POLITICAL DICTIONARY;

FORMING

A WORK OF UNIVERSAL REFERENCE,

BOTH

CONSTITUTIONAL AND LEGAL;

AND EMBRACING THE TERMS

OF CIVIL ADMINISTRATION,

OF POLITICAL ECONOMY AND SOCIAL RELATIONS,

AND

OF ALL THE MORE IMPORTANT STATISTICAL DEPARTMENTS OF

FINANCE AND COMMERCE.

IN TWO VOLUMES.

VOLUME II.

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ADVERTISEMENT TO THE SECOND VOLUME

OF THE

POLITICAL DICTIONARY.

THE plan and object of this Dictionary have been explained in the Advertisement prefixed to the First Volume. This Second Volume completes the work.

The Index contains the heads or titles of all the articles in the Two Volumes: and it also contains many heads or titles to which there are no separate articles corresponding, but as to which heads or titles something is said in the several articles which are referred to.

Some references occur in the body of the work which have not been made good, but they are few in number and comparatively unimportant; and some few references have been inaccurately made. It is difficult in a Dictionary to avoid errors of this kind, though due pains were taken to prevent them being made here. The Index in this Second Volume shows what the work contains.

A few subjects have been omitted which some persons might expect to find in a Political Dictionary; but it was thought prudent to limit the work to two volumes, and this limitation made it necessary to exclude articles of less importance.

It may however be stated that this is the only work of the kind in the English Language; that it contains a large amount of information on most political subjects which cannot be found in any other book adapted for general use; and that, though it does not profess to be a Law Dictionary nor to be free from the errors which are unavoidable in any work of the kind, it contains both more and more exact legal information than is given in some works which are entitled Law Dictionaries.

The rapid movement of modern legislation can only be followed by a periodical work. The act 9 & 10 Victoria, c. 59, 'An Act to relieve her majesty's subjects from certain penalties and disabilities in regard to Religious Opinions,' was passed too late to be noticed in its proper place. This is mentioned as an instance of the kind of omissions and the causes of them which have occurred in the progress of this work. The passing of this act brings the condition of Religion in this country still nearer to that condition which is considered in the article EDUCATION [vol. i. p. 816].

London, September, 1846.

Union for maintaining a mint in Scotland, and although every species of the money of Great Britain and Ireland was coined in London, the establishment of a mint was retained in Scotland for above a century after the union.

The reader may consult the *Report from the Select Committee of the House of Commons*, already referred to, in the Appendix to which he will also find a large collection of papers relating to the French mint, the mint of the United States of North America, and the Dutch mint.

MISCHIEF, MALICIOUS. [MALICIOUS INJURIES.]

MISDEMEANOUR. [LAW, CRIMINAL, p. 181.]

MISPRISION OF TREASON. [LAW, CRIMINAL, p. 187, *note*.]

MONACHISM, MONASTERIES. [MONK.]

MODUS. [TITHES.]

MONARCHY. [See p. 362.]

MONEY is the medium of exchange by which the value of commodities is estimated, and is at once the representative and equivalent of such value.

Barter is naturally the first form in which any commerce is carried on. A man having produced or obtained more of any article than he requires for his own use, exchanges a part of it for some other article which he desires to possess. But this simple form of exchange is adapted to a rude state of society only, where the objects of exchange are not numerous, and where their value has not been ascertained with precision. As soon as the relations of civilized life are established in a community, some medium of exchange becomes necessary. Objects of every variety are bought and sold, the production of which requires various amounts of labour; these at different times are relatively abundant or scarce; labour is bargained for as well as its products: and at length the exchangeable value of things, in relation to each other, becomes defined and needs some common standard or measure, by which it may be expressed and known. It is not sufficient to know that a given quantity of corn will exchange for a given quantity of a man's labour, for their relative value is not always the same; but if a standard be established by which each can be measured, their relative value can always be ascertained as well as their positive value, independently of each other.

As a measure of value only money is thus a most important auxiliary of commerce. One commodity from its nature must be measured by its weight, another by its length, a third by its cubic contents, others by their number. The diversity of their nature, therefore, makes it impossible to apply one description of measure to their several quantities; but the value of each may be measured by one standard common to all. Until such a standard has been agreed upon, the difficulties of any extensive commerce are incalculable. One man may have nothing but corn to offer for other commodities, the owners of which may not have ascertained the quantity of corn which would be an equivalent for their respective goods. To effect an exchange these parties would either have to guess what quantity of each kind of goods might justly be exchanged for one another, or would be guided by their own experience in their particular trades. Whenever they wanted a new commodity their experience would fail them, and they must guess once more. But with money all becomes easy; each man affixes a price to his own commodities, and even if barter should continue to be the form in which exchanges are effected, every bargain could be made with the utmost simplicity: for commodities of every description would have a denomination of value affixed to them, common to all and understood by every body.

But however great may be the importance of money as a measure of value in facilitating the exchange of commodities, it is infinitely more important in another character. In order to exchange his goods it is not sufficient that a man should be able to measure their value, but he must also be able to find others who, having a different description of goods to offer as an equivalent, are willing to accept his goods in exchange, in such quantities as he wishes to dispose of. Not to enlarge upon the obvious difficulties of barter:—suppose one man to have nothing but corn to sell, and another nothing but bricks: how can any exchange be effected unless each should happen to require the other's goods? But presuming that this is actually the case, is it probable that each will require as much of the other as will be an exact equivalent: or in other words, as much as represents an equal amount of labour? Such a coincidence might occur once or twice, but it is not conceivable that it should occur often. Corn is consumed annually: but bricks once produced endure for many years; and their interchange between two persons in equal proportions, for any length of time, would therefore be extremely inconvenient. In order to dispose of his corn, the producer might buy the bricks and dispose of them to others: but in that case, in addition to the business of growing corn he must become a seller of bricks. But human labour has a natural tendency to a division of employments: and as society advances in wealth and in the arts of life, men confine themselves more and more to distinct occupations, instead of practising many at the same time. [DIVISION OF EMPLOYMENTS.] With this tendency a system of simple barter is obviously inconsistent: as by the one, a man is led to apply the whole of his labour to one business: by the other, he is drawn into many. By the one he has only to produce and sell: by the other he must also buy what he does not want himself, and become a trader.

But all these difficulties are removed if some one commodity can be discovered which represents a certain amount of labour, and which all persons agree to accept as an equivalent for the products of their own industry. If such a commodity be found, it is no longer necessary for men to exchange their goods directly with each other: they have a medium of exchange, which they can obtain for their own goods, and with which they can purchase the goods of others. This medium, whatever it may be, is Money.

When money has assumed the character of a medium of exchange and equivalent of value, the cumbrous mechanism of barter gives place to commerce. But what must be the qualities of an article which all men are willing to accept for the products of their own labour? It is now no longer like a weight or measure, the mere instrument for assessing the value of commodities; but, to use the words of Locke, "it is the thing bargained for as well as the measure of the bargain." A bargain is complete when money has been paid for goods; it has no reference to the price of other goods, nor to any circumstance whatever. One party parts with his goods, the other pays his money as an absolute equivalent. But though money as a medium of exchange thus differs from money as a mere standard of value; yet in both characters it should possess, if it be possible, one quality above all others—an invariable equality of value at all times and under all circumstances. As a measure of value it is as essential that it should always be the same, as that a yard should always be of the same length. And unless, as a medium of exchange, its value be always the same, all bargains are disturbed. He who gives his labour or his goods to another in exchange for a delusive denomination of value instead of for a full equivalent which he expects to receive, is as much defrauded as one who should bargain for a yard of cloth and receive short measure.

