circulation constantly convertible into specie, as one

of the greatest practical improvements which can be made in

the political and domestic economy of any state ; and in viewing

the establishment of the country banks issuing such paper as a

most valuable and essential branch of that improvement in this

kingdom ; in the same proportion is your Committee anxir)us

to revert as speedily as possible to the former practice

and state of things in this \ espect : convinced on the one

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hand, that anything like a permanent and systematic departure

from that practice must ultimately lead to results, which among

other attendant calamities, would be destructive of the system

itself ; and on the other, that such an event would be the more

to be deprecated, as it is only in a country like this, where goad

faith, both public and private, is held so high, and where, under

the happy union of liberty and law, property and the securities

of every description by which it is represented, are equally

protected against the encroachments of power and the violence

of ixjpular commotion, that the advantages of this system, unac-

companied with any of its dangers, can be permanently enjoyed,

and carried to their fullest extent.

Upon a review of all the facts and reasonings, which have

been submitted to the consideration of your Committee in the

course of their inquiry, they have formed an opinion, which

they submit to the House : — That there is at present an excess

in the paper circulation of this country, of which the most un-

equivocal symptom is the very high price of bullion, and next

to that, the low state of the continental exchanges ; that this

excess is to be ascribed to the want of a sufficient check and

control in the issues of paper from the Bank of England ; and

originally to the suspension of cash payments, which removed

the natural and true control. For ujjon a general view of the

subject, your Committee are of opinion, that no safe, certain,

and constantly adequate provision against an excess of paper

currency, either occasional or permanent, can be found, ex-

cept in the convertibility of all such paper into specie. Your

Committee cannot, therefore, but see reason to regret, that the

suspension of cash payments, which, in the most favourable

light in which it can be viewed, was only a temporary measure,

has been continued so long ; and particularly, that by the

manner in which the present continuing act is framed, the

character should have been given to it of a pemianent war

measure.

Your Committee conceive that it would be superfluous to

point out, in detail, the disadvantages which must result to the

country, from any such general excess of currency as lowers

its relative value. The effect of such an augmentation of prices

upon all money transactions for time ; the unavoidable injury

suffered by annuitants, and by creditors of every description,

both private and public ; the unintended advantage gained by

government and all other debtors ; are consequences too obvious

to require proof, and too repugnant to justice to be left without

remedy. By far the most important portion of this effect it ap\*

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pears to your Committee to be that which is communicated tc

the wages of common country labor, the rate of which, it is well

known, adapts itself more slowly to the changes which happen in

the value of money, than the price of any other species of labor

or commodity. And it is enough for your Committee to allude

to Eome classes of the public servants, whose pay, if once

raised in consequence of a depreciation of money, cannot vo

conveniently be reduced again to its former rate, even after

money shall have recovered its value. The future progress of

these inconveniences and evils, if not checked, must at no

great distance of time work a practical conviction upon the

minds of all those who may still doubt their existence ; but even

if their progressive increase were less probable than it appears

to your Committee, they cannot help expressing an opinion,

that the integrity and honor of Parliament are concerned, not

to authorize longer than is required by im|>erious necessity, the

continuance in this great commercial country of a system of

circulation, in which that natural check or control is absent

which maintains the value of money, and by the pennanency

of that conuiion standard of value, secures the substantial jus-

tice and faith of moneyed contracts and obligations between man

and man.

Your Committee moreover beg leave lo advert to the temp-

tation to resort to a depreciation even of the value of the gold

coin by an alteration of the standard, to which Parliament itself

might be subjected by a great and long-continued excess of

])aper. This has been the resource of many governments

under such circumstances, and is the obvious and most easy

remedy to the evil in question. But it is unnecessary to dwell

on the breach of public faith and dereliction of a primary duty

of government, which would manifestly be implied in preferring

the reduction of the coin down to the standard of the paper, to

the restoration of the paper to the legal standard of the .coin.

Your Committee therefore, having very anxiously and de-

liberately considered this subject, report it to the House as

their opinion, that the system of the circulating medium of this

country ought to be brought back, with as much speed as is

compatible with a wise and necessary caution, to the original

principle of cash payments at the option of the holder of Bank

paper.

