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Robt Jameson Esqre
With the Author's respects

A

LETTER

TO THE

RIGHT HON. THOS. SPRING RICE,

CHANCELLOR OF HER MAJESTY'S EXCHEQUER,

&c. &c.,

CONTAINING

A NEW PRINCIPLE OF CURRENCY

AND

Plan for a National System of Banking.

BY

A LIVERPOOL MERCHANT.

LONDON:

PUBLISHED BY EFFINGHAM WILSON, ROYAL EXCHANGE.

PRINTED BY T. BEAN, CASTLE-STREET, LIVERPOOL.

1837.

Au N° 15-9 & 6

TO THE

RIGHT HON. T. SPRING RICE,

CHANCELLOR OF HER MAJESTY'S EXCHEQUER,

&c &c.

LIVERPOOL, 20th JULY, 1837.

SIR,

FEELING assured, that Her Majesty's Government must be disposed to consider seriously the existing system of Currency, and the possibility of preventing the periodical return of commercial pressure and distress, such as afflicted the country in 1825-6, and again this present year, I take the liberty of proposing for your consideration a new Principle of Currency, which would be effective to prevent the great evils referred to. The Principle of Currency, as acted upon by the Bank of England, is found ineffectual, and cannot be worked out without pressure to produce low prices when her Bullion is too much reduced; and the Principle promulgated by Col. Torrens and Mr. Samuel Jones Loyd would, I believe, be found in practice to lead, at times, to similar results.

You are aware, that the Principle of Currency adopted by the Bank of England is to consider Deposits as though they were circulation or Bank Notes, and to add the amount of Deposits to the amount of Notes in circulation, making a total of Liabilities.

At a period of what she calls "*Full Currency*," to have a reserve of Bullion equal to one-third of the amount of her Liabilities, and then to take care, that, as her Reserve of Bullion increases or diminishes, her Liabilities shall increase or diminish *an equal amount.*

This system is supposed to operate exactly as though the Deposits and all the Notes in circulation were Sovereigns, and that when the Bullion in the coffers of the Bank of England is diminished one million or five millions, and her Liabilities diminished an equal amount, the effect will be to lower prices, cause a favourable action upon the Foreign Exchanges, and restore Bullion to her coffers; and thus admitting of her again increasing her Liabilities; which, if not increased by Deposits, may be increased by an additional issue of Notes.

The error in this system is the treatment of the Deposits as though they were Notes in circulation; but the increase and decrease of Deposits do not affect prices in the same manner, or to the same extent, as the increase and decrease of Notes in circulation; and yet they may cause a great diminution in the Reserve of Bullion. The consequence is, that while Bullion by means of Deposits is leaving the Bank coffers in large amounts, no action is produced on prices or Foreign Exchanges, nor is any pressure occasioned which shall lead to an influx of Gold to restore the *Full Currency* proportion between Bullion and Liabilities.

I beg to call your attention to the following statement of the affairs of the Bank of England, on the 1st of October, 1833, from the *London Gazette:* it was a period of *Full Currency.*

Liabilities.		*Assets.*	
Circulation	£19,823,000	Bullion ..	£10,905,000
Deposits....	13,057,000	Securities	
	£32,880,000		

And the following statement from the *London Gazette*, 13th December, 1836:

Liabilities.		*Assets.*	
Circulation	£17,361,000	Bullion ..	£4,545,000
Deposits....	13,330,000	Securities.	
	£30,691,000		

Here we see £6,360,000 of Bullion abstracted from the Bank, with a *decrease in her Notes* in circulation of *only* £2,462,000. This is the result of working the Deposit account with the Circulation, and shows a very insecure position for the Bank to be placed in.

Mr. Horsley Palmer, in his Pamphlet in reply to Mr. S. Jones Loyd, makes out, that of the £6,360,000 of Bullion withdrawn from the Bank, £3,700,000 was so withdrawn by the operation of the Deposit accounts, and only £2,660,000 by the Notes in circulation, and the amount of the latter having been diminished £2,462,000, the result is the same as though the Circulation had been managed upon the Principles of Col. Torrens and Mr. S. Jones Loyd.

Mr. Horsley Palmer, in his statement, divides the Bullion in the Bank of England thus :

Date.	*Circulation Department.*	*Deposit Department.*	*Total.*
1833 Oct. 1,	£6,605,000	£4,300,000	£10,905,000
1836 Dec. 13,	3,945,000	600,000	4,545,000
Decrease	£2,660,000	£3,700,000	£6,360,000

If this statement be admitted to justify the position of the Bank of England as regards the quantity of Bullion in reserve to meet her Notes in circulation, it shows in what a dangerous situation she had allowed herself to be placed, as regards her Deposits, having only £600,000 on hand to meet the Liabilities, to pay on demand £13,330,000, a large amount of which might be withdrawn and paid by her in Notes to the increasing of her Circulation. This increase, she might assert, she could absorb at once by the Sale of Securities at some price or other.