But however desirable may be the invariableness of money, complete uniformity of value is an impossibility. There is no such thing as absolute value. All descriptions of measures correspond with absolute qualities, such as length, weight, and number, and may be invariable. But as value is a relative and not an absolute quality, it can have no invariable measure or constant representative. The value of all commodities is continually changing; some more and some less than others. Their real value depends upon the quantity of labour expended upon them; but temporary variations in their exchangeable value are caused by abundance or scarcity—by the relations which subsist between supply and demand. No commodity yet discovered is exempt from the laws which affect all others. If precisely the same quantity of labour were required for a long series of years to produce equal quantities of any commodity, its real value would remain unchanged; but if it were at the same time an object of demand amongst men, variations in the proportion between its supply and the demand for it would affect its exchangeable value. It follows therefore, that to be an invariable standard, money must always be produced by the same amount of labour, and in such quantities as shall constantly bear the same proportion to the demand for it.

But even if any description of money could be invented which possessed these extraordinary qualities, the value of all other articles would still be variable, and thus its representative character would be disturbed. At one time, for example, a given denomination of money will represent a certain number of bushels of wheat; at another time, the same money, unchanged in real value or in demand, will represent a much greater number. Every application of machinery, every addition to the skill and experience of mankind facilitates production, and by saving labour reduces the real value of commodities. Their value is also liable to temporary depreciation from other causes, from too abundant a supply, or from an insufficient demand. But if money maintain the same value, in relation to itself, notwithstanding the diminished value of other articles, its proportionate value is practically increasing. The consequences of a growing disproportion between the representative value of money and the value of commodities are these: 1st. a producer has to give a larger quantity of his goods than before for the same amount of money. 2ndly, Those who are entitled to payments in money, receive the value of a greater quantity of commodities than they would have received if the relative value of money and of commodities had not been disturbed. It follows from these circumstances, that as a general rule, all creditors whose debts have been calculated in money derive advantage from any increase in its value relatively to commodities; while debtors derive benefit from any circumstance which raises the value of commodities, as compared with that of money: whether it be by increasing the value of the former, or by depreciating the value of the latter. To make these principles intelligible the following example may not be superfluous: Suppose a farmer to hold land under a lease for twenty-one years at a money rent; and that from any cause the value of agricultural produce is no longer represented by money in the same manner as when the arrangement was entered into with his landlord, but that the value of money has been relatively increased. In order to pay his rent, he must now sell a larger proportion of his produce, even though its production may have cost him as much as ever. On the other hand, his landlord receives the same money rent, but is able to purchase more commodities than before on account of the increased comparative value of money.

Thus far we have thought it convenient to confine ourselves to the abstract qualities and uses of money, and to explain such general principles only as are introductory to the consideration of particular kinds of money, and of the modes of using and regulating them.

In all ages of the world, and in nearly all countries, metals seem to have been used, as it were by common consent, to serve the purposes of money. It is true, that other articles have also been used, and still are used, such as paper in highly civilized countries, and cowrie shells in the less civilized parts of Africa; but in all, some portion of the currency has been and is composed of metals. We read of metals amongst the Jews, the Chinese, the Egyptians, the Persians, the Greeks, the Romans. In the earliest annals of commerce they are spoken of as objects of value and of exchange; and wherever commerce is carried on they are still used as money. But as they were introduced, for this purpose, in very remote times, it is not probable that they were selected because their value was supposed to be less variable than that of other commodities. More than two thousand years ago, indeed, Aristotle saw clearly (but what did he not see clearly?*) that the

* Many important principles of political economy, the discovery of which is attributed to Adam Smith and other modern writers, may be found in the works of Aristotle, expressed with wonderful precision and clearness. Mr. M'Culloch, for example, refers to Locke as the first who laid it down that labour is the source of value; but the same principle was affirmed by Aristotle

principal use of metallic money was that its value was less fluctuating than that of most other substances (*Ethic. Nicom.* v. 5). But however clearly this great philosopher may have observed the true character of money, many ages after the circulation of metals, those who first used them were men engaged in common barter, who considered their own convenience and security without reference to any general objects of public utility. They must have used metals, not as a standard of value, but as an article of exchange, which facilitated their barter. All metals are of great utility and have always been sought with eagerness for various purposes of use and ornament: but gold and silver are especially objects of desire. Their comparative scarcity, the difficulty and labour of procuring them, their extraordinary beauty, their singular purity, their adaptation to purposes of art, of luxury, and display: their durability and compactness; must all have contributed to render them most suitable objects of exchange. They were easily conveyed from place to place; a small quantity would obtain large supplies of other articles; they were certain to find a market; none would refuse to accept articles in payment which they could immediately transfer to others: and thus gold and silver naturally became articles of commerce, readily exchangeable for all other articles, before they were circulated as money, and were acknowledged as such by law and custom.

The transition of the precious metals from the condition of mere articles of exchange, amongst many others, to that of a recognised standard of value by which the worth of all other articles was estimated, was very natural. Merchants carrying their wares to a distant market would soon find it necessary to calculate the quantity of gold and silver which they could obtain, rather than the uncertain quantities and bulk of other commodities. They would not know what articles it would be prudent to buy until they reached the market and examined their quality and prices: but a little experience would enable them to predict the quantity of gold and silver which would be an equivalent for their own merchandise. Merchants, from different parts of the world, meeting one another in the same markets, and finding the convenience of assessing the value of their goods in gold and silver, would begin to offer them for certain quantities of those metals, instead of engaging, more directly, in bartering one description of goods for another; and thus, by the ordinary course of trade, without any law or binding custom, the precious metals would become the measure of value and the medium of exchange.

But when gold and silver had attained this position in commerce, they were not the less objects of barter; nor were they distinguishable, in character, from any other articles of exchange. They were weighed, and being of the required fineness, a given weight was known as a denomination of value, but in the same manner only as the value of a bushel of wheat may be known. In the earliest ages gold and silver seem to have been universally exchanged in bars, and valued by weight and fineness only. The same custom exists at the present day in China. There is no silver coinage, "but the smallest payments, if not made in the copper *tchen*, are effected by exchanging bits of silver, whose weight is ascertained by a little ivory balance, on the principle of the steelyard." (Davis's *China*, c. 22.)

Notwithstanding the ease with which gold and silver are divided into the smallest portions, each of which is of the same intrinsic purity and value as the others, the trouble of weighing each piece, and the difficulty of assaying it, render these metals in bars, or other unfashioned forms, extremely imperfect instruments of exchange, especially when they are used in small quantities. However accurately they may be weighed, it

in more than one part of his works, and more accurately than by Locke (*Ethic. Nicom.* v. 5). Again, he perceived, perhaps as distinctly as any other writer, the distinction between productive and unproductive labour (*Metaph.* ix. 8). As another example we would refer to his account of the origin of barter, its development into commerce, and the connexion of the latter with the use of money (*Pol.* i. 6). And, lastly, any economist must be struck with his clear perception of the relations between a division of employments and the exchange of the products of labour (*Ib.* ii. 2).

requires considerable skill and labour to assay them, which in small pieces would scarcely be repaid. Even in large quantities the difficulty of assaying their fineness, in countries which have made considerable advances in the arts, is greater than might be expected. The Chinese affect much accuracy in the art of assaying. The stamped ingots of silver in which their taxes are paid, are required to contain ninety-eight parts in a hundred of pure silver, and two per cent. only of alloy; and strict regulations for maintaining this standard are rigidly enforced. Hence we should naturally infer that the attention of merchants and of all persons dealing in silver would be particularly directed to the most accurate assays. Yet, at Canton, an enormous trade in opium has, for a long series of years, been conducted entirely in sysee silver, which has been found to contain so large an admixture of gold that it bears a premium of five or six per cent. for exportation to England. (Davis's *China*, ii. 22.)

