

## The Edinburgh review

Edinburgh : A. and C. Black, 1803-1929

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editor, whose name does not appear. At the same time, we must express our unqualified disapprobation of the practice, now so prevalent among travellers, of devolving upon professed authors the important task of speaking for them to the public; a practice, destructive of accurate description, not very favourable to fidelity of narration, and altogether inimical to the interest with which we delight to read the accounts, however unpolished, of actors and eye-witnesses. We had almost forgotten to mention the doggrel English rhymes, with which the editor, taking advantage of Mr Acerbi's ignorance of the language, has thought proper to fill his pages. Nothing in the name of verse was ever presented, with fewer pretensions to merit of any kind.

Besides the travels, the volumes now before us contain a treatise on Lapland, drawn up, chiefly, from the account published by the missionary, Leems, in 1767, Danish and Latin. Indeed, with the exception of a little jetting, at the missionary's expence, and some additional remarks, chiefly on the natural history of the country, this treatise is a translation from Leems. It occupies the greater part of the second volume, and follows the original, section by section. This is the less necessary, since that work is by no means so rare as Mr Acerbi supposes: We believe there is scarcely a library in Europe without a copy of it.

The plates, which accompany Mr Acerbi's travels, are in general good: the winter scene in Stockholm, and the two views in the woods of Finland, strike us as the best. The map prefixed to vol. ii. is very indifferent. The entry upon the gulph of Bothnia at Grislehamn, is wretched; and the Finlandish bath has nothing to recommend it, but the naked accuracy of the representation. The figures of the insects, in vol. ii. are excellent.

The work concludes with specimens of Finnish and Norwegian music, and our author's Itinerary.

ART. XXV. *An Inquiry into the Nature and Effects of the Paper Credit of Great Britain.* By Henry Thornton, Esq; M. P. London, 1802. pp. 320.

THE progress of commercial philosophy has been much accelerated by the writings of practical men of business. In that, as well as in the other departments of civil knowledge, it is only from the actual course of affairs that the statesman can derive his maxims of policy, or the speculative inquirer deduce the conclusions of his science: but the habits of both are incompatible with a personal knowledge of detail. It is necessary that the labour, of accumulating particular facts, should be separated from the more liberal task

task of generalizing these into principles; and that they, who are qualified to combine larger views, should be furnished, by the minute accuracy of others, with descriptions in which they may confide. In England, which is the native country of political economy, the works, contributed by professional men, form a large deposite of authenticated facts. For these we are primarily indebted to that diffused literature, which multiplies the demand for varied information, and has already liberalised the practitioners in almost every walk of industry. But the greater number of these publications have been suggested by such occasional events, in the fluctuation of our commercial prosperity, as rouse a general interest, and direct the curiosity of the public to that quarter of the great machine, in which the derangement is supposed to have taken place. It is in this manner, that every period of dearth has contributed in some degree to alleviate subsequent years of scarcity, by the instruction which it yielded against popular prejudice. Those numerous tracts, in which alone the detailed history of our foreign commerce can be traced, at least during its earlier progress, appear to have been prompted by the frequent disturbance, which the balance of exchanges suffered, from the alterations of war and peace. The immediate consequences of the South-Sea scheme, and of the many wild projects that raged about the same time, were somewhat compensated by the more distinct knowledge, which they ultimately furnished, with respect to the bounds of commercial adventure. It was in a similar manner, from the embarrassments occasioned in the reign of King William by the reformation of the coin, that our politicians first derived a clear and steady light on the subject of metallic circulation. And the operations of that curious system, by which the use of precious coin is now almost superseded, remained in a great measure unknown to all but the bankers and traders of London, until the suspension of cash payments at the Bank of England produced that copious information, which, in various forms, has been communicated to the public.

Of all the publications, which that momentous event has occasioned, the most valuable unquestionably is this of Mr Thornton. With no ostentatious professions, and with no admixture of superfluous matter, it contains the largest portion of new information that has for a long time been offered to those, who, either for the pleasures of speculation, or with a view to public life, are engaged in the researches of political economy. The instruction, however, that may be derived from the work, is not to be obtained by a cursory or passive perusal. The author has so little management in the disposition of his materials, and is frequently so much embarrassed in the explanation of arguments, that his  
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reader must undertake the trouble of reducing these to a more precise statement, as well as of digesting the general subject in a more distinct form. Even in point of accuracy, his reasonings are not to be trusted with the same confidence to which his information is entitled; for, if examined with care, they will sometimes be found defective: nor can it excite any surprise, that the same opportunities, by which a person has been eminently instructed in the facts of such a subject, should have proved unfavourable to those speculative habits, which exercise the powers of accurate and comprehensive inference. At the same time, from our own experience, we may caution the reader of Mr Thornton, that he should not too hastily consider as an erroneous deduction, what he may find to be only the confused statement of a just argument. For the work indicates, throughout, an author unpractised in composition. In most of the details separately taken, there is that degree of perspicuity and ease, which shows him to have been fully possessed of the subject; though he rarely attains precision and distinctness of expression. But the various discussions, being unskilfully arranged, throw no light on each other, and we can never seize a full view of the plan. So imperfectly is the order of investigation defined, that sometimes an enquiry is prematurely anticipated, sometimes inconveniently postponed; and the author has been frequently constrained, by his consciousness of this imperfection, to repeat the same disquisition in different places. These defects appear to have arisen, in some measure, from his having varied his design, after he was engaged in the execution of the work; for he tells us that his first intention — ‘was merely to expose some popular errors which related chiefly to the suspension of the cash payments of the Bank of England, and to the influence of our paper currency on the price of provisions. But in pursuing his purpose, many questions occurred which it seemed important to discuss, partly on account of their having some bearing on the topics under consideration, and partly because they appeared to be of general importance and had either been left unexplained, or had been inaccurately stated by those English writers who have treated of paper credit. This work has therefore assumed, in some degree, the character of a general treatise.’—*Introd.*

It is to be regretted that it did not receive in every respect the form, as it contains the valuable substance, of a general treatise. Most of the prolixity, and some of the obscurity, that oppresses the reader in its present shape, would have been avoided, if the temporary topics, which formed his original object, had been sunk into a subordinate digression, instead of being suffered to interweave themselves with more general inquiries through the whole train of the discourse. Adhering to this distinction, we shall



shall attempt an abstract of its principal contents: and that we may observe an order, which will both afford a clear view of his doctrine, and admit of such remarks being introduced as we think necessary, we shall consider, *first*, The principles which he has adopted on the general theory of paper credit; *secondly*, His account of that system of credit and of paper-money which is established in this country: *thirdly*, His explanation of the difficulties to which the Bank of England was subjected in 1797; and, *fourthly*, His opinion with regard to the influence of our present paper currency upon the present state of prices.

I. Although some general truths, respecting the operations of paper-money, have been ascertained, the analysis of that very intricate subject is far from being complete. Even the fundamental principles are still involved in some degree of obscurity, and writers of equal authority have thus been led to vary in many of their deductions. It may be useful, therefore, to present a full view of the opinions, which are professed by Mr Thornton. In this, we shall not entirely confine ourselves to the three preliminary chapters, in which he has attempted to arrange his general doctrine; because several of the most important principles are not developed in that sketch, but receive an incidental explanation in the course of his subsequent reasonings.

