yond the supply, increases the price of the thing demanded, and invites to the investment of additional capital in its production. But, when the article demanded is to be produced from a material, which no investment of capital—no application of skill can augment, the only effect of such investment and application, is to produce the most which the material has the capacity to furnish. Such, in fact, is the case of gold and silver. The material from which they are made, is limited in quantity, which neither capital nor skill can augment. It is probable that the improvements in machinery, and the art of refining, will be counterbalanced by the exhaustion of the mines or the difficulty of working them, arising from the depth and extent of their excavation. It is therefore possible, that the demand for the precious metals, for currency and for manufactures, may exceed the production of the mines.

Previously to entering upon the immediate discussion of the practicability of substituting a paper for a metallic currency, it is proper to observe, that gold and silver derive part of the uniformity of value which has been ascribed to them, from the general consent of civilized states to employ them as the standard of Value. Should they cease to be used for that purpose, they would become more variable in their value, and would be regulated, like all other articles, by the demand for them, compared with the supply in any given market. It is presumed that, if they should cease to be employed as the standard of value by several states, their uniformity in value would be in some degree affected not only in those states where they were considered as mere commodities, but in those where still employed as currency. Whenever, as commodities, they should rise in value, a drain would take place from the currency of other states; and when they should fall in value, as commodities, they should seek employment as currency, and render, in some degree redundant, the currency of the states where they are employed. After making due allowance for the depreciation of bank notes in England, from the time of the bank restriction, in 1797 to the present period, the price of gold and silver in that country is believed to have varied more than at any former period.—Their price when compared with bank notes, from the year 1797 to 1808, showed but a slight degree of depreciation; considerably less, in all human probability, than actually existed. During that interval, the demand for those metals was limited in England to the sum required for manufacturers. It is highly probable, that if the quantity of the paper circulation had been reduced to the amount of the currency in circulation at the time, or for one year before the restriction, the price of bullion would have been below the mint price. On the contrary, in the year 1808, when the employment of a British force in Spain created a sudden demand for specie, the depreciation of bank notes, indicated by the price of bullion, was probably greater than that which really existed.

In the year 1814, after the treaty of Paris, the price of bullion, estimated in bank paper, was not above the mint price; whilst, in the succeeding year, it rose to more than twenty per cent. above that price; the amount of bank notes in circulation of the former, exceeding in a small degree, that of the latter period. It is impossible that these variations in the price of gold and silver, in the short space of one year, can be entirely chargeable to the depreciation of bank notes. The effect which these variations, in a great commercial state, where the precious metals were considered only as commodities, were calculated to produce upon the currency of the neighboring states, has not been ascertained. The convulsions to which most of these states were subject during that period, may account for the want of sufficient data to elucidate the subject. It is however, highly improbable that these fluctuations were not sensibly felt by them.

Having considered the nature and extent of the variations in value, to which a metallic currency is necessarily subject, it remains to examine, whether it is practicable to devise a system, by which a paper currency may be employed as the standard of value, with sufficient security against variations in its value, and with the same certainty of its recovering that value when, from any cause such variations shall have been produced. It is distinctly admitted, that no such paper currency has ever existed. Where the experiment has been made directly by government, excessive issues have quickly ensued and depreciation has been the immediate consequence. Where the experiment has been attempted through the agency of banks, it has invariably failed. In both cases, instead of being used as a mean of supplying a cheap and stable currency, invariably regulated by the demand, for effecting the exchanges required by the wants and covenience of society, it has been employed as a financial resource, or made the instrument of unrestrained cupidity. In no case has any attempt been made to determine the principles upon which such a currency, to be stable, must be founded. Instead of salutary restraints being imposed upon the monied institutions which have been employed, the vital principle of whose being is gain, they have not simply been left to the guidance of their own cupidity, but have been stimulated to excessive issues, to supply deficiencies in the public revenue. This is known to have been the case, in an eminent degree, in the experiment which has been attended with most success. The issues of the bank of England, on account of the government, were frequently so great as to destroy the demand for discounts by individuals. In consequence of these excessive issues, the interests of money fell below five per cent. the rate at which the bank discounted; the demand for discounts at the bank, therefore ceased. It is, indeed, not surprising, that no systematic effort has been made to restrain excessive issues. In the case of banks, the experiments which have been made were intended to be temporary; they were the result of great and sudden pressure, which left but little leisure for the examination of a subject so abstruse. The employment of a paper circulation convertible into specie, the favorite system of modern states, having, as has been attempted to be shewn in a previous part of this report, the inevitable tendency to produce the necessity of resorting, in every national emergency, to paper, not so convertible, imposes upon those who are called to administer the affairs of nations the duty of throughly examining the subject, with a view, if practicable, to avoid that necessity. If the examination does not result in the establishment of a paper currency, unconnected with specie, it may lead to the imposition of salutary checks against excessive issues, when the necessity of suspending payment may occur.

