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The subscription to the Society is ten shillings entrance, and *ten shillings* per annum.

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JOURNAL

OF THE

Dublin

STATISTICAL SOCIETY.

JULY, 1857.

I.—*On the Principles of a Note Circulation.* By Joseph John Murphy, Esq.

[Read May 18th, 1857.]

It may be regarded as established beyond controversy, that the convertibility of bank notes must be preserved. But the conditions under which convertible notes ought to be issued are still open to discussion.

Dr. Hancock maintains, in his defence of the Bank Charter Act of 1844,* that notes being, like coin, part of the circulating medium, they ought, like coin, to be issued by the state or under its immediate care. I agree with this argument in so far as it is consistent with itself. I think that the state ought to be the issuer of the paper circulation, in the same sense that it is the issuer of the metallic circulation. But the expression, "issuer of the circulation," is ambiguous. The state issues the metallic circulation in the sense of stamping it, in order to authenticate its value—not in the sense of supplying the country with a metallic currency. We are supplied with our metallic currency not by the state, but by the miners and bullion merchants who supply us with the precious metals, and send them to the mint to be coined. The supply of the metallic circulation is a purely commercial process, with which the state does not and cannot interfere. The authorities of the mint do nothing and can do nothing except to assay, weigh, and stamp such gold and silver as is sent to them for the purpose. The

* Published in the *Journal of the Dublin Statistical Society*, Part V.

notion that because the state stamps the coinage, it therefore supplies the circulation, is not very unlike the fallacy of the Birmingham school, who think that to fix what is technically called the mint price of gold—that is to say, the weight of the sovereign—is a violation of the principles of free trade.

The state ought to do for the note circulation what it does for the metallic circulation, and no more—I mean, to authenticate its value by a stamp. But the *supply* of the note circulation, by which I mean the regulation of its quantity, ought to be left, as in the case of the metallic circulation, to the ordinary process of commerce.

I differ here from those who think that the issue of notes ought to be left to the *unrestricted* operation of free trade; and that any one taking a note in payment is in the position of a person giving credit who is bound to look to his security. I see no difference in this respect between note circulation and metallic circulation; I think that both ought to be authenticated by the stamp of the state. Those who would permit private persons to issue notes without restriction to any extent the public will receive, ought in consistency to advocate the same liberty of coining gold and silver money, and the abolition of the national mint. Most people would think such a change was a return to chaos; yet it would be much less dangerous than an unchecked license to issue notes, for gold and silver would, in the supposed case, retain their value and pass at least by weight; but notes may lose their value by the insolvency of the issuer.

I also differ with Dr. Hancock and all those who defend the clauses in the Bank Charter Act which limit the issue of the bank. From 1819 to 1844 the bank was required, as at present, to pay its notes in gold on demand; but it was permitted to issue as many notes as the country would take, and there was no legal provision as to the amount of gold in its coffers; this was left to the discretion of the directors. But since the Act of 1844, the notes in circulation are not permitted to exceed the gold in the bank, by more than a fixed sum of about fourteen millions sterling. The bank may issue fourteen millions of notes without having any gold against them; but when this limit is passed, there must be gold to the amount of five sovereigns in the bank against every additional five pound note that is issued.

Now I believe this restriction to be unnecessary. I do not propose to give the Bank of England, or any other bank, power to issue notes against nothing; but I do not see any danger in permitting the Bank of England, or any other bank, to issue any amount of notes against securities, leaving the directors to decide what proportion of gold they will keep in their coffers to meet casual demands.

What I propose is, *perfect freedom as to the amount of issues, and stringent guarantees for the solvency of the issuer.* This is surely a safe medium between the unyielding limitation imposed by our law, and the ruinous vagaries of the American banks which Dr. Hancock holds up as a warning to us.

