which, at smaller premiums than the Government system required, granted insurances and annuities on a small scale.

Mr. LITTLEDALE said that, from his official connexion with the Registrar-General of Friendly Societies in Ireland, he felt a great interest in the paper. It was true that but a fourth of these societies were registered. The present Registrar had endeavoured as much as possible to impress on them the judiciousness of abstaining from the injurious system of dividing the funds at Christmas, and in some instances had succeeded in abolishing it.

Dr HANCOCK thought that where Friendly Societies had failed was in attempting to do more than they could. They were very useful for temporary purposes, and for bringing men together to take an interest in each other's affairs; but they were totally inadequate to provide funds for old age, which required a long trusteeship, and could only be done by such an institution as the Government of the country. The people of this country had not availed themselves of the Post Office Savings Bank system to anything like the extent that the people of England had. Great numbers still cling to the charitable Savings' Bank system. This was the reason, perhaps, why the addition of the life insurance and annuities department had not been made to the Post Office savings' bank system in Ireland; but he was sure that it was only to be asked for in order to be obtained.

Mr. ALEXANDER KENNEDY concurred in the views of Dr. Hancock.

The CHAIRMAN (Mr. HAUGHTON, V. P.) said that Mr. Mowatt had pointed out the great defect in the old system, when he spoke of the difficulties caused by the necessity for obtaining administration in order to get money due to a deceased person.

V.—*Banking considered with special reference to a strictly limited issue of Government Paper Money.* By David Ross, LL.B.

[Read Tuesday, 22nd May, 1866.]

I PROPOSE to bring under your consideration the subject of Banking with special reference to a strictly limited issue of Government Paper Money.

Since I gave to the Council of our Society the title of my paper, an unusual interest has been given to the regulation of our present monetary system, by the suspension of the Bank Charter Act now for the third time since its enactment in 1844. Both on this account, and because the recommendation I shall take leave to support before you depends in one respect for its acceptance on the soundness of the principles of the Bank Charter Act, I shall notice the nature of banking operations and the general principles of currency and banking, so far as their discussion is necessary to an intelligent knowledge of the provisions of the Bank Charter Act, and then briefly state why, in my opinion, a change should, in the interest of the public, be sooner or later made in the regulations which now permit the profits of issuing paper currency in this country to go amongst certain existing banks.

The general stock of any society may be divided; First, into that which is reserved for immediate consumption, affording no revenue to the owner; Secondly, into fixed capital, which affords a revenue or profit without changing owners, and which comprises such machines and instruments of trade as facilitate and abridge labour, buildings, improvements of land, and the acquired and useful abilities of the members of the society; and, Thirdly, into circulating capital, which in order to afford a profit must change owners, and under which are included provisions, materials, finished work, and also the MONEY that is necessary to circulate them among those who are finally to use them. That I may be intelligible in my future remarks to any who have not given much of their attention to subjects of the kind I am now treating of, I shall digress a little to explain the nature of the last portion of the capital of every community, namely *money*.

In the early ages of society man made but few exchanges with his fellows. Each person satisfied his occasional wants himself as they arose. But, gifted as man is with the faculty of observing what is most conducive to his material interests, he soon perceived the advantages attendant on confining his efforts to the production of a single commodity, and exchanging the surplus of this commodity beyond his own requirements for the result of the labour of other persons who were engaged in producing commodities of a different kind. This gradually led, as capital increased, to the general division of labour, and consequently to the general introduction of exchanges. At the very outset, however, an obstacle arose in the great majority of exchanges to each getting what he required from the other. Let us take the cases of a shoemaker and a baker. The former might want bread, but the latter might not want shoes. Further, the shoemaker might want only a single loaf, and yet his shoes might be worth several. In other words, whenever men's wants were not reciprocal, or were not co-extensive, a difficulty was in the way of their exchanging their respective commodities. To obviate this, all nations have made choice of some definite commodity which every one would be willing to receive for his own commodity, as a general medium of exchange; and the commodity so chosen, whether the skins of animals, as among the hunting tribes of Northern Asia and America, or salt, as in Abyssinia, or gold and silver, as in Europe, is *money*. Indeed in all civilized countries gold and silver have been chosen as media of exchange. This choice has been determined by various qualities existing in the precious metals—they are desirable by man in every social condition, they are portable, durable, admit of division and composition without loss, and their quality is uniform and unaltered by time or exposure. Above all they are distinguished for their general steadiness in value. These qualities render either of these metals pre-eminently fitted to be a medium of exchange, as well as a measure of value. It is necessary to guard against the common error of supposing that "money" is merely the representative of value. This opinion is readily formed by regarding *paper currency* as money. Money, properly so called, is not only the representative and common measure of other commodities—it is also their common and universal *equivalent.* It is of the essence of money to possess *intrinsic* value. It will thus be manifest that money is so much of the real wealth of any country.