If the Chinese have been unable to discover the presence of gold, which it would be their interest to appropriate, how difficult must it be to detect alloys of baser metals in gold or silver circulated amongst a people in the ordinary course of trade. To obviate this difficulty coinage was introduced, by which portions of gold, silver, copper, and other metals have been impressed with distinctive marks, denoting their character, and have become current under certain denominations, according to their respective weight, fineness, and value. These coins have always been issued by the government of each country as a guarantee of their genuineness; and the counterfeiting of them has been punished as a serious offence against the state.

In rich countries these three metals of gold, silver, and copper are very convenient substances for the manufacture of coins, on account of the differences in their relative value. Gold coins containing a high value in small compass, are convenient for large payments, silver coins for smaller payments, and copper coins for those of the lowest value; while all the larger coins are multiples of the smaller. These several descriptions of coin serve the ordinary purposes of trade sufficiently well: they are universally received as money within the country in which they circulate, and the principal part of all payments of moderate amount are made in them. But payments of large amounts cannot conveniently be made in coins of any metal; and in this and other countries paper money and various forms of credit have been used as substitutes. Of these we shall speak presently; but it will first be necessary to consider the suitableness of gold and silver coins as standards of value.

Coins made of these metals are not exempt from the laws which govern the prices of other commodities. They have accordingly varied in their own value, in successive periods, and are at no time secure from variation. In the sixteenth century new mines of extraordinary richness were opened in America which were worked with such ease, and were so unusually productive, that the value of the precious metals, as representatives of so much labour expended in their production, was lowered all over Europe to about a third of their previous value. And thus a revolution, so to speak, was effected in the gold and silver coins of that period, as standards of value. Similar causes have produced the same effect, at other times, though not in the same degree; and we cannot be secured against their recurrence.

If the production of gold and silver be free, like that of other commodities, the only circumstance which can permanently diminish their value, in relation to themselves at different periods, is a reduction in the quantity of labour required for their production. But they are also liable to fluctuations in their value by reason of variations in the demand for them in particular countries. Though fashioned into coins, they retain all their properties as articles of commerce: they are readily fused into other forms, and rendered available for all purposes of use and ornament; and the occasions of commerce often withdraw them from one country and attract them elsewhere. From these causes their value, instead of being always the same, is liable to permanent alterations, and also to occasional fluctuation.

Both gold and silver are alike subject to these general laws, and are therefore imperfect standards of value. If one be the standard independently of the other, it is liable to change in itself, and also in its relation to other commodities: if both be adopted as standards at the same time, they will not only each vary in themselves, and in relation to other commodities, but they will vary also in regard to each other. And thus another element of uncertainty is introduced into the coinage, which becomes still more imperfect as a standard.

But it is not customary for the state to allow coins to fluctuate in their legal value according to the circumstances which determine the market prices of gold and silver. Coinage does not merely authenticate the weight and fineness of a piece of metal, leaving it to find its own level in exchange for other commodities; but it attaches to it a definite value, by fixing the standard price of the metal as well as the weight and fineness of the coin. The object of this regulation is to maintain a greater equality in the standard: and as regards small fluctuations in the value of the precious metals, it will generally have that effect. But if any considerable disproportion should arise between the standard price of bullion and the market price, no such regulation can prevent a practical change in the standard. If the market price should become considerably higher than the standard price, the coins would be melted down for the sake of the profit arising from the difference. If it should become considerably lower for any length of time, the value of the coins, though nominally unchanged, would in fact be depreciated: for they would exchange for a less quantity of other commodities than they exchanged for before. And thus a currency composed exclusively of metals cannot be made an accurate standard of value by any expedients of law.

We may here remark, however, that a seignorage, or charge by government to cover the expenses of coinage, acts as a protection, within certain limits, against the melting of coins, because unless their value be depreciated by over-issue, the whole charge will be added to their value as coins, and will be lost when they are melted. For this amongst other reasons a seignorage should always be charged by the state.

There is yet another imperfection in coins, as standards of value. Notwithstanding their natural durability, they are subject to continual wear, and must be gradually diminished in weight. They are also exposed to the fraudulent experiments of men whose trade it is to rob them of a portion of their weight by artificial wear. The value of coins is therefore certain to be continually depreciated by loss of weight, apart from any other causes of variation.

From all these circumstances it is evident that gold and silver coins have qualities inherent in them which render them necessarily imperfect standards of value, with whatever care and skill they may be regulated. But, in addition to these natural causes of imperfection, others have been artificially produced by erroneous or dishonest political expedients. There is no country perhaps in which the coinage has never been debased by the government. Debasement of coins was formerly a common artifice for increasing the revenue of states, and it has been effected in three different ways:—1, by diminishing the quantity of metal, of the standard fineness, in coins of a given denomination; 2, by raising their nominal value and ordaining that they shall pass current at a higher rate; and, 3, by debasing the metal itself—*i.e.* by leaving the coin of the same weight as before, but reducing the quantity of pure metal and increasing the quantity of alloy. In all these ways have the coins of England been debased at different periods of our history; and to so great an extent were they debased by successive kings, that from the Conquest to the reign of Queen Elizabeth, the total debasements of the silver coins have been estimated at 65 per cent. (Lord Liverpool *On Coins*, p. 35.) By expedients of an opposite character the standard of coins may be artificially raised; and the result of measures connected with the coinage of this country was, that in a period of 115 years, from the 1st James I. to the 1st George I. the value of gold coins, as compared with silver coins, was raised 39 per cent. (Ibid, p. 84.) No further examples are needed to prove the inconstancy of coins as a standard, when they form the sole currency of a country.

But notwithstanding these imperfections, the convenience of gold or silver coinage, as money, has led to the universal adoption of one or the other, or of both conjointly, as the standard of value. The objections to a double standard have already been noticed, but throughout a long period of the history of this country we find gold and silver prevailing equally as standards. There appears to have been no public coinage of gold, at the royal mints, prior to the 41st Henry III. The gold pennies coined at that time were expressly declared not to be a legal tender, and never obtained a very general circulation. Silver was then the universal medium of exchange, and the people were unaccustomed to the use of gold as money: but as their commerce and riches increased gold naturally became more convenient for large payments. The results of this progress became apparent in the reign of Edward III., who established a general circulation of gold coins, which, though partially introduced nearly a hundred years before, by Henry III., had not been continued by his successors. From this time gold and silver coins circulated together, and were both legal tenders. To what an extent their relative value varied at different periods, has already been noticed; but they were equally recognised by law as authorised standards of value in all payments whatever, until the year 1774, when it was declared by statute (14 Geo. III. c. 42) that, in future, silver coins should not be a legal tender in payment of any sum exceeding 25*l.*, except according to their value by weight, at the rate of 5*s.* 2*d.* an ounce. This was a temporary law, but was continued by several statutes until the year 1816, when the legal tender of silver coins was further restricted to payments not exceeding forty shillings (56 Geo. III. c. 68). And thus, as all large payments were made and calculated in gold coins, they became the sole standard of value, so far as coinage alone was the real medium of exchange.