No private Banker would be thought prudent who would venture on a similar risk : nor can the Notes of a Bank be considered secure which are exposed to the consequences of such a method of managing the Deposit accounts. For your information, I have drawn out an analysis of the Bank accounts, as stated by Mr.

Horsley Palmer in his Pamphlet, and added the items necessary to make them agree with the statements published in the *London Gazette.* This paper is marked A in the Appendix.

During the first six months of 1836, it was a period of *high* prices, and yet the Circulation was on the average below £18,000,000. During the *six* months of the present year, the Circulation has been above £18,000,000, and it has been a period of unparalleled distress, and prices have been 25 to 60 per cent. *lower* on articles of produce and manufacture than in the same period in 1836. Here is evidence, that prices are but little affected by the mere amount of Circulation unaccompanied by other circumstances.

The Bank of England attributes to the increased issues of Joint Stock and Private Banks, that the reduction of her issues from £19,823,000, in October, 1833, to £17,361,000, in December, 1836, did not produce a fall in prices. The following statement will exhibit to you the facts connected with this question:

CIRCULATION OF THE BANK OF ENGLAND, JOINT STOCK BANKS, AND PRIVATE BANKERS.

Date.	*Bank of England.*	*Joint Stock and Private Banks.*	*Total.*
1833 Dec.	£18,659,000	£10,152,000	£28,811,000
1834 „	18,304,000	10,419,000	28,723,000
1835 „	17,321,000	11,447,000	28,768,000
1836 June.	17,899,000	12,202,196	30,101,196
1836 Dec.	17,361,000	12,011,697	29,372,697
1837 March.	18,178,000	11,031,363	29,209,363

Prices were increasing during 1833, 1834, 1835, and the first six months of 1836, and yet there was no increase in the quantity of Paper in circulation until towards June, 1836.

Prices fell in the last six months of 1836, and still more in the first three months of 1837, and yet the Circulation was greater than in 1833, 1834, 1835, and the early part of 1836.

Let us suppose, that the Bank of England was the only Bank of Issue in the country, and that her Circulation department was separated from her Deposit department, and the Principle of Col. Torrens and Mr. S. Jones Loyd adopted, that the Reserve of Gold being fixed at *one-third* at a period of *Full Currency*, the amount of Notes in circulation should be diminished an ***equal amount*** with the diminution of Bullion.

Assuming the Circulation at		£30,000,000
Reserve of Bullion........	£10,000,000	
Sovereigns in circulation as estimated by Mr. Horsley Palmer, in 1833; vide M'Culloch's Dictionary, "Coins." ..		30,000,000
Total Circulation		£60,000,000

If £5,000,000 were withdrawn from the coffers of the Bank, the state of the Bank would be thus:

Notes in circulation..................		£25,000,000
Reserve of Bullion	£5,000,000	
Sovereigns in circulation..............		30,000,000
Total Circulation....................		£55,000,000

If, at the latter period, there were to be a political panic, a bad harvest, a demand from a foreign power for Gold for political objects, or an unfavourable action in the Foreign Exchanges, I consider the Bank would be in a weak and dangerous position with only £5,000,000 of Gold to meet £25,000,000 of Notes in circulation; and might be compelled to have recourse to the violent measures she has adopted against Commercial Credit since September, 1836, with a view to produce an influx of Gold.

Further I contend, that a reduction of the circulation of Notes £5,000,000, at a period of general prosperity and commercial confidence, would have little effect on prices to produce an alteration in Foreign Exchanges in our favour, supposing that the £5,000,000 Bullion had been abstracted by the ordinary operations of Exchange.

Having shown you how little the quantity of Notes in circulation, unaccompanied by other circumstances, has to do with prices, I have extracted, for your inspection, a Table of Foreign Exchanges, from January, 1836, to June, 1837, marked B in the Appendix, to show also, how little the latter had to do with the diminution of Bullion in the coffers of the Bank of England in 1836. We are told by Mr. Horsley Palmer, that none has been withdrawn by the Foreign Exchanges since 1st September of that year, and the rates since then are much the same as in the preceding months.

The next point to which I beg to call your attention is to the probable cause of the attack made by the Bank of England on Commercial Credit in August, 1836. In that month her Bullion was, on the *average* of the three preceding months, only £5,719,000: the *real* amount on hand was less than £5,000,000, as she began the three months with, at least, £7,000,000 in her coffers.

In July and August, it appears by the Table B, the Exchanges were less favourable to this country than they had been before or have been since. At that time an unfavourable harvest was either universally announced or prognosticated. Alarmed at her position, with so little Bullion to meet her Circulation, an expected demand from falling Exchanges, and an anticipated importation of corn, she wished to lower prices. She saw that prices had risen, while the amount of Notes in circulation had been nearly stationary for three years, and her Bullion had been gradually leaving her, and, therefore, she had no other means to reduce prices than by attacking Commercial Credit; which she did by rejecting various classes of bills offered for discount. The result has been most disastrous. Gold returns very slowly: prices have fallen abroad for our manufactures: the demand has ceased. Our machinery and our workmen are at a stand; the produce of the industry of the country is diminished some millions: so that four or five millions of Gold, which were wanted in her coffers, and would have cost only five or ten per cent. premium and charges if imported, will cost twenty or thirty millions sterling, by the suspension of labour, machinery, foreign bad debts, &c. &c.

