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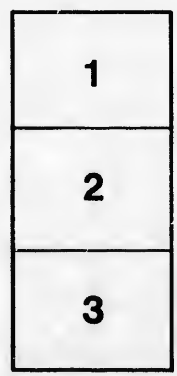
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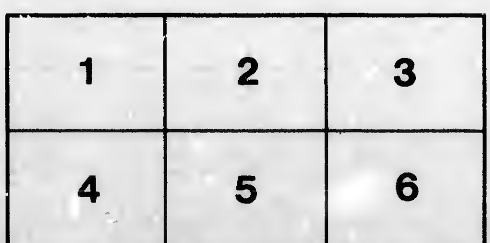
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THE MONEY QUESTION

CONSIDERED SCIENTIFICALLY & PRACTICALLY,

WITH

A LETTER FROM M. MICHEL CHEVALIER,

AND

OBSERVATIONS ON AMERICAN FINANCE,

BY H. BOWLBY WILLSON.

LONDON:
EFFINGHAM WILSON, ROYAL EXCHANGE.

1874.

ONE SHILLING.

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PREFACE.

TEN years spent in business pursuits in the City of New York during the latter years of, and subsequent to, the Civil War, afforded valuable opportunities for observing the working of the present system of currency and banking, brought into existence in the United States by the exigencies of that great contest. The paper money issued at the close of the war, and fully guaranteed by the Government, amounted to £140,000,000,—including £10,000,000 of fractional currency, in denominations below one dollar, with a reserve of about £9,000,000. Of this vast amount of inconvertible paper, £60,000,000 had been presented as a free gift to such holders of Government Bonds as had availed themselves of the National Bank Act, and organized themselves into Banking Companies,—the condition being, that such Companies should lodge bonds of the par value of 100 for each 90 per cent. of Government guaranteed notes they might call for. Those desiring further information on the plan of organization, are referred to the letter addressed by the writer to General Spinner, Treasurer of the United States, which will be found near the end of this Pamphlet.

As soon as the war was ended, and the armies disbanded, the bank party, not satisfied with the free gift of £60,000,000 of public credit, sought to obtain the remainder of the issue amounting, including the reserve, to £89,000,000 on the same terms. They did not propose it in so many words, but asked to have the "Greenback" currency, the advantages of which had inured to the State, funded into an interest-bearing debt, and to fill its place by a Government guaranteed bank currency to such extent as might be demanded. The writer of the following pages took an active part in the discussions to which this proposition gave rise, in which he pointed out, through the columns of leading journals, the fraudulent character of a system which lent without interest, or made a gift of the public credit to the wealthy bondholders to trade on.

The object of the following letters, addressed to the Chancellor of the Exchequer, is, first to point out the advantages that will accrue to the nation by committing to the State the exclusive right to supply the necessary amount of paper money to carry on the business of the country, and extinguish the whole bank circulation. It is not for a moment intended to substitute a paper currency for a metallic currency, but simply to give to the nation, instead of to private corporations, the advantages arising from the issue of paper money. And, in the second place, to provide for a system of free banking. The effect of these changes would be to remove both the motive and the power of the Bank of England to interfere arbitrarily with the market value of money, or, more correctly speaking, capital.

Since these letters were written, a new Chancellor of the Exchequer has been called to the Finance department of the Government, whose attention is respectfully invited to the subject discussed. The new Premier is unquestionably an adept in the Science of Political Economy. The party, Mr. Disraeli now leads, is no longer composed of the men of whom he said thirty years ago, "it is no exaggeration to say "that they were ignorant of every principle of every branch of "political Science." The logic of the events of the last thirty years has served to produce and educate a body of Conservative Statesmen, of whom the author of Coningsby may well feel a pride to have associated with him in the administration of public affairs. These gentlemen will understand the signs of the times too well to hope to maintain their positions by standing still. They will, or ought to, understand that true Conservatism consists in removing as speedily as possible all old abuses and monopolies, which having escaped past legislation, still hamper the natural laws, which, if left free to act, would conserve all that is good and worthy of preservation in the social, political, and commercial departments of the community. These laws are, in fact, the true Conservative principles, as well of society as of the universe, and sooner or later will assert their supremacy in all free countries. By reforming such abuses as still hamper one great branch of trade—the trade in money and banking—they will earn the gratitude of the nation and the respect of posterity.

30, Montague Place,

Russell Square, W.C.

London, *March*, 1874.

THE MONEY QUESTION CONSIDERED.

London, 15*th November*, 1873.

TO THE RIGHT HONORABLE THE CHANCELLOR OF THE EXCHEQUER.

SIR,

The growing frequency of serious derangements in the money, or more correctly speaking, loan markets, of this and other countries, must, I apprehend, create in the minds of those statesmen who assume the responsible position of administering the national finances, grave doubts as to the soundness of the principles on which our banking system is administered. The violent and sudden changes in the rate of discount, produced by the purely arbitrary will of the Governors of the Bank of England, it seems to me, require the application of a remedy that shall be in conformity with scientific and demonstrated principles. To treat these great and disturbing elements in the commercial system of the world as the result of "overtrading," or "reckless speculation," is simply a begging of the whole question, or else a confession of a disbelief in the science of political economy.

If we concede the existence of such a science, its teachings, surely, should be applied with strict impartiality to all branches of human affairs coming within its scope, which all writers agree includes banking and money—whether paper or metallic. It is difficult to discover a reason why so little has been done to apply the principles of free trade to our monetary system, when so much has been accomplished in respect to its application to the general products of industry. With regard to the latter, England has taken a proud stand in demonstrating, by practical legislation, what Adam Smith and later writers proved long ago, by close scientific reasoning, to be the true theory of trade; while she has left the important business of banking, or trading in loans and money, to labor in the toils of monopoly and protection. I propose in this communication to point out the impolicy of longer continuing the present monetary system and to suggest a practical remedy for the evils pertaining to, and irradicably inherent in it. I do not lay claim to offering anything of a novel character, or which ought to shock the sensitiveness of those who tremble at every proposed change in industrial or governmental affairs. On the contrary, my views are essentially conservative in respect to doubtful changes, or such as cannot be demonstrably established as desirable and practicable.

I am aware that it has been a favourite occupation for a number of writers to air their opinions on this question, on the occasion of each recurring panic, or disturbance in the money and loan markets. At such times the Bank Act and the bank directors are regularly attacked and defended *secundum artem*, but, as far as I am able to judge, no feasible remedy has yet been devised or suggested for turning aside these financial cyclones. This unsatisfactory state of the controversy, I think results from treating the subject as separate and distinct from other branches of political science; and, therefore, as not amenable to the same natural laws of supply and demand. The same description of prejudices which retarded the adoption of Adam Smith's demonstrated theories, now stands in the way of reform in Banking and Currency, and arguments as absurd are urged against every proposition for a change in the present system. As in the days when protection to domestic manufactures held full sway, all who endeavour to enlighten the public are denounced as theorists or charlatans, by those who ignorantly fancy their interests will be injuriously affected by any change. But what I have to protest against is, that the power to regulate or counteract the laws of nature, should be delegated to a great corporation like the Bank of England, whose interests are not always identical with those of the public at large.

If, therefore, we arrive at the conclusion that it is a fundamental error to ignore the business of banking, and the issue and management of paper money in the catagory of political science, it will hardly be necessary to quote the numerous instances in which the interferences of the Bank of England with the regular course of business in the loan market, have been attended with highly injurious consequences to trade and the general industry of the country. No one can doubt that the late panic on the Stock Exchange was produced by the action of the Bank in, as I think, unnecessarily raising the rate of discount and creating an artificial demand for money, at rates far above its market value, which, like the market value of every other commodity, should be regulated by the unfailing laws of nature. If it be asserted that with the present system, no other policy is admissible, then the system itself must be wrong, and ought to be changed for one that will leave these laws, as in the case of general trade, absolutely free in their action. The raising of the rate of discount is simply a clumsy device to protect the bank against the withdrawal of its gold reserve, and arrest its export from the country. It is, therefore, nothing else but an export duty on a commodity, in which free trade England deals more largely than any other country. All our great authorities ridicule and condemn the absurd laws of Spain, passed when the Spaniards had almost a complete monopoly of the gold and silver mines of the New World, to prohibit the export of the precious metals. It is even asserted by many that the damming up, so to speak, of these metals in the country, by laws which made their export a capital offence, more than anything else, contributed to the demoralization and ruin of the Spanish nation. Yet here in free trade England, in the latter part of the nineteenth century, we have a great banking corporation, to which the Government has committed the management of its fiscal affairs, and the right of issuing paper money, to a limit set only by its ability to hoard up gold, doing the same thing by a process more effectual than the bloody laws of Spain, which accorded the death penalty to the man detected in the act of exporting, what Spanish cupidity regarded as the wealth of the nation. The wealth of the British nation consists not in the amount of gold the bank can attract to its coffers, but in the products of labour, accumulated, or accumulating, and all the appliances auxilliary thereto—such as machinery, mills, railways, steamships, houses, lands and merchandize of every kind, and in the daily labour of her people.