The expediency of adopting gold as the standard instead of silver, has been a question of much doubt and controversy amongst the highest authorities upon monetary affairs. It was the opinion of Locke, of Harris, and Sir William Petty (all great authorities) that silver was the general money of account in England, and the measure of value in its commercial dealings with other countries. Its general adoption for such purposes was urged as a proof of its superiority as money over gold; and of this opinion are many thinkers of high authority at the present day. On the other hand it has been argued, that the metal of which the chief medium of exchange is fabricated, should have reference to the wealth and commerce of the country for which it is intended; that copper or silver coins of the lowest denominations suffice for the convenience of a very poor country; but that as a country advances in wealth its commercial transactions are more costly and require coins of corresponding value. As a matter of convenience this is undoubtedly true. Gold is the standard in England; silver is the standard in France; and the comparative facility of effecting large payments in the current coins of the two countries can admit of little doubt. Habit will familiarize the use of silver, and render a people insensible to its inconvenience; but it is certain that in England fifty sovereigns can be carried about in a man's waistcoat pocket, while in France the value of that sum in silver would weigh about 48 lbs. troy: so heavy and bulky, indeed, would it be that a carriage would be required to convey it from one part of Paris to another.

But the convenience of coin for a certain class of payments is a question quite distinct from that of its fitness for a standard of value. It is not necessary to exclude gold from the coinage because it is not adopted as the standard; it may be circulated as freely as the people desire to use it, while, instead of being the legal standard, its value may be calculated in silver. If silver be the standard, a large gold coinage may circulate at the same time for the convenience of larger payments, just as silver circulates for small payments where gold is the standard. In either case, however, that metal which is chosen by the state as the lawful standard governs all calculations and bargains, while the other metal merely conforms to its standard, and is subsidiary to it. But even if the relative convenience of gold or silver as a standard were the sole question, it could not be determined by the modes of effecting large payments only. All payments are calculated as easily in the coins of one metal as of another, in whatever form they may be actually effected. But by far the greater number of bargains are made for articles of small value. It is in silver and copper that the consumption of all commodities is mainly paid for. The wages of the country are paid and expended in that form; and in that form the prices of nearly all the ordinary articles of daily use are calculated. However the wholesale bargains of merchants may be conducted, the goods bought and sold by them are ultimately distributed to the consumers in very small quantities, the prices of which are estimated in silver and copper. The aggregate value of the small bargains must be equal to that of the large mercantile bargains which relate to the internal trade of the country, and in frequency and number they are, beyond all comparison, more important. It is certain, also, that in the vast operations of commerce the bargains, in whatever medium they may be calculated, are very rarely paid for in any coin whatever, but are settled by various forms of credit; while all minor transactions—the bargains of daily life—can be adjusted by money payments only. It is for such purposes, therefore, that the metallic currency of a country is mainly needed; and it may be contended with much force, that silver represents the value of commodities more universally than gold, and is consequently a fitter standard.

The fitness of a standard, however, cannot be determined solely by considerations of convenience: for we must chiefly regard its intrinsic qualities as a permanent measure of value. How shall uniformity of value be maintained as far as practicable in the money of a country? is the main question to be determined; and not, Which is the most convenient form in which to make bargains? In what medium shall the whole property of the country be valued, from one year to another? By what standard shall the relative value of all things be compared? How shall fluctuations be restrained in the value of this standard itself? These are the questions to be answered.

In favour of gold as a standard it is argued that being less extensively used for plate and other manufactures, it is less an article of commerce than silver, and is confined more specifically to the purposes of money. On the other hand, it is contended that gold is used in large quantities for jewellery, watches, and decorative purposes, and that being a comparatively scarce material, its consumption, in this manner, affects its quantity and value to a greater extent than the use of plate affects the price of silver.* And in this argument there is much weight, for it is estimated that the quantity of gold compared with the quantity of silver is as 1 to 50; and their relative value is as 1 to 15. (See *Bullion Report*, 1810, *Allen's Evidence*.) Now it is evident that any variation in the commercial demand for gold must be more sensibly felt than a similar variation in the demand for silver.

But it is not sufficient to consider the demand for the precious metals as articles of consumption only; they are suddenly sought for in large quantities for other purposes. If the exchanges be unfavourable to a country, its precious metals are in greater demand for exportation than its commodities; or if there be a foreign war, its metals are in demand for the payment of the troops and for the purchase of food and munitions of war. Here again gold must feel the demand to a greater extent than silver. If metals be required for exportation in payment of goods, gold is sure to be preferred by merchants; it is compact and portable; a large value can be exported at a small cost and without difficulty; while fifteen times as much silver must be taken to effect the

* For an account of the consumption of gold and silver in various manufactures, see Jacob 'On the Precious Metals,' chap. xxvi. vol. ii. p. 270.

same purpose. In war gold is even more in request than for the purposes of commerce: its facility of transport is so important that it must be obtained at any cost, and it is consequently drained from all countries in which it can be found. Thus not only is gold, from its limited quantity, more sensibly affected by any increased demand than silver; but it is more peculiarly liable to great and sudden drains from any country in which it forms the standard of value.

If it should happen that one country has a large gold coinage in circulation in addition to all the bullion which is required for the purposes of commerce, while all the adjacent countries use a silver currency, and possess very little more gold than is necessary for its consumption, it is clear that whenever a large demand for gold arises, it must be directed to the country in which there is a gold currency. That country will be immediately used by all others as a rich gold mine, whence abundance of metal without alloy, and assayed ready to their hands, may at once be grasped, without digging in the earth. No laws and no vigilance can restrain its export: as soon as it is wanted abroad, it disappears like water through a sieve. And this has been the case with England. Every other country in Europe has a silver standard; and whenever gold is wanted, her coinage supplies it. The extent to which gold is exported when the foreign exchanges are unfavourable may be estimated from the returns of bullion retained by the Bank at different periods. On the 28th February, 1824, the Bank had in its coffers 13,810,060*l.* in bullion; at the same period, in 1825, it had 8,779,100*l.*; on the 31st August in that year its treasure was reduced to 3,634,324*l.*; and on the 28th February, 1826, to 2,459,510*l.* Again in March, 1836, the bullion amounted to 8,003,400*l.*, but was reduced by the following February to 3,938,750*l.* A similar exhaustion of treasure was exhibited in 1838-9. In December, 1838, the Bank possessed 9,686,000*l.* of bullion; and in August, 1839, no more than 2,444,000*l.*

These are undoubtedly very strong objections to a gold standard, and in order to test them thoroughly it would be satisfactory to compare the actual prices of gold and silver, and estimate their relative variations. But such comparisons are extremely delusive, for there is no common standard by which to compare the price of each metal. If silver be purchased with gold, how shall we determine in which there has been variation? Or if gold and silver be both purchased alike with bank notes, there is a standard wanting; for the notes are made to conform to the value of the gold, and not to the value of the silver. These elements of uncertainty make all returns fallacious; but if reliance could be placed upon them, the fluctuations in the price of silver bullion would appear to be very slightly greater than those of gold (see *Bank Charter Report*, 1832, *Sess. Paper*, No. 722, App. p. 98; *Banks of Issue Report*, 1841, No. 410, App. p. 316). These results do not corroborate the objections to a gold standard; but it must be recollected that independently of fluctuations in the prices of bullion, a diminution in the quantity of money circulating in a country raises the value of the remainder, and disturbs its relation to the prices of other commodities. It is in this form that the effects of an abstraction of gold must be felt rather than in the price of bullion; and though its influence upon prices is very injurious, the cause is not always perceptible. If a country had a circulation composed exclusively of gold, it might sometimes be deprived of all its money; if of gold and silver conjointly, it might sometimes be deprived of all its gold; but no country could be deprived of all, or nearly all, its silver by the operations of commerce. When paper money is added to gold and silver coins as part of the circulation, a country can always command a sufficient quantity of money; but the drain of its metals has an important influence upon the value of its circulating medium, and upon the operations of commerce; but of these matters more will be said hereafter.

