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1855.

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The handwriting has appeared upon the wall, and the doom of the Act of 1844 seems to be pronounced. Does the almost universal condemnation of this enactment proceed from unreasoning clamor, or from well-grounded discontent? Were the originators of the measure political dreamers, desirous of engrafting their unsubstantial theories into the business of real life, or apostles too sublime for their disciples—financial Galileos, preaching a system too sound and philosophical for the unenlightened age in which they lived, and only to be appreciated centuries hence? Ought the obnoxious law to be simply repealed, and matters replaced as they were, or should any other, and what system be adopted? All these are questions which it may not be uninteresting to investigate.

There are but few of the present day who have not preserved a lively recollection of the tremendous crisis of October, 1847, when the whole commercial fabric of the country was threatened with ruin, and was only saved by the temporary suspension of the Act of 1844. The panic of that period, and its frightful consequences, were the all-engrossing subject of people's thoughts in the beginning of 1848, and, as might have been expected, occupied a prominent place in the debates of Parliament. A committee was named to inquire into the causes that had produced the commercial distress of 1847, and the investigation, as a matter of course, embraced all that concerns our monetary system, and especially the operation of the Act of 1844, then pretty recent.

Unfortunately, Committees of the House of Commons, down to the Sebastopol Committee of last session, have seldom the courage to make what really deserves the name of a report, embodying important recommendations, but confine themselves very nearly to summing up the evidence. The materials for an efficient report were not, however, wanting, for the proceedings before the Committee of Inquiry are instructive and interesting in the highest degree, and may be consulted with much advantage at the present moment. The result, however, was, that the Committee followed the usual course, and presented a very one-sided summary of the evidence to a House accustomed to be guided in matters of commerce and finance by the theoretical economists; and thus were disappointed the hopes of those who had their misgivings whether that could be sound in principle which has only produced consequences unsound in practice; and it has needed another crisis, that nothing but the languor with which commercial undertakings have been conducted since the memorable year of 1847 has prevented from becoming formidable, in order to open men's eyes to the fallacy of the doctrines that have been preached with so much confidence, and to the utter inapplicability of our monetary system to the wants of the nation.

It has been said, designedly, that the summary of evidence presented to the House of Commons was a one-sided one, and this is easy to prove. The Committee reported as follows :—

"The evidence which has been given as to the effects of the Act of 1844, has been contradictory. Its beneficial effects, as regards the issue of the country banks, have been admitted by many of the witnesses, and although some have suggested an alteration of its provisions, very few have contested the general principles on which it is founded."

Let us see how far this is borne out by the evidence.

Mr. Gurney said the Act aggravated the pressure and panic, and on the whole had been injurious (Questions 1608, 1609, 1631). And again, "There was a superabundance of it (the legal tender), but it could not be had because of this panic and alarm, *arising from the restrictive character of the Act*. May I state why I know it to be so? At that time we had a circulating medium of £20,800,000, and yet there was great difficulty in knowing where to get £1,000; our circulating medium now is about £18,000,000 and a little more, and now we have a superabundance in every hole and corner, and we do not know how to use it, the alarm having ceased" (1737). He recommended a relaxing power (1617).

Mr. Horsley Palmer, though not objecting to the principle of an issue of £14,000,000 on securities, and the remainder on bullion, thought there should be a power of extension, and that the want of that power had endangered the Bank (1945); and again, that no evil would have been suffered in 1847 but for the Act (2055), that a relaxation of the rule should take place whenever a time of pressure came (1963).

Mr. Bevan deposed that he attributed the difficulty to the knowledge that the Bank was tied down by certain restrictions under the Act of 1844 (2243), and that the relaxation should have come sooner (2271).

Mr. Bates, of the house of Baring, Brothers, and Co., thought that but for the Act, all requisite relief might have been given without any alarm (2511), and when asked whether he would remove the limit imposed by the act, replied, "I should take that away entirely" (2496).

Mr. Pease, connected with the mining and manufacturing districts of Durham, stated that he attributed the stringency of the Bank to the restrictions imposed upon it by the Act of 1844; that this stringency produced a panic which gave rise to hoarding, and many who were in the habit of keeping hundreds, laid by thousands (4605), and again, that the Act was a dead letter for a long while, and when it came into operation it was mischievous. (4659). He thought there should be a power somewhere to meet emergencies (4651, 4652).