An American writer whom Dr. Hancock quotes says on the subject of gold:—" As I saw the clerks shovelling out the yellow coin upon the counters of the Bank of England, and men coming in and going out with weighty bags of the precious metal in their hands or on their shoulders, I could not but think of the great contrast between the monster institution within whose walls I was then standing, and the 'wild cat banks' of America." What does the American admire in this? Does he admire the gold for its own sake, or as the evidence of solvency? If for its own sake, he is like a child who admires the white foam of a steamer more than its swift and smooth motion.

Were the issue of notes against securities, and to an unrestricted amount, in the hands of one bank exclusively, injurious fluctuations in the amount of its issue might be produced by changes in the policy of the bank; but were every one at liberty to issue notes under these conditions, the policy of issuers could not produce fluctuations, any more than the policy of sellers under a system of free competition can produce fluctuations of price; for if one banker diminished his issues, another would at once increase them, and fill up the void: and no one banker could increase his issues beyond the demands of trade, because any notes issued in excess of what trade required would be immediately returned on his hands. The country would always be adequately supplied, because it will be the interest of every banker to push his issues to his utmost; and it could never be supplied in excess, because no excess could be kept in circulation.

The Bank Charter Act limits what Dr. Hancock calls the *effective*, but what I will call the *unrepresented*, issue of the Bank of England; that is to say, the excess of notes issued over the bullion held against them, to a fixed amount.

Two arguments are used in support of this restriction. It is said that banks, if not properly controlled, may push their notes into circulation to a greater extent than the trade of the country needs, and thus raise prices, lower the rate of interest, and promote extravagant speculation, with its ultimate consequences of reaction and disaster.

This apprehension was, I believe, at one time very generally entertained; yet it does not appear to have any foundation in facts. The events of 1845 afford sufficient proof that the impulse to speculation comes from the world outside, and not from the banks. Nor is there any connexion between speculative excitement in trade and extended issues of notes. The statistics of our banking system afford abundant proof of this fact.* The belief in such a connexion arose naturally enough, from the notion that as trade requires money to carry it on, an increase of trade requires an increased quantity of money. In fact, however, the increase of banking accommodation, and the spread of the clearing-house system, enable vast commercial operations to be carried on without the use of money at all, if by money we understand coin and notes. Payments that were formerly made in notes are now made in cheques. Money transactions to the amount of five or six millions daily pass through the London clearing-house, without the use of any coin or notes whatever.

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* See the Supplement to the *Economist* of 24th January, 1857.

It is true that considerable fluctuations have taken place in the unrepresented issue of the bank since the return to cash payments in 1819, and even since 1844; but these are mainly due to fluctuations not in the issue of notes, but in the stock of gold; for it is evident that the unrepresented issue may be increased either by increasing the total issue or by diminishing the bullion. Suppose the issue to stand at sixteen millions, and the bullion at eight, the unrepresented issue is the difference, being eight millions; but suppose the bullion to fall to six millions without any change in the total issue, the unrepresented issue is thus increased to ten millions.

This brings us to the second argument in favour of the Bank Charter Act, which is the chief one Dr. Hancock uses. It is said to be necessary for the protection of the gold reserves in the bank. Unlike the former argument, this has an array of facts that appear to sustain it.

Both before and after the passing of the Bank Charter Act in 1844, especially in 1837, 1839, and 1847, there has been occasionally a drain of gold for exportation, in order to pay for the supplies of food which we had to import, in consequence of a deficient harvest at home. But in 1847, when the act was in force, the bank was not so nearly exhausted of its bullion as on the two former occasions; and since 1844 the stock of bullion in the bank has in general stood much higher than before that year, while the issues have not increased.

These are very satisfactory facts; but there is no proof that they are in any way due to the Act of 1844, for the bullion in the bank had been increasing for some years previous to the passing of the Act; in 1843 it never stood so low as ten millions, and it had in fact been recovering since 1839. And in 1847 the Act was suspended by Government without any disastrous effects ensuing. There is, therefore, no ground for giving Sir Robert Peel and Lord Overstone the credit of a recovery which was far advanced before they began to prescribe, and of the cure of a relapse effected in defiance of their system of treatment.

