



FRIDAY, NOVEMBER 3, 1815.

No. 841

VOL. XV.

CIRCULATING MEDIUM.

An Enquiry into the causes of the present state of the circulating Medium of the United States.

NO. II.

We shall now proceed, in the second place, to shew the causes which occasion a difference of value between the bank notes of one city or state, & those of a distant place.

From the natural course of commerce which exists in every community, individuals become alternately indebted to one another. Banks also become debtors and creditors of each other, & so do cities, states and nations. If an individual merchant owes a debt to another, sometimes the creditor finds it his interest to take from his debtor in payment of his demand, some article of merchandize, or other valuable commodity, which he is in want of, & thus can the negotiation be settled without the intervention of money.

But in order that no difficulty may arise to the creditor, from the refusal of the debtor to pay in other mode than with merchandize, the constitution of the United States declares that nothing but coin shall be made a legal tender.

Now it happens that in the prosecution of commerce between two distant cities or countries, one imports from the other merchandize to a greater value than her merchants are able to pay for, in other merchandize, which is wanted by the crediting city or nation. Hence arises what is called a balance of trade, and it is the same kind of debt which is owed by one individual to another.

In our importations from Great Britain, our merchants incur a vast debt to British merchants. This debt is paid—

By shipments of American produce direct to Great Britain;

By shipments of American and foreign produce to the continent of Europe; the proceeds of the sales of which are remitted to England;

By remittances of British government and mercantile bills of exchange, purchased in Canada, the West-Indies and elsewhere, or sent to the United States, for the purchase of produce by British and other merchants.

If the debt due to a foreign nation be greater than can be paid by the indebted nation in its produce, or in the proceeds of it shipped abroad, a balance of trade becomes due, and this balance must be paid in that general article of merchandize called specie, which is an article of value every where; is what a nation wants. If specie, from its scarcity, cannot be obtained, then the balance cannot be paid immediately, and the crediting nation will be obliged to wait for payment, until the debtor is enabled to discharge his debt by one of the modes within his power.

In the meantime, however, the creditor is desirous of having his capital replaced, and the consequence is, that as one class of merchants want more funds to remit, than another class can draw for, a competition takes place, and bills of exchange, like every other article, for which the demand is greater than the stock at market can supply, rise in value, and command a premium. The reverse is the case where the sum to be drawn for is greater than the wants of the market: In that case bills depreciate, and thus a constant fluctuation (always tending, however, to an equilibrium) exists. But it must be observed, that the agio upon bills of exchange is not altogether proportioned to the amount wanted & to the sum which can be drawn for.—For instance, if ten millions were wanted and five only be drawn for, bills would not command double their nominal value. The debtor rather than incur so great a loss, would wait until he could pay his account in the ordinary modes, & the result would therefore be, that he would reduce the amount of his importations, until he had time to extinguish his debts. The premium upon bills of exchange, therefore, is, in part, a kind of compensation to the person who is willing to loan his capital until the debtor can discharge his obligations in the usual mode, and, therefore, more properly bears a proportion to the time at which this can be effected, than to the actual demand and stock at market.

Such being the nature of commercial transactions, between distant nations, there is no reason why the same relation may not exist between neighboring states and cities. The same causes will produce the same effects, and if specie, the universal article of traffic, is not to be obtained for a payment of balances of trade, an agio of exchange will always exist.

In dealings between the merchants of our cities and interior country, bank notes have heretofore been the general instrument of trade as well as of exchange. Their convenient construction, cheap transportation, and, above all, the high confidence that exists in their value, have well adapted them for these purposes. But a bank note has no more right to claim a currency in a strange or distant place, than the promissory note of an individual, for it is at best but the promissory note of a number of individuals. Its uniform value at home is derived entirely from the same sort of confidence which renders the note of a responsible merchant current where he resides, and yet a merchant would be laughed at who would suppose that his note should be current at a distance from home.—Hence, then, it follows, that as a bank note can only answer the purposes of money, where every body is willing to receive it as such, it ceases to be money when it gets among people who are not willing to give it general currency. It then becomes, like other commodities of value, a mere article of merchandize, and in this light only can it be regarded when it has travelled to a distant place.

