ON THE

BANK CHARTER ACT

OF 1844.

BY

THOMAS TOOKE, F.R.S.

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BANK CHARTER ACT OF 1844,

ITS

PRINCIPLES AND OPERATION;

WITH SUGGESTIONS FOR AN IMPROVED ADMINISTRATION
OF THE BANK OF ENGLAND.

BY

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HISTORY OF PRICES, AND OF THE STATE OF THE CIRCULATION, for the Eight Years from the close of 1847 to the close of 1855. By THOMAS TOOKE, F.R.S ; with Contributions by WILLIAM NEWMARCH.

Being the Fifth and Concluding Volume of the *History of Prices from* 1792 *to* 1855 ; — With an Index to the whole of the Five Volumes.

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PREFACE.

I CANNOT allow this Tract to pass out of my hands without offering to my friend Mr. Newmarch, a tribute of acknowledgment, for the important assistance which he has rendered me in preparing these sheets for publication.

Mr. Newmarch is, as will be seen in the following Introduction, my coadjutor in the preparation of a forthcoming New Volume of my History of Prices;—a work which I should not have undertaken if I had not had his proffered aid to rely upon; not only for passing the Volume through the press, but for a contribution of some of the most valuable portions of the information which it is the design of the work to convey.

In the present instance, I am indebted to Mr. Newmarch for valuable and, I may add, indispensable aid—(besides the aid he has rendered in superintending the press)—in arranging the different parts of the argument; in the division of it into sections, with their several headings; and in contributing the very elaborate and clear, and, I think I may venture to add, the very interesting tabular statement of the position of the Bank of England at several distinct periods from 1844 to the present time ; with the comments suggested by that statement. To this catalogue of obligations I have to add that of having received from him several emendations, and valuable suggestions.

At the same time, for the design and scope of the Argument, and for the language in which it is conveyed ; as also for the Plan of an improved constitution of the Bank of England ; I alone am accountable.

London, Dec. 17. 1855.

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BANK CHARTER ACT

OF 1844.

INTRODUCTION.

Of the Commercial Distress which prevailed in 1847;—of the Causes of it;—of the manner in which I consider that it was aggravated by the Act of 1844;—and of the issue of the Suspending Letter from the Treasury of the 25th October (1847)—I treated at some length in my last Volume of the History of Prices.

But when that Volume was published (in February, 1848) I had not the benefit of the information afforded by the Reports of the two Committees of the Lords and Commons, which were appointed in December, 1847, and pursued their enquiry till late in the ensuing summer.

During the period which has elapsed since 1847, my opinion of the impolicy and mischievous influence of the measure of 1844 has undergone no change: unless it be that of having acquired additional force; and as I have always felt persuaded that, in the event of any recurrence of a pressure on the money market, or of a derangement of commercial credit, there would be a renewed and searching investigation of the grounds assigned for the existing law: a discussion of the questions connected with that law formed a somewhat leading feature in the plan of the New Volume, which is in the course of preparation for the press.

The Crisis, however, has arrived at an earlier period, and with more suddenness, than three months ago there was reason to expect. The public mind is again earnestly directed to a consideration of financial difficulties; and to an investigation of the degree in which they are or may be affected by the existing legal restrictions on the power of Issue by the Bank of England. And there appears to be a very general concurrence in the belief that, among the earliest duties of the approaching Session, will be that of determining on some decisive modification of the existing laws relating to the Currency.

Under these circumstances, I have been led to anticipate the appearance of my Fifth Volume, by the adaptation to the immediate purposes of the present time of a considerable part of the division which would have treated of the state of the Circulation.

I am sensible that in some respects I have to contend with disadvantages in presenting my views in this separate form.

As part of the Volume, they would have derived support and illustration from elaborate contributions which have been prepared by my coadjutor, Mr. Newmarch, on the important collateral topics — of the Financial History of the last Eight Years; — of the influence of the Gold Discoveries in this country, in America, and Australia; — and of the progress of the Bank of France, and of other institutions connected with credit in France since the fall of Louis-Philippe.

On the other hand, I am bound to reflect that, to be of immediate practical use, a treatise on the Currency must present itself at a moment when, compelled by pressure or necessity, the Public have become attentive students of a subject, not to be mastered without an effort, and offering but few attractions in unexcited seasons.

Section I.

The Reports from the two Parliamentary Committees of Inquiry (Lords and Commons) of 1848.

The Reports from the Committee of the Lords and the Committee of the Commons on the Commercial Distress of 1847, published at the close of the Session of 1848, and founded on the protracted enquiry and examination of Witnesses, which had been in progress for more than six months, relative, in an especial manner, to the Act of 1844, present themselves naturally and obviously as the first topic for consideration.*

Between the two Reports there is an extraordinary difference. The Evidence taken by each Committee is, as nearly as may be, the same; but widely different is the manner in which the evidence is treated, and greatly at variance are the conclusions drawn from it by the framers of the respective Reports.

The Report of the Lords' Committee is a luminous and admirably drawn up statement of all the principal points raised by the enquiry referred to them; each of the points being illustrated, and the conclusions sustained, by a careful reference to the evidence. †

* In an Appendix (A) I give the necessary details connected with the composition and proceedings of the two Committees.

† In noticing the very able Report of the Lords' Committee, in contrast with the Report of the Commons' Committee, on the same occasion, I take the opportunity of correcting an error and supplying an omission that I was guilty of when, at page 280. of the Fourth Volume of the History of Prices, I observed with reference to the passing of the Bill of 1844, after noticing and commenting upon the debates upon it in the House of Commons,—"In the House of Lords the Bill passed without a division, and almost without the form even of a debate. Lord Ashburton was, if I recollect rightly, the only peer who objected to the principle of the Bill." It will be seen by the expression here used, that I was

The Report of the Commons' Committee presents a striking contrast in every particular to that of the Lords' Committee.

It is as bald, meagre, evasive, and inconclusive a statement, on a subject of so much importance, as ever emanated from a Committee.

In the discussions in Parliament, to which the Commercial Distress of 1847 had given rise, there was but little difference of opinion as to the originating causes of it. The chief, if not the only ground of controversy, was how far, if at all, the Act of 1844 had aggravated the distress which, it was admitted, had its origin in other causes. The Lords' Committee, accordingly, state at the outset of their Report the conclusion on this point, to which they had been led by an examination of the evidence; and they then proceed in support of that conclusion to give an analytical view of the facts and statements placed before them.

After stating the causes of distress, which, as they are well known, need not be here repeated, the Report proceeds:

"In what precise proportion these different causes contributed to the common disaster, there is some room for difference of opinion; but that each had a considerable share in producing it, no person has been found to dispute. Some of these causes are obviously beyond the reach of legislative control. But upon those which are connected with the extension

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writing from recollection. Being then very much pressed for time, I had contented myself with alluding to, and commenting upon, the debates in the House of Commons. After the publication, in February, 1848, of that volume, on my attention having been drawn to the circumstance, I found, to my great regret, that although I had read the debate at the time that it occurred, in June, 1844, the particulars of it had gone out of my memory; for that, in point of fact, there had been an animated and highly interesting debate on the principle of the Bill, in which Lords Radnor and Monteagle, and the late Lord Ashburton took a prominent part. Lord Radnor, moreover, entered on the Journals of the House a Protest embodying his argument against the principle of the measure, in language very pointed and just.

of Commercial Speculation, encouraged or checked by the facility or the difficulty of obtaining credit, by the advance of capital and the discount of bills, the powers and position of the Bank of England must at all times enable that Corporation to exercise an important influence. The Committee have consequently felt it to be their duty to inquire into the course pursued by the Bank acting under the provisions of the 7th and 8th of Victoria, c. 32.; and they have come to the conclusion that the recent panic was materially aggravated by the operation of that statute, and by the proceedings of the Bank itself.

"This effect may be traced directly to the Act of 1844 in the legislative restriction imposed on the means of accommodation, while a large amount of Bullion was held in the coffers of the Bank, and during a time of favourable exchanges; and it may be traced to the same cause, indirectly, as a consequence of great fluctuation in the rate of discount, and of capital previously advanced at an unusually low rate of interest.

"This course the Bank would hardly have felt itself justified in taking had not the impression existed, that by the separation of the Issue and the Banking Departments, one inflexible rule for regulating the Bank Issues had been substituted by law, in place of the discretion formerly vested in the Bank. The Banking Department was considered to be thus absolved from all obligation, but that which was connected with the pecuniary interests of the proprietors. Though it may be true, as stated by the Governor and Deputy-Governor, 'that if they were to do anything for the interest of the proprietors that was not for the interest of the whole commercial community, the evil would fall back on the Bank, and instead of having a beneficial effect, would have an injurious one, as far as the Bank is concerned.' Yet this principle does not appear to have been practically recognised in all cases, and the Act of 1844 avowedly left the Directors at full liberty to act according to their own views of their corporate interests."—(*Lords Report*, iv.)

Here is a charge based upon a careful consideration of the evidence against the Act of 1844, to the effect that it operated in aggravation of the commercial distress in 1847.

On the other hand, the Commons' Committee having closed the examination of Witnesses, the tenour of whose evidence was, as nearly as might be, the same as that which was taken by the Lords' Committee, came (as appears by the Minutes of Proceedings) to a vote on the 26th May upon a resolution moved by Mr. Hume —

"That, in the opinion of this Committee, the laws for regulating the issue of Bank notes payable on demand aggravated the Commercial Distress in England."

Thereupon the Committee divided, and the numbers were, Ayes eleven, Noes thirteen; thus the motion was negatived by a majority of two.

At the next meeting of the Committee, on the 30th May, a Draft Report, as prepared by the Chancellor of the Exchequer, was read; and upon a motion that it be read a second time, paragraph by paragraph, an amendment was proposed by Mr. Herries to leave out all the words after "That," for the purpose of inserting—

"It is the opinion of this Committee, that the Draft of a Report prepared by the Chancellor of the Exchequer *is not in accordance with the evidence* this Committee has received, more especially with respect to that part of the order of reference to us, in which we are directed to inquire how far the Commercial Distress in 1847 was affected by the laws for regulating the issue of Bank notes payable on demand."

On this amendment the Committee divided, Ayes ten, Noes twelve.

And at the final meeting of the Committee, on the 6th June, on the question being put on the concluding paragraph of the Report to the following effect,—

"Your Committee, therefore, after a careful review of all the evidence, are of opinion that it is not expedient to make any alteration in the Bank Act of 1844,"—

it was carried in the affirmative by twelve to ten.

But had it not been for the accidental absence of two of the members of the Committee, Mr. Herries and Mr. Thomas Baring, who were determined opponents of the proposed Report, the numbers would have been twelve and twelve. The Chairman of the Committee, Sir Francis Baring, had had the candour, in the course of the debates in the House of Commons on Commercial Distress in the autumn of 1847, to express his surprise and disappointment at finding the state of the Bank Circulation to be so different from what he had been led by the authors of the scheme of separation to expect would be its operation. I infer therefore, that with the impression of having been thus deceived, and having had before him the whole of the evidence, which he was bound to weigh with great care, he would in all probability have decided against the Government, and thus the Act would have been condemned by both Committees.

But the actual result was, that the two Committees, having before them precisely the same facts and evidence, reported to parliament diametrically opposite conclusions. It is possible that there may have been—but I am not aware of the circumstance—parallel cases, or some single case, in which two parliamentary Committees, one appointed by the House of Lords, and the other by the House of Commons, to enquire into a matter of corresponding importance, have come to conclusions, and have adopted recommendations, of a character so totally opposite.

In former analogous instances, such as the Secret Committees appointed by the two Houses of Parliament, on the Suspension of Cash payments in 1797: and on the Resumption of them in 1819: there was the most perfect accord between the two Committees, both in the conclusions to which they were led by a careful examination of the evidence, and in the policy recommended by them to Parliament for adoption.

Section II.

Debates in the House of Commons in 1848 *on the Reports from the Committees of Enquiry.*

There was no proceeding in the House of Commons after the presentation of the Reports until the 22nd August (1848), when Mr. Herries, in pursuance of a notice which he had given, moved a Resolution to the effect of pledging the House to take into its serious consideration, in the early part of the ensuing Session, the Reports of the two Committees.

This motion gave rise to an animated debate, in which Sir Robert Peel and the Chancellor of the Exchequer strenuously opposed the resolution, and the latter moved thereon the previous question.

Sir Robert Peel, in the course of that debate, observed : —

"My Right Honourable friend (Mr. Herries) has referred to the recent Reports of the two Houses. I shall not advert to that of the Commons' Committee, because I heartily concurred in every word of it; but I shall impugn the Report of the Lords' Committee. I shall earnestly deprecate the recommendation of that Report, the ability of which I do not contest. Of that Report I may say, with truth, that it is drawn up by no friend of the Bill of 1844. I do not say that it is a Report prepared in a spirit of unfair hostility to the Act of 1844, but it is prepared in a spirit which ensures the full exposure of any defects which there may be in that Act.

"In two instances the Report recommends a modification of the Act. It suggests, first, an extension of the issue of Bank notes upon silver relatively to gold ; secondly, the introduction of a discretionary relaxing power to be intrusted to the Bank of England, but to be exercised only during the existence of a favourable foreign exchange. The first suggestion is of little comparative importance. The other suggestion, the giving a discretionary power to the Bank to relax the restrictions which are imposed upon it, I consider most objectionable."

He then stated the objections to such relaxation : and with considerable warmth, and some degree of acrimony, defended his own views of the Act of 1844, and quoted in support of them the evidence of those very persons who were the chief propounders and promoters of the scheme which was on its trial; and who gave, as might be expected, an opinion that it had not aggravated the distress in 1847. They went further, and maintained, as indeed did Sir Robert Peel, that its operation had been beneficial, and that an earlier relaxation of the restrictive clauses would have been mischievous.

Mr. Hume, who had been a member of the Committee, in answer to Sir Robert Peel, observed that, —

"Looking to what was expected from this Bill, and what had just been stated to the House, he was utterly at a loss to understand the Right Honourable Baronet. Much time had been taken up by the Right Honourable Baronet in stating the principle on which our currency was based; but that was not the question before the House on the present occasion. The Right Honourable Baronet had spoken lightly of the Report of the Lords' Committee; *but it was, nevertheless, an honest Report, and in accordance with the evidence that was laid before the Committee.*

He agreed with the Right Honourable Baronet, however, that the recommendations of the Committee were exceedingly vague. The Committee were all agreed, however, that the Acts of 1844-45 did greatly aggravate the distress when the time of pressure came. Although there had been a great jumble on the part of the supporters of the measure of 1844 as to what was expected from it, and what had been its result, he begged to say, that if there was any one principle more intelligible than another in that measure, it would allow of no interference with its operation; and yet ruin stared the country in the face till interference took place. This showed that it was founded on a wrong principle, when it required such interference. The Right Honourable Baronet seemed determined to maintain the principle of his Act; he was unwilling to yield, even although every fact was against him, for, with the exception of the Bank Directors, all the other witnesses were opposed to him. With respect to the Report of the Committee of that House, it was right that the public should know that the numbers in its favour would have stood exactly twelve to twelve, but for the accidental absence of two members; and taking this fact in connection with the bearing of the evidence, it could hardly be expected that the public could have much confidence in the Report. With respect to the Act of 1845, relating to Scotland, he ventured to say that there never was a more uncalled-for piece of legislation in the world. Not one single soul in Scotland was found to support it; and all the Scotch witnesses who were examined before the Committee, spoke of its bad effects. After the best consideration which he could give the subject, he did not hesitate to confess his belief that the measure from which so much good had been expected did really aggravate the evils that it was intended to remedy, and he was therefore clear in the conviction that it was quite right to draw the attention of the House to that subject."

The previous question, having been moved by the Chancellor of the Exchequer, was of course carried, and both the reports were thus summarily disposed of.

But the circumstance which more perhaps than the support of the Russell and Peel parties (united as they were on this point) contributed to save the Act from the damaging effect of the Report of the Lords' Committee: and from the prevailing opinion of its then recent mischievous operation: was the disappearance, long before the Blue Books of the Committees were in the hands of the public, of nearly all traces of the distress of the previous year. The foreign exchanges had favoured a large influx of gold; the rate of interest had fallen to 4 per cent.; there was a renewal of complete facility of banking accommodation, and every indication of a restoration of Commercial Credit. The restrictive clauses of the Act were no longer operative: and public attention had consequently ceased to be directed to them.

There was perhaps another cause which contributed to prevent any further notice in the ensuing Session of 1849 of the Act of 1844, and of the Reports of the two Committees; and that was the distaste of the House of Commons for any discussion on the Currency unless forced into it by external pressure. Such distaste is not unnatural: for, independent of the dry and abstract nature of the details, the subject is rendered especially irksome by the adherents of the Birmingham School who constantly break in upon the discussion, and weary the House with interminable dissertations on their peculiar views.

Never was there, in my opinion, a more unrighteous verdict, or a judgment more opposed to the weight of evidence, than that which negatived the charge against the Act of 1844 of having aggravated the distress of 1847; and the process by which that verdict or judgment was obtained is anything but creditable to the eminent public men concerned in the proceedings.

In truth, the result they obtained turned upon the circumstance that Sir Robert Peel the parent, and Sir Charles Wood the sponsor, of the measure, were on the Committee, and voted, of course, in its defence. Their position was that of defendants, who were allowed to step from the bar into the jury-box, and deliver a verdict of acquittal in their own behalf. This certainly did not show much confidence in the intrinsic strength of their cause. Nor, if they had entertained such confidence, would they have deemed it necessary to bring the whole authority and weight both of the actual and immediately preceding governments, the Whig and Peel parties and the prime-minister of each, to bear upon the decisions of the Committee. Lord John Russell, whose policy it was to propitiate Sir Robert Peel, voted on each of the divisions in which the numbers ran close, although he had not attended a single examination of witnesses. And, further, no fewer than seven officials of the actual and preceding governments also constantly divided with Sir Robert Peel: who, notwithstanding the disastrous experience of the operation of the Act, and notwithstanding the overwhelming evidence against it, adhered to the scheme with unabated tenacity.

But in spite of this extraordinary influence brought to bear on the Committee, there would not have been the majority of two on the concluding division had it not been for the accidental absence of Mr. Herries and Mr. Thomas Baring.

Section III.

Examination of the Alterations proposed by the Lords' Report.

I think it impossible that any person possessed of competent knowledge of the general subject, and not committed as a party in the controversy, but taking sufficient interest in the question to read the Report of the Lords' Committee, can help agreeing with Mr. Hume, when he described it as an "*honest Report, and in accordance with the evidence.*" This is a tribute which most assuredly is not due to the Report of the Commons' Committee.

But entertaining as I do a very high opinion of the ability and fairness with which the Report of the Lords' Committee is drawn up, and its perfect accordance with the evidence, I agree also with Mr. Hume in thinking that the recommendations of the Committee are vague.

The Report declares that "Many of the provisions "of the Act are, in the judgment of the Committee, "as well as in the judgment of the great majority "of the witnesses, judiciously adapted to the pur-"poses for which they were framed." But, as was observed by Sir Robert Peel in his criticism on the Report, "it does not specify the particular pro-"visions of the Act of 1844, which, in the opinion "of the Committee, are judiciously adapted to the "purposes for which they are framed."

Now, passing over, as not within the scope of my present purpose, those portions of the Act which relate to certain classes of the country banks; the leading object of the statute is to restrict and regulate the issue of Promissory Notes payable on demand by the Bank of England, and by other Banks of Issue in England and Wales. And it was this portion of the scheme that constituted the main object of enquiry by the Committee, and of interest in the public mind.

But in truth it was the restriction on the power of Issue by the Bank of England, and the separation of that establishment into Two Departments, that really came into question.

The Lords' Committee having established, in perfect accordance with the evidence, that the Act of 1844 had aggravated the distress in 1847; and having expressed an opinion of the probability of the recurrence, at periods more or less remote, of cases requiring a suspension of the law, observe very properly: —

"To leave these cases, when they do arise, to be dealt with by the irregular exercise of the mere authority of the Crown and its advisers, setting aside 'once in five or six years,' or even at periods more remote, the express provisions of a distinct Statute, appears wholly inconsistent with that fixity and order which it is, or ought to be, the object of all law to secure.

"Two suggestions have been made to the Committee; the one an absolute repeal of the act of 1844; the other a continuance of the Act, accompanied by a power of relaxation.

"Believing that many of the provisions of that Act are judiciously adapted to secure the primary object of the convertibility of the Bank Note, and viewing the great balance of evidence which has been given in favour of the second of these alternatives, it is to that proposition that the Committee are desirous of directing the attention of your Lordships." — (*Report*, xlv.)

Then follows a description of the injurious operation of the Act: —

"It is true that to those who may have expected that the 7 & 8 Vict cap. 32. would effectually prevent a recurrence of cycles of commercial excitement and depression, the contrast between the years 1845 and 1847 must produce grievous disappointment.

"To those who anticipated that the Act would put a check on improvident speculation, the disappointment cannot be less, if reliance is to be placed (as the Committee are confident it may) on the statement of the Governor of the Bank, and of other witnesses, that 'speculations were never carried to such an enormous extent as in 1846 and the beginning of 1847.' (Q. 525.).

"If the Act were relied on as a security against violent fluctuations in the value of money, the fallaciousness of such anticipation is conclusively proved by the fact (Q. 2308.), that whilst the difference between the highest and lowest rate of discount was in the calamitous years 1837 and 1839 but two and a quarter, to two and three quarters per cent.: the difference in 1847 rose to six and three quarters.

"If it was contemplated that the number and the extent of commercial failures would have been lessened, the deplorable narrative (Q. 112.) of the Governor of the Bank, recording the failure thirty-three houses, comparatively in large business, in London alone, to the amount of 8,129,000*l.*, is a conclusive reply.

"If the enormous extent to which Railroad Speculation has been carried, be considered as an evil to which a sound system of banking could have applied a corrective, such a corrective has not been found in an Act, since the passing of which, during a period of three years, an increased Railway Capital of upwards of 221,000,000*l.* has been authorised to be raised by Parliament, and when the enormous sum of 76,390,000*l.* is stated, on high financial authority, to have been actually expended on Railways in two years and a half.

"If the power of obtaining Banking Accommodation on moderate terms were considered to be promoted by the Act of 1844, it cannot be said that this important object has been attained, since it appears (Q. 3303.) in evidence that in 1847, in addition to an interest of nine or ten per cent., a commission was also frequently paid, raising the charge to ten, twenty, or thirty per cent., according to the time which bills had to run.

"The Committee are fully aware that alternations of periods of commercial excitement and of discredit, of speculation and of collapse, are likely to arise under all systems of Currency; it would be visionary to imagine that they could be averted altogether, even if the circulation were exclusively metallic. But it is on this account that greater care should be taken to avoid increasing an evil, perhaps inevitable, by any arbitrary and artificial enactments."—(*Lords' Report*, xlvi.)

The Committee then proceed to declare, that "They are of opinion that the principle on which "the Act of 1844 should be amended, is the intro-"duction of a discretionary Relaxing Power, such "power in whomsoever vested to be exercised only "during the existence of a favourable exchange. "Several plans have been suggested by which "such a relaxing power may be exercised, but they "resolve themselves practically into three — a "legalised authority vested in the government; in "the government and the Bank conjointly; or in "the Bank of England alone."

Of these three plans the Committee considered the last to be the least objectionable.

The recommendation on this point by the Committee is open, however, to the charge of vagueness brought against it by Mr. Hume.

But Sir Robert Peel, in the debate alluded to, expressed himself with great vehemence against the idea of any relaxation at all. "The suggestion," he said, "of giving a discretionary "power to the Bank to relax the restrictions "which are imposed upon the Bank, I consider "most objectionable. I consider it to be at vari- "ance with experience and with reason: with the "evidence of the witnesses most competent to give "an opinion upon the question at issue. Why "in 1844 did you impose restrictions on the Bank? "Because the experience of preceding years—full "knowledge of the course pursued by the Bank "when the Bank had unlimited authority—a deep "sense of the evils which had arisen from the un- "controlled power of the Bank in 1825, 1837, "and 1839—convinced parliament of the neces- "sity of subjecting the Bank to peremptory "restrictions. There was in 1844 an almost "unanimous impression, without which the Act of "that year could not have been passed, that the "discretionary power of the Bank had been im- "providently exercised, and ought to be controlled "by law."

The Governors and Directors of the Bank who were examined by the Committee on this point, gave opinions equally decided against any relaxing clause. This, however, was a matter of course, seeing that they were uncompromising defenders of the Act of 1844. Their views were consequently identical with those of Sir Robert Peel, who quoted them as witnesses in favour of the measure. And if the principles on which the Act was framed were admitted to be correct, and to be of such paramount importance as to justify and require for their practical application a specific enforcement by law, the arguments against a relaxing clause would possess considerable weight.

But what is called the *principle* of the Act has, in my opinion, been referred to with far too much deference in the Report of the Lords' Committee. Some, also, of the witnesses, while expressing themselves adverse to any absolute restriction by law, and recommending an abrogation of so much of the Act of 1844 as imposes a restriction on the issue of Bank notes, and prescribes a separation of the Bank of England into two departments, yet spoke with respect and approbation of the *principle* on which that measure is founded. Now if the principle were rigorously and logically followed out, and the grounds firmly established for the total separation of the departments, there ought to be no occasion for relaxation. But the principle is, in my opinion, essentially unsound; and its application, when the Act is at all operative, is always inconvenient and sometimes mischievous; and I now proceed to state the reasons for these conclusions.

Section IV.

Grounds Alleged in 1844 *for the Bank Charter Act then passed.—The special Distinction set up in favour of Bank Notes.*

In the early part of 1844, before Sir Robert Peel had brought in his Banking Bill, and when the provisions of it were only matter of conjecture, although they proved to be in the main such as had been surmised, I stated in a pamphlet the very strong objections to which it appeared to me that the plan, then reported to be in contemplation, was justly exposed; and I had the opportunity, in a second edition, published soon after Sir Robert Peel's expository speech of May of that year, of repeating and enlarging upon those objections.

And, while referring to that pamphlet, I may perhaps be allowed to make an extract from the Chapter in which; in the course of an examination of a description given by Colonel Torrens of the supposed working of a plan which should separate the Departments of Issue and Banking; I ventured to predict that, under the circumstances assumed in his description, it would be almost inevitable that intense commercial distress would be occasioned; and that the Department of Banking would encounter the absurd catastrophe of having to stop payment, while the Department of Issue held Six millions of unemployed Treasure. The following is the passage:—

"I am most intimately persuaded that (under "the state of things assumed) it would be within "the mark, to suppose that a rate of discount (as-"suming that the doors of the Bank and the ears "of the Directors were inexorably closed against "all applications) of 20 per cent. and upwards "would, in many cases, be submitted to; and sacri-"fices of goods, if any large proportion were held "on credit, would be made at a still greater loss. "And, after all, it might be a question whether "even this effort of the Bank on its securities would "be effectual in restoring the reserve *in sufficient* "*time* to meet the exigency. This would depend "entirely on the character of its Deposits. If these "were strictly payable on demand while the circum-"stances determining the Efflux were strong and "urgent, the payment of 3,000,000*l.*, accompanied "by forced sales of Securities, might prove insuffi-

"cient, in point of time, to arrest the demand; *and,* "*in this case, while the Circulating Department* "*would still have* 6,000,000*l. of Bullion, the Deposit* "*Department would have no alternative but to stop* "*payment;*—a most absurd, however disastrous, "state of things. But it would be too disastrous, "and too absurd to be allowed to take its course. "If such a crisis were to happen, as most probably "it would, at the time when the Dividends on the "Public Funds became due, the Government would "be imperatively called upon to interfere, and pre-"vent so ridiculous, however lamentable, a cata-"strophe; and the only interference that could "meet the emergency would be to authorise a tem-"porary transfer of Coin from the Issuing to the "Banking Department."—(*Inquiry into the Currency Principle*, *March*, 1844, p. 109.)

It will be admitted, I think, that there is a tolerably close correspondence between the anticipations here stated, and the actual events of October, 1847. Then, the rate of discount was, in many cases, quite equal to 20 per cent. It was found to be impossible to force sales of Securities. The crisis did reach its greatest severity at the juncture of the payment of the Dividends. And the precise facts were that, on the 25th October (1847), the date of the Government Letter, "au-"thorising a temporary transfer of Coin from the "Issuing to the Banking Department," the Treasure in the Issue Department was 6,320,000*l.*

Again, in 1847, when the state of Commercial Distress was brought under the consideration of the public and of Parliament; and the question arose how far the Act of 1844 had contributed to aggravate that distress; I had occasion, in the Fourth Volume of my History of Prices, to enter into a lengthened examination of the principles on which that measure was founded; and to show, by a reference to its operation, that it had tended materially to aggravate the distress, at the same time admitting that the distress had its origin in other causes.

To the arguments thus adduced against the principle and operation of the Act, I beg to refer such of my readers as may be in possession of those publications; and I cannot help thinking that, as far as they go, they may be allowed to possess considerable weight.

But persuaded as I continue to be, that the principle of the measure is unsound; and that the regulation by law in pursuance of it is impolitic; and believing, as I do, that a discussion of the question of our monetary system, with a view to an alteration of the Act of 1844, must speedily be resumed, I propose now to enter upon a renewed examination of the grounds on which, according to the exposition of the highest authorities in support of the principle and policy of the Banking Law of 1844, that measure was adopted; and has since, with the exception of its temporary suspension in 1847, been maintained in its utmost stringency to the present time.

In the remarks, so suggested, I shall have the advantage of the additional light thrown on the subject not only by the Reports in 1848 of the Lords' and Commons' Committees on the Commercial Distress in 1847; but by experience and observation of the working of the Law in question during the last eight years.

The following are the terms in which Sir Robert Peel enunciated the proposition adopted by him as the groundwork, on which his system of restriction on the Bank Note Circulation of the country was to be erected; and, in pursuance of which a distinct security was to be provided for the convertibility of Bank Notes to the exclusion of other forms of Bank obligations;—

"There is," he said, "a material distinction, in

" my opinion, between the character of a Promissory " Note payable on demand, and other forms of " Credit; and between the effects which they re- " spectively produce upon the prices of com- " modities and upon the exchanges. The one " answers all the purposes of money, passes from " hand to hand without endorsement, without ex- " amination, if there be no suspicion of forgery, " and it is, in fact, what its designations imply it " to be, Currency or Circulating Medium." *

This distinction in favour of Bank Notes, as constituting Money to the exclusion of other forms of paper obligation; and as producing distinct effects on prices and on the foreign exchanges, is wholly unsustained by authority or reasoning.

The only authority, cited for it by Sir Robert Peel, is a passage in a work entitled On the Coins of the Realm, by the first Lord Liverpool, published in 1806. The passage, as I have before endeavoured to show (vol. iv., p. 159.), is of doubtful interpretation; and, having been written at a time when Bank Notes were inconvertible, and when One Pound Notes were in circulation, can hardly be considered to be applicable after the resumption of Cash Payments and the suppression of one pound notes. But granting the utmost importance to this passage in the work of the first Lord Liverpool, it is merely an incidental remark —an *obiter dictum*—which stands singly against a whole array of authorities who deny the validity of the distinction claimed; and who include Bank Notes in the same category with Bills of Exchange and other forms of Paper Credit, and further the distinction claimed by Sir Robert Peel receives no

* This is an instance, amongst others, of great slovenliness of expression. There is no doubt that Bank Notes are to be considered as Circulating Medium; but even Sir R. Peel would hardly deny that Bank Credits and Bills of Exchange also come under the designation of Circulating Medium.

countenance from either Adam Smith or Ricardo, or from the Bullion Report of 1810. It is directly controverted by Mr. Huskisson and Professor Storch in passages which I have cited in my last volume (iv. 156. 171.); and I have now to lay before the reader the following names of writers whose authority on such a subject can hardly be called in question, viz.:—Mr. John Stuart Mill; Mr. McCulloch; M. Michel Chevalier; Dr. Travers Twiss; and M. Joseph Garnier.*

All these distinctly deny that Bank Notes, in a convertible state of the Currency, are entitled to the designation of Money in the same sense as Coin or metallic money; and maintain that they are to be considered only as a form of Paper Credit. Mr. Mill and M. Chevalier enter into the question at considerable length. Their arguments are exhaustive; and I do not imagine that any competent judge can resist the force of their conclusions.

So far, therefore, as rests on authority.—The weight which justly attaches to the opinions of the writers mentioned, and to the statements to similar effect, which I have before referred to (vol. iv. p. 152. *et seq.*), may surely be considered a sufficient and conclusive answer in the negative to the assumption which ascribes the attribute of money to Bank Notes to the exclusion of other forms of paper obligation.

Nor has greater success attended the other attempts, which have been made from time to time, to show that Bank Notes exercise some constant and permanent influence over the magnitude of the amount of other forms of Paper Credit—Bills of Exchange for example;—and that the variations in the quantity of Bank Notes regulate or deter-

* The extracts from the writings of the five authorities mentioned in the text will be found in Appendix B.

mine the facility of the creation, and use of these other forms of credit.

Mr. Fullarton refers to these statements in the following passage:—

"I know, indeed, that it has been alleged that, 'When the "'aggregate amount of Coin and Bank Notes is undergoing a "'diminution, an increase in the use of Bills of Exchange is, "'practically speaking, impossible.'"—(*Mr. Norman's Letter to Charles Wood, Esq., M.P.*, p. 42.)

"Now I believe this to be one of the many fallacies which "have been invented *to prop up the rotten fabric of the "Currency Theory.* If my space permitted, and the occasion "demanded, I am confident I have the means of proving that "there exists no such invariable connexion, as has been gene-"rally assumed, between the contractions and expansions of the "Bank Note Circulation, and the expansions and contractions "of the Bill Circulation."—(*Regulation*, p. 47.)

The assumption implied in the statement here quoted from Mr. Norman, is an apt illustration of the exceedingly unsatisfactory consequences, which flow from discussing questions of currency, from a purely abstract point of view; for few persons are better able than Mr. Norman to appreciate the testimony of facts on such a topic, or more willing to give to such testimony a candid attention.