It has already been said, that every attempt which has been made to introduce a paper currency has failed. It may also be said, that of all the systems, which during the discussion of this interesting subject, both in Europe and the United States, which have been proposed, none are free from objections. It is possible that no system can be devised, which will be entirely free from objections. To ensure the possibility of employing such a currency with advantage, it is necessary:—

1. That the power of the government over the currency be absolutely sovereign:

2 That its stability be above suspicion:

3 That its justice, morality, and intelligence be unquestionable:

4. That the issue of the currency be made not only to depend upon the demand for it, but that an equivalent be actually received:

5 That an equivalent can only be found in the delivery of an equal amount of gold or silver or of public stock:

6. That, whenever, from any cause it may become redundant, it may be founded at an interest a fraction below that which was surrendered at its issue.

1. This proposition needs no elucidation. Coinage, and the regulation of money, have, in all nations, been considered one of the highest acts of sovereignty. It may well be doubted, however, whether sovereign power over the coinage necessarily gives the right to establish a paper currency. The power to establish such a currency ought not only to be unquestionable, but unquestioned. Any doubt of the legality of the exercise of such an authority could not fail to mar any system which human ingenuity could devise.

2. A metallic currency, having an intrinsic value, independent of that which is given it by the sovereign authority, does not depend upon the stability of the government for its value. Revolutions may arise; insurrections may menace the existence of the government; a metallic currency rises in value under such circumstances; it becomes more valuable, compared with every species of property, whether moveable or immoveable, in proportion to the instability of the government. Not so with a paper currency; its credit depends, in a great degree, upon the confidence reposed in the stability of the authority by which it was issued. Should that authority be overthrown by foreign force or intestine commotion, an immediate depreciation if not an absolute annihilation, of its value, would ensue.

3. It might, however, be saved from such destruction by a well grounded confidence in the justice and intelligence of the government, which should succeed that which had been overthrown.—The history of modern times furnishes examples that are calculated to inspire this confidence. In France, during the revolution which has just terminated, the public debt was reduced to one third of its amount. The same rule was applied to the public debt of the Dutch republic, when it fell under French domination. In the successive political changes to which France has, since that period, been subjected, the public debt and the public engagements have been maintained with the strictest good faith. In Holland, that portion of the public debt, which had been abolished by the French government, has been restored. In the opinion of well informed men, however, the conditions connected with that restoration were so onerous as to render it almost nominal. Indeed, the public debt in that country had become so disproportionate to the means of the nation when deprived of the resources it enjoyed when the debt was contracted, that the reduction which it underwent while the country was annexed to the French empire, was not generally considered an evil. The reduction of the national debt of France during the revolution was perhaps equally indispensible. If the intelligence of the age, and the influence of public opinion, even in states where the reign of law was but imperfectly established, have been sufficient to induce the governments which have alternately succeeded each other for the last twenty five years in France & Holland, to respect the public engagements which had been previously contracted, well grounded expectations may be cherished that the period is rapidly passing away when the public faith of nations can be violated with impunity.