1. The origin, and the solid foundation of every system of paper-money, Mr Thornton has correctly placed in that credit, which subsists among commercial men with regard to their mercantile transactions. By this mutual trust, they are brought under pecuniary engagements to each other; and it is the expression of these engagements in writing, that creates the first and largest portion of circulating paper. By reducing them to a written form, the insecurity, that attends verbal obligations, is avoided by the creditor; and an advantage is obtained, on the other hand, by the debtor, in having that confidence, which is entertained both of his funds and of his prudence, expressed in a regular and transmissible document. Promissory notes and bills of exchange, as such documents have been called, were soon discovered to be susceptible of a more extended use, than that of recovering debts to the original creditor. They admitted, like other instruments of debt, and more easily than most others, of being transferred; and, in consequence of this facility, they came gradually to circulate as a representative of value, that is, as an effective medium of exchange, in almost all payments of a large amount. After their utility in this function had been ascertained, it was an obvious improvement to adapt them, by a small change of their form, to those ordinary payments in which the precious metals had always been employed; and to substitute, by this simple contrivance, a very cheap instrument

strument of commerce in the place of a very expensive one. The promissory notes of bankers, which are payable on demand, have accordingly for a long time past performed, in this country, the ordinary purposes of exchange in almost all transactions of a small amount, as well as in settling the small balances of larger transactions.

This description of circulating paper differs, in one material circumstance, from the opinion of Mr Boyd, who, in his recent publication, has expressly denied that bills of exchange, or any other negotiable paper, form a part of the circulating medium. 'The latter (Mr Boyd has said) is the circulator; the former are merely objects of circulation.' This verbal antithesis, it may be remarked, is calculated to suggest a very erroneous principle; for, even in theory, no definite boundary can be marked between the circulating medium and the commodities, of which it facilitates the exchange. The language of Mr Thornton is more consistent with a just view of the subject. All negotiable paper is, by its form, the representative of value; and is therefore qualified, more or less perfectly, according to its varieties of form, to serve the purposes of money. It is convertible into cash, and on the faith of this convertibility it passes immediately as cash. The precious metals themselves do not pass as money, except on the faith of their convertibility into commodities. Paper-money, in one form, may circulate less quickly than in another, and may not be so readily convertible into specie; but its essential character is the same. Not to mention those bills drawn upon London, by which all the great payments of our foreign and domestic commerce are effected; a vast number of smaller bills circulate among the traders of the country, who successively indorse them to each other. While some of these are from day to day withdrawn, they are continually replaced by others; and the average number of such bills, floating in the general market at once, forms unquestionably a portion of the circulating medium. By omitting them, we should leave ourselves a very imperfect idea of the extent, the operations, and the consequences of our paper system.

2. In common with all other writers, Mr Thornton appears to admit that the convertibility of paper into specie, is the basis upon which that system must be founded. He is not indeed quite explicit; and there is much reason to regret, that he has not been at more pains to elucidate this principle, and the limitations with which the statement of it may be qualified. That the immediate convertibility of paper into gold is an indispensable condition of its credit, as we are taught by the language of system, has been disproved by the recent history of the Bank of England: which has happily quieted the apprehensions, to which  
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our best-informed politicians yielded, on account of the event of 1797. The maintenance of credit during a short interval of suspended payments, was a case, indeed, which might have been foreseen from theory, and was not wholly unknown to our previous experience. But that a restriction of this kind should have been continued for more than five years, without any depreciation of the paper from a failure of confidence, is a fact which has falsified all reasonable prediction, and forms an exception to the most confident maxims of all former economists. It is incumbent on us, therefore, to consider how far we are required to limit, by the result of this experiment, a principle which had been generalised prematurely. In this, we receive slight assistance from Mr Thornton\*.

The convertibility of paper into specie, without delay and without loss, may be necessary in two respects: to maintain the credit of the paper, by precluding that depreciation which proceeds from a failure of confidence; and to preserve the value of the paper from that depreciation, which originates in an excess of circulating medium. The necessity of immediate access to gold, for the credit of the paper, may be superseded, it appears, by a full persuasion on the part of the public that the paper is secured by ample funds. But this can have no effect in restricting the quantity, which is, on the contrary, encouraged by this very confidence of the public. Mr Thornton, accordingly, expresses his opinion, that gold coin is the standard by which the value of all paper money must be regulated; and that, in order to maintain an uniformity between them, there should always be a considerable fund of bullion in the country, and a certain degree of interchange of the paper for precious coin. This principle is so implicated with all the investigations of his treatise, and is of itself so important, that we are sorry he did not think of illustrating it more fully, and of reducing it, if possible, to more specific terms.

3. He has explained, however, with great clearness, another part of the theory of money; the different effects of a quick or a slow circulation. Such of our readers, as have attended to the history of opinions in political science, will recollect, that a consideration, which now seems quite obvious, was long overlooked by the most acute and profound inquirers. Montesquieu and Hume fell into several mistakes, from not adverting to the degree in which the representative power of money is augmented, by a more rapid transmission; and although the principle may be alluded to, in a few passages of Smith's work, he appears to have been unaware of its extent. We doubt if even the writers,

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\* Pp. 70. 187. 258. 279.

by whom it has been more recently urged, have traced all the effects of its operation.

The quantity of money, necessary for performing a certain number of exchanges in a certain time, may be considered as nearly in the inverse ratio of its velocity of circulation. Whatever, therefore, tends to accelerate the general rate, contributes, so long as the number of exchanges remains unaugmented, to economise the necessary quantity. And if, by the operation of any cause, its movement be retarded, the want of an additional quantity will be felt. From the same proposition it likewise follows, that, if one kind of money is susceptible of a more rapid circulation than another, a smaller quantity will be required of the former than of the latter, to carry on a given number of exchanges in a given time.

Mr Thornton has justly observed\*, that, in a commerical country, whatever the circulating medium consists of, it is apt to vary in its rate of circulation. A high and prosperous state of mercantile confidence quickens it; and it is apt to be retarded during the intervals of distrust and alarm. Every merchant, who lies under pecuniary engagements, must not only arrange the punctual fulfilment of these, but must reserve a farther provision against contingencies. During an interval of alarm, he of course makes this reserve rather greater than in ordinary times; and at a period of great confidence, he ventures to keep it rather less. We shall perceive, in the sequel, what application Mr Thornton has made of these deductions.

He has likewise observed †, with regard to paper money in particular, that some kinds of paper circulate more slowly than others. Bills of exchange, for example, bear interest, and become daily more valuable to the holder. Bank notes, on the contrary, like guineas, occasion a daily loss to the possessor, because no interest accrues. There is thus a reason for detaining the one, and for parting with the other as soon as possible. Commerical people will endeavour to keep their necessary provision for future payments, rather in bills than in bank notes.

4. The most important, perhaps, of all questions respecting the operations of paper money relates to its effect upon the price of commodities. Mr Thornton admits, in the most explicit manner, that, in this particular, there is no difference between a currency of paper and one consisting of the precious metals; and that in both cases, if the quantity of circulating medium is permanently augmented, without a corresponding augmentation of internal trade, a rise will unavoidably take place in the price of exchangeable articles. Indeed this is a principle upon which all

\* P. 47.

† P. 41.

all the writers on commerce, both practical and speculative, are agreed: they have thought it so undeniable, as to require no particular illustration; and have rather assumed it as an obvious truth, than as a proposition which depended on inference. On this idea, is founded Mr Hume's well-known argument against banks; and it is equally implied in Smith's satisfactory confutation of that objection: it forms the foundation of those presumptions, from which Mr Boyd has lately inferred an improper increase of Bank of England paper; and it is implicitly admitted likewise by Mr Thornton, one great object of whose book is to persuade the public that there has been no such increase.