But an indignant Bank Director will no doubt ask "shall we sit still and see our coffers emptied of the coin necessary to keep up our reserve, until we are compelled to ask the Government to suspend our charter, which otherwise would consign the bank, like an ordinary trader, to the Court of Bankruptcy?" The answer to this question is conclusive against the bank system of credit and currency. The very necessity of being compelled, from time to time, to appeal to the Government to avert the consequences of a systematic violation of the laws of nature, is proof positive of the fallacy of the whole banking system of the country. This will appear self-evident if we examine the subject a little in detail, which it will be necessary to do to explain the suggestion I have to make.

The bank has its whole paid-up capital of £15,000,000 invested in Government securities, on which it receives dividends, and against which it is authorized to issue an equal amount of circulating notes, or paper money. This, like the American plan, is a method by which the bank proprietors "can eat their pudding and have it too." This £15,000,000 of its own paper, then, constitutes the capital on which the bank trades If it issues more notes it must keep an equal amount of gold for such excess, which, of course, is borrowed capital, and to this extent it is on a level with the Joint Stock Banks, which, however, have to pay interest on most of their loans, whilst the Bank of England gets its additional capital *free.* It matters not whether this specie belongs to its customers who have open accounts, and are entitled to a certain degree of consideration, in the way of discounts, or not. A large proportion of these customers are merchants, bankers, and bill-brokers, whose bills are largely under discount. When a part of these customers, a little larger than usual, desire to draw for gold to meet foreign engagements, such as the payment of cotton and other raw materials, needed by our manufacturers, the sales of whose products in foreign markets bring back the gold with a profit ; or to pay for corn, for the support of the workmen employed in the factories, the bank, if the directors think too much gold is going to be drawn, and their hoard reduced below the ideal standard, immediately "puts on the drag" by raising the rate of discount, step by step, until, by a strictly logical process, they create a panic, or strong symptoms of one, by causing every customer of its own, as well as of other banks and discount houses, to seek urgently for discounts, lest a time may shortly come when he shall be unable to meet his engagements. This process is in effect the same as the imposition, at short notice, of a heavy export duty on gold. But it has more than once been found that the duty when raised to ten per cent., which is about the panic point, has failed to check the outflow of the precious article and the appeal to Government has had to be made. But let me ask why other bankers and merchants, in fact all other traders, should not have the same consideration at the hands of the Government ? Why is it in this case "what's sauce for the goose is not sauce for the gander ?" This raises the vital question, why all who desire to trade in money and evidences of debt which constitutes the principal business of bankers, should not be placed on the same footing as other traders, who deal in all kinds of commodities? If we appeal to first principles, we shall find nothing to justify the distinction made by the Legislature between the two classes of traders. I affirm it to be a fact, sustained by scientific deductions and the experience of mankind, that in the unwise and unwarranted distinction thus made, lies the fundamental errors of the present system of banking.

I will now proceed to suggest the remedy for these yearly increasing evils—the result, as I have shown of a total misconception of the natural laws involved in the uses of metallic and paper money. To prevent confusion of ideas, I draw the usual distinction between the two kinds of paper currency, recognized by writers on this subject, namely promissory notes given in ordinary business, bills of exchange, checks and all other devices for the transference of debt and credit, and the circulating notes of banks of issue and of Governments.* It is with the latter, which, for convenience, I shall call paper money, I have now to deal. I would observe that so long as the paper pound is convertible at pleasure into gold, it is obvious that the same principles apply to both kinds of money, and both will circulate, as it were, on the same plane or level. With these explanations I beg to say, the plan I have to urge on your consideration is to constitute a department of Government, to be called the Currency Board, and to abolish the power of the Bank of England to issue paper money. This Board may consist of, say, five or seven members, chosen for their scientific knowledge and practical experience of the uses of money, to whom the duty of issuing and managing both the paper and the metallic money of the nation shall be consigned. We shall then have only a national paper currency, guaranteed by the whole resources of the state, which are a thousand fold greater than all the banks put together. I would

*The former description of currency, which constitutes the staple of banking business (according to a statement made by Sir John Lubbock,) quoted by Mr. Bonamy Price, (who I regard as high authority on all such matters) exceeds the latter, or paper and metallic money in the proportion of 97 to 3.

have the Currency Board unconnected with, and independent of the National Exchequer, so as to avoid the possibility of an over issue of paper money to serve pressing emergencies. If it shall be found in the practical working of the Board, as I think it will be, that a very considerable increase of paper money is needed to meet the largely-increased requirements of business, then the Chancellor of the Exchequer will be able, incidentally, to avail himself of the increase above the present paper circulation, not based, pound for pound, on specie. This unexpected source of supply he may carry to the account of the sinking fund, and pay off so much of interest-bearing debt, or use it for any other legitimate purpose.

The Bank of England and other banks of issue, having acquired vested rights, under their charters, in their paper circulation, must be fully indemnified. It will not, I apprehend, be difficult to determine the amount to be paid to each for the surrender of this privilege. Inasmuch as the Bank of England derives no special advantage from the issue of its notes in excess of the £15,000,000, predicated on Government securities, which it would not possess under the new system, the payment of that sum would be a full and just indemnity to that institution. The same principle applies to the other banks of issue. They are obliged to keep on hand pound for pound in gold, or Bank of England notes to cover their circulation in excess of the statutory limitation. But as they are necessitated to hold a certain further sum in gold to meet occasional conversions of their notes by the public, the indemnity would be diminished by the amount of such reserve. This amount may be set down at about 30 per cent. of their authorized circulation, which for illustration, may be approximated at £17,000,000 for the English country, and the Scotch and Irish banks. Thirty per cent. off for reserve, would leave £12,000,000 as the amount of indemnity to be paid them, which added to the £15,000,000 to be paid the Bank of England, makes a total of £27,000,000 to be provided. In calling in the present paper money, a National Note will fill the place of each bank note now in circulation, so that no void will exist for a single moment, and no perceptible derangement can possibly ensue. The excess of bank notes beyond the amount of indemnity, the banks themselves must call in within a specified time.

It will be in place here to make some observations on the amount of paper money needed to properly carry on the business of the country. I am of the opinion that the present paper circulation is far below the natural and legitimate requirements of the nation. Since the passing of the Bank Act, in 1844, nearly thirty years ago, the currency has probably, including paper and metallic, not more than doubled, whilst the products of labour and machinery, and the general business, have more than quadrupled. Although, with the present knowledge of the subject, it may be difficult to establish the proportion that ought to be maintained between the currency and the business of a country, I think it must be conceded, that under the circumstances stated, there should be a considerable addition made to the "medium" which circulates all other commodities, and acts as the life-blood of commerce and industry. It may also be assumed, under the proposed system—the public having unbounded confidence in the resources of the state—that paper money would more largely take the place of gold, which would be mainly used in foreign commerce. Furthermore, I see no good reason why one pound notes, of a convenient size for pocket use, should not be issued. In the United States, where about all that is bad in the English system of banking has been copied, there are in circulation about ten millions of pounds of fractional paper currency, under one dollar or four shillings. It may, therefore, be estimated that ten million pounds of notes from one to five pounds, would be promptly absorded, and take the place of so much gold, now forced into circulation for want of such notes. Indeed, every body will prefer the convenience of paper money, and will carry their gold to the Currency Board, and its agencies in the chief cities and exchange it for notes, and thence forward payment of checks on the board and the banks, will be asked for in paper money.*

Assuming the present paper circulation to be £45,000,000, the country will at once require fully £60,000,000. That was the amount of the circulation of the Bank of France, prior to its suspension two years ago. It is now £120,000,000, and the country seems to have absorbed it all; for, as yet, hardly any depreciation has ensued. If the Currency Board set out by issuing £60,000,000, after paying the banks and calling in their notes, there will be £33,000,000 left to be put into circulation, and the best way to do this will be to pay off so much of the national interest-bearing debt. I hope the old delusion that "a national debt is a blessing in disguise" no longer prevails to any extent, and that

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*So much has the other description of currency referred to, namely checks, bills, &c., taken the place of money (paper and metallic) in the transactions of bankers and all kinds of business men, and even in private affairs, that the latter is hardly needed for any other purposes than the payment of wages and for what may be called pocket use or change. Even the balances of accounts are now very generally settled through the medium of bankers and the clearing house, without a pound of money being needed or used. For pocket change, therefore a one pound note would not only be very convenient from its lightness, being of much less dimensions than the altogether unnecessarily large sized Bank of England note, but would from these circumstances, as in America, enter very much more into general circulation than gold itself. People would carry more in value of it, and draw less frequently on their bankers. I infer, therefore, that at least £20,000,000 of such notes would be directly required. On the 30th of June last there were £25,000,000 of five and ten dollar legal tender notes, and probably £20,000,000 National Bank notes of similar denominations, to say nothing of the "ones" and "twos" amounting to half as much more, in circulation in the United States. In case of a pressure for gold or "a run" these small notes are the last to come in. In fact the holders of them can hoard them with less risk than specie. Scarcely any reserve will, in fact, be required for the occasional redemption of one pound notes. If we are to attach any value to past experiences, such a thing as "a run" on the Bank of England can never occur, unless it becomes insolvent by reckless trading. When a panic ensues, it is because the trading community become seized with the idea that they cannot get their accustomed bank accommodation—that the wheels of commerce are about to be stopped—not for want of specie, but by the stoppage of loans, in which business, as shown, money plays a very secondary part. When the power to derange the loan market by the bank is wholly taken away, by removing the chief motive, and all bankers, like merchants, are left to keep in hand such immediately available resources as prudence may dictate, then a run on the Government can scarcely happen under any circumstances, and if it should, it can always be met and allayed without difficulty.

people may not object to paying off some portion of it, when opportunity presents itself for doing so, without increased taxation by the creation of a non-interest-bearing debt, that will never be called for. I may observe that the Currency Board having charge of the entire currency—paper and metallic—will, in a few years, be able to ascertain with tolerable accuracy the amount required, by the law of supply and demand, to meet the public wants, which I believe will be 50 per cent. more than the sum named.