Mr. Gardner, manufacturer and merchant of Manchester, said, that he attributed a part of the pinch to the Act (4,908), and if the

letter had not been issued, there would have been a greater commercial crisis (4,916). He also thought there should be a power of relaxation somewhere (4,922).

Mr. Tooke, Governor of the Royal Exchange Assurance Corporation, and Chairman of the St. Katherine Dock Company, on being questioned upon the difficulties of April, 1847, replied, "If by the difficulties of April, 1847, you allude to the pressure upon the money market, the rise in the rate of interest, and the difficulty of obtaining discounts at all, that part of the pressure of 1847 I attribute exclusively to the Act of 1844" (5,307). Again, that the difficulties of the corn trade were unquestionably aggravated by the Act. (5,334).

One more reply of this witness can hardly fail of exciting a smile. Being questioned again on the merits of the Act, he replied, "I think it must be self-evident that if the suspension of the Act produced such relief, its operation immediately before the suspension must have been of the very grievous description which produced those shocks. I think that conclusion is inevitable" (5337). And so one might imagine would everybody else think; but those who are wedded to favorite theories, can see nothing but what tallies with their preconceived ideas.

Mr. Birkbeck, banker, of Yorkshire, and deputed by several country bankers to speak their sentiments, gave it as his opinion that the restrictive clause was totally inapplicable at any time of monetary pressure (5,744), and that a mere pressure was through the operation of the Act converted into a panic (5,932). He thought, himself, that the Act ought to be repealed (5,848), but of the country bankers whom he represented, some were for a repeal, and some for a power of relaxation (5,866).

Now here are the head of the largest discount house in London, an eminent capitalist, a London banker, a merchant of first-rate standing, two gentlemen belonging to the mining and manufacturing interests of the North, a governor and chairman of two important companies in London, and a country banker speaking for himself and others, in all eight very competent witnesses, more or less dissatisfied with the Act, to say nothing of Mr. Muntz, Mr. Salt, and Mr. Taylor, whose evidence has not been commented upon, but who, as partisans of an inconvertible currency, were hostile, not only to the Act of 1844, but to every other act rendering conversion compulsory.

Let us see now who spoke in favour of the act. Mr. Samuel Jones Loyd, now Lord Overstone, one of its parents and promoters, Mr. Morris, governor, Mr. Prescott, deputy-governor, and Mr. Cotton, ex-governor of the Bank, and all consequently open to a bias in favour of an act which relieves the Bank directors from all responsibility, and furnishes them with the ready answer, that they would gladly give accommodation, but their hands are tied.

Be it as it may, there were here but four witnesses against eleven, and it may be asked, whether it was a fair representation to comment upon the evidence, as though it were equally balanced.

Another witness was examined, a Mr. Hodgson, one of the two confidential directors of the Bank of Liverpool. This gentleman, when pressed to give his opinion on the Act, declined doing so, because he did not know what the conduct of the Bank would have been had it not existed; and so far his evidence is negative, but he said that if the letter, suspending its operation, had not been written, he thought the Bank would have stopped (128); that notes were not rendered more convertible by the act (131), and that prior to 1844, he had known the bullion of the Bank reduced to £6,000,000, without creating that want of confidence and that state of distress which existed in 1847 (260). All this, it must be confessed, is anything but evidence in favour of the Act.

Mr. Turner, of Liverpool, certainly said that the Act had, in his opinion, little to do with producing the distress (653), but at the same time he thought the letter might have been written earlier (660); that people were afraid that there was no security that they could turn commercial bills into bank notes (664), and that there should be a permissive power for suspending the Act (672). This, then, is not a witness in favour of the Act as it stands. It is worthy of remark, that in the subsequent part of the proceedings, the witnesses examined manifested still greater unanimity.

Mr. Kinnear, secretary to the Chamber of Commerce in Glasgow, thought the Act had greatly aggravated the distress (6,032), and would propose its repeal, as well as that of the Act of 1845, regulating the issues of the Scotch banks (6,044 to 6,046).

Mr. Anderson, manager of the Union Bank of Scotland, gave it as his opinion, that the Act aggravated the evil, by preventing the Bank from giving the necessary relief (6,297), and would repeal both Acts (6,326).

Mr. Murray, of the Provincial Bank of Ireland, thought a power of relaxation should be given by law. (6,728).