The conclusions which I draw from the preceding facts are—

1st. That the Deposit accounts of the Bank of England ought to be entirely separated from the management of the circulation of Notes; as has been ably shown by Col. Torrens and Mr. S. Jones Loyd.

2nd. That prices do not so much depend upon the quantity of *Notes* in circulation, as upon the state of Commercial *Credit.*

3rd. That while the circulation of Notes by the Bank of England is *based* upon *Bullion* equal to one-third the amount of Notes in a time of *Full Currency,* and there is a circulation of Bankers' Notes *based* upon those of the *Bank of England,* the Principle of Currency adopted by her, and sanctioned by Government, that the Notes shall be diminished an *equal amount* with the diminution of Bullion in her coffers, is *not a safe Principle.*

4th. That even were the Bank of England the sole Issuer of Notes, there is sufficient data to induce a belief, that the proportion of one-third Bullion in time of *Full Currency,* and the circulation of Notes to be diminished an *equal amount* with the diminution of Bullion, would not be a safe Principle, nor prevent the recurrence, at periods of her Bullion being so reduced in amount as to occasion anxiety and a fear of a still further reduction, which might put in jeopardy the power of the Bank to satisfy all demands upon her in Gold, and, therefore, compel her to attack Commercial Credit, as a means to lower prices, influence foreign Exchanges, and bring Gold into her coffers.

5th. That this is more evident, from the fact, that Gold is abstracted from her coffers for exportation, to a large amount, by other means than unfavourable Exchanges. This appears from the state of the Exchanges during 1836; from the evidence of Mr. Rothschild on the Renewal of the Bank Charter; and from the fact, that, in 1836, the Bullion shipped to the United States was at a loss on the Exchange, the object of the importers in the United States not being a profit on the Bullion, but to found new Banks and make a large issue of Paper Money.

Also, that Bullion is liable to be withdrawn from her coffers, to a large amount, in times of banking and commercial distress, and of political panic, which events are more likely to occur when the amount she holds is small than when the amount is large.

6th. That if the Principle of Currency, as adopted by the Bank, or recommended by Colonel Torrens and Mr. S. Jones Loyd, is to be continued, (that is, the Principle of a diminution of Notes in circulation *equal in amount* to, and no more, than the diminution of Bullion in the Bank,) then the ***Reserve of Bullion ought to be one-half*** the Circulation, ***instead of one-third***, and there ought to be a *Double Standard* of Gold and Silver in circulation, and an *Agio* allowed on either, as recommended by Lord Ashburton and in Mr. Morrison's Pamphlet.

7th. That the present system of Paper Money being issued by the Bank of England, Joint Stock and Private Banks, might be continued with safety, and so as to avoid all anxiety, provided the *Reserve of Bullion* being fixed at ***one-third***, or even at *one-fourth* of the amount of Notes in circulation, *that proportion were preserved inviolate*, and the machinery of our Monetary System so arranged, that, on every abstraction of a sum from the Reserve of Bullion, there should follow, as a necessity or consequence, the reduction or withdrawal from circulation of three or four times that sum of Notes, or Paper Money.

I beg to submit my views of certain principles and opinions which are popular on the subject of Paper Money, and which appear to have led to the adoption of the Principle of Currency professed by the Bank of England, and which was sanctioned by His Majesty's Government at the Renewal of the Charter:

1st. The Principle professed as the grand one in the management of the Currency was, that its action should be the same as though it were all Metallic.

This I hold to be essentially wrong, because a Metallic and a Paper Currency are essentially different in their nature.

The Metallic is, in itself, safe or secure, because intrinsically valuable.

The Paper can only be made "quasi," safe, or secure, being valuable in proportion as it is easily and certainly convertible into the Metallic.

2nd. It has been assumed, that prices depend upon the quantity or amount of Money in circulation.

This is not the fact: prices depend upon Opinion. It has been assumed, that Money is abundant when there is a large amount in circulation, and scarce when there is a small amount in circulation. This is not the case. It is the rapidity or sluggishness of circulation rather than the amount which makes Money abundant or scarce.

A smaller amount of the Circulating Medium, in times of confidence, will circulate rapidly, produce a rise of prices, and make Money appear plentiful. A large amount, in times of distrust and panic, will circulate slowly and partially, and the effect will be to lower prices and make Money scarce.

3rd. It has been assumed, that the Bank of England can at all times regulate the amount of Paper in circulation.

It is doubtful whether she can, because,

1st. She has thirteen millions permanently out, as the cost of the Dead Weight, Mortgages, &c.

2nd. She is compelled to issue about fifty millions a year for the Government Service.

3rd. She is compelled to issue on her Deposit accounts. Notes once issued do not return at the will of the issuer, but at the will of the holder, and the latter may keep them or return them, according to his inclination and ability.

