This section is from the book "[The Elements Of Banking](http://chestofbooks.com/finance/banking/Elements-Banking/index.html)", by Henry Dunning Macleod.

**On The Causes Which Compelled The Suspension Of The Bank Act In 1847, 1857, And 1866**

12. The [monetary](http://chestofbooks.com/finance/banking/Elements-Banking/On-Monetary-And-Political-Convulsions-As-Influencing-The-Exchanges.html) pressure which we mentioned above passed away at the time, but another much more severe came on in the Autumn, which ended in a monetary panic; and on the 25th November 1847, the Government authorised the Bank to exceed the [limits](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Limits-And-Extinction-Of-Credit.html) allowed by the Act of 1844, if they considered it necessary to do so to restore commercial confidence. This suspension of the Act was perfectly successful: and on two similar occasions in 1857 and 18G6 a similar course was followed with similar results. We have given a full narrative of the course of events preceding these panics in our [Theory](http://chestofbooks.com/finance/banking/Elements-Banking/The-Theory-And-Practice-Of-Banking.html) and Practice of Banking, to which we must refer those who desire full information on the subject. We must now only examine the reasons which made this course necessary, and why it was successful.

Ever since the enormous development of the [Credit](http://chestofbooks.com/finance/banking/Elements-Banking/On-Money-And-Credit.html) system of commerce in modern times, great commercial failures have periodically recurred, producing the most widespread distress; and there have been two conflicting Theories as to what the action of the Bank ought to be in a Monetary Crisis.

1. One Theory maintains that in such a Crisis, the Bank should liberally expand its issues, to support [Commercial Credit](http://chestofbooks.com/finance/banking/Elements-Banking/Chapter-V-On-Commercial-Credit.html). This Theory may be called the Expansive Theory.

2. The other Theory maintains that in such a Crisis the Bank should rigorously restrict its issues to their usual amount, or even contract them. This Theory may be called the Restrictive Theory.

Both these Theories have been tried in practice, and discussed by the most eminent authorities, and we may succinctly examine the results.

The first great monetary Crisis in modern times took place in 1763, after the termination of the seven years' war. This great disaster occurred at Hamburg and Amsterdam, where the "[Currency Principle](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Currency-Principle.html)" was in full operation, and where there was no Banking Credit whatever, except what represented specie. The failures began at Amsterdam among the principal merchants,

The Bank had no power to assist them: and the resources of the private bankers were exhausted. Hearing that the Amsterdam bankers had determined to allow the merchants to fail, the Hamburg bankers wrote to them in the greatest alarm to say that if they did not support the merchants, they would instantly suspend their own [payments](http://chestofbooks.com/finance/banking/Elements-Banking/Payments.html). By the time the letter reached Amsterdam, the merchants had already stopped. General failure followed at Hamburg, where no business was transacted for some time, but for ready money. The failures were equally general throughout Germany. The Crisis extended to England, and Smith says that the Bank made advances to merchants to the amount of a million.

Thus we see that the "Currency Principle" was no protection whatever against a Monetary Crisis: and on this occasion the Bank acted on the Expansive Theory.

In 1772 the severest Monetary Crisis since the South Sea scheme took place. On this occasion again the Bank came forward to support Commercial Credit.

In 1782 our unhappy war with America was ended, and the usual results of the termination of a great contest took place. The Bank had greatly extended its issues: and a very alarming drain of specie took place, which at one time threatened to oblige them to stop payment. The Directors, however, considered that if they could only restrain their issues for a short period, the returns in specie in payment of the exports would soon set in in a more rapid manner than they went out. They determined, therefore, to make no communication to Government, but for the present to contract their issues until the Exchanges turned in their favour. The Bank felt the greatest alarm in May, 1783. They then refused to make any advances to Government on the loan of that year: but they did not make any demand for payment of their own advances, which were between 9 and 10 millions. They continued this policy up to October, when at length the drain had ceased from the country, and money had begun to flow in from abroad. At length in the Autumn when the favourable signs began to appear, they advanced freely to Government on the loan, although at that time the cash in the Bank was actually lower than at the time they felt the greatest alarm. It was then reduced to £473,000.

The doctrine then stated by Mr. Bosanquet that guided the Directors was this. That while a drain of specie was going on their issues should be contracted as much as possible: but that as soon as the tide had begun to give signs of ceasing, and turning the other way, it was then safe to extend their issues freely. This policy had been entirely successful, and the Credit of the Bank was saved.