If public engagements, under such circumstances, have been considered obligatory upon those who have successively administered the affairs of those nations, a resonable confidence may be reposed in the fulfilment of the obligations which may be contracted by existing governments, where the reign of law is firmly established. It is not denied that a paper currency furnishes strong temptations to abuse. Millions may be issued in a few days; and the deficiencies in the revenue promptly supplied, if the condition of receiving an equivalent is abandoned. The moment the currency shall be issued as financial resource, depreciation will follow, and all the relations of society will be disturbed. If the government of the nation in which a paper currency has been established, shall be deeply impressed with this truth, will it not be restrained from the apprehended abuse? Currency of every kind is liable to great abuses. The history of the coinage of every nation whose annals are known, is little more than the detail of the frauds which have been practised by governments upon the people; until the twentieth year of the reign of Edward the III. of England, a pound troy of silver of standard fineness, and a pound sterling, were synonymous terms; twenty shillings sterling being, in fact, a pound troy of standard silver. Change followed change in rapid succession, until, in the reign of Elizabeth, a pound-troy of standard silver was directed to be coined into sixty two shillings. This immense change in the value of the currency was effected in the space of about two centuries. In other modern states, during the same period, changes not less important occurred in the coinage. Frequently, these changes were effected by deteriorating the standard fineness of the coin. For more than a century past, the coinage of the civilzed world has undergone no material change with a view to the practice of fraud upon the people. Whether this forbearance is to be attributed to an improvement in the morality of modern governments, or to a more correct understanding of the principles of currency and of the consequences that must result from every change by which the relations of the society are effected, it furnishes just ground of expectation that they will not hereafter be attempted. Nothing more is necessary to secure an unalterable adherence to the maxims upon which it is manifestly necessary that a paper currency must be founded in order to preserve an uniformity of value, than the same morality and the same intelligence. Without assuming the principle of the perfectibility of human nature the hope may be indulged that the nature of currency will continue to command the attention of statesmen, and that the abuses which have resulted from improper changes in the currency, will not again occur in the same degree.

4. When the currency is metallic, no addition can be made to it without giving an equivalent. It is indispensable that this condition should be annexed to the acquisition of the paper currency, preliminary to its entering into circulation. If it can be put in circulation, only on paying its nominal amount in that which has a general and fixed value, determined by the consent of other nations, it will continue to preserve that value during the time it circulates, unless the relation which it bore at the time of its issue, to the quantity of articles, the exchanges of which it is destined to perform, shall be varied.

5. As a paper currency is issued upon the national credit, the whole property of the nation is pledged for its redemption, whenever, by any circumstance, it may become the interest of the community that it should be redeemed. It is, therefore manifest, that it should not issue upon the credit of any individual, or association of individuals. A part can never be equal to the whole. The credit of any individual, or association of individuals cannot be equivalent to that of the nation, of which they form a part. But, it may be said, that although the credit of individuals is not equivalent to the credit of the nation, yet an equivalent for a particular portion of that credit, may be found in the pledge or mortgage of property of equal or greater value, than the currency issued upon it. This may be true; but the value of property has been continually fluctuating:—it will continue to fluctuate, after giving to the advocates of a paper currency full credit for the superior stability which, they suppose, will attend its substitution for gold and silver as the standard of value. But this is not the only objection to the acceptance of property as a pledge for the payment, by individuals of an equivalent for the paper currency which may be advanced upon such pledge. Frauds will be practised by pledging property which is encumbered, which it would be extremely difficult to detect. The government will be involved in endless litigation with individuals who are interested in the incumbrances, by which its rights to the property pledged is embarrassed. In such contests, the interest of the government is always endangered even where right is on its side. It is not qualified to enter into such litigations, with an equal chance of success. The feelings of the community are always, except in flagrant cases of fraud, upon the side of an dividual, supposed to be struggling with the overwhelming influence of authority. Besides, in all contests of this nature, something of the respect for the government, which ought to be cherished by the citizens, especially of a free state, will be lost. The situation is invidious, and ought not voluntarily to be assumed by a government jealous of its dignity and purity of character. It is, therefore, believed that a national currency cannot be issued with safety, with a reasonable prospect of success, and with sufficient security against redundancy, but in exchange for gold and silver of a definite standard, or for the public stock at certain fixed rates. When issued in exchange for them, and for them alone, there is, though not the same, yet perhaps an equal security against redundancy as in the case of a metallic currency. When it is issued in exchange for public stock, commanding, previously to the exchange, its par value in coin, the party who acquires the currency parts with that which was equal to specie and is deprived of the annual interest which it produced. Unless the interest of the currency, resulting from its scarcity should exceed that paid upon the stock, it would not be demanded in exchange for the stock. In either case, the danger of redundancy is extremely remote.—By the exchange of specie for currency, the active capital of the country will be increased to the amount of the currency; and the capacity of the nation to redeem it, whenever it shall, by any circumstance whatever, become expedient will be unquestionable.