A Bank that issues Notes merely on Discount of Commercial Paper or Bills of Exchange, would have a greater control over the amount in circulation than the Bank of England has, because, if she ceased to discount, as the bills she held fell due, they would absorb all the Notes issued, or the amount in Gold, which was not paid her in Notes.

4th. A proportion of *one-third Bullion* of the quantity of Notes in circulation, in time of *Full Currency*, was assumed as the proportion of security, that is to say, of convertibility, and yet it was assumed, that, although the sum of each should be reduced an *equal amount*, an equal security would attach to the Notes remaining in circulation, although the proportion of Bullion to Notes was materially altered. For example:

Notes........	12	Bullion.... $\frac{1}{3}$d or	4
Diminution ..	2	An equal amount..	2
	—		—
Remaining....	10	Bullion........	2 or only $\frac{1}{5}$th

This was an unreasonable assumption, and experience has shown it to be a dangerous one. It appears much more reasonable to believe, that whatever *proportion* be assumed as the *proportion of security* in a period of Full Currency, the *same proportion* being observed under every circumstance of increase or decrease, the security would always be the same in degree.

If these views be sound, they are worthy of the serious consideration of Her Majesty's Government, of the Bank of England, and the whole Community.

This new Principle may be called the *Principle of Proportion*, in contradistinction of the Principle hitherto assumed as the correct one, and which may be called *the Principle of Diminution in equal amounts.*

I beg to submit a Plan for the practical working out of this Principle. It is drawn up to suit the present circumstances of Paper Money being issued by the Bank of England, Joint Stock and Private Banks. At the same time, it does not interfere with the exclusive privileges of the Bank of England, (for 65 miles round London,) nor would it prevent her practice of supplying other Banks with her Paper at a low Rate of Interest.

Were Her Majesty's Government to determine, that the Bank of England should be the only Bank of Issue, the Principle and Plan submitted are equally applicable, with merely the necessary modifications of detail.

PLAN

FOR THE PRACTICAL WORKING OUT OF

A New Principle of Currency.

The Notes now existing in Circulation to be reissuable for *six months*, and no longer, after the passing of an Act of Parliament for carrying this Plan into effect.

No *new* Notes to be issued by the Bank of England, Joint Stock, or Private Banks after *one month* from the passing of such Act of Parliament, excepting on the following conditions:

Any Bank, including the Bank of England, wishing to issue a given amount of Notes, to pay into the Mint one-third of that amount in Sovereigns, to be held as a Reserve, and the Bank to receive from the Mint an equal amount in Notes of every denomination from £5 to £1,000, which Notes are to be a Legal Tender, and to be called "Mint Notes."

The other two-thirds of the amount the Bank proposes to issue to be presented to the Mint in its own Notes, signed and ready for circulation. These Notes to be then stamped by the Mint and returned to the Bank, to be called "Bankers' Notes," and to be payable on demand at the Bankers' Counter in Gold or Mint Notes.

After receiving the Mint Stamp, the Bank may put these Notes into circulation, and not before.

When any of the Mint Notes are worn or defaced, they are to be exchanged at the Mint for new ones, and the old ones to be cancelled.

When any of the Bankers' Notes are worn or defaced, the Bank whose name they bear to send them to the Mint, with an equal amount of its own new Notes, unstamped: the old ones to be cancelled and the new Notes to be returned to the Bank, with the Mint stamp or mark upon them. After *six months* from the passing of the Act, the Bank of England and all Joint Stock and Private Banks not to be allowed to issue any other Notes than Mint Notes, and Bankers' Notes, bearing the Mint stamp or mark upon them.

Any Bank wishing to diminish its issues and cancel any part or the whole of its Notes must take them to the Mint, with half the amount, besides, in Mint Notes; that is to say, of the amount in Notes presented to the Mint, one-third must be Mint Notes and two-thirds its own Notes. The Mint to cancel the Bankers' Notes, and to pay the Bank Sovereigns for the sum of Mint Notes so presented. —*(Case Second, Appendix C.)*

Any person wishing for Sovereigns in exchange for Notes, either for exportation or any other purpose, may take to the Mint the amount in Notes of the Sovereigns he wishes to receive. Of the Notes thus taken to the Mint, one-third must be Mint Notes and two-thirds Bankers' Notes. At the end of ten days he may receive the whole amount in Sovereigns.—*(Case Third, Appendix C.)*

On receiving the Notes of any Bank, the Mint to give notice to such Bank and to demand payment of the same in Sovereigns. If the Bank bring an amount of Sovereigns equal to the amount of its own Notes and one-half more, it will receive its own Notes for two-thirds the amount of Sovereigns, and Mint Notes for the remaining one-third.—*(Case Third, Appendix C.)*

If the Bank brings into the Mint only Sovereigns equal in amount to its own Notes, then its own Notes will be cancelled; because the Mint will have paid away that proportion of the Reserve of Sovereigns upon the deposit of which the Bank, whose Notes are cancelled, was allowed to issue them by obtaining upon them the Mint stamp.—*(Case Third, Appendix C.)*

If any Bank cannot bring Sovereigns to discharge its Notes, it must present to the Mint an equal sum in other Notes, consisting of one-third of Mint Notes and two-thirds of Bankers' Notes. The Bank having thus discharged the demand of the Mint, its Notes will be cancelled.—*(Case Fourth, Appendix C.)*

By such processes the amount of Bankers' Notes created or cancelled by the Mint will always be double the amount of Mint Notes issued to the Banks or returned to the Mint, and the amount of

Mint Notes returned to the Mint will always be the exact amount of the Sovereigns abstracted from the Reserve in the Mint.