As long, however, as this article of wealth called money is employed as money, it yields nothing *directly* to the revenue of the society. And although *indirectly* it affords the greatest benefits by enabling the several classes of society to direct their whole attention to a particular employment (in other words to carry into effect the division of labour), and so to render their efforts as productive as possible, yet if by any means a portion of this unproductive capital, which is expensive not only to procure but also to maintain, can be dispensed with, the prosperity of any community is thereby increased.

By banking we are enabled to dispense with no inconsiderable amount of money (*i. e.* gold coin) and to apply it as capital to purposes of production. Banking does so in two ways, by increasing the rapidity of the circulation of money, and by enabling us to dispense with a portion of it altogether.

Banks are of two kinds. Banks of issue, and banks of deposit and discount. Though banks of deposit and discount are generally banks of issue, and *vice versa*, yet the business of each is perfectly distinct. A bank of issue is a bank which, besides (if it be also a bank of deposit) employing the money entrusted to it by others, issues paper payable on demand. A bank of deposit and discount is a bank for the custody and employment of money intrusted to its care by its customers or by the public.

Even if the currency were wholly metallic, and if a bank of deposit and discount were the only bank in a country, its institution would greatly economise the currency. When a bank of deposit has been established, those who do business with it make deposits of the money, which they would otherwise have been obliged to keep lying idle in their tills or in their private houses to meet current demands With dealers of all kinds there are intervals between their purchases, during which, if their money was unemployed, it would be of no use either to themselves or others; so is it with landlords, professional persons, and the farming classes. By depositing in a bank these otherwise idle and unemployed funds, the means are afforded to the bank of making loans to those desiring to use them productively. Bankers find by experience how much money it is necessary for them to keep in reserve to meet the cheques of their depositors, (generally, I understand, one-third of the amount of the deposits) and the difference between this reserve and the full amount of the class of deposits above alluded to is so much money or capital set free to be applied to the productive interests of the country. As you are aware, the advance of every country in the effective productiveness of its labour will be proportionate to the extent to which labour is assisted by the use of machinery and to which the division of labour is carried; and as the use of machinery and the division of labour greatly depend on the amount of capital in a country, it will readily be perceived how every improvement in economising the use of money must tend to increase the wealth of any society. The community is therefore benefited, while at the same time the interest derived from the investment of the money set free, constitutes one important source of the banker's profits. It is not from the private funds of the banker who receives deposits simply that he makes his profits *as banker*. It is only when he can venture to employ part of the capital of others deposited with him, that in his capacity of banker he makes money.

Traders in money or bankers become generally known as persons of wealth and solvency, and taking advantage of this, they commonly issue promises to pay certain definite sums of gold or silver, and these promissory notes come to be received on confidence by all classes, passing current as money and constituting what is called PAPER CURRENCY. Banks which issue such notes are called banks of issue. Let us consider how and to what extent such banks benefit a country, and within what limits they can properly issue notes.

If a country require £50,000,000 of metallic currency to circulate its produce, the loss from wear and tear of coin and from shipwreck, &c., may be calculated at half a million per annum. If to this we add the interest of £50,000,000 at five per cent, the cost of supporting this currency will be £3,000,000 sterling per annum. But besides this actual loss there is also the inconvenience attending the making of payments of large sums, especially at distant places.

Considering the cost, inconvenience, and cumbrousness of a metallic currency, it will be manifestly advantageous if all these objections to it can be removed. To a certain extent they can be avoided. If a banker of perfectly good credit issue a certain amount of notes they will as has been said, pass current for money. It might be supposed that a sum of money equal to the amount of notes must be retained in the coffers of the bank, to enable him to pay his notes on demand. It is, however, found that such is not practically the fact, but that a certain portion, (which is determined by experience), will be sufficent to retire all the notes presented for payment in ordinary circumstances. The remainder the banker will be able to lend out as productive capital, and to such extent he benefits the country. For, as I have before stated, the money of a country is wholly unproductive *directly*, but when it is set free it is so much capital, or "accumulated commodities," ready to be applied to some trade or business that will yield a profit.