On purely theoretical grounds, too, it appears preposterous to ascribe the credit of increasing the stocks of bullion to an Act that permits the issue of fourteen millions sterling of notes without requiring any bullion to be held against them. The Act prohibited the bank from increasing its unrepresented issue beyond the average of previous years; but what tendency can this prohibition have to *diminish* the unrepresented issue? The increase in the stock of bullion is merely one among many symptoms of the increasing soundness of our commercial system, and is no more due to the Bank Charter Act, than our political tranquillity in 1848 was due to Lord John Russell's government.

I think these considerations prove the Bank Charter Act to be unnecessary. I will now proceed to show in what way I think it injurious.

The common argument against the Act, that it makes no provision for future expansion of the circulation, is inapplicable—for, as I have already remarked, the note circulation, of England does not show any tendency to expand, and does not press upon its legally established limits. This state of things does not prove the restriction to be needed—it only makes the restriction nugatory. Neither great good nor great harm can be done by prohibiting an extension of the issue, which in the absence of the prohibition would not be extended.

In order to estimate the probable result of perfect freedom as to the amount of notes issued, we must consider the connexion of the rate of interest with the supply of the circulation.

When the importations of gold from California and Australia were beginning, there was a very general belief that abundance of gold would produce a low rate of interest. This belief was not entirely unfounded in reasoning, and has not been entirely falsified by the event—but it certainly does not contain the whole truth on the subject; and especially it appears inconsistent with the fact that interest is higher in the gold countries than in Europe—for were it a general truth that abundance of gold produces a low rate of interest, the rate ought to be lowest at the diggings.

This notion is encouraged by the use of the technical but ambiguous and most misleading term, *price of money*, in the sense of rate of interest. It may be reduced, with its grounds, to a syllogism, thus:—

Abundance of money brings a low rate of interest (or a low price of money).

Gold is money ;

Therefore abundance of gold brings a low rate of interest (or a low price of money).

The fallacy arises out of the double meaning of the word money, which, in the first term of the syllogism, means *available capital*, and in the second, *the circulating medium.* When analysed, then, the syllogism proves to be none at all: thus:—

Abundance of available capital brings low rates of interest (or a low price of money).

Gold is the circulating medium.

It is evident that no inference can be drawn from these two propositions.

A practical man may reply to all this :—"I cannot reason syllogistically, but I know that when gold is abundant *in the bank*, the money market, other things being equal, is easy; when it is scarce *in the bank*, the money market, other things being equal, is tight." This reply is true, and to the purpose; it brings us very near to an accurate statement of the law of the connexion between the supply of precious metals and the rate of interest. The law is this:—

*The actual quantity of the precious metals in the country has no effect whatever on the rate of interest. But interest falls when that quantity is increasing, and rises when it is diminishing.**

* I do not claim to be the discoverer of this law; but I have not met with any perfectly distinct statement of it.

As prices on a long average are governed by the cost of production, but are liable to fluctuate from accidental and temporary fluctuations in demand and supply; so the rate of interest on a long average is governed by the rate of profit, but it is liable to fluctuate from accidental and temporary fluctuations in the supply of available capital, and especially in the supply of the precious metals, which are capital in its most generally and immediately available form.

Capital is productive wealth. But there is much capital in the shape of land, buildings, &c., which is available for special purposes only, and not in the general market. I may here remark, that this explains the fact of wealthy countries occasionally suffering from a scarcity of available capital. Capital is really abundant, but the most of it is immoveable and consequently unavailable. Generally available capital consists chiefly in stocks of raw materials and articles of consumption; but no one article of use or consumption is available for all purposes. The precious metals alone constitute capital which is available for all purposes, because every one will take them in exchange.