It is not necessary for the working of this Plan, that the proportion of the Reserve of Bullion be one-third. Any other proportion may be established by Government; but, whatever be the proportion fixed upon, the Mint is only to issue or to pay Notes in that mixed proportion.

I do not enter into the detail of regulations, in the event of any Bank being unable to take up its Notes, owing to a suspension of payments, as it would only make complexity in the Plan, and such details must be entirely decided by Government and its Law Officers.

A Plan founded upon the same Principle, and similiar to the preceding, I submitted to the attention of His Majesty's Government and the Liverpool Public in 1832, at the time of the investigation into the affairs of the Bank of England, prior to the Renewal of its Charter.

Five years have not elapsed since the Charter was renewed and the dangerous Principles of the Bank of England received the sanction of His Majesty's Government.

That year (1832) was a period of *Full Currency*, and the Bank held £10,000,000 of Bullion. In about four years of great commercial prosperity, by her management and the action of her erroneous Principles of Currency, her stock of Bullion became reduced below £4,000,000. To save herself and the nation from the fearful consequences of a suspension of her payments, she attacked Commercial Credit, as the only means, according to the Principles her action is regulated by, to bring back Gold to her coffers.

This has produced ruin and distress throughout our commercial and manufacturing population, and an entire breaking up and annihilation of the commercial and banking community of the United States.

Such are the consequences of the present system of Currency, and similar consequences would, no doubt, sooner or later, result from the *Principle of Diminution of Paper and Gold in equal amounts*, even were the Circulation Department of the Bank of England separated from her Deposit or Banking Department, unless the Reserve of Bullion were *one-half* the amount of Paper Money, and we had a *Double Standard* of Gold and Silver, with an allowed *Agio.*

By the adoption of the *Principle of Proportion* and the Plan I have here submitted, the Currency would expand and contract according to the wants and wishes of the Public, and no attack on Commercial Credit would ever be required to bring Gold into the Country.

It would work more smoothly, be less subject to caprice, and less under the influence of Government, were there many Banks of Issue than if there were only one.

At all events, the Bank of England, however she might mismanage her Banking Department, could never have a less Reserve of Gold *than one-third of the amount of her Circulation*, as that Reserve would be in the custody of the Mint, and from the Mint alone could she receive the stamp that would authorize the Issues of her own Paper.

I beg to call your attention to a *Paper marked C in the Appendix*, containing Examples of the Working of the Plan, in a variety of supposed Cases, with a few remarks upon the *Advantages of the System ;* and, begging the favour of your serious consideration of the subject, as one of vital importance to the Industrious Classes of the Community,

I have the honour to be,

SIR,

Your most obedient very humble servant,

JOHN HALL.

To the Right Honourable Thomas Spring Rice,
Chancellor of Her Majesty's Exchequer,
&c. &c.

APPENDIX.

(A)

ASSETS AND LIABILITIES OF THE BANK OF ENGLAND,

On 1st Oct., 1833, *from the London Gazette.*

LIABILITIES.		ASSETS.	
Circulation......	£19,823,000	Securities......	£24,244,000
Deposits........	13,057,000	Bullion........	10,905,000
	32,880,000		
Rest, or undivided Capital	2,269,000		
	£35,149,000		£35,149,000

Divided by Mr. J. Horsley Palmer in his Reply to Mr. Samuel Jones Loyd as follows:

CIRCULATION DEPARTMENT.

Issues..........	£19,823,000	Permanent Securities as Dead Weight, Mortgages, London Bridge, &c. ..	13,700,000
		Bullion	6,605,000
			£20,305,000

BANKING DEPARTMENT.

Deposits........	13,057,000	Securities convertible........	10,544,000
	32,880,000	Bullion........	4,300,000
Rest, or undivided Capital	2,269,000		
	£35,149,000		£35,149,000

(A)

ASSETS AND LIABILITIES OF THE BANK OF ENGLAND,

On 13*th Dec.*, 1836, *from the London Gazette.*

LIABILITIES.		ASSETS.	
Circulation......	17,361,000	Securities......	28,971,000
Deposits........	13,330,000	Bullion........	4,545,000
	30,691,000		
Rest, or undivided Capital	2,825,000		
	£33,516,000		£33,516,000

Divided by Mr. J. Horsley Palmer, in his Reply to Mr. Samuel Jones Loyd, as follows:

CIRCULATION DEPARTMENT.

