

**AN ENQUIRY INTO THE
NATURE AND
EFFECTS OF THE PAPER
CREDIT OF GREAT BRITAIN**

Published @ 2017 Trieste Publishing Pty Ltd

ISBN 9780649575299

An Enquiry into the Nature and Effects of the Paper Credit of Great Britain by Henry Thornton

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BY
HENRY THORNTON, ESQ.
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LONDON:

PRINTED FOR J. HATCHARD, BOOKSELLER TO THE QUEEN,
(Opposite York House)
PICCADILLY;
AND MESSRS. F. AND C. RIVINGTON,
ST. PAUL'S CHURCH YARD.

1802

INTRODUCTION.

THE first intention of the Writer of the following pages 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.

The first Chapter contains a few preliminary observations on commercial credit. The object of the two following Chapters is distinctly to describe the several kinds of paper credit; to lay down some general principles respecting it; and, in particular, to point out the important consequences which result from the different degrees of rapidity in the circulation of different kinds of circulating medium, and also in the circulation of the same medium at different periods of time.

The nature of the institution of the Bank of England is then explained; the necessity of maintaining the accustomed, or nearly the accustomed, quantity of its notes, however great may be the fluctuations of its cash, is insisted on; and the suspension of its cash payments is shewn to have resulted neither from a deficiency in its resources, nor from a too great extension of its loans to government, nor from rashness or improvidence in its directors, but from circumstances which they had little power of controuling: this event being one to which a national establishment, like the Bank of England, is, in some situations of the country, unavoidably subject.

The manner in which an unfavourable balance of trade affects the course of exchange, and in which an unfavourable exchange creates an excess of the market price above the mint price of gold, and a profit on the exportation of our coin, are the subjects of a succeeding Chapter.

The circumstances, also, which have led to the multiplication of our country banks, and the several advantages and disadvantages of those institutions, are fully stated.

The earlier parts of the work having tended to shew the evil of a too great and sudden diminution of our circulating medium, some of the latter Chapters are employed in pointing out the consequences of a too great augmentation of it. The limitation of the amount of the notes of the Bank of England

is

is shewn to be the means of restricting the quantity of the circulating paper of the kingdom, of preventing a rise in the price of commodities in Great Britain, and of thus extending our exports and restraining our imports, and rendering the exchange more favourable. Some objections to the limitation of the Bank of England paper are likewise stated and answered.

The last Chapter treats of the influence of paper credit on the price of all the articles of life: a subject, the difficulties of which are in some degree removed by the antecedent discussions.

In the course of this enquiry, several passages in the work of Dr. A. Smith on the Wealth of Nations are animadverted on, as are also some observations made by Mr. Hume in his Essays on Money and on the Balance of Trade, and by Sir James Stewart in his book on Political Economy, as well as some remarks in the writings of Locke and Montesquieu.

The mode in which the subjects of coin, of paper credit, of the balance of trade, and of exchanges (subjects intimately connected with each other), have been treated by those writers, was suggested by the circumstances of more early times: and we ought not to be surprised, if, in treatises necessarily in some degree theoretical, or written for the purpose of establishing a particular truth, certain incidental observations should not be just, nor even if some

main principles should have been laid down in terms not sufficiently guarded.

A person who presumes to differ from the authorities which have been mentioned, and who proposes to correct the public opinion on the important subject of our paper credit, ought, undoubtedly, to be very cautious lest he should propagate new errors while he is endeavouring to remove the old. A sense of the duty of mature consideration has caused some delay in the publication of the following work. That its leading doctrines are just, the writer feels a confident persuasion. That it may have imperfections, and some, perhaps, which greater care on his part might have corrected, he cannot doubt. But he trusts, that a man who is much occupied in the practical business of life, will be excused by the public, if he should present to them a treatise less elaborate, and, in many respects, more incomplete, than those on which he has found it necessary to remark. Future enquirers may possibly pursue, with advantage, some particular topics on which he has felt a certain degree of distrust.

It may not be irrelevant or improper to observe, that the present work has been written by a person whose situation in life has supplied information on several of the topics under discussion, and that much use has been made of those means of correcting the errors of former writers which recent events have afforded.

CONTENTS.

CONTENTS.

CHAP. I.

	Page.
<i>Of Commercial Credit;—of Paper Credit, as arising out of it.—Of Commercial Capital</i>	13

CHAP. II.

<i>Of Trade by Barter.—Of Money.—Of Bills of Exchange and Notes.—Of Bills and Notes, considered as discountable Articles.—Of Fictitious Bills, or Bills of Accommodation</i>	23
--	----

CHAP. III.

<i>Of circulating Paper.—Of Bank Notes.—Of Bills considered as circulating Paper.—Of the different Degrees of Rapidity in the Circulation of different Sorts of circulating Medium, at different Times.—Error of Dr. A. Smith.—Difference in the Quantity wanted for effecting the Payments of a Country in Consequence of this Difference of Rapidity:—Proof of this taken from Events of 1793.—Fallacy involved in the Supposition that Paper Credit might be abolished</i>	37
	CHAP.

CHAP. IV.

	Page
<i>Observation of Dr. Smith, respecting the Bank of England:—Of the Nature of that Institution:—Reasons for never greatly diminishing its Notes:—its Liability to be exhausted of Guineas:—the Suspension of its Cash Payments not owing to too great Issue of Paper,—nor to too great Loans.—Propriety of Parliamentary Interference</i>	57

CHAP. V.

<i>Of the Balance of Trade.—Of the Course of Exchange:—Tendency of an unfavourable Exchange to take away Gold:—of the Probability of the Return of Gold:—of the Manner in which it may be supposed that the exported Gold is employed on the Continent.—Reasons for having renewed the Law for suspending the Cash Payments of the Bank of England.</i>	115
---	-----

CHAP. VI.

<i>Error of imagining that Gold can be provided at the Time of actual Distress.—</i> <i>Reasons</i>	
--	--