Having provided a Currency Department of Government, it remains to point out how the national paper money can always be maintained at par with gold. I feel confident the Government Board will never be compelled to have recourse to the expedients now continually resorted to by the Bank Board. We possess at least a sufficient knowledge of the principles of money and commerce to infer that the vaults of the Currency Board will immediately become, what the bank vaults now are in a lesser degree,—the great reservoir into which nearly all the gold used as money will flow. All the national revenues will be poured into it, and be checked out by the several departments of Government, in conformity with the authorization of Parliament. All this the Government may do without trenching on the business of bankers or traders of any kind. But it is now acting as a savings bank for the whole country, through the Post-office department, and may go a step further and keep open accounts with all who may desire to make it the custodian of their cash balances. To this no objection can be taken, so long as it does not pay interest. As to whether any restriction in this respect should be imposed, I am not prepared to express an opinion. If a low maximum rate of, say two or two and a-half per cent. were allowed, it would, no doubt, serve to increase largely the balances in the vaults of the Currency Board; and these could always be counted on as a means to be applied in extinguishing a portion of the higher interest-bearing debt. It is obvious that the public confidence in the stability and resources of the Government would enable the Currency Department to avail itself of such balances to a much larger extent, and with far greater confidence than the Bank of England, or the joint-stock or private banks can. Here, then, whether we adopt the practice of the latter description of banks, and allow interest on deposits, or of the Bank of England, and allow none, we shall always have a large sum at the disposal of the Board, to be applied in any legitimate way authorized by Parliament. It will therefore be seen that there will be, at all times, a superfluity of gold at command to meet occasional conversions of notes, and never a necessity for stopping payment.

The only other observations it is needful I should make are in reference to the probable effect the proposed system would have on the general course of business and the industrial pursuits of the people. It is clearly not the duty of Government to supply bankers, merchants, or discount houses with loanable capital. All such parties would be compelled to carry on their business on sound principles, and on cash or credit, according to the circumstances of each corporation, firm, or individual. There would thenceforth be no more pother about keeping up a proper equipoise between circulation and reserve by the banks of issue, which will no longer exist, as such. The Bank of England will be deprived of its pretext for raising the rate of discount, and thereby producing an artificial scarcity of loanable capital just at the time when it is most needed to avert a panic. The current value of capital will be regulated by the law of supply and demand, in the open market, in which the Bank will exercise an influence in proportion to its capital and business. If it can be demonstrated that it is desirable that the business community should always have a panic hanging over it, it may, perhaps, be found better to reserve the panic-making power for the exercise of the Government, instead of conferring it on an interested banking coporation, itself subject to panic influences. Under the system suggested, if the Bank of England, or any other great traders in money, credits and evidences of debt, or in tea, sugar, or coffee, or in corn, cotton, or anything else, get into too deep water by over-trading, they will have no claims on Government for relief. All parties will be placed, as they should be, on an equality, which is the only sound basis for the business and industry of the country to rest on. As a natural consequence there would follow an entirely free system of banking. If, as already remarked, we go back to first principles, we shall find nothing to justify the denial of the right to individuals, firms, or joint-stock companies, to trade in money and securities, as well as in all the commodities known to commerce. The issue of paper money by banks, instead of by the State, was the result of accident, and has, in a little over two centuries, grown into vast proportions. It has, on the whole, been of incalculable benefit to the commercial world, in spite of the hitherto prevailing ignorance of the principles which govern its uses; it has, indeed, become the real money of commerce, and gold is only necessary for the purposes of foreign trade, and to act as a barometer to determine how much paper is needed to properly carry on the business of a country. But, if we consider how the balances of foreign trade regulate themselves under the law of supply and demand, if not impeded by vexatious restrictions, it will be seen that a comparatively small amount of gold is really needed for effecting that object.

The history of banking, during the present century, in the three principal commercial nations, England, France, and the United States, clearly demonstrates that even an inconvertible paper currency, whether issued by the State or by a national bank sustained by the prestige of the State, is subject in its fluctuations of value to the same laws of nature as when convertible at the will of the holder into gold; that is, it is established that it will depreciate below the gold standard just in proportion as its emission is in excess of the natural wants of industry and business. This principle was well illustrated during the twenty-one years' suspension of the Bank of England. The varying requirements of business, which, on the whole, steadily increased, several times brought the bank-note nearly to par with gold after having been 25 per cent. depreciated (without contraction, which produces the same result); and the bank might have resumed specie payments several years before the restriction to its doing so was removed; showing that the growth of commerce, which had more than doubled during the first fifteen years of suspension, had caused the bank-note to appreciate. The phenomenon of the Bank of France has already been referred to, and need not be repeated. But, perhaps, the most remarkable evidence in support of the existence of this natural law is to be found in the case of the United States, where the excessive issue of National notes and National Bank-notes, guaranteed by the State, at one time threatened the country with a general business convulsion. The paper currency which preceded the present paper money, was extremely vicious, and kept the community in continual apprehension of financial disturbances, and everybody hailed the substitution of one guaranteed by the nation as a blessing, which it no doubt has proved. But in an evil hour the Secretary of the Treasury was tempted to use it as a financial expedient, instead of treating it simply as money to be limited to the actual requirements of business, and paying for his loans the market value of money.

At the close of the war the amount of paper money afloat in the United States was, including fractional currency, seven hundred millions of dollars,—say, £140,000,000,—twenty millions more than the present issue of the Bank of France. The National paper money then stood at about $33\frac{1}{3}$ discount, or, as quoted there gold was at 50 premium measured by the paper standard. As the business and industries of the country gradually returned to their normal condition, and steadily and rapidly developed, the paper dollar appreciated without any contraction, towards gold par, until, two and a-half years ago, it had approximated from 66⅔, at which it stood at the close of the war, to 91 or 92, and people began to talk, as they do now, about resuming specie payments. But President Grant, who had strongly advised Congress, in his annual messages, to adopt measures to restore specie payments, and was then seeking a re-nomination to the Presidency, signed a bill, passed through that body by western influences, increasing the National Bank currency £10,000,000, making the total afloat £150,000,000. As soon as this new issue commenced, the paper money began again to depreciate, and within eighteen or twenty months, by which time the whole new emission had taken place, it fell to 85. From this point it began and continued gradually to rise until the symptoms of the late panic superinduced, as I think by these violent unsettlings of values, caused it to rapidly appreciate to about 95, since which it has reacted to about 91. The excessive demand for loans just previous to and during the panic was, no doubt, the immediate cause of these violent changes in the value of the paper currency. Be this as it may, it will be seen that the sponge which, when filled with water, could hold no more, had grown in size, until it was rapidly absorbing all the surplus in the basin. But for the unwise act of the Government in authorizing the issue of £10,000,000 more of paper money, the greenback and guaranteed bank-notes would gradually have come to par some time ago, just as the Bank of England notes approximated to par, without material, if any, contraction.

Here we have what appears to be a well-established law of nature, by which we may regulate the emission of paper money, even under suspension of specie payments,—a thing that, in my judgment, the Government of England will never have to resort to. If people want to send gold to America to buy corn and cotton, to carry on the great industrial business of the country, the products of the mills will bring it back as certainly as that the sun, which rises in the morning, will set at night, and with a profit too. The Government will need no Cerberus, in the questionable shape of a board of directors, to guard the portals of its treasure-house of gold. This being the centre of the exchanges, and the greatest loan market of the world, that commodity will flow to and from it, as naturally as the blood flows to the heart through the veins, and is thence carried by the arteries to the extremities in perpetual circulation. For the Government to attempt to dam up the gold, by artificial means to prevent its natural circulation, would be about as wise as for a surgeon to endeavour to prolong the life of his patient by putting a ligature, if that were possible, around the great organ of life itself, and stopping the natural circulation of the blood. Now, I cannot help thinking that the laws of nature, when well established by deduction and historical analogies, are safer than the empirical conclusions of men who repudiate all scientific reasoning, and stick to time-honoured abuses, until driven from their strongholds like the old protectionists and monopolists of foreign trade and domestic products by the force of public opinion.