Circulation......	17,361,000	Securities, Dead Weight, &c. ..	13,700,000
		Do. temporary ..	300,000
		Bullion	3,945,000
			£17,945,000

BANKING DEPARTMENT.

Deposits, say Government, E. I. Co.'s, and London Bankers	6,000,000		Securities convertible........	10,544,000
Sundries, including Branch Banks	3,357,000		Bullion	600,000
		£9,357,000		
	26,718,000			29,089,000

EXTRAORDINARY AND TEMPORARY DEPOSITS.

Accumulating since Oct. 1833......	3,973,000	Securities......	4,427,000
	30,691,000		
Rest, or undivided Capital	2,825,000		
	£33,516,000		£33,516,000

(A)

STATEMENT

OF THE

AMOUNT OF NOTES THE BANK OF ENGLAND OUGHT TO HAVE HAD IN CIRCULATION

UPON THE

PRINCIPLE OF COL. TORRENS AND MR. S. JONES LOYD.

Period of Full Currency, Oct., 1833.

Circulation......	£19,823,000	Bullion.........	£6,605,000

13*th December*, 1836.

Decrease of Bullion.	£2,660,000	Decrease........	2,660,000.
Circulation......	17,163,000	Bullion..........	3,945,000
Instead of	17,361,000		

STATEMENT

OF

WHAT SHOULD HAVE BEEN THE AMOUNT OF NOTES IN CIRCULATION UPON THE PRINCIPLE OF PROPORTION,

THAT IS,

NEVER MORE THAN THRICE THE AMOUNT OF BULLION IN RESERVE.

October, 1833.

Circulation........	£19,800,000	Bullion........	£6,600,000

December, 1836.

Decrease three times the decrease of Bullion	£7,980,000	Decrease of Bullion........	2,660,000
Circulation........	11,820,000	Bullion........	3,940,000
Instead of........	17,361,000		

(B)

FOREIGN EXCHANGES.

Quotations from the London New Price Current, 1836, *part* 1837.

DATE.	Bullion in the Bank of England.	DATE.	PAR OF EXCHANGE. Antwerp. 12 Florins per £ Sterling.		Frankfort. 150¾ Batzen.	Hamburgh. 13 Marks 9 Schelling Banco.		Paris. 25 Francs 40 Cents.		Vienna. 10 Florins per £ Sterling.	
1836.		1836.	F.	Cts.	Batzen.	M.	S.	F.	Cts.	F.	K.
Jan. 12.	7,076,000	Jan. 5.	12	7	153	13	14½	26	05	10	12
Feb. 9.	7,471,000	Feb. 2.	12	6½	153¼	13	14½	25	95	10	13
Mar. 8.	7,701,000	Mar. 1.	12	6½	...	13	14	26	...	10	14
April 5.	7,801,000	April 1.	12	6	154	13	14½	25	90	10	12
May 3.	7,782,000	May 3.	...	...	...	...	...	25	95	...	..
May 31.	7,663,000	June 3.	12	5½	...	13	14	25	90	10	11
June 28.	7,362,000	July 1.	12	5	...	...	...	...	...	...	...
July 26.	6,926,000	Aug. 2.	...	...	152¾	13	13	25	80	10	10
Aug. 23.	6,325,000	Sep. 2.	...	...	152½	...	...	25	75	...	...
Sep. 20.	5,719,000	Sep. 20.	...	...	152	...	...	...	...	10	11
Oct. 18.	5,257,000	Oct. 4.	...	...	153	13	14	25	85	10	12
Nov. 15.	4,933,000	Nov. 1.	...	...	...	13	13½	25	80	...	...
Dec. 13.	4,545,000	Dec. 2.	12	5½	...	13	13	25	90	10	14
1837.		1837.									
Jan. 14.	4,287,000	Jan. 3.	12	5	153½	...	...	25	95	10	16
Feb. 7.	4,032,000	Feb. 7.	...	...	153	13	12½	25	80	10	17
Mar. 7.	4,048,000	Mar. 3.	...	...	...	...	...	25	85	10	16
April 4.	4,071,000	April 4.	...	...	153½	13	13½	25	95	10	17
May 4.	4,190,000	May 2.	12	6	155	13	14	26	...	10	22
May 30.	4,423,000	May 30.	12	5½	154	13	13½	25	90	10	18
June 27.	4,750,000	June 27.	...	...	...	14	...	26	05	10	20

(C)

STATEMENT

SHOWING THE EFFECTS THAT WOULD BE PRODUCED ON THE AMOUNT OF THE CIRCULATING MEDIUM BY A DEMAND UPON THE MINT FOR GOLD IN EXCHANGE FOR NOTES,

WHETHER FOR EXPORTATION OR OTHERWISE,

UNDER THE PROPOSED PLAN FOR THE PRACTICAL WORKING

OF

A New Principle of Currency,

CALLED

THE PRINCIPLE OF PROPORTION.

Let us estimate the Circulating Medium to be as follows:

Notes—Mint Notes, ... 10,000,000
Bankers' Notes, . . 20,000,000
30,000,000

Reserve of Gold in the Mint, . . 10,000,000

Say, Bank of England, . . 18,000,000
Joint Stock and Private Banks 12,000,000

Sovereigns in circulation . . 30,000,000

60,000,000

CASE FIRST.