After the peace of 1782 the commercial energies of the country were greatly developed: to carry on this increased commerce a greatly enlarged Currency was necessary: and as the monopoly of the Bank prevented solid Banks being founded innumerable tradesmen started up in every part of the country issuing notes. Burke says that when he came to England in 1750, there were not 12 bankers out of London: in 1792 there were about 400: the great majority being grocers, tailors, drapers, and petty shopkeepers. In the autumn of 1792 very numerous failures took place in Europe and America. In January, 1793, the general alarm was greatly increased by the rapid progress of the French Revolution. Some great failures occurred in London in February; and soon the panic spread to the banks. Of these 100 stopped payment, and 200 were much shaken. The pressure in London was intense: and this naturally produced a demand on the Bank for support and [discounts](http://chestofbooks.com/finance/banking/Elements-Banking/On-Price-Discount-And-Interest.html). But the Bank being thoroughly alarmed, resolved to contract its issues: bankruptcies multiplied with frightful rapidity. The Government urged the Bank to come forward to support Credit, but they resolutely declined.

In the meantime the most alarming news came from Scotland. The public Banks were quite unable, with due regard to their own safety, to support the private bankers and commerce. Unless they received immediate assistance from Government, general failure would ensue. When universal failure seemed imminent, Sir John Sinclair remembered the precedent of 1697, when the public distress was allayed by an issue of Exchequer Bills. A Committee of the House of Commons was appointed, who reported that the sudden discredit of so large an amount of bankers' notes had produced a most inconvenient deficiency in the [Circulating Medium](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Terms-Currency-And-Circulating-Medium.html): and that unless a Circulating Medium was provided, a general stoppage must take place. They recommended that Exchequer Bills to the amount of £5,000,000 should be issued under the directions of a board of Commissioners appointed for the purpose, in sums of £100, £50, and £20.

No sooner was the Act passed than the Committee set to work. A large sum, £70,000, was at once set down to Manchester and Glasgow on the strength of the Exchequer bills, which were not yet issued. This unexpected supply, coming so much earlier than was expected, operated like magic, and had a greater effect in restoring [Credit](http://chestofbooks.com/finance/banking/Elements-Banking/On-Money-And-Credit.html) than ten times the sum would have had at a later period.

When the whole business was concluded, a report was presented to the Treasury. It stated that the knowledge that loans might be had, operated in many instances to prevent them being required. The applications granted were 238, and the sum advanced was £3,855,624. The whole sum advanced was repaid: two only of the parties assisted became bankrupt: all the others were ultimately solvent, and in many instances possessed of great property. A considerable part of the sum was repaid before it was due, and all the rest with the utmost punctuality. After all expenses were paid, the transaction left a clear profit to the Government of £4,348.

Contemporary writers all bear witness to the extraordinary effects produced. Macpherson says that the very intimation of the intention of the Legislature to support the merchants operated like a charm over the whole country, and in a great degree superseded the necessity of relief by an almost instantaneous restoration of confidence. Sir Francis Baring concurs in this view, and adduces the remarkable success of the measure as an argument to show the mistaken policy of the Bank. After careful deliberation, the Bullion Report warmly approved of it: censured the proceedings of the Bank: and especially cite it as an illustration of the principle they laid down, that an enlarged accommodation is the true remedy for that occasional failure of confidence to which our system of Paper Credit is unavoidably exposed.

This occasion, therefore, is a most important example of the beneficial effects of the Expansive [Theory](http://chestofbooks.com/finance/banking/Elements-Banking/The-Theory-And-Practice-Of-Banking.html) in a [monetary](http://chestofbooks.com/finance/banking/Elements-Banking/On-Monetary-And-Political-Convulsions-As-Influencing-The-Exchanges.html) panic.

Towards the end of 1794 the Exchanges began to fall rapidly, and in May, 1795, were so low that it was profitable to export bullion. While, however, the Exchanges were so adverse the issues of the Bank were immensely extended. After some time however the Directors became alarmed and took the most rigorous measures to contract them. In April 1796 the Exchanges became favourable, and they continued so till February 1797.