It may be well here to explain the mode in which bank notes take the place of a metallic currency. Suppose that in any particular country, say England, £50,000,000 of metallic currency is requisite to circulate its produce. Let it be further supposed that an issue of paper notes to the same amount is made, which, from the solvent character of the issuer, is sure to pass current for money. The money (or rather the currency) is thus doubled in amount, while the goods to be exchanged for it of course are not.

As in the case of an abundant harvest the value (or price) of wheat falls, owing to the comparative excess of this article of wealth, so when the amount of the currency of a country is excessive, its value also falls, which is another way of saying that prices rise.

Increased prices have a two-fold effect in England in the case I have supposed—first, prices ranging higher there than abroad, exportation will be restricted or annihilated, for merchants do not seek the cheaper market, secondly, importation will be increased, since an enormous fortune may be the prize of a rapid transfer of commodities from the cheaper foreign, to the dearer home market.

Any of you who are acquainted with the principles of foreign trade know that in the case supposed, what is called *the balance of trade* would be against England, and to discharge this balance remittances of money would be made: for it is hardly necessary to say that if a country's imports in any year are worth £100,000,000, while her exports are only worth £50,000,000, the remaining £50,000,000, must be paid for in money.

There being then £50,000,000 of paper currency and an equal amount of metallic currency in circulation to discharge the supposed balance, the paper currency will not be exported, because it would not be readily received in common payments at a distance from the place of issue. No bullion will, in the case supposed, be retained in England.

In return for the bullion sent abroad, the English will get articles of wealth which they can make use of. The whole fund for the sustenance of the people or the maintenance of industry will be increased by the amount of the unproductive metallic currency displaced, and a yearly saving will accrue of the amount necessary to supply the wear and tear of the metallic currency.

At the same time it must be confessed that the cheap and commodious medium of exchange is not so secure as one possessing intrinsic value. "The judicious operations of banking," says Adam Smith, "by substituting paper in the room of a great part of this gold "or silver, enable the country to convert a great part of this dead "stock into active and productive stock; into stock which produces "something to the country. The gold and silver money which circu-"lates in any country may very properly be compared to a highway, "which, while it circulates and carries to market all the grass and "corn of the country, produces itself not a single pile of either. The "judicious operations of banking, by providing, if I may be allowed "so violent a metaphor, a sort of waggon-way through the air, enables "the country to convert, as it were, a great part of its highways "into good pastures and corn fields, and thereby to increase very "considerably the produce of its land and labour. The commerce "and industry of the country, however, it must be acknowledged, "though they may be somewhat augmented, cannot be altogether so "secure when they are thus, as it were, suspended on the Dædalian "wings of paper money, as when they travel about on the solid "ground of gold and silver." He mentions the unskilfulness of the issuers of notes, and the chance of confusion in a time of war or invasion, as objections which may be made to a non-metallic currency. By means of a properly regulated mixed currency the advantages of a paper currency can be largely secured, while the dangers incident to it are avoided.

Here the all-important question arises, what is the portion of the currency that can safely be issued without a corresponding amount in the coffers of the bank in coin? I answer, that this sum must be less than the smallest amount to which, *as shown by experience*, the value of bank notes held by the public at any time may sink.

It is necessary to state that a paper currency should conform in its value exactly to that of the commodity or money which it purports to represent. How can this be secured? All past experience conspires to prove that convertibility into gold or silver, on demand of the holder, is an essential condition to it. The suspension of this condition led, after the passing of the Bank Restriction Act, to very great confusion and loss both to the country and to individuals, and similar legislation in the United States has produced the same results. When this condition is absent the bank has a direct interest to increase its issues as much as possible. Should it be tempted to increase them beyond the amount necessary to displace the whole currency of gold and silver, the value of the currency must fall; for it must be kept in mind that an excess of paper currency differs from an excess of metallic currency in this, that it cannot right itself by exportation. There is no limit to the depreciation of inconvertible paper if it be issued in excess.