Suppose the quantity of gold coin in the country to have been permanently augmented by fifty per cent., and the money price of all commodities to have risen in a corresponding proportion, there would be three sovereigns where there are now but two, and three would be required to make a payment where but two are now required. This would be all. Money would not be really more abundant, and there would be nothing in the change that could affect the rate of interest. If this is not quite evident, it may be made so by reflecting that although silver is a more abundant metal than gold, yet money is not more abundant, and the rate of interest is not lower in countries where the circulation is of silver, than where it is of gold.

I have till now been reasoning on the supposition that the gold *has got* into the circulation. But it is different while the gold *is getting* into the circulation. Gold being capital in its most available form, the importation of gold produces a temporary abundance of available capital, and consequently a low rate of interest, which continue until all the gold has got into the circulation, and the money prices of commodities rise to their new level, as determined by the increased quantity of gold. When this process is completed, the increased supply of gold, as I have pointed out, can have no farther influence on the rate of interest. In the same way, when gold *is leaving* the country, there is a temporary deficiency of immediately available capital, and consequently a temporary rise in the rate of interest. But when the gold *has left* the country, and prices have adjusted themselves to the diminished supply of gold, the diminished quantity will serve all the purposes of trade as well as the former larger quantity, and the rate of interest will no longer be affected.

I do not think it can be denied that fluctuations in the rate of interest, caused by fluctuations in the supply of gold, are an evil. But the advocates of the Bank Charter Act appear to regard the evil as an irremediable one; for Lord Overstone, the real author of that Act, maintains, as quoted by Dr. Hancock, that a mixed currency of gold and paper ought to vary in amount, exactly as a purely metallic currency would vary. If this is true, then the only legitimate function of a note circulation is to economise the use of the precious metals. I believe, on the contrary, that the note circulation ought to have another function—that by its self-acting and elastic expansion and contraction it ought to compensate and neutralise, at least in part, the fluctuations in the supply of gold which produce corresponding fluctuations in the rate of interest. Were the issue of notes unrestricted as to amount, gold might be withdrawn from the vaults of the bank when required for export, without requiring a corresponding withdrawalof notes from the circulation, and the London money market would not be so liable as at present to disturbance from a dry season at the Australian diggings, or the loss of a few ships bringing gold to England.

Lord Overstone maintains, according to Dr. Hancock, that in order to accomplish his purpose of making a mixed circulation of gold and paper vary according to the same laws as a purely metallic circulation, the unrepresented, or effective, issue ought to be constant in amount; and Mr. Greer,* in his lucid reply to Dr. Hancock's paper, points out that the Act, as regarded from Lord Overstone's point of view, has not been altogether successful, having permitted fluctuations in the amount of the unrepresented issue. If my argument be correct, the unrepresented issue ought to be at liberty to fluctuate; and the Act is right in permitting fluctuations, but wrong in imposing a fixed limit to them in one direction.

I am, however, at a loss to understand how any one could ever maintain that the unrepresented issue ought to be invariable. Were it so; were all the issuable notes at all times actually in circulation; of course no gold could be exported without an equal amount of notes being withdrawn from circulation. In such a state of things, the money market would be more at the mercy of casual fluctuations in the supply of gold, and the circulation would be less elastic, than would be the case had we no bank notes at all. Had we no note circulation, we should, no doubt, have a fluctuating reserve of gold in the bank, which might be drawn on without actually withdrawing gold from circulation. Under the existing system, we have, in the same way, a fluctuating reserve of unissued notes in the bank. My objection to the Bank Charter Act is, that it strictly limits the amount of that reserve—imposes a limit, I mean, by law: for our experience, from the return to cash payments in 1819 till now, proves that there is a practical limit to the bank issues, and not a very remote one. But the limit, or check, ought to be self-acting and elastic, not artificial and rigid.

