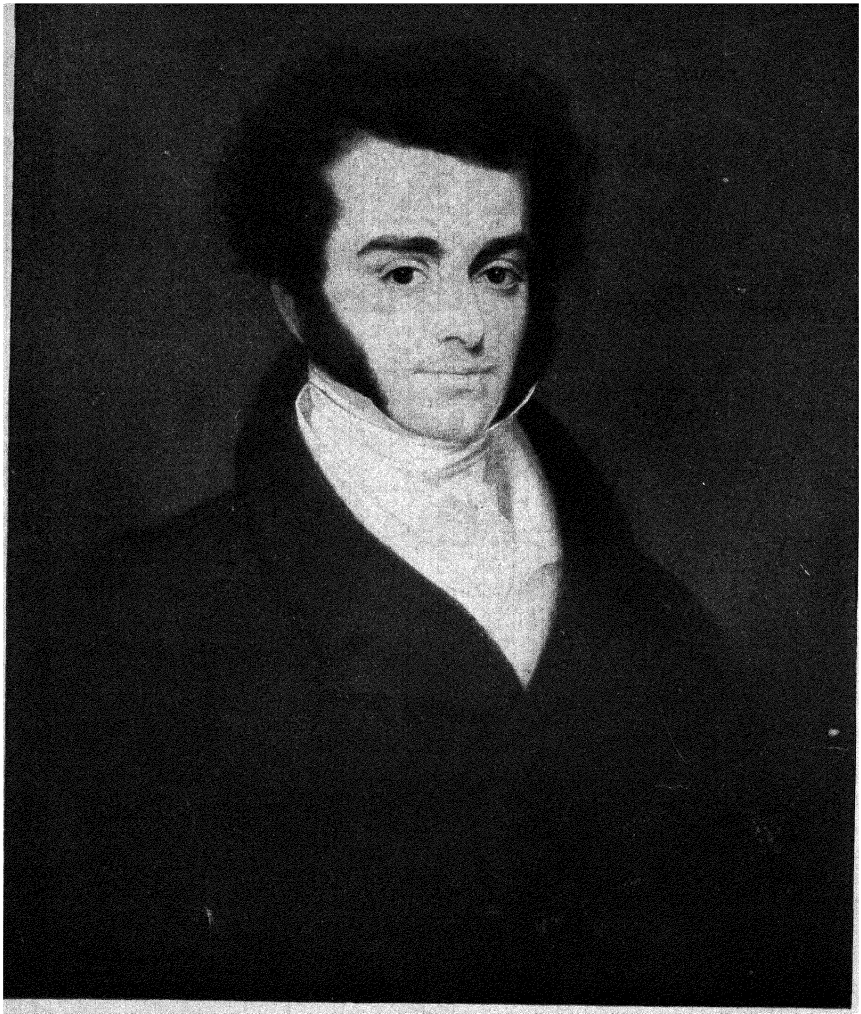
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GEORGE WARDE NORMAN *Director* 1821–1872

THE BANK OF ENGLAND

A History

BY

SIR JOHN CLAPHAM
C.B.E., LITT.D., F.B.A.

VOLUME II
1797–1914
With an Epilogue: THE BANK AS IT IS

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SOURCES AND REFERENCES, VOL. II

The main MS. sources—Court Books, Ledgers, etc.—are the same as for Vol. I, and the same style of reference is used. A much greater number of miscellaneous MS. sources is, however, available at the Bank than for the eighteenth century. These, when used, are described in full in the footnotes. Some small use is made of the Gladstone MSS. The Peel MSS. contain nothing of importance, but fortunately Peel's relations with the Bank are fully recorded there in 1844 *Correspondence* (see p. 178 seq.).

The shortened references to Journals etc. are the same as in Vol. I.

CHAPTER I

THE YEARS OF SUSPENDED CASH PAYMENTS, 1797–1821

IT is not easy to exaggerate the changes in the British banking and currency systems during the first decade of suspended cash payments at the Bank.[1] The mere statistical position, so far as it is known, is remarkable. In London, though bankers' business increased greatly, the number of banking firms did not—only from 69 in 1797 to 73 in 1807 and 77 in 1808. But in the counties of England and Wales there was a flood of new firms. The secretary of the Association of the Country Bankers had reckoned in 1797 that there were "about 230" of these. Even he could not be quite sure, since many were so insignificant, so new, or so short-lived. By 1804 there were from 470 to 480, and many towns with very modest populations kept their three, six or seven separate banks: Abingdon, with about 4500 people, had three; Boston with perhaps 7000 had six; Exeter had seven, but there may have been so many as 18,000 people in Exeter. Yet there were far more banks to come. In 1808–9 it was usual to speak of about 800, and this was approximately correct. The government by that time required banks of issue both to pay stamp duty on their notes and to take out licences: for the financial year 1808–9, in England and Wales, 755 were licensed. In many counties there

[1] Suspension, regularized in Nov. 1797, by 38 Geo. III, c. 1, was extended by 42 Geo. III, c. 40 and 43 Geo. III, c. 18, and finally, until "six months after the ratification of a definitive treaty of peace", by 44 Geo. III, c. 1 (15 Dec. 1803).

were a few banks, and in South Lancashire a fair number, that never took out a licence; and as by 1809–10 the number of licensed issuers had risen to 783—its absolute maximum—the round figure of 800 for these years is near enough.[1]

In Scotland, where branch banking was already established in 1797, the demand for banking facilities was met by a combination of new foundations and the opening of fresh branches and agencies. There were a number of new foundations in 1802–4, and some in 1809–10, but only one of real importance during the later war years, the Commercial Banking Company of Scotland of 1810. In 1804 of the 54 banking offices reported from Scotland almost a half (26) were branch offices, nearly all belonging to the Bank of Scotland, the only bank that had adopted the branch policy on a large scale at that time. It was imitated in the following years by the British Linen Company and, in its turn, by the Commercial, with the result that in 1811–12 more than a third (47) of the 137 banks or banking agencies in Scotland worked for these three principal companies; and most of the 26 other banks had their three or four agencies.[2]

"In England", Jeremiah Harman said to a parliamentary committee in 1819, "we had a metallic currency: in Scotland they had not".[3] He was referring to the days before suspension. Though the Scottish note of small or derisory denomination had been abolished in 1765, £1 notes—issued mainly though not exclusively by the three old chartered Banks—had become the principal medium of exchange. In England the Act of 1777 had prevented the issue of anything less than a £5 note by any Bank; and until 1793 the Bank of England had not issued in smaller units than £10. Englishmen of the rank and file—wage-earners

[1] For 1797, *S.C. on...the Bank and...Payments in Cash*, p. 158; for 1804, Bailey, *A correct alphabetical list containing all the country bankers*; for 1808–9 and 1809–10, Lords' *Report on Resumption of Cash Payments*, 1819, App. F. 9.

[2] Kerr, A. W., *History of Banking in Scotland*, pp. 150–3; Graham, W., *The One Pound Note*, pp. 153–5; Bailey's *List*; Lords' *Report of* 1819, App. F. 10.

[3] Commons' *Report on...Cash Payments*, p. 49.

and small traders—knew little of paper money, and in the early years of the suspension they had learnt its use only gradually. Anticipating a vacuum in the currency after suspension, Parliament had authorized first the Bank and then the country bankers to issue notes for less than £5.[1] On 28 February 1797, the Court of Directors had appointed six clerks to sign the new £1 and £2 notes. At first there was a rush for them, but so early as 11 May it was reported that "the issue of Small...Notes has much... diminished". Indeed, before the end of the month Mr Terry the printer—the Bank depended absolutely on his "activity and exertion", he engaging "to deliver the quantity required at a certain price"—had suddenly paid off twenty-four engravers and printers and seventeen stampers.[2] The Court was troubled, but there were no immediate ill results because demand for the small notes remained quiet. Their average circulation in the fourth quarter of the year was only £1,200,000 against £10,400,000 of those of £5 and upwards. By the fourth quarter of 1800, however, it had risen to £2,100,000, that of the big notes to £13,400,000. As gold became scarcer the £1 and £2 notes were used more and more for wage-paying and retail trade, especially in the London area and in South Lancashire where they had no local competitors. Their circulation rose gradually to between £4,000,000 and £5,000,000 by the end of the decade.[3]

In 1797 the main trouble of the Court with the new small notes was not a greedy demand for them but the fact that they were so very easily forged. By December of that year forged notes "to a large amount" were already in circulation and were even being passed off on the Continent. In January of 1798 Mr Terry was busy printing a type of note less easily imitated, which the Bank gave in exchange for those of the first series.[4]

[1] By 37 Geo. III, c. 28 and c. 32 [3 and 10 March].

[2] *C.B. Z*, 28 Feb., 11 May, 25 May 1797.

[3] For 1797–1800, a Report in *C.B. Aa*, 15 Dec. 1800; for 1807–8, the *Half-Yearly Statements*.

[4] *C.B. Z*, 21 Dec. 1797, 11 Jan. 1798.

Alternatively, it offered to pay in cash, for its bullion position was good and it had declared in the previous October that it could "with safety resume its accustomed functions".[1] This it was not encouraged to do, although its bullion had increased to £6,500,000 by August 1798 and to £7,600,000 by February 1799; and although £2,000,000 of gold had been coined in 1797 and nearly £3,000,000 in 1798. Pitt's hesitation was wise: in May of 1797 he had helped to secure the rejection, by 50 votes to 15, of leave for Sir William Pulteney to bring in a Bill for a rival Bank, if the Bank of England did not resume cash payment.[2] The war would not end: external drains of treasure were most likely, and 1798 proved the last year in which coinage on a generous scale was practicable. During the next eighteen years only a little more gold was coined (£5,121,000 in all) than during these last two years of generous mintage. In five of the eighteen (1807, 1812, 1814–16) not a single gold coin was struck, and until 1816 practically no silver.[3]

Gradually the age became one of bank notes and tradesmen's tokens and Spanish dollars stamped with the head of King George III and put into circulation by the Bank in England.[4]

Though broken in to paper, Scotland at the start had suffered more inconvenience than England. This was because, when the news of the suspension had reached Edinburgh, the Scottish banks, without any legal authority, had refused to cash their notes. "A scene of confusion and uproar took place of which it is utterly impossible for those who did not witness it to form an idea", Sir William Forbes the banker wrote;[5] for the invasion scare of 1797 made people hoard what little specie Scotland used, a supply paid out in wages and the like and circulating normally

[1] *C.B. Z*, 26 Oct. 1797. [2] *Parl. Hist.* XXXIII, 770.

[3] Coinage of silver was suspended in 1798, under 38 Geo. III, c. 59. The yearly coinings are given in the Lords' *Report of* 1819, App. D. 1, D. 2.

[4] Acres, *The Bank of England from Within*, I, 299 sqq.

[5] *Memoirs of a Banking House*, p. 83.

with great rapidity back to the banks. Lacking this they tore £1 notes into halves and quarters to get small change; and these irregular scraps of paper circulated until Parliament authorized, for a strictly limited period, the issue of notes for less than £1. In practice these took the form only of a 5*s*. note, a type which remained legal until July 1799.[1] The Scots, accustomed to paper, settled down to its regular use, once the temporary "confusion and uproar" of February 1797 was over. They suffered only, with the English and Welsh, from that growing shortage of the smallest change, of silver and copper, for the supply of which the Bank of England had no responsibility.

What is statistically most uncertain in the currency position of these years, especially of the years 1797–1805, is the extent to which country bank notes circulated and gold continued to circulate. About the Bank of England notes everything is known. In 1790 its average of notes outstanding for the four quarters had been £11,000,000. In 1795 the figure was a shade higher. During the last two quarters of 1796 and the first of 1797, when the Directors were deliberately restricting issue, it was much lower (£9,700,000). After that it grew slowly, steadily, but not in any threatening fashion, for several years. The figure of £15,000,000 was touched in the first quarter of 1800; £16,000,000 in the first quarter of 1801; £17,000,000 in the third quarter of 1802. The peak figure for these years was the £17,600,000 of the first and second quarters of 1804. It included about £4,500,000 of the small notes, beside the £5 notes, types neither of which had existed in 1790. That peak was not exceeded until 1809, a year which falls into the second phase of the currency history of the great French Wars.[2]

With this complete knowledge our ignorance of the circulation of the country banks stands in unhappy contrast. What their issue was before the suspension, or during its earlier years, no one ever

[1] Kerr, pp. 145–6. The Act is 37 Geo. III, c. 40 [27 March, 1797].

[2] The quarterly averages are in Silberling, *British Prices and Business Cycles*, 1779–1850, p. 255.

even guessed with any confidence. Henry Thornton in 1797 had been prepared to estimate the Scottish paper circulation at between £1,200,000 and £1,500,000. Of the English country circulation he was ready to suggest the percentage variations, and that on a very scientific basis, but not the actual amount. He took the issues of a widespread sample of banks, his own correspondents, of which he had first-hand knowledge and explained that they were still less than they had been before the crisis of 1793. The sharp contraction after that disaster had been repeated and accentuated after the suspension of cash payments. His suggested ratios for before the 1793 crisis; after it; before the suspension; after the suspension; were 90 : 63 : 78 : 40.[1] The yawning gap in the country circulation in the spring of 1797—upon its existence all the expert witnesses agreed—had been partially stopped by drafts on the various banks' small reserves of guineas; probably by an increased use of bills as currency; and certainly by an outflow into the country of Bank of England notes. Samuel Hoare, a first-rate witness, said that between the end of 1796 and Lady Day 1797 the Bank notes at work outside London might have increased from under £1,000,000 to about £2,500,000.[2]

The young and experimental issue of notes to bearer by the country banks was evidently most sensitive. Those banks also issued interest-bearing notes, but as these ran for definite periods and did not circulate much they were not liable to get into strange hands or to be presented for payment at awkward times like the bearer notes. To minimize the risk, the banks cut down the issue of the notes payable to bearer on demand "in the time of expected distress and danger", as Thornton put it.

This habit of theirs comes clearly into light when the working of the stamp tax on bank notes led to the collection of statistics.[3]

[1] *Report of the S.C. of* 1797, p. 165 (the Scottish estimate), p. 161 (the English sample).

[2] *Report of* 1797, p. 148.

[3] Under a Treasury regulation of 1804–5, by which notes had to be stamped before issue.

These figures of notes stamped are not a perfect test of circulation. As country bankers told parliamentary committees of inquiry later, they might get notes stamped in anticipation of an unrealized demand for them.[1] But the figures at least gauge these anticipations and point to the workings of the country banker's mind. They begin with the second quarter of 1806, and show that the total quantity of £1 and £5 country notes stamped in Great Britain for the last three quarters of that year was £3,620,000. For the corresponding quarters of 1807 it was £3,180,000; for the three quarters of 1808 no less than £5,220,000. In that year the stampings rose from £1,330,000 in the first quarter to £2,500,000 in the fourth.[2] Bank of England notes outstanding, not created or stamped, for the same quarters increased only from £16,600,000 to £17,400,000—including some £5,000,000 of the small notes that had replaced the gold. These violent recorded fluctuations of the country stampings show that Thornton's estimates of note fluctuations in the nineties were reasonable enough.