The principal imperfections of the precious metals as standards of value have now been adverted to. Both of them are less liable to variations than any other known commodity which could be used for the purposes of money: but of the two, silver would appear to be, upon the whole, the most suitable for a standard of value.

But whatever metal may be chiefly used as money, there is a disadvantage attending the circulation of coins which remains to be noticed. To maintain a large circulation of them is the most expensive mode of furnishing a people with a medium of exchange. In the first place the whole value of the metals of which they are composed, is subtracted from the productive capital of the country, in order to facilitate the exchange of other commodities. Unless this expense be absolutely necessary, it is an unwise extravagance. It is as if children should play at cards with gold counters instead of ivory fish. Secondly, the wear and abrasion of coins makes it necessary to supply their deficiency with more of these costly metals, in addition to the amount already coined. Thirdly, not only are coins diminished in weight, but great numbers are irretrievably lost and destroyed. They are buried in the earth by misers, and never found again; they are lost in the sea; they are wasted by fire; they are dropped in the roads, and trampled under foot with the dust and stones. Every accident of this kind diminishes the wealth of the country, and wastes the products of its labour. Some cheaper kind of money therefore should, as far as possible, be used as a substitute for gold and silver;—and such a substitute has been found in paper.

Not only is paper more economical than gold and silver, but it is more convenient than either for effecting large payments, or for transmitting sums of money to a distance. In this respect it excels gold more than gold excels silver. A million of money may be paid in bank notes as easily as ten sovereigns, and transmitted to a distance even more easily.

But notwithstanding these advantages, paper may be deemed an imperfect instrument of exchange, because it is subject to forgery. It shares this defect, however, with other kinds of money. Gold and silver coins are counterfeited in baser metals; paper-money is imitated by the forger. But the more exquisite the art with which a coin is struck, the more difficult is it to counterfeit its impression; and, in the same manner, the more elaborate the design of a promissory note, the greater will be the obstacles to forgery. No precautions, perhaps, can altogether prevent a spurious imitation of valuable articles; but the possibility of forgery can only be objected to the use of paper-money in the same manner as the danger of buying paste ornaments may be urged against the wearing of diamonds.

Paper is thus as well suited as any other material for the purposes of a currency; but its character is essentially different from that of other descriptions of money. Its cheapness, which renders its use economical, prevents it from being exchanged as an absolute equivalent for other commodities. Gold and silver have a value of their own, distinct from their value as money; but, except in its monetary character, paper is nearly worthless. To be accepted, therefore, in exchange for commodities, paper must represent some value besides its own.

In considering what that value may be, it will be convenient to describe the character and functions of a promissory note. The state, a bank, or some person of known wealth, instead of paying a sum of money in the ordinary coins of the country, issues a note promising to pay that sum, on demand, to any person who shall present it for payment. This is the form of promissory notes which circulate as money: but there are also promissory notes, payable at some particular period, which, for reasons which will be presently explained, do not form part of a monetary circulation. Now, in the ordinary transactions of life, no one will promise to pay a sum of money without receiving or expecting to receive an equivalent for it, and such equivalent, whatever it may be, is the value represented by the note. Suppose that A in London owes B at Edinburgh a thousand pounds, and that he has a thousand sovereigns to discharge his debt. Instead of transmitting the gold to Edinburgh, A takes it to the bank and exchanges it for a promissory note of that amount, which is accepted by B in payment of his debt. In this case it is clear that the note represents a thousand sovereigns; and any person in whose possession it may be can obtain them from the bank. Suppose again that C applies to D for a loan of 1000*l*., for the repayment of which he is able to offer security in the shape of goods or property; and that D, instead of advancing that sum in money, gives him his promissory note for 1000*l*. payable on demand. In that case, the promissory note, if issued by a solvent person, would be equally payable in coined money, but it would represent the security upon which it was given. The issuer of the note will suffer if that security be insufficient, for he has pledged his own property against it; but the interest which he expects to receive is a compensation for the risk he incurs in realizing, as it were, the property of another. A promissory note, it seems, may therefore represent either coined money or capital in any other form. But here an important question arises which affects the entire character of paper-money. Why do persons accept promissory notes instead of gold and silver? Why are they satisfied with the representative of value instead of receiving the value itself? For the explanation of this point it will be necessary to divide promissory notes into two kinds, viz.: 1, those issued by the state, or by a state bank; and 2, those issued by bankers, or other persons unconnected with the state.

1. Promissory notes issued by the state or by a state bank are under the protection of the law, and are made a legal tender. When once in circulation they discharge debts as completely as the current coin; they may not be refused in payment, although if from any cause their value be depreciated, they may be taken in exchange for a less sum than they profess to represent. Such notes are therefore money, to all intents and purposes, just as if they were composed of gold and silver. Their value is liable to fluctuation, according to the regulations under which they are issued: but they are lawful money, coined by the state in paper, instead of in the precious metals. Such money will be current throughout the country in which it is issued; but it differs from gold and silver, inasmuch as it cannot serve the purposes of an international currency. Gold and silver are current all over the world, and their value is everywhere understood; but paper-money is necessarily confined to the purposes of internal circulation.

2. Promissory notes issued by bankers or other persons unconnected with the state, not being a legal tender, may be refused in payment of any debt. They can only be circulated, therefore, with the entire concurrence of those who receive them. It is by means of banking accommodations, however, that they usually get first into circulation. A person who wishes to borrow money is not very particular concerning the form in which he obtains it, and he willingly accepts a note, if it be offered him instead of gold. He probably owes money to another to whom he, in his turn, offers the note as payment. This third party will readily accept it, for he wishes to secure the payment of the debt, and if he distrust the value of the note, he may immediately call upon the party who issued it, for gold. When the credit and solvency of a bank are well known in any neighbourhood, its notes pass from hand to hand without any distrust, but they rarely circulate beyond the adjacent district. Within its own district they are received as money, as readily as a state bank-note is received all over the country; beyond its district they are sure to be returned for gold, just as a Bank of England note would be returned from Russia. A bank of issue is also a bank of deposit, and the people amongst whom its notes are circulated pay them into the bank whence they issued, and receive credit for them—not as notes only, but as current money: and when they draw again upon their deposits, they may receive the amount in gold and silver or in state bank-notes. In this manner the distinction between local notes and other descriptions of money is gradually lost sight of; they are readily convertible: they are universally circulated: habit familiarises the use of them; and at length, without the sanction or protection of any law, they become money: usage, and not the state, has coined them. Still

any one may refuse to receive them, and the extent of their circulation depends upon the credit of the issuer. Let a whisper be heard against his solvency, and in a single day all his notes may be returned to him for immediate payment in the currency of the state.

