

PRINCIPLES OF CURRENCY AND BANKING

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Principles of Currency and Banking by E. Lord

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BY E. LORD.

no
NEW YORK:

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1829.

*John R. and wife
London and Birmingham
John in 1846*

INTRODUCTION.

The currency of a country directly affects the interests and employments of all its inhabitants. Whether or not it be uniform in its value? and adapted in quantity to the demands of circulation? are questions of the same import to the people, as whether their employments are lucrative? and the value of their property steady and permanent? or otherwise.

The difficulties which have every where embarrassed this subject have arisen in part, from the imperfections of the standards of currency and value; but chiefly from defective and unwise legislation. These difficulties have been greatly aggravated, and in many instances rendered insurmountable and overwhelming, by the introduction and unrestrained employment of paper in the circulation. So stupendous have been the evils from this source, occasionally in different countries, that whoever examines their history, and contrasts their experience on this subject, with what it would naturally have been had their

currency been uniformly and wholly metallic, will be likely to regret that the substitution of paper was ever thought of, and to welcome the expression of a decided preference, on the score of safety and of uniformity in value and quantity, of a currency consisting exclusively of the precious metals.

Paper however is in use ; and its employment in circulation is rendered so popular and fascinating by its cheapness, convenience, and capability of indefinite augmentation in quantity, that a renunciation of it is scarcely more probable, than a suppression of the art of printing. It is therefore of the utmost importance, that the use of paper should be founded on such a basis, and so regulated, as to render it as nearly as possible equivalent in value and quantity to a currency purely metallic.

The accomplishment of this object need not be despaired of. The system of currency and banking in this country is not, as in some other countries, so connected with government, with the public debt, and revenue, and with ancient and hereditary institutions, customs and privileges, as to occasion any formidable obstruction to its improvement, whenever the people shall desire to render it more perfect, and secure to themselves a higher degree of safety. And since of all

countries, our own can most easily prescribe and establish a currency as perfect as the nature of things will permit, it is to be hoped that it may yet hold out an example on this, as it has on some other subjects of vital interest to human society.

Whatever nation or state shall establish the most perfect currency, will secure to itself peculiar advantages, both with respect to its internal affairs and its foreign commerce. The safety and benefit of all the employments, business, and possessions of the community, will be greater in proportion as the currency is more uniform in its value, and in its quantity relatively to the demands of trade. Were the circulating medium perfect in these respects, the prices of labour, and of commodities would continue steady; no sudden and ruinous fluctuations could occur, unless in the event of great public calamities, or in the case of particular articles from an altered proportion of supply and demand. From the greater steadiness of prices, and of the value of property, would result, not only greater security to the possessions and employments of all classes of society, but more certain and uniform rewards of labour, and incomes from the use of capital. Such a state of things would invite population and capital from abroad, where the same advantages were not attainable.

The consideration of this subject is, at present, peculiarly appropriate in relation to this state; which, from its position, its unrivalled advantages for domestic and foreign commerce, its extent of territory, wealth, population, agriculture, manufactures, trade, and navigation; its financial system, public policy, laws, institutions, character, and credit, may be said to want nothing as a means of the highest temporal prosperity and improvement, except a currency as uniform in value and quantity as the precious metals.

Such a currency is to the last degree desirable on account of its influence and effect on the moral interests, the habits, the character, the integrity, industry, and mutual confidence and good faith of the people. The occurrence of great fluctuations in prices, of sudden losses, agitation and panic; of uncertainty and discouragement of business, of deceit and fraud, distrust and litigation, reckless adventure, speculation and improvidence, are so many indications of the demoralizing tendency of an unsteady and defective currency, which, in a great measure assuredly, may be, and ought to be remedied.

Whether the period has arrived for any essential change, whether the defects of the present system are sufficiently understood, or are deemed of such moment as to induce a reformation,

remains to be seen. It is presumed, however, that it will not be thought unseasonable to attempt to illustrate the elementary principles of currency; to point out some of the imperfections of the present banking system; and to propose some changes tending to harmonize that system with the natural laws of currency.

No sudden and violent alterations of the currency or banking system are to be recommended, or could be adopted without occasioning much evil; but a modification of the system, by which its defects should be remedied, and its advantages increased, might, it is believed, be introduced with great benefit, both to bank proprietors and to the public.

In what relates to the principles of currency, those acquainted with the subject, will, it is presumed, discover a coincidence in many instances between the ensuing observations and the thoughts, and perhaps the language of some of the very able writers, who have sustained their statements by ample and elaborate reasonings.

The measures proposed for rendering the currency more uniform in quantity and value, and more safe to the people, and especially the suggestions respecting the investment of the capitals of banks, the employment of their credit only in circulation, a limitation of the issues of their

paper to the amount of their capitals respectively, and the means of giving effect to such limitation, will, it is hoped, commend themselves to the candid consideration of the public.