With the notes and the tokens and the stamped Spanish dollars there circulated throughout this decade a certain amount of gold. Mintage was low, but 1807 was the first year in which absolutely no fresh gold was struck. How far it really got into circulation when struck and how much hoarded gold there was we do not know. We do know that "there was scarcely an individual of a class above that which is limited to the means of bare subsistence, who had not a hoard".[3] Memories of the very slow disappearance of sovereigns in the far quicker moving society of 1914–18 suggest that when Thornton spoke of the guineas as having "disappeared"[4] by 1802, he meant only from general current use.

[1] E.g. Lewis Lloyd of Manchester to the *S.C. on...Cash Payments*, 1819, p. 167.

[2] Silberling (*British Prices and Business Cycles*, p. 258) has a table of the stampings in which, by a slip in the insertion of the decimal point, they appear ten times greater than they were; Viner, *Studies in the Theory of International Trade*, pp. 163–4.

[3] Tooke, *History of Prices*, I, 132.

[4] *Paper Credit*, p. 213.

When, so late as 1811, Lord King challenged the controllers of the nation's money—the statesmen and the city; restriction of cash payments he called "the great city job"[1]—by ordering his tenants to pay rent in legal money, gold or notes enough to buy the gold, he was not asking for an absolute impossibility. There was gold in the stockings and teapots and cupboards and desks. Quick-witted people in the towns, Jews and such, might sell it quietly and illegally at a premium; but the average Englishman was still rustic. He held on. Some guineas continued to pass through the banks. Even in 1816, when none had been minted since 1813, the Bank issued a few in the ordinary way of business, as change for £5 notes.[2]

The temptation to sell at a premium was not great during the first decade. There was no permanent and important divergence between the market price of gold and the mint price before 1808: margins were known to bullion dealers, not to people at large. This is the fact that separates the first from the second phase of currency history in the war years, just as the arrival of the number of country banks at its approximate maximum marks a dividing line—though a far less important one—in banking history. For twenty-three years before the suspension, with a good re-coined gold currency, the average market price of standard gold bullion had been £3. 17*s*. 7¾*d*. It often ran higher, but when it was very high the Bank kept out of the market, if it could. Once, in 1795, it had paid up to £4. 3*s*. 0*d*. but, being unable to coin £4. 3*s*. 0*d*. gold with a mint price of £3. 17*s*. 10½*d*., it had resold.[3] In 1797–8, after suspension, it was paying £3. 17*s*. 10½*d*. and £3. 17*s*. 9*d*.[4]

[1] Quoted in the article on King in the *Dict. Pol. Econ.*

[2] Lords' *S.C. on...Cash Payments*, 1819, App. D. 3. Gold issued from the Bank. The Bank had undertaken to pay cash as change for £5 notes in 1799 (below, p. 43). In 1809 and 1812, when treasure was very low, this was found inconvenient; but it was never abandoned. See *C.T.* 8, 25 May 1809 and *C.T.* 10, 9 Dec. 1812.

[3] Vol. I, p. 268.

[4] *C.T.* 1, 31 Aug. 1797 and 2 Oct. 1798.

By 1805 it was offering up to £4. 0*s*. 0*d*.; and that remained its maximum down to 1808. But at that price it was not disposed to get much of its gold coined: none at all was coined in 1807.

There was no doubt what might be described as a slight depreciation of sterling. But even if we measure it by the extreme divergence between market and mint prices of gold, or the nearly corresponding divergence of the exchanges, it was never more than 10 or 12 per cent, and that only for short periods. In 1804–6 the Bank could still get gold in small quantities at its £4. 0*s*. 0*d*. figure, only about 3 per cent above mint price.[1] It had often bid so high as that in the past, especially in the years before 1773 when the guineas were worn and under weight. Abraham Newland, the Chief Cashier who was still serving in 1806, could remember those times. He and all leading Directors could recall prices several shillings above £4. 0*s*. 0*d*. a year or two before suspension.[2] These prices of 1806–7 would not worry either Newland or the Committee of Treasury; and, as in those years the Bank had an average of over £6,000,000 of treasure in hand, there was no feeling of pressure.

Notes, either of the Bank or the banks, having to a great extent replaced hard cash as a regularly circulating medium; their quantity having not increased unduly, regard being had to this new function; and there being only a small and late permanent rise in the price of gold, measured in sterling, the general price rise of these years cannot be connected at all closely with the mere quantity of notes in circulation.[3] But one short temporary fall on the rising curve may perhaps be traced to the sharp contraction of country note issue that followed suspension in 1797.

[1] For gold prices see the Commons' *Report of* 1819, App. 14.

[2] See his evidence before the Lords' *Committee of* 1797, p. 40.

[3] For the whole period of suspension it has been shown "that there is very little correlation between the general level of prices and the volume of Bank of England notes"; that "changes in the position of the Bank follow [not precede] price changes"; and that so, in general, "the Bank can be considered only as a passive agent in the price fluctuations of the period"; Morgan, E. V., "Some Aspects of the Bank Restriction Period", *E.J. Hist.* 1939.

General prices, higher in the years immediately preceding the crisis of 1783 than at any time before 1795, had remained remarkably steady from 1783 until 1792. Taking the level of 1790 as 100, the price index numbers—for whole years—are all between 103 and 95. There was a sharp rise in 1793: a perceptible fall in 1794: then a steady and continuous rise, interrupted only in 1797, to a peak of 166 in 1801.[1]

This height was not again reached until 1808, nor passed until 1809. There was a short marked drop—to 143—during the peace of 1802, after which the climb was resumed, to the level of the old summit, and beyond. That this summit was first reached so early was due, in great part to the terrible harvests of 1799 and 1800—it was in March 1801 that wheat touched its absolute British maximum of 159*s.* 3*d.* a quarter—but also largely to the very high cost of imports from remote places, upon which freight and insurance were abnormally high during the difficult years of the naval war that followed the mutiny at the Nore in 1797.[2]

There was, as has been seen, no excessive expansion of Bank notes outstanding during these years, when account is taken of a growing population and the gradual replacement of gold by the small notes. For the fourth quarter of 1795 the notes outstanding—none less than £5—had been £11,600,000; for the fourth quarter of 1807 they were £16,400,000. But although the Bank's issues did not expand abnormally, its total advances, public and private, did.[3] True, from August of 1797 the Treasury ceased to worry the Court of Directors much with those bills of exchange and navy and victualling bills that had caused permanent friction during the last years of cash payments.[4] But it

[1] The price-index here used is Silberling's in his *British Prices and Business Cycles*. Cp. Vol. I, p. 270.

[2] Silberling has a separate index number for a group of such commodities.

[3] Statistics for these were supplied by the Bank to Prof. Silberling and are tabulated in his *British Prices*, p. 255.

[4] Cp. Vol. I, p. 266. The *Half-Yearly Statements* show small holdings of such bills after 1797, but they are not important.

more than counterbalanced this abstention by its demands on the Bank by way of Exchequer Bills. Some were "issued" in the traditional way, the Bank contracting to take bills to a certain amount, the bills being made out as the government's need matured. More were "purchased" in the market, that is taken up by the Bank, often at the request of the Treasury broker, when the market was not prepared to absorb so many as the Treasury wished to dispose of. There was an understanding, a gentleman's understanding, that the Bank should not resell these bills; re-sale would have forced them to a discount. The Court felt bound to do this business, and to do it in the way most convenient to the Treasury. It was their duty, Jeremiah Harman said years later: the Bank "was instituted for that express purpose".[1] As a matter of history he was right.

Down to 1808 the performance of this duty did not press too heavily on the Bank. In the mid-nineties, when the Treasury bills of exchange were running as well as the Exchequer Bills, its outstanding total short-term advances to the state had often exceeded £10,000,000. The average for the second quarter of 1800—that was the quarter in which the advances were normally at their maximum—was £13,100,000; and for the second quarter of 1807, £14,300,000.

But while advances to the state grew only in this moderate degree, the discounts grew outrageously. In 1794 the average amount of commercial paper under discount had been £2,520,000: and in 1795, £2,958,000: in 1800 it was £6,300,000; in 1805, £11,100,000; and in 1807, £13,250,000. During 1794–5, business was being done in the ordinary way and to what, for the time, was an ordinary amount.[2] Immediately after the suspension in

[1] *S.C. on...Cash Payments*, 1819, p. 145. For "issue" and "purchase" see the *Report* itself, p. 7. On 7 July 1803, for example, the Governor reports a purchase of £77,500 Exchequer Bills "on account of the depression in the market": *C.B. Ca.*

[2] In 1796 there was deliberate limitation of discounts under vote of 31 Dec. 1795: Vol. I, p. 269.

1797 the Bank had felt it its duty to discount freely, in order to maintain public confidence; and it was right. The average of discounts rose for the year to £5,260,000; but fell again to £4,400,000 in 1798. The Court had no doubt anticipated this fall. But in the middle of 1799 the almost uninterrupted rise began which led to the towering figures of 1805 and 1807.[1]

There was a specially sharp upward movement with the resumption of war in 1803; for the first time the quarterly average got, and remained, above £10,000,000. It was profitable of course. The contribution of the discount business to the profit and loss account for the half-year had been £51,155 in February 1795; in February 1807 it was £310,320.[2] But the rapid growth worried the Court of Directors, and action taken by them in 1803–4 suggests that carelessness, and at times something worse, may have helped this war-time facility and growth of discounting.

The discounting public was made up of London traders of every sort and size, from the bankers and the great merchants to the china-dealers, glovers and slopsellers.[3] Discounters were supposed to be introduced by Directors, and their bills to pass the scrutiny of the Committee in Waiting; but the Court Books leave an impression that this machinery of supervision was not working well. On 19 May 1803 it was proposed, in view of the rapid increase of business, that a Director who introduced a client should be called upon to give personal, or secure written, testimony of the client's standing and respectability. Nothing was decided, but the motion is significant.[4]

The increase continued. Early in 1804 it was formally reported on. The main growth it appeared was in the promissory notes

[1] These figures also were supplied by the Bank to Prof. Silberling and are tabulated on p. 256 of his *British Prices*.

[2] The maximum yearly income from the discounts was £914,000, Aug.-Aug. 1809–10. See Appendix C.

[3] Vol. I, p. 207.

[4] *C.B. Ba*, 19 May 1803.

"and those chiefly between traders".[1] Care was needed, it was pointed out, with some bankers' acceptances and with the small country bills. After close discussion, during which it was made clear that the discounting of bills below £20 and of renewed notes between the same parties had never been approved but had been long practised, it was decided to reassert the £20 rule and to take special precautions about the renewed notes, without absolutely forbidding renewal. The small bills were an obviously troublesome and vulnerable section of the Bank's portfolio, but not in total amount an important one; there were only 1156 on hand in January 1804 averaging less than £15 each. The report proposed maximum figures for the business with each class of clients, but left latitude to the Committee in Waiting when dealing with first-rate paper. It was decided to keep the "account of notes separate from the account of bills", and a second committee was appointed to report on bills unpaid.[2] Within a few years the election of a Committee on the Discounts had become a bit of annual routine.

Among reports made during 1804 was one which showed how very necessary closer control had become. "Money and presents", it was stated, "to a very considerable amount" had "been received from the Discounters of Bills and Notes by the Head of the Office", and by him distributed among the clerks. This was "disgraceful and corrupt"; so the public was told that it was not allowed, and that the penalty for taking "presents" would be dismissal.[3] But no one was dismissed; everyone's pay, from the Head of the Discount Office downwards, was raised. This was less cynical than it seems. The staff had certainly been underpaid, and the rise was intended to safeguard them against temptation.[4] They must have been thankful for it.

[1] *C.B. Ca*, Report on the Discounts, 2 Feb. 1804.
[2] *C.B. Ca*, 16 Feb. 1804.
[3] *C.B. Ca*, 8 Nov. 1804.
[4] Cp. Acres, II, 363.

In February of 1805 a firm rule was made that only bills accepted for payment in London or by London bankers should be discounted.[1] But all this affected only the fringe of the discount problem, and did very little to check the growth of commercial discounting. Indiscretion and irregularities had not led to heavy losses. In March 1808 it was reported that in all its life, from 1695 to 1788, the Bank had lost only £68,511 on paper discounted. During the next twenty years, as it happened, an almost exactly similar sum (£68,574) of "desperate debts" had accumulated; and there were others, not completely "desperate", which were likely to result in losses of about £47,000. These sums were written off.[2] The total business of those twenty years was certainly much greater than that of all the previous ninety-three.[3] In early days discounting had been on a small scale: even in an active year under Queen Anne the profits from it were only about £14,000.[3] In no year up to 1760 did they bring in anything near £20,000. The best year of the forties yielded £11,214 and the best of the fifties £15,016. The sixties it is true brought a change, the critical year 1763–4 yielding £101,746. Between that time and 1788 the profits increased, but the highest figure (for 1784–5) was £167,607. Compare the £193,823 of 1792–3, the £223,815 of 1796–7 or the £632,998 of 1806–7.[4]

Small as the losses had been, the Court wisely made further cautious suggestions for the guidance of the Committee in Waiting. Though its reforming activity in 1804 had not stopped the growth of the discounts, it had stabilized the number of clients. There had been 1340 "in discount" on 1 January of that

[1] *C.B. Ca*, 7 Feb. 1805.

[2] *C.B. Ea*, Report and votes of 24 March 1808.

[3] Income from the discount 1788–1808 was more than twice that of the sixty years 1728–1788. See Vol. I, App. E and App. C below.

[4] The figure for Queen Anne's day (1708–9) is calculated from a profit and loss statement for 16 months in *G.L. IV*, f. 38. The rest are from the *Yearly* and *Half-Yearly Statements*. See Clapham, J. H., "The Private Business of the Bank of England, 1744–1800", *Ec. H.R.* 1941.

year. There were 1394 on 1 January 1809; and the number never got much higher.[1]

Apart from these necessary reforms and restrictions, the Bank treated the discounting of good commercial paper as a duty little less binding than its duty to the state. It had been criticized before the suspension for many things; often for too much caution with the discounts; never for being too liberal when the paper was good. With "desperate" debts of only about £115,000 accumulated in thirty years, on a business now running into scores of millions, no one could say that too much of its paper was bad. Its uniform rate of discount was that 5 per cent which the Usury Laws, still in force, made the permitted maximum. The laws could be circumvented, but that was not for the Bank; and so it suffered. Money brokers, quite legitimately, might charge a commission which raised the cost of borrowing through them to 5½ or 6.[2] Private bankers could refuse to lend to those who did not keep substantial balances on current account. The Bank went on discounting at 5 when the 3 per cents were fluctuating about 60, although most of its clients kept "extremely insignificant" balances.[3] No wonder that London traders who thought their paper would stand the scrutiny of the Committee in Waiting tried to get a Director's nomination for a discount account. No wonder they gave "presents" to clerks. And no wonder the discounts grew, although the very little men were now excluded.[4]

Any slight inflation of credit by the Bank that there may have been during this decade was due more to liberal advances to

[1] Reports quoted above and annual reports from 1809.