The circumstances which occasion a large circulation of both these kinds of paper-money in a country, are the convenience of such a circulation and the difficulty of obtaining a sufficient coinage for effecting the various purposes for which money is used. The demand for money is continually increasing in proportion to the increase of commodities in quantity and value: and in a rapidly improving country no coinage can keep pace with such an increase. When paper-money is issued it does not supersede gold and silver, but is used concurrently with them. Its denominations of value are the same as those of the coins; and if it be a properly regulated currency, its value will also be precisely the same as that of the coins of a like denomination. A hundred pound note should be of precisely the same value as a hundred sovereigns. But how is this equality of value to be maintained between two descriptions of money differing so materially in character? Gold and silver, as already explained, have a known value as articles of commerce, and their real value depends upon the quantity of labour required for their production. If this continue unchanged for many years, their exchangeable value may still be liable to fluctuation by reason of varying proportions between supply and demand. The supply of them may be the same with an increased demand: or the demand may remain the same and the supply be either increased or diminished. But paper has scarcely any real value when used as money; the labour expended upon it compared with its denomination of value is merely nominal: and its value, supposing its credit to be good, must therefore depend entirely upon the proportion which the quantity issued bears to the requirements of commerce. If less be issued than there is a demand for, its value will rise; if it be issued in excess, its value will be depreciated. So strong is the operation of this principle, that promissory notes, which are a legal tender, may even be raised above the value of gold, though inconvertible into specie, if their amount be sufficiently limited. This result was actually produced, after the suspension of specie payments in 1797; when, so far from being depreciated in value, bank-notes bore a premium over gold, until they were issued in excess and fell to a discount. It is evident, therefore, that the value of paper-money is independent of convertibility. If convertible, but issued in excess, its value will be depreciated; if inconvertible, but limited in amount, its value will be sustained. And further, if government paper and local notes be concurrently in circulation, and if either be issued in excess, the value of both will be depreciated, because the aggregate quantity of paper-money will be increased beyond the demand for it.

The mode of regulating the issue of paper-money so as to sustain its value and to prevent it from fluctuation, is one of those difficult problems which have perplexed theorists and statesmen, and still remain to be completely elucidated by experience; but the principles upon which any sound system of paper-currency must be founded are now agreed upon by the best authorities.

Let it be supposed that no paper-money is in circulation but government notes, inconvertible into specie, and that it is the desire of government to maintain them at the same value as the gold and silver coinage. By what principle could the issue be regulated so as to effect this object? Gold and silver maintain a reasonable steadiness of price, as they are possessed of a real value, and being in demand all over the world, are distributed in quantities proportioned to the wants of each country. Without any standard price being fixed by the state, their value will, therefore, be self-regulated; but paper-money, not being possessed of any real value, has no element of stability in itself, and unless its issue be adjusted with the utmost nicety, its value will be constantly fluctuating. As the object to be secured is an equality of value between the precious metals and paper-money, and as the former have an element of stability which is wanting in the latter, it is clear that paper-money must be made, in some manner, to conform to the value of the precious metals. Now this can only be accomplished by making paper-money convertible into gold or silver, whenever its holders demand such a conversion. To regulate the issues of inconvertible paper is like filling a vessel with water, in the dark, and without a measure: it is by the overflow only, that the vessel is known to be full; while a convertible paper, under proper regulation, adjusts itself to the standard of the precious metals.

If convertibility be desirable when there is no other paper in circulation but that issued by government, it is indispensable when promissory notes are permitted to be issued by other parties; for, in that case, it is necessary to guard against an excessive issue of both descriptions of paper; and when government paper is convertible, other issues of paper will in some degree conform to its standard, as it, in its turn, conforms to that of the precious metals.

The manner in which convertibility restrains the over-issue of notes may be thus explained. If too much money be in circulation, its value is depressed, and the prices of commodities relatively raised. It thus becomes more profitable to export money than commodities in payment of the price of imports; but paper-money not being current abroad, gold or silver is taken, and whenever this occurs, the exchanges are said to be unfavourable. If a state bank issuing notes be required to give gold or silver in exchange for them, it must be constantly possessed of a large store of the standard metal. If it be the sole or chief bank of issue, it will be the principal depository of bullion in the country; and thus any drain caused by unfavourable exchanges will be first and chiefly felt by it. Persons wishing to export bullion will demand it of the bank in exchange for notes. In this way the bank is apprised of the state of the foreign exchanges, and learns that money is too abundant; while it has the power of immediately contracting its circulation by means of this very demand for bullion. It has merely to lock up those notes which it has received back in exchange for bullion, and every exportation of its bullion effects a proportionate contraction of the currency and restores the exchanges to a healthy state, by adjusting the quantity of money to the requirements of commerce. This is a simple mode of regulating the circulation of a country, and if all the paper-money were issued by one body only, it could not fail to be effectual. So far as the principle has been tested in England it has been successful; but its operation has been interfered with by the competing issues of many independent banks, and by the admixture of banking business with the issue of notes, in the bank itself. Both these causes of disturbance have been partially provided against by the recent Bank Charter Act (7 & 8 Vict. s. 32), and the experience of a few years will show if there be any imperfection in the principle, that the paper-circulation of the country must be regulated by the foreign exchanges.

Any further reference to the particular laws and practice by which the circulation of this country is regulated, in connection with a complicated system of banking, will be unnecessary for the explanation of principles, and these matters have already been treated under another head. [BANK.] But we cannot quit the subject of convertibility without adverting to a point of great importance. In order to regulate the issues of paper with reference to the exchanges, it is by no means necessary that gold or silver coins should be given by the issuing body in exchange for its own notes. Uncoined bullion would serve the purpose equally well, and would occasion a considerable economy in the coinage. It would be sufficient, therefore, to require the bank, or other issuing body, to give bullion in exchange for its notes, at the standard price, whenever a certain amount should be demanded. There can be no object in giving facilities to every person who possesses a *5l.* note, to exchange it for gold, and much mischief is caused by such facilities, in times of panic; while, on the other hand, no impediment would be offered to the great operations of commerce by raising the minimum quantity of bullion to be demanded. By this arrangement whenever notes fell below the value of bullion, they would be brought in exchange for it, until the prices of both were again equalized; and if by any undue limitation of issue, the value of notes should be raised above that of bullion, the bank should be obliged to give its notes in exchange for bullion. In this manner the circulation would be enlarged and the equilibrium between gold and paper restored. This excellent system was proposed by the late Mr. Ricardo in his able pamphlet entitled 'Proposals for an Economical and Safe Currency,' and was carried into effect, for a short period, on the resumption of cash-payments, in 1819, but was succeeded by the present plan of convertibility into gold coin, which is more costly and less secure in its operation.

In regard to the issue of paper-money there are two antagonist theories, which remain to be noticed, although it will be impossible to enter fully into the arguments by which each is supported. By one it is proposed that all paper-money should, like gold and silver, be coined by the state alone, in order that its issue may be properly regulated and its convertibility secured. By the other it is maintained that the issue of paper-money should be open to all persons without restriction, like the drawing of bills of exchange, except in so far as securities may be necessary for the solvency of the issuers. In this country neither of these principles has been adopted singly, but the circulation has been founded upon the union of them both. It has, however, been the policy of the government gradually to contract the issues of private banks, and to replace them by the notes of the Bank of England, which, for the purposes of issue, now stands in the position of the government itself.

In considering the relative merits of a system of government issues and of free competition amongst issuing bodies, there are three main questions to be considered —1st, the profits arising from the issue of notes: 2ndly, the solvency of the issuers; 3rdly, the convertibility of the notes and the securities against over-issue. If the two first questions were the sole consideration, it would be difficult to oppose the claims of those who insist upon the right of free issue.

