

## By Authority.

Extract of a Despatch from the Right Honorable Earl Grey to His Excellency Sir Donald Campbell, Bart.

DOWNING STREET, 12th November, 1847.  
No. 2.

SIR;

Among the subjects which will require the early consideration of yourself and the Legislature of Prince Edward Island, are several of very great importance to the welfare of that Colony, and to which my attention has been more especially called by the Speaker of the House of Assembly and Mr. Palmer, in an interview which I lately had with those gentlemen.

Of these subjects, the state of the Island Currency is one of the most pressing.

From the Report of the Commissioners appointed by Sir Henry Huntley, to examine into the state of the Currency of the Island, dated the 9th February last, it is obvious that a most erroneous system has hitherto been pursued by the local Government on this subject, and that a reform of the Currency is most urgently required.

It appears to have been the practice of the local Government, up to a very recent period, to issue Treasury Warrants for small sums of money, and Treasury Notes, for still smaller sums, for the purpose of meeting the ordinary expenditure of the Colony. The necessary consequence of this practice has been greatly to depreciate the Currency below its nominal value.

In ascertaining the proper remedy for this state of things, two courses present themselves for consideration. First—Whether it would be proper to endeavor to restore this depreciated Currency to its original value; or, Secondly—Whether it would not be better to fix its value at its present rate, taking the necessary measures for preventing its further depreciation.

Upon the whole I incline to think the latter course the most desirable to be adopted, and I would recommend it to the consideration of yourself and of the Legislature of Prince Edward Island for the following reasons:

The restoration of the Island Currency to its original value would not be accomplished without a severe pressure upon the Finances of the Colony. It must further be considered, that in all monetary transactions between individuals, of recent date, debts, and engagements have been contracted with reference to the present, and not to the original value of the Currency. If, therefore, the Currency should now be raised above its actual value at the time when such debts and engagements were contracted, injustice would be done to all those parties who would have money to pay under such Contracts, and as in practice it is found, that among the unsettled accounts of individuals, a large proportion are generally of no long standing, it follows that more injustice is usually done by restoring a depreciated Currency to its original value, than by fixing it at the value which it may actually bear.

Assuming this latter course to be adopted, the measures by which the Currency of Prince Edward Island may be protected against any further depreciation appear to me by no means difficult. All that would appear to be necessary is, that the Legislature should pass a Law, enacting that the existing Treasury Warrants should be exchanged for Treasury Notes to the same amount, and that these Notes should be declared a Legal Tender; that it should not be lawful to make any further issue of Treasury Notes except in exchange for the precious metals, the coins of different Countries being taken at the value they now actually bear in circulation and that the Treasury Notes should be made exchangeable at the pleasure of the holders, for Coin at the same rate. In order to enable the Colonial Treasurer or such other Public Officer as might be charged with the management of the Currency Account (which I think should be kept entirely distinct from the ordinary Treasury Accounts,) to meet any demands which might be made upon him for Coin in exchange for Treasury Notes, it would be probably necessary to raise a moderate sum by loan, or otherwise, to place in his hand for this purpose. As it would be desirable that such Treasury Notes should continue to circulate in the Colony, and that coin should only be required in exchange for Notes when wanted for remittance to other countries, I see no objection to a restriction being placed upon the holders of such Notes from demanding specie in any less amount than £50.

The effect of adopting such a measure as I have indicated, would be, that the Colony would retain the full benefit of the cheapness of a Paper Currency as a medium of exchange, while at the same time it would have the same uniformity of value which distinguishes a metallic circulation. The amount of Paper Currency in circulation (and which amount really determines its value,) would fluctuate precisely in the same manner as the amount of Specie Currency. If the advance of the Colony in wealth and population and the consequent increase of its Commercial transactions should require an extension of the Currency, it would be the interest of Individuals to import Coin into the Colony, and to obtain Paper in exchange. If on the other hand it should happen at times, that the Currency in circulation should be in excess of the wants of the Colony, and require to be contracted, such contraction would be accomplished by the Holders of Treasury Notes presenting them for payment, and thus obtaining Specie which it would then become profitable to export to other Countries.