[2] Henry Thornton, in a speech of 7 May 1811, in *Paper Credit*, p. 335.

[3] Thornton, in the same speech. The total of private balances, including those of the bankers, was at its minimum in Feb. 1808, £501,000: *Stock Estimates*, 1 [a continuation of the *Half-Yearly Statements*].

[4] "The borrowers, in consequence of that artificial state of things which is produced by the law against usury, obtain their loans too cheap. That which they obtain too cheap they demand in too great quantity": Thornton, p. 255.

government and these very liberal discounts than to excess of formal issue. In relation to the country's needs the issue was reasonable; but the free discounting probably quickened the circulation of the notes. However, the combination of an inconvertible currency with very high prices, particularly with the terrible food-prices of 1800–1, disposed men who had read their Adam Smith, or watched the course of the "continental" paper money during the American Revolution and of the assignats during the French, to assume a simple chain of cause and effect—effect, high or famine prices; cause, inconvertible paper as such—and to attack the Bank and the bankers. Adam Smith, with memories of Law and misused Scottish notes, had discussed paper money timidly and critically. Everyone knew that in the end a Frenchman could have papered his rooms cheaply with assignats. For 1800 wheat averaged 113*s.* 10*d.* a quarter, and in 1801 before the harvest much more than that. "In the autumn of 1800...the peace of the metropolis was with difficulty preserved";[1] and at the same time there was a premium of 9–10 per cent on gold. Pamphleteers against the Bank had plenty of statistical ammunition.

The best known and most successful of them was Walter Boyd, with his *Letter to the Right Honourable William Pitt on the Influence of the Stoppage of Specie at the Bank of England on the Prices of Provisions and other Commodities*. Written late in 1800 it appeared early in 1801. Boyd is an interesting figure. A banker in Paris, he had fled from the Revolution. Become a financier and loan contractor in London, in partnership with Paul Benfield, a questionable "nabob", he had been hard hit in 1796, when "the Bank...narrowed their discounts, and particularly to the house of Boyd", a house which they did not trust. Galled by this and believing sincerely in the need for easier credit, Boyd secured the support of some prominent men for a scheme to establish a parliamentary board for the issue of notes. The scheme got up to

[1] Tooke, I, 218.

Pitt, but no further.[1] In 1796 Boyd and Benfield went into Parliament, for Benfield's pocket borough of Shaftesbury: that autumn Boyd wrote to Benfield that he was "a ruined man". But he was also "a man of talent, a man of vast views, who could sketch out a project in a few minutes, which should produce 8 or 10,000,000, without any possible loss".[2] It is a familiar type: such men hold on, and so did he, with financial help, improper help, from friends in the Navy Office. But in 1798 Samuel Thornton, Deputy-Governor of the Bank, warned Pitt against his firm, which was only being kept upright by the Bank itself; and Pitt, in Thornton's presence, refused to let them contract for the loan of 1799.[3] On 3 March 1800 they failed, and in November the broken loan contractor and planner of extended credit, who could not appear in Parliament because of the "circumstances" which had "annihilated his commercial existence in this country",[4] came foward as a critic of that Bank which had helped and thwarted him.

In his defence it can be said that he had witnessed one disastrous inflation and honestly feared another. His argument was propped, as he hastened to note in a late preface to his pamphlet, by a return made by the Bank to Parliament showing that its issues had grown from £8,600,000 in February 1797 to £15,451,000 in December 1800. (That its average issues for the three years ending December 1795 had been £11,976,000, and that, of the

[1] For the meeting at the London Tavern to discuss the scheme and for its presentation to Pitt see the *London Chronicle*, April 2–5 and 5–7.

[2] The quotations are all from Whitbread's speech on the naval abuses at the time of Lord Melville's impeachment in 1805. Whitbread had the letter to Benfield in his hand: *Hansard*, v, 385 sqq.

[3] Thornton's evidence before the *Commission of Naval Inquiry*, *11th Report* (1805, II), p. 60. The Bank lent Boyd, Benfield & Co. £80,000 till Feb. 1799, in July 1798; *C.B. Aa*, 6 July.

[4] *Letter to... William Pitt*, p. 73. For both Boyd and Benfield see the *D.N.B.* It was Benfield whom Burke called "a criminal who long since ought to have fattened the region kites [of India] with his offal"; but apparently he was not quite so bad as that.

£15,451,000, small notes replacing gold came to £2,100,000, would have been more illuminating figures.) Boyd's case against the Bank was unsound. No critic with the facts before him supposes "that the increase of Bank Notes" was "the principal cause in the great rise in the price of commodities", least of all in that of wheat—the only series that Boyd quoted. The 9 per cent premium on gold from which he argued was not a sufficient cause, was only temporary, and was directly connected with the two shocking harvests and the consequent disturbance of the trade balance for which the Bank had no liability.[1]

A little over-issue through over-discounting there probably was, and Boyd's case, though it does not deserve consideration, seemed very plausible in its day. When Henry Thornton published in 1802 that *Enquiry into the Nature and Effects of the Paper Credit of Great Britain* at which he had been working for some years, he treated Boyd seriously, dealing with his errors in careful well-informed footnotes. He pointed out how, deducting the £2,100,000 of small notes, "the total quantity...of the Bank of England notes in circulation"[2] at one point in the spring of 1801 agreed almost exactly with the three-year average to December 1795. His authority was a recent statement of the Governor to the House of Commons that the issue had fallen from the £15,451,000 of December 1800 to about £14,000,000. This, however, was only a temporary fall. The quarterly average of notes outstanding for the whole of 1801 we now know to have been £15,800,000. Yet that only weakens Thornton's argument slightly. He also stated the facts about the harvests and the gold; and his final opinion that, in general, the Bank deserved to be criticized rather for "too much restricting its notes" in difficult

[1] Boyd went to France at the Peace of Amiens; was surprised by war and spent ten years there. Returning to England, he recovered his position; was again in Parliament, 1823–30, and lived till 1837. A resilient man.

[2] *Paper Credit*, p. 214. For the history of the book see Prof. von Hayek's Introduction to it.

times than for "too much enlarging them"[1] has often caused him to be labelled a Bank apologist, especially by those who have imagined, wrongly, that he was a Director, even a Governor. His brother Samuel had just passed the chair; but Henry was not the man to let his financial, any more than his religious, opinion be deflected by family bias.

General prices fell, and the price of gold with them, from the autumn of 1801, after the generous harvest of that year. It may be assumed that exports of gold had helped the exchanges and lowered its sterling price.[2] In 1807 general prices were only a shade higher than they had been in 1798: and the market price of gold, though it kept above the mint price, stood, as has been seen, about the £4 level. But by the second quarter of 1808, although wheat was—for those days—almost cheap, general prices were higher than they had been since the famine level of 1800–1; and by the first quarter of 1810 they were higher than they had ever been, with an index number, as we calculate it, of 184 against the 100 of 1790 and the 136 of the year before the suspension of cash payments. Gold was springing from about £4. 0*s*. 0*d*. to £4. 10*s*. 0*d*. and upwards; though in July of 1809 the Bank managed to sell a little, in Dutch ducats, to the government at £4. 6*s*. 0*d*., no doubt for shipment abroad.[3] Next month its entry of "gold at the mint" stood at the ridiculous figure of £29. 9*s*. 6*d*.[4]: its whole bullion reserve slipped away by an all but continuous decline, from £6,000,000 in August 1808 to £3,600,000 in August 1809, and to its absolute minimum for the war years of £2,000,000 in the February before Waterloo. From 1808 the exchanges were "running against us with all countries",[5] adverse not by the 3–5 per cent of earlier years but by 15 to 20.

[1] *Paper Credit*, p. 127.

[2] Thornton assumed this in his speech of 1811 (*Paper Credit*, p. 349); and the treasure at the Bank fell appreciably.

[3] *C.T.* 8, 26 July 1809.

[4] *Stock Estimates*, 1, 31 Aug. 1809.

[5] Thornton in 1811: *Paper Credit*, p. 333.

With 1808 then the second phase in the currency and banking history of the suspension had set in.

Its beginning was marked by a true and typical industrial and commercial boom. In the feverish and uncertain economic life of those war years, with Napoleon striving to shut the Continent to English goods, or the United States passing, and sometimes enforcing, Non-Intercourse Acts; with trade following the vicissitudes of land campaigns, or reaping the fruits of the successful use of sea-power; the opening of Brazil and other parts of South America to British trade after the Portuguese royal family, in flight before the French, had sailed for Rio on a British ship, in November 1807, gave the signal for a frenzy of speculative exporting. To Rio, it is said, during 1808 "more Manchester goods were sent out in. . . a few weeks, than had been consumed in twenty years".[1] It was to Rio also that someone shipped those skates which became an accepted illustration of commercial madness among nineteenth-century economists.

And this South American bait was thrown into a pool that was already eddying with the activities of the gold fishers. A critic in January 1808 could make out a list of forty-two companies projected in the previous year—seven breweries; five wine companies; four distilleries; several insurance companies; coal, woollen, linen, copper, paper, clothing and miscellaneous trading companies.[2]

All through 1808 and 1809 industrial activity was mounting, stimulated by war as well as by company promotion and trade. An index of output based on the constructive industries, mining, the textiles and some others, shows a curve rising from 1808 to a well-marked peak in 1810.[3]

This boom the Bank cannot fairly be accused of stimulating.

[1] McCulloch, J. R., quoted in Tooke, I, 277.

[2] *The Monthly Magazine*, quoted in Tooke, I, 278.

[3] Beveridge, Sir Wm., "The Trade Cycle in Britain before 1850", *Oxford Economic Papers*, 1940.

Though its issue of small notes was increasing steadily, as gold went out of circulation, its quarterly average of all notes outstanding was the same in 1807 as in 1806, and only a shade higher in 1808. Prices were up before the supply of notes was increased —that increase was an effect not a cause. From the second quarter of 1809 the issues began to rise sharply; and for 1810 they averaged £22,500,000, against the £16,800,000 of 1806 and 1807 and the £17,100,000 of 1808. The notes went out mainly in discounts. In 1808 the discounts were rather lower than in 1807: they rose appreciably in 1809 and markedly in 1810. That was because the Bank was giving help when the crest of the trade wave was toppling over. Its maximum of discounting was done in the third quarter, and the worst crashes came in the fourth.

The story of the country banks of issue, of which, after 1810, there were about 750 in England and Wales alone,[1] is entirely different. We do not know about their discounts, but we know, as has been seen, about the tax stampings of their notes.[2] Consider these figures of the totals of country notes of from £1 to £5 stamped: quarterly average in 1807, £1,110,000; average for the first three quarters of 1808, £1,350,000; figure for the fourth quarter, £2,500,000; quarterly average for 1809, £2,240,000; average for 1810, £1,390,000. Now bankruptcies, which set in when the crest of the wave quivers and continue when it is breaking into froth, only became serious in the fourth quarter of 1809: they were terrible in the fourth quarter of 1810.[3] The country banks are stamping "enow and outrageously" until the crest begins to quiver, and then they try to keep out of the froth. Their stampings contract sharply after the second quarter of

[1] In 1810–11, 741; in 1811–12, 739; in 1812–13, 761. Lords' *Report on... Cash Payments*, 1819, App. F. 9.

[2] Above, p. 7.

[3] Bankruptcies are given in Silberling, *British Prices*, p. 251 (also on the chart in Jevons' *Investigations in Currency and Finance*); Silberling, p. 258, calculates the country stampings, but with the error noted on p. 7, n. 2 above.

1809, towards the low level of 1810. But it is in the fourth quarter of 1809 that the Bank's discounts move up towards the figures of 1810, figures far higher than any recorded during the two preceding or the two succeeding decades. And heavy discounting, other things being equal, meant heavy issue. Other things were not quite equal: the outstanding short term advances to government were up on an average by over two millions in 1810 as compared with 1807—but that meant still heavier issue.

It was on 29 August 1809 that David Ricardo appeared as an economic writer, with his first letter on the price of bullion as an evidence of Bank note depreciation, written to *The Morning Chronicle*. His approach was not new. Boyd had argued from the premium on gold to over-issue in 1801; Thornton had shown a grasp of the whole problem in 1802; and in 1804 Lord King had put Ricardo's thesis more neatly than Ricardo ever put it: "a rise of the Market or Paper price of gold above the Mint Price, and a fall in the foreign exchanges beyond the cost of sending bullion from one place to another, is the proof and the measure of the depreciation of paper money".[1] The problem of over-issue and the exchanges was much before the minds of public men that year because of the state of the Dublin-London exchange. In January of 1797, before the suspension—which had necessarily been extended to the Bank of Ireland—there was a premium of only ¾ per cent on guineas in London at Dublin, about the cost of sending bullion; in February of 1804 the premium was 10 per cent, and a parliamentary committee was talking of Irishmen paying a guinea note and two shillings for their guinea. The committee published its evidence but not its report: the evidence showed that the Bank of Ireland had increased its issues more than fourfold in the seven years, and suggested that the

[1] From his *Thoughts on the Restriction of Payment in Specie at the Banks of England and Ireland* (1804), which is a revision of his *Thoughts on the Effects of the Bank Restriction* (1803). Ricardo wrote three letters 29 Aug., 20 Sept., 20 Nov.: *Three Letters on the Price of Gold*, ed. Hollander, 1903.

other Irish banks had done the same.[1] The evidence was never discussed in Parliament, but the exchange facts were a matter of common knowledge, and the argument that there had been over-issue in Ireland was unanswerable.[2]

By 1811 Ricardo's argument, recast in *The High Price of Bullion a Proof of the Depreciation of Bank Notes*, was in its fourth edition as a pamphlet. He hit at the Bank and the Bank only, "ignoring the rest of the credit mechanism . . and giving little attention to the non-commercial factors".[3] His critics have pointed out that as a stock-jobber, with natural "bear" leanings, Ricardo was interested in anything that would bring down the funds, as a curtailment of Bank issues or a return to convertibility most certainly would.[4] While his editions were appearing, his friend Francis Horner's "Bullion Committee" of the Commons had sat, and had reported in June 1810. In May 1811 the House was discussing and rejecting its conclusions. The Committee had been appointed to consider, first, "the cause of the high price of gold bullion", and second, "the state of the circulating medium and the exchanges". Its consideration, if not quite pure Ricardo, had the Ricardian merits and limitations. It was based on his sound doctrine that a paper currency, become inconvertible, can only be kept on a par with gold or silver by limitation of its quantity, in relation to the state of the exchanges. There was no word of criticism for the country banks. The conclusions, in brief, were that the cause of the high price of gold bullion was over-issue of Bank notes; that the exchanges could only be set finally right by fixing a date in the near future—which should not, however, be nearer than two years—at which the suspension of cash

[1] *Min. of Committee appointed to enquire into the State of Ireland, as to its Circulating Paper, etc.* (1804 IV), with statistical appendices. The *Report* was not printed till 1826 (1826, V).