The excessive contraction of its issues by the Bank caused the greatest inconvenience to commerce, and a meeting of bankers and merchants was held to devise some means of relief. The failures among the country bankers in 1793 had caused an immense diminution of the country issues, and Thornton says that in the last three months of 1796 the issues of the bank were no higher than they had been in 1782, with an amount of commerce many times larger than in that year. As the public could not get Notes, they made a steady and continuous demand for guineas: and although the Exchanges were favourable to the country and gold was coming in from abroad, there was a severe drain on the Bank for gold. Political circumstances added to the alarm, and about the middle of February a stoppage of country banks became general. The panic reached London, and a general run began upon the bankers. Before this the Directors had used the most violent efforts to contract their issues. In five weeks they had reduced them by nearly £2,000,000. On the 21st January they were £10,550,830, and on the 21st February they were £8,640,250. But even this gave no true idea of the curtailment of mercantile accommodation: for the private bankers were obliged for their own security to follow the example of the Bank. In order to meet their [payments](http://chestofbooks.com/finance/banking/Elements-Banking/Payments.html), persons were obliged to sell their stock of all descriptions at an enormous sacrifice. The 3 per cents, fell to 51!

On Saturday the 25th February 1797, the specie in the Bank was reduced to £1,272,000 with the drain becoming severer every hour. The Directors now felt that they could hold out no longer: and on Sunday a Cabinet Council was held, and an

Order in Council was issued directing the Bank to suspend payments in cash until the sense of Parliament could be taken on the subject. Accordingly on Monday the 27th, the cash being then reduced to £1,086,170, the Bank suspended payments in cash, and did not resume them partially till 1816, and completely till 1821.

But immediately this was done, they enlarged their accommodation liberally: within a week they increased their issues by two millions, and the relief was very great. A meeting of 4,000 merchants and traders agreed to support the Credit of the Notes.

The most eminent authorities afterwards severely censured the management of the Bank. Thornton said that the excessive contraction of Notes had shaken public credit of all descriptions, and had caused an unusually severe demand for guineas: that the Bank ought to have extended its issues to supply the places of the Country Notes which were discredited. Boyd was clearly of opinion that the excessive restriction of Notes was the chief cause of the forced [sale](http://chestofbooks.com/finance/banking/Elements-Banking/On-Sale-Or-Circulation.html) and depreciation of the public [securities](http://chestofbooks.com/finance/banking/Elements-Banking/On-Foreign-Loans-Securities-And-Remittances-As-Affecting-The-Exchanges.html). In 1810 the Governor of the Bank said that after the experience of the policy of restriction, many of the Directors repented of the measure: and the Bullion Committee explicitly condemned the policy of the Bank both in 1793 and 1797.

Nothing in short could be more unhappy than their regulation of their issues. When the Exchanges were violently adverse, so that it was very profitable to export gold, they enlarged them to an extravagant extent: and when the Exchanges were extremely favourable, so that gold was flowing in, they contracted them with merciless severity. The issues which were £14,000,000 when the Exchanges were against the country were reduced to £8,640,250 when they had been for several months eminently favourable. The entire concurrence of the evidence shews that it was this excessive restriction of Credit which caused the severe demand for gold.

 And now we see the practical results of the two policies: when all commercial and banking [Credit](http://chestofbooks.com/finance/banking/Elements-Banking/On-Money-And-Credit.html) was on the verge of universal ruin it was saved and restored by the Expansive [Theory](http://chestofbooks.com/finance/banking/Elements-Banking/The-Theory-And-Practice-Of-Banking.html) in 1793: in 1797 the Restrictive Theory was carried out to the bitter end, and the result was the Stoppage of the Bank.

A consideration of all these circumstances induced the Bullion Committee to condemn the Restrictive Theory in the most emphatic terms: and all the greatest mercantile authorities of the period, including Peel himself in 1819, entirely concurred in these doctrines: and he said that no limitation of the Bank's power of issue could ever be prescribed at any period however remote. That period however came in 1844.