The truth really is, as affirmed by Mr. Fullarton, that there is no invariable connexion between the variation of the Bank Note, and the Bill Circulation:—unless indeed it be a connexion the precise reverse of that assumed by the Currency Party; for it has been shown conclusively by Mr. Newmarch*, that, while the average total amount of Inland Bills of Exchange in Circulation at one time in Great Britain was 113 Millions in the bad year of 1847; and 109 Millions during the four bad years 1839–42; it was only 99 Millions during the four prosperous and active years 1843–46. In other words, that at those periods, when Banking Accommodation and Discounts:—or, as the Cur-

* Statistical Journal, vol. xiv. (1851), p. 176.

rency expression is, when "Bank Notes:"—were most difficult to be procured, Bills of Exchange were most numerous. The *rationale* of such a result is not very difficult; but into that part of the argument it is not material to enter at present.

Section V.

The Alleged Occurrence of Depreciation in Bank Notes strictly Convertible.—The unfair and indiscriminate Imputation of extreme and absurd Views to the Opponents of the Act of 1844.

Sir Robert Peel, in his expository Speech of May, 1844, after establishing, as he conceived, an essential distinction in favour of Bank Notes as being Money, to the exclusion of Bills and other forms of Paper Credit, went on to show the injurious consequences that have attended, and would inevitably attend, the exercise by Banks of the power of issue:—"Because," he said, "unless the "issuers of paper conform to certain *other* prin-"ciples, (besides that of convertibility into coin at "the will of the holder) there is a danger that the "value of the Paper will not correspond with the "value of Coin. The difference may not be im-"mediately perceived; nay, the first effect of "undue issue, by increasing prices, may be to en-"courage further issues; and the evil proceeds "until the *disparity* between gold and paper be-"comes manifest, confidence in the paper is shaken, "and it becomes necessary to restore its value by "sudden reductions in its amount."

Nothing can be more unfounded than this series of assumptions. How is it possible that the paper can be said " not to correspond with the value of gold," if the holder of the note can obtain the gold on presentation? Unless, indeed, as has been contended by a refinement of a *quasi* logical subtlety, the very act of exchanging paper for gold is a proof of "a lowering of the value of paper in its relation to gold."

Mr. Wilson has noticed and forcibly commented on this absurdity:—

"But the most subtle and truly curious argument is that used by Colonel Torrens. He admits that there is a difference between liability to depreciation of an Inconvertible and Convertible paper, which he states thus:—'The increase in the quantity of Inconvertible paper is unlimited: the increase in the quantity of Convertible paper is limited by the power of the holder to exchange it for gold, as soon as, from the increase of its quantity, its value in relation to gold begins to decline. *If the increase in the quantity of Convertible paper had no effect in lowering its value in relation to gold, the holder could have no motive in exchanging it for gold.*'

"Now really this is a special case of magnificent refinement. Every case of an optional exchange of equivalents must be considered an evidence of depreciation! It is certainly an evidence of some preference or greater applicability for the purposes immediately required. But let me ask this ingenious reasoner: —Two men go to the Bank counter on two successive days; one has received a remittance of a 50*l.* note from the country, which is of no use to him till he has converted it into coin, and he presents it for payment. The other man has fifty sovereigns, but wishes to make a remittance to the country, and he receives a note in exchange for it. The one has a 'motive' for exchanging the note for gold, the other for exchanging gold for the note. Now we ask which was depreciated—the Coin or the Note?"—(*Capital, Currency, and Banking*, p. 58.)

Mr. Wilson has also very conclusively answered another of the subtle arguments employed by the Currency Party; namely, that the adjustment in value between gold and a convertible paper may be almost indefinitely postponed. Mr. Wilson says:—

"But some admit 'that while convertible paper cannot permanently be depreciated—that while it must at length become equivalent to the specie it represents, still, under certain circumstances, the adjustment may be long deferred.'—(*Norman, Remarks on Currency and Banking.*)

"If Mr. Norman here refers to paper convertible at pleasure, and not at a distant day, then we can only say that it is beyond our comprehension how such depreciation could, under any circumstances, be deferred beyond the time requisite to exchange the instrument. Nor does Mr. Norman explain under what circumstances the depreciation he speaks of would take place. It is true, that he and other writers constantly refer to the various proportions in which Bank of England Notes and Country Bank Notes have been in circulation at particular times; but that is no more an evidence of depreciation, than were it attempted to prove that at some particular time half sovereigns were depreciated because they were found to occupy a larger share in the circulation, in relation to sovereigns, than at any other time. No one has yet shown that a Convertible Bank Note ever sold for less than its value in gold or would command less interest than real gold would."—(*Capital, &c.*, p. 54.)

These arguments in effect leave no more to be said on the particular fallacies to which they are an answer.

It is perfectly clear that Sir Robert Peel and the party of which he was the convert, attributed to what they called "depreciation of the paper,"—(the paper being admitted all the time to be convertible at pleasure)—effects which are and can only be produced by the operation of credit and capital. He and they confounded from first to last an inflation of prices, arising from unwise extension of credit; with a rise of prices supposed to be caused by an excessive issue of Convertible Bank Notes; and in maintaining these views Sir Robert Peel frequently fell into the most glaring anomalies of reasoning and expression.

As we have just seen, for example, he spoke of Banks issuing to excess, and thus increasing prices until the *disparity* between gold and notes became manifest. But in what way can such a *disparity* become manifest, unless by the holder of the note no longer exchanging it for gold at *par?*—And it is admitted that no such thing as a discount on perfectly convertible notes has ever happened or can be rationally conceived, consistently with a standard, and a convertible paper. The convertible note is on a level with the gold it represents; —if the paper be below the gold, the condition of convertibility ceases; — still we are required to believe that convertibility at *par* may co-exist for an indefinite period with *disparity* in value; — and at this point it becomes apparent that we are moving round in a circle of riddles, each more perplexing than the one before it.

The failure of Sir Robert Peel, in his great speech of May, 1844, to establish any sufficient and clear ground for his restrictions on the Circulation attracted attention at the time, and was described on the morning after the debate as follows: —

"The Proposed Measures are scarcely justified by the Speech in which they are introduced. The local Banks of Issue, for instance, are to be extinguished. Why? We gather from Sir Robert Peel's speech that it is because they do not control their issues according to the foreign exchanges. And why should they so control them? Because the omission to do so is productive of over-issue. And how so? Alas, on this, the very heart and root of the question — the moot point of the whole— Sir Robert leaves us in the dark. The connexion between Foreign Exchanges and English Circulation is an interesting and a most important subject. It lay directly between Sir Robert Peel and his conclusion, — nay, was the very ground on which that conclusion rested; and, though to a certain extent intricate, is not too abstruse to be handled briefly and conclusively by the first financier of the day. *Why, instead of grappling with it, did he spend time in proving — what none but a few enthusiasts deny, — the inexpediency of a return to paper payments?*" — (Times, May, 1844.)

The animadversion directed in this passage against the constant disposition on the part of Sir Robert Peel, to assail all who differed from his own peculiar views, by accusations and ridicule directed against their assumed identity with the doctrines of the Birmingham School, is most just; and the conduct of the Currency Party in this respect, since 1844, cannot be passed over without marked condemnation.

It has been a constant artifice of the supporters of the measure of 1844, to accuse indiscriminately all those who are dissatisfied with it of incurable addiction to the nostrums of Inconvertible Paper.

Sir Robert Peel, I am sorry to say, did not disdain constantly to resort to this artifice. In his speeches, whenever the policy of the Act of 1844 was impugned, he went off into declamatory denunciations of the evils of depreciation; and implied, in a sort of impassioned reasoning, that there was no alternative between the limitation imposed by his Act and an issue of paper without any limitation at all; and he seemed to believe, and led his audience to believe, that every attack upon his own scheme was calculated, and was designed, to jeopardise the maintenance of specie payments.

This artifice has been extensively acted upon by those who still adhere to what they call the principle of the law of 1844; and they affect to see no difference between objecting to the restrictions of that law and objecting to all restriction whatever.

In the early part of the session of Parliament, in 1854 for example, when Mr. Glyn and Mr. W. Brown called the attention of Ministers to the possibility—now that War on a large scale had been entered upon—that more than ordinary inconvenience might be occasioned by the restrictive provisions of 1844; Mr. Home Drummond taunted them with seeking to restore the *little shilling*. Now this is essentially unfair: and the persons adopting the practice are either ignorant or disingenuous. If they do not know that a very large party, and the most important and best informed, among those who are opposed to the Act of 1844, are sincere and staunch adherents of the Act of 1819, they must be supremely ignorant. And if they do know this, and still put forward the accusation I have named, it is too lenient an expression, perhaps, to characterise the proceeding as disingenuous.

The issue of the question of the merits of the Act of 1844 ought to be confined to the upholders of that Act on the one hand; and the adherents of the principle of a Metallic Standard, as prescribed and enforced by the Act of 1819, on the other.

If the incubus of the measure of 1844 be got rid of, the dissenters from the measure of 1819 will, I firmly believe, have not the smallest chance of success. In truth their only chance at present consists in assailing the payment of notes in specie through the failure and unpopularity of the law which cuts up the Bank into two departments.

Section VI.

The Allegation that the Act of 1844 *is the "Complement" of that of* 1819.

To return, however, to the allegation that Bank Notes are to be considered as Money:—It would not follow, even if the assumption were granted, that the convertibility of Bank Notes should be protected, either on grounds of principle or policy, by any special security over and above that which is provided by a due enforcement of the law of 1819.

In the speech of May 1844, Sir Robert Peel stated that the provisions of the new law were a necessary "*Complement*" of the Act of 1819; and at a subsequent part of the same evening he took occasion to dilate on this point with great emphasis and formality.

Now there is, in truth, no more reason for the assertion that the Bill of 1844 is a necessary "*Complement*" of the Act of 1819, than there would be for saying that the observances of Puseyism are a necessary complement of the established service of the Church of England.

It may be strange, but it is the fact, that in the debate of the 22nd August, 1848, Sir Charles Wood, then Chancellor of the Exchequer, after the experience of 1847, and after the Reports of the Committees of the two Houses, and after all the evidence taken before these Committees, reiterated this statement with increased emphasis. In his reply to Mr. Herries in that debate, he observed: "But the witnesses* said: 'If you wish to have "'the Act of 1819, you must have the Bill of 1844; "'for without the Bill of 1844 the Bill of 1819 could "'not be carried out.'" And that was his opinion— "that the Act of 1844 was the necessary *complement* of the Act of 1819, and indispensable to "carry its principle into effect, namely, the con- "vertibility of paper into Gold."

The word "complement," when explained to mean additional security, becomes intelligible, however inapplicable; but when it is said "that without the Bill of 1844 the Bill of 1819 could not be carried out," I would ask, in what possible sense this expression can here be used? Certainly in no sense that is intelligible. For is it the fact that from 1819 to 1844 there has been any instance of failure in carrying out the Act of 1819? Or when, by way of stating the same thing still more emphatically, it is added, "that the Act of 1844 is indispensable to carry into effect the principle of the Act of 1819—the convertibility of paper into Gold"—it might equally be asked whether there ever was a moment of that interval in which the paper of solvent Banks, or of Banks professing to

* These witnesses being no other than the Bank Directors, who were the partisans and the original promoters of the measure.

be solvent, was not convertible?* This language is akin to the paradox maintained by Sir Robert Peel in May, 1844, and echoed in full chorus by his supporters in that debate, namely, that convertibility is no security for the maintenance of Cash payments; adducing in proof, an instance certainly on a par with the doctrine, namely, the case of the American Banks, the notes of which, as is well known, never were convertible in the sense in which convertibility is understood in this country.

These assertions of Sir Robert Peel, of the insufficiency of the Act of 1819 without the aid of the Act of 1844, are in no way sanctioned by any recognised authority, or supported by any conclusive train of reasoning.

The principle of a Metallic Standard (gold being valued at 3*l.* 17*s.* 10½*d.* the ounce, and silver at 5*s.* 2*d.* the ounce), was in operation, as the law of the land, for many years before 1797, when it was suspended by the Bank Restriction Act of that year. By the Act of 1819, the principle of the law of a metallic standard was recognised and consecrated, and its operation restored and enforced, with the difference only of making Gold alone the standard;—a difference which, whatever may be the importance attached to it on other grounds, has no bearing on the present discussion; and, as before observed, from 1819 to 1844 there was no infringement of the law so restored and replaced in operation.

The law of the land, then, whereby all obligations expressed in terms of pounds, shillings, and pence are made payable, when due, in good and lawful money,—that is, in Coin of standard weight and

* I refer to *solvent* Banks, because a paltry argument has been founded on the fact that the notes of the Country Banks were not always convertible, inasmuch as the issuers were, in many instances, insolvent, and eventually failed. The argument to this effect is quite wide of the real question under discussion.

fineness, —at the will of the holder of paper or other obligations, I regard as constituting the Orthodox or Catholic faith in the matter of the Currency of this country. And *the Bank-Note dogma*, which detaches promissory notes, payable on demand, from the scope and purpose of that law, and seeks to confer upon them a separate and special security, I hold to be a *schismatic and mischievous innovation*. For sure I am that the unwise measure of 1844, so far from being "a complement and necessary guarantee," is calculated to add to whatever danger might arise from other causes to the maintenance of Cash Payments. And I am of opinion that the part taken by Sir Robert Peel in framing and carrying the Act of 1844, so far from increasing whatever fame may belong to him as connected with the Act of 1819, will greatly detract from it; inasmuch as it may justly lead to the suspicion that he had no clear and comprehensive view of the scope and bearing of that vital measure.

And not only is a metallic standard of value the foundation, the faith, and the practice in *this* country, but in nearly all the civilised States of the commercial world. In France, Holland, and Belgium, the most commercial States in Europe, the practice is most strictly in accordance with that faith (the temporary suspension of convertibility in France, during the height of the recent Revolution, being an exception hardly worth naming). And in those highly civilised countries there have been no sects of currency dissenters from that faith.

The most striking instance in modern times of laxity on this point in the practice of a great and highly civilised commercial State has been that of the United States of Ameica. But a great improvement has been taking place there since the abundant supplies of Gold from California have induced a large substitution of that metal for paper in the circulation. Austria and the Papal States afford the most signal instances of a depreciated Currency; but even the Governments of those countries acknowledge the obligation of a metallic standard, and can only plead extreme poverty in their finance in extenuation of their discreditable monetary state, and departure from that standard.

In Russia, the inconvenience of an inconvertible and depreciated Currency was so strongly felt, that sixteen years ago the Government re-established a metallic standard, and adhered to it strictly in practice till the breaking out of the present War; since which time there has been a suspension of Cash payments. The depreciation of the paper is now about 10 per cent.; the intrinsic value of the silver ruble being 39*d.*, and the lowest quotation that I have seen of the exchange is 35½*d.* I remember it as low at one time as 9*d.**

The belief in the blessings of a Currency unfettered by limitation to a metallic standard, prevails in this country to a very great extent. But, happily, the adherents of that belief are so divided into numerous sects, no two of which agree in the particular canon of extravagance they would substitute for the Act of 1819, that but little danger is to be apprehended from their assaults, unless by the aid of the opposition in which they join to the Act of 1844.

* See History of Prices, vol. iv.

SECTION VII.

The Allegation that the Issue of Bank Notes, is the exclusive Function, or Privilege, of the Sovereign or State.

BUT not only has it been, and is it contended, that Bank Notes are entitled to an especial and almost exclusive protection; but further, that the function or business of creating or issuing promissory notes payable to bearer on demand, is an indefeasable attribute and province or prerogative of the Sovereign or State.

This is a dogma of the Currency School, than which few are held to be more indisputable. And at the same time, there is no more striking instance, than the statements and arguments on this subject, of the ambiguity and laxity of expression, and confusion of ideas, which characterise the system of doctrines to which we are indebted for the Act of 1844.

This dogma; — that it is the exclusive province of the Government to create and issue Bank Notes; — proceeds on the ground; — that inasmuch as the coining and issue of Metallic Money is an attribute, or province, or privilege of the State, so also Bank Notes, being, by the definition of the school, held to be *money*, the creation and issue of them ought, by parity of reasoning, to be considered as coming within the province of the Government.

Now for this assumption there is not the shadow of a foundation.

There is not, in reality, any analogy between the two functions. The province or function of the Government in regard to the Coinage as conducted by the Mint, in obedience to the prescribed regulations; is simply to certify by a stamp, bearing the effigy of the Sovereign, the weight and fineness of the piece of metal to which it is applied. This stamp or certificate is essential to the currency of the Coin, and it is accordingly guarded by severe penalties.

But no profit or benefit in a pecuniary or other form is derived by the Government from the exercise of this function; or, as it has sometimes been miscalled, privilege; for the exercise of a privilege supposes advantage of some kind. So far from it, indeed that, in the case of the Gold Coin,—which alone is here in question,—the beautiful coinage or manufacture is attended with loss to the Government. It is an onerous duty imposed on the State for the convenience of the public. And the function of Government is confined to the coinage or stamping. It does not issue the coin in any proper sense of the word *issue.* The gold is delivered into the Mint by the Bank of England, or by other Banks, or by individuals, who desire to have a quantity of the metal converted into coin; an equal weight of which is, after the delay of five or six weeks, re-delivered to the parties who deposited the metal in its unstamped state. The delay incidental to the process of coinage is considered to be equivalent to $1\frac{1}{2}d.$ per ounce. Importers, therefore, and other holders of unmanufactured gold find it their interest and convenience to sell the gold to the Bank at 3*l.* 17*s.* 9*d.* the ounce, and to receive in immediate payment Coin or Bank notes, at their option, of the current value of 3*l.* 17*s.* $10\frac{1}{2}d.$ the ounce. The Bank of England is, accordingly, the principal channel through which the Coin is received from the Mint and issued to the public.

How then can it, by the most strained construction, be said that this function of the Government in the coinage of gold, leaving as it does to others the issue of the gold so coined, bears any similitude to the creation, or, as it is termed, the coining, and the issue of paper money in the shape of Bank Notes?

The Government has undoubtedly the power of taking into its own hands the creation and issue of Bank Notes; but it would be for purposes, and attended with consequences, totally different from those which render the Mint regulations a province of the Government.

The main purpose for which some of the Governments of the Continent of Europe have assumed and exercised the exclusive privilege of the issue of Bank notes has been that of the profit to be derived from it; and a flagrant abuse in the way of fraud has been in many signal instances the consequence.

And of still more importance to Governments disposed to make an illicit gain at the expense of their subjects, has been the exclusive privilege of the issue of what is termed Paper Money of compulsory tender, and not returnable for payment to the issuing Bank. But in the view of the Currency School, the importance of confining the issue of Bank Notes to the hands of Government is not so much the gain to be derived by the substitution of paper for coin, as the power of controlling the *amount*, so that the Paper should not be liable to be issued in excess.

The views I have expressed in this section had the full support of Mr. Fullarton, as the following passage will show:

"I am not," he says, "in the least disposed to "acquiesce in the doctrine, which holds the issue of "a convertible paper Currency to be like Coinage, "the proper business and prerogative of the State. "Nothing can be more marked than the distinction "between the two cases. The rule which limits "the power of coining to the Sovereign, is founded "on such obvious expediency,—it is so clear, that "without the attestation of the royal effigy, and "*that* protected from imitation by the severest "penalties of the law, no metallic Currency can

" ever be kept of a uniform standard, that the pro-
" priety of the restriction stands quite above ques-
" tion. But there are no such conclusive objec-
" tions to the issue by individuals of Bank Notes
" payable on demand."

SECTION VIII.

The Act of 1819 *for the Resumption of Cash Payments.—Real Extent of Sir Robert Peel's Connexion with that Measure.—Explanation of the Term Convertibility of the Note.*

BUT whether Sir Robert Peel comprehended the full import of the Act of 1819 or not, I feel bound, by a due regard to historic truth, to say, that while he is entitled to the entire credit, such as it is, of the Act of 1844, he had only a very subordinate part in that of 1819.

Indeed the part he took in it would not have been worth mentioning, had not his name been associated with the measure from the mere circumstance of his having the duty as Chairman of the Committee of bringing in the Bill. He was, indeed, although then very young, the Chairman of the Select Committee of the House of Commons appointed in the early part of the Session of 1819 to consider the subject of the Resumption of Cash Payments ; and he drew up the Report, and brought in the Bill founded on the recommendations of the Committee, accompanying the introduction of the Bill with a fairly effective speech.

But the Report of the Lord's Committee on that occasion contains, in my opinion, a fuller and more able exposition of the topics of enquiry referred to it than that of the Commons, leading however to the same conclusions and recommendations. And the speech of Lord Liverpool, in the House of Lords, urging the adoption of the recommendations of the Committee, did certainly not yield in compass of knowledge of the subject to that of Sir Robert Peel. When, moreover, it is borne in mind that men of such eminence as Lords Lansdowne, Liverpool, Grenville, and King, in the House of Peers, and Canning, Huskisson, Tierney, Frankland Lewis, and Grenfell, in the House of Commons, were zealous and determined in their endeavours to bring about a restoration of Cash Payments, it must be evident that the measure would equally have been carried if Sir Robert Peel had not been a member of the Committee, — or of the House of Commons.

On the other hand, if it had not been for Sir Robert Peel, who in 1844 was in the plenitude of his power, the doctrine of the New School of Currency would never have been brought into actual operation by being embodied in a law which undertook the anomalous and objectionable function, of regulating the amount of the Bank Note circulation.

The language of the Reports of 1819, on the Resumption of Cash Payments, in which the Convertibility of the Notes of the Bank of England is laid stress upon as the medium through which the resumption of Cash Payments was to be brought about; may seem to countenance the distinction claimed by Sir Robert Peel and the Currency party, in placing Bank Notes in the foreground of the discussion on the principles of the Act of 1844.

The origin of the peculiar stress so laid on the Convertibility of the Notes in contradistinction to the Convertibility of the other obligations of the Bank, payable on demand; — that is, to the maintenance of Cash Payments; — may be traced to the following circumstances attending the Suspension of Cash Payments in 1797.

The Law which restricted the Bank from paying its Notes in Cash went only the length of exempting the Corporation from being liable to summary process by the holders of the notes. It did not confer the privilege of legal tender on the notes of the Bank of England. A tender of payment in Bank of England Notes had the effect only of exempting a debtor from liability to arrest; but did not preclude the creditor, if he objected to such mode of payment, from pursuing his claim by ordinary process of law. As during two years following the Restriction Act, a payment in Bank Notes was fully equivalent in value to a payment in coin; and as until 1809 the depreciation of the paper of the Bank was inconsiderable; there was no hesitation on the part of creditors, or of the public generally, to receive notes in payment. Indeed, I do not recollect any instance during that interval of holders of Bank notes claiming payment of them by process of law as for a debt; or of any creditor refusing to accept Bank notes in satisfaction of his claim.

But the great fall in the exchanges in 1809 and 1810, and the consequent rise in the price of Gold measured in Bank paper, brought into notice the remedy still subsisting in favour of the creditor. And Lord King, who was a zealous opponent, on principle, of the Restriction Act, brought the question of the exact state of the law on the subject to an issue, by a notice which he gave to his tenants to the effect that he would in future require them to pay their rents in gold; or in the amount of Bank notes which might be required to purchase the gold. An Act originating in the House of Lords, and known as Lord Stanhope's Bill, was in consequence passed in July, 1811, which had the effect of putting a stop to claims for payment in gold.

The state of things at the time of the passing that law, and the reasons for it, are noticed at some length in a former publication of mine*, to which I refer the reader; and I now allude to the circum-

* Vol. iv. pp. 116., *et seq.*

stance with a view only to account for the prominence and apparent preference given to the Note over other descriptions of the obligations of the Bank. For it thus appears that for nearly fourteen years from the date of the Restriction the technicalities of the law rendered, to all appearance, although not in reality, the restriction on the payment of the notes equivalent, in public opinion, to a legal suspension of Cash Payments generally. And hence, even in the language of the Committees of both Houses of Parliament in 1819, the expression of the convertibility of the Notes of the Bank is used synonymously with that of Cash payments generally. But I am quite sure that the eminent persons constituting those committees never contemplated the sort of exclusive importance which is attached by the Act of 1844 to the Notes of the Bank.

I consider myself entitled to speak with confidence on this point, because there was no one, I believe, among persons out of parliament, who took a more active part in the movement for the restoration of Cash Payments than myself; or was in more frequent communication with some of the distinguished members of the Committees of 1819, before each of which I was summoned and examined as a witness.

I cannot help thinking that the expression so frequently employed antecedently to 1844, of "the convertibility of the Notes of the Bank of England," when the real meaning was *that of payment of all obligations in cash* by the Bank of England, has had some, and perhaps no small share in imparting the notion of exclusive and excessive importance attached to the Note Circulation. I can say distinctly that I always used the expression of convertibility of the note as synonymous with general payment in cash.

The truth is, that previously to the Bank Charter

Act of 1832, little or nothing was known or thought by the public of the business of the Bank but as passing through the medium of Bank notes. The largest part of the Deposits in the Bank during the War, and for some time subsequently, were those on Government account; and the amount of the Deposits generally, other than those of the Government, entered little, if at all, into the discussions on the state of the currency. And the phrase "state of the circulation" was an expression for the most part used synonymously with "state of the Currency." But I am not aware of any instance in which the expression, "convertibility of the Note," was not by the context evidently meant to convey the idea of payment in Cash of all obligations of the Bank when due.

Section IX.

Statement of the Circumstances which enabled Sir Robert Peel to pass the Act of 1844 *with so little Opposition.*

It has always been a matter of wonder to me that a Statesman whose general views and policy were so signally under the guidance of great good sense and caution, as were those of Sir Robert Peel's, should have embraced unhesitatingly, in a matter of such importance as the Currency, a set of new opinions, not sanctioned by any unquestioned authority, and unsustained by any reference to admitted facts; and not only that he should have avowed himself to be a proselyte of a new and heretofore unrecognised doctrine on the subject of the Paper Circulation of the country, but that he should have availed himself of the great power which he exercised in the State, to embody in a positive enactment a novel scheme of Banking, founded on the doctrine which he had so hastily embraced.

The mere circumstance of Sir Robert Peel embracing those doctrines may hardly appear so strange, when it is considered that the School, whose tenets he adopted numbered among its teachers and disciples, persons of eminence who had paid great attention to the subject, and who disseminated their views with amazing zeal and eloquence; and, therefore, his embracing those doctrines in a mere theoretical view of the principles of Currency, on authority so high and in argument so specious, might be accounted for without much imputation on his sagacity or habitual prudence; more especially, allowance being made for the degree in which his mind must have been pre-occupied with the vast concerns of the State pressing on his attention.

But between the mere assent to a novel and controverted Theory, and the assumption of the responsibility of carrying such theory into practical effect, there is the widest possible difference. And it becomes a matter of some interest to endeavour to account for the zeal manifested by Sir Robert Peel in his adoption of the new tenets; and in his determination to bring forward a scheme founded upon thom.

This distinguished statesman had apparently, from an early period of the discussions on the Currency, imbibed a strong prejudice against the Management of the affairs of the Bank by the Directors of that establishment. The senior Directors of it had, in 1819, expressed opinions adverse to the doctrine of a metallic standard; they were willing, they said, to pay in gold at the market price of that metal; and these opinions he had to combat in the Report of 1819, and in the speech in which he brought that Report before the House of Commons. There was nothing in the subsequent period till 1825 that was calculated to call forth any very strong opinion on the management of the Bank; but the hazardous position in which the establishment suffered itself to be placed in that year; and again in the interval between 1836 and 1839; naturally produced upon him an impression unfavourable to the Bank. And the examination by the Committee on Banks of Issue in 1840, brought into full view the error of the Bank Management to that period.

At the same time an opportunity was afforded by that Committee to the teachers of the New School of Currency to state their doctrines at great length as witnesses before it. This they did with eloquence and effect; and from the part which Sir Robert Peel took in the examinations it was evident that he had adopted a view unfriendly to the Bank, and leaning to the doctrines of the New School. Soon after he came into power, a break in the Bank Charter afforded occasion for some alteration of its provisions; and he availed himself of it for the purpose of introducing a great change in the management: the change he proposed serving at the same time to prove his great distrust of the prudence of the Direction, and to bring into operation by the force of law the principle of management prescribed by the dogmas of the New School.

But Sir Robert Peel, and the Authorities from whom he drew his inspiration, unluckily mistook, as I shall hereafter show, the nature and cause of the mismanagement imputed to the Bank; and the remedy which, under the influence of this erroneous view, he applied by the Act of 1844, had the effect of aggravating those very evils of the management which he sought to correct and remove.

Sir Robert Peel, however, even in the plenitude of his power in 1844, would hardly have ventured on so great an alteration had it not been for the following circumstances:—

The great unpopularity of the Bank Management.

The cordial concurrence and co-operation of the Bank Directors in his proposed change.

The large influx of Treasure into the Bank between 1840 and 1844.

To advert to these circumstances in their order;—The Bank of England has always within my recollection been unpopular with the public. In the period immediately preceding the Bank Restriction the Directors had been compelled to resort to the most stringent measures of contraction of Banking accommodation, and meetings of Merchants and Bankers were held in the City, remonstrating against such measures. The Suspension of Cash payments, although acquiesced in by the public as a measure of State necessity, was always looked upon as an exceptional and objectionable state of things. And there was a large and important class of reasoners, who imputed the necessity of Suspension to mismanagement, while at the same time it was a source of profit to the proprietors of Bank Stock.

The Evidence of the Bank Directors before the Bullion Committee of 1810, was the occasion for animadversion and ridicule from their ignoring the principles of a metallic standard; and somewhat similar was the light in which the Bank Directors stood in 1819.

From that time to 1844, the Management has been, with few exceptions, the theme of adverse criticism and a source of controversy, especially in 1836, 1837, and 1839. The Bank too was an object of jealousy to other Joint Stock Banks. The managers of some of these were examined as witnesses before the Committee on Banks of Issue in 1841, and while clearly proving that they had no direct control over the amount of their own circulation, gave it as their opinion that the Directors of the

Bank of England did possess, and exercise, sometimes in an objectionable manner, a direct power over the circulation of Bank of England Notes in the hands of the public.*

Sir Robert Peel might therefore be fairly justified in saying, as he did in the debate of the 22nd August, 1848—"There was in 1844 an almost "unanimous impression, without which the Act of "that year could not have been passed, that the "discretionary power of the Bank had been im-"providently exercised;" but when he added, "and "ought to be controlled by law,"—I am not clear that he was borne out by the fact of any such impression existing among the public.

But the unanimous impression to which Sir Robert Peel alluded was clearly a mistaken one, inasmuch as it assumed that the Bank, previously to 1844, possessed and exercised the power of controlling and regulating the amount of the Circulation; and that it was in the exercise of that power that the Directors mismanaged the Currency. The proof of such mismanagement, according to the doctrines of the School, being that the amount of Bank Notes in circulation had not varied with the amount of Bullion, as it ought to have done, if properly managed in accordance with the correct principle of Currency; and as it would be made to do by the law of 1844.

Now, the experience of the operation of that law has shown that the discrepancy between the Circulation and the Bullion has been, since 1844, as frequent and in some instances to a greater amount, than it had been previously; and that the effect of an export of gold on the amount of

* It was probably owing to a feeling of this kind, and to an expectation perhaps of escaping from any important restriction themselves, that so little opposition was offered by the other Banking establishments to the restriction on the Bank of England.

the circulation has been totally at variance with that which had been anticipated from it by the teaching of the School.

The unpopularity, however, of the Bank Directors and the Bank Management would hardly have been sufficient to have enabled Sir Robert Peel to carry his measure; and it may fairly be doubted whether he could even have entertained the project of such a change, if it had been strenuously opposed by the Directors, with arguments enforced by all the weight of authority, and by the importance of the practical information which their position enabled them to bring to bear on the question of the proposed change.

It so happened, however, that instead of opposition, the change proposed by Sir Robert Peel received from the Directors their most cordial approbation and co-operation. In truth, it accorded with a favourite scheme of their own; for it appears that as far back as 1840, they had become proselytes of the new School of Currency; and had adopted and carried into operation the rule or principle of setting apart a Reserve of gold for all excess of the Circulation beyond fourteen millions of notes.

This principle, or, more properly speaking, experimental rule, they had acted upon invariably from 1840 until 1844; but, of course, only as a matter of account; and as they were wedded to the principle, but instinctively apprehensive that there might arise circumstances in which they could not take the responsibility of acting upon it, they seemed to be but too happy in concurring in the proposal of having this rule erected into a law. Thus there was not only no opposition from a quarter from which opposition was to be most apprehended; but every facility and assistance afforded in that quarter towards the proposed change.

The third circumstance, without the concurrence of which the scheme could not have been proposed, was the unprecedented accumulation of Treasure in the Bank of England between 1840 and 1844.

The remarkable fact of the great influx of the precious metals, and the high amount which it reached previous to the introduction of the Bill, is shown in the following statement:

		Minimum.	Maximum.
Bullion in the Bank	1840 - -	£3,000,000	£4,800,000
„	1841 - -	3,900,000	5,600,000
„	1842 - -	5,400,000	11,100,000
„	1843 - -	10,900,000	14,900,000
First three months of	1844 (23 Mch.),		16,400,000

Now if the occasion for the renewal of the Bank Charter had arisen in 1841 is it possible to imagine that Sir Robert Peel, or any other Finance Minister, would have proposed a division of the Bank when the whole of the treasure to be divided was of so small an amount?

It can surely not be maintained by the advocates of the Bill that in 1841 and the early part of 1842, Sir Robert Peel, or any of the prompters of the scheme of separation, foresaw the enormous influx of the precious metals which was to take place. There is, at least, no record of any confident anticipations expressed by any of the authorities in favour of the scheme of separation that such an influx was probable.