Even at the risk of wearying your patience I cannot conclude without making some general observations. England has, in modern times, become the leader in great reforms, and I venture to assert that it is due to her reputation to keep her legislation up to demonstrated principles. Let this very important subject be fully ventilated. Many of her statesmen have understood the value of a national currency, but have shrunk from the task of grappling with the prejudices and ignorance of opposing interests, and feared that the change might temporarily derange established usages and institutions. It is easier to effect reforms here than in the United States, where responsibility is too much divided to be effectual,—especially on questions relating to commerce and money. Both Canada and the United States are terribly bank-ridden countries. In the latter over two thousand National Banks spread over the whole extent of the land, by combinations, control the Government, and shape legislation to suit themselves. In most of the States the courts are the mere creatures of great corporations, which likewise dictate to the state legislatures what they are to do or not to do. Where all commercial legislation is so much under the influence of banking and railway monopolies, the growth of sound principles must necessarily be slow. England, having passed through so much of this phase of her history, should now throw off the last manacles of protection and monopoly, which still weigh heavily on the energies of the people, in the exclusive system of banking and currency allowed to certain favoured institutions. Give the country free banking and a currency in which every man, woman, and child will have an interest, and which, being guaranteed by the whole resources of the nation, will command absolute and implicit confidence, and you will do more than any of your predecessors for the advancement of national interests, and of correct principles of commerce throughout the world.

There are many things to which I have not referred, which would be involved in the changes I have suggested, —such as the management of the public debt, and other fiscal details connected with the Government. But I submit, whether it will not comport more with the dignity of the nation for the State to take all these into its own hands. Instead of the Government being compelled to accept loans at the hands of the bank, under the proposed system the bank will be the first to open an account with the Currency Department of the Government. But, above all, let us have free trade in banking—holding all shareholders in joint-stock banks liable for bank debts contracted while they are shareholders. Or, if there is to be a limit to responsibility, require such corporations to put up a notice to that effect in some conspicuous place in their counting-houses, or on their doors or windows, so that the public may deal with them under a full knowledge of the facts.

I have the honour to be, Sir,

Your very obedient servant,

H. Bowlby Willson.

Views of M. Michel Chevalier.

It may interest both English and American readers to know the opinions of the eminent political economist, M. Michel Chevalier, on the subject under discussion. I therefore take the liberty of publishing a letter which I had the honour to receive from him two years ago, remarking on a pamphlet I had issued in advocacy of a purely national paper currency in the United States, where I had been residing for several years during and subsequent to the civil war.

[Translation.]

27, *Avenue de l'Imperatrice,*
Paris, 7th March, 1872.

Dear Sir,

I must apologise for the delay in answering your letter of the 26th December. The reason of this delay is the attention which this letter merits. It is perfectly logical, and based on the most correct principles of the science of Political Economy in relation to currency. Unfortunately most Governments ignore or depreciate these principles, and too readily trample them underfoot. If the American Government had conformed to them during the time of the War of Secession, their enormous debt would have been smaller by hundreds of millions. If the present Government of France had even a faint knowledge of these principles, it would not have issued such a dangerous amount as two milliards, eight hundred millions of francs (560,000,000 dols.) of paper money with the possibility of internal trouble.

It might be well to quote the words addressed by the Swedish Chancellor, Oxensteine, to his son, when the young man was about to visit the courts of Europe, "Go, my son, and see with how little wisdom the world is governed."

I am therefore very much impressed by your letter and the pamphlet which accompanied it, "A Plea for Uncle Sam's Money," and have been waiting to find time to reply at some length. But I fear that I may do wrong to defer longer, as this might lead you to believe that your communication is indifferent to me, when the contrary is the case. And, besides, why should I write you a long letter? I have not to convert you: since, on the whole, we are of the same opinion.

The fundamental principle on which you base your arguments (theory) is that the power of issuing a paper currency belongs to the State, and is one of the essential attributes of the State for the same reason as the coining of specie, or metallic money. This principle being conceded, the granting of the power, without compensation, to a company of private stock-holders, is in the nature of a feudal monopoly. Perhaps, if it were sold to such companies for its value, and the proceeds paid into the national treasury for the benefit of the public at large, no grave inconvenience would result to the nation. (This is a delicate question to examine and determine.) But the giving of it without an equivalent is an unjustifiable sacrifice of public interests.

In the years 1833 and 1844 this subject was under consideration in the British Parliament, and resulted in a remarkable exposition of principles entirely in accordance with your ideas. The two most considerable personages who took part in these discussions were, first, in 1833, Lord Althorpe, then Chancellor of the Exchequer, in the liberal ministry of Earl Grey; and in 1844, Sir Robert Peel, then First Lord of the Treasury. Lord Althorpe, not having a clear idea of what was done afterwards—the division of the Bank of England into two departments—the one for the issue of notes, and the other for banking; and fearing the confounding of the two in the hands of the Government, became excessively cautious, but he thought the profit of the issue should belong to the Government.

Sir Robert Peel supported the same views in more decided language in a passage of his speech in the House of Commons on the 6th of May, 1844. The reason which led the Parliament of Great Britain in that year to agree to the proposition of that statesman, and abandon the idea of reserving to the Government the benefit of the issue by means of the creation of a bank of issue, administered directly by the Government itself, was the prejudice of the English nation for customs consecrated by time and tradition. He presses in this speech that sentiment in the following striking words: "*The true policy in this country is to work as far as possible with the instruments you have ready at hand—to avail yourselves of the advantages which they possess, from having been in use—from being familiar—from constituting a part of the habits and usages of society. They will probably work more smoothly than perfectly novel instruments of greater theoretical perfection. If we disturb that which is established, let us have some good practical reason for the change.*"

I shall feel obliged, my dear Sir, to be informed of the progress of this discussion in America, and I beg you to accept my distinguished consideration.

MICHEL CHEVALIER.

The following is the passage referred to by M. Chevalier in Sir Robert Peel's speech on the Bank Act, which shows that he fully appreciated the advantages of a national paper currency, instead of one issued and regulated by a bank or banks.

"Some have contended, and I am not one to deny the position, that if we had a new state of society to deal with, the wisest plan would be to claim for the State the exclusive privilege of the issue of promissory notes, as we have claimed for it the exclusive privilege of coinage. They consider that the State is entitled to the whole profits to be derived from that which is the representative of coin; and that if the State had the exclusive power of issuing paper, there would be established a controlling power which would insure, as far as possible, an equilibrium in the currency." . . . .

The reasons urged by Sir Robert Peel, and quoted by M. Chevalier, for yielding to public ignorance and prejudice, are such as are always used in support of "time-honoured abuses." Had they prevailed on other great occasions, when public sentiment demanded reforms and free trade, England would to-day stand just where she did one hundred years ago, and where many nations still stand. Since the late panic in America, several quite elaborate articles have appeared in leading magazines and reviews on the question of banking, into which I have not attempted to go further than was needful to illustrate my argument in favour of a purely national system of paper, as well as metallic money, and freedom for the practice of banking and the action of the laws of nature. I cannot help expressing surprise that a gentleman who has written so ably and demonstrably on banking and commercial finance as Mr. Bonamy Price has done, should have said so little on principles on which the solution of the questions in controversy so manifestly hinge.* But the large share

* Two of the current writers on banking and currency, Messrs. Bagehot and Palgrave, seem to be suffering from a severe chronic affection of the brain. Reserve is their one idea, occupying their thoughts by day and their dreams by night. That the bank neglects or refuses to keep its reserve up to the ideal standard of these gentlemen, oppresses them like some terrible night-mare. They have set up a Mutual Admiration Society, in respect to the advocacy of this indispensable standard—and each lavishes praises on the writings of the other in support of this standard. The bank directors, they admit, are excellent merchants, and, on the whole, good in their counting houses, but have no knowledge as to how a great bank, whose high function it is to regulate the money-markets of all the world, and the laws of nature into the bargain, ought to be managed. They invoke the aid of the Government to supplement the Board of Governors with a highly-salaried official, who, to meet the objects aimed at, must not be a proprietor of stock, lest his judgment should be warped—such, at least it is to be inferred, is an essential qualification. But his main qualification must be an intuitive knowledge when the bank has an adequate reserve, and thus determine when the rate wants "regulating." It is not made very clear whether this new Cæsar in the money-market will be able to impose his will on the governors of the bank by moral suasion, or must, if needful, use despotic power. This is certainly an important question, inasmuch as these gentlemen own or represent all the stock of the bank, and necessarily, like others in similar positions, think they have some other interests than those of the rest of the world to care for.

On the other hand, Mr. Bonamy Price has shown, by a clear course of reasoning, as demonstrative as mathematics, that the maintenance of a reserve with the object of regulating the money-market, or for any other purpose than sound banking, is a monstrous delusion.

of public attention thus drawn to these questions cannot but lead to important results by making the subject one of national interest. Most of the writers referred to merely urge changes in the present bank machinery, and the necessity of greater stringency in the enforcement of erroneous principles. The evils which all admit to exist are too deeply seated to be cured by any such "specifics" or nostrums, and need the application of constitutional "remedies"—which I have endeavoured to prescribe.