1. The profits arising from the circulation of paper may be regarded as one of the many forms in which profits are realized by trade. It is true that the right of issuing money has ordinarily been claimed as a royal prerogative, and that promissory notes might be included in that category. If such a claim had been made on the first introduction of paper-money, it could, undoubtedly, have been supported by the analogy which paper-money bears to a coinage; and if the law had pronounced in favour of the claim, a lucrative prerogative would have been created, instead of a profitable branch of banking. But no such claim was advanced: the issue of notes has always been distinct from the coinage of money; and the state is now no more entitled to the profits arising from a paper-circulation, than to the profits of any other description of business.

2. The solvency of the issuers of promissory notes is a matter which can be provided for by law. There are few who will question the necessity of some security, when money is permitted to be issued by private parties. It is, indeed, contended by some that a promissory note is like a bill of exchange—that it represents capital and securities, and that, in its representative character, it is circulated instead of money, upon the credit of the issuer, and upon the responsibility of those who accept it. But there is an essential difference between a promissory note and a bill of exchange. The one is money and discharges a debt; the other leaves a debt outstanding until the bill becomes due and is paid. Again, a note passes from hand to hand upon the sole credit of the issuer; a bill of exchange passes not only upon the credit of the acceptor, but also upon the credit and responsibility of each endorser. A bill is circulated amongst merchants precisely as credit is given to persons of known solvency; but a promissory note, whatever may be the solvency of its issuer, if received at all, is received as money, and is a final discharge of a debt. It is obviously just, therefore, that when the state permits so important a privilege to be exercised as

that of the issue of money, it should at the same time provide securities against its abuse. Such securities cannot be enforced without interfering, in some measure, with an unrestricted freedom of issue, but they are essential to the public safety, and should on no account be neglected.

3. But the solvency of the issuers of notes concerns those parties only, who may happen to hold the notes of a particular bank: it does not affect the whole country. If a bank fail, its creditors suffer like the creditors of any other bankrupt firm; but the general business of the country is not disturbed by its failure. On the other hand, however, the regulation of its issues has an influence upon the entire trade of the country. However effectual may be the securities against the insolvency of private banks—however complete the protection of the individual holders of their notes—the public interests are still in need of protection against the consequences of an ill-regulated currency. The securities against insolvency and the securities against over-issue are entirely distinct: the former may be complete; the latter may, at the same time, be inoperative. The mode of sustaining the value of paper-money on a par with the precious metals has already been explained. It is only by means of convertibility and by a reference to the foreign exchanges, that the issues of paper can be adjusted to the wants of the country; and this principle is incompatible with an unrestricted issue of paper by private banks.

If no control be exercised by government or by some central body, over the issues of private banks, notes will be circulated, not according to any fixed principle, nor with reference to the exchanges, but to promote the business of banking. If too many should be in circulation, the action of the foreign exchanges cannot be brought to bear upon many independent banks with sufficient force and distinctness, and the convertibility of all the paper-money in the country is consequently endangered. This is the danger which is sought to be averted by restrictions upon the issues of private banks, and by the gradual substitution of the notes of one issuing body for those of many. No interference with the business of banking would be justifiable, except for the protection of the public interests; but the evils arising from the suspension of specie payments are so great, that every practicable precaution must be taken to avert it. It deranges all commercial transactions, it injures public credit, disturbs prices, and suddenly withdraws the standard of value by which all existing obligations and all future bargains are to be adjusted. When notes are issued by one body only, a limitation of its issues, as already noticed, may sustain their value; but when many independent bodies are issuing notes, during a period of inconvertibility, there is no principle at work to regulate or to limit their issues, and it is almost certain that their notes will not only be greatly depreciated, but also will be liable to constant fluctuations of value.

There are some political reasoners who have ascribed every commercial convulsion to an ill-regulated currency; while others deny its influence upon prices and upon the general arrangements of commerce. The opinions of both these parties are probably extreme, and their facts somewhat exaggerated; but the temperate view taken by Mr. S. Jones Loyd may be adopted with less hesitation. He says, "The currency, in which all transactions are adjusted, has the same reference to the healthy state of trade, which the atmosphere in which we all live has to the physical constitution of our bodies; irregularities and disorders may arise from a variety of causes, but the duration and virulence of them will materially depend upon the pure, healthy, and well-regulated condition of the medium in which they exist. A well-managed currency cannot prevent the occurrence of periods of excitement and over-trading, nor of their necessary consequences—commercial pressure and distress; but it may tend very powerfully to diminish the frequency of their return, to restrain the suddenness of their outbreak, and to limit the extent of their mischief." (*Remarks on the Management of the Circulation*, 1840.)

As yet such promissory notes only have

been spoken of as are payable on demand: but a few remarks may be added concerning promissory notes and bills of exchange payable at some period more or less distant. These are regarded by some as paper-money, and are said to form part of the general circulation: but the essential distinction between them and paper-money has been more than once noticed above. They do not discharge obligations, but are merely written engagements to discharge them at a future period: they are one of the many forms of credit, and as such are used as substitutes for money: but they cannot be considered a part of the national currency. When transferred from one hand to another they do not pass as money, but as the transfer of a debt, of which the payment is guaranteed by each endorser in succession. It is true that they are among the most efficient agents for economising the use of money, and that they leave the circulating medium more free for other purposes, in which payments are made in notes or specie. If this were not the case the circulation of notes must be almost indefinitely increased in order to meet the various demands of commerce; but this economy in the use of money makes a comparatively small circulation sufficient. It is this circulation, however, of which the relative scarcity or abundance affects the prices of commodities and the foreign exchanges. The final settlement of a bill of exchange must be adjusted in the current money of the country. If money be dear, the acceptor exchanges more goods for it in order to meet the bill when it becomes due; if money be relatively cheap, he makes a better bargain; but the bill of exchange itself is no more money than the goods which had been originally purchased with it. Every bill of exchange when first drawn and accepted, and subsequently endorsed, represents, at each transfer, a distinct commercial transaction, of which the bill is the immediate result. The number and amount of bills of exchange in circulation cannot, therefore, be added to the currency in order to compare the aggregate circulation with the aggregate amount of commodities; for those commodities which are exchanged by means of bills may be set off against the value of other commodities represented by the bills, while the notes and specie taken together, may be compared with the aggregate of other transactions, added to the balances of accounts arising out of the final settlement of bills of exchange. It is undeniable that bills of exchange perform many of the functions of money, and they are regarded as a part of the circulation by some high authorities in monetary matters; but it appears to us that the balance of reason and of authority inclines to the other side and assigns to bills of exchange a distinct place as substitutes for currency instead of including them as part of the currency itself. (See the Evidence upon this point before the Committee on Banks of Issue, 1840.)

A similar question arises in reference to the monetary character to be assigned to banking deposits: are they currency or not? The transfer of deposits pays debts and purchases commodities; it performs the functions of money, and so far would seem to be a part of the currency and to have an influence upon prices and upon the foreign exchanges. But it cannot be contended that the whole of the deposits are currency, for a large portion of them is invested by the bankers; and if every depositor were to call for his deposits at once, they could not be paid. Nor can the uninvested portion be properly called money; it is a form of credit which, like bills of exchange, economises the use of money and is a substitute for it, but is not the thing itself. It bears so close a resemblance to currency that to assign to it a distinct character is a matter of some difficulty; but still we are disposed to class all portions of banking deposits which are not actually held by the bankers in notes and specie, in the same category with bills of exchange, book-debts, and transfers in account. All these are modes of facilitating the exchange of commodities by a refined species of barter, without the intervention of any circulating medium. Each transaction is valued in the current medium of exchange, and final settlements of accounts are adjusted in money; but the estimated value of the transaction itself cannot be reckoned as a part of the circulation, for if it were, then commodities themselves would be money.