The next great crisis was in 1825. Ever since the beginning of 1824 there had been a continual drain of bullion which the Bank took no means to stop. It fell from 13 3/4 millions in March 1824, steadily and continuously to barely 3 millions in November 1825, when every one felt a crisis to be impending. The papers discussed the policy of the Bank, and it was generally expected that it would rigorously contract its issues. The panic began on Monday the 12th December 1825, with the fall of Pole, Thornton and Co., one of the principal City banks, which drew down with them forty country banks. A general run began upon all the city bankers. For three days the Bank pursued a policy of the most severe restriction. Mr. Huskisson said that during 48 hours it was impossible to convert into money, to any extent, the best [securities](http://chestofbooks.com/finance/banking/Elements-Banking/On-Foreign-Loans-Securities-And-Remittances-As-Affecting-The-Exchanges.html) of the Government. Exchequer Bills, Bank Stock, East India Stock, as well as the public Funds, were unsaleable. At last when universal stoppage was imminent, the Bank completely reversed its policy. On Wednesday, the 14th, it discounted with the utmost profuseness. Mr. Harman said - "We [lent](http://chestofbooks.com/finance/banking/Elements-Banking/Lent.html) by every possible means, and in modes we had never adopted before: we took in stock as security: we purchased Exchequer bills: we made advances on Exchequer bills: we not only discounted outright, but we made advances on deposit of [bills of exchange](http://chestofbooks.com/finance/banking/Elements-Banking/On-Bills-Of-Exchange-And-Promissory-Notes.html) to an immense amount: in short by every possible means consistent with the safety of the Bank, and we were not, on some occasions, overnice; seeing the dreadful state the public were in we rendered every assistance in our power." Between Wednesday and Saturday the Bank issued £5,000,000 in Notes, and sent down to the country a large box of £1 notes, which they accidentally found. This bold policy was crowned with the most complete success:

the panic was stayed almost immediately, and by Saturday was over.

The circumstances of this crisis are the most complete and triumphant example of the truth of the principles of the Bullion Report, and of the Expansive Theory: and signally vindicate the wisdom of Peel in 1819, when he refused to adopt the Restrictive Theory, and impose a numerical [limit](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Limits-And-Extinction-Of-Credit.html) on the Bank's issues, and which he again protested against in 1833.

The next crisis was in 1837: but the Bank foreseeing it, judiciously anticipated it, and made the most liberal issues to houses which required it. By thus adopting the Expansive Theory in good time, nothing more occurred than a severe [monetary](http://chestofbooks.com/finance/banking/Elements-Banking/On-Monetary-And-Political-Convulsions-As-Influencing-The-Exchanges.html) pressure, which was prevented from deepening into a crisis entirely by the judicious conduct of the Bank.

Up to this period Sir Robert Peel had passed through two phases of opinion with regard to the Currency Question. When comparatively a young man he had formed one of that famous majority which had voted that a £1 note and 1s. were exactly equal to a £1 note and 7s.: or that 21 is equal to 27. In 1819 he completely adopted the doctrines of the Bullion Report and became a disciple of the school of Horner, Huskisson, Thornton, and Ricardo. But in 1840 a new school of Currency Theorists had arisen of whom the most distinguished were Mr. Jones Loyd, now Lord Overstone, Colonel Torrens, Mr. Norman and others. These influential persons saw that notwithstanding the undoubted truth of the doctrines of the Bullion Report, there was some incurable vice in the management of the Bank of England, which had, beyond all dispute, greatly conduced to prepare the way for the great commercial crisis of 1825 by its extravagant over-issues of Notes. They found that the Bank was totally unable to manage itself on the principles it professed to be guided by. They traced the original [source](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Origin-Source-Or-Cause-Of-Value.html) of all Commercial crises to the excessive issues of Notes by banks. They adopted the definition of "Currency" as being Money and Bank Notes only payable to bearer on demand, to the exclusion of all other forms of Paper Credit: and they maintained that the only true principle of issuing Notes was that when Notes were issued they should be exactly equal in amount to what the specie would be if there were no Notes.

These doctrines being strenuously urged by a number of able and influential persons, completely converted Sir Robert Peel, who now entered on the third phase of opinion with respect to the Currency Question, and by the Bank Act of 1844 he endeavoured to give effect to these doctrines.

Peel therefore determined now to adopt the Restrictive Theory, and to impose by law, what every eminent authority of former times including himself had solemnly condemned - a numerical limit on the issues of the Bank.

The Bank Act was passed amid general applause, but as said above, on the very first occasion on which its powers were tested in April 1847, it completely failed to compel the Directors to carry out its principles, and one-third of its bullion ebbed away, without any appreciable diminution of the amount of its Notes in. [circulation](http://chestofbooks.com/finance/banking/Elements-Banking/On-Sale-Or-Circulation.html).