THE TIMES DEFENCE OF THE BANK POLICY ANSWERED.

London, 15th December, 1873.

TO THE RIGHT HONOURABLE THE CHANCELLOR OF THE EXCHEQUER, &c., &c., &c.

SIR,

The Times, which has long been regarded as *par excellence* the ablest exponent and defender of the practice and policy of the Bank of England, in an editorial which appeared on the 12th instant, entered into an elaborate argument to show the admirable working of the present system of regulating and controlling the natural laws of supply and demand, in their application to the money market. As this powerful advocate has unquestionably put forward its best defence of the established practice of its great client, I avail myself of the opportunity presented to point out the weakness of its case, in order the more clearly to show the necessity of a radical change of system, such as I have already suggested in my letter of the 15th of November, written directly after the late panic, caused, as I allege, by the rapid advance of the bank rate, accompanied by a corresponding contraction of its circulation and general business—amounting in the aggregate to seven millions, or about one quarter of its liabilities. In support of this assertion I shall at this time only remark that the panic followed and did not precede the action of the bank, and the rate in the open market was all the time from a quarter to one per cent. below the bank rate.

In the very opening sentence *The Times* discloses the mischievous principles adhered to by its client, when it briefly states the case. "The Bank Rate," it says, "has dropped with unprecedented rapidity from 9 to 4½ per cent. The rise was sharp, the fall has been sharper." In fact the writer would have been much more correct, as well as more candid, if he had said, "there was in fact no necessity at all for the rise." The bank acted under a panic fever, and made a blunder which it was wise enough to discover and correct as soon as possible. But *The Times* evidently admires this style of generalship, which outdoes that of the King of France, who "marched up the hill with twenty thousand men, and then marched down again." Need I say that the law of supply and demand, which *The Times* subsequently appeals to, when left free to act, never does its work in this hasty and injudicious manner, and by "fits and starts" as *The Times* has it; and when thus left, never creates a panic? The market price of gold, or of capital, under the action of this law, never pushes prices up or down at the rate of one or two per cent. at a time. On the contrary, we see in ordinary times, when the bank is not labouring under the panic fever, and does not attempt its high function of controlling this natural law, the market rate creeps up or down slowly, an eighth or so at a time. But I shall again refer to this feature of the argument, when I quote *The Times* appeal to this law.

The writer next says: "The circumstances of the last three years have conspired to make London the sole *entrepôt* of the world for gold, and our domestic commerce is thus liable to be deranged at any moment by an invasion from without, over which we have little control." In the first place, it may be disputed that London has been made the "sole *entrepôt* of gold for the world." If I mistake not, the Bank of France at present, though in a state of suspension, holds more gold than the Bank of England, which possibly is the reason why its notes have not depreciated.* The United States Treasury, also in a state of suspension, holds usually about twenty million sterling of the much-coveted metal. This however is not a matter of importance in the consideration of the question on which I take issue with *The Times*. But I really would like to know what are the "circumstances" on which the bank's advocate sets up such a high sounding pretension. I might perhaps be entitled to argue in favour of such an assumption, if the plan I have suggested were carried into practice. The Treasury of England, under a Currency Board, might possibly approximate to something of the kind. But it is more important that we should be informed how the establishment of this warehouse in London, for all the gold of the world, "renders our domestic commerce liable to derangement at any moment." If paper money serves any good purpose, or performs the functions universally assigned to it by writers on political science, it is to meet the requirements of domestic commerce, and leave the gold and silver for the uses of international or foreign trade. If Bank of England notes fail to accomplish the desired and assigned duty of supplying those requirements, and of leaving the precious metals free to circulate like water, and find their natural levels, then the bank circulation is beyond question a failure and ought to be supplanted by one that will work out those desirable and natural results.

Starting from this assumption, that circumstances, which the writer fails to define, have made London the warehouse for all the world to store its gold in, *The Times* plunges *in medias res* by saying, "as we find our ready money slipping away and threatening to become less than sufficent to satisfy our own needs, we have no resource but to raise the price for it. Those who come

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* At this time (March 2nd, 1874,) the Bank of France holds £37,050,000, and the Bank of England about £23,000,000, and the United States Treasury and New York Banks about £25,000,000.

to reclaim their own must be allowed to take it away," (what a magnanimous concession is this!) "but those who come to borrow can be baulked by an increase of the rate charged for the accommodation. This is what we have done, and this remedy against an excessive demand has proved so successful that we are in possession of a supply exceeding our immediate wants."

Was ever such a mass of absurdities crammed into so short a paragraph? First, these people who come to borrow, are not foreigners coming to invade the country and carry off the hoarded gold of the bank, as we may suppose the Germans will do after the Battle of Dorking shall be fought, but simply our own merchants engaged in the foreign trade of the country, on which mainly rests the vast manufacturing and maritine interests of the nation. But it appears all these interests which combined make England the greatest and most opulent nation of the world, and which are so intimately intertwined with our domestic commerce, are to be violently separated from the domestic interests by the systematic policy of the bank. In my first letter, written nearly a month before the appearance of *The Times* defence of this policy, I put the same theoretical argument in the mouth of a suppositious Bank Director, indignant at seeing the cash slipping away to foreign countries. I repeat, if such is the necessary policy under the present system of banking and currency, then the system must be wrong and ought to be changed for one that will leave the paper money to do home work and the gold to carry on the foreign trade. The true scientific and practical solution of the money question must be sought in this direction. The paper circulation must not be made wholly dependent on an artifical basis of credit, and that subjected to an ideal equipoise between the Bank of England "reserve" and "circulation or liabilities." Again, why should the regular bank customers, who consist of the leading bankers, merchants, and perhaps manufacturers—all of whom are more or less interested in foreign trade, be balked or fustrated, when they come to the bank with their securities, and ask for their accustomed accommodation? These great houses are the channels through which all the lesser traders obtain their means to carry on their business, so that in fact the balking punishes them more than the large dealers in loans. *The Times*, which exercises so much weight in commercial affairs, ought not to advocate a system which every man possessed of ordinary powers of ratiocination must see effects injuriously all classes, and then defend it on so flimsy a pretext as that we are after all only fighting off an army of "invasion from without," which comes to rob us of our much needed and much coveted treasures. That was exactly the view taken by the Spaniards three hundred years ago, when they passed laws to prohibit the export of gold and silver.

The next extracts I shall quote from *The Times* article, though occurring in different paragraphs, are so notably and manifestly inconsistent with each other, that I give them together so as to waste as few word as possible in disposing of arguments so specious and flimsy. "An attempt," it says, "has recently been made to question the truth of the law that price is determined by the relations between supply and demand, but the boldest sceptic as to the received doctrines of the philosophy of trade must be disposed to allow that in the money market, the principle of supply and demand is supreme." In the next paragraph, the writer says, "as the rate declines," (by the action of the bank as stated) "borrower after borrower appears in the market, those who are most in want of ready money coming first, and it is only by means of a gradual decline that the reviving demand is *regulated*," (of course by the bank) "so as not to exceed the rate of increase of the reserve." Let me ask, what in the name of common sense has the business of the country to do with the "reserve"?

In these quotations we have, first, the admission that in the money market at least "the principle of supply and demand is supreme;" and, secondly, the assertion that the bank after all, "regulates" the money market, and not the law of supply and demand. Herein lies the whole evil of the system which permits the bank to override, "regulate," and control this law or principle of supply and demand, in respect to the money market, where it ought more than in any other market, to be "supreme." I verily believe that the systematic violation of this law by a bank, claiming to be National, and having so large a capital and such a universally accepted credit and power to give effect to its policy, has done more injury to commerce and industry than any of the old and discarded monopolies in trade and manufactures, as they existed within the memory of thousands of business men ever did.

The remainder of *The Times* article is devoted to showing the necessity of maintaining a proper equilibrium between the bank reserve and circulation, all of which arguments only go to prove that the whole system is wrong, unscientific and most impracticable in its working, always failing, as it does at the most critical times, and leading to periodical panics. It is in fact, a system, which, like the sword of Damocles, is a continually overhanging terror to all classes of commercial men, and ought to be abolished as speedily as possible, and a new one substituted, leaving "the principle of supply and demand" absolutely free and "supreme."