Dr Smith, our readers will recollect, has refuted Mr Hume's notion, that paper money raises prices, by referring to what he considers as a general fact in the theory of circulation; that every addition of paper to the currency displaces an equivalent quantity of gold. From different parts of Mr Thornton's work, a few remarks may be collected, which place this principle in a more correct point of view. The language, in which Smith has described the displacement of gold, is not calculated to convey a very distinct conception of the manner in which it really takes place. The quantity of goods in the market (he says) being precisely the same after the paper is issued as before, the same quantity of money will be sufficient to circulate them: the channel of circulation remaining precisely the same, whatever is poured into it beyond the sum that is sufficient to fill it, cannot run in it, but must overflow: the sum that overflows is too valuable to lie unemployed at home; it will therefore be sent abroad, and, as the paper cannot go abroad, the gold will be exported\*. If this statement be literally understood, it involves a statement which is contrary to historical fact; for, by what process did the discovery of the American mines operate upon prices, except by causing a much greater quantity of money to run in the channel of circulation, than had previously been sufficient to circulate the same quantity of goods? Mr Thornton has justly remarked, that the channel of circulation can never be said to be full, because employment is still afforded to a larger quantity of circulating medium by means of an advanced price of goods. 'This advanced price of goods is the same thing as a reduced price of coin; the coin, therefore, in consequence of its reduced price, is carried out of the country for the sake of obtaining for it a better market †.' Thus, the immediate effect of an addition to the paper currency is a rise of prices, which leads to an exportation of gold. The gold is not immediately displaced, because the circulating medium admits of no aug-

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mentation;

\* Wealth of Nations, I. p. 436.

† P. 211.

mentation; nor thrown out of the channel of circulation, because that can hold no more; nor sent abroad, because it would otherwise have been altogether unemployed at home. Dr Smith, it is evident, overlooked the intermediate event; and, because the real explanation did not suggest itself, had recourse to the exceptionable style of metaphorical description.—Mr Thornton has another remark\*, which suggests a just correction of that general position, by which we exclude altogether any permanent operation of paper-money in raising prices, while there is gold in circulation that may be displaced. The same exportation of gold, which remedies the temporary rise that takes place in the particular country where paper has been issued, has a tendency to increase the supply of precious metal in the general market of the world, and thus to occasion a general rise of prices, in which that particular country must participate. The whole quantity of bullion, of which Great Britain has spared the use by adopting a different medium of domestic exchange, is added to the general stock of the mercantile commonwealth, as much as if an equal quantity had been brought additionally from America; and the saving of that annual loss, which would have been occasioned by the waste of British coin, is equivalent to an increase in the annual produce of the mines.—But, on the other hand, it must be remembered, that the use of paper money tends, in some degree, to *lower* the price of commodities. In proportion as the instruments of commerce, or the machinery of manufactures, are of a less expensive construction, the articles, which they contribute to produce, may be afforded at a lower rate. To employ paper money instead of gold, is to substitute a very cheap instrument of commerce in the room of a very expensive one. That system of credit, also, of which the limits are greatly extended by the use of paper, tends, as Mr Thornton has observed†, to reduce prices, both by enlarging competition, and by saving the trouble and expence of weighing, counting, and transporting money. The larger transactions of commerce are, by these means, greatly facilitated; and in this instance, as in every other, it is the true interest of the consumer that merchants should be permitted to adopt their own plans of economy.

Although, with these modifications, he admits the position of Dr Smith, that successive additions of paper to the currency will successively displace equivalent portions of gold, this must evidently cease to be true when the circulating medium already consists almost entirely of paper. In such circumstances, the successive augmentations, that may take place, are not compensated by any corresponding diminution in another part of the circulation;

\* P. 304.

† P. 315. and p. 17.

tion; and the rise of prices, that immediately ensues, is not reduced by a subsequent exportation of gold. While the currency remains in this augmented state, without an increase of trade to absorb the excess, prices will remain high; and if the quantity of paper should still be continually increased, the prices of commodities will continue to rise. The price of bullion must be affected in the same manner as that of every other article. And in a country where a system of paper currency has gradually supplanted an ancient system of gold coin, the market price of gold bullion may thus come to exceed that price which was adopted under the ancient system, by the regulations of the mint.

We perfectly agree with Mr Thornton, that, in a country where gold constitutes an indefinitely small portion of the circulating medium, an excessive issue of paper will raise the market price of gold above its mint price. But the manner, in which he has described the process by which this is effected, appears to us so erroneous, that we shall lay before our readers the passage in which he has explained his opinion. It is rather long for an extract: But it forms a detached dissertation complete in itself, and we could not easily have selected a shorter passage, that would have afforded so just a specimen of the author's general manner. It is unnecessary to point out to our readers, by particular references, the familiar perspicuity with which the facts are separately stated, and the perplexity with which they are combined into a train of reasoning.

‘ I proceed, in the next place, to show in what manner a general rise in the cost of commodities, whether proceeding from an extravagant issue of paper, or from any other circumstance, contributes to produce an excess of the market price above the mint price of gold.

‘ It is obvious, that, in proportion as goods are rendered dear in Great Britain, the foreigner becomes unwilling to buy them, the commodities of other countries, which come in competition with ours, obtaining a preference in the foreign market; and, therefore, that, in consequence of a diminution of orders from abroad, our exports will be diminished; unless we assume, as we shall find it necessary to do, that some compensation in the exchange is given to the foreigner for the disadvantage attending the purchase of our articles. But not only will our exports lessen, in the case supposed, our imports also will increase: for the high British price of goods will tempt foreign commodities to come in, nearly in the same degree in which it will discourage British articles from going out. I mean only, that these two effects (that of a diminished export, and that of an increased import) will follow, provided that we suppose, what is not supposable, namely, that, at the time when the price of goods is greatly raised in Great Britain, the course of exchange suffers no alteration. For the following reason, I have said,

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that this is not supposable. Under the circumstances which have been described, of a diminished export, and an increased import, the balance of trade must unavoidably turn against us; the consequence of which must be, that the drawers of bills on Great Britain, in foreign countries, will become more in number than the persons having occasion to remit bills. This disparity between the number of individuals wanting to draw, and of those wanting to remit, as was remarked in a former chapter, must produce a fall in the price at which the overabundant bills on England sell in the foreign market. The fall in the selling price, abroad, of bills payable here, will operate as an advantage to the foreign buyer of our commodities, in the computation of the exchangeable value of that circulating medium of his own country, with which he discharges the debt in Britain contracted by his purchase. It will thus obviate the dearness of our articles; it will serve as a compensation to the foreigner for the loss which he would otherwise sustain by buying in our market. The fall of our exchange, will, therefore, promote exportation, and encourage importation. It will, in a great degree, prevent the high price of goods in Great Britain from producing that unfavourable balance of trade, which, for the sake of illustrating the subject, was supposed to exist.

‘The compensation thus made to the foreigner, for the high British price of all articles, is necessary, as an inducement to him to take them; somewhat in the same manner as a drawback, or bounty on exportation, is the necessary inducement to take those particular goods, which have been rendered too dear for the foreign market, by taxes laid on them in this country. In each case, the British consumer pays the high price, and the foreigner is spared, because otherwise he will not accept our commodities.

‘The fall in our exchange was just now defined to be an advantage gained in the computation of the exchangeable value of that foreign circulating medium with which the foreigner discharges his debt in Great Britain, a debt paid in the circulating medium of this country. It implies, therefore, a high valuation of his circulating medium, and a low valuation of ours; a low valuation, that is to say, both of our paper and of the coin which is interchanged with it.

‘Now when coin is thus rendered cheap, it by no means follows that bullion is rendered cheap also. Coin is rendered cheap through its constituting a part of our circulating medium; but bullion does not constitute a part of it. Bullion is a commodity, and nothing but a commodity; and it rises and falls in value, on the same principle as all other commodities. It becomes, like them, dear, in proportion as the circulating medium for which it is exchanged is rendered cheap, and cheap, in proportion, as the circulating medium is rendered dear.

‘In the case, therefore, which has now been supposed, we are to consider coin as sinking below its proper and intrinsic worth, while bullion maintains its natural and accustomed price. Hence there arises that temptation, which was formerly noticed, either to convert back into bullion, and then to export; or, which is the same thing, to export, and then convert back into bullion; or, which is also the same thing,

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to convert back into bullion, and then sell to the Bank, at the price which would be gained by exportation, that gold which the Bank has purchased, and has converted from bullion into coin.