Mr. Bell, manager of the City of Glasgow Bank in Edinburgh, thought the Act was not founded on correct principles (6,829); that it rendered restrictive measures necessary before they were absolutely required by the state of the bullion (6828), and that but for the Act, the alarm would not have gone the length it did. (6,860).

Mr. Bristow, manager of the Northern Bank of Ireland, stated, that the Act was a cause of very serious aggravation (7,228), and thought it should be entirely repealed, or at least that part which restricted the Bank to a fixed amount of issue. (7,252).

Mr. Macfarlane, secretary and delegate of the Chamber of Commerce of Edinburgh, said the Chamber was against both the acts of 1844 and 1855 (7,395), that no advantage had been derived from them (7,467); that the excessive rates of interest charged were entirely attributable to the Act of 1844 (7,547, 7,548); and that the Chamber considered it had aggravated the difficulties in money matters, and ought to be repealed (7,490).

Mr. Donnell, governor of the Bank of Ireland, thought the Act had had no injurious effect on Ireland (6,617), but accounted for the relief afforded through the publication of the letter, as proceeding from the latitude that it afforded the Bank of England. (6,625).

That the Committee, and the House of Commons after it, should have shut their eyes to evidence so concordant from every unbiassed witness against maintaining the bill as it stood in 1848, and as it stands now, can only be explained through the empire which system and theory will obtain over the most enlightened minds, and by the consideration that people find it more convenient to let things alone than to take the trouble of altering them. To these feelings must be attributed the cold reception given to some very judicious propositions made by Mr. Spooner and other members of the committee.

The object of the promoters of the Act of 1844 was to insure a paper circulation which should expand and contract in the same way as a purely metallic currency would have done; and it is triumphantly asked, whether that is not the only sound principle upon which a paper currency should be established. But may it not, with much greater truth, be asserted that, if a paper currency is to vary just as a metallic one would have done, it is of no use at all, and we might just as well have nothing but the precious metals. The interest on the £25,000,000—probable average of paper issued upon securities—would be but a small item for the nation at large, more particularly if we set against it the cost of manufacturing the notes and conducting the issue departments, which would be saved.

The circulation of a country, to be in a really sound state, should be nearly invariable, as long as the mass of commodities is the same, which, in a short series of years, it necessarily is. The system which approaches the nearest to this, is that which suits best the exigencies of trade, and the wants of civilized men living in great communities.

Circulation is not inaptly said to float the commodities of a country, and when a sensible quantity is drawn off, if the gap be not filled up, the vessel will be stranded, and, if an addition should be allowed to remain, a contrary movement will take place.

It is because a metallic circulation is subject to perpetual oscillations, arising from the trade with foreign countries, that it is unsuitable to the wants of nations, and more particularly of commercial ones. A moderate excess of imports will frequently cause the abstraction of a sufficient quantity of circulating medium to render money dearer, and produce a considerable rise in the rate of interest. An excess of exports will produce a fall as great. Surely it will not be contended, by the most rabid theorist, that such fluctuations are consistent with a sound and healthy state of affairs. Interest of money should vary according to profits, and not according to capricious accidents of foreign trade. Such was the opinion expressed by many of the witnesses examined by the committee, such is the sentiment of all men of business—from the banker to the shopkeeper—and such is the doctrine of the political economists themselves.

Must it not then appear marvellous in the highest degree that a system should have been adopted, which professes to imitate the metallic currency in all its vices, and that what ought to have been a beacon to avoid, has been selected as the aim and end of our efforts.

But, say the defenders of the measure, if you have a mixed metallic and paper currency, when there is an excess of imports, the foreign exchanges will fall, and bullion will be exported, and the more paper you issue, the more bullion will leave the country, and at last the Bank will be unable to pay its notes in cash, whereas, if it diminishes its issues, and increases the rate of interest, the drain will be stopped, the foreign exchanges will again become favorable, gold will come in once more, and all will be right.

In the first place, with regard to the effect of fluctuations in the circulation and rate of interest on the foreign exchanges, it does not appear to be a matter very well understood. When an excess of imports has taken place, there is a debt due to the foreigner, and that debt must and will be discharged, whether the notes in circulation be increased or diminished, or whether the Bank discounts at 2 or at 10 per cent. Yet we see such well-informed persons as the writers of the *Times* newspaper applaud the Bank for raising its rate of interest, because that is the sound and legitimate way of correcting the foreign exchanges.