If the measures which I have thus suggested should be adopted by the local Government, it would become necessary that no Paper money except Treasury Notes should be allowed to be issued or circulated in the Colony.

If Banks should at any future time be established in the Island, they should only be at liberty to carry on their business with the Currency of the Colony.

In further explanation of my views on this subject, I enclose for your information an Extract of a Despatch which I have recently addressed to the Governor of New Zealand on the subject of the Currency of those Islands.

It will be your duty to impress these views upon the Legislative Council and Assembly of Prince Edward Island. Should those bodies contrary to my expectation, not think proper to enter upon a reform of the Colonial Currency in the manner I have now suggested, I have to desire that you refuse your consent to any further issue either of Treasury Notes or Treasury Warrants.

EXTRACT OF A DESPATCH FROM EARL GREY TO GOVERNOR GRAY, Dated DOWNING STREET, 2d February, 1847.—No 35.

Amongst these subjects, there is one which seems to me to require very early attention; I allude to that of the regulation of the Currency of the Colony.

Since the recall of the Debentures which were issued by Captain Fitzroy, I am not aware that any description of paper money has been in circulation in the Colony, but judging from what has taken place in other British Colonies, I can entertain no doubt that with the increase of trade, a demand for such a cheap and convenient medium of exchange will speedily arise; nor do I see any objection to the creation of a paper Currency. On the contrary, provided it is properly regulated, I am of opinion, that such a mode of economizing capital, where capital is so greatly wanted, must be exceedingly advantageous.

The discussions which have taken place of late years, and more especially the proceedings of Parliament upon the occasion of the last renewal of the Bank Charter, have, I apprehend, in the judgment of those whose authority is of most weight on this subject, finally settled the principles upon which a paper Currency ought to be regulated.

Although a regard for existing interests has prevented these principles from being acted upon in this country to their full extent, there is no longer much difference of opinion as to the general nature of the system, which an adherence to them would prescribe. In New Zealand, I believe that no such interests have yet grown up, though they would not fail speedily to do so; it is therefore, I trust, still possible in that Colony to secure the great advantages which could not fail to result from the establishment of paper Currency, regulated upon the most correct principles. The view which I take of these principles is as follows. The business of banking, or of dealing in money, and that of issuing paper money, I consider to have not merely no necessary, but no proper connexion with each other. The former is a branch of commercial business, which should be left like every other private enterprise; but to issue money—that is, to furnish the authorised medium of exchange—is one of the peculiar, and not the least important functions of the Government. With respect to the coinage, this principle has always been recognized, nor is there any attribute of sovereignty which has been more strongly insisted upon, and more rigidly guarded from invasion by the supreme authority of almost every State, whether of ancient or modern times, than the exclusive right of coining money for the use of its own subjects.

As to the issue of paper money, a different rule has generally been followed, but as experience has proved, with the very worst results.

By allowing the issue of paper money to become a commercial speculation, the amount issued from time to time has been made to vary, not according to the real wants of the community, but according to the interest of the issuers; the value of this description of currency has been rendered uncertain; and all the evils have been entailed upon the community which result from the want of uniformity in the measure of value, and general medium of exchange.

The value of metallic Currency is not liable to injurious fluctuations, simply because the amount in circulation cannot be arbitrarily varied, but is self-regulated by the exchanges, of which the operation is too powerful to be controlled by law. In order therefore to unite the advantages of cheapness and convenience which belong to a paper Currency with those of steadiness and uniformity of value, which belong to a metallic Currency, one of the former description ought to be so regulated that the amount in circulation should vary according to the same laws which govern the latter. This is to be accomplished by providing, that paper money beyond some fixed amount nearly within the wants of the country in which it circulates, shall only be issued in exchange for the precious metals, and that it shall always be payable in the same. Under this system, circulation can only be increased, when it is in the interest of private individuals to import bullion, which they may exchange for paper, and can only be contracted in like manner, when it is their interest to demand bullion in exchange for paper. The system now established in this country by the authority of Parliament is founded upon this principle, to which it conforms as nearly as the necessity of having regard to vested in-

terests could permit, at the time that the arrangement was made. In New Zealand, a simpler and more perfect system may, I hope, be adopted. I would suggest that a law should be passed, authorizing the issue of a Colonial paper Currency, which should be a legal tender in payment of all sums exceeding forty shillings; for sums under forty shillings, British silver coin should be received, as in this country.