'In this manner, an increase of paper, supposing it to be such as to raise the price of commodities in Britain above the price at which, unless there is some allowance afforded in the course of exchange, they will be received in foreign countries, contributes to produce an excess of the market price above the mint price of gold, and to prevent, therefore, the introduction of a proper supply of it into the Bank of England, as well as to draw out of its coffers, that coin which the directors of the Bank would wish to keep in them.' P. 200. \*

Although the whole of this long passage is professedly employed to explain in what manner an increase of paper produces an excess of the market price of gold above its mint price, a sufficient explanation of that fact is distinctly given in a single sentence of the fifth paragraph: Bullion, like all other commodities, becomes dear in proportion as the circulating medium, for which it is exchanged, is rendered cheap. No other account of the fact can be given; and no farther explanation will be required. Our author, however, has intermingled with this the statement of another very different fact; that fall of the foreign exchange, which might be expected to follow an excessive increase of our paper-money, and of which he seems to have formed an erroneous conception. The mistakes, which are involved in the preceding disquisition, appear to have arisen from his overlooking the distinction, of which, in other parts of the work, he is aware, between the bullion or general price of goods, and their local price in paper-currency. When the bullion price of our goods rises, that oscillation of the commercial balance, which Mr Thornton has imperfectly described, will certainly be produced, by the tendency of an unfavourable exchange to encourage exports, and by the reciprocal tendency of an increased exportation to restore the equilibrium of exchanges. But it is not the bullion price of goods, that is raised by an increase of

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\* In a subsequent passage, the doctrine is thus summed up—'Let the manner in which an extravagant issue of notes operates in producing the excess be recollected. It raises, and probably by slow degrees, the cost of British goods. It thus obstructs the export of them, unless a compensation for the high price is afforded to the foreign buyer, in the rate of exchange; and the variation in our exchange produces a low valuation of our coin, compared with that of bullion. The state of the exchange, then, is the immediate cause of the evil in question.' p. 242. The reader, who may wish to verify our criticisms by examining the original work, will find the same doctrine urged, pp. 271. & 281.

paper-money; which only occasions a rise in the *paper* or *currency* price, and occasions that sort of rise in the price of bullion as well as in that of all other commodities. The bullion price of these will remain, therefore, precisely the same; and although our goods acquire at home a nominal increase of value, they are not rendered dearer to the foreign merchant, who pays for them ultimately in that bullion which is the common measure of his currency and ours. In this point of view, the increase of paper money appears to have no effect on the balance of exports and imports. There can be no doubt, however, that it will, notwithstanding, have a considerable effect on the apparent course of exchange. By that increase, our currency sinks in its bullion value, and a given sum of it will no longer purchase the same quantity of bullion: but the foreign currency, which is not supposed to have undergone a change, preserves its own bullion value, and a given sum of that will still purchase the same quantity of bullion as before. The proportion, therefore, of the bullion value of our currency to the bullion value of foreign currency, is altered; and, in order to preserve the same apparent rate of exchange, there ought to be a corresponding alteration of the numerical tables in which that rate is expressed. As long as the ancient mode of computation remains still in use, the apparent or computed rate of exchange will be different from the real one; and, whatever may be the actual state of credit or debt, the exchange will always be calculated so much less in our favour, or so much more against us, in proportion to the depreciation which has taken place in the bullion value of our currency. Our general exchanges might thus appear unprosperous, at the very time that the balance of trade was greatly in our favour; and if the issue of paper continue to increase, the exchange would appear to become more and more unfavourable, although the balance of exports and imports had remained unaltered. The difference, therefore, between the two cases, which Mr Thornton appears to have confounded, is very distinct. When the local rise of the price of goods consists in an actual increase of their bullion price, a real fall of the foreign exchange will generally take place, and will *occasion*, by the demand for bullion to be exported, a fluctuating excess of the market price above the mint price of gold. But when an excessive issue of paper-money produces a nominal rise of prices, a nominal fall of the foreign exchange will always take place, and is a *consequence* of that steady excess of the market price of gold above its mint price, which originated immediately in the excessive issue of paper. The importance of the error, into which we imagine Mr Thornton to have fallen, will justify the length of these observations; to which we shall only add, that the operation of an excessive paper-currency,

rency, upon prices and upon the course of exchange, must be the same as that of a debasement of the coin, either by waste, or by the recent fraud of government\*.

5. We shall conclude this first part of our abstract with some criticisms on another passage, in which Mr Thornton has not given a very satisfactory confutation of a popular prejudice, which, however, prevails so much, that the real fallacy of it ought to be explained.

‘Some persons are of opinion, that when the custom of buying on credit is pushed very far, and a great quantity of individual dealings is in consequence carried on by persons having comparatively little property, the national commerce is to be considered as unsupported by a proper capital; and that a nation, under such circumstances, whatever may be its ostensible riches, exhibits the delusive appearance of wealth.

‘It must, however, be remembered, that the practice of buying on credit, in the internal commerce of the country, supposes the habit of selling on credit also to subsist; and to prevail, on the whole, in an exactly equal degree. In respect to the foreign trade of a country, the practice of dealing on credit indicates poverty or riches, in proportion as the credit generally taken is longer or shorter than the credit given. The custom which tradesmen have of selling to the consumers on credit, is also an indication of wealth in the commercial world: the traders must possess a surplus of wealth, either their own or borrowed, which bears an exact proportion to the amount of debts due to them by the consumers. Thus, that practice of trading on credit which prevails among us, so far as it subsists between trader and trader, is an indication neither of wealth nor of poverty in the mercantile body; so far as it respects our transactions with foreign countries, is an indication of extraordinary wealth belonging to the merchants of Great Britain; and so far as it respects the trade between the retailer and the consumer, implies a deficiency of wealth in the consumers, and a proportionate surplus of it among commercial men. The existing customs imply, that, on the whole, there is among our traders a great abundance of wealth.’ P. 18.

This passage has all the formality of analytical reasoning, but furnishes no answer to the objection which the author professes to obviate; for no inference, against that objection, can be derived from the distinctions which he has marshalled in such methodical order. Overlooking, in his attempt to dispel a popular error, the real misconception from which it proceeds, he has unwarily assumed another principle no less fallacious. The credit, which this country gives to foreigners, is unquestionably the consequence of accumulated capital; but we have no proof of the assertion, that the credits of our home trade are equalized; and we are quite unable to understand his inference, that the credit, which  
traders

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\* See the Wealth of Nations, II. p. 215.

traders allow to the consumers, implies in the latter a deficiency of wealth. But it is unnecessary to examine these positions more closely, because we have no doubt, that the balance of credits would be found, as a measure of national wealth, no less erroneous, and still more unmanageable, than that estimate of the precious metals which was long ago abandoned. At any rate, a more direct mode must be sought of correcting the very false opinion, that a nation, in which the system of commercial credit is established, 'exhibits only a delusive appearance of wealth.'

It is the operation of credit, not directly to augment the national capital, but to distribute it among those who undertake to employ it productively. The actual state of credit, therefore, does not indicate the amount of that capital, but the manner in which it is distributed. At different times, a part of the national capital may be intrusted in the hands of traders more or less qualified to employ it prudently, and in that respect it may occasionally be exposed to a less or greater degree of hazard. During a period of excessive confidence, therefore, instead of considering 'the national commerce as unsupported by a proper capital,' we are to consider a part of the national capital as injudiciously employed. The imprudent investiture of loans, however, is evidently a very different thing from the creation of fictitious capital. The latter cannot be effected by mercantile credit; and the former is an evil, which, though the system is occasionally liable to it, can never be of very long duration. That system is reared up, by the necessities of commerce, for the most effective employment of capital; and those necessities adjust it, with tolerable exactness, between the limits of enterprise and caution. Wherever it has long been established to a great extent, there cannot be a more unequivocal proof, both of the solidity of the national capital, and of the prudence as well as skill with which it is employed.