Your Committee have understood that remedies, or palliatives,

of a different nature, have been projected ; such as, a compul-

sory limitation of the amount of Bank advances and discounts,

dui'ing the continuan::e of the suspension ; or, a compulsory

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iimitation during the same period, of the rate of Bank profits

and dividends, by carrying the surplus of profits above that rate

to the public account But, in the judgment of your Com«

mittee, such indirect schemes, for palliating the possible evils

resulting from the suspension of cash payments, .would prove

wholly inadequate for that purpose, because the necessary pro-

portion could never be adjusted, and if once fixed, might ag-

gravate very much the inconveniences of a temporary pressure ;

and even if their efficacy could be made to appear, they

would be objectionable as a most hurtful and improper inter-

ference with the rights of commercial property.

According to the best judgment your Committee has been

enabled to form, no sufficient remedy for the present, or security

for the future, can be pointed out, except the repeal of the law

which suspends the cash payments of the Bank of England.

In effecting so important a change, your Committee are of

opinion that some difficulties must be encountered, and that

there are some contingent dangers to the Bank, against which

it ought most carefully, and strongly to be guarded. Bift all

those may be effectually provided for, by entrusting to the dis-

cretion of the Bank itself the charge of conducting and com-

pleting the operation, and by allowing to the Bank so ample a

])eriod of time for conducting it, as will be more than sufficient to

effect its completion. To the discretion, experience, and integ-

rity of the Directors of the Bank, your Conuiiittee believe that

Parliament may safely entrust the charge of effecting that which

Parliament may in its wisdom determine upon as necessary to be

effected ; and that the Directors of that great institution, far from

ma kins themselves a party with those who have a temporary in-

terest m spreading alarm, will take a much longer view of the

permanent interests of the Bank, as indissolubly blended with

those of the public. The particular mode of gradually effecting the

resumption of cash payments ought therefore, in the opinion of

your Committee, to be left in a great measure to the discretion of

the Bank, and Parliament ought to do little more than to fix

definitely the time at which cash payments are to become, as

before, compulsory. The period allowed ought to be ample, in

order that the Bank Directors may feel their way, and that, hav-

ing a constant watch upon the varying circumstances that ought

to guide them, and availing themselves only of favourable cir-

cumstances, they may tread back their steps slowly, and may

preserve both the course of their own affairs as a company,

and that of public and commercial credit, not only safe, but

unembarrassed.

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With this view, yotir .Committee would suggest, ihat the re

striction on cash payments cannot safely be removed at an

earlier period than two years from the present time ; but yoni

Committee are of opinion, that early provision ought to be

made by Parliament for terminating, by the end of tliat period,

the operation of the several statutes which have imposed and

continued that restriction.

In suggesting this period of two years, your Committee have

not overlooked the circumstance, that, as the law stands at

present, the Bank would be compelled to pay in cash at the

end of six months after the ratification of a definitive treaty of

peace ; so that if peace were to be concluded within that

period, the recommendation of your Committee might seem to

have the effect of postponing, instead of accelerating the re-

sumption of payments. But your Committee are of opinion,

that if peace were immediately to be ratified, in the present

state of our circulation, it would be most hazardous to com-

pel, the Bank to pay cash in six months, and would be found

wholly impracticable. Indeed, the restoration of peace, by

opening new fields of commercial enterprise, would multiply

instead of abridging the demands upon the Bank for discount,

and would render it peculiarly distressing to the commercial

world if the Bank were suddenly and materally to restrict

their issues. Your Committee are therefore of opinion, that

even if peace should intervene, two years should be given tf

the Bank for resuming its payments ; but that even if the war

should be prolonged, cash payments should be resumed by the

end of that period.

Your Committee have not been indifferent to the considera-

tion of the possible occurrence of political circumstances,

which may be thought hereafter to furnish an argument in favor

of some prolongation of the proposed period of resuming cash

payments, or even in favor of a new law for their temporary

restriction after the Bank shall have opened. They are, how-

ever, far from anticipating a necessity, even in any case, of

returning to the present system. But if occasion for a new

measure of restriction could be supposed at any time to arise,

it can in no degree be grounded, as your Committee think, on

any state of theforeign exchanges (which they trust that they have

abundantly shown the Bank itself to have the general power

of controlling), but on a political state of things producing, oi

likely very soon to produce, an alarm at home, leading to so in

definite a demand for cash for domestic uses as it must be im-

possible for any banking establishment to provide against. A