I must avail myself of this opportunity to point out a singular error into which *The Times* and other authorities in money matters continually fall, in treating money and loanable capital as convertible and synonymous terms.* If these authorites were right in not discriminating between the two, then it would follow that the two were equal quantities, or equal in amount. A very little reflection must show the utter absurdity of such a proposition. Without going into details, it will be admitted by every well-informed business man that the amount of loanable capital always ready in the market to take advantage of good investments, is

*I here use the term loanable, capital in its ordinary popular sense and not in that which close scientific reasoning would assign to it.

manifold greater than all the money, paper and metallic, put together. There is probably more capital drawn out of the country every year for investment in foreign loans and enterprizes than all the money circulating in it, and yet none of the paper and very little of the metallic money is sent abroad or out of the country, certainly not more than flows into it. Now the truth is, very little money is used in the loan market in it widest acceptation, domestic and foreign. It is a branch of business which more than any others is carried on by means of checks, bills of exchange and letters of credit, which are treated as currency by many writers; and the foreign like the domestic commerce and business of all kinds, very nearly balances itself each year. The fear therefore that these so called foreign invaders are going to run away with all our ready money, which means capital, is far more chimerical than the suppositious conquest by the Germans.*

* The following is an approximate estimate of the banking capital and other resources available for banking purposes, compiled from Mr. R. H. Palgrave's "Notes on Banking," published in 1873, and has reference to the close of the year 1871.

ENGLAND AND WALES.

BANK OF ENGLAND,—			
Capital and Rest ..	£17½ millions.		
Average circulation ..	24 „		
Deposits	25½ „	Total 67 millions.	
JOINT STOCK BANKS IN LONDON,—			
Paid-up Capital ..	11 „		
Deposits	85 „	Total 96	„
PRIVATE BANKERS IN LONDON,—			
Capital and Deposits (estimated)		78	„
PROVINCIAL BANKS,—			
Capital and Deposits (not distinguished)		210	„
Total for England and Wales ..		451	„
SCOTCH BANKS,—			
Capital	12½ millions.		
Deposits	82½ „	Total 95	„
IRISH BANKS,—			
Capital..	6½ „		
Deposits	27 „		
Circulation	7½ „	Total 41	„
Total for United Kingdom ..		587	„
Add Savings' Banks under Trustees ..		39	„
Do. Post-office ..		17	„
Grand Total		643 millions.	

If the claim set up for England, that she occupies the central position in the world of commerce, and is, in fact, the centre of the foreign exchanges, has any merit, then we must arrive at the conclusion that her merchants will not, and could not, if so disposed, send the precious metals to places so remote that they will not as speedily find their way back. Let us suppose for a moment that a Government Department has control of all the metallic and paper money of the country, and a more than usual amount of gold is required to purchase cotton or breadstuffs for domestic use, or to pay the calls on foreign loans, and inquire what the effect would be under the action of the "principle of supply and demand." In order to obtain the gold from the vaults of the Government, the bankers or merchants would have to collect and present a larger amount of national notes than usual, and as the Government must not commit the excessive folly recommended

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These statements are evidently very imperfect, and must fall far below the mark as exhibiting the amount of capital actually employed in banking in the United Kingdom. They do not seem to include anything for private bankers in the country, or in Scotland or Ireland, nor for merchants who do a certain limited amount of banking business, and receive deposits and allow interest on moneys used in their own business. Probably £700 millions will not be too large a sum to estimate as the "floating capital" employed in the loan market; and it may not be too much to assume that the whole of this amount, or what is equivalent to the whole, is made to perform a complete revolution, as it were, in the loan market, every thirty days, or, leaving out Sundays and holidays, ten revolutions in a year—making a grand aggregate of loans each year of seven thousand millions. Now only a very small part of this vast aggregate of transactions for a single year, effected by the loanable or floating capital, estimated at 700 millions, is effected by the use of money. The actual amount, as shown by Sir John Lubbock, in the case of one great banking house, may not exceed three per cent. All the rest of this floating capital, which is actual wealth, because it represents goods, wares, merchandise, and the whole stock of merchantable commodities, is represented not by bags or ingots of gold, or circulating paper money, but by entries in the ledgers of bankers, and the bills, checks, and other devices used by bankers and merchants in the transfer of those commodities, from the manufacturer or producer, till they reach the consumer.

These "pieces of paper," as Mr. Bonamy Price not inaptly terms them, and the corresponding entries in the books of bankers, being in fact mortgages on the products of industry while *in transitu* from producer to consumer, and also on lands, factories, ships, etc., under transfer from seller to buyer, constitute the stock in trade of bankers to the extent which these values exceed those of actual paid-up capital. In fact, this paid-up capital is the *mere margin* on which the banker, like the merchant, trades—all the rest is mere brokerage in such mortgages.

by President Grant in his late message to Congress of dealing in loanable capital, the effect of an unusual withdrawal of paper money will be (under the supreme law of supply and demand) to raise the rate of interest. It will, in fact, act as a contraction of the money in circulation, which, to the extent of such circulation, represents loanable capital. Thus we shall have a continually-acting agent, and a more vigilant and prudent regulator of the loan market than the artificial system imposed by the Bank of England. If a quantity of gold shall occasionally be shipped to foreign markets, all of which draw on England, it must of necessity flow back, so that this very law which *The Times* in one sentence asserts is "supreme," and in another—and, indeed, throughout its whole article—proves is not supreme, but under the regulation of the bank, then the equilibrium, which may have been slightly deranged,

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But the process of absorption of floating or loanable capital into fixed capital is a most important element in the consideration of the money question in its more comprehensive details. It is obvious that the mere transfer of a fixed investment from one person to another, does not affect the result. If a man buys a share in a railway, a mine, a bank, or purchases a house or a factory, it is only the change of so much floating capital in the loan market from one person to another, and the purchase-money, as the lawyers call it, goes immediately back into the loan market, through the banker holding the deposit, and may, in the same day or hour, perform another similar operation. But the drain for investment in new houses, factories, machinery, railways, or steamships, etc., constitutes the regulator of the "money" or "loan market," and serves to prevent the excessive supply of loanable capital in that market for all the other ordinary daily purposes of business and speculation.

This steady absorption of floating capital into permanent fixed capital, invested in new buildings, ventures, etc., is as steadily and regularly made good by the surplus profits of all kinds of industry and investments, over expenditure. When such new permanent investments fail to attract the usual amount of floating capital from the loan market, "a plethora of money," as it is termed, ensues, and the rate of discount falls. If the absorbtion into permanent channels is too large for the supply afforded by surplus profits, then the rate of discount, or "the price of money" will rise. This is the regulation or action of the law of supply and demand, and a consideration of its working ought to show demonstrably the fallacy of the Bank setting itself up as the divinely or legally appointed regulator of the market. As to the amount of the net surplus of income over expenditure, each year, in the United Kingdom, many estimates have been made by experienced political economists and actuaries, and I believe none fall below one hundred millions. Lord Overstone, who was no mean authority, put it at one hundred and fifty millions, many years ago. But as the ratio of increase is cumulative each year, taking a series of years, adds to this extraordinary exhibit of increasing wealth.

will be restored. This desirable object, in the one case, will have been accomplished, under the action of natural laws, in an easy and almost imperceptible manner, and in the other, as proven by a score of experiments, by "jumps and starts," to use the words of *The Times* again.

The Times, in alluding to the anomaly of the bank *reducing* the rate of discount with "unprecedented rapidity" in the face of an unusual "invasion from without" by several foreign nations for loans, only makes its client's case weaker. The Russians, the Hungarians, the Buenos Ayrians, and several foreign railway and gas companies were all in the market for loans, which *The Times* thinks will be raised, at the very moment the bank was in the act of "dropping" its rate.* But neither the bank nor *The Times* seemed to to think that this class of "invasions from without" should be "balked," but only our own domestic invaders, who wanted but a fraction of the sum called for by the other class, and that to obtain means to purchase grain and cotton in America, to freight the large fleet of splendid British steamers which the American trade has brought into existence, and to supply work and food for the people at home.

Let it not be supposed that I write in hostility to the bank or its powerful defender, *The Times*. They are both great "institutions," as our American friends would say. I only take ground against a fallacious system of banking and currency,—a system founded on the old-time doctrines of protection and monopoly, and which cannot for a moment be justified or upheld by the principles of supply and demand, because it entirely over-rides and sets those principles at defiance.

I have the honour to be,

Sir,

Your very obedient servant

H. Bowlby Willson.

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* These loans, amounting in the aggregate to over £16,000,000, were all said to have been successful within a few weeks after the panic caused by the late action of the bank.

THE MONEY QUESTION IN AMERICA.

The following relates to the money question in the United States, where pretty much all that is bad in the English system has been copied, and the subject is no better understood than it is in Europe, where, in fact, the wise Swedish Chancellor ought to have sent his son to "see with how little wisdom mankind is governed." The "Greenback Currency," or Treasury Notes, which the banks are strenuously labouring to have suppressed, or funded into an interest-bearing debt, at an annual cost to the nation of twenty millions of dollars, is the one redeeming feature in the American financial system. The increasing influence of the "Grangers' Movement," which is favourable to the Greenbacks, may turn the tables on the banks. As I write it is announced by "the Cable" that the Grangers' Convention has resolved in favor of sustaining the Greenback and suppressing the bank circulation. On the other hand, we learn through the same channel, that the Senate has negatived a motion "to redeem the National Bank notes with specie or United States Bonds, by a vote of 30 to 28. Even this is a triumph for the Grangers, who have elected several senators favorable to their views, to occupy the places of the bank incumbents, one of whom at least, ex-Governor Booth, of California, is a man likely to make his mark in the National Upper House.