II. Such, unquestionably, must be the conviction of every person, who puts himself in possession of the information, that is contained in Mr Thornton's book, with respect to the present circumstances of our own country. It is upon this branch of the subject, that his communications are most satisfactory. The details might indeed have been rendered still more minute, without violating the consistency of his plan; but students of political philosophy will highly value the sketch, rude as it is, which he has drawn of our established system. While nothing can more immediately contribute, than the publicity of that system, in all its operations, to extend and strengthen the confidence on which it is solidly built; such dissected exhibitions of our commercial economy prepare, with necessary knowledge, those more active citizens who undertake the discussion of the national counsels.

counsels. And the speculative politician, in receiving the legitimate materials of his science, may applaud the diligence that secures, while the original is yet entire, a delineation of that structure, which, after the revolutions of trade, will be seen only in the records of history. We shall attempt no more than a superficial outline of the description that might be formed out of Mr Thornton's materials.

The Bank of England may be considered as the main-spring of that complicated mechanism, by which the commercial payments of this country are transacted; and by which that comparatively small sum of money, with which they are performed, is kept in perpetual and regular circulation. The subordinate parts of this machine consist of about 70 private banking houses in London, and about 386 banks dispersed over the country. By the joint operation of these various money-dealers, almost all large payments, founded on commercial bargains, are ultimately settled in London, with the money which issues from the Bank of England. This money consists, in ordinary times, partly of precious coin, partly of bank notes. From its large capital and extended issue of paper, that Bank indirectly supplies the whole kingdom with as much gold as is required for circulation. Its notes are issued in loans, granted either for the accommodation of the public treasury, or for that of merchants by discount of their bills; and in consequence of a common agreement among the bankers, no notes of any private house are current in London. All the large payments of that metropolis are, in this manner, effected by the paper of the Bank of England; and they are chiefly transacted by the private bankers, who, according to a conjectural estimate, make daily payments to the amount of four or five millions, and have probably in their hands a very large proportion of the whole of the notes circulating in the metropolis\*.

The commerce of London itself is immense, not only as a seat of populous and luxurious consumption, but as a station of manufactures, and an emporium of maritime trade. The number of payments, occasioned by such various transactions, is farther increased by the dividends which the national creditors receive on the great sum of our public debt. But in addition to all these payments, originating within the capital itself, bills are drawn upon London, and remittances are sent there to provide for them, from all quarters of the kingdom. Even foreign drafts, on account of merchants in the country, are, with scarcely any exceptions, made payable in London. And thus a great proportion of the pecuniary engagements, to which the whole commerce

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\* Pp. 60. 74. 154.

commerce of the kingdom gives birth, are ultimately settled there\*.

This transference of the country payments to London has, in some degree, subsisted for a long time; the practice, once begun, was likely, from its great advantages, to be gradually extended; and of late years it seems to have been reduced to a regular and very commodious system. It was much facilitated by the multiplication of country banks, during that period of high prosperity and confidence which immediately preceded the late war. The formation of these, all over the country, was actively encouraged by the private bankers of London; and indeed the existence of a great national bank, which, like that of England, must provide a constant reservoir of gold, naturally suggests the creation of smaller establishments. Upon the formation of such banks in the country, many traders of all descriptions, who had formerly maintained a direct correspondence with merchants in London, fell into the practice of transacting their business with the metropolis through the banker, in their own neighbourhood, with whom they kept their cash. On their account, he drew largely upon a banker in London, who agreed to execute the extensive country business he had thus acquired, at a much lower commission, than what had formerly been paid by the several country traders to their separate correspondents. The rate of commission was reduced, in consequence of the diminished trouble as well as risk: the labour of keeping accounts, writing letters, receiving and paying bills, was now transferred to one house, which had before been divided among many; and a new security was afforded to the transactions between the metropolis and the country, by the interposed credit of wealthy and respectable country banks †.

The establishment of such a system of banks, and the transference of ultimate payments to one particular place, are in the natural course of that progressive subdivision of labour, which extends itself over an opulent and industrious country. The receipt and payment of money, instead of being conducted at home, are transferred, by every trader, to his banker, who devises means both of abridging his own labour, and of economizing the use of money, especially of that costly part of it which consists of specie. By his skill and success in attaining these objects, he manages an important part of trade, at an expence far inferior to what the merchants themselves must have incurred, had they continued to conduct it separately by their own clerks. In proportion, likewise, as the amount and number of payments and receipts is augmented in one particular place, the business of pay-  
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\* P. 59.

† Pp. 60. 155. 160.

ing and receiving is more easily and cheaply transacted; the guineas or bank notes required, though more upon the whole, are fewer in proportion to the sums paid and received. So complete, accordingly, and so systematic is that economy in the use of notes, which long experience has introduced among the London bankers, that the present payments of that metropolis could scarcely be transacted, with due regularity, if the quantity of notes were to suffer any considerable diminution. In this, they are assisted by the fitness of bills of exchange and government securities to supply the place of bank notes: for the interest, that grows on such negotiable paper while it is detained, saves all the loss which the banker would undergo from the detention of coin or notes; and there is a certain sort and quantity of bills, on the conversion of which into money, he may rely almost as confidently as on the changing of a note into guineas, or of a guinea into silver. The ingenuity of these money-dealers, in sparing the circulating medium, is aptly illustrated by a custom which prevails among the city bankers. Each of them sends a clerk, at an appointed hour in the afternoon, to a room provided for their use. Each clerk there exchanges the drafts on other bankers received at his own house, for the drafts on his own house received at the houses of other bankers. The balances of the several bankers are transferred from one to another, in a manner which it is unnecessary to explain in detail, and the several balances are finally wound up by each clerk into one balance. The difference between the whole sum which each banker has to pay to all other city bankers, and the whole sum which he has to receive from all other city bankers, is, therefore, all that is discharged in bank notes or money; a difference, evidently, much less in its amount than that to which the several differences would be equal\*.

But the economised use of circulating medium is by no means the only collateral advantage that arises from this system of banks, connected in subordination to each other, with the great national Bank at their head. Although a very few of the country establishments have occasionally subjected themselves to the charge of encouraging rash speculation, the system, in its complex operation, has a real tendency to strengthen as well as to enlarge the basis of credit. Bankers possess, from their situation, very superior means of distinguishing the careful trader from the improvident. The bill transactions of the neighbourhood pass under their inspection; and by this information they are enabled to measure out confidence very nearly in a just proportion. In fact, it is considered as a regular branch of their professional experience,

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\* Pp. 28. 39. 55. *note*. 60. 75. 164.

ence, that they should appreciate the credit of the various traders within their district of circulation ; and this sort of practical sagacity they are understood to cultivate with great assiduity. It is said to be the general practice of banks to communicate such intelligence for their mutual advantage. Each of them endeavours to limit, not only the sum which any one trader shall obtain from themselves, but the total amount also, so far as they are able, of the sum which the same person shall borrow in different places. They endeavour, above all, to discourage bills of accommodation. While the transactions of country traders are thus surveyed by the banks of their respective districts, those of the country banks themselves are subject to the view of the London bankers, their correspondents ; and these, again, are in some degree controuled by the Bank of England, which restricts, according to its own discretion, the credit with which they are accommodated. A series of checks is thus maintained, which, though far from establishing a complete security against all injurious speculation, presents a powerful obstacle to its progress\*.

But the Bank of England retains another check, of a highly important nature, over the banks in the country. The issue of its own notes is restricted, in ordinary times, by the obligation to convert them into specie. The quantity of country paper, even during the present times, is limited by its accustomed convertibility into the notes of the Bank of England. This is the opinion of Mr Boyd † as well as of Mr Thornton ; but the latter has more minutely explained the manner, in which he conceives the effect to be produced. If a particular country banker is imprudent enough to issue an extraordinary quantity of paper, while that of the Bank of England does not exceed the demands of London circulation, a local rise of prices will be produced within the district of that country paper, but prices in London will remain as before. In this situation, the holders of country paper, in order that they may purchase goods where they are cheaper, will return that paper to the banker, demanding in return Bank of England notes, or at least bills upon London. The excess of his notes will thus be continually returned upon the country banker, and he will at length find himself under the necessity of limiting his issue to that quantity, which the circulation of his own district can absorb. The quantity of Bank of England paper may thus be said to regulate the quantity of that which is issued by the country banks. It is not, that one uniform ratio is maintained between these two quantities ; but that both are in the same proportion to the demand, that is created for

\* P. 165.