The circumstances which, after the event, might be considered to go a great way in accounting for the large Influx of Gold were —

The abundant Harvests of 1842–3 and –44, and the consequent diminution of payments for imports of corn, not only in quantity but in value, as compared with those of the three years preceding.

The rapid and great increase of the Exports of British Produce and Manufactures.

Imports of Russian Gold in consequence of the great increase of the production of that metal in the regions of the Ural and Siberia.*

These imports were of considerable importance. An accumulation of Gold had been gradually taking place in Russia for a few years before; but the circumstances of the trade with this country, and the great demand here for corn, kept up the exchanges in Russia so as to afford no inducement to the export of Gold till 1842; and in that and subsequent years, the supplies of Gold from Russia became considerable.

Section X.

The Suggestion by the Currency Party of a Metallic Type as the Model of a Perfect Currency. — The extremely Hypothetical and Defective character of the Views arising out of the Suggestion.

But the main argument relied upon by the school of the Currency Theory, proceeded on the assumption that a Purely Metallic Circulation is the Type or Model of a perfect currency; and that if paper money forms a part of the currency, the amount of the paper money, for such they define

* According to the Official Consular returns (Parl. P., 3 Dec., 1847), the produce of Gold in Russia from 1837 to 1846 was as follows: —

	£		£		£
1837 ...	900,000	1841 ...	1,316,000	1845 ...	2,792,000
1838 ...	1,004,000	1842 ...	1,848,000	1846 ...	3,414,000
1839 ...	1,003,000	1843 ...	2,635,000		
1840 ...	1,125,000	1844 ...	2,730,000		
Total to end of 1844			£12,561,000		

It will be seen that these figures fully bear out the statements of the text.

Bank notes to be, in their quality as representatives of coin, ought to vary in amount and value exactly as if the circulation were purely metallic.

In the pamphlets and in the evidence before the Parliamentary Committees, and in the speeches in Parliament, a reference to such a Model Currency has been repeated, *usque ad nauseam;* and the asserted occasional departure from such a model circulation in the management of the Bank of England previous to 1844, has been denounced as being "vicious in principle, and pernicious in practice."

Now these imagined models of a purely metallic currency seem to me to be made of wax; and to be susceptible therefore of being moulded into any shape most convenient to the reasoner who employs them in illustration of his views. If the model were drawn from an example* of the actual working of such a currency existing, or known to have existed, the case would be different. The convenience or inconvenience of a system so exemplified would proceed upon the legitimate grounds of experience and the evidence of facts; whereas it appears to me impossible that any one out of the pale of the Currency-principle school, can fail of being struck with the obscure and fanciful, and in every way unsatisfactory character of the reasonings of the teachers and followers of that school, as to what would be the variations; and the causes and effects of such variations; in a currency purely metallic. In truth, the assumption of such a fanciful model explains nothing; but, on the contrary, confuses everything which it is designed to elucidate.

Among the conceivable cases of a Purely Metallic Currency, are the following:—

* The example of Hamburg has been cited, but does not in point of fact apply. In that small State there are two descriptions of Currency; one of Bank money, the other of current money, consisting of coins of conventional value.

1. A state of things in which no credit should exist, but every payment be made by coins, or certain weights of metal, or by barter.

2. A state of things in which Hoards of coin or bullion should exist, and credit between individual and individual be given and taken; but with no trade of Banking in its present form; that is to say, no arrangements under which Bankers are at liberty to invest a portion of their deposits in productive securities for their own benefit. In place of such arrangements, the habits of the community may be supposed to be such that the Bankers or Goldsmiths would be required to hold their deposits in specie, without making a profitable use of any part of them, but charging a percentage or a remuneration in some shape or other for trouble and safe keeping.

3. A state of things in which Banking might exist in its essentials on the present footing; but without any power of issue of promissory notes, and with the banks in an isolated position, without branches, and without the existence of a great central quasi-national, bank, serving as a reservoir, or hoard, or collection of hoards from other banks, in addition to its own metallic reserves.

4. A state of things in which banks should exist on their present actual footing, with a large Central Bank, such as the Bank of England now is, but without any power of issue, either in the individual banks or in the Bank of England.

Of these Four Hypotheses, Number One is the only case which seems to have been in the contemplation of the early teachers of the Currency School; and it is the case upon which I had occasion to comment in my pamphlet of 1844. Its prominent feature is the assumption that every Drain for export would operate directly upon the quantity of the Circulation; that is, on the quantity of coin in the pockets of the public; thus diminishing their power of purchase, and consequently reducing prices, and, through the reduction of prices, rectifying the exchanges. An Influx was of course assumed to be attended with the converse of these effects: but upon the whole, the reasoning upon this and other hypotheses of a metallic circulation, have been confined principally to supposed cases of drain or Efflux, and but little stress comparatively has been laid on the opposite suppositions of Influx; and latterly the early references to supposed models of a metallic circulation, which ought, it was said, to be taken as types of a mixed circulation of coin and paper have been abandoned, but without any avowal of error.

Hypothesis Number Two represents a Metallic Currency very nearly such as existed in this country till about the middle of the seventeenth century*; although, as nearly as may be, purely metallic, it will hardly be considered as a model for a mixed circulation of coin and paper.

Hypothesis Number Three is a case readily supposable; and it is the nearest exemplification of what I imagine must have been in the minds of some of

* The statement in the text may be very aptly illustrated and confirmed by a quotation from the able and lucid paper by Mr. Gilbart on the Laws of the Currency printed in the Statistical Journal for Dec. 1854, (vol. xvii.). Referring to a previous work by himself in which fuller details are given, Mr. Gilbart says, "That part of the business of Banking which consists in the borrowing of money with a view to lending it again at a higher rate of interest, does not appear to have been carried on by Bankers until the year 1645, when a new era occurred in the history of Banking. The Goldsmiths, who were previously only money-changers, now also became money-lenders. They became also money-borrowers, and allowed interest on the sums they borrowed. They were agents for receiving rents. The receipts they issued for the money lodged at their houses, circulated from hand to hand, and were known by the name of Goldsmiths' notes. These may be considered as the first Bank notes issued in England." Mr. Gilbart then refers to the Mint, in the Tower, being employed by the merchants and others as a place of safe deposit for coin, and gold and silver bullion; and to the circumstance of the seizure, or, more properly speaking, the robbery by Charles I., in 1640, of 200,000*l.* of the money of the merchants then deposited in the Tower.

the teachers or disciples of the new school. And I am not sure that among the vague notions that have come across my own mind when I have had occasion to refer to what, under certain circumstances, the variations in the amount of a metallic circulation would have been, this has not been the outline that I have imagined.

Hypothesis Number Four is a case which may be supposed to represent a state of banking corresponding with that which now exists in this country; with the single exception of a total absence of Bank Notes, including in that term the post-bills of the Bank of England. The points of difference between this hypothesis and hypothesis Number Three consist in the supposition, in Number Three, of a smaller class of banks; but without branches; and without a great Central Bank.

But the difference between the two hypotheses Numbers Three and Four, in practical application, would be considerable.

The Metallic Circulation of Number Three would be greater in amount; because the larger the banks, and the more extensive their ramifications, the more effectual would be the saving by economical expedients. But the more important difference would be in the existence of a large Central Bank.

In the Case Number Three, there might, on the occurrence of possible and not altogether improbable contingencies, be a suspension of Cash Payments.

Suppose, for instance, that in the confidence engendered by an easy state of the money market of long continuance, some of the more enterprising and less wealthy of the banks might invest too large a proportion of their deposits in securities not readily convertible, or of doubtful solidity; — and then, supposing a sudden extra demand for coin, whether for export or for internal purposes, these weaker banks might simultaneously fail. These failures would inevitably engender a panic among the depositors in the more wealthy banks, causing a run upon them ; and as runs in such cases are infectious, they might extend to the greater number of the banks in the kingdom, who might thus be obliged to suspend their payments. A state of things like this might be equivalent to a general suspension of Cash payments.

Such a catastrophe would be much less likely to occur if, as in Hypothesis Number Four there were a Central Bank possessing a large reservoir of coin, which would enable it to come in aid of such banks as might, although of undoubted solidity, be tottering in a time of panic.

It can hardly escape the attention of any one who follows with care the outline of the various hypotheses of the assumed action of a Metallic Circulation, that, throughout the whole of the reasoning, the existence and influence of Hoards or Reserves in the hands of bankers and others was completely ignored.

I had occasion, when writing on the subject in March, 1844, to point out the extreme error of this particular dogma of the Currency Principle; and to give reasons for the belief that, in a Purely Metallic Currency, there might be an export of Bullion to a large extent, without in the smallest degree affecting the amount of the Circulation, the export being easily and readily satisfied out of the hoards and reserves. Mr. Fullarton * enlarged upon this view, and showed that a considerable exportation of gold might, and probably would, operate only on the reserves of the Bank of England and of other banks; without necessarily affecting the quantity of coin in the pockets of the public in the smallest degree; and Mr. Fullarton not only illustrated this view with

* Regulation of Currencies. — Published in 1844, soon after the passing of the Act.

the wonderful clearness and vigour which distinguishes his writings, but he also addressed himself with not less success to prove that the assumed effect of Drain upon a currency exclusively metallic is identical with the effect which, in point of fact, is produced upon the present mixed circulation of coin and convertible bank notes. Mr. Fullarton said:

"As to making a Bank Note circulation fluctuate exactly as a pure metallic circulation would have fluctuated, I do not see how that can be constituted into a duty, until it be first shown that they ever fluctuate differently. As a general principle, indeed, I am free to admit that the increase or decrease of a circulation of Bank Notes, from whatever cause it may proceed, ought to correspond with the increase or decrease which the currency of metallic coin would exhibit under the same circumstances. But I go further than this: I contend that there not only ought to be such correspondence, but that there always is;—that whenever the convertibility of the paper is perfect and secured from all delay or impediment, the coin of full standard value in weight and fineness, and the traffic in the metal, whether coined or uncoined, absolutely free and unrestricted, —then the Bank issues, if left to themselves, must necessarily fluctuate in conformity with the principles which govern the supply of the standard metal; and it is only from the intervention of some such arbitrary and empirical system of restraint as is now projected that this conformity runs any risk of being disturbed."—(*Regulation*, &c., p. 120.)

Mr. Ricardo, indeed, seems to have entertained a strong opinion that a Paper Circulation established on correct principles, would have advantages over a purely metallic currency; for he observes:—

"Whenever merchants have a want of confidence in each other, which disinclines them to deal on credit, or to accept each other's cheques, notes, or bills, more money is in demand; and the advantage of a Paper Circulation, when established on correct principles is, that this additional quantity can be presently supplied, without occasioning any variation in the value of the whole currency, either as compared with bullion, or with any other commodity: whereas with a system of Metallic Currency the additional quantity cannot be so readily supplied."—(*Mr. M'Culloch's Edition of Ricardo*, 1841, p. 399.)

It is clear, therefore, that Mr. Ricardo must have conceived a different notion of the type or model of a Metallic Currency from that which seems to be entertained by the teachers of the modern school, because they maintain that a metallic currency is the type or model of a *perfect* circulation.

SECTION XI.

The Disappointment expressed in 1847 *at the Actual Working of the Act of* 1844.—*Confusion arising from the New Nomenclature.*

THE experience of 1847 has afforded the most striking proofs of the correctness of those opinions which regarded as extremely unsafe and hypothetical the reasonings on wholly imaginary Metallic Types.

The discrepancies between the actual facts of that year and the anticipations held out by the framers of the Act of 1844, were so conspicuous that Sir Francis Baring could not refrain from specially adverting to them in one of the earliest debates of December, 1847.*

He stated with great candour his astonishment and perplexity at discovering, during 1847, that there was no correspondence or sympathy of movement between the amount of Bullion in the Bank and the quantity of Notes in the hands of the public; and he confessed himself totally unprepared for such a result by any doctrine or principle of the framers of the Act of 1844. Sir Francis referred to a particular case of variation in which the Bullion had *decreased* 7,024,000*l.*,

* The debate was that of 3rd Dec. 1847. I have given at page 307. vol. iv. Hist. of Prices, an extract of some length from Sir Francis Baring's speech.

and the circulation in the hands of the Public had *increased* 346,000*l.*; and he added: "*It certainly never entered into the contemplation of any one considering the subject prior to the passing of the Act that* 7,000,000*l. of Gold should run off and yet that the Notes in the hands of the public should rather increase than diminish.*"

But the difficulties and perplexities avowed by Sir Francis Baring at the very outset of the discussions were abundantly confirmed by evidence taken before the very Committee of which he was afterwards Chairman; — evidence, too, furnished — with admirable regard to the requirements of poetic justice — by the very persons who were most ultra in their defence of the Act and all its consequences and calamities.

This statement is fully borne out by the extracts printed in the Appendix (C.), from the very admirable cross-examination, by Mr. James Wilson, of he Governor of the Bank (Mr. Morris), and of the Deputy-Governor (Mr. Prescott); and of these extracts I would particularly request a careful perusal.

But in the perplexity and disappointment avowed by Sir Francis Baring he was by no means singular; for in the course of the same debate of the 3rd December 1847, Lord John Russell described as follows the unsettled nature of his own views and conclusions:—

"I feel the truth and prudence of the observations made by my honourable friend the member for the Tower Hamlets (Sir William Clay), that although from the year 1810 to the present time, this subject of the Currency Laws has engaged the attention of some of the ablest men this country has ever produced; although the Currency Laws have been directed by the views of a Grenville, a Huskisson, a Horner, a Canning, and of many of the most talented men now living, the matter is so difficult, so complex, so intricate, that there are still certain truths to be learned concerning it."

Now, the difficulties here alluded to have been infinitely increased by the New Nomenclature introduced by the framers of the Act of 1844.

It is an observation of Lockes' that, "words being "intended for signs of ideas, to make them known "to others, not by any natural signification, but by "a voluntary imposition, it is a plain cheat and "abuse when I make them stand sometimes for "one thing and sometimes for another; the wilful "doing whereof can be imputed to nothing but "great folly." And again: "Another abuse of "language is an affected obscurity, by either ap-"plying old words to new and unusual significa-"tions; or introducing new and ambiguous terms "without defining either; or else so putting them "together as may confound their ordinary mean-"ing."* And he afterwards gives the name of "gibberish" to this abuse of words.

Of the truth of this remark there cannot be a stronger proof and illustration than in the attempts that have been made by the zealous advocates of the Act of 1844 to explain in their peculiar sense what they consider to be its beneficial operation; and we must class under Locke's phrase of "gibberish" many of the expositions which have been attempted with the object of reconciling the effects produced by, with the effects predicted of, the measure.

Of these attempts, some idea may be gathered from the answers to the cross-examination by Mr. James Wilson already referred to, and included in this publication as an Appendix.† Those answers exhibit the style of explanation adopted by the more ultra partisans of the New School; and it would, I think, not be easy to conceive a more complete illustration of the confusion of ideas, and the perplexity of meaning, engendered by the application of old terms to new meanings.

* Essay on the Human Understanding, b. iii. c. 10.
† See Appendix C.

We have there, in all the varieties, the new and old meanings, of the word Circulation.* We have, for example, the definition of Circulation as being "Notes issued;" and then, inplain contradiction to the meaning hitherto attached to the phrase "Notes issued"—namely, the meaning of notes issued to the public—a meaning naturally enough suggested by the phrase itself,—the expositors assume, for the purpose of their argument, that "Notes issued" are, in point of fact, not issued at all, but are notes conveyed merely from one room of the Bank to another. The Currency equivalent of "Notes issued" in the old sense, seems to be the somewhat barbarous expression of "Notes out with the public." And "Circulation," in the Currency sense, bears a meaning which is assigned to it nowhere else; for, while mankind are tolerably unanimous in denying the attribute of circulation to that which does not circulate at all, the new doctrine prides itself in the discovery, that no part of the Currency is so pre-eminently Circulation as the notes which remain in a state of constant repose and custody in the Bank till.

In addition to all this, there is the hopeless confusion and misapprehension perpetually occasioned by the unhappy and inaccurate habit of speaking of the Reserve as consisting of notes, when in truth it consists of bullion; and therefore of describing the Bank as pursuing the pedantic course of trans-

* When the Act first came into operation, it was amusing to observe, how much puzzled the Brokers were to describe in the circulars to their clients and correspondents the new sort of Circulation. The descriptions were various,—as "reserved circulation," "dormant circulation," "potential circulation," and "passive circulation." This last designation, although savouring of an Hibernicism, is still retained in a few of the newspapers when giving a summary of the weekly returns of the Bank. In these circulars, moreover, pains were taken to point out that the effect of the New Act was to repress speculation, whenever it had any tendency to go too far.

ferring and selling to itself, its own promises to pay to itself with one hand, something supplied by the other.

Generally speaking, in proportion as the term "Circulation" and the term "Notes," either in what is called the *Till* of the Bank, or *Out with the Public*, are introduced into discussions on the state of the money market, or on the fluctuations in the prices of commodities; in that proportion will be the obscurity and confusion of the explanation. And it ought not to escape serious attention, that after all the maze and heap of words out of which, by means of Mr. Wilson's admirably framed questions, the real argument was kept in view, the result is that, after all the pretentious claims, the elaborate provisions, and the restrictive regulations of the Act of 1844, it is confessed (Q. 3701)—that if "the affairs of the Bank of England had been "regulated with prudence and discretion under the "Old System, it would have been managed in the "same way as the Bank Act defines that it shall be "managed."

But, whether well or ill managed, the *rationale* of the difference between the Separation and the Union of Departments is:—That in the Department in which alone the regulation of the currency as relating to the Bank Rate of Interest is concerned, the power of meeting requirements is limited by the quantity of gold in its coffers (identical with notes in its till); whereas in an united state it would, under circumstances which will be explained in the next section, be most beneficially enabled to extend its accommodation, subject, however, also to limitation, but only by the amount of the joint treasure of both Departments.

SECTION XII.

The Erroneous and Insufficient Nature of the Grounds on which a Legislative Separation was made between the two Departments of Banking and Issue of the Bank of England.

BUT if Sir Robert Peel, and his advisers and supporters, committed an egregious mistake in the grounds on which they proceeded when they imposed a restriction on the issue of promissory notes by the Bank; still greater, if that be possible, was the mistake of assuming, as they did, and as is stated most emphatically by the Governor of the Bank in his evidence just quoted;—that, after the separation of departments, the Banking Business of that establishment would be like the business of any other joint-stock bank; and might be conducted in the same way as that of any other bank without unduly interfering with the money market and the state of credit.

In adopting this assumption they overlooked the following considerations:—

1. The mere relative magnitude of the business of the Bank of England would alone and at once take it out of the same category or line of comparison with other banks.

2. The receipts and payments on account of the Public Debt, and on account of the Government Expenditure, are not only in amount, but in the liability to great and sudden fluctuations, infinitely beyond those of any analogous establishment.

3. The Accounts of the Bank of England are published weekly with a minuteness of detail, and are exposed to a degree of scrutiny and criticism, to which the affairs of no other bank are liable. And this weekly publication of the accounts was stated in evidence by the Governors, who were

staunch supporters of the bill, to be occasionally very inconvenient.

4. There is no other bank to which extensive resort is had in the way of applications for loans and discounts, wholly distinct from other banking business; and no other bank is looked up to in the same, or anything-like the same degree, for the support of credit in an emergency, or in periods of commercial distress.*

5. The Bank of England may be considered as the Centre to which a large part of the monetary transactions, not only of the United Kingdom, but of the commercial world, converge for settlement and liquidation. And in this respect there is no analogy between it and any other bank in the United Kingdom.

6. No other Joint Stock Bank has it in its power, by the regulation of its Securities, to produce so great a temporary effect on the Rate of Interest;

* In the debate of 22nd August, 1848, Sir Charles Wood referred as follows to an opinion expressed by myself in 1839 on the functions of the Bank in supporting credit: "With "reference to the question of the means necessary to support "credit in cases of extreme panic and alarm, different persons "entertained different opinions upon this head. Mr. Tooke "deprecated the issue of paper to support credit, and contended "that it was no part of the functions of the Bank to support "public credit; and that they departed from their proper func- "tions when they attempted to do so, except in times of panic "and alarm, which were exceptions from all rule." The opinion here quoted was expressed by me in 1839 (History of Prices, vol. iii. pp. 110–114.), and is correctly stated as far as it goes. I do not at this distance of time see much to alter in it. The remark was made in reference to the conduct of the Bank in the very large advances which it made in 1836, to three great American houses, which failed in 1839. The Bank lost a considerable sum (about 200,000*l.*) eventually by those failures, after a long process of winding up in America and the employment there of a special agent. Bearing in mind the peculiar nature of the facts connected with the advances of 1836–37, I am not disposed to modify the opinion I expressed of them in my third volume.

and through the rate of interest on the Foreign Exchanges; and to exercise so great a moral influence in encouraging an undue extension of credit and of the spirit of enterprise on the one hand; or, on the other hand, in creating alarm and a general revulsion of credit.

7. Nor would it be in the power, consequently, of any other bank, by the management of its securities, to affect the Foreign Exchanges in the same manner as the operations of the Banking Department of the Bank of England are calculated, and are found by experience to affect them. No other bank feels the immediate effects of an export or import of Gold in any degree approaching to that in which they are felt by the Banking Department of the Bank of England.

8. But above all there is this peculiar difference, which is of paramount importance, and is of itself condemnatory of the separation,—namely, that any other joint stock bank may stop payment without the smallest danger to the convertibility of the Note Circulation or the maintenance of cash payments; whereas, if the Banking Department of the Bank of England were to suspend its payment of the Dividends, and of its other obligations payable on demand, the convertibility of the note, and the maintenance of cash payments, would be in the greatest possible danger.

The source of danger here mentioned is noticed in the following extract from the Report of the Lords' Committee:—

"If the Committee considered that the Act of 1844, which they desire to see amended as far as its restrictive clauses are concerned, was essential to the practical convertibility of the Bank note, they would hesitate in recommending any change.

"*But it should never be forgotten that the liability of the Bank consists in its Deposits as well as in its Promissory notes. The legal obligation to discharge both is the same. The failure of either would be equally fatal.*

"The protection given by the Act of 1844 is mainly given at the risk of the Deposits. This appears undeniable on comparing the reserve in the third week of October, 1847, with the amount of Private Deposits. Had any unfortunate circumstances interfered with the power of meeting the latter engagements, or had not the Treasury Letter been written, there seems little doubt of the fatal consequences which must have ensued. Had it been impossible to pay the Deposits, a discredit of the Bank Note must have been the consequence. Nor can it be rationally questioned but that such a misfortune might have exposed to risk the convertibility of the Bank note."—(*Lords' Report*, p. xlviii.)

Thus the Act of 1844, instead of being a Complement to the Act of 1819, according to the boast of Sir Robert Peel and Sir Charles Wood, would, if its provisions were inflexibly carried out, be a distinct source of danger to the maintenance of specie payments.

But the most extraordinary of the consequences flowing from the double or two-fold mistake which I have pointed out consists in this: namely, that the restrictive regulation prompted by distrust of the prudence of the Directors applies to that Department of the Bank which was, and continues to be, independent of their management; while it is clear to demonstration that, whatever of injurious influence on credit, on prices, and on trade and on the foreign exchanges, have been ascribed to the improper exercise of the discretion of the Directors previously to 1844, has existed in an equal and, I will venture to add, in a much greater degree, since the passing of the Act of that year.

As a general proposition, it may be laid down, and has been shown, that the Issue Department is (as it was before 1844) *acted upon by* the Public;—while the Banking Department continues (as it did before 1844) to *act upon the Public*.—Thus producing a result *the very reverse* of that contemplated by the propounders of the scheme of separation. If, then, the due regulation of the currency, in any intelligible sense of the expression, depends, as it undoubtedly does, upon the Banking Department and not upon the Issue Department, it is the height of inconsistency to restrict the latter, and to leave the former wholly at the discretion of the Directors.

This vital question of the separation of Departments was pressed upon Lord Overstone in the course of his examination before the Commons' Committee of 1848, and as will be seen from the following extract; even his extraordinary power of exposition, and his intimate knowledge of the subject did not enable him, in the course of an elaborate reply to a question by Mr. Wilson, to do more than defend the separation, by reasons in which subtlety is the predominant feature. The only real point at issue he expressly concedes; namely, that supposing the Bank Directors to act with prudence, the management, with or without the Act of, 1844 would be the same.

The Question is as follows:—

"5206. Seeing that formerly the Bank was obliged to pay its Notes in Bullion, if the Bank had paid proper attention to the obligation that it had to pay those Notes and not to stop payment, would not the Bank's holding at all times a sufficient reserve of Gold, practically have had the same operation upon the action of the Bank as the operation of the Act of 1844?"

And the answer is:—

"The gist of the question turns entirely upon the supposition involved in it, viz., that the Bank paid proper attention to the obligation which it had to pay its Notes; *and under that supposition it is perfectly true that the operation would have been the same as under the Act of* 1844; and that at once brings out the distinction between the Act of 1844 and the previous system. The Act of 1819 ordained specie payments, but it took no measures towards securing or carrying out that ordinance. Then the Act of 1844 rendered compulsory the measures which were necessary for securing the convertibility of the Notes; if, therefore, you put a case which involves the supposition that the Bank previously did all that it was right for them to do to carry out the Act of 1849, then, upon that supposition, the course of things preceding the Act of 1844 will be identical with the course of things under the Act of 1844; but we had repeated experience that that could not be relied upon, and that the Bank repeatedly failed in doing what was wise and necessary, and that caused the passing of the Act of 1844.

"5207. Then the Act was passed with a view to make the Bank of England do, under the Act of Parliament, that which they had not formerly done in the exercise of a wise discretion?—*It was passed for the purpose of securing by law the proper course being taken for protecting the convertibility of the Note, which we had found, by previous experience, could not be safely entrusted to any discretionary custom.*"—(*Commons Report*, 1848).

Now, surely, if the only effect of all this apparatus of restriction by law has been to compel the Bank Directors to be more prudent in their management, two questions arise: (1.) Whether it has produced that effect; to which question Lord Overstone's own severe animadversion on the conduct of the Directors in 1847 furnish a distinct answer in the negative; and (2.) Whether, as the object of the restriction was merely to produce the same effect on the Circulation, as would have been produced if the Directors had been as provident and judicious in their management as they might and ought to have been; the simple and proper course would not have been for Sir Robert Peel, instead of meddling with the circulation,—a matter which he did not understand,—to have applied himself to improve the constitution and composition of the Administrative Body of the Bank. In the one case his admirable skill in framing administrative machinery would in all probability have produced a useful measure; in the other case he had with him no guide, but a plausible theory on a difficult subject, the bearings and intricacies of which he had not mastered.

It is to me perfectly inconceivable how men of the intelligence of Sir Robert Peel and Sir Charles Wood could, after the experience of 1847 and the evidence taken by the Committees on Commercial Distress, have entertained the opinions which they expressed in the debate of 22nd August, 1848, to the effect;—that by the operation of the Act of 1844, all discretion in the regulation of the currency had been withdrawn from the Directors of the Bank. Now I have never been able to discover, and should be glad if any one would point out to me, in what way and in what degree the Directors have had less discretion or control in the regulation of the currency since 1844 than they had before. It has been shown, for example, to demonstration that the amount of the Circulation, that is of Bank notes in the hands of the public, has been since 1844 determined by the same causes, viz., the wants and convenience of the public for that description of circulating medium, as it had been previously to that date.

In what way, it may then be asked, is the currency less under the regulation of the Bank Directors since 1844 than it was previously? Was there any other method previously to 1844 by which the Bank acted upon the money market, and the state of credit, than by its sales and purchases of public securities, and by its rate and conditions of discounts and loans? So far from its being the fact, as so strangely asserted by Sir Robert Peel and Sir Charles Wood, that the regulation of the currency has been withdrawn from the power of the Bank Directors, there has since 1844 been a more direct and frequent exercise of their discretion in the way of regulation, according to any intelligible sense of the word regulation, than there was before the Act of that year.

To take only one patent fact: — In consequence of its having been considered to be in the spirit of the Act that, since the management of the circulation had been withdrawn from the Directors they had nothing to do but to consider the interest of their proprietors; and, as far as consistent with that interest, the accommodation of the public, they immediately on the passing of the Act abandoned their former practice of a minimum rate of discount of 4 per cent. and reduced it to $2\frac{1}{2}$ per cent.; with the subsequent frequent changes to be noticed hereafter.

The opinion of the public how far the regulation of the currency has been withdrawn from the Directors, may be gathered from the anxiety, so frequently expressed, and sometimes so intensely felt, on the Stock Exchange and in the money market, to learn the decision of the Directors on the breaking up of the Courts on Thursdays. If there was no other proof of the imperfect knowledge possessed, and the very confused views entertained, by Sir Robert Peel on the subject of the currency, which he had so dogmatically dealt with, it would be sufficient to refer to his speech on the 22nd of August, 1848. And the speech of Sir Charles Wood in the same debate, exhibited a nearly equally confused view of the power or discretion of the Bank Directors in the regulation of the currency;—and yet these speeches were delivered after the calamities of 1847 and the evidence of 1848!

Section XIII.

The alleged Distinction between Liability arising from Circulation and Liability arising from Deposits.

But, if the advocates for the Act of 1844 had been consistent, there ought to have been a restriction on the amount of Securities in the Banking Department and a specific appropriation of gold beyond a certain amount of securities; analogous to the reserve of a specific amount of gold against a specific amount of circulation in the Issue Department: or, failing arrangements like these, there should have been a Minimum Rate of Interest on discounts and advances. Not that I would recommend this or any other analogous restriction to be imposed by law. I only mean to say that there would have been *some* sense in a restriction of this kind, while there is *no* sense in the existing restriction.

The rule or principle which was propounded by Mr. Horsley Palmer, and explained in the luminous evidence which he gave before the Committee on the Bank Charter in 1832,—a rule which was successfully acted upon during the period he filled the chair as Governor,—was that of keeping the Securities, as nearly as might be, of a uniform amount. This rule for the management of the Bank met with general approbation when it was first brought to the notice of the public; and it continued to be regarded as a guide in the management until 1834, when, in an evil hour, it was departed from. The departure from the rule on that occasion was, in every point of view, unfortunate. I have given an account at considerable length, in a former publication*, of the circumstances under which that departure took place, and of the evil consequences which followed; and to that account I refer.

I now notice the subject simply for the purpose of pointing out that the departure from Mr. Palmer's rule in 1834 had the effect of throwing discredit upon the principle of it, without that principle having had a fair trial.† The rule had the merit of being applicable to the liabilities of the Bank in all its departments; whereas, the rule adopted by the

* History of Prices, vol. iii.

† Some of the witnesses whose authority seemed to carry great weight with the Committee on Banks of Issue in 1840, expressed opinions disparaging of the rule; and nearly the only recommendation of the Committee, on the abrupt termination of its functions by the dissolution of Parliament in 1841, was, that the Bank should no longer consider itself to be bound or to be guided by that rule or principle of management.

Bank in 1840, and erected into a law in 1844, applied to only a part of its liabilities, and to *that* part which was less exposed to a sudden and great drain than any of its other classes of obligations.

On this point;—namely, the greater or less liability of the two Departments to demands upon them—an opinion of considerable importance was expressed by Mr. Norman in his evidence before the Committee of the House of Commons on Banks of Issue in 1840. The following is an extract:—

"2227.—Does it not follow from that answer that the proper and simple rule by which the Bank would regulate its Bullion would be to have reference to the Circulation alone? *My opinion is that almost all the Bullion should have reference to the Circulation alone. To provide for its Deposits, the Bank of England, like any other Bank, would require a small amount of coin.*

"2228.—Is it the fact that there is a certain portion of Deposits which the Bank in no reasonable way can contemplate being called upon to pay in Bullion on any occasion of pressure? —A Deposit, when withdrawn, is nominally paid in the first instance in Notes, and those Notes may be exchanged for Bullion at the will of the holder. I presume the Deposits of the Bank differ very greatly in character, and that there are some portions of them that are very little affected by pressure.

"2229.—Is that a considerable portion?—I cannot say what the proportion is.

"2230.—If it should be a considerable portion, would it not be a totally inapplicable rule which should at all apportion the reserve of Bullion to that portion of the Deposits?—*I have already given it as my opinion that the reserve of Bullion ought to be considered almost wholly applicable to the Circulation.*"—(*Banks of Issue*, 1840.)

Now, if that opinion was participated in by a majority of his colleagues in the Direction, it accounts for the exclusive attention paid by them to provide a security for the convertibility of the Circulation without any care for the Deposit Department; and explains the grounds for their adoption of the experimental rule of 1840. But then the facts of the case prove that that rule was founded upon an extraordinarily mistaken view; inasmuch as it is in proof that the liability to demands for gold is much greater in the Banking than in the Issue Department; and it is no wonder that the whole scheme, framed in accordance with that view, should have failed so entirely to accomplish the objects proposed by it. This statement is borne out by the tables at pp. 81–2. seq., which show both the different direction of the demand for Gold in the two departments; and the greater demand in the Banking, compared with the Issue Department.

The distinction of the Two Classes of Liabilities might constitute a sufficient ground for appropriating, as a mere matter of account and experiment, distinct portions of Bullion as reserves against each description of liability; but as regards the rule adopted by the Directors in 1840 with a view to such appropriation, it seems to have been an offspring of the doctrine of the Currency Principle, which required that the amount of the Note Circulation should follow every variation in the quantity of Gold. In truth, however, the mode adopted was in the nature of an inversion of the rule prescribed by the Currency Theory; *for, instead of acting directly upon the Circulation so as to make the amount of Notes follow the variations in the quantity of Gold, the operation of the Rule and that of the Law was, and is, to make the quantity of Gold follow the Notes;* so that every increase of demand by the public for Bank Notes is, and must be, satisfied out of the reserve in the Banking Department, which, in its *rationale*, is gold.

So strong are the grounds for a conclusion the opposite of that which has been come to by the Currency School, that, supposing that two large Banking Establishments had originally been founded in a separate state, the one similar to the present Issue Department the other to the Banking Department, a correct view to the respective interests of the proprietors, and to the convenience of the public, would have led to the proposal of an amalgamation.