How, then, it will be asked, is its value abroad to be determined? The answer is plain. By the same rules and principles that establish the price of all other commodities, namely, the quantity at market, the demand, and the probable time at which the causes which produce its variation shall have ceased to operate. Its value, therefore, will be determined by the course of trade, and the balance then resulting, and hence it appears evident that the difference in the value of the notes of two distant banks does not arise from any want of confidence in the one, but from the natural and unavoidable operation of a free commerce.

We have above enumerated the several causes which have produced balances of trade against the middle and southern, and in favor of the eastern states—namely: The immense amount of domestic manufactures exported from N. England to the other states—and The great value of foreign produce and manufactures, imported by them and shipped to the south, before their own regular importations, were made by the middle and southern states. The influence of these causes has extended from New-Hampshire to Georgia, and hence in all intermediate places exchanges bear different agios, and thus determine the relative value of bank notes. To give an idea of this course of exchange, to those who are unacquainted therewith, we shall quote below in a note, the rates as they have latterly existed in Philadelphia, with some slight occasional variations.—With respect to the states south of Virginia, although their commerce with New-England has been productive of an agio against them, yet that agio is not as great as that which exists against the middle states. But their commerce with the middle states has produced an agio in their favor, which has been occasioned by their exportations to those states, and to foreign countries upon the account of northern merchants, produce to a greater value, than the amount of the commodities, which they require to be shipped to them in payment.

We cannot always ascertain from the agio of exchange, the actual profitable, or unprofitable course of the direct trade between any two given places. As for instance the direct trade or mutual exchange of commodities between Boston and Norfolk, might be in favor of the latter; yet if Norfolk were heavily indebted to some other city, and that city to Boston, the agio of exchange upon Boston, 15 to 16 per cent. adv. New-York, 4 to 5 do do Baltimore, } 2 1/2 to 3 do dis. Alexandria, } Richmond, 2 to 2 1/2 do do Western country, 3 1/2 to 5 do do North Carolina, at par S. Carolina and Georgia, 5 to 4 per cent. adv.

change at Boston might be against Norfolk. Of this nature do we consider the course of exchange between Philadelphia and Baltimore. The latter owes a balance to the former. This balance we apprehend, is not the result of any direct trade between those two cities, but arises from the intervention of a third party, viz. the interior of Pennsylvania. A great amount of the produce of our state is sold at the Baltimore market, and paid for in the notes of that city, which being circulated through the country, are brought to Philadelphia, by the merchants, for the purchase of goods. Between Philadelphia and the Western country there is a balance of trade in favor of the city. This arises from a demand throughout the interior, for a greater value of foreign commodities than the country is at this time able to pay in domestic products. It is a state of things which ought not long to exist, and has its rise in the great necessities of the people, disproportioned to all former years, from the almost entire consumption of their stock of foreign manufactures, which has obliged them, since the conclusion of the peace, to purchase to a greater amount than the usual supply of one season. The period will no doubt arrive when an equilibrium in trade will exist between the city and country, and when the bank notes of both will mutually pass with each other at par. That period may perhaps be distant, but it must arrive, or the trade between the city and country will be ruinous to the latter. The individual who is always in debt will probably become bankrupt, and the man who purchases and consumes more goods than he can pay for, will be very likely to go behind hand.

NO. III.

In a former number we endeavored to prove that the causes which have produced, in the middle and southern States, an appreciation of specie, were chiefly— First, a balance of trade due by those States to the Eastern States, without the means of paying it in any commodity, which was wanted by the latter, except specie; and, Secondly, the enhanced value of specie in Great-Britain.