[2] Exchange facts are, for example, in the *Annual Register* for 1804.

[3] Silberling, "Financial and Monetary Policy of Great Britain during the Napoleonic Wars", *Q.J.E.* 1924, p. 422.

[4] Silberling, *Q.J.E.* 1924, p. 426.

payments must cease; and that towards this date and this cessation the Bank should work by curtailing its advances—public and private, it was implied—and so its issues.[1]

As a corporation the Bank was not consulted. There are no relevant votes of Court or of the Committee of Treasury before November 1810; and then only an instruction to the Governor and Deputy to ascertain what steps the Chancellor of the Exchequer proposes to take about the Report.[2] In fact he was just marking time. But these gentlemen and another prominent member of the Court had given evidence before Horner's Committee—evidence in part curious. John Whitmore, the Governor, explained that the Bank "never forced a note into circulation". He maintained that its issues bore "exactly the same proportion to the occasions of the public" as in former years. The first opinion was true, the second most defensible. But he also said that limitation of discounts, such as the Bank had practised in 1796, had in his opinion "no bearing upon the price of Bullion".[3] In all this he was supported by John Pearse, the Deputy. They argued jointly and most weightily that restriction of discounts, if carried beyond a certain point, would have ruined the country in 1796–7 and, they implied, might do so now. Whitmore allowed however that, were the Bank working on a free gold basis, he would restrict discounts so as to check a foreign drain of gold, if such restriction was at all possible.[4]

Both "the Chairs" clung to the view that the Bank could not go far wrong, provided the paper that it discounted was good. Yet in 1796 it had rationed discounts irrespective of the quality of the paper—and had been criticised by Boyd and many others

[1] There is a huge literature about the *Report*. It is reprinted in Cannan, E., *The Paper Pound of* 1797–1821.

[2] *C.T.* 9, 27 Nov. 1810.

[3] *S.C. to enquire into the cause of the High Price of Gold Bullion and to take into consideration the state of the Circulating Medium and of the Exchanges* [the "Bullion Committee"], 1810, III, pp. 79, 81.

[4] *Ibid.* pp. 110, 112.

for doing so.[1] Pressed about their advances to government, "the Chairs" were naturally reticent; but their cautious replies make it clear that they had no intention of stinting the Chancellor for the sake of the exchanges. (And time after time in 1810–11 he came begging them to purchase Exchequer Bills that the market would not absorb.[2]) Their treasure, while they were giving evidence in 1810, stood at about £3,300,000, nearly all gold as it happened. This figure they did not disclose; but Whitmore argued cogently that a drastic curtailment of discounts would be too dangerous; and that, with the exchanges as they were, repeal of the Suspension Act would drain the Bank quite dry. Wait for peace, and then consider maturely, was his plea. If forced to work to a fixed date for repeal, well, he would have to restrict all round and the country would have to take the consequences.

In support of "the Chairs", Jeremiah Harman, who was to sit in both a few years later, stated roundly that curtailment of discounts in the past had done more harm than good; and when asked "do you conceive that the diminution of the paper of the Bank would, either immediately or remotely, tend to the improvement of the exchanges?" replied, not quite grammatically, "none whatever".[3]

It is not to be forgotten that during the second quarter of 1810, while these Directors were giving their evidence, the crest of the commercial wave was quivering: prices had begun to sag. During the third quarter, after the Report was presented, the failures began—and the Bank did more discounting than in any single quarter of that whole generation. It was giving all the support it could. The country banks had lost their nerve, as the

[1] Even by Henry Thornton; above, p. 18.

[2] See p. 33 below.

[3] "Bullion Committee", p. 142. He allowed that if the Bank were on a gold basis, it would have to be "very cautious" when exchanges were unfavourable, but held obstinately that discount curtailment always made things worse.

curtailment of their note stampings shows; and the autumn tide of bankruptcies was setting in. Holland had just been absorbed into France; so had the German coast up to Hamburg; Masséna took Ciudad Rodrigo in July; Wellington, after beating him at Busaco, was falling back to stand on the lines of Torres Vedras. As keepers of the nation's funds, "the Chairs" did well to be cautious and cling to what treasure they still had. As commercial bankers, it was their duty not to alarm a shaken City by acquiescing in any policy of sudden and drastic limitation of that assistance which only they could now give.

As economists they come less well out of the debate. They and their supporters argued that the state of the exchanges had nothing to do with issue, but was a result of disturbances in the balance of trade. There was no doubt disturbance enough: it had driven up exchange rates for bills as well as the price of gold. Wheat was once more terribly dear in 1810: heavy imports of food were essential. The course of the war interrupted or disorganized one branch of trade after another, and the French privateers, the submarines of that time, were out where their successors have been out since. In the absence of complete commercial statistics, and with a general ignorance of the hidden movements of the gold, exact discussion of the trade balance was impossible, as the Bullion Committee agreed. Ricardo was allowing that a 4 to 5 per cent rise in gold prices need not imply depreciation.[1] Like Henry Thornton in 1802, a price about £4 would not have worried him. Taking account of growing risks and heavy insurance, the Committee thought that the market price might have risen to perhaps 5½ per cent—say 4*s.*—above the mint price under a system of cash payments. But the actual market price was 15½ per cent up, and more.

"The Chairs" no doubt hoped that the sterling price of gold would fall as the balance of trade and payments was redressed, a fortunate development to which they looked forward, although

[1] In his *High Price of Bullion.*

like everyone else in some ignorance.[1] Wheat prices did fall sharply after the harvest of 1810; and collapse after boom brought general prices—as we know with some precision, though they could only know vaguely—down by over 13 per cent between the first quarter of 1810, when the Committee began to work, and the second quarter of 1811, when its Report was debated. But gold did not fall.

Jeremiah Harman's "none whatever", underlining the less emphatically worded opinion of his colleagues, showed the Bank witnesses at their weakest as economists and commentators on the Bank's earlier practice. They boasted, and with some reason, of their moderation in issue and their vigilant watch over the paper that they discounted. But their old temperate defender, Henry Thornton, who had been turned by the course of events and service on the Bullion Committee into a temperate critic, following King and Ricardo, not only demonstrated conclusively in speeches of the 1811 debates that excess of "paper credit"—like the sound economist that he was, he did not simply say Bank notes—was the sole rational explanation of a level of gold prices which was peculiar to England; but also showed how this was compatible with the Bank's admittedly reasonable issues. There had been a growing economy of notes. Bankers—he was one—were holding Exchequer Bills, paper "from the Bank of the Right Hon. the Chancellor of the Exchequer", in their place. "Bills of exchange...and other articles of a similar nature served exceedingly to spare the use of notes". Private families kept fewer notes on hand, "through the increased habit of employing bankers, and of circulating drafts upon them [cheques], in and round the Metropolis".[2] So a note supply superficially reasonable might be in fact redundant.

[1] This actually happened at the close of 1815, when there had been little reduction of issue and no return to cash payment: below, p. 36.

[2] From his speech of 14 May 1811: *Paper Credit*, pp. 359–60.

How the country bank issues affected the problem neither the Bank nor its critics discussed at any length. Ricardo, without inside knowledge, was sure that when the Bank "increase or decrease the amount of their notes the country banks do the same";[1] but Ricardo had the sort of mind that translates tendencies into prompt facts. The stamping figures, so far as they go, do not bear him out; and Vincent Stuckey, a competent country banker, had told the Committee that if Bank notes were withdrawn from any region "their places would immediately be filled up by the notes of country banks",[2] which hardly fits Ricardo's thesis. But whether, or to whatever degree, the action of the country banks contributed to the excess of paper credit, the argument holds that the short way of taking action was through the issues of the Bank.

If the Bank witnesses showed up badly as economists, many of their critics showed up no better as politicians. Ricardo, who had made a fine fortune by dealings in war issues, wrote as from an ivory tower in a time of untroubled peace. Horner's sixteen resolutions moved on 6 May 1811—and rejected—led up, in the sixteenth, to resumption of cash payments "two years from the present time", peace or war. As things turned out, that would have meant cash payment just when Napoleon, in the desperate campaigns of 1813, was beating Russians and Prussians at Lützen and Bautzen. Many of the counter resolutions moved by Vansittart—and carried—were stupid enough, if regarded as economic propositions. Economists jeered at them for a century, the century during which England fought no great and doubtful war. For their stupidities the Bank was not responsible, except in so far as they embodied the clumsy evidence of its witnesses. But no doubt its Court agreed with the Chancellor of the Exchequer, Spencer Perceval, himself no great economist, that the only way to get gold was to buy it, and that purchase was not easy while Napoleon was closing the Continent to our trade, while treasure

[1] *High Price of Bullion*, *Works*, p. 283. [2] "Bullion Committee", p. 138.

was needed for armies and fleets abroad, and food imports were essential. When the Court asked him, in November, what line he meant to take about the Bullion Report, there cannot be much doubt of his answer, though no answer is filed at the Bank. For about a fortnight earlier he had written to John Wilson Croker that he considered the Committee's policy of unconditional resumption at a fixed date as equivalent to "a parliamentary declaration that we must submit to any terms of peace rather than continue the war".[1] Vansittart's resolutions, with all their economic crudities, were in effect a declaration that we would not so submit. An American economist once wrote that, had the Bullion Committee won, "there would probably be no British Empire to-day"[2]—a rather fanciful remark, no doubt, but instructive.

Freed from the Committee, the Bank and the Chancellor went on as before—and in course of time the sterling price of gold rose higher. But that was not so bad a thing as the "bullionists" implied. The very issue of their Report, followed as it was almost at once by the failure of "several houses of the first respectability",[3] had made bankers tighten the purse strings and had forced still more borrowers on to the Bank. Not yet obliged to contract its issues to save the exchanges, it discounted heroically —and profitably—during the June-September quarter and the next, as has been seen. By 1811, when the debates began and the bankruptcies continued, the most urgent need was over. Paper under discount had averaged £19,250,000 quarterly in 1810: the total of discounts for the year came to £138,000,000.[4] In 1811

[1] Croker, *Correspondence and Diaries*, I, 35. William Ward, who was a Director of the Bank, 1817–36, approved the arguments of the Committee but thought the two year proposal "most unreasonable" (*Remarks on the Commercial Legislation of* 1846, p. 39).

[2] Silberling in *Q.J.E.* as above, p. 439.

[3] *The Monthly Commercial Report*, 1 Aug. 1810, quoted in Tooke, I, 304.

[4] *C.B. Fa*, Report on the Discounts, 28 Feb. 1811. Quarterly averages are in Silberling, *British Prices*, p. 256, but not annual totals. The Bank made £914,000 (5 per cent on £18,280,000) from the discounts, 31 Aug. 1809–

the quarterly average was down to £13,500,000; and the Bank's gold was down too. It went on buying gold, as it could, at most unremunerative prices, and it always kept a little; but it did not stop the fall until after Waterloo. In August of 1812 it paid £5. 6*s.* 0*d.* an ounce for Portuguese gold coin, and at the same time supplied £100,000 of gold for the Duke in Spain.[1]

The now annual report to the Directors on the discounts was specially full in February 1812.[2] Out of sixty-five London bankers, acceptances of thirty-three had been handled by the Bank. As had been anticipated, there was a large increase in bills and notes still unpaid—wreckage from 1810. In the scuffle of that year and in 1811, precautions recommended in earlier reports had been neglected. Parties whose standing was marked low on the Bank's private scale had been allowed to present far too much paper; the reporters said that this could not be "for regular business of their own...they can only be considered as Bill Brokers, who in that Character could not be admitted as Discounters".[3] The Bank could not have meant "by Means of Discount to furnish a Permanent Capital to any House". The function of discounting

31 Aug. 1810, and £730,000 in 1810–11, much of it in the last four months of 1810. *Stock Estimates*, 1: see App. C. Cannan (*The Paper Pound of* 1797–1821, p. xxxix) argued that the fall in discounts must have been due to the influence of the Report. That is possible; but it was much more likely due to the course of the commercial crisis—which he ignored.

[1] *L.B.* 2, 1808–12, letters of 10 Aug. 1812. In October it was paying £5. 9*s.* 0*d.*: *L.B.* 3, 1812–16, 23 Oct. 1812. Prof. Viner has shown (*Studies in the Theory of International Trade*, pp. 143–4) that "the English paper currency remained at or near parity with silver and with foreign metallic currencies in the years in which no, or small, foreign remittances had to be made, and departed from parity in roughly corresponding degree in the years in which heavy foreign remittances were necessary".

[2] *C.B. Ga*, 20 Feb. 1812.

[3] This early reference to the discounting Bill Brokers is interesting; it illustrates what has been recently shown by Cope, S. R., "The Goldsmids and the London Money Market", *Economica*, 1942, that dealing in bills by brokers had started during the nineties.

should be "to assist Parties with occasional Supplies". So it was desirable to curtail "Accounts which are consistently high from year to year". It was also expedient to discourage "Notes between Parties in the same Line of Business", and that old, persistent abuse of "renewed Notes between the same Parties".

One result of the effort made of recent years to keep down the promissory notes, as less likely than the bills to represent real transactions, had been the appearance of an undesirable sort of bill "drawn, or purporting to be drawn, in the Country by Servants [clerks], and other Persons who were not possessed of any real Property", accepted and discounted in London.

Lastly, too much business had been done "by a Single Director with the assistance of the Head of the Discount Office". There must have been absenteeism on the Committee in Waiting: we know that attendance had been so slack at the Bank Court that a quorum had with difficulty been kept, and that in October, 1811, seven Directors—including Alexander Baring, Stephen Thornton and Cornelius Buller, a future if not distinguished Governor—had been pointedly asked "when their attendance could be depended upon".[1]

Not all the suggestions of the 1812 Committee on Discounts were endorsed: they were not even all discussed. They are important as pointing to the weak spots in the discounting business and as helping to explain radical changes in discount policy and practice which began within a year of the peace.