The union of functions, instead of being incongruous and incompatible, as—most gratuitously, without authority or proof from experience or reasoning—they are held to be by the Currency School; would, in truth, be eminently conducive to congruity of interests, and harmony or perfect compatibility of action. On the one hand, a separation of functions necessarily renders the action of the two Departments antagonistic; inasmuch as any circumstance leading to an increased use of Bank Notes by the public is felt as a drain of gold (gold in this case being the same as notes) on the Banking Department; and if this increased use of Bank Notes should coincide with an export of gold, the reserve of the Banking Department would be operated upon by a twofold force; and while the Issue Department is gorged with gold, the Banking Department is liable to perish from exhaustion. On the other hand, by the Union of departments, these evils could not occur; for an increased demand by the public for Bank Notes would, to whatever extent that increased demand might go, act in the way of relief and compensation of the drain for export.

But if the reason for the rule had been established upon unquestioned authority, instead of being so doubtful and objectionable as it has proved to be, it was the height of folly to erect into a positive and inflexible law, a rule which, in the nature of things, must inevitably require periodical revision, modification, or suspension.

The very fact stated in the evidence of the Governor of the Bank as the ground for the experimental rule which had been adopted in 1840, namely,—that the Circulation was acted upon by one principle or law, and the rest of the Liabilities by another,—ought, according to any correct rule of reasoning, to have led to a practical conclusion *the very reverse* of the policy which dictated the the separation of the two departments.

The arguments *à priori* which, previously to the passing of the Act of 1844, I adduced for the purpose of showing, the greater liability to frequent and violent transitions in the state of credit, and in the rate of interest, which would attend the management of the Bank of England in a Divided, than in an Undivided, state of the two departments, have been abundantly confirmed and exemplified by the actual working of the measure since its enactment to the present time.

Section XIV.

The frequent Alterations of the Minimum Rate of Discount of the Bank of England.—Comments thereon of the Lords' Report.

The variations in the Bank Rate of Discount since the Crisis of 1847 have been nearly as frequent as they were in the period noticed in the Lords' Report (section vi.).

From 8 per cent. at the close of October, 1847, it was reduced to 6 per cent. on the 2nd; and to 5 per cent. on the 23rd December of that year.

It was thenceforward reduced by successive steps until the 22nd April, 1852, when it reached the *lowest* rate of 2 per cent. It continued at 2 per cent. till the 6th January, 1853. It was then raised to $2\frac{1}{2}$ per cent.; and further advanced thenceforward by steps or stages of $\frac{1}{2}$ per cent. each till the 11th May, 1854, when it reached $5\frac{1}{2}$ per cent. That rate was continued for a short time only, and was progressively reduced to $3\frac{1}{2}$ per cent. on the 14th June of the present year (1855).

The number of variations during the fall from 8 per cent. to 2 per cent. was Ten; and during the subsequent fluctuations to the present rates of 6 and 7 per cent. the number has been Sixteen, making the total of the variations in the rate during the entire period from 25th October, 1847, to December, 1855, Twenty-Six ; and the total number from the passing of the Act of 1844 to this time no less than Forty.

In these frequent alterations the Directors have been acting no doubt in conformity with what they have considered to be the spirit of the Act of 1844; and in obedience to the exhortations of the author of that measure. Whether this system of a wide range of fluctuation, and of frequent changes between the extremes, be more profitable to the Bank than a more uniform Rate, is a question upon which it would be presumptuous in any one not being a Director to offer an opinion. But that it is inconvenient and injurious in a public point of view, on the grounds stated in the extract already given (page 83. seq.) from the Lords' Report, I think there can be no reasonable doubt.

The transition from a High to a Low;—and especially from a Low to a High;—Rate of Discount, is always attended with some degree of inconvenience, and with a disturbance more or less of existing arrangements. Such transitions are inevitable as a consequence of the infinite variety of circumstances, commercial and political (including under the former the effects of vicissitudes of the seasons), which are calculated to influence the demand for the use of capital; and it is quite impossible for the Bank or any other institution to exercise any *permanent control* over the rate paid for the use of it, a rate of course determined by the law of supply and demand. This is true:—but it is nevertheless the precise fallacy of the plea usually adduced in justification of the conduct of the Bank on every occasion on which the propriety of its announced alterations is canvassed and questioned; for it is beyond question, that in the large majority of instances the movements of the Bank in respect of its rate of interest are attended with very *perceptible*, although they can be only *temporary*, effects.

Of this there can be no better proof than the anxiety manifested on the Stock Exchange and by the money dealers, on every occasion when a change is expected, to learn the determination come to at the breaking up of the weekly meeting of the Court of Directors on the Thursday. And the moral effect of the course adopted by the Bank on such occasions is frequently much greater than might be expected from a consideration of the mere difference in the rate. But it is chiefly when the reduction on the one hand is much below, or the advance on the other hand much above, their usual rate; that in the one case it inspires undue confidence, leading to overtrading and speculation and to an unsound state of credit; and, in the other, that it gives rise to excessive alarm tending to terminate in panic. For example, it has been abundantly shown, in a multitude of forms, that the Act of 1844 was instrumental in aggravating or intensifying the tendency which from other causes existed to each of these extremes in the interval between the date of its enactment and the latter months of 1847.

There cannot I think be a reasonable doubt but that the reduction of the Bank Rate of Discount on the passing of the Act from 4 per cent., which had been its previous minimum, to $2\frac{1}{2}$; and the continuance of a rate so low as 3 per cent. during a great part of 1845 and 1846 contributed to increase and extend the spirit of enterprise, and the railway mania and the overtrading, especially in the East India trade, which marked that period.

This view of the effects of the reduction of the

Bank rate is thus noticed by the Lords' Committee: —

"The effect of a Low Rate of Interest could not fail to give a great additional stimulus to Speculation of all kinds. It could not but have augmented the facility of forming joint stock companies for Railroads and other purposes. In the former case it has acted the more effectually, as the Bank of late adopted a practice of investing its capital in railway securities. The sum of 2,481,000*l.* was so invested; and these securities seem by the Bank to have been substituted for the floating debt of the country. In 1844 the greatest investments of this kind took place.

"The proceeding is the more questionable when it is considered that the Governors, in describing the causes of the Commercial Distress, have informed the Committee that 'one cause of the distress is that many of those parties have been dealing in railway shares; the capital which they ought to have kept in their business they have put out in expectation of realising at a profit; but railway shares have become nearly unsaleable, and their capital has been locked up.' Although a distinction undoubtedly exists between the Railroad Debentures purchased by the Bank and the Shares of Railway Companies, yet it is evident that the purchase of these securities by the Bank of England must have given a high sanction and an effective stimulus to those very undertakings which the Committee find are afterwards referred to among the causes of the Commercial Distress." — (*Lords' Report*, 1848, p. xxxvi.)

Section XV.

Consequences arising, since 1847, *from the frequent Alterations of the Minimum Rate. — State of Credit in* 1852.

A brief examination of the experience of the operation of the Act since 1847 will afford sufficient grounds for believing that it has been instrumental in producing a tendency similar to that so distinctly stated in the passage just given, from the Lords' Report; although with a mitigated degree of development in consequence of a difference in the attendant circumstances.

I think it in the highest degree improbable that if the Act of 1844 had not been passed, the Directors would have ventured to reduce their rate of discount as they did in April 1852, to 2 per cent.; and their charge for advances to so low a rate as 1½ per cent.* But the reduction was in this instance, as it had been in 1844, in accordance with the maxims of the School of the Currency-principle, and with the exhortations of Sir Robert Peel.

Without entering into the question how far this reduction on the part of the Bank was, or was not, justifiable and expedient; it can hardly fail of being admitted on a view of the circumstances which followed, that these Low Rates of interest and discount were tending to generate an unsound state of credit. There was not, indeed, any one great or absorbing speculation such as in the case of the railway mania. But the state of things in Australia, connected with the marvellous gold discoveries, presented a field for speculative enterprise, not equal indeed to that of the railways in 1845, but still of great extent; and innumerable schemes started up, many of them in connection with the Australian trade, besides numberless others, involving altogether a great actual, and still greater prospective, outlay of Capital.

In the autumn of 1852 the prevalence of extensive and hazardous Speculations in the Shares and Scrip of projected companies of various kinds, attracted considerable attention, and excited in many quarters proportionate alarm. From an elaborate classification in one of the Morning Jour-

* It appears, by Parl. P. 342., 54, that in the Quarter ended 5th July, 1852, the Bank made advances on Exchequer Bills, Bills of Exchange, and India Bonds, to the extent of 1,146,000*l.* at rates of 1½ to 2 per cent. per annum.

nals*, November, 1852, of the various schemes announced in London from the 1st June to 31st October, of that year, I extract the following statement :—

"In a table appended we have endeavoured to give a list, arranged in seven classes, of the Joint Stock Companies of various kinds — Railways, British and Foreign ;— Banks, Colonial and Foreign ;—Mines ;—Navigation ;—Emigration ;— and Miscellaneous Companies; prospectuses and announcements of which have appeared in London between the 1st June and the end of October of the present year (1852). What is the general result? The result is, that in Four Months there have been *one hundred and fifty-three* bubble companies announced in London, and more or less completely formed in this country. The rate, therefore, at which these companies have been formed since the 1st June is *thirty-eight* a month, or more than one a day.

"In the present state of the speculation it is of more importance to fix attention on the speed at which it is going forward, and the extremes to which it is manifestly proceeding, than to separate minutely the good projects from the bad, or to endeavour to ascertain how much of the nominal capital of 41,739,000*l*. announced in the prospectuses is ever likely to be called for from the subscribers.

"If it was necessary to insist on these latter points, it would be easy to show that of the 10,215,000*l*. proposed to be spent on British railways ;—of the 17,204,000*l*. required for Foreign Railways ; — and of the 9,490,000*l*. required for Banks, Mines, Navigation, Emigration, and other Companies, a considerable part will never be called for, because the weakness or absurdity of the schemes will ensure their failure. . . .

"But speculation has not been confined to Joint Stock Companies merely ; *Foreign Loans* for the first time since 1824, have again become favourite subjects of purchase in London ; and it appears by a table given that the amount of Foreign and Colonial Loans, wholly or in part negotiated in London since June, 1851, is not less than 7½ Millions Sterling. The favour with which these Foreign Loans have been received, coupled with the strong disposition to encourage the more hazardous kinds of joint stock adventures, such as foreign mines, foreign railways, foreign canals, and other companies depending on foreign returns, is, perhaps, the most alarming circumstance connected with the present speculation."

The absorption of floating capital arising from

* The Morning Chronicle of November 2. 1852.

the causes here stated was, after an interval just long enough to inspire undue confidence in a continuance of the easy state of the money market; and to induce accordingly a great extension of speculative enterprise; attended with a progressive rise in the market rate of interest; a rise with which the Bank hardly kept pace*, in the progressive advance of its minimum rate of discount from 2 per cent. to $2\frac{1}{2}$ per cent. in January 1853; and at length to $5\frac{1}{2}$ per cent. on the 11th May 1854,—being a period of little more than sixteen months; in the course of which there had been seven alterations and a total rise of $3\frac{1}{2}$ per cent. in the rate; or to a point not less than nearly three fold of what it had been in 1852.

And as the Low Rate prevailing in 1852 had inspired undue confidence, the comparatively High Rate which prevailed in 1854 created considerable uneasiness, which required but a slight increase to be converted into alarm and panic. This state of feeling was manifested by the crowds at the doors of the Bank, similar to those which assembled there at the close of 1846; when the Times in an article which I have elsewhere quoted, remonstrated with the anxious expectants on the folly of attaching importance to the movements of the Directors, since the control of the Circulation had been taken out of their hands by the Act of 1844. During the latter stages of the rise in the rate of interest in 1854 several small currency tracts appeared, some in the form of printed letters addressed to the Chancellor of the Exchequer, expressive of apprehension of coming pressure; and calling attention to the expediency of modifying the Act of 1844. And there appeared to be reasonable grounds for the apprehensions so expressed.

The Reserve in the Banking Department had

* This is one among other reasons against the policy of reducing the minimum to so low a rate.

fallen from 12 Millions, at which it stood on the 22nd April, 1852, and from 11½ Millions on the 30th October, 1852;—to 4½ Millions on the 11th May, 1854. Looking, therefore, to this great reduction of reserve, and to the consequent necessity which the Directors would feel themselves under, if the drain continued, of adopting still more stringent measures of counteraction, it is not to be wondered at that great uneasiness should have been felt on the occasion; for there is every reason to believe that, if the drain had proceeded a little further so as to have brought the Reserve down to a fraction more than 3 Millions; and the Directors had consequently felt themselves compelled to raise their minimum rate to 6 per cent. or upwards; the pressure on the money market in May, 1854, would have nearly equalled that which occurred in April, 1847. But a favourable change in the position of the Bank took place immediately after the first week in May. The Reserve, in consequence of large arrivals from Australia, was replenished; and, by the 3rd May, 1855, the minimum rate of discount was reduced to 4 per cent.;—and on the 14th June following to 3½ per cent.

SECTION XVI.

Statements in Detail of the Condition of the Bank of England, at the Dates of the Forty Alterations of the Rate of Discount which have occurred under the Act of 1844.—*Comments in* 1848 *of the Lords' Report.*

ONE of the fairest and most effective modes of exhibiting the operation of the Act of 1844, will be to state, in the simplest form;—First, the dates and conditions of the several alterations of the

Rate of Discount which have taken place; and Secondly, to give an abstract of the position of the Banking and Issue Departments, at the periods when each of these alterations was adopted.

These Statements naturally divide themselves into two parts; namely (1.), from the commencement of the Act in September, 1844, to the suspending letter from the Treasury of 25th of October, 1847; and (2.), from the latter date to the present time. The following, then, are the Statements:—

Bank of England. — Statement of the General Terms of the Forty Alterations in the Rate of Discount which have taken place from the Commencement of the Bank Charter Act in September, 1844, to December, 1855.

(I.) *Fourteen Alterations from September*, 1844, *to the Treasury Letter of* 25*th October*, 1847.

Date.		Per Cent. per Ann.	Terms of Notice.
1844,	5 Sep.	... $2\frac{1}{2}$ ...	Minimum Rate, 95 days Bills.
1845,	16 Oct.	... 3 ...	,, ,,
,,	6 Nov.	... $3\frac{1}{2}$ ...	,, ,,
1846,	27 Aug.	... 3 ...	,, ,,
1847,	14 Jan.	... $3\frac{1}{2}$ ...	,, ,,
,,	21 ,,	... 4 ...	,, ,,
,,	8 Apl.	... 5 ...	,, ,,
,,	15 ,,	... 5 ...	Omitting all mention as to term of bills.
,,	2 Aug.	... 5, $5\frac{1}{2}$, 6 ...	Five per cent. on one month bills; $5\frac{1}{2}$ on two months bills; 6 above two months.
,,	5 ,,	... $5\frac{1}{2}$ ...	Minimum Rate.
,,	2 Sept.	... 5 ...	On Loans till 14th October.
,,	23 ,,	... $5\frac{1}{2}$, 6 ...	Five and a half on two months bills; 6 on three months.
,,	1 Oct.	... $5\frac{1}{2}$ ...	On everything falling due before the 14th October, and total refusal to advance on Public Securities.
,,	25 ,,	... 8 ...	Minimum Rate under Government Letter.

(II.) *Twenty-six Alterations from 25th October*, 1847, *to December*, 1855.

Date.		Per Cent. per Ann.	Terms of Notice.
1847,	25 Oct.	... 8 ...	Minimum Rate, 95 days Bills.
„	22 Nov.	... 7 ...	„ „
„	2 Dec.	... 6 ...	„ „
„	23 Dec.	... 5 ...	„ „
1848,	27 Jan.	... 4 ...	„ „
„	15 June	... 3½ ...	„ „
„	2 Nov.	... 3 ...	„ „
1849,	22 Nov.	... 2½ ...	„ „
1850,	26 Dec.	... 3 ...	„ „
1852,	2 Jan.	... 2½ ...	„ „
„	22 Apl.	... 2 ...	„ „
1853,	6 Jan.	... 2½ ...	„ „
„	20 „	... 3 ...	„ „
„	2 June	... 3½ ...	„ „
„	1 Sep.	... 4 ...	„ „
„	15 „	... 4½ ...	„ „
„	29 „	... 5 ...	„ „
1854,	11 May	... 5½ ...	„ „
„	27 July	... 5 ...	„ „
1855,	5 Apl.	... 4½ ...	„ „
„	3 May	... 4 ...	„ „
„	14 June	... 3½ ...	„ „
„	6 Sep.	... 4 ...	„ „
„	13 „	... 4½ ...	„ „
„	27 „	... 5 ...	„ „
„	4 Oct.	... 5½ ...	„ „
„	17 „	... 6 & 7 ...	Six per cent. for bills at or under 60 days; 7 per cent. for bills of from 60 to 95 days; bills of more than 95 days inadmissible.

Note.—It will be seen in the following table that the four figures at the unit end are omitted; thus 9·03 represents 9,030,000*l.*

The Circulation (col. 10.) includes Bank Post Bills, in order to render that part of the Table conformable to that which has always been the mode of stating the amount of Bank of England Circulation in the hands of the Public.

The amount of *Notes* merely, is shown by (col. 4.) the Bullion in the Issue Department, inasmuch as the figures in that col. added to the fixed Sum of 14,000,000*l.* represent the *Notes* outstanding. Thus, on the 17th Oct., 1855, the *Notes* outstanding were 20,370,000*l.* (*i. e.* 14 + 6·37), and 980,000*l.* *Bank Post Bills* made up the total circulation of 21,350,000*l.* (21·35).

Bank of England.—Abstract of Assets and Liabilities at the Dates of each of the Forty Alterations of the Minimum Rate of Discount, which have taken place during the eleven years and a half from the Commencement of the Operation of the Bank Charter Act in September, 1844, to December, 1855.

(I.) *Fourteen Alterations, from September,* 1844, *to Treasury Letter of* 25*th October*, 1847.

1	2	3	4	5	6	7	8	9	10
MINIMUM RATES.		ASSETS.					LIABILITIES.		
		Bullion.			Securities.		Deposits.		Circulation (incl. B. P. B.) in hands of Public.
Dates.	Rate.	Bank Dep.	Issue Dep.	Total.	Public.	Private.	Public.	Private	
	Per Cent. per Annum.	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £
1844, 5 Sept.	2½	9·03	6·18	15·21	14·55	7·28	3·63	8·64	21·21
1845, 16 Oct.	3	5·93	8·26	14·19	13·20	13·50	4·49	9·83	23·38
„ 6 Nov.	3½	5·95	7·77	13·72	13·20	13·68	5·34	9·13	22·89
1846, 27 Aug.	3	9·93	6·43	16·36	12·96	11·84	7·14	9·16	21·31
1847, 14 Jan.	3½	7·27	6·68	13·95	12·76	13·89	5·03	10·34	21·67
„ 21 „	4	6·84	6·60	13·44	12·76	13·93	4·67	10·35	21·55
„ 8 Apl.	5	3·46	6·41	9·87	13·57	17·59	4·98	11·26	21·39
„ 15 Apl.	5	3·08	6·25	9·33	11·67	16·56	3·01	10·00	21·15
„ 2 Aug.	5, 5½, 6	4·44	4·89	9·33	11·63	15·18	4·50	8·31	19·71
„ 5 Aug.	5½	4·56	4·69	9·25	11·66	15·75	5·57	7·88	19·50
„ 2 Sep.	5½	4·75	4·21	8·96	11·63	16·96	7·72	6·79	19.05
„ 23 Sep.	5, 6	4·70	4·08	8·78	11·63	19·46	9·45	7·48	18·90
„ 1 Oct.	5½	3·85	4·71	8·56	11·66	20·71	9·33	7·96	19·57
„ 25 Oct.	8	1·99	6·32	8·31	10·89	18·92	4·76	8·58	21·26

(II.) *Twenty-Six*

(II.) *Twenty-Six Alterations from Oct.* 1847, *to Dec.* 1855.

1	2	3	4	5	6	7	8	9	10
MINIMUM RATES.		ASSETS.					LIABILITIES.		
		BULLION.			SECURITIES.		DEPOSITS.		Circulation (incl. B. P. B.) in hands of Public.
Dates.	Rate.	Bank Dep.	Issue Dep.	Total.	Public.	Private	Public.	Private.	
	Per Cent. per Annum.	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £	Milns. £
1847, 25 Oct.	8	1·99	6·32	8·31	10·89	18·92	4·76	8·58	21·26
„ 22 Nov.	7	4·72	5·29	10·01	10·63	18·24	7·22	7·86	20·18
„ 2 Dec.	6	6·25	4·78	11·03	10·94	17·52	7·80	8·44	19·67
„ 23 Dec.	5	8·23	3·76	11·99	11·00	16·60	8·76	8·60	18·61
1848, 27 Jan.	4	8·24	5·15	13·39	11·55	13·77	4·17	10·77	20·04
„ 15 June	3½	10·79	3·38	14·17	12·09	10·59	5·91	9·16	18·39
„ 2 Nov.	3	8·85	4·56	13·41	12·77	10·25	2·61	10·79	19·60
1849, 22 Nov.	2½	12·37	4·01	16·38	14·34	9·10	8·10	9·45	19·11
1850, 26 Dec.	3	10·39	4·57	14·96	14·23	13·91	11·02	9·15	19·83
1852, 2 Jan.	2½	12·27	5·29	17·56	13·29	11·66	9·45	9·37	20·53
„ 22 Apl.	2	11·99	7·60	19·59	13·34	10·44	3·00	14·47	22·81
1853, 6 Jan.	2½	10·40	9·37	19·77	13·87	14·47	5·77	14·31	24·85
„ 20 „	3	9·93	9·47	19·40	13·83	13·62	5·00	13·73	24·91
„ 2 June	3½	8·83	9·42	18·25	13·12	14·08	4·63	12·90	24·81
„ 1 Sept.	4	8·02	8·48	16·50	12·77	14·00	4·70	11·02	23·91
„ 15 „	4½	7·44	8·42	15·86	12·53	16·18	6·01	11·05	23·86
„ 29 „	5	6·84	8·77	15·61	12·34	18·57	6·74	11·89	24·22
1854, 11 May	5½	4·63	7·98	12·61	12·57	14·19	2·34	10·69	23·14
„ 27 July	5	6.97	6·51	13·48	11·77	13·06	2·30	11·12	21·55
1855, 5 Apl.	4½	9·27	5·82	15·09	13·03	13·10	6·01	11·40	20·72
„ 3 May	4	9·45	6·17	15·62	13·59	12·17	4·34	12·64	21·26
„ 14 June	3½	12·52	5·54	18·06	12·68	11·85	5·59	13·31	20·57
„ 6 Sept.	4	8·07	6·15	14·22	13·03	16·08	7·59	10·97	21·13
„ 13 „	4½	7·98	5·72	13·70	12·80	16·83	7·84	11·15	20·70
„ 27 „	5	6·77	6·17	12·94	12·13	19·36	8·14	11·44	21·17
„ 4 Oct.	5½	5·99	6·29	12·28	11·41	19·24	7·11	10·84	21·30
„ 17 „	6 & 7	4·86	6·37	11·23	10·63	18·24	3·82	11·76	21·35

In considering these statements the attention is first arrested by the great frequency of the alterations.

During the Three Years from September, 1844, to October, 1847, the rate of discount was altered *Fourteen* times;—and the last six of these alterations took place within the space of ten weeks.

During the Eight Years from October, 1847, to the present time (December, 1855), there have been *Twenty-Six* alterations; and it must be borne in mind that at three periods during this term the alterations, or rather the oscillations, have been so rapid as to be not altogether free from the ridiculous.

In 1852, for example, there were Two alterations in three months;—in 1853 no less than Six alterations were compressed into nine months;—and the range extended from 2½ to 5 per cent. During the present year (1855) there have been Eight alterations in six months; and by a zig-zag course the rate has passed from 3½ to 7 per cent.

The variations of the rate of discount, therefore, since October, 1844, and especially during the last two years, have been frequent and violent enough to satisfy the most ardent admirer of those principles of currency fluctuation upon which the Act is founded; and the number and eccentricity of the alterations since 1847, entirely sustain the emphatic reference to this part of the case contained in the Report of the Lords' Committee of 1848.

In the seventh section of that Report, under the title of Unexampled Fluctuations of the rate of Discount since the Act of 1844, the Lords' Committee describe as follows the practice of the Bank as regards its Rate of Discount prior to 1844, and subsequent to that year.

"The earlier practice of the Bank of England had been to discount at a rate nearly fixed and uniform. From 1784 to 16th May 1839 this rate never exceeded 5, nor was less than 4 per cent. In the pressure of 1839 the rate was raised for some months to 6 per cent.; but it was reduced to 5 per cent. in January 1840; and remained at 4 or 5 per cent. as before till after the passing of the Bank Charter Act (7 & 8 Vict. c. 32).

"'Prior to September, 1844,' observes Mr. Horsley Palmer, 'the Bank never reduced the rate of interest below 4 per cent., though there were occasions when the value of money for the discount of bills was as low as $2\frac{1}{2}$ per cent. in the money market."

"The result of this system your Lordships will perceive must necessarily have been to check that fall of the rate of discount when already low which the active competition of the Bank of England must have produced; and, on the other hand, to check the tendency upwards which would have been the result of a reduction in the number of lenders and of a consequent scarcity of money. In the one case the Bank was kept out of the Discount Market; in the other, it obtained almost the command of that market. In both cases the effect was to produce steadiness and diminish fluctuation.

"This system was abandoned in September, 1844, after the passing of the Act. For the rate of discount already described there has been substituted a rate which fluctuates from time to time. A *minimum* rate has been substituted in the Bank Notices for a uniform one; and a practice has been introduced of discounting bills at the same time at different rates."—(*Lords' Report*, xxxiv.)

But there is a circumstance of no small singularity and interest to be yet considered, in connexion with the numerous changes of the Minimum Rate.

Section XVII.

The distinct Evidence afforded by the Returns that the Controlling Element in the policy of the Bank has been not the Circulation but the Banking Reserve. The Pressure in the Money Market of the latter Part of 1855.

It was, and, I presume, still is, the doctrine of the Currency Principle party, for I am not aware of any declarations of altered views, that the governing element of the policy of the Banking Department should be the operation of Influx and Reflux of the Gold, as exhibited in the rise and fall of the amount of Circulation in the hands of the Public. I am fully justified in disregarding the very curious suggestion which I have already mentioned, started some time since, but only to be abandoned as untenable; — that the portion of notes *not* in the hands of the public, but retained within the Bank itself as the reserve of the Banking Department, should be considered to be Outstanding Circulation. This was a suggestion arising out of the perplexity of the upholders of the Act to explain upon their own principles the results constantly presented by the machinery they had set up.

The truth, plain and unmistakable, is that the Circulation of the Bank of England includes nothing more and nothing less than the quantity of notes circulating outside the Bank among the public; and that the Reserve of the Banking Department consists of that portion of the Total Bullion not in the possession of the Department of Issue. Whether the Banking Reserve be as a matter of actual fact, in the form of notes, or of gold and silver, is a circumstance quite immaterial. It is a reserve in all its purposes and functions, a reserve of Bullion.

Now if we place in parallel columns, at the dates of the alterations of the Rate of Discount, the figures which represent the Reserve (of Bullion) of the Banking Department; and the Reserve (of Bullion) of the Issue department it will need no great amount of attention to discover: —

That up to the present time the proceedings of the Banking Department have been as nearly as possible wholly free from the control of that particular element of the rise and fall of the Circulation which was intended to operate with so much constancy and precision; while, on the contrary, the element really powerful, has been the degree in which the policy *of the Directors has led to the increase and decrease of the Banking (Bullion) Reserve.*

The second of the preceding tabular statements has been formed on the plan described above; and I will refer to four periods included in that table confirmatory of the conclusions just stated.

Two of these periods are in 1846–7; the third in 1853–4; and the fourth in the present year.

First then;—While there were no less than five alterations of the rate of discount between August 1846 and April 1847; and while, in consequence of the fall of the Banking Reserve from 10 Millions to 3; the condition of the money market had passed from great ease at 3 per cent., to panic at rates materially above 5 per cent., the Circulation (including Bank Post Bills) did not vary more than 500,000*l.*;—or, measuring the variation within its strictly technical limits, namely, the amount of the Bullion in the Issue Department, the utmost extent of difference during the nine months, was no more than 430,000*l.*

The second period was between August and October, 1847.—During those three months there were Six alterations of the rate of discount; and the extreme panic of October was occasioned principally by the machinery of the Act *producing effects the precise opposite of those which were expected and intended.* For the process which added to the Circulation very nearly exhausted the Banking Reserve; and regarded merely from a Currency Principle point of view, the preposterous phenomenon was presented of pressure increasing as fast as the means of allaying it according to Currency Principle views—that is, by additions to the Circulation—were supplied. For example:—the Circulation, which stood at 19 Millions in September (1847), had become 21¼ Millions in the third week of October. Between the same dates the Bullion in the *Issue* Department had risen from 4 to nearly 6½ Millions; the additional 2½ Millions being obtained, of course,—for such was the felicity of the plan,—by running down the Reserve of the *Banking* Department from $4\frac{3}{4}$ Millions to a point of practical exhaustion.

The third case was in 1853-4.—There were Seven alterations of the minimum rate in the period from January, 1853, to May, 1854; and the rate was run up from $2\frac{1}{2}$ to $5\frac{1}{2}$ per cent. Why? Because the Banking Reserve of Bullion fell from $10\frac{1}{2}$ to $4\frac{1}{2}$ Millions. But during this great decline of 6 Millions out of 10, the Circulation did not vary at the utmost more than $1\frac{1}{2}$ Millions; and until the last of the dates the variation was hardly more than Half a Million.

The fourth example has occurred during the present year. Between April and October, 1855, the Banking reserve varied in amount no less than 8 Millions;—or from $12\frac{1}{2}$ Millions in June (55) to $4\frac{1}{2}$ Millions in October (55);—and during the six months, and notwithstanding the *eight* alterations of the rate of discount the variations in the amount of the Circulation have been under Three-Quarters of a million.

And not only are there these strong and startling facts connected with the constant and permanent influence of the *Banking Reserve* upon the policy of the Directors; but there are facts, hardly less strong and startling, connected with the magnitude of the *Total* stock of Bullion, even at those periods when, acting under the compulsion of the Act, the Bank has been compelled to employ the most stringent means of repression.

It is scarcely necessary to recall to recollection that down to September, 1847, the Total Amount of Bullion in *both* departments, was considerably more than 9 Millions. Indeed, from January to April, 1847, the amount was in excess of 11 Millions.

An illustration almost equally striking is afforded by the events of the summer of 1853.

Between the 2nd June, and the 29th September 1853 — four months — the rate of discount was raised by four alterations from $3\frac{1}{2}$ to 5 per cent.; and when the last of these sudden and somewhat severe operations on the money market took place, the Total stock of Bullion was more than $15\frac{1}{2}$ Millions.

Again;—when on the 11th May 1854, the reserve in the Banking Department was so reduced as to compel the Directors to raise their rate of discount to $5\frac{1}{2}$ per cent. which was a scarcity rate, the amount of bullion in the two departments was £12,610,000.

Now, surely, with a stock of bullion amounting to more than $12\frac{1}{2}$ Millions, if the Bank had then been in an undivided state, there would not have been any reasonable ground for raising the rate above 5 per cent. Or, rather, after parting with so large an amount of bullion from the two departments, there was no reason to apprehend such further drain as to require an advance beyond the rate of 4 per cent. Indeed, looking at the circumstances of the whole period from January 1848 to the present time, I am strongly of opinion that the uniform rate of Four Per Cent. might have been preserved greatly to the convenience not only of the mercantile and banking community, but of the public generally. At all events. I conceive the reduction below the rate of 3 per cent. to have been, in the strictest sense of the word, *most impolitic;* for there is no one general observation more clearly to be established by a reference to the most signal instances on record of commercial crises, than that in their earlier circumstances they were characterised by more than ordinary facilities of credit and of banking accommodation, indicated by a low rate of interest.

And here I may with convenience refer to the peculiar circumstances which have distinguished the pressure in the money-market of the last three or four months, from the pressure of 1847.

The originating cause in both cases has been the same:—namely, a drain upon the Bank for the payment of a foreign balance.

In 1847 that balance was due to America for Corn; in 1855 it is due to the countries surrounding the Seat of War, for Commissariat, and other supplies required by the Army in the Crimea.

I am quite sensible that between these two sources of foreign drain there is a difference, both theoretically and practically, of the broadest and plainest description. The balance due to America in 1847 for the large and sudden importation from thence of Wheat and Indian Corn was speedily adjusted by the influence of a rapidly enlarged export from this country of manufactured goods. The remittances now necessary to be made to the region of the Levant proceed on political, not commercial grounds.

It is extremely rash, however, to assume, as seems to be assumed in some quarters, that these vast convoys of specie must continue to be sent from hence, for whatever indefinite period may be occupied by the War, without any hope of a reflux. I am induced to think that even already the indications of a reflux may be perceived. Rapidity of transit and communication all favour such a result; and it is scarcely possible to imagine that in countries such as Turkey and Asia Minor, a demand for our manufactures should not speedily recall westward some considerable part of the twenty or thirty millions of treasure already carried there by the War.

I am also quite sensible that there have been absorptions of capital during the last year and a half, sufficient to occasion some rise of the Rate of Discount. Nor is the calamity of a deficient Harvest likely to be overlooked.

There have been, therefore, inevitable causes at work of a general nature, all tending to produce an upward direction of the Rate of Discount.

But, on the one hand, between a general prelence of caution and the absence of any of the undue enterprise engendered by great facilities of banking accommodation;—and, on the other, the occurrence of a feeling in the public mind approximating to panic, and to panic founded on extreme variations in the Bank Rate of Discount;—there is a wide difference. For the caution there has in 1855 been every reason;—for the excitement and the panic there has been no cause but the division of the Bank into Two Departments.