An ordinary case of barter would seem to offer a good illustration of the functions of all forms of credit as substitutes for money. Suppose a merchant, A, to have indigo to the value of 1000*l.* to sell, and that he wishes to purchase cotton of the same value, which B is willing to give in exchange for the indigo. The transfer is made at once between them: the transaction is complete without the passing of a shilling, for the indigo performs the functions of money. But can the indigo on that account be reckoned as a part of the circulating medium? Suppose again, that these merchants, at the time of the transfer, each drew a bill for 1000*l.* upon the other at three months, which each accepted. These bills would represent the value of the indigo and of the cotton; but no more money would pass between them until these bills became due, than if no part of their bargain had been committed to paper. When the bills became due, each would be indebted to the other to the same amount, and might write off one debt against the other; or each might transfer a portion of his bank-deposits to the other. In the case first supposed, no money would pass, but one commodity would be taken as an equivalent for the other. In the second case the credit of each party would be accepted as an equivalent for the goods without the intervention of a money payment: and this credit would afterwards be exchanged for another form of credit,—a bank-deposit. In neither case, as it would seem, does the transaction involve the use of any portion of the circulating medium, nor call any new description of currency into existence.

It is of the utmost importance to form a clear opinion as to the distinction between various forms of credit and the circulating medium of a country; for if they be confounded one with another, all the established theories of currency are put to confusion. All hopes of regulating and controlling the circulation must be abandoned, for its variety and magnitude would be such as to defy the operations of the government, or of a bank, by means of paper issues, which would form only one insignificant portion of the aggregate currency; and free trade in banking and free trade in the issue of notes must be recognised as the only reasonable principle for supplying commerce with a circulating medium.

We have now adverted to the main principles involved in the consideration of the character and functions of money. In treating of a subject which has been so fruitful of controversy, we have been obliged to touch lightly upon many points which to deep students of the "currency question" may seem to have deserved more consideration. To examine them fully would add volumes to the many which have already been published upon that subject; and frequent allusions to the opinions of others, however deserving of attention, would give a controversial character to an inquiry after truth. We have endeavoured to state, as concisely as we could, the opinions we have formed, together with the grounds upon which we have formed them; and those who agree with us will think us right, while they who differ from us will pronounce us wrong. Upon currency questions unanimity is nowhere to be found; but the more men seek after truth in preference to quarrelling with one another, the more certainly will truth be found at last.

(Harris, *Essay on Money and Coins*; Locke, *Considerations on Raising the Value of Money*; Sir W. Petty, *Political Anatomy of Ireland*; Hume, *Essay* III. (*Of Money*); Lord Liverpool, *On Coins*; Adam Smith, *Wealth of Nations*, vol. iv. and Note by M'Culloch; Ricardo, *Principles of Political Economy*, c. 27; *Proposals for a Safe and Economical Currency*, 1816; Jacob, *Historical Enquiry into the Production and Consumption of the Precious Metals*; *The Gemini Letters*, 8vo., 1844; *Observations on the System of Metallic Currency in this Country*, by W. Hampson Morrison; *Remarks on the Management of the Circulation in* 1839, By Samuel Jones Loyd, 1840; *Reply Thereto*, by J. R. Smith, President of the Manchester Chamber of Commerce; *Observations on the Standard of Value*, by W. Debonaire Haggard, 1840; *Reflections on the recent Pressure of the Money Market*, by D. Salomons, 1840; *Answers to Questions* '*What Constitutes Currency?*

&c., by H. C. Carey, 1840: *Report of the Manchester Chamber of Commerce*, Dec. 12th, 1839: *A Letter to Thomas Tooke, Esq.*, by Col. Torrens, 1840; *On the Causes of the Pressure of the Money Market*, by J. W. Gilbart, 1840: *The Credit System in France, Great Britain, and the United States*, by H. R. Carey, 1838; *Remarks on the Expediency of Restricting the Issue of Promissory Notes to a Single Issuing Body*, by Sir W. Clay, Bart., M.P., 1844: *A Treatise on Currency and Banking*, by C. Raguet, 1839: *Bullion Report of 1810*: *Reports of Lords and Commons*, 1819: *On the Resumption of Cash Payments*; *Reports on the Circulation of Notes under 5l. in Scotland and Ireland*, 1826-27: *Bank Charter Report*, 1832; *Reports on Agricultural Distress*, 1833 and 1836: *Reports on Banks of Issue*, 1840 and 1841: *Debates on the Resumption of Cash Payments*, 1819: *and on the Bank Charter Renewal Bills*, 1832 *and* 1844: Tooke, *History of Prices*.)

MONARCHY, from the Greek *μοναρχία*, a word compounded of *μόνος*, 'alone,' and the element *ἄρχω*, 'govern,' and signifying the 'government of a single person.' The word *monarchy* is properly applied to the government of a political community in which one person exercises the sovereign power. [SOVEREIGNTY.] In such cases, and in such cases alone, the government is properly styled a monarchy. Examples of monarchy, properly so called, are afforded by nearly all the Oriental governments, both in ancient and modern times, by the governments of France and Spain in the last century, and by the existing governments of Russia, Austria, Prussia, and the several States of Italy.

But since monarchs have in many cases borne the honorary title of *βασιλεύς*, *rex*, *re*, *roi*, *König*, or *king*, and since persons so styled have, in many states not monarchical, held the highest rank in the government, and derived that rank by inheritance, governments presided over by a person bearing one of the titles just mentioned have usually been called *monarchies*.

The name *monarchy* is however incorrectly applied to a government, unless the king (or person bearing the equivalent title) possesses the entire sovereign power; as was the case with the king of Persia (whom the Greeks called 'the great king,' or simply 'the king'), and in more recent times with king Louis XIV., called by his contemporaries the *Grand Monarque*.

Now a king does not necessarily possess the entire sovereign power; in other words, he is not necessarily a monarch. Thus the king has shared the sovereign power either with a class of nobles, as in the early Greek States, or with a popular body, as in the Roman kingdom, in the feudal kingdoms of the middle ages, and in modern England, France, Holland, and Belgium. The appellation of *monarch* properly implies the possession of the entire sovereign power by the person to whom it is affixed. The title of *king*, on the other hand, does not imply that the king possesses the entire sovereign power. In a state where the king once was a monarch, the kingly office may cease to confer the undivided sovereignty: and it may even dwindle into complete insignificance, and become a merely honorary dignity, as was the case with the *ἄρχων βασιλεύς* at Athens, and the *rex sacrificulus* at Rome.

In Sparta there was a *double* line of hereditary kings, who shared the sovereign power with some other magistrates and an assembly of citizens. The government of Sparta has usually been termed a republic, but some ancient writers have called it monarchical, on account of its kings; and Polybius applies the same epithet to the Roman republic, on account of its two consuls. (*Philological Museum*, vol. ii., p. 49, 57.)

States which were at one time governed by kings possessing the entire sovereign power, and in which the king has subsequently been compelled to share the sovereign power with a popular body, are usually styled *mixed monarchies* or *limited monarchies*. These expressions mean that the person invested with the kingly office, having once been a monarch, is so no longer; and they may be compared with a class of expressions not unfrequent in the Greek poets, by which a privative epithet, denying a portion of the essence of the noun to which