The Bank's freedom, irresponsibility its critics and those of the government said, in dealing with advances and issues had been increased in 1811 by the very odd bit of legislation known as Lord Stanhope's Act (51 Geo. III, c. 127). People were now openly bidding up for guineas with notes, although the least rational of Vansittart's resolutions had asserted that "the promissory notes of the Bank of England have hitherto been and are, at this time, held in public estimation to be equivalent to the

[1] *L.B.* 1810–12, 3 Oct. 1811. For Buller as Governor see p. 99 below.

legal coin of the realm". "Van" had been careful not to say legal tender, for that—technically—Bank notes were not. It was at this point that Lord King demanded from those of his tenants who held long leases rent in gold, or in notes enough to buy the gold, as a sort of test case. Stanhope's Bill made it illegal to pay more than 21*s.* for a guinea; although he took pains to assert that this was not the same thing as declaring Bank notes legal tender. King fought him in the Lords, with unassailable logic and references to the assignats.[1] The government, he said, appeared to be committed to restriction until the end of the war, however distant that might be. (He was right.) It was time for those to make a stand whose property "was yearly, even monthly, deteriorated", when debts were paid them in depreciated paper. If King's attitude was selfish, his every economic argument was sound, and many arguments used against him were grotesque. Whitmore's and Harman's fallacies were served up and improved upon. No one said frankly—accept a measure of inflation for victory's sake. Neither thought nor language was ripe for that. Indeed there is every appearance that Stanhope's side believed in the fallacies, and would have been shocked and puzzled by any such statement. The government adopted Stanhope's Bill, which went through the Commons with crashing majorities, and through the Lords over a protest entered in their Journal.

Although the quarterly average of paper under discount was down in 1811 by £5,750,000 on the figure of 1810, the corresponding average of total advances was down by only £1,300,000. In 1812 it was £900,000 above the 1810 level, although the discounts were down by £5,250,000. Government short-term borrowings were replacing the commercial discounts, a fact unknown to Parliament which accounts for the official attitude about restriction and issue. From 1813 to 1815, total advances were above, very much above, the average level reached in a year of such furious commercial discounting as 1810.

[1] *Hansard*, XX, 790 (2 July 1811).

The minutes of the Court and those of the Committee of Treasury are full of almost tearful requests for help from Perceval, and of the Bank's reluctant but invariable acquiescence. In March of 1810, while the Bullion Committee sits, Perceval is begging them to purchase his surplus Exchequer Bills.[1] In May of 1811, while the debate on it is starting, the Court "perceive with much regret" that he wants them to take an extra block of Bills but makes no promise of early repayment.[2] In August he sees small hope of any reduction and in fact is in need of cash: with "deep regret" the Bank purchases two millions more.[3] There is another two millions purchase in November. So things go on: the Bank takes more Bills in February of 1812. In June it is even taking interest on its debt in Bills, because of difficulties "arising from the death of Mr Perceval";[4] but this is not to be a precedent. Perceval dead, assassinated in the lobby of the House, the insistent appeals to the Bank to purchase Bills continue from his successor, Nicholas Vansittart.

The situation was complicated and the supply of paper credit augmented by a possibly ill-judged issue of "commercial" Exchequer Bills in April 1811, to relieve the distress that followed the slump. Before 1810 was out lamentable memorials had come in from the cotton-exporting districts, Glasgow and South Lancashire, and a groan from London. Those shipments of cotton goods to Rio and other places had been made by exporters who had given the manufacturers long bills—up to twelve months—for it was a slow trade at best.[5] The goods not selling, the bills could not be met. Bankers who had discounted them had full useless portfolios: there was little to be got from the drawers, although they were liable. Hence some of the bankruptcies of 1810–11. The West India men could not smuggle enough sugar and coffee into the Continent over Napoleon's

[1] *C.B. Fa*, 29 March 1810.
[2] *C.B. Ga*, 23 May 1811.
[3] *C.B. Ga*, 27 Aug. 1811.
[4] *C.T.* 9, 3 June 1812.
[5] Smart, W., *Economic Annals of the Nineteenth Century*, I, 264.

barriers to relieve congestion at the London docks and their own financial necessities. And in the warehouses there were masses of other goods—hemp and silk and tallow, and what not—temporarily unsaleable.

On 1 March the House had nominated a Select Committee to look into this problem of commercial credit. Perceval was on it and Sir John Sinclair, the reputed inventor of the Exchequer Bill cure for the evils of a crisis, with two Barings, Samuel Thornton, now ten years past the Bank "Chair", the inevitable and always valuable Henry and others.[1] They reported, within a week, rather loosely as is not surprising. Loans of Exchequer Bills should be tried again, as in 1793, but up to £6,000,000 not £5,000,000—paper that the hard-pressed merchants and manufacturers could discount and so get cash to carry on until the glut of exports was worked off abroad and the wheels of trade began to swing round again.[2] Not all members of the Committee were happy about this proposal. Was the situation parallel to that of 1793? Did Rio speculators merit public help? Henry Thornton, that economist of a tender conscience, said he had only agreed out of pity for the distressed "manufacturers"—workpeople—of Glasgow, Paisley and Manchester. He feared "a general rise of price"—including that of bullion—from this fresh injection of paper credit.[3] Many speakers in both Houses were critical. But the proposals were adopted, though in the end not more than two millions of Bills were actually advanced.[4]

On the question of policy, the Bank had not been consulted, but it advised about the form of the issue. The Act allowed of Bills down to £20, but the Committee of Treasury suggested a minimum of £100, as with other Exchequer Bills,[5] for reasons

[1] *J.H.C.* LXVI, 135. And see Vol. I, p. 264.

[2] *Hansard*, XIX, 250.

[3] *Hansard*, XIX, 327.

[4] The Act was 51 Geo. III, c. 15. See Tooke, I, 317, who did not believe that it really contributed to the revival of trade.

[5] *L.B.* 2, 1808–12, 21 March 1811.

that one can well infer; and this action was taken. Unhappily the issue, relatively small though it was, loaded the Bank up with more government paper. Before the end of May these Commercial Bills were at a heavy discount, and the Bank was carrying out what it believed to be its duty, "as on a former occasion", by buying to support the market.[1]

Few years were bleaker than 1812. Industry was crippled by blockade and counter blockade, by Milan Decrees and Orders-in-Council. Manufacturers denounced the Orders: Luddites broke their machines. Britain had managed to add the United States to her European enemies, and the Atlantic also became unhealthy. The price of wheat was running up all the year until August, when it touched 157*s.* 7*d.* Even after the harvest, it only got below 120*s.* for a moment. An intelligent corn-merchant said subsequently that Britain was nearer real starvation, not bread enough to go round, in that year than in any other.[2] Had Russia not broken with Napoleon; had Wellington's victories at Badajos and Salamanca not opened wider the Peninsula door to Britain's trade; it might have gone hard with her. But as the cold hungry year drew towards its end, Napoleon was making for Paris, by sledge out of Russia; the subject kings were preparing to rise again; and Wellington was getting ready for the campaign that was to take his "blackguards officered by gentlemen" across the Pyrenees in 1813.

The level of prices kept stagnant, in spite of dear bread and because of slack trade—stagnant until the last quarter of the year. Gold was again an exception. Its price reached a peak during 1812, foreign gold coin fetching £5. 11*s.* 0*d.* in sterling, 43 per cent above mint price.[3] Lord King and Ricardo and Thornton were no longer needed to prove depreciation of sterling, though there was still some confused thinking and talk about sterling and notes.

[1] *C.B. Ga*, 29 May 1811.

[2] Joseph Sanders of Liverpool, quoted in Tooke, 1, 327.

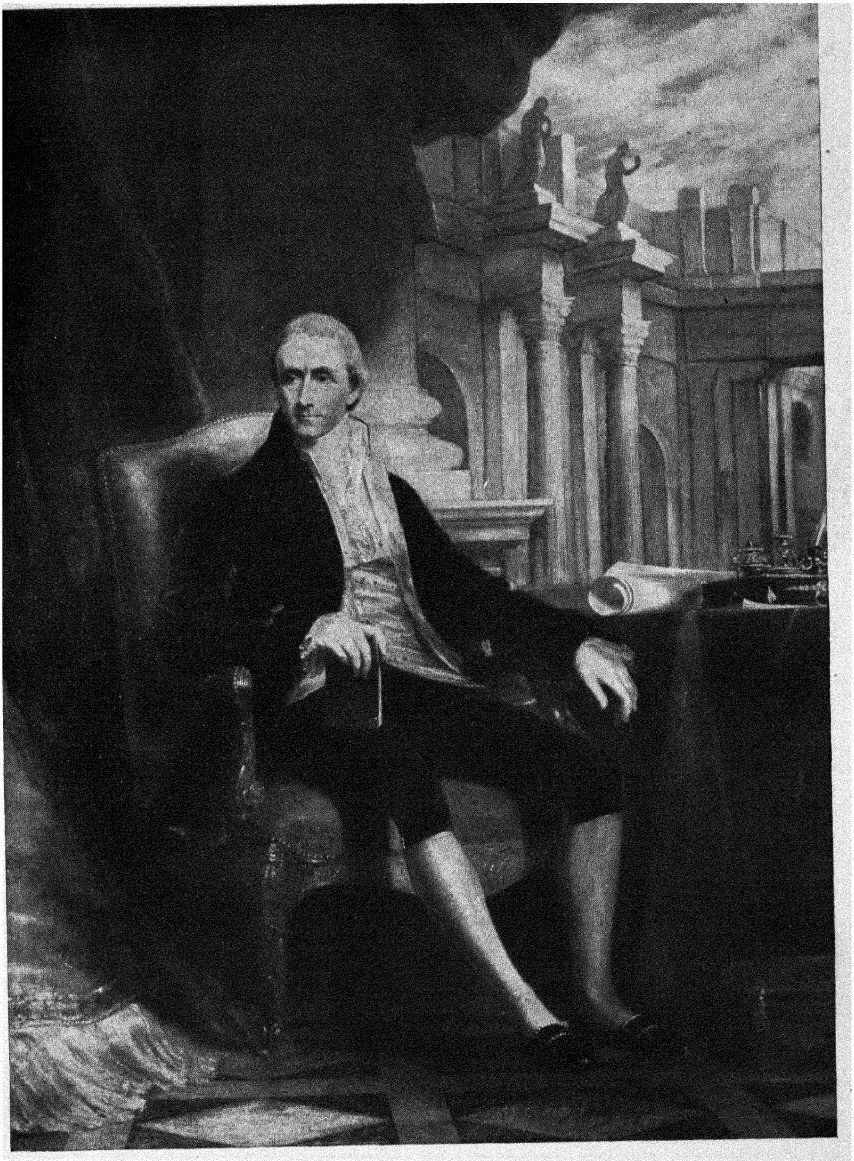
[3] Gold prices in App. 14 to the Commons' *Report of* 1819.

Commercial discounting in Threadneedle Street was relatively slack with the slackness of trade; though the excitement of the last quarter of 1812—Moscow and the Beresina—led to a vigorous stamping of notes by the country bankers.[1] The Bank still had on its hands some of the debris of 1810, clients with resources "locked up in heavy advances in the unparalleled circumstances of the two last years", as a firm to which the Directors had advanced £150,000 wrote in November 1812.[2] The discount business in 1812 was barely two-thirds of what it had been in 1810, and in 1813 not two-thirds. But with government borrowing when its back was to the wall, and borrowing still more when the garlanded mail-coaches began to go down with victory, the Bank's total advances outstanding and notes outstanding went steadily up. The notes reached their absolute maximum (£28,600,000) in the quarter after Napoleon's first abdication, the third quarter of 1814. The advances were continuously above £40,000,000, with a maximum of £46,400,000, from the second quarter of 1814 to the third of 1815, the quarter after Waterloo. During the same period, until that quarter after Waterloo, the average of discounts never got quite to £15,000,000. The rest was advanced to government. With the relaxation and stimulus of victory, the discounts sprang for a few months to £18,000,000, and the advances to government began slowly to contract.

Bar gold, which had always been a little cheaper than foreign coin, because not so immediately available for use under war conditions, had climbed to its maximum price of £5. 7*s*. 0*d*. in 1814. By December 1815 relaxation and stimulus had worked so quickly that it was down to £4. 2*s*. 0*d*., within easy hail of the mint price. The old guard of the Bank—the Whitmores and Harmans, believers in the doctrine of "none whatever"—must have noted with satisfaction that this fall coincided with a quite

[1] The average quarterly stampings for the first three quarters was £1,640,000: for the fourth quarter it was £2,560,000.

[2] Inglis, Ellice & Co. of Mark Lane: *C.B. Ha*, 19 Nov. 1812.



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modest decline in their note issues.[1] The balance of payments, the opening of markets and the closing down of the war drain of treasure, was doing its work. They had always said it would.

Apart from the consequences of its reluctant yet stubborn support of the Chancellor of the Exchequer, and the pressure which the economics of war exerted on its discount office, there was no important change in the business policy of the Bank between the suspension and the peace. While Ireland had its own parliament, the Bank did not feel quite the same responsibility towards Mr Pitt pleading for Irish needs as towards Mr Pitt the Chancellor of the British Exchequer;[2] but with the Act of Union in 1801 the responsibilities were blended. Loans became United Kingdom loans and Messrs Puget, Bainbridge & Co., the agents of the Bank of Ireland, and so indirectly of Dublin Castle, were allowed large discount facilities—£250,000 in 1806 and even £620,000 in 1808.[3] Outside the now United Kingdom the Bank did not feel any obligation, except in the way of trade. The East India Company was an old commercial client: it went on sending in its "usual letter", as the Court Minutes write, and receiving its customary credit. It was obliged, too, in other ways. In 1803, when in need of cash, but anxious not to disturb the market for Exchequer Bills by selling those that it held, it asked the Bank to buy £100,000 of its silver; and the Bank agreed.[4]

This sale of silver by the Company and anxious inquiries by the Bank, in later and more difficult years, about arrivals of treasure from India point to one of the major revolutions in the world's trade. Since Europe first dealt with Asia, treasure had normally flowed eastward. Now the European export of silver was slackening and a reverse movement of silver and gold was

[1] From a maximum of £28,600,000 in 1814 to £26,100,000 in the fourth quarter of 1815.

[2] See Vol. I, p. 270.

[3] *C.B. Da*, 2 Jan. 1806; *C.B. Ea*, 30 June 1808.

[4] *C.B. Ca*, 14 July 1803.

setting in, as India absorbed more western manufactures—calicoes beginning to go east in place of Calicuts coming west—and China, with the Eastern Archipelago, became indebted to India, and so indirectly to Europe, for that opium of which the Company had a—not quite watertight—monopoly.[1]

Other old commercial clients were the South Sea Company—it had long ceased to have any dealings with the South Seas—and the Hudson's Bay, fur-trader and pioneer of the Canadian North-West. Beyond these commercial-imperial customers the Bank did not go. In 1798 the agent for Jamaica asked for a loan of £300,000. The reply was "that it is not usual for the Bank to undertake any loans of the Nature proposed".[2] No similar proposal was sent in for many years: the "usual" policy was maintained without difficulty.