What are the facts? It is true that, on one side, there has been the Drain for the War Expenditure;—but, on the other, there has been the enormous influx from the Gold Countries. What would have happened if no such influx had been in progress, is a problem interesting and important enough, but it need not be considered here.

At the commencement of the present year, the total Bullion in the Bank was 15 Millions; in June, when the rate was so absurdly reduced to $3\frac{1}{2}$ per cent., it was 18 Millions; and in September, when the rate was raised to 5 per cent., the Total Bullion was still 12 Millions;—and, during all this time, a Commissariat Drain of a million a month has been in progress. What have been the violent variations of the Banking Reserve may be seen by a reference to the table on a previous page; and it may there be also seen how steadily unaffected the Circulation has remained under all the vicissitudes.

Now it is to these violent oscillations of the Banking Reserve; and to the extreme interferences with the Rate of Discount their inevitable consequence and offspring; that the excitement, the alarm, and the discontent of the public are solely traceable.

Apart from the Division of Departments—from the unhappy scheme of 1844;—and with common sense in the Bank Direction;—the Minimum Rate of Discount would have remained at four or at the most five per cent. from the early part of 1854; and with such a rate steadily maintained;—with a reserve of treasure at the outset of 16 Millions (those were the figures early in 1854);—and with an annual production of 20 Millions of New Gold in Australia and America;—I venture to affirm that no competent person, practically acquainted with the state of credit in this country, and free from the allegiance of partisanship to any particular theory, will hesitate to describe the apprehension, the distrust, and the suffering of the last three or four months as a gratuitous infliction of the scheme of 1844.

Section XVIII.

The Mischievous Consequences arising from the Resort of the Bank of England to Very Low Rates of Discount.

It is one of the proofs, among others, of the erroneous views entertained by Sir R. Peel (in common, however, with the teachers of the Currency School) of the subject which he dealt with so confidingly, that, in his severe animadversions on the Management of the Bank Directors previously to 1844, he went almost exclusively on the ground of their not taking measures for contraction soon enough. And in several instances doubtless the Directors delayed too long to take precautionary measures. But he and those who with him blamed the Bank for tardiness of precaution; and the Directors who acknowledged the charge of imprudence on this point; overlooked the more important error with which the management was chargeable, namely, that of the previously undue reduction of the Rate of Interest; and the too great banking facilities which had preceded the period when the necessity for precautionary measures became urgent.

It is not, as stated by Sir Robert Peel, for their dilatoriness in 1825; and 1836 and 1837; and again in 1839; that the Directors were so much to blame, as they were for their operations in 1824; and again in 1834 and 1835.

The real cause of the difficulty of the Bank in 1825 may be traced to the purchase of the Dead Weight in 1824; and the assistance afforded to Government in the reduction of the Four Per Cents., coinciding as those operations did with a tendency from other causes (which I have before described) to a general spirit of speculation. No measures, however stringent, that could have been adopted when the drain set in would have averted the catastrophe of 1825.

And there cannot be a doubt but that the Low rate of interest at which the Bank made advances of very large sums against the deposits on the West India Loan in 1834 and 1835; contributed to the undue extension of credit in the American trade, and the consequent difficulties in 1836 and 1837; of which the state of things in 1839 might be considered in the light of a continuation and sequel. If, again, the rate of discount had not been so reduced as it was by the Bank in 1844; and kept at so low a rate as it was till the close of 1846; there would not have been the necessity for so great an advance as that which took place in 1847. And, so likewise, if there had not been the reduction to 2 per cent. in 1852; there would not have been occasion for the advance to 5½ per cent. in 1854.

And here I may with advantage introduce a passage from the examination in 1848 before the Commons' Committee, of the Governor and Deputy Governor of the Bank. The questioner was Mr. Thomas Baring; and it will be seen with how much staunchness the Governor stated and maintained his adherence to the principle of raising and lowering the rate of discount in a manner the most extreme. The following is the extract:—

"3005. You state that, on the 7th of September, 1844, your interest was reduced to $2\frac{1}{2}$ per cent., previously to that time the general minimum rate of interest had been 4 per cent.? — For a long period of years it had been 4 per cent.

"3006. Do you think that course of lowering the rate of interest to $2\frac{1}{2}$ per cent. is one which, under similar circumstances, the Bank should again adopt? — Under similar circumstances, decidedly.

"3007. Is that upon the principle which you stated, that the object of the Act was to cause the Circulation to expand and contract as Bullion would do?—Raising or lowering the rate of interest has only reference to the state of our reserve in the Banking Department. I consider the two departments to be quite separate; the Issue Department might be in Whitehall, and the Banking Department in Threadneedle-street; our accounts are kept separate, and the notes are kept distinct, under different locks and keys, so that the separation is complete.

"3008. You think that there is no disadvantage in reducing the rate of interest to any minimum?—When the rate of interest out of doors was $1\frac{1}{2}$ to $1\frac{3}{4}$ per cent., or 2 per cent., if the Bank pretended to act as discounters, it was absurd* to attempt to keep their rate of discount at 4 per cent.

"3009. It would not be the policy of the Bank to remain quiet and passive, and not attempt to get its notes out?—No, it would not; I may state, with respect to the reserve, that I consider that the amount of reserve which the Bank hold naturally has an effect when the notes are out with the public; I am speaking of notes out of the Banking Department; the circulation must be contracted if the Bank holds a large reserve, and money will be dearer than if the Bank employed a large portion of the reserve; if we keep notes in the reserve, instead of giving them out to the public, the effect that ought to be

* If it was absurd on the 7th of September, 1844, was it not equally absurd in July and August, 1844, when the market rate of interest was as low as in September of that year?

produced by gold coming into the country is counteracted; it induces a larger amount of capital to come into the country because you do not allow that portion which has come in to be employed; if you do not put out the gold, or the representative of gold, you entirely prevent it having any effect upon the circulation; the exchange will be kept up, and gold will continue to come in.*

"3010. Do you think it unwise to keep the rate of interest at 4 per cent.? — At the present moment there are peculiar circumstances, and I do think we should be justified in putting down the rate of interest; the rate of interest out of doors is $3\frac{1}{2}$ to $3\frac{3}{4}$ per cent.

"3011. It is entirely a matter of discretion for the Bank? —Entirely.

"3012. You do not think that putting down the rate to $2\frac{1}{2}$ fosters undue speculation? — There is no doubt that when money is extremely plentiful speculation generally arises; but it is not the Bank putting down the rate that makes money cheap; *the Bank cannot keep the rate of interest low for any length of time* †; the Bank has a *certain amount of notes to deal with;* and if the Bank put down the rate of interest lower than the rate out of doors, the Bank's means of giving accommodation would be soon exhausted, and the consequence would be, that other parties would discount without competition with the Bank.

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* This explanation of the theory of the Bank management and of its policy is anything but clearly made out. But, as far as I understand it, I dissent from the theory, and consider the practical application of it on the occasion in question to have been very impolitic in reference to the public. Whether it was more profitable to the Bank is another thing; and, if it was more profitable, it is only an instance among others in which the interests of the Bank and the public may be at variance. It must be admitted, however, that the course pursued by the Bank on this occasion was in conformity with the views of Sir Robert Peel, as expressed in the speeches which I have elsewhere adduced and commented upon, in proof of his imperfect acquaintance with the subject which he had recently legislated upon. There can, I imagine, be no doubt that the greatly increased facilities of banking accommodation in 1844 intensified the spirit of speculation in railways which was then prevalent.

† This is the standing fallacy in the arguments of the Currency School in reference to the Bank management; the real question being, whether the Bank cannot and does not, at particular periods, exercise an influence which may last long enough to be mischievous, and produce a moral effect which may be very injurious.

"3013. When you reduced your rate to $2\frac{1}{2}$ per cent. was not the rate out of doors reduced also in competition with you? — We fixed the rate at $2\frac{1}{2}$ in order not to come into immediate competition with the rate out of doors; and we did not come into competition till the rate out of doors rose to our rate. The discounts in London at the time we fixed that rate were 113,000*l.*; and on the 5th of October they were 139,000*l.*; so that, though we fixed the rate at $2\frac{1}{2}$ per cent. for some considerable period, the discounts did not increase upon us.

"3014. You do not think that lowering the rate of interest to that extent makes a sudden contraction necessary afterwards? —I think not, provided when the market rate of interest rises you follow that rate.

"3015. From that period up to the beginning of 1846 there seems to have been no great change in the rate?—Up to the 18th of October, 1845, the rate remained $2\frac{1}{2}$ per cent.

"3016. During that period do you think the conduct of the Bank direction would have been different under the previous Bank charter?—*I cannot say what it would have been; but I am quite convinced that it ought not to have been different; and I think it would not have been different.*"—(*Commons' Report*, 1848.)

A reference to the circumstance of the large amount of about 22,000,000*l.* which the treasure of the Bank attained in Sept. 1852, and its subsequent rapid decline; will serve to illustrate a material point in the difference of the view of the Bank Management between the School of the Currency Principle, and those who with me hold to the doctrine of the Banking Principle.

According to the Currency Principle, the golden rule to be observed in the management of the Circulation is:—that, according to the assumed analogy of a metallic currency, a contraction should take place immediately on the commencement of a drain; and be continued *pari passu* with the progress of the drain; till the drain and the consequent contraction of the circulation should so have reduced prices as through their medium to have turned the foreign exchanges;—to have stopped the further export of gold;—and to have superinduced an influx of it. Such is the theory in which the scheme of 1844 had its origin.

The great mistake in this theory;—namely, overlooking the operation of hoards or reserves of coin and bullion, available for export without necessarily entailing, on the hypothesis of a metallic currency, the abstraction of any of the coin circulating among the public;—has been so distinctly pointed out as to render a repetition of the arguments unnecessary. And although an endeavour has occasionally been made to defend the Currency Doctrine by the ingenious, but not quite ingenuous, device of attaching a new meaning to the word circulation, the attempt has not been successful; for, excepting that here and there the Note Circulation may be occasionally introduced into discussions on the state of the money market, or on the management of the Bank of England, as something which influences prices or trade or the foreign exchange, it may be considered as virtually abandoned;—although there has been no retractation of the dogma by the original asserters of it.*

I am willing, therefore, to accept their substitution of the Rate of Interest for the Circulation; and to take the word Contraction to signify an advance in

* I gladly avail myself of the opportunity of referring here to two admirable treatises by Mr. T. H. Milner: the first published in 1848, entitled, "On the Regulation of Floating Capital and Freedom of Currency" (Smith, Elder, & Co.); and the second in 1849, entitled, "Some Remarks on the Bank of England, its Influence on Credit, and the Principles upon which the Bank should regulate its Rate of Interest" (Smith, Elder, & Co.). While confessing myself unable to concur in some of Mr. Milner's views, there can be no hesitation in regarding these two pamphlets as important and remarkable, not merely by the practical knowledge they display, but also by the clear and philosophical tone in which they are written. A later writer of the same order is Mr. John E. Cairnes, whose pamphlet of last year, entitled, "An Examination into the Principles of Currency involved in the Bank Charter Act of 1844" (Hodges & Smith, Dublin), enforces, with great skill, one of the most effective arguments hitherto directed against the measure of 1844.

the rate of interest, or forced sales of Securities by the Bank of England.

With this explanation, I will suppose their doctrine now to be, that upon the first appearance of a drain contraction should commence. But taking the rule with this improved version of it, there still remains to be stated, with a view to the practical application of the rule to the management of the Bank of England, what should be the amount of Treasure at which the drain is supposed to commence; and what the rate of interest from which the advance should take place.

If the case supposed be the actual one in July, 1852, of 22 Millions of Treasure in the Bank, and its rate of discount Two Per Cent.; — then, doubtless, on the further supposition, that this low rate were indefinitely continued, the consequence might be that of a total exhaustion of the stock of bullion, however large that stock had been at the commencement of the drain.

The case would be very different, if the rate at the commencement of the drain had been Four Per Cent. Because, judging both by reasoning *à priori* and by the event, there is the strongest ground for believing that with an *undivided* treasure in the Bank, the rate of 4 *per cent.* might have been maintained during a great part of the period without alteration and with perfect safety to the Bank, until the necessities for foreign payment acquired a magnitude which imperatively called for measures of counteraction.

In what degree the Bank, by the progressive reduction of its minimum rate to 2 *per cent.* in April, 1852, aggravated the tendency which then clearly existed to an excess of banking accommodation is a point that does not admit of being distinctly stated. But that the measures of the Bank did impart considerable stimulus cannot be doubted. Nor, further, can there be any doubt that this mischievous influence of the measures of the Bank lay to a large extent at the bottom of the unsoundness of credit, and the inordinate extension of speculative enterprise, which as we have already seen manifested itself very decidedly in the latter half of 1852; which continued through the first seven or eight months of 1853; and at length issued in the pressure, and in the extensive and alarming failures, which marked the summer and autumn of 1854.

These failures began in May, 1854, and continued to occur—frequently with startling rapidity—till the end of the year. During part of May the demand for accommodation in Lombard Street was extremely urgent, and 6 *per cent.* was very generally paid for discounts. The failures in May occurred in the East India, the Provision and the Silk Trades. In June a severe shock was occasioned by the disclosures connected with the notorious and disreputable firms of Davidson and Gordon, and Cole Brothers, Colonial and Metal Brokers,—parties who had resorted to the manufacture of fictitious warrants as a means of raising money. There were also large failures in June, in the West India trade; and at Birmingham, and in the West Riding. In July there was the discovery of the extensive frauds of Schuzler, the Railway Manager at New York; and from the United States there was a heavy list of failures of Bankers, Joint Stock Banks, and merchants. At home there were further suspensions in London and in Yorkshire. In August there were some stoppages in the Corn Trade. In September renewed distrust was excited by the failure of several large and long established firms at Manchester; and in the South American and East India Trades. The pressure in the United States had in no sense diminished, and October and November brought very disastrous commercial news from thence. At home there was the suspension, for a very large sum, of an extensive speculator in ships at Liverpool; and there were a considerable number of failures both in London and the provinces.

Section XIX.

The Real Causes of the Larger total amount of Bullion held by the Bank during Recent Years.—Those Larger Reserves not attributable to the Act of 1844.

That the extremely unsound state of credit indicated by the long and disastrous series of commercial failures, described in the last section; would have led to severe commercial crises, had it not been for the continuance of the enormous supplies of Gold which at that time poured in from Australia, will, I am convinced, appear to any one who will take the trouble of recalling to recollection the circumstances of the time, in the highest degree probable; and for these and other reasons I feel as much assured as it is possible to be on a hypothesis of contingent events, that had it not been for the effects of the Gold Discoveries, the period from 1852 to the close of 1853 would not have elapsed without a severe trial, and a probable final condemnation and abrogation, of the Law of 1844.

But that Law had a respite of its fate by the operation of two causes:—

The continued magnitude of the supplies of Australian Gold, which restored the reserve of the Bank.

The apprehension of a War with Russia, which became prevalent in consequence of the occupation of the Principalities by the Armies of that country, in the summer of 1853.

This apprehension evidently infused a spirit of caution in the public mind, and a consequent curtailment of many of the engagements which were about being entered into.

And the Reserve of the Bank having been replenished soon afterwards, the Directors, as already observed, in pursuance of their system of rapidly following the variations in the amount of their reserve, reduced their rate of discount, by four successive changes to 3½ *per cent.* on the 23rd June last (1855). And if there could be one instance more strikingly illustrative than another of the inconvenience of the separation of departments; and of the exaggerated manner in which the Directors follow out what they consider to be the spirit or principle of the Act of 1844; it is precisely this comparatively recent reduction of the rate of discount, to 3½ *per cent.* In the evidence given by the Governor and some of the Directors, there are avowals of imprudence in not having raised the rate of interest soon enough or high enough; but they justified their reduction from 4 to 2½ *per cent.*, in September, 1844; and again in August, 1846, from 3½ to 3 *per cent.*; by a view to the figures exhibiting the actual position of the Bank, without reference to events in prospect, however imminent; and I presume that they would justify their reduction in June last on the same grounds. Such prospective views are branded by them with the name of speculation.

Now this is, in truth, the same thing as disclaiming forecast or common prudence; and assuredly there was an absence of all forecast or common pruence in neglecting, or overlooking, the signs of the times; in ignoring all past experience; and disregarding all information to be derived from history; so far as to suppose that in a War involving a gigantic scale of expenditure entailing considerable payments abroad to be remitted in gold; there could be any reasonable ground for apprehending such a continuance of the lull which happened for the moment to prevail in the money market, as to justify the impatience manifested by the Directors in reducing at such a time their rate of discount to $3\frac{1}{2}$ *per cent.* They were quickly reminded of their error; and had not only to retrace their false step, but to raise their rate to a height (namely between 6 and 7 *per cent.*) greater than had been known, except in the single instance of the autumn of 1847;—the previous reduction having rendered the rise more abrupt and violent, and consequently so much the more inconvenient, if not distressing, to the various interests affected by it.

But there are persons well acquainted with the machinery of the Bank, and aware of the effect of the separation of the Departments in causing variations more frequent and abrupt in the rate of interest than could occur in the absence of such separation; yet who appear to approve of what they call the *principle* of the Bill; assigning as the chief, if not the only reason for such approval, that it has compelled the Directors to be more prudent. And, in support of this view, they point to the larger aggregate amount of Bullion held by the Bank in its two departments since the enactment of 1844 than was held for a similar length of time at any former period; and they ascribe that larger amount to the operation of the New Law.

This was the view taken by some of the members of the Lords' Committee; and in my own examination before that Committee questions intended to support it were put to me. I had no difficulty in pointing out that there were no grounds for attributing the largeness of the stock of Bullion since 1844 in any degree to the operation of the Act.

The following is an extract from my evidence in 1848 on this point:—

"3082. It appears that in the two departments of the Bank during two years and a half, 1844, there was an amount of fifteen or sixteen millions of bullion in the hands of the Bank. Is that in conformity with its previous practice?—Most unquestionably. The Bank had as much as that in February, 1844. The amount then reached upwards of sixteen millions; and it cannot by any possibility be shown how the Act of 1844 enabled the Bank at that time to get, or to hold, such an amount of bullion.

"3083. The question is not whether the Bank ever before held such an amount at any one moment as it held in February, 1844; but the question is this, whether the Bank, finding itself in such a position in the commencement of 1844, it would, according to its previous practice, have been likely to have retained in its possession anything like that amount of Bullion for two years and a half subsequently?—I do not see any reason to suppose that the Bank would have had during those two years and a half a less amount, for the Directors did all that was in their power to reduce it. They immediately on the Act coming into operation reduced the Rate of Discount to $2\frac{1}{2}$ per Cent., which I verily believe they would not have done if the Act of 1844 had not passed.

"3084. Would it have been desirable that they should have retained 16,000,000*l.* of Bullion in their Coffers?—I should conceive that it was desirable.

"3085. You say that they did all they could to employ the money they had. Then, if they had had the control of 16,000,000*l.*, would not they have tried to use that, as you say they did try to get employment for what capital they had?—They did their best, as it was, to get rid of it; but they did not succeed.

"3086. Did not they at that time offer money at a lower Rate of Interest than they had ever offered it at upon any previous occasion?—Precisely. They did all they could to reduce the amount of their Reserve.

"3087. Can you give any peculiar instances within your own knowledge in which it was obvious that the Rate of Interest had been reduced to the very Minimum on the part of the Bank?—I never knew any instance before in which they reduced it so low as they did then.

"3088. Do you think that that very great reduction in the Rate of Interest had the effect, during its continuance, of giving a great stimulus to the Speculation which then took place, and to the system of trading which was then going on on the part of certain parties?—Whenever there exist motives to enterprise, whether in the Shares of Joint Stock Companies or in investments of any kind at home or abroad, a low Rate of Interest tends very considerably to promote and extend the tendency to speculation.

"3089. Do you think that it had that effect at that period?—I think it had.

"3090. Do you think that the stimulus so given by that very low rate at such a time by the Bank of England had any effect in producing the reaction which took place at the period of distress?—I am inclined to think that the effect of the Act was to promote a tendency to an undue extension of credit and consequent hazardous enterprise, from September, 1844, to January, 1847, and that the subsequent contraction of banking accommodation caused the collapse to be so much more violent.

"3091. Do you connect those two operations in any degree with the Act of 1844?—I do connect them in a considerable degree."—(*Lords' Report*, 1848.)

The same allegation of an increase of the reserve of bullion since 1847 will, no doubt, be again made by those who may support the Act against its present impugners; but certainly with even less reason, if that be possible, than prior to 1847. For there can be no reasonable doubt that but for the very large supplies of Californian and Australian Gold, the Bank without a much higher average rate of interest would not have maintained anything like the same amount of Treasure. The low rates in the Five Years, June, 1848, to June, 1853, varying as they did from $3\frac{1}{2}$ to 2 per cent.; and again up to $3\frac{1}{2}$; were calculated to counteract the tendency to accumulation, in consequence of those large supplies. And the subsequent variations of the rate were anything but favourable to an accumulation of Treasure.

And with reference generally to the statements which have been given in previous pages of the frequency, the abruptness, and the violence of the changes in the Bank Rate of Interest under the operation of the Bank Act of 1844; they go fully to prove the correctness of the opinion which I expressed, that such would be the probable effect of the separation of the Bank of England into two departments, long before I had any reason to suppose that any such scheme was likely to be seriously entertained; and when still less could I imagine that the separation would be made matter of positive legislative enactment.

In the early part of 1844, some weeks before Sir Robert Peel brought in his bill, the provisions of which were correctly conjectured, I concluded a somewhat lengthened examination* of the principle and probable effect of such a measure with the three following propositions:—

" That it is only through the Rate of Interest " and the state of credit that the Bank of England " can exercise a direct influence on the Foreign " Exchanges.

" That the greater or less liability to variation " in the Rate of Interest constitutes, in the degree " next only to the preservation of the converti- " bility of the Paper and the solvency of Banks, " the most important consideration in the regula- " tion of our Banking System.

" That a total *separation* of the business of Issue " from that of Banking is calculated to produce " greater and more abrupt transitions in the Rate " of Interest and the state of Credit than the pre- " sent system of union of the Departments."

Experience of the working of the Act has abundantly proved the truth of the last of these propositions. But supposing the Departments to be again united (as, if there be common sense in the country they will be), then the liability to variations in the rate of interest will be greater or less according to the magnitude of the habitual or average reserve of treasure in the vaults of the Bank.

* Inquiry into the Currency Principle, 1844, p. 124.

Section XX.

Review of Suggestions hitherto made for Improving the Relations subsisting between the Bank of England and the Public.

It is now upwards of eighteen years ago * that I called attention to the inadequateness of the Stock of Bullion which had, in the few years immediately preceding, been held by the Bank of England; and recommended that it should be the endeavour of the Directors to maintain an average amount of treasure of not less than Ten Millions.

In the evidence which I gave before the Committee on Banks of Issue in 1840, I stated it as my opinion that, considering the great extension of trade, and of the general transactions of the country; and of the consequent greatly extended circulation of paper credit; it was desirable that the metallic basis should be wider than that which I had before suggested of Ten Millions, and that it ought not to be less than Twelve Millions.

And, again, I urged the same recommendation of an enlarged basis of bullion in the Fourth Volume of my History of Prices, published in February, 1848; and I reiterated it in my evidence before the Select Committees of both Houses of Parliament in the spring of that year.

I pointed out, at the same time, the mode of management by which, as it appeared to me, the Directors might, with such a reserve in the united departments of the Bank, minimise the variations in their rates of discount; and avert, or greatly mitigate, the shocks to which commercial credit, in a state of trade, both internal and external so widely

* Hist. Prices, ii. p. 330.

extended and ramified as that of this country, is liable.

It is not, therefore, for want of the attention of Government having been drawn to the suggestion that no plan founded upon it has been entertained. When I say that the attention of Government has been drawn to my recommendation of a large average amount of treasure, I would not be understood as having offered that, or any other recommendation, to the notice of Government; for I have never had any communication of the kind, direct or indirect, with the Government or any individual member of it. But the fact that my opinion on this point has not escaped the notice of Government is past doubt; because in the debate on Commercial Distress on the 3rd December, 1847, Lord John Russell, then Prime Minister, took occasion to refer, at some length, to the views I have from time to time expressed in favour of the plan of maintaining a Large Reserve.

An objection which is obvious, and has generally been made to the suggestion of the desirableness with a view to the public convenience, of a large average amount of treasure to be held by the Bank, is; — that the Directors, having in view the interests of their proprietors, could not be expected to maintain so considerable an amount of unproductive stock as has been contemplated in my recommendation.

My answer to this objection was, that it should be an understanding between the Government and the Directors of the Bank that a certain large amount of treasure should be held on an average say of five years; and that some consideration or compensation of a pecuniary nature should be made by the Government for the sacrifice of interest on the part of the Bank; such sacrifice being required with an express view to the advantage and convenience of the public. That such an undertaking on the part of the Directors admitted of being performed, the only question being that of expense, was stated by Mr. Horsley Palmer in his evidence in 1832; and he has since repeated that opinion. The compensation might be made in an increased allowance for the management of the Public Debt, or in some other way; the compensation to be withheld or refunded as might be agreed upon, if the conditions were found at the end of five years not to have been fulfilled.

This suggestion has not been entertained; and I can easily suppose that a Chancellor of the Exchequer would feel very averse to incur the expense of such an arrangement; besides that there would be some awkwardness in adjusting the terms of it; and difficulties might arise in the subsequent settlement as to how far the condition had been complied with.

On this and other grounds I am led to apprehend that no arrangement of the kind supposed has been, or is likely to be, in the contemplation of the Government, or the Bank Directors. At the same time I continue to be strongly of opinion that such an arrangement would be highly desirable; although I no longer see any grounds for expecting that it will be carried into effect under the present administration of the Bank.

But, having now come to the conclusion of my argument against the principle and operation of the Act of 1844; showing by a review of the manner in which the Directors, in pursuance of an erroneous theory, and an exaggerated interpretation of the scope and spirit of the measure, have aggravated the inevitable evil tendency of that measure; — it occurs to me that I am open to the question; — whether in contemplation of the obnoxious provisions of the law being abrogated in the ensuing session of Parliament, I ought not to be prepared with the suggestion of some remedy for the errors of management which, prior to 1844, had led the Government to the conclusion that the Directors as a body were not fit to be intrusted with the control of the circulation.

Indeed, it was stated to me soon after the publication of the last volume of my History of Prices, in which I had entered into a very full examination of the operation of the Act of 1844, that my arguments against the principle and policy of that measure failed of producing the impression that I might otherwise have expected; because I did not propose or suggest any Scheme or Plan by which, in the event of the abrogation of the restriction of the power of issue, the discretion of the Directors in the exercise of that power should be so far controlled as to prevent a recurrence of such evils as had been the consequence of their mismanagement on several signal occasions prior to 1844. For, as to the larger reserve of treasure which I recommended, even if it could be made matter of stipulation, there would, it may be said, be abundant scope for mismanagement during the long interval before the stipulation could be brought to bear. And although, if the departments were united, the transitions between a high and low rate of interest would not be so frequent and abrupt; nor the recurrence of pressure amounting to panic be so probable as it is under a division of departments, there would still, it may be urged, be room for the infliction of much inconvenience on the public by improvident and injudicious management.

I admit that there is great weight in the objection on these grounds to the sufficiency of the only remedy I proposed. I have been led therefore to a careful consideration of the question;—whether some more effectual means might not be devised, whereby the management should be so far improved, as to preserve the public from the repetition of such errors as those which have characterised the mode of conducting the business of the Bank both before and subsequent to 1844; and which have been so emphatically described and dwelt upon by Sir Robert Peel, Sir Charles Wood, and Lord Overstone.

Section XXI.

The Experience of the last Twelve Years has furnished strong additional Reasons for endeavouring to Improve the Administration of the Bank of England.

I have already had occasion to remark that it has been matter of surprise to me that the eminent persons just named, along with others of their school, instead of endeavouring to render the Directors more prudent by taking a part of the functions of the Bank out of their hands, have not been led to consider whether some part of the fault does not lie in the constitution and composition of the Governing Body; rather than in the mode in which the Directors as now constituted have conducted the affairs of the institution.

Now, the result of all the consideration that I have been able to give to this question is, that the fault has lain more in the System or Constitution than in the Management.

A suspicion to this effect seems to have entered into the minds of the Parliamentary Committees, for in both of them questions were asked of the witnesses whether they had any suggestions to offer with a view to an improvement of the Governing Body of the Bank.

The Governors and the Directors of the Bank who were examined on this point expressed themselves satisfied with the existing constitution of the managing body; with the exception of the regulation by which in April of each year Eight Directors go out, and are not re-eligible till the year following. They took credit at the same time for having effected an improvement in the constitution of their own body by altering the rule of succession to the Chair of Governor; so that, instead of the rotation by seniority, the persons to fill that situation were elected by the Directors from amongst the whole Court.

I was also examined on this question, and gave an opinion much to the same effect as the Directors, dwelling more particularly upon the impolicy of the regulation requiring the annual change of Eight Directors; but expressing myself as being content, supposing the Act of 1844 were repealed, to allow the management to continue in the discretion of the existing body, to whom I gave credit for being improved, as I thought they ought to be, by the eventful experience of late years.

The opinion which I then gave to this effect has undergone a great change in the course of the period of nearly eight years which has since elapsed.

The Evidence of the Governors and Directors before the Committees of 1847–8 (which had not been published when I expressed that opinion), explanatory of their management under the Act of 1844; and of their views of the state of things and consequent proceedings and intentions in the crisis of 1847; was calculated to produce in my mind a very unfavourable opinion of their judgment.

It is impossible to peruse without extreme astonishment the evidence given by the Governors and Directors in 1848 relative to the events of the previous year.

It would seem, indeed, that these distinguished persons had conceived an attachment so strong to what they called the *principle* of the Act, that to some considerable extent they were unable to foresee and appreciate with the clearness and accuracy of other people the evil and dangerous consequences of the measure. Nay, I am afraid that expressions may be found in the evidence which almost justify the statement, that in the opinion of many of the leading Directors, the issue of the Treasury Letter of October, 1847, was an ill-timed interference with the adoption of further extreme proceedings. And it is plain that there was a strong disposition in the Bank to resort to measures for the maintenance of the Act of 1844 as novel and violent as might have been possibly contemplated for the preservation of the Act of 1819. In other words, the mere division of the departments was to be defended by sacrifices as great as the maintenance of specie payments.

So far as can be ascertained by the evidence, there appears to have been on the part of the Governors, and some of the Directors, a vague and overpowering apprehension of some new and frightful evils, which were to ensue from any infringement of the doctrine and system of 1844; and these abstract and unfounded fears produced as their practical consequences that most unhappy refusal of the Bank to make early representations to Government of the gravity of the crisis; and still more that unhappy disposition on the part of the Bank to deprecate interference even at the latest moment. That the Directors were bound not to seek for undue occasions to break the existing law will be granted on all hands. But that a body of men in their position, and with their responsibilities, should so far commit themselves to the influence of any system or theory, as to disregard the strongest evidences of aggravation of distress arising from the operation of a particular law; is a failure so great and serious, that it ought to lead to a thorough examination of the plan of management under which defects so vital are permitted to occur.

I will not pursue this topic further; and I have only here introduced it as furnishing one strong ground, among others,—such for example as their management from 1847 to the present time, —for the change which has taken place in my opinion since 1848, when I expressed myself in favour of leaving the conduct of the business of the Bank to the discretion of the Directors as then and still constituted.

Under the influence of the circumstances which, more particularly since 1847, have led me to entertain so unfavourable an impression of the discretion and judgment of the Directors; I have been induced to direct more attention, than I had hitherto devoted, to the consideration of the composition and the constitution of a body, which has been so singularly unfortunate as the Directors of the Bank of England, in failing to secure the confidence of the public in their management.

This want of the confidence of the public does not in the most remote degree apply to the personal qualities and characters of the Directors, which are justly held in the highest estimation; and by no one more highly than by me; but at the same time their management of the Bank is almost always spoken of in terms of disparagement. The most disparaging of the criticisms, the most severe, the most unsparing of the animadversions, have been those passed upon them by the originators of the Act of 1844. Towards the obtaining of that Act the majority of the Directors co-operated, and they may consequently complain of having been rather hardly used by their friends and coadjutors in the cause.

Without going the length of the extreme severity of criticism which the leaders of the new School of Currency have bestowed upon the management of their coadjutors — the majority of the Directors of the Bank of England — I have come reluctantly to the conclusion that the constitution and the composition of the Executive of that institution is essentially faulty.

Section XXII.

Suggestions of Changes in the Governing Body of the Bank made by Mr. Glyn and Mr. William Brown before the Lords' Committee of 1848.

In the view, stated at the close of the last Section, I am fortified by the opinions of two persons of great eminence in the commercial world; and held in the highest estimation for great practical good sense, and for intimate acquaintance with the mode of successfully conducting the management of banking and mercantile establishments on a very extensive scale.

I mean Mr. George Glyn, the Member for Kendal; and Mr. William Brown, the Member for South Lancashire. And I give, accordingly, the following extracts from the evidence of these gentlemen before the Select Committee of the House of Lords on Commercial Distress.

The examination of Mr. Glyn was on the 6th of March, 1848; and of Mr. Brown on the 13th of the same month.

Taking them in the order of their dates, Mr. Glyn's evidence is as follows*:—

* It is not the practice of the Lords' Committees, as it is of the Commons', to give the names of the Questioners.