Suppose £1,500,000 was exported without applying to the Mint:

RESULT:

Notes as above, ... 30,000,000
Sovereigns 28,500,000
58,500,000

Reserve of Gold, ... 10,000,000

Reduction, 1,500,000
Exported, 1,500,000

The effect the same as though all the Circulation were Metallic.

CASE SECOND.

Suppose the Bankers found they had too many Notes, and wished to draw in their Circulation: they go to the Mint for 500,000 of Gold, and present 500,000 of Mint Notes, and £1,000,000 of their own Notes to be cancelled:

RESULT :

Notes—Mint, ...	9,500,000	Gold	10,000,000
Bankers	19,000,000	Returned to Bankers	500,000
	28,500,000	Reserve, ...	9,500,000
Sovereigns, 30,000,000			
Abstracted from the Mint 500,000	30,500,000		
	59,000,000	Reduction,	1,000,000

The effect is no more than a Reduction of Circulation equal to two-thirds the amount of Paper cancelled, or equal to the whole amount of Bankers' Paper cancelled, which is the class of Paper presumed to be in excess.

CASE THIRD.

Suppose the Public apply to the Mint for £1,500,000 of Gold for exportation, taking 500,000 of Mint Notes and 1,000,000 of Bankers' Notes, and suppose the Bankers, on being applied to, pay into the Mint 1,500,000 in Sovereigns :

RESULT :

Notes—Mint, ...	10,000,000		Reserve of Gold, ..	10,000,000
Bankers'	20,000,000			
		30,000,000		
Sovereigns	30,000,000			
Taken from the Circulation to replace in the Mint the sum exported	1,500,000			
		28,500,000		
		58,500,000	Reduction	1,500,000
			Exported	1,500,000

The effect being as if the Circulation had been Metallic. But suppose the Bankers could only raise 1,000,000 to meet their own Notes, and, consequently, not having redeemed the 500,000 of Mint Notes, the whole 1,500,000 must be cancelled :

Notes—Mint,	10,000,000				
Cancelled	500,000				
		9,500,000	Gold,		10,000,000
Bankers' ..	20,000,000				
Cancelled	1,000,000		Exported	1,500,000	
		19,000,000	Replaced by the Bankers	1,000,000	
					500,000
		28,500,000	Reserve,		9,500,000
Sovereigns, ..	30,000,000				
Taken by Bankers to the Mint,	1,000,000				
		29,000,000			
		57,500,000	Reduction,		2,500,000

Here the action on the Currency is more than if it had been all Metallic, viz.:

£1,500,000	Gold exported
500,000	of which is taken from the Reserve, and
1,000,000	taken out of Circulation,
500,000	Mint Notes cancelled, the Reserve having been diminished 500,000,
1,000,000	Bankers' Notes cancelled to make up the amount of Paper diminished equal to thrice the diminution in the Reserve of Gold.
2,500,000	

CASE FOURTH.

Suppose the Bankers could not raise Gold to meet a demand upon them of 1,500,000 from the Mint, and, therefore, each Banker determined to meet the demand upon him by a corresponding demand upon the Mint: for this purpose, whatever demand was made against a Banker for payment of his own Notes, he would meet that demand by taking an equal amount to the Mint in Paper; say, one-third Mint Notes and two-thirds Bankers' Notes. The 1,500,000 of Gold taken out of the Mint might be liquidated with a small payment in Sovereigns as shown in the following Statement of Account.

Dr. THE MINT IN ACCOUNT WITH THE BANKERS. **Cr.**

	Sovereigns.	Mint Notes.	Bankers' Notes.	Total.
To Reserve	10,000,000			10,000,000
„ receipt in exchange for Sovereigns.		500,000	1,000,000	1,500,000
„ do. from Bankers in payment of their Notes cancelled ...	1	333,333	666,666	1,000,000
		222,222	444,444	666,666
		148,148	296,296	444,444
	1	98,765	197,530	296,296
Do.	1	65,843	131,686	197,530
Do.	1	43,895	87,790	131,686
Do.	1	29,263	58,526	87,790
Do.	2	19,568	39,016	58,526
Do.	1	13,005	26,010	39,016
Do.		8,670	17,340	26,010
Do.		5,780	11,560	17,340
Do.	1	3,853	7,706	11,560
Do.	7,706			7,706
	10,007,715	1,492,285	2,984,570	14,484,570
Balance	8,507,715	1,492,285		10,000,000

	Sovereigns.	Mint Notes.	Bankers' Notes.	Total.
By payment for Notes supposed for Exportation	1,500,000			1,500,000
Notes cancelled ...			1,000,000	
Do.			666,666	
Do.			444,414	
Do.			296,296	
Do.			197,530	
Do.			131,686	
Do.			87,790	
Do.			58,526	
Do.			39,016	
Do.			26,010	
Do.			17,340	
Do.			11,560	
Do.			7,706	2,984,570
Balance	8,507,715	1,492,285		10,000,000
	10,007,715	1,492,285	2,984,570	14,484,570