Formal loans of specified amounts to private firms are made from time to time; but they are not numerous and there is nothing new about them. In 1801, it may be Messrs Hibberts, Fuhr and Purrier who ask for £100,000 to "carry the House through its present difficulties".[3] They give thirteen "good names" as security, good enough, for they include Thellusson and Baring. On condition that they do not discount with any of these firms, and that they keep their discounts with the Bank below £20,000, they are obliged. Or in 1814 it is Messrs J. and J. Corbie, hard hit by some country bank collapses, by failed remittances for genuine debts, and by the American blockade of ports from which goods and silver are due to them. They are allowed £45,000: they are really quite sound.[4]

Some small beginnings of new types of business can be traced, but they are connected with old types. The City authorities always had a claim on the Bank's consideration. Recently there had sprung up two new classes of semi-public institutions connected

[1] Cp. Parkinson, C. N., *Trade in the Eastern Seas*, 1793–1813, p. 77.
[2] *C.B. Aa*, 14 June 1798.
[3] *C.B. Ba*, 25 June 1801.
[4] *C.B. Ka*, 8 Sept. 1814.

with the welfare and development of the capital, the dock companies and, before them, those statutory bodies of commissioners for police, lighting and paving, which had been established to perform—patchily and too often inadequately—the essential municipal services in Greater London. The London Dock Company, which dates from 1801, was often given credit up to £50,000; and the Westminster Commissioners for Paving, an efficient body to whom the West End owed much of its amenity, were obliged as they deserved.[1]

The small income from formal loans was different in no essential from what it had been in the eighteenth century. In the Ledger for 1815, beside John Company, the South Sea, the Hudson's Bay and the authorities of the City, there appear in the account of interest on loans only that old client the Royal Bank of Scotland, and a single private firm which the Bank had just been helping, Messrs Benjamin and Abraham Goldsmid.[2]

The Governor and the Court had supported the Chancellor of the Exchequer faithfully, if sometimes with groans; but successive Chancellors had not entirely neglected their duty to the state as against the Bank, although critics of both parties often suggested the contrary, and although the proprietors had no reason to complain of the Directors' care of their interests. Proprietors went into the wars with a 7 per cent dividend. From 1807 the dividend had been 10 per cent, more than enough to cover the average fall in the purchasing power of money during the later war years. Besides, there had been bonuses, though that word was not yet in use. In 1799 the Court had divided enough of its holding in the 5 per cent loan of 1797 to give each proprietor 10 per cent on his capital. In 1801 it handed out another 5 per cent in Navy Annuities; in 1802, 2½ per cent in the same. And in each

[1] See Webb, S. and B., *English Local Government*, *Statutory Authorities* (1922), pp. 282 sqq. for Westminster, and *passim*.

[2] *G.L. XVIII*, f. 637.

of the three years 1804–6 there was a cash payment of 5 per cent "out of the interest and profits over and above" the regular half-yearly dividends of $3\frac{1}{2}$.[1] In effect the dividend had been at the 10 per cent level—even a shade above it—ever since the suspension. And after it was formally set at 10, "the Profits of the Bank beyond the dividend" had "been accumulating", as the Governor told the General Court in 1816.[2]

The bonuses may have been in part intended to quiet a disturbance unusual hitherto in Bank history, criticism from the General Court. Its mouthpiece was Alexander Allardyce, M.P., who came forward in 1797 with a pamphlet—*Address to the Proprietors of the Bank of England*[3]—and with a motion in General Court for the publication of accounts.[4] He criticized the Directors for preferring Exchequer Bills to Navy Bills; he accused them of "mystery" and "hoarding"; he supposed that they made £250,000 a year out of the discounts. The Bank had in fact made £234,000 from August to August 1796–7, so it was a happy guess; but the year before they had made only £147,000, and the year before that £134,000.[5] He wanted a division of profits up to the hilt. The big bonus of 1799 did not divert him. In 1801, at the very Court in which the bonus of that year was voted, he was moving for a full statement of accounts, profits and charges, so that the Court might "declare a dividend of the whole profits, the Charges of Management only excepted, as the Law directs". The Court voted the "claim not to be complied with".[6]

[1] *G.C.B. IV*, 21 March 1799; 19 March 1801; 16 Sept. 1802; 20 Sept. 1804; 19 Sept. 1805; 18 Sept. 1806. And see Acres, I, 285–6.

[2] *G.C.B. V*, 21 March 1816. William Mellish was Governor.

[3] A third edition, of 1798, has a valuable Appendix of documents on banking history, including those connected with Walter Boyd's plan of 1796 for a supplementary currency: p. 16 above.

[4] *G.C.B. IV*, 14 Dec. 1797. His name is not given but he claims the motion in the postscript to the third edition of his pamphlet.

[5] From the Profit and Loss Accounts in the *Half-Yearly Statements*. See App. C, and Vol. I, App. E.

[6] *G.C.B. IV*, 19 March 1801.

The Directors had taken legal opinion. So had their critic, the excellent opinion of Sir James Mansfield. In a very vigorous *Second Address to the Proprietors*, dated 15 May 1801, Allardyce claimed that the Directors' counsel, who had attended the General Court in December, had cut a poor figure: "he wandered ...was called to order, and sat down".[1] Allardyce still stood out for division up to the hilt; he condemned the Directors' "large contributions to a naval pillar, to soup kitchens and other charities"; and he denounced their wasteful building expenditure.[2] With economy and fewer loans to government they could easily divide 12 per cent. Above all he demanded publicity. The East India Company had to report yearly. The two Scots chartered banks let the public see their accounts. Why not the Bank of England?

Shortly after this Allardyce died, and the movement that he led lost power. Whatever the law may have been, and Mansfield's reading of it is not to be despised,[3] the demand for the last farthing in dividends was "something selfish",[4] as Allardyce himself had allowed, and rather stupid; but the wish to know more about the mystery of Bank business was most reasonable.

So was Pitt's careful, if not too intrusive, watch over the Bank's gains. His Committee of the House on Finance reported in 1797 that the reduction in its allowance for managing the National Debt made in 1786 had benefited the state, and might with advantage be pushed farther. It also criticized the £4000 for more general "management", which the Bank had drawn from the very beginning, and the similar allowance of £1898. 3*s*.4*d*. which it had taken over, with four millions of government

[1] *Second Address*, p. 16. [2] *Ibid.* pp. 8–9.

[3] It was based on a phrase in 7 Anne, c. 7 about the Bank dividing "all the profits". Mansfield was not actually Sir James at this time: he was knighted in 1804.

[4] Note to p. 3, the *Address*, 3rd ed. Allardyce's death is mentioned by Ricardo, who agreed with him, in *Proposals for an Economical and Secure Currency* (*Works*, p. 434).

stock, from the South Sea Company. These payments puzzled the Committee, as is not surprising. The first, they reported, was "stated to be 'towards the expenses of the House'":[1] evidently they disliked it. They also reported, among other things, on the clerical staff, which had grown fast, they said, but perhaps not unduly in view of the growth of work for the government; and on the Bank holidays, which were now those usually observed "at the Custom House, Excise Office, and among the Goldsmiths".[2]

Prompt action was taken on only one minor point in this Report. George Rose, Secretary of the Treasury, wrote in October that My Lords, having considered it, had abolished New Year's Gifts to officials of the Exchequer: "you may not send them as heretofore". So ends a century-old practice: the "usual" vote of guineas to these gentlemen vanishes from the Court Books.[3]

The Bank was accommodating Mr Pitt in many ways during the first years of the suspension, years politically and strategically most difficult—mutinies in the fleet at Spithead and the Nore in 1797; rebellion in Ireland in 1798; disastrous failure of the Duke of York in Holland in 1799; in 1800 great French victories at Marengo and Hohenlinden, and coalition of the northern powers against the British blockade. Financially, Pitt was busy with the schemes that preceded his Income Tax; with steering the Income Tax Bill through Parliament in 1799; and with the administration of the brave experiment in 1800.[4]

Exchanges being favourable, and the Bank's reserve of treasure from February 1798 to August 1800 ample, the Directors were sanguine and eager to help. They had been ready, even anxious, to resume cash payment in June and again in October 1797; but

[1] *Fourteenth Report of the S.C. on Finance* (1797, III), p. 8. [2] *Ibid.* p. 23.

[3] *C.T.* 1 (1797–9); letter of 10 Oct. 1797. See Vol. I, p. 92. The present which had formerly been as high as 243 guineas had dwindled to 140 in 1795. A remnant of 54 guineas was paid in 1798, in spite of Rose: *C.B. Z*, ff. 33, 334.

[4] For which see Hope-Jones, A., *Income-Tax in the Napoleonic Wars* (1939).

Pitt had not thought it safe; and the final Act of 30 November (38 Geo. III, c. 1) had fixed one month after the signature of peace as the date for the resumption. The Bank had cashed some of the first issue of small notes, when the type was changed early in 1798; and in January of 1799 had asked the Speaker to announce that it would "pay in cash all fractional sums under £5", and would cash all £1 and £2 notes bearing dates earlier than 1 July 1798.[1] Cash, stamped silver dollars, had been sent to Ireland at Pitt's request in July 1797; and in November, and again in 1798, gold.[2] Exchequer Bills had been freely bought in the market; large sums had been advanced in the usual way on the revenue before it was collected, and further very large sums in anticipation of war loans. Silver had been provided for use in the military ventures abroad. In May 1799 the Committee of Treasury decided for the time being to sell silver to government only; but in October they agreed to the transfer of some of this "earmarked" silver to Messrs Harman, who had Russian connections, because it was wanted for the armies of the Czar.[3] Meanwhile, in February 1798, after a preliminary vote in December 1797, a sum of £200,000 had been set aside in General Court as a "voluntary contribution for the defence of the country", when Pitt was raising that general voluntary contribution which was to make compulsion superfluous, the contribution to which officers of the 63rd Foot subscribed £305. 1*s.* 4*d.* from Jamaica, and Master and Miss Woodbine, also from Jamaica, £2. 2*s.* 0*d.* Mr Allardyce and a few others were critical, but in the end the patriotic vote was carried "unanimously".[4]

[1] *C.B. Aa*, 3 Jan. 1799. This cashing of specified classes of notes, after notification of the Speaker, was a thing authorized by 38 Geo. III, c. 1, § 10.

[2] *C.T.* 1, 13 July 1797; 24 Nov. 1797; 16 Jan. 1798.

[3] *C.T.* 2, 29 May 1799; 22 Oct. 1799.

[4] *G.C.B. IV*, 14 Dec. 1797; 6 Feb. 1798. Allardyce's criticism is in the *Second Address*, p. 8. He may not have been present. Manuscripts of the *Voluntary Contribution* at the Bank contain the Jamaica facts.

Yet the loyal Court did not forget its constituency. On the last day of October 1799 it decided "that the present is a proper time to treat with the Chancellor of the Exchequer for a renewal of the Charter".[1] There had probably been some preliminary soundings. The Governor told the General Court subsequently that the Directors had taken the initiative.[2] As the Charter had twelve years to run, it is fair to assume that they thought the time unusually proper. In the House of Commons, in a very brief discussion of the Charter Bill on 21 February 1800—one short speech, a question, an answer, and a retort—Pitt, asked about the initiative, said that "the proposal" was his. It seems probable that the Bank started the discussion and the Minister suggested the terms. Tierney was the questioner, the man who had fought Pitt with pistols at Wimbledon on Whitsunday, 1795. His retort was concise and true—"he knew that these parties agreed very well, and acted together, and that this was not the first instance of their doing so".[3] He sat down, and the House agreed to proposals which had been put into final form by the Court on 13 February, after having been approved in principle by the General Court in January.[4]

They were very simple. The Charter was to be renewed for twenty-one years from 1 August 1812. Three millions were to be lent by the Bank for six years without interest. As Pitt said, in effect, very many millions had to be raised and three without interest were worth having. He said little else, except that com-

[1] *C.B. Aa*, 31 Oct. 1799.

[2] *G.C.B. IV*, 9 Jan. 1800. The proposal "did not originate with the Government".

[3] *Hansard*, XXXIV, 1513.

[4] *C.B. Aa*, 13 Feb.; *G.C.B. IV*, 9 Jan. 1800. Macleod (*Theory and Practice of Banking*, I, 538) says that the Bank started the discussion because of "great public interest" in Pulteney's scheme for a rival bank, referred to on p. 4 above. There were pamphlets and meetings, and "the Bank Directors took alarm". This is possible, but there is no direct evidence; and no trace of interest in the House of Commons.

merce and manufactures were increasing "to a degree unknown in our history", and that our banking was therefore presumably sound. His Bill contained suggestions of what should be done if government wished to repay the three millions before 1806; but as it did not, they are of no interest. When the time came near—in March, 1806—a different Chancellor asked to have the loan of these "Charter" millions renewed until six months after a "Definitive Peace". He offered 3 per cent in place of nothing. The Committee of Treasury advised the Court to agree, because of "the great advantages derived by the Bank from the increase of the public debt and other circumstances".[1] The Court and the General Court did agree. Seeing that the 3 per cents then stood at about 60 the bargain, excellent for the Bank, was not too bad for the Chancellor.

That Pitt had been in great need of the Bank's good will in 1800 is evident. Within a month of introducing the Charter Bill he is pressing the Directors for treasure, masses of it, to nourish campaigns abroad. The Court is much exercised. If "the Engagements of the Empire render it necessary", the treasure must be found; but, with cash payment suspended, does not the duty of deciding this point rest with Parliament?[2] In the end, in May, when Pitt has cut down his original request to a single million, the Court—but after a division—agrees.[3] It is a coincidence, but not an accident, that at the August balance the Bank's treasure was down on the February balance by precisely that million.[4]

A new link between the Bank and the state was forged by Addington's "Property Tax" of 1803, which was simply Pitt's Income Tax made more effective and given a better sounding name that few people used. There had been no taxation at source under Pitt's plan. Addington's Treasury advisers invented that

[1] *C.B. Da*, 20 March 1806.
[2] *C.B. Aa*, 3 April 1800.
[3] *C.B. Aa*, 8 May 1800.
[4] Half-yearly statements in the *Bank Charter Report*, 1831–2, VI, App. 5.

powerful engine of British finance.[1] At first he thought of subtracting the tax from dividends; but in July the Court noted with satisfaction that the notion had been abandoned, and in September it announced publicly that it would pay this tax on its "gains and profits" from general funds, "without deducting the proportion from the Dividend".[2] From that time until the tax was swept away after Waterloo, dividends were regularly paid free of Income Tax.