The real fact is, that, on looking through the rates of interest charged by the Bank for many years past, and comparing them with the course of exchange on the principal markets of Europe, no immediate effect will be traceable. Neither do we see that any marked change has been produced by the recent alterations in the rate of discount. The foreign exchanges were advancing when the Bank began to raise its rate in September, and the ascensional movement has not been more rapid than it was before. The Paris exchange, the most important of all, has risen to a surprisingly small extent, when due consideration is had for the peculiar operations of the Bank of France, which have caused bills upon London to be bought up every where.

A little reflection, indeed, will show that there is no reason why the rate of interest should affect the exchanges. When the French merchants hold a large excess of bills on London, they will be obliged to lower the exchange, if they want to get rid of them, so that the purchaser may be able to get back his money with a profit by importing bullion into France. For as many of these bills as are at sight, the only process will be to send them to London, receive the amount, get it out in bullion from the Bank, and send that bullion to Paris. With respect, then, to this description of bills, the rate of interest prevailing in London, cannot make the remotest difference. But those of the bills which have a certain time to run, will have to be discounted, and here, therefore, the increased rate will tell; but, as the purchaser of the bills knows this beforehand, he will require from the seller a lower rate of exchange to indemnify him. So that, for example, if the exchange in Paris upon London were 24·90 at sight, and 24·65 at three months, it would, upon a rise in the bank rate of interest in London, remain at 24·90 at sight, and might fall to 24·60 for three months' bills.

The argument then arising from any *direct* effect of a rise or fall of interest on the foreign exchanges is perfectly futile, and equally so is

the reasoning of some persons that every fresh issue, during a time of unfavorable foreign exchange, will cause a corresponding export of bullion. Why, if England owes France £8,000,000, she will remain in debt until the whole of that £8,000,000 is paid off, and until then the exchange will be against her, but, when the debt is discharged, there can be no more export of the precious metals in respect of the past. As an exchange operation, no one will purchase bullion in a foreign country for importation into his own, unless he can, for a smaller sum, purchase a bill on that country for the amount of the bullion imported. Thus, under the former hypothesis, when England had paid off the £8,000,000, there would have been no more bills on London in the Paris market; and a Frenchman who wanted to bring bullion from London, having no other means of payment but by buying a bill on London to that amount, but, being in a market where no bills were offered, would have been obliged to seek out those who had a credit on that Capital, and who would of course have asked a premium, and the transaction would have been a losing one, and consequently would not have been persevered in. It is, then, rather surprising to find such grave personages as Mr. Prescott, then deputy-governor of the Bank, say before the committee, "If the paper currency be enlarged in contravention to the laws that govern a purely metallic currency, the notes will be returned for gold, and the circulating medium returns to the same amount, only there will be more issued on securities, and less on gold" (3,194). And Mr. Morris, then governor, "that if £2,000,000 more had been issued, an export of £2,000,000 would have taken place," (2,677).

It is also said, that a high rate of interest causes people to draw in their capital from foreign countries, and is an inducement for foreigners to send money over. This, it is believed, will only take place to a very limited extent, more especially with respect to foreigners who, in times of mistrust particularly as in 1847 and at present, would rather be inclined to withdraw capital than to remit it. Besides, we know that there is a permanent difference of interest in many capitals. In New York, it is always higher than in London; while in Holland, Belgium, and Hamburg, and of late years in Paris, it has always been lower, and yet no equalising process has gone on.

Equally false is the assertion that a rise of interest and great contraction of the currency will, in its immediate effects at least, encourage exports and discourage imports. The fact is, that it discourages both, because both operations are carried on mainly on credit, and as mistrust spreads, people are disinclined to embark in new operations, and this disinclination is still more manifest in the export trade, of which the returns are distant, than in the import trade, where they are comparatively rapid.

The real fact is, that commerce has a tendency to right itself, and an excess of imports will, in the long run, be corrected by an excess of exports. "Oh, but," say the metallic currency men, "if you don't contract your circulation, you will go on importing and losing your bullion." But do they think the accumulation of imported goods or produce is to go for nothing? Do they suppose that an excessive supply, say of corn, from abroad would not ultimately lead to a fall in the importing country, and a rise in the exporting one, irrespectively of all considerations of currency? Do they forget that the extended sale of the foreigners' corn will produce wants which will lead to purchases of our commodities? On this head, let us hear one of the defenders of the Act, Mr. Morris, then governor of the Bank.