Should the condition of convertibility be insisted on, there will be one very effective check on the issues of the bank. When any part of a currency is depreciated, all parts of that currency will be equally so, and, if the bank, by its excessive issues, have lowered the value of the currency estimated in all commodities, it will have equally lowered it in gold and silver as commodities. For example, if the Bank of England by excessive issues have caused the currency to be depreciated, while at the same time it is compelled to pay the holders of its notes on demand, it will be compelled to buy gold at a loss and there will be every motive to induce the holders of the notes to apply for gold to be melted down either for exportation, or for sale to the bank at a premium. In 1810 the market price of a pound weight of gold was £56 sterling, and only for the operation of the Bank Restriction Act the Bank of England would have been compelled to buy it at this rate, and give a pound weight of coined gold to any holder of its notes to the amount of £46 14s. 6d. sterling. The difference between this sum and £56 would have been a premium on the melting down of gold and a clear loss to the bank.

The consequences of the Bank Restriction Act should be a warning to our trusting unconditionally the issues of our currency to private issuers. How can we but expect that they will issue in excess and so avail themselves of the opportunity to amass wealth, when by filling up a few scraps of paper they can create money or its representative, and be free from all demand for the amount of the standard which it purports to represent?

The condition of convertibility is not alone sufficient to render a paper currency perfect. It must fluctuate in amount as a purely metallic currency would have done. As long, however, as a number of different issuers are allowed to issue notes to any extent, it is impossible that such can be the case. Bankers are like other men, and are subject to be affected by the same causes that raise the spirit of speculation in their customers. In prosperous times, when the markets are buoyant and trade brisk, they are naturally willing to discount all the bills they can. Even when the exchanges become adverse, and when consequently each should narrow his issues, every particular banker thinks that all he can do in this respect is very trifling in its effect, and that while doing hardly any perceptible good he may, by restricting his issues, only afford an opening for his rivals to gain a customer, which they will probably be very willing to do. When, however, the drain for gold sets in rapidly, the fear of not being able to retire his notes forces him to limit the amount of his accommodation as extensively as possible. He has made his profits, and having, by the freedom of his issues, tended to foster the spirit of speculation, if he can manage to withdraw before the crash comes, others are the sufferers. Those that depended on him for assistance and made engagements when prices were high and money plenty or easily obtainable, cannot now fulfil them; goods on hands cannot be sold; and wide spread distrust and bankruptcy ensue.

The consequence of over-issue, and the reckless advances and repeated failures of several bankers, led, on the renewal of the Bank Charter Act in 1844, to a considerable interference, on the part of the Government, with the issue department of the bank. Before noticing the nature of the measure then adopted, let me notice the objection to Government interference in this matter. It is said, "Why " should there not be free trade in currency as well as in anything " else? Why should not any one that wishes be allowed to issue, if " he can find people that are willing to accept, his promissory " notes?"

In reply to these questions, I have to say that as far as buying and selling *money* (understanding by this term the circulating medium having intrinsic value) there is perfect freedom of trade now. Formerly governments have attempted to interfere with this, but their attempts have always failed. It is an entirely different question, however, whether a *currency*, the availability of which depends on the sanction of the law, should also be made free, that is, that every one should have the power of issuing paper, calling it worth so many sovereigns. It may be said that every one should not be allowed to do so, but only bankers. It makes no real difference that a man should be a banker as far as regards the community, except that by throwing impediments in the way of issuers of money, the operation is confined to a smaller number.

It is certainly no unworthy function of a government to provide security for its citizens against fraud, to enable them securely and with facility to exercise every act that is conducive to the welfare of the community.

This principle will justify government interference in issuing currency. It will not be disputed that buying and selling with freedom and facility are a legitimate exercise of free action, one too that is most beneficial to the community, and so deserving of the protection of the government. It is essential to this freedom and facility that there be some medium of exchange, *constant in value*, by reference to which the price of any article can be at once determined. But if a pound sterling constantly vary in value, so that it shall be worth perhaps only half this day month what it is to-day, the obstacles that are thereby placed in the way of trade are patent to all. None of those who advocate unrestricted issues of inconvertible paper can venture to say that it would tend to the benefit of the country or the freedom of trade, if private persons were permitted to do any acts that would make the hundred weight or pound weight vary from the definite legal standard of *weight*. And yet it is not very easy to see how liberty to make the pound sterling vary from a uniform standard of *value*, or, in other words, cease to be, or to represent, a certain weight of gold, would more tend to freedom of trade or the public benefit.

But it is said further by some, "Persons are willing to receive "our notes so issued; they are private paper; their acceptance is "optional; they may be refused by any one that has no confidence "in them; the government can have nothing to do with them." But these may be easily replied to, because even though this paper may not by law be legal tender it is received as if it were legal tender. The greater number of people are too ignorant or too dependent to refuse any currency that is offered them, if they would refuse it they would often be put to great inconvenience.