"1777. (George Carr Glyn, Esq., M.P., examined.) Do you think it would be desirable to intrust to the Bank of England, or to a body of that description, the power of determining the point at which it is necessary to abstain from further contracting the Circulation, and to extend it? — My opinion certainly is, from the experience of last year, that it would be better to revert to the old system under which the Bank managed the Circulation than to continue under the Fourteen Million Clause of 1844. At the same time I would guard that opinion by adding that *I am not prepared to say the constitution and system of the Bank Court are at present exactly what they ought to be for the due administration of the Circulation.*

"1778. Looking at the former operation of the same discretion, and looking at the management by the Bank of its own banking affairs during the last year, do you think that there is sufficient ground for confidence in the good management of the establishment to intrust them with such a power? — I think that arrangements might be made that would put the Bank Direction on a footing which would establish a proper and well-grounded confidence in its management.

"1779. Will you have the goodness to state in what manner you think the Government of the Bank could be so constituted as to secure that object. Will you first explain the present system of Government of the Bank? — It is managed by the Governor, the Deputy-Governor, and the Court of Directors, everything being finally settled by the Court of Directors, and decided by a majority of votes.

"1780. Has that always been the case since the institution of the Bank? — Within my recollection.

"1781. Is not the Committee of Treasury invested with peculiar powers? — The Committee of Treasury are advisers to the Governor. The Governor has only power between the Courts to do any act, and for which he must get the approval at the subsequent Court of Directors; everything centres in the Court itself.

"1782. The Governor can only act in a case of emergency? "He can only act in a case of emergency when the Court is not sitting.—Taking the Bank Directors generally, they have been a highly respectable body, and have conducted their affairs extremely well. Of course there will be failures among mercantile men under all circumstances; but I am not aware that there is any imputation upon any of those that have failed that they have ever done anything for their own accommodation. *But there is a great evil in having questions such as fixing the Rate of Interest and the general regulation of the Circulation determined by a bare majority. In point of fact, there may be a majority one week which may be a minority the next; and the principle of the system may be upset by an adverse vote, though it* *may be prudent and right.* If I were to offer any suggestion (which I should not have ventured to offer if it had not been asked from me by your Lordships) I should prefer leaving the whole responsibility of the Circulation in the hands of the Bank of England. I do not think there is much advantage in a double responsibility divided between the Bank of England and the Government; but I consider it would be well that the Bank Court should have in it certain persons not elected by the Proprietors, who should be appointed under Act of Parliament for a limited time, or in any other way which may be deemed advisable, not immediately by the Government or Proprietors, and not removable by the Government; and that they should have, not an absolute veto upon the proceedings of the Bank Court, but that if they dissented from the majority, their reasons for that dissent should always be submitted in writing, and that they should be laid before Parliament, if Parliament saw fit, from time to time. I think that the introduction of these Commissioners and their protests and influence would exercise a very wholesome control upon the body of Governors; and at the same time would not deprive them of that power of which, as representing the Proprietors, it would not be right that they should be deprived.

"1783. Would you add to these alterations any regulations with respect to the management of the Currency, with a view to the Exchanges, or to any other circumstances? — I should leave that to the Court and to those Commissioners to determine as they saw fit from time to time.

"1784. Do you consider that these Commissioners should be persons not engaged in trade. — I would rather they were not engaged in trade. I think you might find people of experience enough not engaged in trade who were fit for the duty, but would not make it an absolute condition of eligibility.

"1785. Do you not mean that they should be appointed for life?—Not for life. It is impossible to know beforehand how far a man may be fit for a position of that sort, and therefore I would make the appointment for three years, or for some period and renewable."—(*Lords' Report*, 1848.)

Mr. Brown's evidence on the 13th of March, 1848, was to the following effect:—

"2227. (William Brown, Esq., M. P., examined.) Is there any point upon which you would recommend a difference to be made in the constitution of the Bank, as compared with its condition before the passing of the Act of 1844? —I do not think that it is possible to govern a merchant's counting-house or any great monetary institution, such as the Bank of England, by any rigid rule. You must place confidence somewhere. You must allow the parties managing the institution to have a discretionary power. Sometimes you have an influx of money, sometimes an efflux; sometimes a bad harvest and sometimes a good one; sometimes foreign Loans, sometimes commercial difficulties. Commercial difficulties will arise which will make it impossible to govern the proceedings of the Bank by such a rule as the Bank Act of 1844.

"2228. Then you would leave an institution like the Bank at liberty, not only to manage its own Banking concerns at its own discretion, but to regulate also the Currency of the country at its own discretion? — Yes. I should leave it very much to their own discretion; *but I would not place the Bank in that position that they should have only their own interest to consult. I would make them to some extent the Conservators of Public Credit.* I would allow them to have some choice in putting a veto upon the Chairman and Deputy Chairman; and I would have those gentlemen possess ample powers, and act under a clear understanding that they were to consult the public good.

"2229. You would not be disposed to leave the extensive discretion which you have described in the hands of the Bank under its present constitution? — It is extremely difficult to fix any system of management for so great an institution which will be perfectly satisfactory. Although I have thrown out the suggestion of a veto upon the Governor and Deputy Governor, there may be other plans that might be better fitted to meet the intentions that I wish to carry out."

The seven questions (2230—2236) relate to a suggestion by Mr. Brown, that possibly an arrangement might be made with the Bank for keeping a larger total reserve of Bullion, on the understanding that a portion of the consequent expense should be borne by the State. These I omit as not material to the present purpose. The subject is then resumed as follows:—

"2237. Do you mean that the Officers you propose should be appointed by the Government, and should be entirely independent of the Bank? — I do not know how it would be best to regulate those officers. I do think the Government should have a controlling power and veto upon those officers, and that they should see that proper men were appointed, who would look not only to the interests of the Stockholders but to the interests of the Public at large; and that it should be their duty to take care that their vaults were well supplied with money at all times, except under such an emergency as we have recently had, and then they might let it run down very low, to relieve the country from the distress under which it would otherwise suffer.

"2238. You mean that those officers should be selected by the Proprietors or by the Directors of the Bank, and that then the concurrence of the Government should be required in their nomination?—I think that probably would be the best plan that could be adopted. But there are so many Plans that might be suggested to place the Bank of England in such a position that it would be a Conservator of Public Credit, that I am not at all prepared to suggest what the best plan of doing it would be.

"2239. Do you think there would be any mode whatever, except by an Act of Parliament, of ensuring the proper conduct of the Bank in that respect to which you have alluded, namely, the keeping a certain proportion or quantity of their reserve in convertible securities?—I should think a judicious selection of the Governor and Direction would answer that purpose.

"2240. Supposing those Directors were removable at will, the removal of one or more Directors would not ensure a different line of conduct on the part of the Directors who would succeed?—I think the Directors in that case would probably have very little to say, but that the great operations would rest upon the Chairman, and Deputy-Chairman, and the Cashier. If those three officers were then well selected, with a large discretionary power, that would probably be the best security that you could have. I am quite aware that it is impossible to get all the securities you wish; and it is equally difficult to replenish the vaults of the Bank at certain times with all the gold you may wish; but I believe the best security for the country is to leave a large discretionary power with men of intelligence, who would feel that they had a responsible duty to perform.

"2241. But supposing the Executive Government of the country, the Queen's Ministers, and the gentlemen who were in the Direction of the Bank, had a different view as to what were proper securities, how would you resolve the difference between them?—You could not resolve the difference."—(*Lords' Report*, 1848.)

Before I proceed to state my own views of what would be the best plan on which the constitution of the Managing Body of the Bank in the re-united state of the present divided departments should be settled; I will offer a few remarks on the points as to which I agree, or venture to differ from these witnesses.

It is needless to observe that I cordially agree with both of them in unqualified objection to the Act of 1844, which it is hardly possible to imagine can be maintained much longer.

I agree with Mr. Brown in the great but not undue stress which he lays on the advantage of a large amount of Treasure in the Bank.

I agree with Mr. Glyn and Mr. Brown in the objection which they state to the manner in which important questions of Management are discussed and determined.

Mr. Glyn well describes the weight of this objection, when he says: "There is a great evil in "having questions, such as fixing the rate of in-"terest and the general regulation of the circula-"tion determined by a bare majority. In point of "fact, there may be a majority one week which "may be a minority the next, and the principle of "the system may be upset."

With regard to the remedies proposed by the witnesses, they must be taken as suggestions offered off-hand in answer to questions for which they were not prepared. I have therefore less scruple in stating frankly my opinions upon them.

The introduction into the Direction of a Commissioner or Commissioners, not elected by the Proprietors, but appointed under Act of Parliament, and invested with the powers suggested by Mr. Glyn, might, I am disposed to admit, exercise a salutary influence in controlling the irregular and inconsistent movement to which the body as now constituted is liable. But I doubt the possibility of harmonious action between such Commissioners and the Directors. And I cannot conceive that any Directors would accept the situation of Governors, if liable to have these Commissioners set over them; or at least set to watch and control them by an external power; nor is it likely that merchants of such high standing as the present Directors would be solicitous of a seat in a Direction into which so anomalous an appointment was interposed. What I mean to say is, that an appointment according to this sketch, would not, in my opinion, be found to answer; that is to work conveniently. If Mr. Glyn would set his mind to propose a finished plan for the better government of the Bank, I know no one who would be better fitted for the task.

So long ago as 1840, the idea of an Official Governor to be appointed by the State, seems to have been agitated. In Mr. Norman's examination before the Committee on Banks of Issue, there is the following passage:—

"1973. Would any advantage be derived from the introduction of more permanent officers, or a more permanent body into the Management of the Bank?—That is a point upon which I hardly know how to give an opinion.

"1974. Are you acquainted with the constitution of the Bank of France?—Not thoroughly.

"1975. Are you aware that there is a permanent Governor of that Bank?—I believe there is a Permanent Officer, who I believe is nominated by the Government.

"1976. Would you anticipate any advantage from the introduction into the Government of the Bank of a permanent Officer of that description?—I think not.

"1977. Would there be any advantage in the introduction of a Permanent Officer appointed by the Bank itself?—I think it must be allowed that a person whose attention is exclusively directed to the duties of an office, and whose attention is so directed for a number of years, must at length possess advantages which cannot belong to a person who only fills the same office for a time.

"1978. Is not the office of Governor of the Bank attended with great labour, and almost incompatible with attention to any other concerns in which he may be engaged?—Undoubtedly.

"1979. Does not this appointment to the office of Governor entail a considerable sacrifice of private interest; and to which it is not to be expected that any person can submit for a length of time?—I should think so."—(*Banks of Issue*, 1840.)

It will be seen from this extract that Mr. Norman did not approve of the suggestion of a State Governor; and I quite agree with him that the example afforded by the Bank of France, in which establishment the administration rests principally on a supreme officer named by the State, is by no means favourable to any trial in this country of a similar measure. The rest of Mr. Norman's statement may be considered as supporting the alterations I shall presently suggest.

Mr. Brown having justly, as I think, recommended the maintenance of a large amount of Treasure, and being asked how this object should be secured; expressed an opinion that the object of maintaining a larger amount of treasure, and of embracing a consideration for the interests of the Public as well as those of the Proprietors; might be attained by great care in the selection of Governors; who, in conjunction with the Cashier, should have a large discretionary power in great alterations, subject to a veto by the Directors.

That a larger discretionary power to the Governors, if well selected, might be some improvement, I should perhaps be disposed to admit; but the association of the Cashier in the exercise of such power, or in influencing the decision of the Governors in matters of importance seems to me to involve so anomalous a position for an officer of the Bank; and to be in every point of view so objectionable, that the suggestion can hardly be allowed to enter into discussion. And indeed Mr. Brown disclaims having formed any deliberate or matured opinions upon the subject of the management.

Section XXIII.

Statement of the Objections to which, in my opinion, the present Constitution of the Governing Body of the Bank of England is fairly open.—Inconveniences and Evils arising from its Operation.

I will now proceed to state my own views of the objections to the constitution of the Governing Body of the Bank; and of the alterations which appear to me to be, calculated to effect a great improvement in the Administrative System of that establishment.*

* I have confined my suggestions of alteration to those parts of the measure of 1844 which more immediately relate to the management of the Circulation of the Bank of England; but I by no means undervalue the importance of those other portions of the measure, and of those statutes adopted in 1845 as sequels to it, which affect the Circulation of Private and Joint Stock Banks in England and Wales, in Scotland and in Ireland. The general principle involved in the policy of these measures was to draw a broad distinction between the liability of banks for their Circulation, and the liability of banks for their Deposits, and other obligations: and by limiting the amount of the future Circulation of the banks to the comparatively reduced sum at which it stood in the early part of 1844; and by prohibiting the establishment of any new issuing bank; it was sought to neutralise, as far as possible, what the Currency School considered to be the irregular and mischievous action of the Country Issues. The continuance for eleven years of these interferences with the previous condition of the Country Banks, has somewhat complicated the present state of the question as regards their Circulation. So long as Country Notes of less amount than Five Pounds are prohibited, I am quite satisfied that no adequate reason exists for granting a preference of payment to Notes over Deposits; and fully agreeing as I do in the wisdom and necessity of the Joint Stock Bank Regulation Act of 1844, which requires that each new Joint Stock Bank shall have at least a subscribed capital of 100,000*l.* in shares of not less than 100*l.* each, and a payment of 50*l.* on each share, before commencing business; I should be disposed to remove altogether the restrictions imposed in 1844 and 1845 by Sir Robert Peel, on the Circulation of the Provincial Banks in the three divisions

The objections which I have to notice are those that are patent to the public. If the Directors had been examined closely on these points by the Committees in 1848, it is possible they might have pointed out others.

In the appointment of Governors of the Bank, the Directors in their evidence described as an improvement, an alteration recently made, by which the succession to the Chairs is no longer, by strict seniority, as it had been; but the fittest person is selected for the purpose. And this alteration is mentioned in the bald and meagre Report of the Commons Committee as an improvement. It may be an improvement, and the selection has been fortunate in the choice that has fallen on the present occupant of the Chair. But the power of appointing the fittest person does not always exist, because it may, and not unfrequently, must happen that the Director most highly qualified to fill the situation is either unwilling, or, from his position, unable to undertake the onerous duties, and to submit to the confinement of the situation.

The period for which the Governors are elected, namely, two years for each Chair, without being re-eligible excepting under extraordinary circumstances; such as in the case of breaks in the Charter, when it was considered that they should be continued for one year longer; appears to me to be much too short.

The occupant of the Chief Chair has little more than time enough to become familiar with the duties of his responsible position; and to discover parts of the system which may require to be looked into with a view to amelioration; when, before

of the kingdom. In the present state of the Banking system of this country, and with the constant obligation of convertibility into coin, the Currency Principle notions of a power of excessive issue in the Country Banks are to be regarded as errors which have been utterly exploded.

he can have matured any plan for the purpose, his term of office expires; and he has no longer the same interest, and, if he has the same interest, no longer the same power of carrying it into effect. And I should imagine that, generally speaking, there must be some inconvenience in each change.

The Governors are mostly engaged in large concerns of their own; and it is hardly possible to suppose that there may not arise occasions, on which their attention may be distracted or diverted from the affairs of the Bank, to their own. At all events this circumstance is calculated to interfere with that continuity of attention to the concerns of the Bank, and to the interests and convenience of the Public, which, in the opinion of Mr. Norman, with whom on this point I agree, it is desirable that the person intrusted with the supervision and direction of every part of that vast establishment should be able to apply. This condition is of necessity very imperfectly fulfilled in the present management.

The Governors have, indeed as I fully believe, been most exemplary in their attention to the duties of their office;—and also in their attendance, which I have understood to be daily, or nearly so. But the implied duty or necessity imposed on the Chairs of such constant attention, entails a degree of confinement which, as I have just observed, has deterred Directors, otherwise well qualified, and sometimes the best qualified, from taking the Chair when offered to them, either by selection or by seniority. Such obligation also of daily attendance at the Bank during the most important business hours of the day, renders the duty inconvenient, if not impossible, to those who have not junior or working partners to look after the business of their own firm during those hours. But exemplary as the attention and attendance of the Governors under the existing system are, and have been; they fall short, in my opinion, of the permanence of attendance, and continuity of attention, which it is so desirable to ensure from the presiding mind that has to watch over and direct all the movements of the establishment.

There is one inconvenience, so great, so palpable, and of such regular recurrence, that it is difficult to account for its having been suffered to continue to the present time;—I mean the rule by which Eight of the Directors go out in each year, and are not re-eligible till the year following; unless there should be a vacancy during the intermediate time, in which case an ex-Director is re-eligible.

It is difficult to account for the origin of so preposterous a regulation; distrust, however, of some kind on the part of the proprietors must have been at the bottom of it.

It is supposed even at this time of day that a rotation of the kind in question which is considered (using a metaphorical expression), as bringing fresh blood into the direction, affords the means of detecting and correcting abuses which are apt to grow out of a stagnant state of the Governing Body. But this supposition involves a great mistake, especially when applied to such directions as that of the Bank of England and other considerable analogous establishments in which those directors who go out by rotation are re-eligible at the expiration of a year, and are then, as a matter of course, re-elected. In such cases it is quite clear that it is only in the election at the close of the first year that fresh blood is introduced. In every following year the ex-directors come in again. And the *rationale* of the effect of the rotation, following the same metaphor, is that the old blood, after having been stagnant for a twelvemonth, is re-infused into the circulation, which is thus exposed to the two-fold disturbance of abstraction in the first instance of so much that was in an active state; and of re-infusion following it of what had been in a stagnant state, and would require some time to be revivified into its former condition. Or, taken in a general point of view, the case stands thus:—The entire Body of Directors in and out of office may be considered as consisting of thirty-four members, of whom in office are twenty-six (two Governors and twenty-four Directors), and eight out of office; that is, twenty-six active, and eight temporarily passive members. The only new blood or fresh members therefore are those who come in to fill vacancies caused by death, resignation, or disqualification.*

* The vacancies from these causes were more frequent formerly than they are now. It was the invariable custom, I believe, that if a Director declined to serve the office of Governor, he was required to resign his seat in the direction. And I remember, on one occasion, many years ago, that the Director next in seniority, having declined the Chair, was followed by four or five Directors in immediate succession equally unprepared to take it, and the consequence was, that there was five or six vacancies at once. The practice is now changed. Since the abrogation of the rule of succession to the Chair, the Directors next in seniority are no longer called upon to resign. And there has recently been an instance or two in which, at the annual election, there has not been in the list of those elected a single new name; that, is a name which had not been before in the direction.

I would here mention a striking instance which, among others of less notoriety, may serve to show the uncertainty and inconsistency to which this regulation renders the conduct of the Bank liable on particular occasions.

In the closing months of 1836 considerable difference of opinion was said to prevail in the Bank Court on the subject of its intervention for the support of Commercial Credit at that time; the party, however, in favour of intervention proved to be the majority, and assistance was accordingly afforded; and further advances were in train in the spring of 1837 when the change in the composition of the direction in April of that year, by eight of the Directors going out, and eight coming in, altered the whole policy of the Court, and further assistance beyond that to which it had been

I noticed in my evidence before the Committee of the House of Commons the existence of this extraordinarily inconvenient regulation; and the Committee expressed surprise that there should exist such a regulation;—a regulation of which, as far as I am aware, there is no example in the case of any other Joint Stock Company. One of the Directors, who was examined by the Committees in 1848, mentioned the practice and the inconvenience of it also; but it appears that it does not admit of alteration except by Act of Parliament; and it is natural that the Bank should not have sought an alteration in intervals when the Charter was not under consideration in Parliament. But the Directors had a full opportunity in 1844 of calling the attention of Government to the great inconvenience of this rule, and of suggesting a remedy; and it may be matter of surprise that they did not avail themselves of that occasion to remedy an evil so important and obvious. But the remedy is not so easy as might be imagined consistently with annual election. A reduction of the numbers subject to the rotation would, doubtless, be a mitigation of the evil; but the inconvenience would still be considerable. The remedy which I would propose will be seen in the exposition of my plan for improving the constituent parts of the direction.

I consider that a Board, consisting of twenty-four Directors and two Governors, is too numerous for deliberation and discussion on questions of importance, involving points of difficult solution, and affecting the interests and convenience of the Public; and, at the same time, requiring prompt

committed was withheld. It may be that the policy of 1836 might have been right, and that of 1837 wrong, or *vice versâ;* but, without saying which was right, and which was wrong, such vacillation of conduct cannot but impair the weight of authority and the character for consistency which the decisions of a body like the Bank ought to possess.

decision. If the Members possess and profess independent opinions, each of them might descant, for half an hour or upwards, upon his peculiar views; and the most fluent and determined speaker would occupy most time, and say, perhaps, what was least to the purpose, leaving insufficient opportunity for those best acquainted with the subject to express their opinions. The delivery of an opinion in an assemblage so numerous partakes of the nature of a set-speech; and a decision come to as the result of such speaking, and carried by a simple majority, is as likely to be wrong as to be right; and in some points of view more likely to be wrong than to be right. I do not say, because I have no means of knowing the fact, that this would be a correct description of what passes in the Bank Court, in the discussion of matters of financial importance, brought before it. But what I do mean to say is, that a Board consisting of twenty-six Members is totally unfit for the discussion of questions;—such as alterations in the rate of interest;—which are brought before the Weekly Courts on the Thursday.

The Governor of the Bank, in his evidence in 1848, (see p. 165. seq.), stated an instance of his opinion having been overruled on a very important occasion; unfortunately overruled, as the event proved; and there is no reason to believe that this was an isolated occurrence. The decision on occasions of expected change is thus apparently of necessity a hurried one. The Court meets at half-past eleven or twelve; and, if the sitting be prolonged beyond half-past one, the Stock Exchange and the Money Market become anxious and excited, under the idea that a change of importance is under discussion; and persons congregate about the doors of the Bank-parlour to obtain the earliest announcement of the decision. The knowledge that such impatience is manifested out of doors naturally urges the Court to hasten the termination of its discussion; and, judging from what I know to occur in the case of other Boards, I have no doubt that the Members who are detained, perhaps inconveniently, from their own business at the most important time of the day, are themselves impatient to get away. The close of the discussion is, therefore, hastened as much as possible. Now in such a case, is it not possible, nay, not at all improbable, that if more time had been given the decision might have been a different and a better one?

But the greatest evil of all attending the decision of meetings such as that of the Bank Court is, that the question, so imperfectly discussed, is decided by a bare majority.

Mr. Glyn has pointed out the great objection to this mode of decision, and the evil of it might be illustrated in a great variety of ways; but I will mention only one. Suppose that the Court, meeting at a critical time, musters twenty-one Directors; and the question of raising or reducing the rate of interest gives rise to much difference of opinion, and the division is eleven to ten. In this case it may so happen that the Director possessing the least information and of the weakest judgment, and having been absent at previous Courts, when a preliminary discussion had been gone through, would make all the difference in the decision, which would thus turn on the accident of the absence or presence of a single member. Now, surely, it must be admitted that a machinery worse calculated by design and operation, to fulfil the purposes in view could not well be imagined.

The action of such an establishment as the Bank of England on the monetary interests of the Public ought to be,—and as I think might be,—if prudently and judiciously conducted; and having in view the maintenance of a large reserve; a power tending to repress and moderate, the fluctuations to which the market rate of interest, and the state of credit, are at all times liable.

Instead, however, of the exercise of a repressive and moderating power, the influence or power exercised by the Bank has been;—witness the example of the last twelve years;—to aggravate and intensify the fluctuations to which, from a variety of other causes, the market Rate of Interest and the state of Credit are exposed; and I cannot help thinking that, if an expression could be given to the opinion of the great bulk of the merchants and bankers of the kingdom; it would be to the effect that the feverish state and the frequent alarms, incidental to the management of the Bank, as it has of late years been conducted, are calculated to render it doubtful whether that establishment is not more of a nuisance, than a benefit, to the banking interests and the trade of the Country.

Indeed, it seems to me inevitable, when the Government and the Public become fully alive to the extremely inconvenient and sometimes injurious working of the existing system, that some effectual remedy will be sought and applied.

Section XXIV.

Outline of a Plan for an Improved System of Administration of the Bank of England.

The objections which I have stated as applying to the present constitution of the Administrative body of the Bank, range themselves under two principal heads:—

(1.) The changeableness in the character and position of the constituent parts of the Court, in consequence of the short tenure of the seats of the Governors; — the annual election of Directors: — and the system of rotation by which eight Directors go out at each election and are not re-eligible till the following year.

(2.) The unsatisfactory manner in which important questions affecting the convenience and interests of the public are discussed and decided.

The object of the plan which I propose, is to remove and remedy these objectionable features of the present system:—

(1.) By giving greater permanence to the constituent parts of the Direction.

(2.) By enforcing more deliberate discussion, and applying precautions against hasty and capricious decisions.

The main features of the change which I would suggest, are:—

Three Governors instead of Two; namely, a Governor; Sub-Governor; and Deputy-Governor.

The three Governors and twenty-four Directors to be elected for three years; instead of one year as now.

The three Governors to be re-eligible at each period of triennial election. The two Governors under the present system are re-eligible for election by the Directors for a further term; but the practice has been against re-election, excepting under peculiar circumstances, such as the two last renewals of the Charter, when the Governors were continued in the Chairs for one year longer.

Of the Twenty-four Directors, Twenty only to be re-eligible at the end of the three years. But if, in the intervening period before the next ensuing election, there should be a vacancy, or vacancies, among the twenty re-elected, such vacancy or vacancies to be filled up from among the four ex-Directors. To this extent only would the change be required to be made by Act of Parliament; and to this extent there is precedent and example in the case of the companies to which I have alluded.

The first of the two main objects in view, —namely, the greater permanence of the constituent parts of the governing body, — would thus be attained.

The other very important object, of imparting or enforcing more deliberate discussion, and more calm judgment in decision, which I will consider separately hereafter; would require to be carried into effect by bye-laws and by rules and regulations; the former to be drawn up by the Directors themselves and sanctioned by the Proprietors; the latter relating chiefly to their own observances.

The novel features of the plan proposed under the first head are:—

(1.) The appointment of a Third Governor. (2.) Triennial instead of Annual elections. (3.) A rotation of four Directors going out triennially, instead of eight going out annually.

These changes, with the exception of the appointment of a Third Governor; —the reason for which appointment I will presently explain; —are proposed with a view to give more permanence to the position and character of the constituent parts of the administrative body of the Bank.

The question of the tenure of the Chairs by the Three Governors I will reserve for consideration till after I have disposed of the alteration in the election and rotation of the Directors.

The present Annual Elections of the Directors are only of importance, or more than a mere matter of form, by the rotation of eight going out, and eight coming in, in each year; upon which I have observed at some length already.

There is, in this case, a change of persons for a twelvemonth; and only for a twelvemonth. The whole body of Directors may be considered practically, as regards the proprietors or the public, as consisting of thirty-four members; of whom eight may be considered in their acknowledged capacity of ex-Directors, as passive, or stagnant, or dormant members of the body; to alternate at the end of a twelvemonth with eight of the active members. Now, in the case of triennial elections, twenty out of the twenty-four being re-eligible; the change is only of four persons in three years, instead of twenty-four in three years, as is now the case.

In the first case, the inconvenience of a change is maximised (for it is impossible that exaggeration of the principle and practice of rotation can go further than in the case of the Bank), while, in the plan which I have proposed, it would be minimised; and I believe that very few of my readers could be found to say that this would not be a very great improvement.

Then with regard to the Election of Governors (without reference for the moment to the office of a third Governor), the mere prolongation of the tenure from Two years for each Chair to Three years each; making six years instead of four, would be of advantage as far as it goes. But the Governors being re-eligible at the end of three years, they might be continued for a further period in the occupancy of the Chairs, if found in all respects competent and suitable and willing to retain them; and the chance is, judging by the examples that I have in view, that they would occasionally be so continued.

Now supposing the whole alteration proposed to be confined to the objects here pointed out, namely, triennial instead of annual election; a rotation of only four at the end of three years instead of eight at the end of one year; and a longer tenure of the Chairs; the objections under the first of the two heads that I have stated, to the present system;—namely, the changeableness in position and character of the body of the Direction;—would in a considerable degree be obviated. And I cannot help thinking that if to this extent only, the advantages of the plan which I have suggested would be abundantly sufficient to justify the change; and the framework for it might be adopted without inconvenience, and without any possible disturbance of or detriment to existing interests.

And to this extent only (besides that of the appointment of a third Governor), would an alteration, as I have have before observed, of the provisions of the Charter by Parliament be required.

But the second class of objections could not be remedied except by the Directors themselves introducing into their bye-laws, and into their codes of rules and orders; such modes of proceeding as should be calculated to ensure more deliberate discussion, and more calm and consistent judgment, in deciding on all important questions in which not only the interests of the proprietors, but the interests and convenience of the Public, may be involved.

And it would be in the competence of the Directors alone, to devise and to carry into effect the means and methods by which the object in view might be best accomplished.

All that I now venture to do is to submit for their consideration, one or two of the suggestions that occur to me as to the observances among themselves, that might be most effectively and beneficially conducive to the end proposed.

I have pointed out at page 127. the very inconvenient mode in which it is commonly supposed that measures of importance are discussed and debated in a full Court of all the Directors, and are decided by a simple and bare majority.

In order to remedy this obvious, palpable, and very great inconvenience, I would, as I have before stated, propose in the first instance to invest the Governors with greater discretionary power.

Of the present extent of their discretionary power I have no means of judging; except from their evidence in 1848, and from those of their acts in which the public is concerned. It appears by the evidence of the Governor, as I have before observed, that his opinion was overruled on a very important occasion in 1846; and it has been rumoured among persons having, or fancying they have, a pecuniary interest in the decisions of the Bank Courts, that in some of the instances of important changes in the Rate of Interest since that time, the divisions have been close run; and I do not know whether in the case of those divisions the Directors in full Court exercised a privilege of originating motions for alteration of the Rate of Interest. This could not be the case if the Governors were possessed of the discretionary power which I think it of importance should be placed in their hands.

It would be desirable that no question of an advance or reduction of the Rate of Interest, should be brought forward, and discussed in Court, that does not originate with the Governors and Committee of Treasury. This may possibly, for anything that I know to the contrary, be the rule at present. But it would be expedient, according to my view, that the authority of the Governors should go much further. Not only should they originate all questions of the kind; but their recommendations distinctly stated should not be overruled by a bare majority of either the Committee of Treasury, or of the full Court; nor without the formality of having the names of the Directors taking part in the vote recorded in the Court Minutes.

It is with a view chiefly to the exercise of this preponderating authority that I would propose the addition of a Third Governor.

I feel strongly that there are numerous and weighty reasons for this increased number of Governors.

In some points of view these reasons are obvious; such, for instance, as in the case of illness of the Chief, there would still be two Governors to confer with the Chancellor of the Exchequer in cases of importance relating to the Government business with the Bank. In cases of emergency, also, such as cannot but frequently arise in that vast establishment; there would, in the event of the necessary absence of one of the Governors, be the advantage of the authority and weight of two Governors to discuss and decide on the measures to be adopted.

But the principal and determining reason for a third Governor is in the regulation of the amount and character of the Securities; and, as connected with these, the very important consideration of the Rate of Interest.*

A third person in the discussion of difficult and delicate questions involving the consideration of a great variety of contingencies, is of great advantage both as a moderator between two perhaps, antagonistic opinions, and as, probably, suggesting additional facts and views which had not occurred to the other two. And there would be this further great advantage, that the proposal coming before the Committee of Treasury, and the Directors, as the united judgment of three highly competent persons, would naturally carry much greater weight than if proceeding from two only. When I say the united judgment of the three Governors I mean, — that although in the discussions among them there will necessarily be

* The appointment of a Third Governor would carry out the idea which Mr. Brown seems to have entertained when he suggested (see page 117., *anté*), that if the greater discretionary power which he recommended were conferred on the Governors, the Cashier should be joined with them in consultation in the exercise of it. Mr. Brown, I think, would admit that the object which he had in view would be best fulfilled as I have proposed.

shades of difference of opinion, those differences on all but extraordinary occasions ought to be confined to themselves. Their proposal, when laid before the Committee of Treasury, or the Court, must be presented, and considered, as the result of the united opinion and recommendation of the three Governors.

Some exceptions from this rule on extraordinary occasions may be imagined—

Suppose for example that, in some case susceptible of wide difference of opinion, the Sub- and Deputy-Governors, should take a view directly opposed to that of the Chief Chair; and involving, as that difference might, a question of principle, which, they might conscientiously believe, rendered it incumbent upon them not to yield to the view of the Governor, who might be equally tenacious;—there would then be no alternative but for the Governor to state to the Committee of Treasury, or to the Court of Directors, his own views; adding, that both his colleagues differed from him; the grounds of difference being contained in a written statement prepared by them; and the Committee, or the Court, would have to decide upon that difference. But, in this case, if the decision were in favour of the Sub- and Deputy-Governors; it may be a question whether it should be by a bare majority, or by a larger proportion of the Directors:—I incline to the latter.

It is to be inferred from this outline that my Plan supposes that the authority and power of the three Governors should not be Co-ordinate; and it supposes that the preponderance of the authority of the Chief Chair should be declared, either by the bye-laws or by a rule of the Court of Directors. And a distinction of salary in favour of the Chief Chair ought to be an accompaniment of the distinction in point of authority.

Upon matters so debatable as the rate of interest, and the expediency of considerable financial operations, it is highly important that the opinion of the Governor should be preponderant with his colleagues in the Chairs; not from mere personal deference, which might or might not be accorded; but, by a rule such as I have suggested. It might not unfrequently happen that light impressions and ill-considered reasons, might outweigh in the minds of his associates his more deliberate opinions and recommendations; and, if they were habitually tenacious, they might out-vote him in his own immediate council. It is to guard against such possibility of levity of opposition, that the obligation (if they were tenacious of their opinion) of stating their grounds of difference in writing, should be imposed upon them; and, generally speaking, such a precaution would serve as a check upon the occasional wantonness of a spirit of contradiction.

If a proposal or recommendation coming from the Committee of Treasury, including the Governors, and laid before the Court of Directors, should give rise to any difference of opinion, and a negative or amendment were moved upon it; the motion should be stated in writing, and with the names of the Directors voting for and against inserted in the minutes. A majority of not less than two-thirds of the Directors present to be requisite for carrying the negative, or the amendment.