"If the tendency of exported goods is to accumulate under a check to the export trade, and the tendency of prices under that state of things is to fall, would not that, if it led to a check of the consumption of imports, lower the price of imports, and so tend to diminish importation?—Yes." (3,315.)

"And would not also the tendency be to increase the export trade under that state of things?—Yes." (3,316.)

"If there be this natural tendency towards the rectification of the balance of trade, would not that be a reason for preventing, if possible, those violent actions upon the circulating medium which are produced, in order to rectify the balance of trade?—*In the long run, the balance of trade will rectify itself*, but the transmission of the precious metals is so much more rapid than the transmission of goods, that, if a sudden and large importation of corn takes place, the immediate rectification will be through the medium of the precious metals, but eventually the rectification will take place through the medium of goods or securities." (3,317.)

"If there be that natural tendency, and the drain of gold be only temporary, would it not be very advantageous for the country, if we could find some temporary substitute for that part of the currency which is composed of gold?—No, it was necessary that that portion of gold should go for the purpose of bringing about the pressure which would reduce prices, and lead to the export of goods." (3,318).

"*Did you not say that there was a natural tendency in trade to rectify itself? Yes, if a sufficient period of time is allowed*, there is a natural tendency in trade to adjust itself; but the rectification does not take place so rapidly through goods and securities, as through the medium of the precious metals." (3,319.)

"But, during the absence of the precious metals, might it not be advantageous to the country, and prevent great loss, if we had a temporary substitute for these precious metals? If you have a temporary substitute in the absence of the precious metals, you do away with the convertibility of the note.* I am always bearing in mind the convertibility of the note." (3,320.)

"Then, the price of the convertibility of the note under that state of things, is the disemployment of labour, and the ruin of the merchants of this country? The pressure which the export of the precious metal causes, naturally will cause failures of parties who may have been over-trading, and will also cause a fall in the price of goods" (3,321.)

* Why and wherefore, he does not say.

"And it will lead to a disemployment of labour? Probably, for a time, it may lead to a disemployment of labour." (3,322.)

Fas est ab hoste discere, and it may be allowed that a better explanation of the natural course of trade can scarcely be given. With respect to the contraction or expansion of the currency, it never acts, as the economists would teach us, by ponderation and can have no effect in the ordinary state of things, otherwise than as it may produce a rise or fall in the rate of interest, which may *eventually* induce holders to sell, or tempt speculators to purchase. An *immediate* effect is only produced where the impossibility of procuring accommodation, or the apprehension of such a result, acting at a moment when commercial men are large holders of commodities, as in 1825 and 1847, constrains them to realise.

The conclusion is therefore unavoidable, that the rapid rectification of trade, whether under the Act of 1844, or of preceding legislation, lies in the path of ruin and desolation; of discharged workmen and starving families, and a twofold question arises:—first, whether any increase in the safety of paper money, as convertible into coin, is not too dearly purchased by the suffering occasioned by panic, and secondly, whether, after all, the convertibility of the note is better assured by the Act than it was before.

On the former question, there may be difference of opinion. We are told by the advocates of the Act, "The thing will right itself, don't interfere with sound principle." Some would, perhaps, go the same length as Mr. Cotton, who said that the effect of the famous letter of October, 1847, was instantaneous in allaying the panic (4,042), and yet, that he would have dispensed with it, had the matter rested with him. (4,039.) Perish the trade and credit of the country, but touch not the ark of metallic-currency principles. With these *fiat justitia ruat cœlum* gentlemen, with these fanatics of political economy, there is no arguing, but it is to be hoped they are in the minority.

But it has been denied by very competent authorities, as Mr. Hodgson, of Liverpool, Mr. Tooke, Mr. Birkbeck, Mr. Kinnear, Mr. Anderson, Mr. Bell, and Mr. Macfarlane,* that the act has made the note more secure, or rendered the position of the Bank safer. This is perfectly rational, in spite of the increased quantity of bullion, which has been the result of the restrictive measures. A comparatively trifling diminution of the bullion diminishes the reserve of the Bank to such a degree, as to force it to stringent measures, which contract the circulation. The bankers of the country take the alarm, and increase their reserves also, thereby further restricting the active circulation. Let the bullion diminish a little more, and then a general hoarding begins, and the whole country is seized with a panic. It is a notorious fact, which was averred by most of the witnesses, and by Mr. Morris himself, that in 1847, notes were hoarded to a very considerable extent, and that the circulation was more than sufficient for the wants of the public, had they not been in a state of