Inasmuch, then, as bank notes enter into the currency of the country, since it is undoubtedly one of the duties of government to guard the currency from any depreciation by over issue and not to permit any risk of the paper so issued being in fact convertible at any time, the interference in the regulation of banks of issue in 1844 is in principle defensible.

The Bill of 1844 is founded on three principles:—

1st. That the mixed circulation be always equal in amount, for the purpose of keeping it equal in value, to what it would have been if the circulation were purely metallic.

2nd. That the notes should in all circumstances be convertible into gold.

3rd. That that portion of the circulation, which previous experience assures us will not in any case be converted into gold, should for the sake of economy not be represented by bullion in deposit, but should be set free for the productive purposes of the country.

In order that the notes might at all times be convertible, the framers of the act proceeded to find out the lowest amount to which the paper circulation had been reduced. It was found that the minimum of circulation had been reached in 1839, when it sunk to about £14,200,000.* The bank was accordingly allowed to issue £14,000,000 in Bank of England notes against securities (of which the government debt formed a part) without any gold in its coffers opposite to this issue.

* Vide Evidence before Committee on Bank Acts, 1857, Question 95.

But if at any time there shall be a permanent increase in the amount of bullion retained in the issue department of the bank, and when that amount shall be found to remain invariably at a higher point than is deemed necessary for the effectual maintenance of the convertibility of notes, it will then be in perfect accordance with the principle of the Bank Charter Act to increase the amount of notes unfounded on bullion; which was, as already mentioned, fixed at £14,000,000 by the Bank Charter Act, but has since been increased to £15,000,000 by leave of the government, pursuant to certain provisions of the Act.

It has often been argued that the amount of notes to be so issued, with this principle in view, is not a fixed quantity—that it should be a matter of discretion, and should be left to fluctuate, so as to meet the public convenience. Inasmuch as the Bank of England has power under the Bank Charter Act to issue £14,000,000 of bank notes for which it has no gold, and other banks £8,000,000 more, it is concluded that convertibility does not imply the means of absolute conversion, and that the degree to which the principle ought to be put in practice, virtually rather than actually, should from time to time be governed by circumstances. In consequence of this view loud complaints have been made against a system which, however great the demand for money, will refuse it if the fanciful limit of the issue of bank notes has been already reached.

The whole of this reasoning proceeds on the assumption that *the office and functions of paper money are essentially distinct from those of a metallic currency.* It will not be asserted that the Bank of England or the government could at pleasure increase the supply of *gold* in proportion to the demand for money, if the currency were wholly metallic. The bank could give assistance only while its funds lasted.

But paper, it is said, differs from gold in this respect, that it can be increased on any emergency. Now it must ever be borne in mind that a sound paper currency can discharge no other office than that which belongs to a metallic currency, though it does so with greater convenience and economy. In case then of a pressure for money, let us consider how a metallic currency would be affected. When any portion of it is withdrawn from circulation, either to make foreign payments, or for hoarding under the influence of a panic, the remainder will be enhanced in value, and this will bring back gradually the portion so withdrawn. Thus the evil works its own cure. Under a mixed currency, properly regulated, the same ought to take place. The framers of the Act of 1844 took care to ascertain (as I have mentioned) the sum of the currency that in no case will be withdrawn. This for the sake of economy they allowed to be issued against securities, and the nation was saved the expense of supplying that amount from its capital. The remainder must consist of the precious metals or notes representing an equal deposit of them in the issue department of the bank. When any drain takes place, so far as it is taken from the circulation, it will be drawn from the part consisting of the precious metals. Then the natural law governing a metallic currency comes into play. The value of money is enhanced, or, what is the same thing, the price of commodities is reduced; they are therefore exported and money returns.