RESULT :

Notes, ...	10,000,000	Mint.		Reserve of Gold,		10,000,000
	1,492,285	Returned.				
			8,507,715	Exported,	1,500,000	
	20,000,000	Bankers.		Paid in,..	7,715	
	2,984,570	Cancelled.				1,492,285
			17,015,400			
			25,523,145	Reserve,		8,507,715
Sovereigns,	30,000,000					
Paid into the Mint,	7,715					
			29,992,285			
			55,515,430	Reduction,	4,484,570	
				Exported,	1,500,000	

Here the abstraction from the Reserve of Gold of £1,492,285, the result of an exportation of £1,500,000 of Gold, diminishes the Circulating Medium not quite thrice the sum exported, but exactly thrice the 1,492,285 abstracted from the Reserve, say,

	4,476,855
and also the sum taken from the Sovereigns previously in Circulation paid into the Mint, ...	7,715
Total,........	4,484,570

ADVANTAGES OF THE SYSTEM.

The Mint or National Bank could never stop paying in Gold. Before the last Sovereign could be drawn out, the last piece of Paper Money in existence must be cancelled.

No Commissioners would he required to regulate the issues of Paper Money. The Bank of England, Joint Stock and Private Banks would issue as much Paper as they pleased: they would not be likely to issue too much, for, as Mint Notes would be preferred, their own Notes would be returned upon them, if they issued too many. Mint Notes, being only a substitute for Gold deposited, would leave no profit. The Profit of the Banker would depend upon how many of his own Notes he could keep in circulation: if he could not keep in circulation the whole of his own Notes, and part of the Mint Notes he received for the Gold he deposited, it would be his interest to cancel a proportion, and get back part of his Deposit from the Mint.

The Foreign Exchanges, when unfavourable, would act upon the Gold in circulation and the Reserve in the Mint: the latter would act powerfully upon the Notes in circulation; and the Diminution of the Circulating Medium would act upon prices and react upon the Foreign Exchanges. There would be no occasion for any direct or violent action upon Commercial Credit; it would be acted upon naturally and sensibly by the Contraction of the Circulating Medium.

The existing System of Currency appears to be founded on *two Principles: first*, that Gold should never be of more value than Notes; in other words, that Paper Money should never be depreciated : and the *second,* that no continued drain upon the coffers of the Bank of England can ever take place, except by an unfavourable state of the Exchanges.

As regards *the latter,* experience has proved it to be erroneous. Demands by foreign powers, for political objects, and by communities, for speculative ones, backed by local panics and bad harvests, may produce as serious mischief as Foreign Exchanges.

The effect of the existing system is to produce the *reverse of the first principle,* and really to make Notes of more value than Gold ; for, by the application of pressure, Gold is forced into this country, not to be exchanged for Paper at the intrinsic or Mint par of £3 17s. 10½d. per oz., and an Agio for the charges of transportation and insurance, but at the price of £3 17s. 9d. per oz., and the seller bearing all the charge of bringing it over, thus Paper is made dearer than Gold.

Not content with this, when we have lost our Gold, we resort to no other means of bringing it back but that of making it *dearer* in this country than any other country in the world, and this by making commodities cheaper.

No wonder, then, under the present system of bringing back Gold, and making it cheaper than Paper, the Commercial and Manufacturing Interests are made to suffer the greatest distress ; they must be put under the screws until they submit to sell all their commodities for Gold at a lower price than any other nation will sell, and a percentage lower still, say equivalent to the expense of bringing home Gold bought at par or £3 17s. 10½d. per oz. to sell at £3 17s. 9d. to the Bank of England. The Monied Interest contribute nothing to this expense : their commodity becomes of greater value, and they are benefited in proportion as the others suffer.

By the system I propose, Gold may be brought back at a less cost to the nation, if not less to individuals. If a Banker procures Gold, he procures to himself a positive advantage ; the privilege of issuing Paper Money. When, therefore, the circulation became low and money scarce, he might find it to his advantage to import Gold at a loss of the charges or even a small percentage more, and pay it into the Mint. He secures immediately a Legal Tender Paper, of equal amount, and a title to issue double the amount on his own security, if he can find a vacuum to fill up in the Circulation of the country. This done at a time when Money was scarce and Property low in price, might afford him a handsome remuneration, and, at the same time, confer a benefit on the community by mitigating what might otherwise become severe pressure.

With a similar view, under the proposed system, the larger Banking Establishments would find it expedient, partly for profit and partly for security, to invest sums in Foreign Securities, to be ready to realize and buy Bills of Exchange, or Gold, when, by Foreign Exchanges or other means, there was a drain upon the Mint for Gold. If the drain was the effect of the Exchanges, this would be counteracted by the purchase of Bills on England; and, if it were the effect of other causes, the contraction of Circulation effected by such drain would be counteracted by the expansion effected by the importation and deposit of Gold in the Mint.

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