* See questions 131, 5,325, 5,895, 6,141, 6,349, 6,965, 7,467.

apprehension. There can be little doubt that such is the case at the present moment, and that the scarcity of money is to some extent factitious. We may suppose five-and-twenty persons owing £1,000, one to another, A to B, B to C, and so on down to Z. In ordinary times, B would feel satisfied that he would be paid by A in time to discharge his debt to C, and so on; by this means, £1,000 of the circulating medium might be sufficient to settle the whole of the claims, but if each party trembles for the safety of his debtor, each will endeavour to secure wherewithal to pay his liabilities, and there may be a demand for twenty-five thousand pounds instead of one. Now in this temper, people only consult their fears, and are inclined to distrust everybody; and however sound might be the position of the Bank, a run for gold is always a probable event under such circumstances.

This necessity for prompt action takes away all possible chance of waiting for that natural reaction and adjustment of trade which Mr. Morris so well described, and should there be an incipient panic, we are unable to have recourse to that liberal issue of notes which is the cure for it, not only according to Mr. Gurney (1,618), Mr. Tooke (5,325), and others, but according to Mr. Morris himself (2,735), though that gentleman added that he thought it better a panic should subside of itself;—to do honour to the principle, of course. It is in evidence that the Bank increased its issues by £6,000,000 in December, 1825, and though it had not much above £1,000,000 in gold, the convertibility of the note was not endangered.

It is very possible that the Bank may have exposed itself too much in 1825, but that is no reason for laying it under a permanent restriction and, as Mr. Tooke very properly observes (5,321), "The endeavour to reduce those who, with me, argue upon the sufficiency of a large treasure to meet a demand of great magnitude, but still definite, to the position of being unable to obviate under peculiar circumstances, the necessity of suspension, proves as I said before, too much, for it goes against all banking." It is for the Bank to do as it did formerly, and as all bankers do at present, to calculate its resources and its liabilities, and to go as far as it can in the way of accommodation, without endangering its safety. By these means the circulation may, in most cases be left nearly stationary, as it should be, and the bullion will return to the country by the natural adjustment of trade, and though the stream may set in sometimes so strongly as to require stringent measures, it will very rarely be the case; the Act of 1844 takes away even the chance of this natural re-adjustment, or at least it narrows the margin very considerably.

For the truth of this, we have not only abstract reasoning, but experience to plead, for in the short space of eleven years since the enactment, we are now at the second panic; whereas in the nineteen, from 1825 to 1844 there were two years in which a little pressure was felt in particular branches of trade, but nothing like a general panic. If another proof were required, it would be found in the variations of the *minimum* rate of discount, for, in the twenty-nine years, from 1815 to 1844, the Bank altered its rate eleven times,

whereas, in the eleven from 1844 to 1855 it has done so no fewer than thirty-two!* In the formidable year of 1825 there does not appear to have been more than one change, and, in 1839, a year also of some little disturbance in commercial affairs, three; whereas, in the ten months already elapsed of the present year, there have been eight!

Would not this mutability alone be a sufficient ground of condemnation? and can it be maintained for one moment that the system which subjects commercial men to such frequent and violent fluctuations can be a sound one, or otherwise than prejudical to the best interests of the country?

It is true, that at this moment, although there is a feeling of uncertainty and vague apprehension amounting to panic; yet the already contracted state of trade has prevented such appalling convulsions, such wide-spreading disasters, as occurred in 1847; but commerce has already suffered materially and a tendency to stagnation evinces itself more and more every day. The question in the mouth of every man of business has been and is still, week by week, "What is the Bank going to do?" Now, independently of the real mischief done, is it not a circumstance calculated to bring this country into contempt, as one pretending to take the lead in commercial affairs, that the whole business of London, and it may be said of the entire kingdom, shall be hung up from the morning of every Wednesday, till the breaking up of the Bank parlour on Thursday? How much more calm and dignified, how much more becoming the head of the monetary system of a great nation, is the course pursued by the Bank of France, although its difficulties have been really serious, with an issue acording to the last return of £26,000,000 and upwards, against little more than £9,000,000 of bullion; and yet we do not learn that there is any feeling of panic in Paris although money is not plentiful.