But let us suppose that, in an emergency when money was in great demand, the bank would use the discretion recommended, and, departing from the rule that experience has suggested, would relieve the pressure by an issue of notes without getting a corresponding amount of gold into its coffers—in the first place the precious metals would have no tendency to come back into circulation, for when exported they could only come back *either* by a rise in the rate of interest drawing foreign capital to this country for investment, and this rise would not take place as long as the bank would issue notes, *or*, by a fall in prices causing exportation of commodities and an influx of gold, and this fall would not occur as long as the bank would continue making issues, thus enabling holders of goods to defer selling and keeping up the amount of the circulation. In the next place, the bank would in such a case be exposed to the imminent danger of suspending cash payments, for as long as prices remained high, the exchange would be adverse, and gold would be sought for exportation; and if this drain continued, which it would be sure to do as long as paper was issued to supply its place, the result would be that the practical convertibility of our currency would be risked. If the risk should be turned into certainty, instead of tightness in the money market, which would soon right itself, we should have a real contraction of the currency caused by the fall in its exchangeable value from non-convertibility, though apparently there might be no contraction and all the evils would only be protracted, and thereby increased. It is only by raising the rate of its discounts as money becomes scarce that the bank can guard against being forced for its own protection to narrow its discounts with great rapidity, thereby causing extensive injury and embarrassment. The power of raising or lowering the rate of discount at the discretion of the Directors of the Bank of England, was not interfered with by the Bank Charter Act of 1844, and to the abuse of this has been attributed by many the panic of 1847. The recent panic has, it would seem, been caused by the over-speculation of Joint-Stock Companies.

On the whole I have no hesitation in stating that in my opinion the Bank Charter Act was an improvement on the state of things that preceded it.

It ensures the convertibility of the paper currency, and it affords at the same time all the convenience that such a currency is pre-eminent for. It may be said that it will not prevent overtrading. It, however, will cause the loss to fall chiefly on the speculators themselves, and not on innocent parties who would have been holders of the notes of banks, which under the previous system would have failed.*

I have now explained as clearly as in my power, wherein the

* I have to specially acknowledge my obligations in the preparation of part of what precedes to the very able treatise of the late lamented Professor Hussey Walsh on *Metallic Currency*, and to letters that appeared in the *Spectator* on the Bank Charter Act, in August and September, 1847.

legitimate value of banking in relation to the currency consists. I have stated the principles on which the Bank Charter Act is founded, and have defended it I have endeavoured to demonstrate that the amount of money (understanding by this term a real article of wealth) that can be saved to a country by issues of paper, must be limited by the minimum amount of notes that may remain from time to time in the hands of the public, beyond that limit, if the principle of the certain convertibility of the note be maintained, gold must be held opposite to all issues.

The question that I have more directly to propose to you to night as a matter of practical interest is, why should the amount of currency which experience shows can be safely issued, unrepresented by gold, not be issued by the State? Or at least why should the profits of this issue not be for the benefit of the State? I know that I shall be at once met by the question, Why interfere with the privileges that the existing banks now enjoy? To do so it may be said is to interfere with private property. Perhaps the most simple way to answer this is to ask what right have *some* of the existing banks to a *monopoly* of issuing notes? I deny that there is anything whatever in the nature of private property in the present monopoly. It appears to me as clear beyond dispute that, independently of the duty of the State to interfere with the issues of currency, so as to prevent the standard of value (or what is received in ordinary payments as the standard) being degraded, no body of wealthy men should be prevented issuing their notes, payable on demand, to any one willing to receive them.

But the moment the government interferes to regulate the currency, which I think I have established it is bound to do, the State has a right to all the incidental profits arising from the regulation of the currency, and it is not just to the heavily burdened tax-payers to grant to certain wealthy bodies of capitalists a privilege which is not open to all, and is therefore a monopoly—the existence of which is not justified by the nature of the functions discharged by traders in money. I am not to be understood as advocating an *immediate* and *inconsiderate* withdrawal of the existing privileges from the banks that now have the right of issuing money. But measures should be taken to arrange with the banks for the withdrawal of this privilege at such times as may be considered proper, having regard to the numerous investments that have been made in the stock of these banks under the existing regulations.

In India a strictly limited issue of government paper money has been recently made. In the United States a too extensive issue has been made, which it is hoped will be soon reduced. There is no doubt that the issues of paper there enabled the United States Government in no slight degree to meet its liabilities from time to time, but the error was committed of not properly limiting the issues in the first instance; the currency thus becoming excessive and inconvertible, the usual result took place—it became degraded and no longer represented its expressed value. The depreciation was so great that 280 dollars of currency which ought to purchase 280 dollars in gold would, at one time, only purchase 100 dollars in gold.