This Colonial paper should be made payable either in gold at the English Mint price, or in silver, receiving the coins of different nations (except British silver) at the rated values assigned to them in the Proclamations from time to time issued under the authority of the Lords Commissioners of the Treasury.

All persons should also have the right on tendering gold and silver at the same rates to receive Colonial paper in exchange. You are aware that in this country gold is the standard of value, and that the silver coins merely circulate as tokens at a nominal value, which is considerably higher than their real worth. By the regulation I have suggested, gold would also be the standard of value in New Zealand. But considering how largely silver dollars circulate in the countries nearest to New Zealand, and with which it would be likely to have the most frequent commercial intercourse, it would, I think, be convenient that such silver coin should be used in common with gold for the payment of the Colonial paper money, at the value assigned to them by Proclamation with reference to the pound Sterling. Notes for £1, but not for any lower amount, should, I think, be issued. Should you find it practicable to establish such a paper Currency, the mode of bringing it into circulation would be a very simple one. An office for the exchange of paper for gold or silver should be established at Wellington, and another at Auckland.

To these offices all money of the description now in circulation received by the Government (except small silver reserved for minor payments) should be sent, to be exchanged for Colonial paper money, and private individuals should be invited, but not required, to do the same. The Colonial Government, by not re-issuing specie which came into its hands, would have no difficulty in speedily substituting the new paper money for the coin now in circulation. The issue of the next paper currency being complete, it would be advisable that one fourth of the specie received in exchange for it, should be retained to meet any demands for payment which might be made, and that the remainder should be invested so as to produce some return to the Colony. With this view, the best arrangement would probably be, that it should be transmitted to Sydney, and deposited on sufficient security, with one of the principal Banking establishments in that town; the interest which it would produce, should go, in the first place, towards paying the expenses of managing the paper Currency, and the surplus, if any, towards the general expenses of the Colony.

The same law which established this Currency, should also strictly prohibit the issue of any other description of paper, payable on demand in New Zealand.

In suggesting to you the creation of a paper Currency, thus regulated, I am far from meaning to prescribe to you, that such a measure should be adopted, if there should exist reasons with which I am unacquainted, which would render it unsafe; for instance, if there should be ground for apprehending that it would give rise to difficulties with the natives, who might not improbably be unwilling to give up the use of the kind of money to which they are accustomed, for one which it might not be very easy for them to understand. Any such difficulty as this might probably be obviated by making the substitution of the Colonial paper money for specie more gradual, than I have in the preceding part of this Despatch recommended. It would of course be easy to make the process of change from one system to the other as gradual as might be desired, by allowing a given proportion of the specie which might be received by the Government, to be for a time re-issued, so that it might not entirely be withdrawn from circulation, until the use of the substitute provided for it can be understood.

These are, however, points which I may with the utmost confidence leave to your own judgment. All I wish earnestly to press upon you is, the importance of occupying, if possible, the ground by some Government paper, before private Banking Companies shall have taken possession of it.

If this is neglected, I am persuaded that it will practically be impossible to prevent such companies from being formed, and from issuing Notes for circulation, it will be equally impossible to confine the privilege to any single private company. Such a monopoly would be sure to create too much dissatisfaction amongst all excluded from sharing in its profits, to be long maintained; the consequence would be that rural Banks of Issue would be established, and that in seasons of commercial prosperity the competition of these Banks would unduly extend the amount of paper in circulation, thus raising prices and stimulating precisely when it ought to be moderated, the spirit of speculation; thereby ensuring whenever the reaction came, as come it must, a more than corresponding depression, and wide spreading ruin and distress.

This is the course of events which has been witnessed in the last few years in Australia, in the United States, and, though with less severity, in this country. Like causes would infallibly produce like results in New Zealand, and those causes, therefore, while there is yet time, I wish you to remove.