In eulogising the Bank of France, however, it is by no means intended to throw discredit on the governing body of the Bank of England. They do no more than the Act compels them to do, and as they must fight for their reserve, million by million, so, upon the abstraction of every sum to that amount—and what a trifle in the general circulation!—are they compelled, in self-defence, to resort to measures which spread alarm far and wide. It is, perhaps, true that they have taken too active a part in discounting, which obliges them to follow the market rate of interest more closely than they did formerly. In this opinion, the support of Lord Overstone may be claimed, as it is in accordance with the sentiment expressed by him before the committee, and it is one reason among many others why it would be advisable that the Bank should be a national establishment, wherein the due maintenance of the currency, and not the profit of the concern, might be the dominant consideration.

The Bank, however, is placed under another difficulty, and that is, having to deal with one legal metallic standard, while it is in relation with other countries which have two. The difficulty arising from this circumstance is inappreciable, inasmuch as, with respect to France, which country it concerns principally, the fluctuations in the

* See the Table at the end.

price of gold as compared with silver may be against us, but can never be in our favour.

For example, when the exchange is adverse, as it was in the beginning of last year, gold was at a discount, but that made no difference in the profit to the exporter, because each sovereign sent out could be coined at the mint of France into 25f. 22c. in Napoleons, and could serve, to that extent, to pay for the bills on London he might have purchased, leaving it to the seller of the bill, if he wished for silver money, to go and purchase it at the *agio*. At present, the exchange appears in favour of England; but, if a person were to buy a bill in Paris, with the view of importing gold, he would now receive silver in payment of the bill he had bought, and, when he wanted gold, he would find that he had a premium to pay that would run away with all the profit, or, if he brought over silver, he would have to sell it in the London market. If we look to former years, we shall find very high nominal rates of exchange with Paris, but, at the same time, an *agio* on gold that rendered importation a profitless transaction. Indeed, where there are no counteracting influences, there may be any conceivable amount of debt due by France to England, without its causing any import of gold; for if, on the one hand, the exchange rises in proportion to the amount of debt, on the other hand, every debt will be discharged in silver, and, as there will be more of this metal to be exchanged against gold, the premium will rise so much higher.

Another instance has occurred—and is occurring at the present moment—in the purchases of gold by the Bank of France, which, it may be observed, have not been such mad operations as some have proclaimed them; since the Bank, having its choice of payment in gold or silver, has been able to profit by the premium on the former metal, which must have gone far to make up for the loss on the transaction. However, to return to the subject, it is now announced at each arrival of gold from Australia that the Bank of France is going to take so much, and the Bank of England will have the rest. Now, it certainly does seem strange that the Bank of France has the choice of taking what it pleases, and that our own Bank should only have its leavings. Strange as it appears, however, it cannot well be otherwise with our system of a single standard. The Bank of England might, it is true, and should, perhaps, at the present moment, go as far in its biddings for gold as the mint price of £3 17*s*. 10½*d*. an ounce. Further than that it cannot go, as it is obliged to cash its notes at that rate, and would therefore have them immediately returned for gold. If, then, the Bank of France is disposed to give a fraction more than that price, it must remain undisputed master of the field. In our relations with France, in fine, we are, through our single standard, in the same position as a man with a single-barrelled gun fighting another who has a double-barrelled one.

It must not be fancied, either, that a double standard is a thing unheard of in this country. It is the single standard, indeed, which is the innovation, and it is time we went back to the position in which we formerly stood in that respect.

Summing up all the foregoing, it is submitted :—

That the currency of a country ought to remain as nearly as possible at the same amount, until the general progress of population and wealth has sensibly increased the mass of commodities, when it should be increased in the same proportion, and that the system which best insures that result, is the one to be preferred.

That the contraction or expansion of the currency has no effect on the foreign exchanges, as far as debts already contracted are concerned, and will only, in exceptional circumstances, have any influence upon imports and exports, as long as prices are unaltered.

That a mere rise or fall in the rate of interest does not affect the exchanges nor the balance of trade, until they have brought about a fall or a rise in commodities, by the inducement they hold out to sell in the one case and to buy in the other, and that this, in the natural state of things, will always be a very gradual operation.

That the balance of trade has always a tendency to adjust itself, and excessive imports will be followed by excessive exports, and *vice versâ*.

That no sudden action can be produced on the foreign exchanges, unless it be either by immediate operations on foreign securities which cannot be depended upon as a transaction, or by a rapid action upon the imports and exports. That the flow of importation cannot be suddenly arrested, or that of exportation as suddenly promoted, unless the monetary pressure is sufficiently great to constrain people to sell commodities, in such sort as to produce a general fall and a panic, which, besides contracting business and throwing numbers of persons out of employment, will give the foreigner the opportunity of re-purchasing the very commodities he had sold us, at a great profit to himself and to our evident disadvantage.