† Letter to Mr Pitt, p. 20. 2d edit.



for each, by the trade which it is destined to circulate. Whenever the Bank of England paper happens to exceed what is required for the purposes of London circulation, the country paper may become excessive in the same degree. And such an excess of Bank of England paper may be produced, either by a diminution in the number of payments, while that of notes remains undiminished; or by whatever has a tendency, while the number of payments remains unaugmented, to augment the number or the effective power of the notes in circulation\*.

Having taken this general survey of our system of credit and circulation in its ordinary state, while its movements are regular, we shall now direct our attention to the disorders of which it is occasionally susceptible, either from external accident, or from inherent defects. In consequence of the mutual connexion that subsists among its parts, and the subordination of all to the Bank of England, those disorders sometimes pervade the whole system, and embarrass the operations even of the great establishment at the head. It is of national importance, that that body should be ready to adopt, under the pressure of such circumstances, an enlightened and salutary policy.

How solidly soever the foundations of mercantile credit may be laid, both in public confidence, and in the real security of responsible funds, it is apt to be shaken by that consternation which is apt to spread, after a succession of commercial bankruptcies, or during the alarms of war. At such a period, it has been particularly found, that the notes of country banks, which chiefly circulate among consumers and petty dealers, have fallen into distrust with that large portion of the people. If one bank should fail, a run upon all those in the neighbourhood immediately takes place, and diffuses general distress. Such of the country bankers, as are most prudent, adopt a preventive caution, by limiting, of their own accord, the issue of their notes; and all of them are forced to enlarge that fund of cash, with which they may be prepared to answer demands. In consequence of these operations, an additional quantity of gold and of Bank of England notes must be carried down from London into the country, both to supply that void in the channel of circulation from which the discredited country notes have been thrown out, and to form that additional reserve which the bankers must keep in their coffers. But the money-dealers and traders of the capital will, in some degree, participate that consternation to which the whole country has given way; it will appear to them also a necessary precaution, that they should enlarge their

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\* P. 216, &c.

their fund against contingencies, and keep a larger supply of Bank of England notes than they find necessary in ordinary times. By these multiplied hoards, as well as by the quantity of cash sent into the country, the circulating money of the metropolis must suffer a very great diminution. But it was previously no more than sufficient to effect the necessary payments; and, on the punctual discharge of these, the whole commercial credit of the kingdom depends. Unless the Bank of England, therefore, which is the source of circulating medium, shall, in these circumstances, consent to enlarge its issue of paper, a general subversion and ruin of that credit may take place; but if it adopts such a measure seasonably, and in the proportion which the new demands of the circulation require, the mischief may cease, after a slight and temporary inconvenience. Beside this remedial policy, which can only be adopted after the evil has been felt to some extent, that body, in order to be prepared against such an event, ought to keep at all times in its treasury such an additional quantity of gold, as may be sufficient to meet this extraordinary demand, and to supply the place of those country notes that are liable to be extinguished. But although such appears to be the real policy of that institution, we can scarcely be surpris'd if it has not always very clearly understood it to be so, and has sometimes evinced a reluctance to pursue this line of conduct. The task of supplying gold to all the country banks, under the expence with which the collection of it is frequently attended, may be considered indeed as imposed upon the Bank of England by that monopoly, which compensates this hardship by other advantages. But to enlarge the issue of their paper, at the very time that their fund of gold is diminishing, is a measure, which would confessedly be imprudent in every inferior establishment, and which on that account the directors of the great Bank have not always perceived that they were warranted, by the peculiarity of their situation, to adopt, as the real means of checking the drain of their gold. Some of the circumstances, which distinguished the memorable year 1793, illustrate at once the soundness of the policy which is here described, and the very recent period at which the Bank still showed itself insufficiently aware of it. In the distress of that year, the Bank of England was unwilling to extend its aid to the country banks, or to augment the issue of its own paper. Several opulent houses, that applied for assistance, were refused discounts, because they did not offer London securities; but the important failures, which immediately ensued, proved that the relief of the country was necessary to the solvency of the metropolis. The pressure originated in an extraordinary demand for guineas, in the country; but the want of bank notes in London soon became the principal evil. The notes, previously

in circulation, were not below the usual number; but that was rendered, by a slower circulation, insufficient for the necessary payments. As the Bank of England did not think proper to enlarge the quantity of its paper, a remedy of exactly the same kind was administered by Parliament. A loan of Exchequer bills was directed to be made to as many mercantile persons, giving proper security, as should apply; and it is a most interesting fact, that credit began to recover itself some time before those bills were actually delivered. The very expectation of this supply of an article, which almost any trader might obtain, and then convert into bank notes and guineas, diffused an idea of general solvency. The punctuality of the London payments being restored, the distress of the whole country was gradually removed. Of the five millions, which the Exchequer had been authorized by Parliament to advance, not one half was taken, and no part was lost; on the contrary, a profit resulted to Government, from the small compensation of additional interest, which was paid by the borrowers. This seasonable measure was not understood at the time, and was opposed on some grounds of constitutional jealousy; but the result of its operation has cast a steady light on our actual system of circulation, and on the true policy of the national Bank. In future seasons of alarm, it may reasonably be expected, that the directors of that body will prove less timid; as it is to be hoped, that experience has taught the country banks to enlarge their usual provision of convertible funds\*.

The most serious danger, to which the Bank of England itself is exposed, is that of being drained of its specie. It may be subjected to such a drain, as is intimated in the preceding observations, in consequence of that alarm which occasions a great demand for guineas, either to be hoarded, or to supply the place of paper thrown out of circulation. Indeed, if the alarm is of long continuance, and the Bank maintains in circulation no more than its usual quantity of notes, it may be altogether exhausted of its guineas, however small that quantity of notes may be; because if these are always re-issued in loans upon the discount of bills, they may be perpetually returned upon the Bank in demand for more specie. Let the alarm be great enough, and of sufficient duration; and the Bank, by maintaining only a million of notes in circulation, may, by the continual return of these, be exhausted of fifty millions of guineas. But, in general, a more permanent cause of a run upon the Bank of England for specie is the excess of the market price of gold above its mint price. In former times, this was occasioned by the debased state of gold currency; and the Bank was obliged to submit to the accumulated and provoking expence of coining

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\* Pp. 49. 71—96. 172—187.

new guineas, which were immediately melted down, that the bullion might be sold to the Bank itself at the high market price. Since the gold currency was reformed, a temporary excess of the market price of gold above its mint price has been produced by a temporary disadvantage in the balance of foreign trade; that having been occasioned sometimes by the large importations of grain after a deficient harvest, and more frequently by unproductive exportations, to defray the expences of war, or the subsidies to foreign allies. In whatever manner the high price of gold is produced, immediate demands are made upon the Bank for guineas, in order to export them. These it endeavours to replace, though gold cannot be purchased without a considerable loss. A most unequal competition will thus be established, between the Bank, on the one hand, which buys and coins at a great loss, and the clandestine dealers, on the other hand, who melt and sell at a great profit. It will no longer be necessary for the latter to export more gold, than what is above the immediate demand of the Bank: the operation will now be confined to London; the melters and coiners living upon the same spot, and affording constant employment to each other. If the unfavourable balance of trade, which has caused this high price of bullion, were not of a temporary nature, the Bank of England, by this continued accumulation of unproductive expence, might ultimately be reduced to very great distress. And if an unfavourable balance, originating in the expences of foreign warfare or alliance, should at any time be loaded with additional payments of a larger importation of grain, while the embarrassments of the national Bank were still farther aggravated by domestic alarm, and a general disorder of mercantile credit; under such a combination of inauspicious circumstances, the usual means of prudence and the rules of ordinary policy might be expected to fail, and necessity would be left to justify those desperate measures which it might suggest\*.