LETTER TO HON F. E. SPINNER.

London, 29th October, 1873.

HON. F. E. SPINNER, TREASURER OF THE U.S.

DEAR SIR,

Yesterday's *Times* contained the letter of the President of the United States to the President of one of the New York National Banks on the subject of the present monetary condition of the country, and inviting suggestions as to the best mode of dealing with the question of the currency by the Government. As my views on the banking and currency system of America have had wide circulation through the columns of leading New York Journals, and in pamphlets placed in the hands of Members of Congress and high officials, and as those views have been very fully indorsed by yourself and by the eminent French political economist, M. M. Chevalier, and quite a number of able men in America, among whom I may claim the Hon. Mr. Spaulding, who was a prominent M.C. when the present currency was originated, I may, without presumption, avail myself of the invitation of the President, and take the liberty of asking you to be the medium of my communication.

Before making suggestions for a remedy of the great and now acknowledged evils of the present American system, all of which I and others pointed out as absolutely certain to grow out of it, as long ago as five to seven years, it will be necessary to briefly state the anomalous and most unwise features connected with the system itself. I will only remark on my former writings, what you will distinctly recollect, that I insisted on having but one kind of "paper money," and that to be issued and managed by the Government, through your department, to which I proposed also to confide the issue and the management of the metallic currency. Instead of a single manager, I advised the constitution of a Board of Control to consist of five or seven gentlemen selected from non-political circles, who were eminent for their scientific and practical knowledge of money, and the laws of nature which govern or affect its uses.

The first anomaly in the American system of paper currency consists in having two descriptions,—the one being Government notes *par excellence*, and known as Greenbacks, and the other bank-notes, also issued by the Government under an absolute guarantee of the public faith for their redemption. These latter are, as declared by the late Chief-Justice Chase, then Secretary of the Treasury, "a loan without interest" to the banks. To be precise, I quote the following from his Report to Congress in December, 1862: "The whole of this circulation constitutes a loan without interest from the people to the banks, costing them nothing except the expense of issue and redemption."

I will not overload my communication with arguments to show that the supposed necessity assumed at the time for granting these enormous loans to capitalists to bank and trade on, had no foundation in fact. In the then knowledge of the subject, such an expedient was inevitable. Everybody wanted to make fortunes out of the public chest, and no arguments could have kept the hands of the whole banking community out of the treasury. But let me ask on what pretext can it be justified now, or even three years ago, when Congress, under the wholly fallacious cry for an "equalization of the currency," made a further grant of 50,000,000 dols. as a loan without interest to the same grasping class. I must be pardoned for here remarking that it is demonstrable that this last inflation of the currency, which carried gold up gradually, as it came out, from $108\frac{7}{8}$ to 119 from which it has since fallen, has been the direct cause of the present financial collapse. That inflation gave to the great gold gamblers in New York a three years longer lease of power to do evil and disturb all legitimate busines. This law was in direct violation of the views of President Grant, so ably expressed in all his Annual Messages prior to its passage, in respect to the impolicy of keeping an inflated currency in circulation.

But let me again ask, in the name of common sense, what necessity was there for making one kind of paper money, (Greenbacks) legal tender, and the other kind just as fully guaranteed by the Government (namely bank paper) not so? Furthermore, why require the banks to keep from 15 to 25 per cent. of the first kind of paper money as a reserve for redeeming their own guaranteed money? Is it not simply locking up just so much of their means, albeit such means costs them nothing without conserving any useful object, the Government and the people being secured most amply against loss, (by reason of the issue of these circulating notes,) by the deposit in the hands of the United States Treasurer of one hundred dollars of Government securities for each ninety dollars of the "loan without interest?" It is not pretended that these Government bonds are intended as security for depositors with the banks, or the public holding their other obligations, for these exceed the banks' capital manifold. The whole system on which the American National Banks is predicated is nothing but a gigantic fraud on the public, and a gross absurdity when brought to the touchstone of scientific reasoning.

The next question is how to devise a remedy. Manifestly wrong as the whole system is, and was, in its inception, I do not propose to do violence to those institutions, wanting as they most egregiously have been in the ability to afford relief to the country in the hour of need—of financial distress. What I propose as an effectual remedy, immediate and for all time, is to provide but one kind of paper money, namely, "Uncle Sam's," and not the paper of private corporations. As the banks are now required to keep a reserve of from 15 to 25 per cent. according to the localities specified in the National Bank Act, let the proposed measure provide a period when these "loans, without interest," shall be called in. This can best be done by substituting annuities terminable, say in twenty years, for the Government bonds held by the United States' Treasurer to secure the bank circulation, less the amounts required to be held in Greenbacks as a reserve, and bearing the same rate of interest as the bonds, and handing back the balance of the bonds to the banks entitled to them. The Government then to call in the entire bank circulation, paying dollar for dollar in Greenbacks for it. This will neither diminish nor increase the actual gross paper circulation, except that thenceforth the banks will not have to keep a dollar of reserve. They will simply be obliged to bank on cash-capital and credit, the same as merchants and other traders. A bank is in fact, merely a corporate company trading in loans, discounts, checks, promissory notes, bills of exchange, bills of lading, and indeed almost everything else. There is no justification in reason, or in the science of political economy, for drawing a distinction between one class of traders and another class. If we carry the question back to the principles of natural right, the pretext claimed by bankers for being so favoured by the state, finds no support. Any joint stock, mercantile, trading or manufacturing company, or any mining, railway or steam ship company has the same natural right to take its 100,000 dollars, or 1,000,000 of Government bonds to the National Treasury and obtain its 90 per cent. loan without interest, as has a banking company.

It will now be seen that the measure I propose will effect several objects.—1st. the banks will be twenty years in paying off the loan they have obtained from the people, through the extreme liberalty of their representatives at Washington, and the national debt at that period will be diminished some three hundred millions of dollars and upwards by the termination of the annuity bonds. But perhaps after all the greatest and most important object that will be accomplished will be the establishment, immediately, of the best and only scientific system of paper money the world has ever had. Being placed under the management of a board, independent of the finance minister, in order for ever to remove the temptation of issuing paper to constitute national resources or ways and means, instead of using it exclusively for national money, or currency, and such board being organized like the Supreme Bench of men above suspicion, public confidence will never be shaken in the security of paper money. Unless issued in excess of the requirements of commerce, the paper dollar will not depreciate. That is the infallible test of how much paper ought to be issued. If I had time and it would not make my letter too long, I would adduce, from the history of the Bank of England, indisputable evidence of this fact. It is sufficient to simply point to the case of the Bank of France, now under suspension. It has increased its circulation since its suspension two years ago, from 300,000,000 dollars to 600,000,000 dollars, and yet such is the activity of business and industry, and so great is the public confidence in the institution, that its notes are now at par with gold. Who will deny that this circumstance has not enabled the French nation to meet the enormous war indemnity to Germany of 1,000,000,000 dollars. My fear at the time of suspension was, that the bank would be forced into an issue far beyond the limit thus set by the laws of nature, (supply and demand.)

The plan I have outlined can readily be filled in and a measure framed to meet the case. It would be well to call in the whole paper circulation for cancellation, and to issue a new series of notes from five dollars upwards. This would lead to a detection of the large amount of counterfeits said to have got into circulation, and all old notes not sent in by a given day should be rejected by the Government and the banks.

My great apprehension is that the currency question will be bungled in Congress, just as it has repeatedly been in the British Parliament, in consequence of the absence of a just knowledge of the well-established principles of currency. I fear the evil day will only be postponed, and a measure fraught with worse evils will be insisted on by western financiers, who want more loans of the public credit without interest.

You will oblige me by placing a copy of this communication in the hands of the President.

I am,

Your very obedient servant,

H. B. Willson.

To this communication Treasurer Spinner made a prompt reply, in which he says he had sent a copy to the President, with a note stating that I had "made the subject a study, and had written much and usually with great good sense on our currency." He has always, himself been a bold outspoken advocate of the proposed plan of reserving to the State the sole right to issue and manage the paper as well as the metallic currency, fully indorsing the claims put forward by the writer, that the same arguments and reasons which apply to the one kind apply with exactly equal force to the other.

REMARKS ON TREASURER SPINNER'S PROPOSED PLAN FOR REGULATING THE LOAN MARKET.

It will interest all who are engaged in the consideration of the money question, which has yet to be solved, whatever *The Times* and other authorities may assert as to its being already settled, to be informed of what has now become almost a leading idea in the United States respecting the best method of giving "elasticity to the currency." Treasurer Spinner is the ablest exponent, if not the originator, of this idea. In his Annual Report to the Secretary of the Treasury, dated November 1st, 1873, he alludes graphically to the recurrence every autumn of the insufficiency of currency, or money, to effect the transferrence of the crops to the home and foreign markets, and the consequent "stringency in the money market." This he imputes to several causes. At one time of the year, probably while the crops are growing and being harvested, there is a superabundance of money, and for want of some safe means of investment, "this redundancy of the currency is driven into channels of wild speculation, in fancy stocks and visionary enterprises. Here it is stranded; and when again needed for the real wants of the people, for the proper transaction of the business of the country, it cannot be had, and the staple commodities and crops that then seek a market are hindered and kept back, through which all classes of people are injured and damaged."