The arguments for the Bank renewing its "Charter" loan in 1806 on terms favourable to Sir Henry Petty, the then Chancellor of the Exchequer, had been stated by him frankly—first, "the increased advantages derived by the Bank" from war conditions and war loans; and second "the additional Public Accounts which are intended to be kept" in Threadneedle Street.[3] The second argument was weighty. In the eighteenth century there had been no general rule about such accounts; and at its close several very important ones were not kept, or only partially kept, at the Bank.[4] Wherever kept, they stood in the personal name of minister, treasurer, receiver-general, or whoever it might be, except that, under a special Act of 1783, the Paymaster-General of the Forces was required to keep a strictly departmental account at the Bank.[5] Risk of abuse is obvious; but in the mid-eighteenth century men were not squeamish in such matters. Pitt set a higher standard; yet it was towards the end of his first administration, in 1803, that a scandal had come to light: Trotter, the Deputy Treasurer of the Navy, had dealt improperly with public monies. In 1804–5, when Huskisson was Secretary of the Treasury, commissions of inquiry into such Navy and Army abuses were at work, the commissions which gave his enemies material for the impeachment of Lord Melville, who had been Trotter's Chief.[6]

[1] Hope-Jones, p. 19. [2] *C.B. Ca*, 7 July, 29 Sept. 1803.
[3] *C.T.* 5, 18 March 1806; report of an interview.
[4] Vol. I, p. 214. [5] For the Act see Vol. I, p. 214.
[6] It was in the course of these inquiries that Walter Boyd's irregular dealings with the Admiralty were uncovered: above, p. 17.

In the course of 1805 Huskisson suggested to the Governor of the Bank "that all Receivers of Public Money should keep their accounts at the Bank",[1] so that oversight might be easier and abuse less likely. The Governor naturally saw no objection. One after another departments were dealt with, some by Treasury Minute, some by special Act. There was an Act of 1805 (45 Geo. III, c. 58) for the Paymaster-General of the Forces reenforcing the rules of 1783, which appear to have been imperfectly carried out; one of 1806 (46 Geo. III, c. 82) for the Receiver-General of the Post Office. Acts of 1808 (48 Geo. III, c. 8 and c. 49) regulated the accounts of the Treasurer of the Navy and the Postmaster-General. In August of 1805 the Committee of Treasury is ordering that drawing accounts for public services under Act of Parliament be "made exactly conformable to such Acts". In April 1806 the Committee is making arrangements with the Board of Customs, the Excise, and the Stamp Office, and is sending to them and "to every other Public Office which may keep their Cash Accounts with this House" rules drawn up for their guidance.[2]

The first of the series of regulating Acts, that for the Paymaster-General of the Forces, laid down the salutary, seemingly obvious but in fact novel principle that the balance of his account was to pass automatically, on his resignation or death, to his successor in office; and this principle was applied generally.[3]

Things worked out for the Bank much as Sir Henry Petty had anticipated. At no half-yearly balance down to 1804 had the drawing accounts, public and private together, stood much above £4,000,000: they were normally several hundreds of thousands less, occasionally more than a million. By August 1805 they had risen to £5,574,000. They were £5,814,000 in August 1806, when for the first time the Bank's accountants analysed them into

[1] *C.T.* 5, 13 June 1805.

[2] *C.T.* 5, 20 Aug. 1805; *C.T.* 6, 30 April 1806.

[3] It was already in the Act of 1783 for the Paymaster-General; but seems to have been ignored.

public and private: private £723,000 and public £5,091,000. After that the public balances sometimes dropped well below £5,000,000—though never during the war below £4,000,000—but occasionally rose higher; £5,502,000 in August 1807; £5,260,000 in August 1810; £5,500,000 in August 1812; and to a maximum of £5,780,000 in February 1814. The maximum for the private balances was only £1,279,000, in August 1810, the minimum £501,000, in February 1808.[1]

With Huskisson back at his post of Secretary to the Treasury, under Perceval, from 1807 to 1809, a cleaning up of relations between the Treasury and the Bank was undertaken in the spirit of Pitt's Committee on Finance of ten years earlier, and of the Committee on Public Expenditure which was sitting in 1807. The voice is the voice of Perceval but the hands feel like the hands of Huskisson. After long conferences between the Treasury and "the Chairs", Perceval summarized the situation in an appropriately long letter of 11 January 1808.[2] He had taken into account, he wrote, the Bank's large balances of unclaimed dividends on the funds; its now great gains from managing the public debt; and the swollen balances from the various departments. He suggested a contribution of £500,000 from the unclaimed dividends, on the analogy of what Pitt had secured in 1791; a revised scale of management charges; with that, the abandonment of the old £4000 for general management, now called "House Money", and the £1898 for management that the Bank had taken over from the South Sea Company; finally, either a loan of £3,000,000 free of interest or £150,000 a year in cash, in either case until twelve months after the peace. Perceval said that of the two he much preferred the loan, and that he believed the aggregate average of the various balances under discussion to be at least ten millions. About the Bank now paying a regular dividend of 10 per cent he said nothing.

[1] From the *Stock Estimates*, I.

[2] *C.T.* 7, 13 Jan. 1808.

The Committee of Treasury in reply agreed to the £500,000; suggested changes in the proposed management scale; begged for the retention of the £4000 that the Bank had enjoyed from the beginning; and was prepared to recommend the £3,000,000 interest-free loan to the General Court.

Perceval was much gratified. He would give way to their "respectable Corporation" in "the minor points of this arrangement", including the £4000 and the £1898; but he still had a few questions to raise on the scale.[1]

He wrote on 19 January, and on the twenty-first the scheme in its final form went through the General Court on its way to the Statute Book—the £500,000; the £3,000,000; and a management charge of £340 per million, when the debt stood between £400,000,000 and £600,000,000; of £300 on any excess over £600,000,000; and of £450 in the days, if ever they came, when it should shrink to between £400,000,000 and £300,000,000. Further shrinkage was not even contemplated.[2]

That was the last formal revision of relations between the government and the Bank until the "definitive" peace, the long peace that followed Waterloo, not the short nine months' peace from May 1814 to March 1815, while Napoleon was at Elba. The national debt, funded and unfunded, went up; general prices went up, intermittently, to their absolute maximum in the first two quarters of 1814, when they were more than twice as high as they had been in 1790; gold went up, yet not nearly so far. After 1810, as has been seen, although the Bank Directors kept their commercial discounting within bounds they made advances to government more freely than ever. Was it not Jeremiah Harman, Deputy-Governor from April 1814 to April 1816 and Governor during the next two harsh years, who said that they "were instituted for that express purpose"?[3]

[1] *C.T.* 7, 20 Jan. 1808: Perceval's letter of 15 Jan.
[2] *G.C.B. IV*, 21 Jan. 1808. The Act is 48 Geo. III, c. 3.
[3] Above, p. 11.

Events immediately following Waterloo, in those spheres in which the Bank moved, or which it influenced, were deceptively encouraging. Its war gains were reflected in a balance on profit and loss, in spite of the sustained 10 per cent dividend, of £8,319,000 in the August after the battle, and of £8,640,000 in the following February. Happy and generous, in July of 1815 the Court had voted £5000 for "the special Relief and Benefit of the Families of the Brave Men killed and of the wounded Sufferers of the British Army, under the Command of the Illustrious Wellington in the signal victory of Waterloo".[1] Their treasure, which had stood at the £2,000,000 minimum level in February 1815, had risen to £3,400,000 by August, though the last great campaign had been very costly. A year later it was £7,600,000; two years later (August 1817) at its absolute recorded maximum to date of £11,700,000. They had been buying gold above mint price, but very little above it: once in 1816 the declared market price had been so low as £3. 18*s.* 6*d.*; and from July 1816 to July 1817 it was never above £3. 19*s.* 0*d.* In that third quarter of 1817, when treasure was at its peak and gold at about £3. 19*s.* 0*d.*, there were more notes outstanding than there had been when gold was at £5. 11*s.* 0*d.*; more than there had ever been in fact. Harman, one may conjecture, noted this with complacency from the Governor's Chair. The argument which this assumed complacency implies may not have been valid but it was most plausible: the exchanges healthy; gold coming in; issues never so high; connection between issue and exchanges, "none whatever", as I said in 1810.

With the end of war demands, the government had been able to pay off some of its Exchequer Bills. In the second quarter of 1815 the Bank's total advances, public and private, had stood at £45,600,000. They had only once been higher, in the third quarter of the previous year. In that third quarter of 1817, when notes and treasure were each at a maximum, the advances were

[1] *C.B. La*, 6 July 1815.

down to £27,700,000. This was mainly due to an amazing contraction of the discounts; but the advances on Exchequer Bills also were lower by nearly seven millions.[1]

Policy about the suspension of cash payments had been complicated by the "undefinitive" character of the first peace, that of 1814. When it came in sight, an Act had been hurried through, in March, which stated that though resumption was "highly desirable as soon as possible", it should be postponed until 5 July 1816. As 5 July 1816 was not a year after the signature of the second peace, which really was "definitive", a further statutory postponement, until 5 July 1818, was arranged, with a renewed declaration that resumption was "highly desirable".[2] A very good argument for delay was Lord Liverpool's wish to reform the currency before gold was again allowed to circulate freely. No gold at all had been coined in 1812 and only a little in 1813. In 1814 and 1815 again none, for obvious reasons; and in 1816 none, because 22 June 1816 was the date of Lord Liverpool's Act, the Act on which the British currency system rested for a century. It was not operative at once, partly because the Mint was busy coining silver, and partly because not enough gold had yet been accumulated.

The Act (56 Geo. III, c. 68) "to provide for a New Silver Coinage, and to regulate the currency of the gold and silver coin of this Realm" calls attention to the silver problem by the very order of the words in its title. No silver worth mention had been struck since 1788, and it was an elementary duty of the government to provide the country with an adequate supply of small change. Silver, which had long ceased to be standard money in fact, now at length ceased to be standard money at law. It was not to be legal tender for payments exceeding that classical English test figure of forty shillings. But very nearly a shilling's

[1] Figures in Silberling, *British Prices*, pp. 255, 256.

[2] The legislation is summarized in the *Interim Report on Cash Payments of* 1819 (III), p. 1.

worth—one-twentieth of a gold pound's worth—of silver was put into the shilling, to reduce the temptation to the false coiners. These were a well-recognized social group that had to be considered. When the Duke of Wellington invaded France in 1813 he had gold but lacked francs; so he instructed his colonels to send all coiners and die-sinkers serving in their commands to headquarters to strike Napoleons for him.[1]

The Mint worked hard. It issued £1,805,000 of silver coin of the various denominations in 1816, £2,436,000 in 1817, and £576,000 in 1818.

In 1817 it turned to the gold, the new sovereigns and half-sovereigns, coins that were to have the pound value that earlier gold coins—"guineas" and "unites" and before them already "sovereigns"—had been meant to have but had failed to keep, because of the survival of the old silver standard, the defects and degradations of the coinage, and the difficulty of adjusting relative values of gold and silver coins under a system of crude bimetallism. Here again the Mint worked hard and fast: £4,275,000 worth of the new gold was coined in 1817 and £2,862,000 worth in 1818. How much would normally be wanted in the country under a system of free circulation, when it came, no one knew. That would have to be decided by trial and error.

With the planning and execution of this work of coinage and recoinage the Bank had very little to do. After the government had suspended all regular coinage of silver in 1798, the Bank had helped it and the public by circulating stamped dollars—like the surcharged postage stamps of a later date—and, since 1811, by issuing silver tokens of its own.[2] The dollars had passed current at various values, latterly with the fall in sterling and rise in silver at 5*s.* 6*d.* The fall of gold and silver prices from 1815 brought the value of their metallic content down to 4*s.* 3*d.*: so in April 1816 the Bank gave notice of their withdrawal, as from the

[1] Napier's *Peninsula War*, VI, 518.

[2] See Acres, I, 299, 306 sqq. and Philips, *Token Money of the Bank of England.*

coming November. In May, when Lord Liverpool and Vansittart were putting the final touches to their currency Bill—which Liverpool explained to the Lords on the thirtieth—they had approached the Committee of Treasury to ascertain whether the Bank would follow up its issue of tokens by "taking upon itself the coinage" of the new silver—token money after all. The Committee, for reasons that were not minuted, unanimously said no, and the matter was not passed on to the Court. The Committee had, however, expressed its willingness to help in every way possible "without making any charge"—for circulating the money presumably—and to supply silver for minting "at the market price".[1] There had always been some silver in the Vault—ingots, Spanish dollars still entered under the old rubric as "pieces of eight", a few French crowns, and latterly some Dutch money—and with the free trading conditions of the peace more was easily to be had.

For silver, as for gold, the Bank was determined to revert to its old practice—to supply the bullion if desired, and to circulate the coined money; no more.

Very early in the year, while wheat was still cheap from the good harvests of 1814 and 1815, and before the post-war depression and financial confusion had developed fully, Liverpool and Vansittart had made a conditional bargain with the Bank. They wished the "Charter" loan of £3,000,000 at 3 per cent to be continued for two years from 5 April, when it was due for repayment. They proposed to pay off a block of £1,500,000, 5 per cent Exchequer Bills; but asked the Bank to take £6,000,000 of new bills at 4, to run for two years, with an option for three more. The Court agreed, in February.[2]

Ministers wanted the money for "winding up" expenditure after the long war; and when they made the bargain they expected that this expenditure would be met in part from a continued, though reduced, Property Tax. Vansittart explained both tax and

[1] *C.T.* 11, 17 May 1816. [2] *C.B.La*, 16 Jan. 1816.

bargain on 12 February in the Commons, and outlined his gradual winding-up programme for the army.[1] He met with stubborn opposition, Whig and Tory; from those who wanted to cut the army down almost to nothing forthwith; from Brougham and a crowd who hated the Income Tax; and from Pascoe Grenfell, Member for Great Marlow, a stout critic of the Bank's gains and bargains, the Bank which, as he put it, was lending the public six millions of the public's own money at 4 per cent. He developed his attack on the following day;[2] going back to the Charter bargain of 1800; pillorying Perceval's bargain of 1808; making play with the mysterious £4000 of "House Money" and the £1898 for management inherited from the South Sea Company; and moving for a Select Committee, which he did not get, to inquire into the Bank's swollen gains. Had the exact figures of the Rest been a matter of public knowledge, they might have come with effect into his peroration; but they were not.

The attack was to his credit, for he was a substantial holder of Bank stock.[3] As such he may perhaps have been able to make a guess at the state of the profit and loss account. He may have supposed it to be even more comfortable than it really was. The Court, knowing the rumours afloat, instructed the Governor in March to tell the proprietors that since the dividend was raised to 10 per cent profits had in fact accumulated, though—this to Grenfell's address—the size of the accumulation had been much overrated. The Court, he was to say, hoped soon to be able to meet "the just expectations of the Proprietors", but "in the meanwhile it must be obvious to every reflecting and unbiassed mind that the present occasion, is one, of all others, most unfavourable for a change in the rate of Dividend".[4] Temporarily

[1] *Hansard*, XXXII, 376. [2] *Hansard*, XXXII, 458.

[3] Grenfell first appears on the Proprietors list of 1804, with a holding of between £2000 and £3000, enough to qualify for the directorate. He was a man of property, interested in the great Amlwch copper mines of Anglesey (*D.N.B.*).