But this excess of the market price of gold above its mint price may likewise be produced, as we formerly explained, by too great a quantity of paper-money. The Bank indeed, as it has also been shewn, has the power of restricting the country paper, by limiting its own notes to those which are actually needed for the purposes of circulation. It has, therefore, the power, in a great degree, of preventing that high price of gold, and the consequent drain of its own guineas, which proceed from an excessive circulation of paper. So long as the Bank is liable to payments in specie, it has thus an evident interest to prevent its own paper, as well as that of the whole country, from being so excessive as to occasion a rise in the price of commodities. To understand this clearly,

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\* Pp. 92. 115—153.

clearly, and to attend carefully to its operation, forms a very important branch of the policy of the Bank of England. As its notes are issued in loans to the merchants, it can only limit the extent of that issue, by restricting the amount of the loans. Hence it appears, that the bank ought to regulate the total amount of its loans, with a view to the quantity of circulating medium, independent altogether of the solvency and opulence of those who wish to become borrowers, and of the character of the bills that are offered for discount. There may be a disposition among very rich traders to borrow a sum far exceeding what it would be proper for the Bank to lend, although it entertained no doubt of punctual repayment. But, by the laws that confine the rate of interest, and which still remain in force after every competent judge has been long convinced of their uselessness and inconvenience, the Bank of England is deprived of the most natural and simple means of restricting the amount of its loans. It is prohibited, even in time of war, from demanding an interest of more than five *per cent.* which is the rate at which it discounts during peace. This has generally been found sufficient, during peace, to limit the demand upon the Bank for loans; because mercantile profits are then low, from the abundance of capital, and the activity of competition. The applications for discounts have often, during such a period, fallen short of what the Bank was really disposed to afford. But, in time of war, the rate of mercantile profit, from the scarcity of capital, is extremely high. There is an irresistible temptation, therefore, to borrow from the Bank at a cheap rate, that the great profits may be gained upon a commercial employment of the money. Accordingly, in time of war, and especially during the last years of it, the Directors have often been subjected to very earnest and clamorous solicitations for discount. Were they permitted to raise their rate of interest, it would follow that of mercantile profit, and the demand upon the Bank for loans, would at all times be accompanied by an effectual principle of limitation. But under the existing prohibitions of law, the Directors are forced to have recourse to the expedient of specifying, according to their discretion, the total sum which they will at any one time venture to lend to the merchants. According to a recent determination of their court, this sum is specified weekly, in order that they may have a frequent opportunity of varying it according to the fluctuation of circumstances\*.

To limit the total amount of paper issued, and to resort, whenever the temptation of borrowing is strong, to some effectual principle of restriction; never to diminish greatly the sum in circulation, but to let it vibrate only within certain limits: to afford

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\* Pp. 147. 246. 283.

a slow and cautious extension of it as the general trade of the country is enlarged; and to permit a temporary increase during an extraordinary period of difficulty or alarm: this, in the language of Mr Thornton, is the true policy of the directors of an institution, placed in the circumstances of the Bank of England\*.

We have thus collected, from various passages of Mr Thornton's discourse, the general lineaments of that system of credit and circulation, which is at present established; refraining from the insertion of any criticisms that might have interrupted the description. Some parts of his account are not sufficiently dilated, to convey precise information; and others, in which some reasoning is implicated with the statements of fact, cannot be admitted without hesitation. But we are not confident enough in our knowledge of the subject, to enter into these minute corrections. One general remark, however, which was strongly impressed upon ourselves by the facts of the preceding narrative, we cannot forbear to express, although it does not lie within the scope of Mr Thornton's discussions. If the Bank of England must not be considered as a national establishment, not merely influencing, by the superior magnitude of its capital, the state of commercial circulation, but guiding its movements according to views of public policy, an important revolution has taken place since the first erection of that corporation as a banking establishment. That power of issuing the medium of exchange, with the opportunities it implies of varying its quantity and value, which, while precious coin was in use, was exercised under the immediate prerogative of the Crown, is now virtually invested in the Governor and Directors of the Bank of England. In the official character of that Board, some of the functions of sovereignty are united to those of a trader; and the opportunities of banking profits are blended with a trust and charge of the public interest. It will be pleasing, if these shall prove more happily compatible, than they have been found in other instances. The organization of this establishment, possessed of such means to controul the operations of commerce, as well as to facilitate the advance of financial supplies, may, into our political constitution already so complicated, introduce a new principle of action, the effect of which cannot be clearly discerned. Perhaps, an unbounded field will be opened for the extension of ministerial influence. Perhaps, an unexpected controul may be gained to the people, over the views and measures of the executive.

III. In the foregoing view of the dangers to which the Bank is occasionally exposed, our readers must have already perceived the

the account which Mr Thornton gives of the embarrassments, that led to the memorable order of Council in February 1797. The suspension of cash payments was an event, in his opinion, to which the national Bank was liable from its very nature; the probability of which has been too studiously concealed; and to the recurrence of which we may look forward \*. The gold, in the coffers of the Bank, had been much reduced by the effect of an unfavourable balance of trade. The alarms of invasion had led to the failure of some country banks in the North of England; this occasioned a farther demand for guineas from the Bank, and a diminution in the circulating notes of London. The Directors aggravated the distress, and augmented the demand for guineas, by unadvisedly suppressing some of their notes, instead of enlarging the quantity †.

We cannot entertain a doubt, that these were the principal causes of embarrassment; but that other circumstances at the same time co-operated, which Mr Thornton has rather too anxiously avoided to mention. Under the unfavourable balance of trade, which he notices by this general expression, we must include the effect of foreign subsidies. And we suspect that that diminution in the quantity of notes, which the merchants could command, was not altogether owing to an ignorance, on the part of the Directors, of the proper remedy for the existing evil. Mr Thornton indeed employs several elaborate pages ‡, to relieve the Bank from every degree of blame, on account of its loans to Government. But this appears quite ineffectual against the evidence, which was laid before Parliament, of the sentiments which the Directors themselves entertained. In various resolutions of their Court, and in letters to the Chancellor of the Exchequer, they stated the serious apprehensions, as well as the actual embarrassment, which they felt from their unprecedented advances on Treasury bills; and in their memorial to the Cabinet, they described it as an unconstitutional mode of raising money, to which they were not warranted by their charter to consent. After this, it is vain for any advocate of the Bank now to maintain, that those loans were altogether free from imprudence or culpability. At the same time we are ready to acknowledge, what was not very distinctly perceived in the first discussions of this event, that the loans to Government had no *direct* tendency to produce the particular distress, which was relieved by the restriction of payments. That consisted, unquestionably, in the progressive drain of specie; which those loans neither occasioned nor increased, because they were paid into the Exchequer in notes. This run upon the Bank for specie, was chiefly occasioned by the deficient quantity of money in circulation; which

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\* Pp. 146. 247.

† Pp. 72. 95.