That the Act of 1844 contravenes the fundamental principle of a good currency system, inasmuch as it contracts where it ought to expand, and expands where it ought to contract. That the margin of accommodation which it allows the Bank being very restricted, it is only in small oscillations in the balance of trade that it leaves room for the natural adjustment to take place. That whenever these narrow limits are passed, it obliges the Bank to contract the circulation, and that the knowledge of the restricted extent of the Bank resources causes some through prudence, and others through fear, to hoard and lay by; that in this manner the pressure is converted, through the operation of the Act, into a panic, and general distress occasioned. That it would even be in the power of a few large capitalists, at a moment like the present, when the reserve of the Bank is low, to realise an amount of notes sufficient, if presented simultaneously for payment, to endanger the solvency of that establishment, and to produce the most disastrous results.

It is therefore suggested—That the act be forthwith repealed—That a loan be made, in order to pay off the debt due to the Bank, as soon as that can be done by law—That a National Bank be instituted, issuing notes against bullion and against securities—That it be an instruction to the managers of the Bank to maintain the general circulation, as far as possible, at the same amount, but that their power be discretionary, both in that respect and with regard to the advances to be made—That the interest be never below a certain rate, say 4 per cent., and that the bullion be allowed to accumulate while the market rate is inferior to that—That the Bank hold a certain amount of foreign stock and bills—That silver be declared a legal tender to any amount. Some such enactments as these, it is submitted, would place our monetary system upon a footing more satisfactory, and better adapted to the real wants of the country.

We have had, for many years, too much theoretical legislation, both on this and other subjects. When a man of humanity like Lord Shaftesbury would lighten the chains of poor needlewomen, he is met by the cry that labour is a commodity, and that it is unsound in principle to meddle with the traffic in commodities. When others have inveighed against the incubus of 1844, they have been triumphantly referred to author upon author, who has decided that a paper circulation should vary as much as a metallic one.

The writer of this paper is a votary of the exact sciences, and of political economy among others, but the affairs of a nation are not to be governed by rule and compass, nor by *a* plus *b*. The deductions that our most able reasoners have arrived at, in matters of commerce and finance, should be regarded, not as results, but as tendencies, and it is only by applying to them the test of experience that we can hope by degrees to grope our way to the most suitable legislation on any subject so variable and uncertain in its nature.

Minimum rates of Discount charged by the Bank.

1815 to 1822	5
1822 to Dec., 1825	4
Dec., 1825, to July, 1827...	5
July, 1827, to Aug., 1836...	4
Aug., 1836, to Sept., 1836...	4½
Sept., 1836, to Jan., 1838...	5
Jan., 1838, to June, 1839...	4
June, 1839, to July, 1839...	5
July, 1839, to Aug., 1839...	5½
Aug., 1839, to Jan., 1840...	6
Jan., 1840, to April, 1842...	5
April, 1842, to Sept., 1844...	4
Sept., 1844, to Nov., 1845...	2½
Nov., 1845, to Dec., 1845...	3
Dec., 1845, to Aug., 1846...	3½
Aug., 1846, to Feb., 1847...	3
Feb., 1847, to May, 1847...	4
May, 1847, to Sept., 1847...	5
Sept., 1847, to Nov., 1847...	5½
Nov., 1847, to Dec., 1847...	7
Dec., 1847, to Jan., 1848...	6
Jan., 1848, to June, 1848...	4

June, 1848, to Nov., 1848 ...	3½
Nov., 1848, to 22 Nov., 1849	3
22 Nov., 1849, altered to ...	2½
26 Dec., 1850	3
1 Jan., 1852...	2½
22 April, 1852	2
6 Jan., 1853...	2½
20 „	3
2 June, 1853	3½
1 Sept., 1853	4
15 „	4½
29 „	5
11 May, 1854	5½
3 Aug., „	5
5 April, 1855	4½
3 May, „	4
14 June, „	3½
6 Sept., „	4
13 „ „	4½
27 „ „	5
1 Oct., „	5½
15 „ „	6

⁂ The above table is taken, as far as 1848, from the appendix to the report, and for the subsequent periods, from the *Bankers' Magazine*.

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TITLE