The following question now arises: Why was not the price of specie, from the latter cause, raised above the value of bank notes at Boston, and other eastern towns, where the banks did not suspend specie payments? This is a question frequently proposed by those who imagine that the difference between bank notes and specie, where a difference exists, is the entire result of the depreciation of the former; but it can readily be answered. The people of New-England, like every other commercial people, are continually studying their own interests. In making their remittances to Great-Britain or elsewhere, they are ever disposed to adopt the mode which they consider likely to be most advantageous. In the case under consideration, two modes presented themselves, the shipment of specie and the remittance of exchange. Specie was at par; bills of exchange much below it; so that taking into consideration the superior risk, and expenses of the one, with its chance of arriving at a bad market, (contingencies always estimated by the merchant) as much profit could be made upon the purchase of the latter, as upon the sale of the former. As proof of the fact that exchange was thus far below par, we need only to mention the general principle, that whenever a balance of trade is due, by one city or nation to another, every substitute for money assumes a value relative to that balance. Bills of exchange are of this nature, and as one of the mediums of remittance have, like treasury bills and government stock, supported throughout, this valuable character. They were at one time in Boston, twelve & an half per cent. below par, when in Philadelphia they commanded an advance;—thus exhibiting a difference equal to the different values of specie, at the two places, or to the agio of exchange. The high price of specie in England is occasioned by the demands of government for the payment of their subsidies. The notes of the bank of England cease to be money when they travel to the continent of Europe, and as the British government can offer nothing for the services of its Allied

troops, they have been compelled to procure specie at the extravagant rate of twenty-five to thirty per cent. premium. When the war ceases, or approaches to a close, specie will depreciate in England, and as it becomes a less profitable article of commerce, it will have a corresponding fall in America. If then, we wish to ascertain at what period our banks will resume specie payments, we must look to Europe, and to the course of trade. As soon as it no longer continues to be in demand for exportation, or for the payment of domestic balances of trade, every body who holds it will be anxious to get clear of the risk of keeping it, & will therefore deposit it in the banks. It will then resume its own value, and perform its accustomed offices.

As the balance of trade due by the middle to the eastern States has been one of the causes of appreciating the value of specie, so the enhanced value of specie in the former, has been one of the causes of increasing the agio of exchange. When specie became demanded for exportation, merchants, who were desirous of shipping it, endeavored to procure bills upon Boston, for the purchase of it there, where it was at par, and thus has the average rate of exchange upon Boston been equivalent, or nearly so, to the value of specie. It is more than probable, even if the banks had not suspended specie payments during the war, that they would have been compelled to have done it since. The high price of specie in G. Britain would have afforded a liberal prospect of profit by shipping it. A demand would have been made upon the market for it, and the same effect would have been produced as by the demand for any other article of merchandize, an enhancement of its value. It is well known that in former times, the call for specie for the China and India trades, alone, has frequently obliged the banks to withhold the payment of large sums, and that specie has often, whilst it was the current medium of exchange, commanded an advance of one or two per cent. What then could have prevented a much more extensive and extraordinary demand, aided by the usual wants of trade, from producing a much more enhanced value, even to the degree of rendering it impossible for the banks to continue the payment of their notes?

Prior to the suspension of specie payments by the banks, balances of trade between our cities at times existed. But as these balances could always, as far as they were called for, be paid in specie, the agio of exchange did not extend beyond the mere expense and risk of transporting specie from one place to another. This expense too, being of a trifling amount, was usually incurred by the banks for the accommodation of their customers, and thus the course of trade was not generally known or understood. When specie ceased to be paid, distant banks refused mutually to receive each other's notes in deposit, and thus the balance of trade was suffered to stand upon its own merits. This is its present state, and so long as specie is not at par in all the States of the Union, so long will favorable or unfavorable agios of exchange continue to exist.