The greatly increased discretionary powers, which it is proposed by this plan to give to the Governors, presupposes that they would be selected with such reference to fitness as would ensure the confidence of the Directors; and would impress upon the public a favourable opinion of their competence.

But here I am aware of an objection, the weight of which I admit to be considerable. There is a difficulty, as has before been observed, in the selection of Governors to serve two years in each of the two Chairs; on account of the great confinement, and the abstraction of their time and attention from their own affairs. This difficulty would apply in a greater degree to prevailing on fit persons to serve for three years each even in the two Chairs; and still greater would be the objection to serving three years in each of three Chairs.

If this difficulty could not be got over in the arrangement which I have proposed, there is a mode of accomplishing the object of selection in a more efficient manner. And if I did not state it in the foreground of my Plan, it was because I think it probable that it would meet with more objection on the part of the Directors than that which I have first sketched: —

It is, that the fittest persons for the three situations should be sought without the walls of the Bank, if they were not to be found within; and be induced, by high salaries, to give up any other business they might be engaged in, and to devote all their time and attention to the affairs of the Bank. In this way there can hardly be a doubt that the services of persons of the highest order of ability, suited to the situations to be filled, might be secured. And as little can there be a doubt that, with Governors so eminently qualified; and with rules and regulations provided by the Directors as precautions against their own liability to crude discussion and hasty decision; the Bank of England would command an amount of confidence, both from the public and the Government, beyond any that it has enjoyed for many years past.

Objections in abundance may and probably will, be brought to bear against this, or indeed any other scheme that may be suggested, involving so great a change as that which is here offered for consideration; and I am inclined to think that it is the magnitude of the change, that will constitute the greatest obstacle to any serious consideration to the Plan I have proposed. But of this I am convinced,—that a large proportion of the best informed among the mercantile and banking community; although they might object to the change on account of its novelty and magnitude; would yet, if called upon to pronounce distinctly on its merits (without taking the objection to the mere change into consideration), have no hesitation in admitting the scheme I have sketched, to be a great improvement upon the constitution of the Governing Body of the Bank as it now exists.

Section XXV.

Statement of the several Conclusions arrived at in the Course of the Present Inquiry.

I will now enumerate the conclusions which, in the course of this inquiry, I have sought to establish; or, in other words, the opinions which it has been my purpose to set forth.

1. That the obligation to satisfy all contracts or engagements, expressed in terms of money by the payment of specific quantities of Gold and Silver Coin of certain fineness, is the cardinal principle of all sound monetary legislation.

2. That, as a matter of fact, the maintenance of such a Metallic Standard; and the enforcement by law of strict conformity to that standard of all Paper and other forms of Credit; has, for a long period, been the law and practice of this country,—the only exception being the period from 1797 to 1819,—when, for reasons of State policy, the obligation of Cash Payments was suspended.

3. That the Act of 1819 fully and effectively restored the Payments in Cash suspended in 1797; and that the Act of 1844, so far from being a "*Complement*" or additional security to the maintenance of the measure of 1819, is a source of danger to it.

4. That there is great unfairness in the charge brought against a large majority of those who, with myself, are opposed to the Act of 1844, to the effect, that we seek to restore a Paper Currency not limited by a Metallic Standard; for I can say for myself, and for those with whose opinions on the subject I am best acquainted, that we do not yield to the upholders of the Act of 1844 in attachment to the principle consecrated and effectually maintained in operation by the law of 1819.

5. That the claim set up in behalf of the Act of 1844, to the effect that the amount of Bullion in the Bank has, from the date of its enactment to the present time, been larger than, but for the Act of 1844, it would have been, is utterly unfounded and inadmissible; inasmuch as there is the strongest presumptive proof that the Act had not and could not have the effect alleged; the new source of supplies of Gold from Russia serving to account for the largeness of the treasure of the Bank from 1844 to 1847; and the still larger supplies from Australia serving to account for the greater amount of the treasure since 1847.

6. That there is the strongest reason to believe that, had it not been for the new and enlarged supply of Gold from Russia, the Act of 1844 would not have come into existence; and that, had it not been for the discoveries of Gold in California and Australia, the Act could not have been maintained in existence to the present time.

7. That Bank Notes are not Money in any sense which does not also include other forms of Paper Credit; nor (as contended by Sir Robert Peel and

his party) have Bank Notes any influence on the Foreign Exchange, or on Prices greater than, or different from, other forms of Credit.

8. That the assumption, also by Sir Robert Peel, that Bank Notes, strictly convertible into Coin at the will of the holder, have been and may be depreciated;—or, in other words, the allegation that there may be, as it is said there has been, a *disparity* between Gold and the Paper which circulates with it *at par;*—is a fallacy unsupported by experience and unintelligible in reasoning; or rather, with reference to the definition, is a contradiction in terms.

9. That there is no foundation in argument or authority for the allegation, that the issue or creation of Bank Notes is exclusively and solely the peculiar function or province, or prerogative or privilege, of the Sovereign or State.

10. That the assumption of a Purely Metallic Currency, as the type or model of a Perfect Circulation, proceeds wholly upon a mere fiction of the imagination; inasmuch as we can neither refer to the authentic records, nor to the actual existence, in this or other countries, of any such Metallic Model.

11. That, according to the hypotheses that can be most carefully framed of what would be the action of a Metallic Currency, we have the fullest reason to conclude, that the actual variations in amount of our existing mixed circulation of coin and convertible paper do not, and cannot, differ from what would be the variations in amount of a Metallic Currency. And hence, that the conditions of the supposed Metallic Model, as far as it can be intelligibly described, were fulfilled by the Currency of this country previous to the measure of 1844; and have not been fulfilled to any greater extent, nor in any better mode, by the aid of that measure, since 1844.

12. That, consequently, the leading tenet of the

doctrine of the new school, which assumes and asserts;—that the Circulation, as it existed prior to 1844, did not conform in its variations to what would have been the variation of a Metallic Currency, and was therefore vicious in principle and pernicious in practice;—is not maintainable as a ground for the support of the principle of the Act of 1844.

13. That equally unfounded is the proposition which maintains that the union of the functions of Issue and Banking in the Bank of England is incompatible with a due regulation of the amount of the Issues. On the contrary, the blending and combination of the two functions is not only compatible and congruous, but highly expedient, as a means of promoting the interests and convenience of the public; and is, moreover, better calculated to secure the maintenance of Specie Payments than the present system of separation.

14. That a great mistake was committed by the framers of the Act of 1844, in the assumption, that the Banking Department of the Bank of England admits of being conducted in the same way, and with only the same effects on the interests and convenience of the Public, as any other non-issuing Joint-Stock Bank.

15. That, by the plan of Separation, a distinct Reserve of Gold is provided for the security of the Circulation, which is the part of the Liabilities least exposed to fluctuation; while the other class of Liabilities, which are subject to a wider range of fluctuation, are left unprovided with any similar security.

16. That this separation of the functions of the two Departments, which were erroneously held to be incompatible, has caused them to become actually antagonistic; insomuch that, in a time of pressure such as 1847, an increased demand for Bank Notes acts directly in diminution of the

Banking Reserve; instead of acting as such an increased demand for Bank Notes would do under a state of union of the two Departments, in positive relief of the pressure on the Bank.

17. That the opinion which I expressed, when writing on the subject in March, 1844;—" That the " total separation of the business of Issue from that " of Banking is calculated to produce greater and " more abrupt transitions in the rate of interest " and in the state of credit than a system of union " of Departments;"—has been amply borne out by experience.

18. That the eventful and varied experience of the last eleven years has proved that, under the plan of a Separation of the Departments, the changes in the Rate of Interest, and in the state of Credit, have been far more abrupt, frequent, and violent than under the previous system.

19. That these frequent and abrupt changes, have been aggravated by the erroneous and exaggerated view, taken by the Directors of the Bank of England, of a duty which they appear to have supposed to fall upon them, of conducting the business of the Banking Department, in a rigid obedience to what is called the principle and spirit of the Act of 1844.

20. That the errors of Management chargeable against the Bank Directors, as well before as since the measure of 1844, seem to be referable in no small degree to faults in the Constitution and Composition of the Governing Body of the Bank.

21. That the practice of deciding on so important a measure as alterations of the Rate of Discount, by a mere majority of a numerous Board of Directors, after a brief and perhaps hurried discussion taking place at a weekly meeting of the Court, is a practice highly objectionable; and that, in truth, it is not easy to suppose a machinery worse calculated to accomplish the end in view.

22. That it is to be regretted, that in 1844 Sir Robert Peel did not apply his eminent administrative talents to improve the constitution of the Governing Body of the Bank, instead of committing himself to dogmatic legislation on the general subject of the Currency—a subject the knowledge of which he clearly had not mastered.

23. That next, therefore, to the abrogation of the Act of 1844, as it relates to the division of the Departments of the Bank of England; and to restrictions on the Circulation of Bank Notes; the most important question relating to the Currency which can occupy the attention of Parliament, will be the application of a remedy to the obvious faults in the Constitution, and Rules of Management, of the Governing Body of the Bank of England.

APPENDICES.

APPENDIX A.

Composition and Proceedings of the Committees of Lords and Commons in 1848, *on Commercial Distress.*

The Commons' (Select Secret) Committee was appointed on 3rd December, 1847, "to Inquire into the "causes of the recent Commercial Distress, and how far it "has been affected by the Laws for regulating the Issue "of Bank Notes, payable on demand."

The Committee consisted of Twenty-Six members, nominated in the following order, viz.. —

Chancellor of Exchequer.	Mr. Alderman Thompson.
Sir Robert Peel.	Mr. Hudson.
Mr. Cobden.	Mr. J. L. Ricardo.
Mr. Herries.	Mr. James Wilson.
Mr. Cayley.	Mr. F. T. Baring.
Mr. Labouchere.	Lord John Russell.
Mr. Disraeli.	Mr. Spooner.
Mr. Glyn.	Mr. Goulburn.
M. H. Drummond.	Mr. Cardwell.
Sir James Graham.	Mr. Hume.
Mr. Thomas Baring.	Mr. Thorneley.
Lord George Bentinck.	Sir William Clay.
Mr. Beckett.	Mr. Tennent.

Mr. Tennent, who was one of the members for Glasgow, seems never to have voted or attended the Committee on the occasion of any of the divisions.

The Committee examined Twenty-Six Witnesses; and the Minutes contain 7978 Questions, recorded at twenty-seven sittings.

The First Report is dated 8th of June, 1848, and relates to the general questions referred to the Committee. The Second and Final Report is dated 8th of August, 1848, and contains merely a few paragraphs on the subject of the provincial note circulation.

The adoption of the First Report was very warmly contested at six meetings of the Committee on the 19th, 23rd, 26th and 28th May, and on the 2nd and 6th June (1848).

At the Meeting of the 26th of May, as already stated in the text (page 5., *antè*), the division on Mr. Hume's motion, declaring that the Act of 1844 *had* aggravated the distress, was Eleven For, and Thirteen Against, viz.: —

Ayes, 11.	Noes, 13.
Mr. T. Baring.	Chancellor of Exchequer.
Lord George Bentinck.	Sir James Graham.
Mr. Spooner.	Sir Robert Peel.
Mr. Herries.	Lord John Russell.
Mr. Cayley.	Mr. Cobden.
Mr. Alderman Thompson.	Mr. Beckett.
Mr. Hudson.	Mr. Goulburn.
Mr. Hume.	Mr. Cardwell.
Mr. Disraeli.	Mr. Labouchere.
Mr. Glyn.	Mr. J. L. Ricardo.
Mr. James Wilson.	Mr. Thorneley.
	Sir William Clay.
	Mr. H. Drummond.

The twenty-six names are made up by Sir Francis Baring, in the Chair, and Mr. Tennent, absent.

At the Meeting of the 30th of May, the Chancellor of the Exchequer introduced his Draft Report. It was met by strings of elaborate resolutions from Mr. Cayley and Mr. Spooner, drawn up in the sense of their peculiar doctrines.

As stated in the text (page 6., *antè*), the division on Mr. Herries's motion, affirming that the Draft Report was *not* in accordance with the evidence, was Ten For, and Twelve Against, viz.:—

Ayes. 12.	Noes, 10.
Chancellor of Exchequer.	Mr. Thomas Baring.
Sir James Graham.	Lord George Bentinck.
Sir Robert Peel.	Mr. Spooner.
Lord John Russell.	Mr. Herries.
Mr. Cobden.	Mr. Cayley.
Mr. Beckett.	Mr. Alderman Thompson.
Mr. Goulburn.	Mr. Hudson.
Mr. Labouchere.	Mr. Hume.
Mr. Thorneley.	Mr. Disraeli.
Mr. James Wilson.	Mr. Glyn.
Sir William Clay.	
Mr. H. Drummond.	

Absent, Mr. Tennent, Mr. J. L. Ricardo, Mr Cardwell. Sir F. Baring in the Chair.

There were four other divisions at the same Sitting, on questions of less importance than that raised by Mr. Herries.

At the Sitting of the 2nd June there were seven divisions, the majority for the Government being no more than two or three on the vital points.

At the Sitting of the 6th June there were no less than nine divisions; and on the division on the 18th paragraph of the Draft Report, reporting that, in the opinion of the Committee, it was *not* expedient to make any alteration in the Act of 1844, the numbers were: —

Ayes, 12.	Noes, 10.
Chancellor of Exchequer.	Lord George Bentinck.
Sir James Graham.	Mr. Spooner.
Sir Robert Peel.	Mr. Beckett.
Lord John Russell.	Mr. Cayley.
Mr. Cobden.	Mr. Alderman Thompson.
Mr. Goulburn.	Mr. Hudson.
Mr. Cardwell.	Mr. Hume.
Mr. Labouchere.	Mr. Disraeli.
Mr. J. L. Ricardo.	Mr. Glyn.
Mr. Thorneley.	Mr. James Wilson.
Sir William Clay.	
Mr. H. Drummond.	

Absent, Mr. Thomas Baring, Mr. Herries, Mr. Tennent,— making, with Sir Francis Baring, the Chairman, the complement of twenty-six.

It was at this division that the accidental, and I believe wholly unavoidable, absence of Mr. Baring and Mr. Herries enabled the Government Party to obtain a majority of Two. If Mr. Baring and Mr. Herries had been present, and assuming that the remainder of the votes, including Mr. Wilson's, would have been given as appears on the list, the numbers, as stated openly by Mr. Hume in the debate of the 22nd of August, 1848, would have been equal, and it would have devolved on Sir Francis Baring, as Chairman, to give the casting vote. On which side that vote would have been given must remain matter of conjecture; but after the strong statements by Sir Francis Baring of his disappointment at the working of the Act of 1844, a hostile vote on his part, as concerns that measure, would seem to be the most consistent and probable.

It is not the custom for Reports made by Committees of the House of Lords to give any detail of the proceedings within the Committee, nor indeed to prefix the names of the Peers composing the Committee. I am unable, therefore, to do more than give the following few facts relating to the Lords' Report, premising that the names of the Peers have been obtained from the Journals of the House.

The Secret Committee of the Lords was appointed on the 7th of December, 1847, "to Inquire into the Causes "of the Distress which has for some time prevailed among "the Commercial Classes, and how far it has been affected "by the Laws for regulating the Issue of Bank Notes "payable on demand."

The Committee was composed of the following Twenty-Two Peers, viz.: —

The Lord President of the Council (Marquis of Lansdowne).	Earl of Ripon.
Earl of Eglinton.	Duke of Richmond.
Marquis of Clanricarde.	Marquis of Salisbury.
Lord Wharncliffe.	Duke of Montrose.
Lord Brougham.	Earl Grey.
Lord Kinnaird.	Lord St. Germains.
Lord Stanley (now Earl of Derby).	Earl Granville.
Lord Ashburton.	Earl of Auckland.
Lord Glenelg.	Lord Ellenborough.
Lord Monteagle.	Lord Beaumont.
Lord Campbell.	Lord Redesdale.

The Committee examined twenty-one witnesses; and the Minutes of Evidence contain 4279 Questions, recorded at twenty-two sittings.

The Committee made but one Report, viz., that delivered on the 28th of July, 1848; but the Report extends to fifty-one folio pages, and, in the compass of fourteen elaborate sections, discusses in great detail the whole of the subject.

APPENDIX B.

Statements by Authorities in support of the doctrine that Bank Notes differ in their nature and effects from Money. Passages from Mr. John Mill; Mr. McCulloch; M. Michel Chevalier; Dr. Twiss; and M. Joseph Garnier.

THE following are the extracts from the writings of the eminent authorities mentioned above, and referred to at page 21., *antè*, as rendering the most distinct and emphatic support to the doctrine, that Bank Notes are essentially different in their nature and effects from Money, a doctrine the precise opposite of that adopted by the authors of the act of 1844.

I insert the extracts in the order of the several names as stated in the text, beginning with Mr. Mill.

MR. JOHN STUART MILL.

I extract the following passages from the second volume of the great work which, under the title of Principles of Political Economy, has secured for Mr. Mill a lasting and distinguished place in the history of science. The first edition of Mr. Mill's work appeared very shortly after the publication of my last volume; and awaiting, as it was inevitable that I should, with no small interest, and with some anxiety, for the exposition given in that work of the subject of the Currency, it is allowable to express the gratification I experienced on finding that, with an exception or two hardly worth naming, there is a perfect agreement between Mr. Mill and myself on all the great outlines of the question; and especially that we are both led to condemn in the most unequivocal manner the Banking Law of 1844. The extract is as follows:—

"A third form in which credit is employed as a sub-" stitute for currency, is that of promissory notes. A bill

" drawn upon any one, and accepted by him, and a note of " hand by him promising to pay the same sum, are, as far " as he is concerned, exactly equivalent, except that the " former commonly bears interest and the latter does not. " But it is chiefly in the latter form that it has become " in commercial countries, an express occupation, to issue " such substitutes for money. Dealers in money (as lenders " by profession are improperly called) desire, like other " dealers, to stretch their operations beyond what can be " carried on by their own means: they wish to lend, not " their capital merely, but their credit, and not only such " portion of their credit as consists of funds actually de- " posited with them, but their power of obtaining credit " from the public generally, so far as they think they can " safely employ it. This is done in a very convenient " manner, by lending their own promissory notes payable " to bearer on demand: the borrower being willing to ac- " cept these as so much money, because the credit of the " lender makes other people willingly receive them on the " same footing, in purchases or other payments. These " notes, therefore, perform all the functions of currency, " and render an equivalent amount of money which was " previously in circulation, unnecessary. As, however, " being payable on demand, they may be at any time re- " turned on the issuer, and money demanded for them, " he must, on pain of bankruptcy, keep by him as much " money as will enable him to meet any claims of that " sort which can be expected to occur within the time " necessary for providing himself with more: and pru- " dence also requires that he should not attempt to issue " notes beyond the amount which experience shows can " remain in circulation without being presented for pay- " ment." — *Principles of Political Economy.* Book III. chap. XI.

" Some high authorities have claimed for Bank Notes, as " compared with other modes of credit, a greater distinc- " tion in respect to influence on price than we have seen " reason to allow; a difference, not in degree, but in kind. " They ground this distinction on the fact, that Bank Notes " have the property, in common with metallic money, of " finally closing the transactions in which they are em- " ployed; while no other mode of paying one debt by " transferring another has that privilege, but, on the con- " trary, all bills and cheques, as well as all book debts,

" are from the first intended to be, and actually are, ulti-
" mately liquidated either in coin or in notes. The Bank
" Notes in circulation, jointly with the coin, are, therefore,
" according to these authorities, the basis on which all the
" other expedients of credit rest; and in proportion to the
" basis will be the superstructure; insomuch that the quan-
" tity of Bank Notes determines that of all other forms of
" credit. If Bank Notes are multiplied, there will, they
" seem to think, be more bills, more payments by cheque,
" and, I presume, more book credits; and, by regulating
" and limiting the issue of Bank Notes, they think that
" all other forms of credit are, by an indirect consequence,
" brought under a similar limitation. I believe I have
" stated the opinion of these authorities correctly, though
" I have nowhere seen the grounds of it set forth with
" such distinctness as to make me feel quite certain that I
" understand them. I can see no reason for the doctrine,
" that according as there are more or fewer Bank Notes,
" there will be more or less of other descriptions of credit.
" If, indeed, we begin by assuming, as I suspect is tacitly
" done, that prices are regulated by coin and Bank Notes,
" the proposition maintained will certainly follow; for,
" according as prices are higher or lower, the same pur-
" chases will give rise to bills, cheques, and book-credits of
" a larger or smaller amount. But the premise in this
" reasoning is the very proposition to be proved. Setting
" this assumption aside, I know not how the conclusion
" can be substantiated. The credit given to any one by
" those with whom he deals, does not depend on the quan-
" tity of Bank Notes or coin in circulation at the time,
" but on their opinion of his solvency: if any considera-
" tion of a more general character enters into their calcu-
" lation, it is only in a time of pressure on the loan market,
" when they are not certain of being themselves able to
" obtain the credit on which they have been accustomed to
" rely; and even then, what they look to is the general
" state of the loan market, and not (preconceived theory
" apart) the amount of Bank Notes. So far as to the
" willingness to give credit," &c. &c.—*Ibid.*

Mr. McCulloch.

The following passage occurs in the very able and elaborate article entitled Money, appended by Mr.

McCulloch to his elaborate and elegant edition of the Wealth of Nations.

"Neither the existence nor the want of confidence in "the solvency of the issuers exercises the smallest influ-"ence over the value of paper money properly so called. "Notes, *not* legal tender and payable on demand, or at "some stipulated period, *are not paper money*, though they "serve the same purposes during the time they continue "to circulate. The value of such notes is wholly derived "from the confidence placed in the ability of the issuers "to release them when presented for payment or when "they become due. Whenever therefore this confidence "ceases, their consolation necessarily ceases also. But "no such circumstances affect paper money, meaning by "paper money paper made legal tender, and not legally "convertible into gold or anything else at the pleasure "of the holders, or at any given period. No part what-"ever of the value of paper money is derived from con-"fidence. It circulates because it is made legal tender, "and because the use of a circulating medium is indis-"pensable."—*McCulloch's Edition of Smith's Wealth of Nations.* Note IX. (Money) section III.

M. Michel Chevalier.

The following passage occurs in the elaborate work by M. Chevalier, embracing the substance of a course of Lectures on Political Economy, delivered in his capacity of Professor at the College of France; and in mentioning the name of M. Michel Chevalier, I gladly avail myself of the opportunity of bearing testimony to the distinguished services rendered to society during recent years by M. Michel Chevalier, and the circle of political economists in France, of which, in some degree, he is the centre. The events of 1848, and the few following years, produced schemes and theories of social innovation and danger, to which in a country like France, it was necessary to find not merely plausible but substantial answers; and it will not fail to be recorded that writers of the eminence and authority of M. Chevalier were found equal to the occasion. M. Leon Faucher has been removed by a premature death from the field of labour in which he wrought so diligently, with so high a purpose, and so great an effect; but the pure allegiance to truth which distinguished M. Leon Faucher survives in his coadjutors and colleagues in the Chamber, and the Institute, and in none more eminently than in M. Michel Chevalier.

I venture to express a hope that the remainder of M. Chevalier's Lectures before the College of France may be speedily published.

"A statesman who has contributed more than any "person to restore, after the peace of 1815, the monetary "system of Great Britain, Sir Robert Peel, has himself "given the imposing support of his authority to a definition of money, which would include in it the Bank "Note. This definition has originated in a school of "public writers (publicistes), who entertain on the sub"ject of banks peculiar opinions, which we will make "known in the following volume of this course. The "consequences which this school draws from its definition "would extend very far.

"If Bank Notes are held to be as money in the strict "sense of the word, money is a sign or symbol. The dis"tance between the sign and the object represented here "is small, for it is but to go to the Bank to obtain gold "in exchange for the notes. It is not, however, sufficient "that this difference should be abstracted and the assimi"lation consecrated. Between a Bank Note payable on "demand, and coin or specie there is a very close con"nection, but there is not identity; and if identity were "admitted as a principle, it could only be as the conse"quence of a fatal confusion.

"Those persons who insist that Bank Notes should "be held to be money have never been able to trace a line "of demarcation, which should be clear and distinct, be"tween a Bank Note and a Bill of Exchange. If it be "said that the Bank Note passes from hand to hand "without endorsement, it may be answered that this is the "case with Bills of Exchange blank-endorsed. If the cir"cumstance be relied upon that it circulates without exa-

" mination, except in the case of the public being warned " of a forgery, the answer is that such is not always the " course of actual business; for assuredly precautions are " taken as regards notes for the large sums which, in " countries where there are many banks, as in England " and America, pass current among merchants, and serve " for certain special transactions. It is at the utmost as " regards the smaller notes, that the unfortunate habit has " been contracted of such excessive confidence. If it be " contended, as sometimes it has been, that the Bill of " Exchange is attended with the inconvenience of not " commanding its amount in coin except in a specified " place, the reply would be that it is absolutely the same " with a Bank Note. As to the characteristic which has " been sometimes indicated, that the Bank Note is in a " round sum, it is not worthy of notice. One of the " writers who has taken the most prominent part in " maintaining the opinion which I am here combating, in " order to draw consequences from it applicable to the " mechanism of Banks in Great Britain, is Col. Torrens, " who seems to have thought that he had discovered a " characteristic difference between the Bank Note and the " Bill of Exchange, in saying that a payment was made " once for all from the moment that the seller had re- " ceived Bank Notes from the buyer, but that if the " buyer made the payment by a Bill of Exchange, ema- " nating from himself or a third party, he would, never- " theless, not be absolved from the debt until the Bill of " Exchange, having become due, should have been paid; " in other words, the Bank Note would possess for the " discharge of a debt a special power which would be " wanting to the Bill of Exchange. The distinction " which Col. Torrens thus draws is not admissible.

"It might at once be objected, that if the Bill of Ex- " change has been remitted in blank, that is, without the " endorsement of the buyer, the seller must hold himself " to be paid, although the Bill should not be discharged " when due.

" But we will set aside this observation, however strongly " it serves to prove the assimilation of the Bank Note to " the blank endorsed Bill of Exchange.

" The argument of Col. Torrens is not more to the " point (*topique*), than if he had maintained that with a " Bill of Exchange at one month's date, a transaction

" being sooner closed than with one at three months' date, " the Bill of Exchange at one month should not be consi- " dered as an obligation or title (*titre*) of the same " nature as one at three months. A Bank Note may " perfectly well be considered as a Bill of Exchange or " any commercial obligation whatever, which becomes due " on the day or the hour on which it is delivered; for I " can at the moment of its being delivered to me, receive " the amount at the bank from which it emanates; and " this is precisely the reason why, as long as the bank has " not suspended its payments in cash, the creditor who " has received Bank Notes in payment will be and ought " to be held as being paid; the same as one who has " received Bills of Exchange, and who, having kept them " to the moment of their *échéance*, shall have received the " value of them in coin. But if, after having been paid in " Bank Notes, I do not think proper to go to the bank to " claim payment in cash, and that some days afterwards " the bank stops payment, the tribunals will not allow me " to have recourse against the debtor who has remitted " to me these Bank Notes, because they would equally " decide against any other creditors who had omitted to " present them till after they had become due, and that " the issuer should have failed subsequently to that time.

" In like manner, if I have received payment in Bank " Notes to-day, and it should be proved that the bank had " suspended its payments in specie, the tribunals would " grant me recourse against my debtor, just as they would " decide that the debt to me was not discharged if he had " given me Bills of Exchange which, when due, had been " dishonoured.

" The similarity therefore between the Bank Note and " the Bill of Exchange remains untouched (*intacte*). On the " contrary, between the Bank Note money there are pro- " found differences, which, in 1810, Huskisson placed in " strong relief as follows:—

" 'It is of the essence of money to possess *intrinsic value.* " 'Paper currency has obviously no intrinsic value. A " 'promissory note, under whatever form or from whatever " 'source it may come, *represents* value. It does so inas- " 'much as it is an undertaking to pay in money the sum " 'for which it is issued. The money or coin of a country " 'is so much of its capital. Paper currency is no part of " 'the capital of a country. It is so much circulating credit.

" 'Whoever buys gives, whoever sells receives such a quan-
" 'tity of pure gold or silver as is equivalent to the article
" 'bought or sold; or if he gives or receives paper instead
" 'of money, he gives or receives that which is valuable
" 'only as it stipulates the payment of a given quantity of
" 'gold or silver. So long as this engagement is punctually
" 'fulfilled, paper will of course pass current with the coin
" 'with which it is constantly interchangeable. Both
" 'money, however, and paper promissory of money are
" 'common measures and representatives of the value of
" 'all commodities. But Money alone is the universal
" 'equivalent,—Paper Currency is the representative of
" 'that money.'

" All that can in truth be said to distinguish the Bank " Notes from other promises to pay, reduces itself to these " very vague expressions, that it circulates much more " easily among the non-commercial public. And more- " over, is this greater facility of circulation of the very " essence of the Bank Note? Certainly not. The Bank " Note is a promise which is generally more readily ac- " cepted, because the solvency of the establishment from " which it emanates is better known, and that the promise " itself bears marks (*signes*), which admit of its origin " being more promptly and more certainly recognised. But " in the first place, it is not true that Bank Notes pass " altogether like coin. Let those who think so go and " make the experiment among the hills of Auvergne, or " even at the gates of Paris, or in the plains of La Beauce. " Then, again, as between Bank Note and Bank Note, " they do not all enjoy the same confidence. In short, if " the firm of Rothschild issued its acceptances in a form " calculated to guarantee their authenticity in Paris and " in London, would not the public receive them in pre- " ference to the notes of certain banks? It is well known " that in England private bankers issue notes as the Bank " of England does. At a time not far removed, a custom " had arisen in some counties of England, in Lancashire " especially, of taking and giving Bills of Exchange in " payment even for small sums, a few pounds sterling; " they were of all sizes, and the notes of the local banks " did not succeed in supplanting them.

" In conclusion, the Bank Note enters into the class of " Paper Credit, of circulating fiduciary obligations. It is " accepted only in virtue of a feeling of confidence, just as

" a mercantile obligation (*un effet de commerce*), a draft on " a banker, or a Bill of Exchange on a merchant. It circu- " lates by favour of the credit which the public reposes in " the bank. M. Storch is right in calling it a *billet de con-* " *fiance*, and that English writers class it among *promissory* " *notes*, or promises to pay.

" The Bank Note enters into the more general category " of instruments of credit. I say more general, because " this includes not only mercantile obligations like Bills " of Exchange which pass from hand to hand, but con- " tracts or promises which play a great part, and which " remain outside of the circulation. Such are deposits " in account current, which are not represented in the " hands of the depositor or of anybody else, an obligation " (*titre*), which does not admit of being issued into circu- " lation; such as the credit opened in favour of an indi- " vidual by a banker, or in the books of a bank, the por- " tion of the credit which he has not yet used, and which " nevertheless figures as an asset of this individual, does " not present itself in any form which can be circulated." —*Cours d'Economie Politique fait au Collége de France, par Michel Chevalier*. (La Monnaie.) Section I. chap. IV. Paris, 1850.

Dr. Twiss.

The following passage occurs in the Lectures delivered by Dr. Twiss before the University of Oxford.

" Promissory notes find their way into general circula- " tion from a general confidence being felt in the issue of " them. They thus become substitutes for money in many " commercial transactions; but their circulation depends " on the engagement to exchange them for money being " scrupulously fulfilled on the part of the issuers: as long " as this is observed they pass currently as money, but " they never lose their strictly representative character.

" We must be careful, however, not to confound a Paper " *Currency* with Paper *Money*: the former is strictly so " much credit, the latter professes to be so much value: " the former rests on general confidence, the latter on the " fiat or authority of the state."—*Money and Currency, a Lecture, by Travers Twiss, D C.L., Professor of Political Economy at Oxford.* P. 22.

M. Joseph Garnier.

I avail myself with great pleasure of the following extract from the well-known treatise by M. Joseph Garnier on the Elements of Political Economy. The authority of M. Garnier has been for some time of the highest order, not merely in his own country, but wherever Political Economy is cultivated in the pure spirit of science.

I desire also to express in the most marked manner my sense of the great services which have been rendered by M. Garnier to the best interests of his country and of his favourite science by the impartiality, the ability, and the courage with which he has for so many years conducted the *Journal des Economistes,*— a periodical which has no rival as a medium of discussions confined exclusively to questions which can be solved only by the aid of economic science, in the highest acceptation of that term. The following is the extract:—

"Nous savons maintenant que les monnaies sont une " véritable marchandise, et non un Signe; que les mon- " naies d'or et d'argent ont une valeur intrinsique et échan- " geable tandis qu'un signe n'a pas de valeur par lui-même " (ou n'en a que fort peu, comme le cuivre) et tire toute " sa valeur de la chose qu'il représente.—*Les Billets à " Ordre,— les Billets de Banque,— les Mandats,— les " Lettres de Change,—sont des signes représentatifs de " Monnaie.*

"Quant au papier auquel on a réservé le nom générique de " *Papier Monnaie* son cours est *forcé,* et les gouvernements " ordonnent sous des peines plus ou moins graves qu'on le " reçoive en paiement des ventes et des créances stipulées " en monnaies. * * Il est donc facile de comprendre " comment l'on s'est habitué à considérer le Papier Mon- " naie *comme le dernier terme d'altération des monnaies.*"— *Eléments de l'Economie Politique, par Joseph Garnier, Professeur à l'Ecole Royale des Ponts et Chaussées.* Paris, Second Edition, 1848, pp. 146-149.

APPENDIX C.

Evidence given in 1848 by the Governor and Deputy-Governor of the Bank before the Commons' Committee.—Cross-examination by Mr James Wilson.

I HAVE referred, at page 55., *antè*, to the Evidence given by the Governor of the Bank of England (Mr. Morris), and the Deputy-Governor (Mr. Prescott), before the Commons' Committee of 1848, and given more particularly in reply to a series of admirably framed cross-questions addressed to them by Mr. James Wilson; and in this Appendix I introduce the more important parts of that cross-examination.