As to the alleged danger of such freedom, I have already stated my reason for thinking that no case for restriction has been made out. And, on theoretical grounds, there is always, of course, a bare possibility of the insolvency of a bank of issue; but I cannot see that any element of danger has been removed by the Bank Charter Act. The bank may issue notes unrepresented by bullion to the

* "On the Bank Charter Act of 1844."—Published in the *Journal of the Dublin Statistical Society*, part VI.

extent of fourteen millions sterling. The limit did not exist before 1844, and I maintain that it ought to be taken away. It would, however, be most undesirable that the bank should constantly keep near the full extent of its power. The nation trusts the directors to keep a sufficient reserve. No law can dispense with the necessity of prudence on the part of the directors; and any rashness or blundering would be as likely to cause a suspension of cash payments under the present law as under a freer one. In fact, the argument for limiting the issues of bank notes is an argument against bank notes altogether.

The Bank Charter Act, as I have stated, has not in effect restricted the usual amount of the note circulation, because the wants of the country do not quite come up to the limit which it imposes. The rapidly extending commerce and industry of England act in the one direction, to increase the demand for the circulating medium: the extension of banking accommodation and the clearing-house system act in the opposite direction, to enable the country to do with a smaller supply; and the effect of these two causes appears to be nearly balanced, but with a slight tendency to diminution. This explains why the Bank Charter Act has been so innocuous in practice, but it does not justify its principle. For how long will the causes that tend to a diminution of the note circulation predominate over, or even balance, those which tend to its increase? The extension of English industry and commerce appears destined to go on indefinitely. The perfecting of our banking and clearing-house systems, on the contrary, is a resourse that admits of exhaustion. I believe it is as yet very far from being exhausted; but this result may come sooner than we look for it; and then every increase of trade and industry will require an increase of the circulating medium. Our whole industrial system is, or ought to be, so arranged as to admit of extension; and why should the issue of notes be permanently an exception? The Irish and Scotch issues, which are regulated by law on the same principle as those of the Bank of England, even now show a tendency to press on their limits.

It is at any rate sufficiently evident that the principle of limiting the issue of a bank must be inapplicable to a new country, like Canada or Australia: for there the growth of industry and commerce is more rapid than at home, while the scattered character of the population places great obstacles in the way of economising the use of notes by perfecting the banking and clearing-house systems. In such countries, large and constant additions to the circulation are required. These must be either in the shape of the precious metals or of bank notes: and to require them to be exclusively metallic would put a heavy drag on the prosperity of a country like Upper Canada, which is rapidly increasing in population and wealth, and does not produce the precious metals. It would act injuriously in two ways. The precious metals could be attracted from abroad only by keeping prices in the country permanently depressed; which state of things is injurious to the productive interests. And the chronic deficiency of circulating medium, which is implied by the supposed case, would tend to produce a permanently tight money market. These evils would of course be very much mitigated by such an increase of the gold supplies of the world as we have had since 1848, by its effect both in raising prices, and in giving ease to the money market.

It is an interesting but difficult question, how far the gold discoveries have had this effect in facilitating British commerce and industry. There is no note currency in England of a smaller denomination than £5: and it is evidently the large notes that can be chiefly economised or superseded by the improvement and extension of banks and the clearing-house. It is in the highest degree probable, that while the note circulation of England has diminished, its gold circulation has enormously increased. Had California and Australia not furnished the means of thus extending the circulation, would the great and rapid increase of national industry, which is now making more progress than ever, have been checked by the deficiency of the circulating medium? I do not attempt to answer this question positively, because, although the facts are easy to ascertain, they are difficult to analyse. It is difficult to separate the effect of the Australian gold in facilitating our commerce, from the effect of the Australian market in employing our manufacturers. But we may be certain that whatever facilities have been given by the gold as an addition to our circulating medium, might have been given equally well by an issue of one pound notes, had the gold never been discovered.