As relates to the eastern States, we are of opinion, that although the agio of exchange may decrease, exchange will seldom, if ever be against them, so long as they continue to manufacture large quantities of goods for the middle and southern States. Should those latter States supply their own wants by an increase of their own manufactures, or should they be able to import the goods they require cheaper from abroad than from New-England, then exchange will operate against the latter; for the mere productions of their soil and fisheries are not sufficient to enable them to profit by a trade with the other States. It is in vain to attempt any legal remedy for a supposed evil which has its origin in the natural operations of commerce. As well might an endeavor be made to divert a vast river from its accustomed channel, as to effect the equalization of exchange, in any other mode, than by the introduction into the country of such an amount of specie, as would be sufficient to meet all demands for foreign markets, and for the payment of all domestic balances of trade. The Secretary of the Treasury, with a view, as has generally been supposed,

of effecting an equilibrium in exchange, some time since issued an order, declaring that nothing should be received after the first of August last, in payment of duties but specie, treasury bills and the notes of such banks as would receive treasury bills in deposit at par. Whether or no he expected by this measure to effect his object, we will not pretend to declare; but this we know, that the effect of his plan was clearly foreseen by all who fairly understood the subject. What was the result? Why, that treasury bills, which are not money, but only a substitute therefor, continued to support, as they had done before, and as all substitutes for money ever will, a value bearing a relation to the balances of trade. In Baltimore they were at one time at 3 per cent. above par, and at Boston 12 or 15 below it. What was the conduct of the banks? In all places where treasury bills were in the market, at or above par, they agreed to receive them, as in Philadelphia, and other cities south of it; whereas in New-York, and all places further eastward, where they were below par, the proposition was rejected. The banks which agreed to take them, clearly saw, that so long as they were at or above par, there was no danger of being overstocked with them; whilst those who refused to receive them, as clearly perceived, that if they were to take them, their whole capitals would be liable to be absorbed with them. Had the banks in New-York, for example, where they were at three or four per cent. discount, agreed, to receive them at par, every treasury bill south of the Hudson, would have been sent there for the sake of the profit of exchange. As in the one case then, a bank would be blind to its interest, that would refuse to take at par, what it could sell at a profit; so on the other hand, a bank would be equally liable to the imputation of folly, that would agree to receive at par, what was only worth three or four per cent. below it. But how is a merchant in New-York to pay his duties, without specie, if the notes of the banks there are not receivable? Why, surely in treasury bills. He wants no specie, neither is it of any consequence to him, whether or no the government will receive bank notes, so long as he can buy in the market treasury bills below par.

This scheme of the treasury, we apprehend, never can effect an equalization of exchange, but it may eventually become a source of profitable speculation to the government. If for instance specie should maintain a high price, & the absolute amount of treasury bills in existence should greatly fall short of the amount required for the payment of the duties, there will be a demand for treasury bills upon the market, greater than can be readily met. Like every other article of value or traffic, they will rise, and even at Boston they may be at par. But what will be their value at other places? Why, they will then bear as they do now, an exact relation to the balance of trade; and it is possible that at Washington, should the present balance continue due to the eastern states, they may be at ten or twelve per cent. above par. The government then, instead of issuing new bills at par, might sell them at the places where they wanted funds, at an advance, and thus profit by the course of trade.

We cannot see, with some honest calculators, how the continuance of the present state of things can affect the interests of the country. If specie has been withdrawn from circulation, it is because it has been occupied abroad in a more profitable employment than it was engaged in at home.—Its exportation has added to the stock and to the wealth of the nation, by the purchase of merchandize abroad, worth more at home than the specie itself. To be sure we are subject to some inconveniences in our transactions at market, and in petty dealings; but as we become accustomed to the use of paper money, the disadvantage will vanish. All large mercantile negotiations are conducted as they have heretofore been, by bank notes, or checks upon banks. As to the agios of exchange, where balances are due, they must of necessity continue; but before long they will be so completely understood, as to occasion no embarrassment. The merchant who sells goods for foreign bank notes, will add to the price of his goods the amount of the loss he sustains upon the notes;

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