In the next paragraph Mr. Spinner touches the true cause of the evils he points out so forcibly, and gives the key to the true remedy to be applied, which he strangely omits to recommend. He says, "it has perhaps not occurred to every one who has not studied the subject, that during the suspension of specie payments, and when the amount of paper money is limited to a certain sum, as ours is, by law, this rigidity or want of flexibility and elasticty of such currency is greater and consequently more injurious to the interest of the people than a metallic currency can possibly be. Coin always flows to the countries where it is appreciated and most wanted." This is sound argument, founded on the experience of all commercial nations and all times. Clearly the true remedy is to get back to a specie basis. England and other foreign countries requiring the surplus products, will then furnish the money "to move the crops." The next, or concurrent step should be to get rid of the bank circulation and establish free trade in banking. The banks can then use the whole of their capital in their business, instead of keeping 15 to 20 per cent. alway on hand for the redemption of their notes, which compels a perpetual interference with the natural laws of supply and demand. A system that will give entire freedom to the action of these laws will afford the desired elasticity, and make capital scarce when the tendency is to excessive speculation in the general community, and abundant when required for ordinary business. No artificial device, backed by legislative enactments, or Bank of England dogmas and practices, can ever be made so faithful or certain a regulator of the loan markets of the world.

Nevertheless, I should like to see a part of Mr. Spinner's remedy tried. It will do no harm, and may do good in another way, which I will hereafter point out. The part I refer to will appear in the following words: "For these notorious evils a remedy should be found and interposed. In looking over the whole ground, no scheme has presented itself that would be so likely to accomplish the end in view as the authorization by Congress of the issue of a certain amount of legal tender notes, that could at all times be converted into a currency interest-bearing stock of the United States,* and for which the holder of such stock, so authorised, could at pleasure receive legal tender notes with the accrued interest. It is believed that a rate of interest, no higher than $3\frac{65}{100}$ per cent., will be high enough to absorb the desired amount of the circulation when not needed for commercial purposes, and low enough to force the return of the bonds in exchange for legal tender notes at the times when the business wants of the country require more currency."

I would suggest, that instead of the interest-bearing security proposed in this scheme, that a simple certificate of deposit, bearing interest, be issued, and when returned, cancelled at the head office in New York or Washington. This plan may serve a useful purpose in collecting, at a low rate of interest, considerable sums from the provident portion of the community, which will make the Treasury a sort of National Savings' Bank, and enable the Government to retire so much of the higher interest-bearing debt.

In my first letter to the Chancellor of the Exchequer, page 14, I hinted at such a plan as worthy of consideration in this country.

But it is open to serious question, whether the stock and gold gamblers of New York, whose operations, according to Mr. Spinner, are at the bottom of the whole evil, will be the parties to avail themselves of the new device of a $3\frac{65}{100}$ per cent. stock, and if not, then no practical result will follow in checking such practices. *Their* aim is to make 1,000 dollars do the work of 10,000 dollars, by using the 1,000 dollars as a

* That is a stock the interest on which is to be payable in paper currency.

margin to pay differences. These margins, which sometimes reach an estimated aggregate in New York of 20,000,000 dollars, are paid by the brokers into their bankers, where they are used as a basis for banking. If the broker "carries the stock" for his customer, he hypothecates it with his banker for a loan to pay for it, charging interest in addition to his commission. Now the ten thousand small gamblers, who have no other means than their margins to trade on, are playing against a few great gamblers, such, for instance, as the Fisks, the Jay Goulds, the Drews, the Vanderbilts and Tweeds, who have unlimited means, as well as credit at the banks. They, in fact, use the collective margins of the small gamblers to fleece them, or, in Wall Street parlance, to "whip the street." These men may be said to play with heavily loaded dice, and never lose in the long run, whoever else may have to pay. I therefore fail to see in Mr. Spinner's plan a remedy for this class of evils, of which he so eloquently complains, nor can it furnish capital to move the crops.

Mr. Spinner claims that the means to foster these speculations are drawn to the New York Banks by the practice of allowing interest on deposits. The country banks send their surplus funds to the city banks when business is slack to get interest on them, and these "corporations use such deposits for purposes that in point of morality are but little removed from ordinary gambling and downright swindling." This statement looks singular to those familiar with the well-known fact that the rate of interest or discount on good commercial paper is always several per cent. higher in the country than it is in the city, and such paper in Chicago and St. Louis is often sent to New York to be sold simply because of this fact. Nevertheless, to cure this alleged root of the evil, the Treasurer recommends that the banks be prohibited by law from paying interest on deposits, "and especially that of one bank allowing interest on the deposits of another, under the severe penalty of the forfeiture of their charters." Here again I venture to question the predicted result, and to express a conviction that such a course being in direct violation of the principles of free trade and of the laws of nature, would be productive of far greater evils than those it is intended to remedy. If people having balances which they desire to lend temporarily, or "on call," at the best rate of interest they can get, and on what they think good security, are prevented from doing so, by an inhibition placed by law on the largest and most punctual class of borrowers, these numerous small capitalists, all over the country, will be tempted to enter the field of speculation in person, or they will lock up their "currency" at home, taking it wholly out of circulation. Thus the evil will be greately intensified. These facts do not admit of question or denial. If you dry up the little streams that supply the great reservoirs, the reservoirs themselves will soon be unable to furnish the produce dealers, the merchants, and all others requiring supplies of the precious liquid, which, by its continual circulation, fertilizes commerce and industry. Mr. Spinner's proposal to restrain people from investing their means where they think most for their own interests, it is easily to be seen would tend to increase the speculation he so much deplores. It is much easier for persons of small means to buy and sell stocks through a broker, on margins placed in his hands, than to engage in merchandize or trade requiring more capital and credit than they can command, and perhaps they may come to think from the large number who fail in what is called "legitimate business," that they run no more risk. Why then deprive such parties of the opportunity of lending their money to banks or one bank lending to another, which again lends to merchants and dealers able to give good security? Why tempt him to go to a broker and "put up" his thousand dollars, in order to buy ten thousand of some fluctuating stock for "a rise," or to sell it short for a fall?" In the general result this will be less injurious to the loan market than prohibiting banks from trading on borrowed capital, for the broker will immediately deposit his customer's hoarding with his banker, who may lend it the same day or hour to the produce merchant to help "move the crops."

I am of opinion that these particular evils so much complained of in America, and for which so many panaceas have been prescribed, lie deeper than the soil where Mr. Spinner has delved. I think something is due to the facilities afforded to great speculators (to use a milder term than Mr. Spinner has done) by the state legislatures and judiciaries to obtain power to levy increased tolls on the public for railway transit, and to get injunctions to suit their own plans of plunder. I have neither time nor space to enter into details, nor would they, it is presumed, interest English readers to do so; but it may be well to be a little more explicit in respect to one or two notable cases, often referred to on both sides of the ocean. I mean those of the Erie and New York Central—perhaps I ought also to include the Pennsylvania Central—but the two former will do. The money disbursed at Albany by the Erie company under the Fisk Gould, and the New York Central under its present manager Mr. Vanderbilt, to obtain legislation to enable them to carry out successfully their great schemes of finance, has been enormous. Through these disbursements two governors who signed the bills, alleged to have been purchased through the legislature, it is said, retired almost millionaires, and numerous state senators, and many leading members of the Assembly, were known to have suddenly become rich after the passage of certain bills into law. These facts are not stated on the loose and general charges made by the press, but on reports of committees of subsequent legislatures who compelled the officials to produce their books and disclose the outlay, first and last, for legislation at Albany of some two millions of dollars. What was done in New York on a large scale, was done in other States on a scale only a little less. There is no denying the fact that corrupt practices a few year ago extended all over the Union, and involved extensively the State judiciaries. In respect to the latter, New York has redeemed herself, and now boasts of Judges as honest and as stern as any ever possessed by England. She has also an honest and high-toned Governor, who, no doubt, exercises a wholesome restraint on the legislature. I do not desire to lower the estimate of the people of this country for American institutions, and they may rest assured that the growing education and intelligence of the masses who control governmental and judicial adminstration in the United States, are correcting these evils. The nation is just passing through the corrupt stage through which England passed between the days of Walpole and those of Chatham. I only allude to the subject to show the bearing it has on American finance, which must interest the business men of this country, owing to the intimate commercial relations subsisting between the two nations, and to point out some minor errors into which an otherwise excellent reasoner and good authority on the money question has fallen. I would observe in conclusion, that if the demagogues in England should succeed in obtaining a large extension of the franchise, so as to give the governing power over to the same classes as in America, before they are qualified in any degree by education, intelligence or moral character, for its excercise, the country may have to pass a second time through a similar ordeal, and may not come so well out of it. It is best for all classes that education should precede the concession of political power.

H. B. W.

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