I believe there are no statistics of the net addition to the gold circulation of England since 1848. But there are statistics of the comparative note circulation of the different parts of the United Kingdom, which may throw some light on the subject. From January, 1834, to December, 1856, that of England fell from £29,312,797 to £26,549,388: being a decrease of £2,763,409. During the same period, that of Ireland and Scotland rose from £8,543,161 to £11,656,686, being an increase of £3,113,525.* Thus we see that while the circulation consisting exclusively of large notes was diminishing, that consisting of large and small together was increasing: and were one pound notes permitted in England, there is no doubt the circulation there also would have increased, and saved the expense of a corresponding quantity of gold.

There is no valid argument against one pound notes which is not equally valid against larger ones. They save the interest and wear and tear of a gold currency, and they prevent the annoyance of light sovereigns; there is no ground whatever for the notion that they produce an unhealthy state of trade. Trade is quite as healthy in Ireland and Scotland as in England.

A note circulation has yet another advantage over a metallic one. The precious metals are always hoarded in countries which are the seat of revolution or war. This is injurious to society at large; economically, by withdrawing the circulating medium; and politically, by giving persons who have hoarded or are trying to

* I take these figures from the *Economist* of 11th April, 1857. The English circulation is that of all the banks, not of the Bank of England only.

hoard coin, a private and selfish interest distinct from that of the state. But where the currency consists of notes, the government, by a timely suspension of cash payments, may prevent hoarding, and at the same time identify the interest of every holder of notes with that of the state, on the stability of which the value of his notes depends. In such a case, the banks ought to be prohibited from parting with any of their gold or silver except to government; and from increasing their issues. Thus, with their stocks of bullion undiminished, and their issues of notes unincreased, the restoration of tranquillity and confidence would place the banks in exactly the same position with respect to cash payments, that they were in before their suspension.

This is no justification of the course pursued by government and the bank during the last French war. Suspension of cash payments may have been necessary in 1797: but if so, the country ought to have been preserved from an over-issue and consequent depreciation of the note currency by the precautions which I have stated; but all precautions were neglected, and the result, as we know, was depreciation: I maintain that over-issues are impossible in a convertible currency, but there is no doubt they are very easy in an inconvertible one.

The advantages of a note circulation are these:—

1. It saves the interest and wear and tear on a metallic circulation.

2. It may be easily extended so as to meet the wants of a country, and cannot be extended beyond them (convertibility being strictly maintained.)

3. It may by a self-acting process expand and contract, so as to compensate in part the fluctuations in the supply of the precious metals.

4. It enables the government to preserve the gold and silver of a country from being hoarded during war or revolution.

I have till now been speaking of general principles only. It is time to explain how we may reduce to practice the two principles I have laid down, of perfect freedom and perfect safety.

We have a government metallic mint. We ought to have a government paper mint. I have already said, and lest I should be supposed to advocate any "Brummagem" theory of paper currency, I say again, that I do not desire to impose on the state the function of providing the country with a note circulation. The state ought to do for paper neither more nor less than what it does for gold; to authenticate and guarantee its value by means of a stamp.

Any individual or company ought to be permitted to deposit any amount of government securities in the paper mint, and receive an equivalent sum in notes. The party receiving the notes should be required to stamp them with his own name and address, in order to let the holder know where they are payable, and then should be at liberty to circulate them. The notes should be legal tender in all cases, except when presented to the issuer for payment in gold. In the event of his insolvency, they should not cease to be legal tender: but in that case the authorities of the paper mint should proceed to sell the securities standing in the name of the insolvent issuer, and purchase gold with the proceeds, in order to keep the promise of payment in gold made to the holders of the notes.

The holders of the notes of an insolvent bank ought to be paid before the other creditors. But, for the protection of depositors, joint stock banks ought to be prohibited from depositing against their circulation a larger sum than their paid up capital.

£100 worth of consols is not generally worth £100: so, to allow a safe margin, only £100 of notes ought to be issued against say £120 of consols.