I have interposed comments of my own in several parts; and it will of course be understood, that where italics occur, they are inserted by myself. The examination took place on the 21st March, 1848, and I preserve the reference numbers of the Questions.

3630. (*The Governor and Deputy-Governor of the Bank examined.*) — MR. WILSON.—Of course you are of opinion that a certain amount of circulation is necessary for the country, and if one party withdraws his notes, it makes room for the notes of other parties? — The circulation being withdrawn in consequence of the export of bullion, and the notes in the Issue Department of the Bank being cancelled to that amount, if any other party has the power of filling up the portion which has been abstracted, that *action, contrary to the principles of the Act of* 1844, may have the effect of bringing us to the position that we were in in 1837 and 1839, *from not allowing the Circulation to contract in proportion to the export of Bullion.*

3631.—Is it your opinion that, under a Metallic Currency, the circulation would contract in proportion to the export of bullion? — *In the Issue Department, decidedly.*

[Here at the outset is a specimen of the confusion of ideas engendered by the new acceptation of the word Circulation.]

3632.—I am not speaking of the Issue Department, but of the Circulation generally: supposing we had a metallic currency altogether, would it vary in proportion to the export of bullion: the Chairman has asked you what you consider to be the circulation of the country? — Supposing we call currency, that which is out with the public, the total Circulation of the country *would not decrease in proportion to the export of Bullion,* because the bankers, in consequence of *money being more valuable,* would have an inducement to hold *smaller reserves* than they held at times when the circulation was full, and money not so valuable; the effect would be exactly the same, whether it was a mixed currency or a metallic currency.

[With reference to this statement, it is to be carefully borne in mind, that in the early teaching of the currency school the reserves of bankers were wholly overlooked. The examination then proceeds as follows] :—

3633.—Prior to the Act of 1844 being passed, in the case of a drain for the payment of corn, or from any other cause which had deranged the exchanges, what reserve did that drain first act upon?—The reserve of the bankers.

3634.—The reserves of all the bankers?—Yes.

3635.—Is it your opinion that the bankers generally keep larger reserves than are necessary for the daily transactions of their business? — When money is cheap, undoubtedly.

3636.—They keep them in their own possession? — In their own possession, or in the Bank of England, which is the same thing; they have it locked up in the Bank for safety, instead of keeping it themselves.

3637.—Are not those reserves included in the apparent reserve of the Bank of England?—They form a portion of the reserve of the Bank of England.

3638.—Suppose we see in the Bank a Reserve to the extent of 15,000,000*l.* of Bullion, does not that include the reserves of the bankers?—The 15,000,000*l.* of bullion have nothing to do with the Banking Department; they have to do with the Issue Department.

3639.—I am speaking of the period before 1844; the reserves of the private bankers are in the hands of the Bank of England in the shape of deposits?—Yes.

3640.—Is the reserve of the private bankers very large generally?—Yes.

3641.—Then the reserve of the Bank of England in reality includes the reserves of the private bankers?—Yes, it includes a portion.

3642.—Then if an Export of Gold take place, does it not act exclusively, in the first instance, upon the Reserve of the Bank of England; because if the reserves of a private banker are drawn upon, he must go to the Bank of England, and withdraw from the Bank of England a portion of his deposits; therefore the whole effect of an export, in the first instance, would appear as an operation upon the Bank of England?—It would appear as an operation upon the Bank of England, but it would also be acting upon the reserves of the bankers, inasmuch as it is a withdrawal of a portion of the reserves which they have in the Bank of England?—(*Mr. Prescott.*) It would be acting upon the reserves of all the bankers throughout the country, as well as of London bankers.

3643.—Upon the reserves of all bankers, whether they have an account with the Bank of England or not?—(*Mr. Morris.*) Upon the reserves of all bankers, whether they have accounts with the Bank of England or not; the reserves of all other bankers are affected to a certain extent.

3644.—Do you think the withdrawal of bullion for the purpose of export would, in the first instance, affect the quantity of Coin in circulation, provided we had a metallic circulation entirely?—It would affect the portion of coin *which was out with the public*, and also the portion of coin in reserve.

3645.—What induces you to think that it would affect the portion of Coin in the hands of the public; for I find, in answer to a former question, you stated that 7,000,000*l.* of gold had gone during the last summer out of the Bank reserve, and only 1,000,000*l.* out of the circulation of coin in the country?—I stated 7,500,000*l.* out of the Bank, and 1,500,000*l.* out of the coin of the country, making about 9,000,000*l.*

3646. — What reason have you for believing that 1,500,000*l.* was abstracted from the Circulation? — I gave it as an opinion; as regards the 7,500,000*l.* we know that as a fact, and I was aware that an amount of the circulation of coin had gone, and I assumed that 1,500,000*l.* might have gone out from the coin with the public.

3647. *You had no particular reason for believing that the Circulation of Coin was diminished in the country at that period; it was merely an assumption?—It was an assumption.*

3648. — Was the circulation of Notes diminished during that period; take August, 1846, and April, 1847? — On 1st August, 1846, the circulation was 20,495,000*l.* of Notes with the public, and on the 3rd of April, 1847, it was 19,855,000*l.*

3649. — That is about 600,000*l.* less? — Yes.

3650. — During that period how much Gold had gone? —About 5,000,000*l.*

3651. — *While* 5,000,000*l. of gold had gone, the Notes in the hands of the public had only diminished about* 600,000*l.? — Yes.*

3652. — Have you any reason to think that the Coin in the hands of the public during that period had been diminished in a larger proportion? — I have no means of knowing.

3653. — You know the object for which Notes and Coin are used for the purposes of circulation; coin being used for the common purposes of life, and for smaller purchases in business, and notes being used for the reserves of the bankers and for other purposes where they can conveniently be spared; and have you any reason for believing that 1,500,000*l.* of coin was taken out during that period when so small a proportion of notes was taken? — My impression that that quantity of coin was taken out was founded upon the rate of the exchange. Captains and passengers going to the United States took the money they required principally in gold, because it made them a more favourable exchange than bills or credits. The gold may have been taken from private bankers and from other sources.

3654.—But if they had collected it from private bankers, or in any other way, would not that vacuum be immediately filled up by coin drawn from the reserve of the Bank of

England? — The Bank issued gold coin between the 14th of August and the 31st of October, to an extent of 2,200,000*l.*

3655.—But you have expressed an opinion that that was for the purpose of Hoarding? — It might have been for an internal drain, or for the wants of Scotland and Ireland.

3656. —Both you and the Deputy-Governor have expressed an opinion that the amount of Circulation in the hands of the public depends upon the extent of trade and the price of commodities, and the various purposes for which circulation is required; supposing captains, or any other persons, for export purposes, had taken a portion of the coin that was in circulation out of circulation, would not it be withdrawn from private bankers, *and would not those private bankers come to the Bank of England for Coin to replace it? — (Mr. Prescott.) I have no doubt they would.*

3657. — Then a drain of gold would have an effect upon the gold actually in the hands of the Bank? — (*Mr. Morris.*) It depends upon the state of the Reserves; *the first operation of an export would be to act upon the Reserves;* if the banking interests of the country so regulated their transactions as not to allow their reserves to be diminished in consequence, but kept the same reserves, then the action would be upon the Bank Notes out with the public. Supposing the amouut of reserve previous to the export of gold, and the amount of reserve after the gold went, remained the same, the action would have taken place upon the notes or the bullion with the public.

3658.—But is it possible to suppose, if there is a large demand for bullion for export, that the Reserve will remain the same? — No, it will diminish; money being more valuable, there is a greater inducement to employ the reserve than there was previously.

3659. — The first effect would be, that there would be an unusual demand for discounts or advances upon securities? — There would be a greater demand upon the reserve of the Bank in consequence of the *increased value of money.*

3660. — Will you have the goodness to turn to the amount of Bullion which you held in August, 1846? — On the 1st of August, 1846, the amount of bullion was 15,803,000*l.*

3661. — Will you have the goodness to turn to the amount of Securities on the same day? — The total amount of banking securities on that day was 27,000,000*l.*

3662. — That includes the Government and private securities as well? — Yes, the whole.

3663. — What is the amount of Circulation? — The notes with the public were 20,495,000*l.*

3664.—Will you go now to April, 1847; will you state what amount of bullion you had on the 3rd of April?—10,246,000*l.*

3665.— Being a reduction of 5,000,000*l.*?—Yes.

3666.—Will you state the total amount of securities on that day?—30,620,000*l.*, and the amount in circulation in the hands of the public, 19,855,000*l.*

3667.—You find that during that period the Bullion had sunk 5,000,000*l.*, and during the same period *the Securities had risen* 3,000,000*l.*; *but the Circulation in the hands of the public was affected only by* 600,000*l.*: would not the operation be somewhat in this way, as soon as there was a demand for bullion for exportation, you would have a larger demand for discounts from merchants, or for advances upon securities, and those demands you appear to have met with an extra sum of upwards of 3,000,000*l.*, and although in the first instance, you *buy notes,* those notes are immediately exchanged for bullion, and the whole amount sent abroad is taken out of your reserve of bullion?—Yes, with the exception of 2,000,000*l.*

3668.—There would therefore be, during that period, *not the slightest contraction of Notes in the hands of the public, the same amount remaining in Circulation as if no gold had been exported? — That was the case.*

[The case is decisive against the Currency Theory, the teachers of which adduced as examples of mismanagement by the Bank the occasional discrepancies between the Bullion and the Circulation.]

3669.—Is there any reason to suppose that the circumstances then were an exception to what would be the result in any other similar case?—I have stated already in my evidence, that I thought the Bank at that period had allowed its reserve to go too low.

3670.—But *beyond a want of prudence in the Bank,* was there any other reason that you are aware of, why that period should differ from any other?—No.

[It was an especial merit ascribed to the Act of 1844, that it would render the amount of the Circulation independent of the discretion or prudence of the Directors.]

3671.—I have understood, from the former part of your evidence, that it was your opinion that in the month of November, 1846, the Bank ought to have raised its Rate of Discount?—Yes.

3672.—And you were induced to form that opinion from the observation you made as to the consequences of the bad harvest, which everybody admitted, and the state of the Exchanges.—Yes, the state of the exchanges with the United States; with the continent of Europe the exchanges were still in our favour.

3673.—You anticipated at that period a large importation of corn, and you therefore anticipated, as a prudent banker, a drain of gold?—Yes, I thought it was probable.

3674.—You were of one opinion, and the majority of the Directors of the Bank of England were of a different opinion; they acted in perfect conformity with the Act of 1844, though they acted contrary to your opinion, and, as circumstances turned out, it was proved that you formed the soundest opinion?—I cannot admit that either I or they acted as the Act of 1844 pointed out, because the Act of 1844 never pointed to the principle of the management of the Bank. All that the Act of 1844 did was to allow us to issue, to a certain extent, out of the Issue Department against securities, but it did not prescribe on what principles we were to manage the Bank.

3675.—Was it not part of the principle of the Act of 1844 to compel you to regulate your Circulation according to the Foreign Exchanges?—The Act of 1844 provides, that when an export of the precious metals takes place, *the circulation of the country is to be restricted in proportion; it has nothing to do with the management of the Bank.* Sir Robert Peel stated in his speech, on bringing in the Bill, that the Banking Department was to be carried on on the same principle as any other bank.

3676.—What do you mean by "Circulation?"—I mean the whole of the notes out of the Issue Department.

3677.—In a former answer you have stated that the effect of the Bank Act of 1844, and the principle upon which it was based, was to compel the Bank to regulate its transactions with reference to the foreign exchanges.

and that prior to the Act of 1844 the Bank paid no attention to the foreign exchanges, and in consequence of that they had got into danger?—What I meant to say was, that the Act of 1844 provided for the Issue Department, leaving the Banking Department entirely as it was; previous to 1844 there was no prescription as to the Issue Department, and the effect of the Act of 1844 was to limit the Issue Department; that was what I intended to have said.

3678.—Before the Act of 1844, in the case of a drain of gold for payment of corn, would it have had a different effect upon the Circulation from the effect that the Act of 1844 has produced under similar circumstances?—*It ought not to have had a different effect*, but it might have had a different effect; if assistance had been attempted to be given to the commercial community, the effect would have been to have given temporary relief, *but ultimately to render it necessary to have recourse to more stringent and violent measures instead of milder measures in the first instance.*

[I take the liberty of dissenting widely from this view. There does not appear to me to be the shadow of a ground for it.]

3679.—*Did it not amount to this, that the Bank of England never kept a prudent Reserve?*—If you speak of 1825, 1837, and 1839, I should say that they did not look sufficiently to the state of their reserve.

3680.—Then the effect of the Act was to provide means for the Bank doing what they ought to have done without it?—The Act of 1844 had nothing to do with the Bank management, except in so far as it *limited our means of getting notes*, in the same way as any private banker, and obliged us to *get notes out of the market* for the purpose of strengthening our reserve.

3681.—What real practical difference do you think arises from the separation of the two Departments in the management of the Bank?—The great advantage is, that the Bank is limited in the amount of notes that they have out of the Issue Department in the same *way* as any other banker is limited.

3682.—Do not the Notes out of the Issue Department represent what would, under the old system, be so much bullion in your possession; to make the question more clear, will you be good enough to turn to any one day, and state the amount of notes out with the public? — On the 1st of August, 1846, the amount of notes out with the public was, 20,495,000.

3683. — What was the amount of Reserve of Notes and Bullion? — The amount of the reserve of notes was 8,797,000*l.*, and the amount of coin was 9,307,000*l.*

3684. — Then under the *old system* the total amount of bullion in the Bank on that day would have been 15,800,000*l.*? — Yes.

3685. — *Under the old system, before* 1844, *what you call now your Reserve of Notes under the Act, would have merely represented so much Bullion prior to the separation of the two Departments of the Bank;* and previously to the Bank Act of 1844 coming into operation, the reserve of notes which you held on that day would simply have blended itself with the amount of bullion you held to meet your general liabilities? — The reserve would have been still in notes; I do not see how it would make any difference.

3686. — *The Reserve of Notes and the Bullion in the Issue Department are identical? — Yes, they are notes representing bullion.*

3687. — *Therefore, whether you call it a Reserve of Notes or a Reserve of Bullion, it would come to the same thing? — Yes.*

[These questions and answers ought to settle decisively, that the real nature of what is called the Reserve of Notes in the Banking Department is a Reserve of Bullion.]

3688. — In what way can the separation of the two Departments affect the quantity of Reserve which you have for the general purposes of the Bank? — I will suppose that the Issue Department was a Government Bank of Issue; the Bank of England would then be a large banking company, and would receive a certain amount of notes in the shape of deposits; we should keep a portion in reserve, and the remainder we should invest in the purchase of securities.

3689. — I wish to place upon your evidence, what is the real practical difference arising from the separation of the two Departments; prior to the separation of the two Departments, you would have called that a Reserve of Bullion, and *since the separation of the two Departments the only difference is, that you call it a Reserve of Notes; but the two are perfectly identical, and, as you before stated, it was a mere matter of account?—It was a mere matter of account;* and, as I have stated before, we ought to have kept our accounts in the same way, whether the Departments were separated or not.

3690.—*Then the effect of the two Departments of the Bank would really not practically go beyond the matter of account?— The separation of accounts took place in* 1840, *independently of the Act.*

3691.—That is, you kept the two classes of Liabilities in separate accounts?—We had the same distinction in the separation between the Issue and Banking Departments that we have now. We considered that a certain amount was issued against securities, and a certain amount against bullion, and, *as a matter of account, that amount was kept as separate as it is under the Act.*

3692.—That is, knowing that your Deposits were acted upon by one principle, and your Circulation by another principle, you always kept a distinction between the two liabilities with regard to the amount of Reserve which you held against each?—We separated them as a matter of account, in order that we might know what the real amount of reserve of notes was, for the purpose of meeting our liabilities.

[But it was only one class of its liabilities to which a reserve was thus specifically appropriated, while its other liabilities were left unprotected. And in point of fact it is clear that a great proportion of the Reserve against the Notes was at the expense of the reserve, against its Deposits and other liabilities.]

3693.—But you did not call them notes then; you call them bullion?—We called them notes then.

3694.—But the reserve of notes which you hold now in the Banking Department, forms part of the same fund of the reserve of Bullion which you held in the two Departments before they were separated?—*The principle on which the reserve is held in the Bank now is the same principle as it was previous to the passing of the Act of* 1844? —(*Mr. Prescott.*) *The reserve fluctuates with the increase or diminution of the bullion.*

3695.—If that be the case, in what way does the Act of 1844 regulate in any way the amount of reserve which you have at your command? — (*Mr. Morris.*) The Act of 1844 does not affect the reserve; our reserve is affected by our own management; the object of the Act of 1844 was *to control* the issue of the notes in the country, and not to regulate the manner in which we were to carry on our banking operations; *the object of the Act of* 1844 *was to limit the general circulation of the country;* but the object was not to control the action of the Bank of England as regards its banking management.

3696 —But the Act of 1844 does not regulate the issue of notes in the country? — The Act of 1844 allows the Bank of England to issue 14,000,000*l.* of notes against securities, the country bankers about 8,000,000*l.*, and the Scotch and Irish about 9,000,000*l.*, making altogether about 32,000,000*l.*; no other notes can be issued, unless they are issued in exchange for bullion.

3697.—*But the Act of* 1844 *does not regulate the quantity of notes that you issue to the public, but only the quantity that you issue from one Department to the other?* — The Act of 1844 regulates the whole amount of notes that can be issued to the public; a fixed amount may be issued against securities, and the remainder can only be issued against bullion.

3698. — (Mr. Spooner.) It fixes the maximum, but not the minimum? — I think it fixes the minimum of 11,000,000*l.*, but the maximum is fixed at 14,000,000*l.*

[Neither the question nor the answer is intelligible.]

3699.—(Mr. Wilson.) Prior to the Act of 1844, the same limit was produced by the quantity of bullion which you held? — Prior to the Act of 1844, we were at liberty to *issue any amount of notes we pleased;* there was no restriction to the amount of notes which we might issue; *the only restriction was the responsibility of paying them on demand.*

[This was not the only restriction, if by restriction is meant limitation; the limitation was in the demand for and use of Bank Notes by the public.]

3700.—Then the whole question as to whether you issued more Notes than you could pay on demand, depended upon the quantity of gold you held in reserve? — Yes.

3701.- *Therefore, had the affairs of the Bank of England been regulated with prudence and discretion under the old system, it would have been managed in the same way as the Bank Act of* 1844 *defines that it shall be managed?* — *Yes.*

3702.—With regard to the issue of Notes, you stated in a former answer, that under any circumstances that could arise, you thought the Bank would be bound to keep its reserve up in the same way, whether the demand was for an internal and accidental drain, or for a permanent and foreign drain? — I stated that in looking to the demand upon our reserve, we were to treat it in the same way, whether it was an external or an internal demand, with this exception, that an internal demand might last for a short period, but the action of an external drain would be likely to continue longer.

3703.—With regard to the two practical periods of difficulty last year, were they not upon the payment of the Dividends? — It was at the period when the dividends were paid.

3704. — Is it your opinion that those two particular Crises had any relation to the payment of the dividends?—No, except as I have stated, that I thought in April the Bank would have acted more prudently by keeping a larger reserve for the purpose of paying the dividends.

3705.—But when the Dividends were paid in April and October, was not this the fact, that you had very much lessened the amount of notes issued to the public on account of having to pay the Dividends, and that the public had a difficulty in repaying those advances, which you had limited for the purpose of paying the Dividends?—In April the advances to the public to be repaid were not to a considerable amount; in October they were to a very considerable amount, and the public were alarmed at the idea of having to repay them; but the whole passed over without difficulty. The notes which were re-issued to the public in payment of the Dividends, enabled them to repay those advances, and we paid the dividends out of the notes which we received from the public; it was merely an exchange.

3706.—If you increase the issue of notes for the purpose of paying the dividends, you do not increase your liabilities as a Bank, because in proportion as you increase the circulation you diminish the amount of liabilities upon the deposits, the dividends being paid from the Government deposits? — As we pay the dividends, our liability to the Government for deposits diminishes.

3707.—Therefore, as you increase the Circulation, the Deposits diminish to the same amount? — The circulation does not increase considerably, because a large portion of the dividends is paid back to the Bank, and remains in the shape of deposits.

3708.—But the first effect of your increased circulation is not to increase your liabilities, because your Deposits are diminished in the same proportion?—Yes, the Government Deposits are decreased.

3709.—If there are 5,000,000*l.* of notes issued in payment of the dividends, that diminishes your liabilities or deposits to that amount, and therefore your entire liabilities remain the same as before?—Yes.

3710.—And having made advances which are due immediately after the payment of the dividends, you can always calculate with certainty upon the rapid return of these notes?—Yes.

3711.—Would you therefore consider with reference to the circulation of notes in the country that it was necessary for you to observe the same rule in the amount of your circulation of notes for the purpose of paying the dividends when you were sure of having the notes returned to you within a day or two, as you would observe if a merchant were to bring Bills of Exchange to you for discount for the purpose of sending gold abroad to meet a foreign payment?—I think you should deal with it as under the same circumstances.

3712.—Would you deal as under the same circumstances with an increased circulation of notes, which had taken place without an increase of your whole liabilities, and with a certainty that the notes must return to you in a few days, as you would deal with an increased circulation to the same amount, for the purpose of meeting a foreign demand. Supposing the Bank Act of 1844 did not exist, and you had no restriction upon your circulation, would you consider it necessary, for the purpose of paying the dividends, to restrict the issue of notes? — Whether the Act of 1844 had existed or not, we ought to have followed the same principles of action, and have retained notes for the purpose of meeting the dividend.

3713.— Supposing that on the eve of the payment of the dividends, your reserve was only 2,000,000*l.* of notes, with a reserve of 2,000,000*l.*, you would have some difficulty in sparing a sufficient quantity of notes to meet the payment of the dividends, without infringing the Act of 1844, but having the certainty that those notes must be returned to you, and that they would be in many instances transferred by check, and that they would pass out of your hands without increasing your liabilities, and would come back to you into the Issue Department in the course of a few days, would you consider it an unsafe banking operation for you, as a banker, to increase your temporary issue of notes during that period for that specific purpose? — The position you have put, that our reserve was only 2,000,000*l.*, would indicate that the value of money was high, and as we always find in the payment of the dividends, that if the value of money is high, the notes are much longer returning to us than when money is cheap, I would say that in such a case it would be wrong to make a temporary issue.

3714. — But I am supposing that you had made temporary advances prior to the payment of the dividends upon such securities as you are perfectly satisfied with, which must be repaid to you in the following week, and with the very notes which you issue. Would you consider that under those circumstances it was necessary in banking prudence to limit your issues according to the principles of the Act? — *Yes, I would not depart from principle, though it was for such a short period of time.*

3715. — But would it be a departure from principle, inasmuch as this operation does not increase your liabilities, and prior to the payment of the Dividends you can stop short in the advances upon Deposits? — We have never lent out nearly the amount of dividends that we are called upon to pay. We have lent out only a portion of that which we have to pay for the Dividend.

3716. — But at periods of pressure, when your Reserve is sunk very low, does it become necessary to apply that principle strictly on the occasion of the payment of the dividends, or of any other temporary payment, with the power that you have in your own possession of regaining those notes within a few days, not having added to your entire liabilities? — We have never let our reserve go down with that view; we are not able to pay the dividends without a sufficient amount of notes, and we always take care to have a sufficient amount of notes coming in to enable us to pay the dividends; if our reserve was so low as 2,000,000*l.*, a larger portion of the advances would have been made payable before the dividends became due, and not after they became due; that would be a matter of arrangement to enable us to pay the dividends; if the reserve was low, the money which would be lent out in the shape of loans would be lent out to be repaid previously to the payment of the dividends.

3717.—The Temporary Loans which you make prior to the payment of the dividends are made upon the principle of anticipating the payment of the Dividends, in order that the public may not be inconvenienced by the abstraction of so large a portion of money from the ordinary purposes of trade during the latter part of the quarter? — If the Government Balances are large, we lend out money, to be repaid previously to the payment of the dividends; supposing the Bank not to do so, the abstraction of notes from the market would be sensibly felt. We lend those balances out principally to be repaid previously to the payment of the dividends. The object is to lend a portion to be repaid before the payment of the dividends, and a portion to be paid during the week in which the dividends are paid.

3718.—The real object of your temporary advance is to issue a portion of your reserve which you would not issue otherwise? — Yes; the dividends are not paid on one day; the payment runs over three or four weeks.

3719.—They are paid within a day or two to the bankers?—That is merely a tranference of the balances.

3720.—Would you consider it necessary, upon the strictest and most prudent principles of banking, to limit your issues to any particular amount for the temporary purpose of the payment of the dividends, which did not increase your liabilities, and with the certainty that the notes you issued must be returned to you within a few days? — *I think that I would in such a case strictly follow out those principles.*—(*Mr. Prescott.*) *In the case you put* such an *issue might be made without any detriment except the danger* of *violating the principle.*

3721.—But could there be any practical danger to the Bank, or any practical inconvenience? — (*Mr. Morris.*) I think that *departing from principle is always dangerous.*

3722.— But the question is, whether it is departing from principle; we are now speaking of the prudent management of a bank, and I suppose you will agree with me that the true principles of banking are, first, that a bank shall never place itself in such a position as that it shall be unable to meet its liabilities; and next, that it shall employ the whole of its resources at the greatest profit that it can with reference to prudence, looking to its reserve? — Yes.

3723. — Are not those the two great principles of banking, and are not all the other principles subordinate to those? — Yes.

3724. — Then would it be contrary to those principles if, as the Deputy-Governor says you might do under such circumstances, you were to issue notes for that particular purpose? — It would be contrary to principle. — (*Mr. Prescott.*) It would be difficult to draw a distinction practically between the causes of the demand for notes, and therefore it would be dangerous to admit, for a temporary purpose, that it would be proper to make an issue of notes, lest such a precedent should lead to an issue of notes at a time when it might have a detrimental effect upon the exchanges.

3725. — Would it not be a matter of such discretion as the Governor showed that he exercised in the view he took in the month of November last; like all other business transactions, would not the circumstances in which the issue took place be matter for the fair consideration of those who made the issue; and would it not be a question of prudence and discretion of management? — *I think it would be difficult to draw a distinction in many cases.*

3726.—*I suppose you agree with me that the real effect of the Bank Act of* 1844 *is to keep up a large reserve of bullion for the sake of* the convertibility *of the notes?* — (*Mr. Morris.*) The object of the Act was to keep a sufficient amount of bullion to secure the convertibility of the note.

3727.—And it would be the duty of the Bank, looking at its legal liabilities, without the Act of 1844, but simply proceeding under the Act of 1819, to do the same thing? —Under the Act of 1819 the Bank was bound to take care that it was able to pay its notes in gold.

3728.—And if it did not do so, it did not manage its business properly?—If it did not do so it would stop payment.

3729.—But, in fact, the convertibility of the note was never hazarded? — I think the convertibility of the note was hazarded in 1825.

3730.—The note was always convertible? — The note was always convertible, but there was serious alarm in 1825 whether the note would be convertible or not.

3731. — Did it not at last resolve itself into this, that the Bank had to make a very serious sacrifice of its own securities in order to obtain gold for the purpose of maintaining the convertibility of the note? — No; it did not resolve itself into that; it obliged the Bank and the banking interests of the country to take such restrictive measures, that the whole community suffered considerably in consequence of the Bank not having looked sufficiently to the means of paying its notes.

3732.—Did not the Bank also suffer very largely? — Yes, it did.

3733. — Both in 1825 and 1829 by its operations in Paris? — In both periods we suffered, and in 1839 by its operation on Paris.

3734.—Then it amounts to this, that the Bank had overtraded with its capital, and it was unable to meet its liabilities without making a large sacrifice of its securities? — For the purpose of protecting itself, it created great difficulty throughout the country, being obliged to take stringent and violent measures, the effect of which fell upon the commercial community generally.

APPENDIX D.

The Series of Conclusions stated in the Closing Chapter of my Inquiry of March, 1844, *into the Currency Principle.*

I insert here the series of Conclusions stated in the final chapter of my Pamphlet of 1844, as it may save the reader the trouble of delay or reference. — I have nothing to withdraw, or alter, in the opinions expressed: —

1. " That if a Purely Metallic Currency existed in a country situated as this is, transmissions of the precious metals might, and would, take place occasionally between this and other countries to a considerable amount (five or six millions *at least*), without affecting the amount or value of the currency of the country from which, or to which, the transmissions were made; and without being a cause, or a consequence, of alteration in general prices.

2. " That consequently the doctrine by which it is maintained that every export or import of Bullion in a Metallic Circulation must entail a corresponding diminution of, or addition to, the quantity of money in circulation, and thus cause a fall or rise of General Prices, is essentially incorrect and unsound.

3. " That the distinction set up by the Currency Theory between Bank Notes and other forms of Paper Credit, is not founded in any essential difference; except in so far as relates to the lowest denomination of notes, which are required in the transactions between dealers and consumers: that is, in the retail trade, and in the payment of wages.

4. " That Bills of Exchange might, but for the obstacle of stamp duties, be extensively substituted in all transactions of purchase and sale between dealers and dealers for Bank Notes of 10*l.* and upwards; and that, in point of fact, they were extensively so used until a disproportioned duty was laid upon the small bills.

5. " That Cheques perform the functions of money as

conveniently, in most respects, as Bank Notes, and more conveniently in many respects.

6. "That Bank Notes of the higher denominations are used for peculiar purposes;—chiefly in settlements, such as the Clearing House, and in sales of landed and fixed property, as regards Bank of England Notes; and in the provision markets and cattle fairs as regards the Country Circulation; purposes for which substitutes might easily be found (if Bank Notes were suppressed) by Bills of Exchange; and as regards the settlement among bankers, by Exchequer Bills, and by what have recently been termed economical expedients.

7. "That the amount of Bank Notes in the hands of the Public is determined by the purposes for which they are required, in circulating the capital, and in distributing the revenues of the different orders of the community, valued in gold.

8. "That it is not in the power of Banks of Issue, including the Bank of England, to make any direct addition to the amount of notes circulating in their respective districts, however disposed they may be to do so. In the competition of Banks of Issue to get out their notes, there may be an extension of the circulation of some one or more of them in a large district, but it can only be by displacing the notes of rival banks.

9. "That neither is it in the power of Banks of Issue *directly* to diminish the total amount of the Circulation: particular banks may withhold loans and discounts, and may refuse any longer to issue their own notes; but their notes so withdrawn will be replaced by the notes of other banks, or by other expedients calculated to answer the same purpose.

10. "That it is, consequently, an error to suppose that, however well-informed the Country Bankers might be of the state of the Foreign Exchanges, and disposed to follow those indications, they would be able to regulate their Circulation in conformity with such views. And that it is equally in error to suppose that the Bank of England can exercise a *direct* power over the exchanges through the medium of its Circulation.

11. "That neither the Country Banks nor the Bank of England have it in their power to make additional issues of their paper (that is, of their notes,) come in aid of their banking resources. All advances by way of loan or dis-

count, when the Circulation is already full, can only be made by Banks of Issue in the same way as by non-issuing banks, that is, out of their own capital, or that of their depositors.

12. "That the Prices of Commodities do not depend upon the quantity of money indicated by the amount of Bank Notes, nor upon the amount of the whole of the Circulating Medium; but that, on the contrary, the amount of the Circulating Medium is the consequence of Prices.

13. "That it is the quantity of Money, constituting the revenues of the different orders of the State, under the head of rents, profits, salaries, and wages, destined for current expenditure, which alone forms the limiting principle of the aggregate of money prices;—the only prices that can properly come under the designation of General Prices. As the cost of production is the limiting principle of supply, so the aggregate of money incomes devoted to expenditure for consumption, is the determining and limiting principle of demand.

14. "That a Reduced Rate of Interest has no necessary tendency to raise the prices of commodities. On the contrary, it is a cause of diminished cost of production, and consequently, of cheapness.*

* "An objection has been taken to this proposition, as involving, with reference to the one immediately following, an apparent inconsistency. It is urged that if a low rate of interest is a cause of cheapness, by a parity of reasoning, a high rate of interest must be a cause of dearness: it should seem, therefore, to follow, that the Bank, in raising the rate of interest with a view to redress the exchanges, would raise the prices of commodities, thus exhibiting the anomaly of advanced prices co-existent with an effort on the part of the Bank to restore an influx of bullion. The answer to this objection is, that in the argument leading to the conclusion that a low rate of interest is a cause of cheapness, I have expressly assumed that the reduced rate should be of such duration or permanence as to enter into the cost of production; and the converse holds of a rise in the rate of interest. Now, the operation of the Bank in raising the rate in order to counteract a drain, cannot be considered of such permanence as to affect the cost of production. And the greater the rise in the rate of interest from a forcible operation of the Bank on its securities, the less must be the probability of its duration. But there is a further and still more decisive answer to the objection, and that is, that although the direct operation of the Bank, with the view supposed, is on the rate of interest; it can rarely be effectual, unless the advance be so great, or the circumstances from previous overtrading such as to affect credit and entail failures. Now commercial discredit, involving extensive failures, is calculated to depress prices, and thus, with an

15. "That it is only through the Rate of Interest and the State of Credit that the Bank of England can exercise a direct influence on the Foreign Exchanges.

16. "That the greater or less liability to variation in the Rate of Interest constitutes, in the degree next only to the preservation of the Convertibility of the Paper and the solvency of banks, the most important consideration in the regulation of our Banking System.

17. "That a total separation of the business of Issue from that of Banking, is calculated to produce greater and more abrupt transitions in the Rate of Interest, and in the state of Credit, than the present system of union of the Departments."

advanced rate of interest, to stop a drain, and to force an influx of bullion; and, accordingly, the proposition No. 15. refers to the operation by the Bank on the rate of interest, *and the state of credit*, as the only power which it has of directly influencing the exchanges in contradistinction to the power ascribed to it, of acting directly on the amount of the circulation."

THE END.

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