‡ Pp. 96—111.

the advances to Government, in their direct operation, rather contributed to repair, because the notes were of course issued from the Exchequer almost immediately into the market. But at the same time it must be remarked, though Mr Thornton seems studiously to have kept this out of view, that, by their indirect and unavoidable operation, these loans of the Bank to Government contributed to aggravate that distress of the circulation, which was mainly produced by other causes. For some time prior to the suspension of payments, the Bank of England had limited its discount of commercial paper. To this hurtful measure it was undoubtedly obliged to have recourse, in consequence of having granted a much greater accommodation to Government than it was warranted to give, which imposed the prudential necessity of giving less accommodation to the merchants than it had been accustomed to afford. Such a diminution of discounts could not occur at any period, without producing a certain degree of mercantile distress, both by the disappointment of payments actually promised, and by interrupting the usual course of pecuniary arrangements. But at that particular juncture, a great distress already subsisted, which the conduct of the Bank towards the merchants had a necessary tendency to aggravate. A similar diminution of the Bank discounts, by narrowing the facilities of credit, would at any time render the existing quantity of circulating medium less adequate, than before, to the necessities of the market. At that particular juncture, money was already deficient, from the operation of other causes; and became still more inadequate to its necessary purposes, when a restriction of credit took place, which both rendered a greater quantity of money requisite to drive the same trade, and retarded the circulation of that already in the market. While we agree with Mr Thornton, therefore, that the loans to Government could not tend to diminish the sum of notes in circulation; we must contend against him, that they did tend to distress the circulation, by rendering that sum of notes less adequate to the wants of commerce, than if they had flowed into the market through the usual channel of discounts. He asserts, on the contrary, that 'it is the total quantity of circulating notes, and not the manner in which they come into circulation, that is the material point:' but nothing can be more unsatisfactory and cumbrous, than the illustrations by which he labours to expound this very fallacious position. It is indeed inconsistent with the fundamental principles, which are elucidated by all the reasonings and tenor of his book.

The suspension of payments in specie was properly continued, according to Mr Thornton, from the permanence of those circumstances which rendered it originally necessary: an unfavourable exchange,



exchange, produced partly by our heavy expenditures, but chiefly aggravated by vast importations of corn ; and the prevalence, till the eve of peace, of alarms about hostile invasions \*. It is not altogether superfluous to remark, that the restriction of payments, until after the cessation of hostilities, was provided for by law, long before those deficient harvests had been felt, to which so great a portion of this necessity is ascribed. And the continuance of the suspension was officially justified in Parliament, upon the alleged, but not very intelligible, ground of resisting certain designs of the enemy to ruin our public credit. The whole circumstances of the measure, both in the first event, and in its subsequent renewal in the arguments that were publicly urged to prove its necessity, and in the explanation which Mr Thornton has given of its nature, conspire to prove that it originated in the direct consequences of the war itself ; although this view of the subject was most earnestly discountenanced at the time.

IV. In the first part of our abstract, we explained Mr Thornton's opinion, that an extravagant issue of paper will raise the price of commodities, and depreciate the currency in its bullion value. He has therefore admitted the general principles, from which Mr Boyd and others have inferred that the Bank of England has, within the last few years, issued an excessive quantity of paper. Against the validity of that inference, however, he contends that, in point of fact, the Bank of England has not extended the number of its notes, since the suspension of its cash payments ; and that the rise of prices and depreciation of currency, from which that enlargement has been presumed, may arise from other causes. Among such causes, he mentions the necessary influence of war, of accumulated taxes, and of a scarcity continued for two years, in raising the price of all commodities ; and the effect of an immense importation of corn in turning the exchange against us, and thus raising the market price of gold. That all of these circumstances have co-operated in raising prices, we have no doubt ; but we are by no means satisfied that they are adequate to explain the whole effect. War, it must be observed, and taxes, and a scarcity of provisions in its direct operation, increase the real or bullion price of goods, and have no tendency to produce an excess of the market above the mint price of gold. The importation of grain, by turning the balance of trade against us, does tend to produce that excess ; but the excess, which we have lately witnessed, has been perhaps both too great and too permanent to be explained wholly in this manner. We doubt extremely, if it could have been produced without that depreciation of our currency, which originates in excessive quantity.

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Mr

\* P. 134.

Mr Thornton, however, has endeavoured to show \*, that the circulating paper of the Bank of England does not in fact amount now to a greater sum than upon an average of years, was in circulation before the suspension of cash payments. Upon an average of three years, ending in December 1795, their amount, according to the evidence laid before Parliament, was 11,975,573*l*. By a subsequent statement presented to the House of Commons, they amounted, in December 1800, to 15,450,970*l*. From the difference between these two sums, however, Mr Thornton insists that we ought to deduct the amount of two millions, consisting of one and two pound notes, which have displaced, he alleges, in the circulation, an equal sum of guineas. After this deduction, there still remains the sum of 1,475,397*l*. by which the Bank paper exceeded, in 1800, its average amount before the suspension of cash payments. But in the spring of 1801, the Governor of the Bank stated to the House of Commons, that the Company had reduced its notes to a sum less, by about a million and a half, than their amount in the preceding December. Whether this evidence, under all the assumptions which it involves, may be considered as completely satisfactory, in opposition to the presumptions that are warranted by the general argument, we shall not venture to pronounce. We may suggest, however, to our readers, the propriety of adding to the foregoing statement a fact, of which we are apprised by Mr Thornton †, that the enumeration of *country banks* taken in 1800, differed from that taken in 1797, by the excess of 386 above 353. And to those who recollect that Mr Boyd's pamphlet was published on 31st December 1800, it will not fail to occur as a circumstance, which that gentleman might plausibly urge as a confirmation of his reasonings, that in the course of the three months immediatly ensuing, the Bank thought it expedient to call in a million and a half of its notes.

We have expressed ourselves with unaffected doubt, with regard to this alleged dependence of the present rate of prices on the present state of paper currency, because it appears to us a problem, of which a satisfactory solution has not yet been offered. According to that view of the question, indeed, which seems to us the most correct, as well as the most simple, a sufficient answer will be assigned, if the excess of the market price of gold above its mint price shall be found to continue, notwithstanding the permanent restoration of the balance of trade to its accustomed preponderancy in our favour. In the mean time, we should be glad to see the fact itself, of which the origin and cause are thus anxiously sought, perspicuously stated under its most necessary distinctions and limitations. It may perhaps be in

\* P. 225.

† P. 155.

in the power of those, who have paid attention to such minute but valuable details, to date the first appearances of this recent increase of prices, and to trace its progressive diffusion over all the relations of internal exchange. In such a statement, it would be necessary, likewise, to specify in what proportion this rise is locally confined to our own island, or common to us with the Continent of Europe; and to distinguish in what proportion that local rise consists of a real increase in the bullion price, and of a nominal increase only in the currency price.

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ART. XXVI. *Illustrations of the Huttonian Theory of the Earth.* By John Playfair, F. R. S. Edinburgh, and Professor of Mathematics in the University of Edinburgh. 8vo. Edinburgh. 1802. 528 pp.

NO species of physical research, perhaps, is involved in greater intricacy, or productive of greater ambiguity of deduction, than that which respects the constitution and history of our globe. So boundless is the number, and so diversified is the nature, of the facts necessary to the prosecution of such an inquiry; and to so short a distance are we yet removed from the period when mineralogical phenomena first derived explication from chemistry, that attempts to form a theory of the earth may be considered rather as exercises for fanciful and speculative minds, than of sources of improvement to useful science. It cannot be denied, however, that observations accumulate but slowly when unassisted by the influence of system. The observer never proceeds with more ardour than when he theorizes; and every effort to verify or disprove particular speculations, necessarily leads to the evolution of new facts, and to the extension of the limits of real knowledge. Hence, it seems to be the business of philosophy, rather to point out the imperfections, to detect the errors, to restrain the presumptuousness of the theorist, than to extinguish altogether a spirit, which, however incomplete and insufficient, may be the materials on which it has to work, must at least facilitate generalization, and render the approach to truth less tedious.

The Huttonian theory of the earth, which it is the object of the volume before us to explain and support, is not referable to either of those classes into which geological treatises have been commonly divided. Its author cannot be considered either as a *Vulcanist* purely, or a *Neptunist*, since he has asserted the agency both of fire and water, in his system. That system supposes the materials which compose our globe to have once existed in an elementary or unmixed state, and to have acquired their present arrangement in consequence of the continued action of water on former