Every bank of issue must, of course, keep a stock of gold: but its amount, as I have stated, I would leave entirely to the banker's discretion. In order to prevent this from being dead stock, bearing no interest, there ought to be a further liberty to issue notes to the amount of gold held: exactly as at present the Bank of England, after issuing fourteen millions sterling of notes against securities, may issue any further amount against gold.

The issue department of a bank might then stand thus:—

Securities lodged at paper mint, £120,000.

Circulation against securities, £100,000.

Gold, £30,000.

Circulation against gold, allowing a margin, £20,000.

The notes being a legal tender in all cases, except when presented for payment in gold, it would not be necessary to hold any gold against deposits.

This system could not be introduced all at once: for the profit on the existing note circulation of the United Kingdom is the property of the existing banks, and cannot be interfered with by requiring them to deposit securities, as I have described. But the formation of new banks of issue, or the extension of the issue of the old ones, which is now prohibited, ought to be permitted on compliance with the above-mentioned conditions: and the power which the English country banks have, to transfer two-thirds of their issue to the Bank of England, ought to be taken away, unless on the compliance of the Bank of England with these conditions.

I have shown that the utmost freedom as to the extent of issue could not increase the note circulation materially. But it might be increased very much by permitting the issue of one pound notes in England. We do not know the amount of the gold circulation of England, but it may perhaps be fairly guessed at thirty millions. Any Act of Parliament which should authorise the replacing of this vast sum by notes, ought at the same time to make provision for the appropriation of the profit on this increase of the note circulation by the state.* This may be easily done without making the state itself the issuer of the notes. Let the greater part of the interest on the securities lodged against circulation be appropriated by the state, leaving to the parties depositing only enough to be a fair commission on the issue.

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* See "Observations on the Gold Crises," by R. H. Walsh, Esq., LL.B., published in the *Journal of the Dublin Statistical Society*, Part IV.

No settlement of the question of the issue of notes can be final, unless it is based on sound principles; and its settlement on sound principles would be an advantage not only in a purely economical sense, but also as setting men's minds at rest. A writer during the crisis of 1849 rightly discriminated between the money *pressure* and the money *panic*.* The pressure was inevitable as the result of a physical law: the panic, on the contrary, was the effect of want of wisdom somewhere. The law limiting the issue of the Bank of England was suspended, and the result was immediate relief. The bank did not find it necessary to exceed the issue as fixed by the Bank Charter Act; the relief was merely the effect of the knowledge that the power to increase the issue existed. It seems a legitimate inference, that had there been freedom of issue all the time, matters would never have become so bad as they were when that freedom was applied as a temporary remedy.

A money panic is an unmitigated evil. A food panic in the beginning of a famine is rather beneficial than hurtful, by promoting economy in the consumption of food, and the importation of additional supplies; but a money panic increases the present pressure without producing any future benefit. The use of food is to be eaten, and it can be eaten only once; if a panic causes it to be hoarded now, it will be consumed at some other time. The use of money, on the contrary, is to circulate, and if a panic causes it to be hoarded and withdrawn from circulation now, it will not circulate the more rapidly hereafter. The knowledge that there was perfect freedom of issue, and perfect security for the payment of the notes in gold, would probably prevent a pressure from degenerating into a panic.

II.—*The recent Progress of the Free-Trade Movement in Belgium.*—By Henry Dix Hutton, Esq.

[Read March 16th, 1857.]

The principles applicable to the question of free trade are the same for all countries, and the leading aspects of the subject, the arguments with which protectionists seek to prop up a failing cause, and freetraders to carry on their work, are essentially similar. But—as might be expected from that variety in natural gifts and social development on which the attention of the advocates of free trade has always been fixed—the strongholds of protection differ widely in different countries, and there are generally some few points, and occasionally some one point, towards which every effort must be at first mainly directed; because, being the key to the entire fortress, that once gained, all the rest falls with it.

In England we know this main point of contention sprang from what was called the agricultural interests. In France, on the other

* I think the article I refer to was in the *Morning Chronicle*.