I wish to be understood as utterly opposed to the doctrine that any discretion should be allowed to a government issue department of adapting the issues to the real or imaginary needs of commerce. It appears to me that on political grounds alone the commercial interests of the country, as affected by the issues of money, should never be put under the control of any minister of state or government department. In addition to this, to use the language of the Gold Bullion Report:—"The most detailed knowledge of the "actual trade of the country, combined with the most profound "science in all the principles of money and circulation, would not "enable any man or set of men to adjust or always keep adjusted the "proportion of circulating medium in a country to the wants of "trade."

There is much less to be apprehended from allowing the unrestricted power of issuing currency to private issuers than to the government. I have alluded to excessive government issues in the United States causing a depreciation of the currency there, which, it may be seen, was much greater than that caused in England by the excessive issues of the bank of England in the early part of the present century. But the instance of the United States is by no means an extreme case of excessive government issues. In the year 1790 the revolutionary government of France issued notes termed assignats, which were to be received by the government in the payment of purchases of the lands of the church, the crown, and the emigrants, which were then confiscated At first the issue of assignats was limited to 400 millions of francs, but subsequently they were issued to the amount of 45,579 millions of francs. The result was that in six years from the date of their first issue, an assignat proporting to be worth about £4 of our money was currently exchanged for rather less than 3d., and this in spite of a law imposing twenty years imprisonment in irons on any one taking an assignat at less than par.

In any change it will therefore be necessary to strictly limit the issue of government paper money. That limit may be larger than that now defined by the authorised issues of the banks, or it may be smaller. It is to be determined by the amount that will remain in the hands of the public at any time as practically inconvertible currency. Many think that this amount is larger now than it was at the time of the passing of the Bank Charter Act, and they rely, as the reason for their opinion, on the increase of business transactions that has taken place since 1844, requiring, as they say, a large amount of currency to settle them But this reasoning is in no way conclusive, because the increased economy that has taken place in the use of money, by the use of cheques, improved arrangements in the clearing-house, &c., may require even a less amount of currency to transact the business of the country than was then necessary.

There is one measure, indeed, which, if it were taken, would justify a larger issue by the state of notes unrepresented by bullion than is now permitted to the existing banks, or than could otherwise be made with safety. There is no good reason, in my opinion, why £1 notes, or notes of even a less value, should not be issued in

England. If this were done, a large amount of gold would be dispensed with, and the country might enjoy the profits arising from the government paper money substituted therefor.

The present amount of issues unrepresented by gold in the United Kingdom is between £31,000,000 and £32,000,000 sterling. If to this were added the amount that might be safely issued in notes under £5 in value, a very important reduction might, before many years, be effected in our enormous national debt, or be available for the purchase of railroads, in order to cheapen the cost of internal communication. Whatever public use these large sums may be devoted to, it appears to me that incidental as they are to the proper regulation of the currency, they should go to the State and not to private corporations or individuals, no matter how usefully these may apply the capital which they are so permitted with almost no sacrifice to enjoy; and I have little doubt that among the questions of the future that which I have now introduced to your attention will prominently appear.

To the foregoing direct monetary benefit to the public of an issue of paper money by the State, it is not improper to add the advantage of clearly separating in the public mind the government function of issuing a limited amount of paper currency from the trade or business of banking. It cannot be denied that the maintenance of a sound currency system is somewhat unsafe, so long as an influential portion of the mercantile public attribute, as they now do, to the existing currency regulations, rather than to over-speculation or to the other causes which affect the supply and demand for money as for other commodities, those commercial disturbances and panics which will be always more or less sure to occur in the greatest centre of the world's commerce.

Discussion.

Mr. Daly dissented from the views of Mr. Ross as to the value of the Bank Act of 1844, which, in his opinion, was an injury and not an advantage to the commercial interests of the country, as was evidenced by the existing state of our monetary affairs. He believed that a more extensive issue of notes would be beneficial in promoting the trade and commerce of the nation, and that it would be of especial advantage to Ireland. It was unjust to have a number of small ephemeral banking concerns throughout England, with power to issue millions of paper money, whilst the privilege was not conceded to banks in Ireland, which had respectable and *bona fide* proprietaries, large deposits, and extensive paid-up capital. He would advocate the extension of paper money through legitimate banking concerns in Ireland, as a means of benefiting this country, but not in the way or on the conditions proposed by Mr. Ross. The Government ought not to be intrusted with the control and management of commercial establishments of this nature.

Mr. S. M'Curdy Greer contended that the safety of the banking community demanded no more than the actual convertibility of the bank note into gold, and insisted that the Bank Act of 1844 was an entire failure.

Mr. Ross replied, and vindicated the principles he had laid down.