But, it may be doubted whether, under such conditions, a paper currency ever can be put in circulation. Under a government firmly established, conducted by upright and enlightened councils, and possessing absolute power over the currency, it is believed there is no just reason to apprehend a difficulty of that nature. If, in such a government, banks existed deriving their powers from it, the specie in their possession would be gradually exchanged for the paper currency which would become the basis of their operations. Not only the specie which they possessed would be thus exchanged, but exertions would, from time to time, be made to acquire the sums necessary to support their banking operations. Specie would be imported, even at an expense, for the purpose of being exchanged. Whilst specie formed the basis of the operations of banks, its importation could not fail to be productive of loss. Each importation not only produced the necessity of additional importations, but of an increased expense. But, when importations shall be made for the purpose of being exchanged for the currency, the exportation of the specie thus imported, will not affect the operations of the banks. It is only when the funding of the currency shall commence, that they will be admonished to desist from further importations. Individuals and banks would likewise exchange public stock at the rates prescribed by the system for the paper currency. Whenever the demand for currency should be such as to raise the interests of money considerably above that produce by the public stock, it would, by banks and individuals, be given in exchange for the currency. But the facility, which the existence of a public debt furnishes in procuring the paper currency, is counterbalanced by the difficulty of complying with the public engagement to discharge such debt in a metallic currency. After a paper circulation shall be substituted for gold and silver, they will be found in the country only in the quantity demanded for manufactures, and for such branches of commerce as are entirely dependent upon them. A considerable demand for gold and silver by the government, to meet its engagements, previously contracted, would raise their price in the market, and render the obligation to discharge those engagements, in the precious metals, not only extremely onerous, but perhaps sometimes impracticable. In such a state, a compromise with the public creditors would seem to be a preliminary measure. This, under any circumstances, would be a measure of great delicacy and difficulty, and, in some cases, would probably be utterly impracticable.

6. Whenever from any cause, the currency should become redundant, the redundancy may be funded at a rate of interest, a fraction below the rate of legal interest.

In determining the rate at which it may be funded, due regard should be paid to the rate of interest previously existing in the state. The rate of interest, it is conceived, ought not to depend, and, where a metallic currency prevails, does not depend solely upon the amount of currency necessary to perform, with facility, the exchanges required by the wants & convenience of society, in a new country, where there is but a slight accumulation of capital, the interest of money will be high, notwithstanding there may be even a redundancy of currency beyond what is necessary to effect its exchanges. In such a country, all the objects upon which capital may be employed, except those of the most simple kind are unoccupied. The currency necessary to effect the exchanges of its property, moveable and immoveable, will be entirely insufficient to satisfy the demand for those objects. If it should be multiplied, so as to equal that demand it would exceed the demand for the necessary exchanges of society, and, consequently, depreciate. Such in fact, it is believed, would be the consequence of issuing the currency upon individual credit, or upon the pledge of property, at a rate of interest below that which previously existed in the state. Any change of the interest of money by law, previous to its having taken place in individual transactions, in consequence of the accumulation of capital, would be unjust, and could not fail to produce serious inconvenience to the community. Admitting the rate of interest, in a state about to make the experiment, to be 6 per cent. then the currency should be issued only in exchange for specie or six per cent stock, or other stock according to that ratio. If the currency should, when, by any means, a redundancy existed, be fundable at five and a half per cent. interest, the utmost depreciation, to which it could be subject would be eight and one third per cent. But it is probable that the real depression in its value would not, at any time, be more than half that amount. Before funding would commence, the public stock, receiveable in exchange for the national currency, would be above the rates at which it was receivable. Its issue upon the exchange of stock would, therefore, have ceased. There are in every community capitalists who would prefer lending to the government at 5½ per cent. than to individuals at six. The funding of the currency would, therefore, begin before the redundancy would offer any general inducement to that mode of reducing it. The variation to which its value would be subject, would therefore be less than eight and one-third per cent. It would be the interest