But in October 1847 a far severer crisis took place. The Bank made immense advances to other banks and houses to prevent them from stopping [payment](http://chestofbooks.com/finance/banking/Elements-Banking/Payments.html). But numerous Banks and Commercial Houses did stop payment, and the resources of the Bank were exhausted. At last after repeated deputations to the Government to obtain a relaxation of the Act, and with the stoppage of the whole commercial world imminent, the Government authorised the Bank to issue Notes at discretion. And what was the result? The panic vanished in 10 minutes. No sooner was it known that Notes might be had if necessary, than the want of them ceased. The whole issue of Notes in consequence of this letter was only £400,000 and the legal limits of the Act were not exceeded.

 Thus on this occasion again, the Restrictive [Theory](http://chestofbooks.com/finance/banking/Elements-Banking/The-Theory-And-Practice-Of-Banking.html) wholly failed: and the Expansive Theory saved the country and was the only means of saving the Bank itself from stopping [payment](http://chestofbooks.com/finance/banking/Elements-Banking/Payments.html).

The next great crisis was in November 1857, which was far more severe, as regards the Bank itself, than that of 1847. On the 12th November 1857 the Bank closed its doors with the sum of £68,085 in Notes: £274,953 in gold: and £41,106 in [silver](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Meaning-Of-The-Mint-Price-And-Market-Price-Of-Gold-And-Silver.html): being a total sum of £387,144. Such were the resources of the Bank to begin business with on the 13th ! Truly said the Governor it must entirely have ceased discounting, which would have brought an immediate run upon it. The bankers' balances alone were £5,458,000. It is easy to see that the Bank could not have kept its doors open for an hour.

On the evening of the 12th the Government sent a letter to the Bank, authorising them to issue Notes at their discretion, but not at a less rate than 10 per cent.; and next morning as before, the panic had passed away.

Thus on this occasion again, the Restrictive Theory wholly failed: and the Expansive Theory saved the country: and was the only means of saving the Bank itself from stopping payment.

The next great crisis was in 1866, which was still more severe. Unfortunately, no investigation was held respecting it, so that there is no reliable account of its circumstances. On the 10th of May there was a general run upon all the London banks. It was said, but we cannot say with what truth, that one great Bank alone paid away £2,000,000 in six hours. After banking hours it became known that the great [discount](http://chestofbooks.com/finance/banking/Elements-Banking/On-Price-Discount-And-Interest.html) house of Overend, Gurney and Co. had stopped with liabilities exceeding ten millions - the most stupendous failure that had ever taken place in the city. The result of such a catastrophe was easily foreseen: not another bank could have survived the next day: and that evening the Government again authorised the Bank to issue at discretion, at not less than 10 per cent. The Bank advanced £12,255,000 in five days: but the panic passed away.

Thu3 again the Restrictive Theory wholly failed: the Expansive Theory saved the country: and was the only means of saving the Bank itself as well as every other bank from stopping payment.

Thus we see the entire failure of Peel's expectations. He took away the power of unlimited issues from the Bank, and imposed a rigorous numerical [limit](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Limits-And-Extinction-Of-Credit.html) on its powers of issue, under the hope that he had prevented the recurrence of panics. But the panics recurred with precisely the same regularity as before: and therefore in this sense too the Act has failed: and when [monetary](http://chestofbooks.com/finance/banking/Elements-Banking/On-Monetary-And-Political-Convulsions-As-Influencing-The-Exchanges.html) crises do occur, it is decisively proved that it is wholly incompetent to deal with them.

It has been seen that it is a complete delusion to suppose that the Hank Act carries out the "[Currency Principle](http://chestofbooks.com/finance/banking/Elements-Banking/On-The-Currency-Principle.html)" It might be supposed perhaps, that if it did really carry out the "Currency Principle" it might prevent panics arising. General experience however entirely negatives this view. In 1764 the most severe Monetary Crisis which had occurred up to that time, took place at Amsterdam and Hamburg, where the banks were really constructed on the "Currency Principle."

A decisive example of this took place at Hamburg in 1857. A similar Monetary Crisis took place then; as here, and the Bank being constructed on the "Currency Principle" had no power to issue Notes to support [Credit](http://chestofbooks.com/finance/banking/Elements-Banking/On-Money-And-Credit.html). The Magistrates were obliged to issue city bonds to support the Credit of the merchants: exactly as the Government had issued Exchequer bills in England in 1703. Here also the Restrictive Theory wholly tailed, and it was found necessary to adopt the Expansive Theory to avert universal failure.

This disaster took place where the "Currency Principle" was in full force; another instance that it is no protection against panics.

The experience of every country exactly confirms the experience of England. At Turin the bank was constructed on some principle of limitation: but in 1857 it was found necessary to suspend its, constitution, and allow it to issue Notes to support Credit.

The very same thing was conspicuously proved in 1873. In Austria, in North Germany, and in America, the Banks were all constructed on some analogous principle of limitation of their issues. Hut in the severe monetary panic in each of these countries, it was found necessary to suspend their constitutions, and authorise them to issue at discretion to support [commercial Credit](http://chestofbooks.com/finance/banking/Elements-Banking/Chapter-V-On-Commercial-Credit.html).

Thus universally throughout the world, it is proved by abundant experience, that the Restrictive Theory cannot be maintained after a monetary panic has reached a certain degree of intensity: and that it is absolutely necessary to adopt the Expansive Theory to avert universal failure.

13. The supporters of the Act of 1844 assert that it is the complement of, and in strict accordance with the principles of the Act of 1819, and the Bullion Report. But such statements are utterly incorrect: and the following are the fundamental differences of principle between them -

I. The Bullion Report declares that the mere numerical amount of Notes in [circulation](http://chestofbooks.com/finance/banking/Elements-Banking/On-Sale-Or-Circulation.html), at any time, is no criterion whether they are excessive or not.

The Theory of the framers of the Act is that the Notes in circulation should be exactly equal in quantity to what the gold coin would be if there were no Notes: and that any excess of Notes above that quantity is a depreciation of the Currency.

Is this principle of the supporters of the Act in accordance with the principle of the Bullion Report?

II. The Bullion Report declares, and the supporters of the Act of 1819 maintained, that the sole test of the depreciation of the Paper Currency is to be found in the Price of Gold Bullion and the state of the [Foreign Exchanges](http://chestofbooks.com/finance/banking/Elements-Banking/On-Foreign-Exchange.html).

Eicardo says - "The issuers of Paper Money should regulate their issues solely by the price of bullion, and never by the quantity of their paper in circulation. The quantity can never be too great or too little, while it preserves the same [value](http://chestofbooks.com/finance/banking/Elements-Banking/Chapter-II-On-Value.html) as the standard."

According to the supporters of the Act of 1844, the true criterion is whether the Notes do or do not exceed in quantity the gold they displace.

Is the doctrine of the supporters of the Act of 1844 in accordance with the doctrine of the Bullion Report and the framers of the Act of 1819?

III. It was proposed to the Bullion Committee to impose a positive limit on the issues of the Bank to curb their powers of mismanagement. The Bullion Report expressly condemns any positive limitation of its issues: and Peel in 1819 and in 1833, fully concurred in this condemnation.

The Bank Act of 1844 expressly limits the issues of the Bank.

Does the Bank Act of 1844 coincide with the principles of the Bullion Report and the doctrines of Peel in 1819 and 1833 ?

IV. The Bullion Report, after discussing the most important Monetary Crises which had occurred up to that time, expressly condemns the Restrictive Theory in a Monetary Panic, and says that it may lead to universal ruin: and recommends the Expansive Theory.

The Bank Act enacts the Restrictive Theory by Law: and prevents the Expansive Theory from being adopted.

Does the Bank Act of 1844 agree with the doctrines of the Bullion Report, and of Peel in 1819 and 1833, on this point?

Peel in introducing his measure of 1844 said we must never again have such discreditable occasions as 1825, 1836, and 1839: but since 1844 we have had 1847, 1857, and 1866. On each of these occasions the Restrictive Theory was enacted by law: and on each occasion the Government was obliged to come forward and authorise the Bank to break the Law: to abandon the Restrictive Theory, and adopt the Expansive Theory, as the only method of averting ruin.

Experience, therefore, has indisputably proved that the Bullion Report was framed with truer wisdom and scientific knowledge of the Principles of Paper Currency than the Bank Act of 1844. The only deficiency in the Report was that it failed to point out the proper means for carrying its principles into effect so as to maintain Paper on a par with gold. But we supplied this defect by shewing that the true means of controlling the Paper Currency is by adjusting the Rate of Discount by the Foreign Exchanges and the state of the Bullion in the Bank.

* next: [Examination Of The Arguments Alleged For Maintaining The Bank Act](http://chestofbooks.com/finance/banking/Elements-Banking/Examination-Of-The-Arguments-Alleged-For-Maintaining-The-Bank-Act.html)

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