[4] *C.B. La*, 21 March, and *G.C.B. V*, of the same day, 1816.

at least, the Bank would hold its balance as security for the large bulk of notes outstanding, and to meet emergencies.

An amendment was moved, that the amount of the profits be disclosed. This was rejected. Eleven members of the minority, including David Ricardo and George Basevi the architect, demanded a ballot. The ballot was held five days later, and they were beaten by 393 to 69—heavy voting.[1]

An emergency that the Court no doubt had in view was the predicament in which the Chancellor of the Exchequer was placed by the defeat of his Property Tax motion on 18 March by 238 to 201, when "as soon as the numbers were announced a loud cheering took place which continued for several minutes. Similar exultation was manifested by the crowd of strangers in the lobby and the avenues of the House".[2] The records of the loathed tax were to be destroyed—and the Chancellor would have to borrow money for his winding-up expenses. In a mood of discouragement and cynical indifference, government also abandoned the extra war malt duty: if the Commons forced you to borrow, you might as well both borrow a little more and gratify the consumer of beer.

Its borrowing needs threw the Treasury into the hands of the Bank; and during April the Chancellor was in conference with the Governor, William Mellish or his successor Jeremiah Harman. The upshot was a letter from the Chancellor of 1 May; the Governor had advised him that the best way the Bank could help was by adding to its capital, and lending the added capital to the state at 3 per cent; this loan to be repaid by 1 August 1833, and to be accompanied by a statutory declaration that, during its currency, Bank notes were to be accepted in payment of taxes as under the original suspension Act.[3]

All this Jeremiah Harman the new Governor laid before the proprietors on 23 May.[4] His predecessor, he said, had held out

[1] *G.C.B. V*, 21 and 26 March 1816.
[2] *Hansard*, XXXIII, 451.
[3] *C.B. Ma*, 23 May 1816.

hopes in March "that at no very distant period...some mode might be devised for making a participation among the Proprietors" from the accumulated profits. The occasion had arrived. Ministers had applied to the Bank. The Directors advised an increase of capital, "a measure we have long had in contemplation"; it would help both the Bank and the public. Harman then read Vansittart's letter and explained the Directors' proposal—the loan of three millions at 3 per cent, and an addition to capital of £2,910,600, being 25 per cent of its existing amount, to be allotted to the proprietors as at that day.

This, with their earlier bonuses and a 10 per cent dividend, was what proprietors had made out of the wars.

The proposal was not accepted without a challenge. Pascoe Grenfell rose with a long reasoned amendment:[1] considering the large profits derived by the Bank from the suspension; considering that public balances in its hands have more than doubled; considering its gains from the management of a greatly increased national debt; considering that there is a current gross profit of £1,688,898; considering that the Bank has drawn 3 per cent from the state on its capital since 1746, when there was no suspension, a small debt, and small public balances; considering that by dividends and bonuses declared since 1797 proprietors have received £7,101,864 and that the price of Bank stock has risen from 125 to 262; considering that the public cannot fail to take note of these things, may wish to curb us, perhaps to abolish our privileges, possibly to set up "another great Banking Company or some other arrangements"; in justice to the public and in our own interests, let us make this loan free.

A newspaper said that the amendment was greeted with laughter.[2] It was certainly rejected. For it was substituted a motion asserting that "the Honourable Court of Directors have

[1] *G.C.B. V*, as above, ff. 83–8.

[2] *St James's Chronicle*, quoted in Acres, I, 312, n. 10, where the amendment is mentioned but not examined.

acted with a degree of liberality and attention to the Publick advantage, as far as was consistent with the Duty and obligation they owed to their Constituents", the liberality no doubt being to lend at three when the "threes" stood only a little above sixty. Even so, the most loyal historian of the Bank may permit himself to sympathize with Pascoe Grenfell. The proprietors of May 1816, and the Court that advised them, he may well rank with the selfish majority of the Commons who beat the government over the Property Tax.

They had their way and got their bonus. The Directors' bargain became law as 56 Geo. III, c. 96. The capital was raised to £14,553,000, its last rise. The Rest fell from £8,640,000 in February to £6,227,000 in August—that is not even by the full amount of the bonus, which was debited to the profit and loss account on 29 June.[1] And the country was in the trough of depression.

One argument for rejecting the Property Tax had been that people would not have money enough to pay it. The land was full of disbanded sailors and soldiers, more of whom might have been kept with the colours and fed, but for the anti-militarist fanaticism and the parsimony of Parliament. After the good harvests of 1814–15, the Corn Law of 1816 and bad harvest prospects, which unhappily were realized, drove up the price of wheat continuously from 54*s.* 6*d.* in January 1816—the price which scared a Parliament of landowners into the great Corn Law—to a peak of 116*s.* 3*d.* before the harvest of 1817. The four-pound loaf which had averaged 10·3*d.* in 1815 would rise to 14·3*d.* for 1817. Yet in spite of rising wheat prices, general prices—including the wheat—had fallen from more than twice the level of 1790 in the second quarter of 1814 to only 30 per cent above it in the third quarter of 1816.[2] This is a depth and speed of fall that a commercial and industrial society cannot face without grave discomfort. Europe, whom Britain had hoped,

[1] *Stock Estimates*, 1.

[2] Silberling's price-index, as above, p. 10.

and in 1815 had indeed begun, to supply from her new mechanized industries and her warehouses crammed with colonial produce, proved too poor, was bled too white, to go on buying freely. The false start had been reflected in the brisk discounting at the Bank in 1815. That soon stopped. Treasure came here because Europe could not afford to buy it, or sent it out because she must: she was hungry too. But the calicos and woollens and the coffee and the sugar, bought dear or made of material bought dear, were spoiling in British mills and warehouses, while the people who should have spun and woven starved. The fast-rising modern iron industry lost the munitions demand that had helped its rise. There is a marked trough for 1816 in the—imperfect but significant—statistics of industrial production.[1] With all this, the population of the United Kingdom was growing as never before.

The year 1816 is barely half through, the balance of profit and loss is still rising a little, the bonus has only just been debited to it, when traces of the national discomfort begin to show at the Bank. A merchant firm has made losses in Newfoundland and wants help. The case is evidently urgent, for the Court, breaking with a rigid precedent, agrees on 11 July to accept "Country Securities of undoubted respectability",[2] if the firm cannot get enough London names. One security comes from Dartmouth and one from Newcastle: the Bank's area of influence and risk is widening. Before the end of July the spread is very evident: help is being given to the Newcastle Bank; and the help is repeated in August.[3] Many months earlier—in September 1815—there is evidence of this rather novel country business, evidence too of how the Bank is coming into touch, at first indirect, with remote new-style industries. The iron-works of Hawks and Stanley, "in the neighbourhood of Newcastle", which employ

[1] Beveridge, Sir W. H., in *Oxford Economic Papers*, 1940.
[2] *C.B. Ma*, 11 July 1816.
[3] *C.B. Ma*, 25 July, 1 August 1816.

"not less than 300 workmen",[1] are in some temporary difficulty—it is not yet the full slump—and they make application through Richard and William Crawshay & Co. Crawshays are already the great iron-masters of Merthyr, but were originally, and remained, London ironmongers, and as such natural clients of the Bank. They are described in 1815 as "Iron Merchants, Upper Thames Street". On their notes, renewable every two months, Hawks and Stanley get the money. It is an emergency case which the Governor, William Mellish, deals with on his own responsibility; for Crawshays are most respectable.

By September 1816 the cry is from the Black Country. A firm from Bilston is writing about "the awful state of the country".[2] They make the new iron water pipes. They had tried to obtain an order for 200 miles of them from Paris, where mains are to be laid "upon the London system". A French import licence could not be got in time. Then they begged the New River Company, whom they supply annually, to take delivery and pay ahead of contract. The Company is willing, provided someone can find £150,000. In the end the Bank agrees to discount bills to that amount secured by a New River mortgage bond. The distress of the poor folk in the Black Country, "wholly destitute of employment", the Court says, is its reason "for acceding to a Transaction quite out of the ordinary course of Business".[3] But the extraordinary transaction has widened its country interests.

By that time town and country are in dismal gloom. Country banks are going down right and left—37 note issuers went bankrupt in 1816,[4] besides those that suspended payment for a time. The survivors are drawing in their horns. In 1813–14 there had been in England and Wales 733 banks with issuing licences: the

[1] *C.T.* 11, 6 Sept. 1815.

[2] *C.T.* 11, 11 Sept.; *C.B. Ma*, 12 Sept. 1816. The firm was Feredays, Turton, Smith and Ward.

[3] *C.B. Ma*, 26 Sept. and 21 Nov. 1816.

[4] Statistics in *Accounts and Papers*, 1826, XXII, 5.

number for 1816–17 was only 585.[1] Many had gone under and others had abandoned their notes. The quarterly average of notes stamped in 1814 had been £1,590,000: for the last two quarters of 1815 it was only £900,000; and for the whole of 1816 just under £1,100,000. The effective supply of country notes, as opposed to their mere stamping, was estimated, though with some diffidence, by a parliamentary committee a few years later at £27,700,000 in 1814, £15,100,000 in 1816, and £15,900,000 in 1817.[2] This helps to account for the peak circulation of Bank notes for the third quarter of 1817 and its co-existence with favourable exchanges and imports of gold.[3]

The landed interest also was in the trough of the wave, in spite of its Corn Law. Purses were so tight in 1816 that mortgages could not be raised even on "large unincumbered estates". About this Vansittart conferred with "the Chairs" in December. Could the Bank help? But the Committee of Treasury said, not quite accurately, that "the Bank had never yet lent money on mortgage" and "would hardly be likely to select the present moment, of preparation for the resumption of cash payment, as a fit one, for making so important a change in the system".[4] So, for the time, that suggestion fell through. And, to guard themselves against innovation all round, the Committee resolved on the same day (12 December) that although applications for help unusual in form "might be considered, as in the cases of the Newcastle Bank, the Shropshire Ironmasters and the New River Company", they would as a rule give help only in the old way, on notes of respectable parties renewable at short intervals.

An argument for embarking on the mortgage business which was apparently decisive a few years later, when that business was in fact begun,[5] might have been drawn from the collapse of the discounts and the discount income. When a report on the dis-

[1] Lords' *Committee on Cash Payments*, 1819, App. F. 9.
[2] *Ibid.* o. 12 and App. F. 8.
[3] Above, p. 50.
[4] *C.T.* 11, 12 Dec. 1816.
[5] Below, p. 82.

counts was made at the end of August 1815, the business was still running briskly and was most profitable; there was an average of £18,000,000 of paper under discount that quarter, a high figure and higher than seemed quite safe to the Committee, judging by their Report.[1] The income from the discounts for the past year came to £704,000.[2] The Committee advised a re-classification of clients into five groups: bankers, merchants, and persons in extensive business; wholesale dealers of the greatest respectability and opulence; middlemen one degree below the former in extent of business and capital; persons of a more confined scale of business; and—these hardly a group—such persons as do little business and are in low estimation. In 1816 it was reported that the private marks on the standing of parties had been duly brought up to date.[3] But the problems were narrowing. By the fourth quarter of that year the paper was down to £7,900,000, and by the fourth quarter of 1817 to £2,700,000, the lowest quarterly figure since 1795. The discount income reported for the past half-year in February 1815 had been £322,000; that reported in February 1817 was only £159,000. During 1817 it was reduced still further by the scores of thousands of bad debts of clients bankrupt in the slump.[4] Of these there were many yet to come.

The reason for the contraction of the discounts was twofold. There was depression, never deeper, but without the panic and crisis that might call for the intervention of the Bank; and the market rate of discount was falling with the fall in prices, the fall in the long-term rate of interest, and the lack of effective demand. Meanwhile the Bank adhered to its old-established rate of 5 per cent, which had not varied for inland bills since 1719, or for

[1] *C.B. La*, 31 Aug. 1815.

[2] *Stock Estimates*, I, under the half-years to 28 Feb. and 31 Aug. See App. C.

[3] The annual discounts report: *C.B. La*, 24 Feb. 1816.

[4] *Stock Estimates*, I, under the years, or half-years.

foreign bills since 1773.[1] A discussion about it arose in July 1817, at which some members of the Court evidently favoured a reduction; but the decision was against them.[2] It seems as though the Directors were inclining towards a view expressed decidedly fifteen years later by John Horsley Palmer, a great Governor—he was already on the Court in 1817—that the Bank in normal times should not discount extensively, because then others would do the work, but should confine such activity to "times of discredit".[3]

With brisker trade and higher rates, the discounts revived again in 1818–19; but the figures from that time down to 1832, when Horsley Palmer as Governor gave his opinion, suggest that he was generalizing from an already established practice. Except at the "time of discredit" in 1825–6 they were consistently low. And indeed, all through the history of the Bank, they had only been really high in difficult times, including the drawn out difficulty of the suspension.[4]

When the Committee of Treasury declined to start a mortgage business in December 1816 because the Bank was preparing for a resumption of cash payment, that resumption really seemed near. Gold had been flowing in, and was going out to the Mint to be turned into the new sovereigns. It appeared reasonable to think that the date last fixed for resumption, 5 July 1818, might see it achieved. But in the course of 1817–18 things went wrong. At the February balance of 1818 the treasure still stood high, £10,100,000, but it was £1,600,000 below the level of the previous August. By August 1818 it was down to £6,400,000 and was still falling rapidly. At August 1819 it was at £3,600,000, very little above the August level four years earlier, just after Waterloo.

[1] See App. B and Vol. I, App. D.
[2] *C.B. Na*, 17 July 1817.
[3] *Bank Charter Report*, 1831–2 (VI), Q. 178.
[4] See the figures in Vol. I, App. E and in App. C below.

The new silver having been coined from 1816, and the sovereigns issuing from the Mint in quantity in 1817, the Bank had begun to feel its way towards resumption by offering to cash its smaller and older notes. In April 1817 it had given notice that it would cash all notes under £5 which were dated before 1 January 1816; and in September it extended the offer so as to cover notes of all sorts dated before 1 January 1817. The first offer had applied to only about £1,000,000 worth of notes; the second covered many millions.[1] Later it was pointed out that the second offer was perhaps injudicious: the market price of gold had touched £4 in July and the exchanges were turning against England. But it was in the Harman tradition to ignore the exchanges; and even "Ricardians" well might hold that freer gold was the right cure for a slightly unfavourable balance.

The Court may have been influenced by the odd result of its April experiment. Instead of cashing its small notes eagerly, the public—which like its successor a century later had found those notes handy—brought in the hoarded guineas that were, so to speak, under sentence of death. Then, as the new sovereigns and half-sovereigns became available, in driblets from July and in quantity from October,[2] there arose "an immediate demand" for them, "though at first only as objects of curiosity".[3] But when, in October, it became possible to cash £100 or £1000 notes, the strength of the gold demand, for remittance abroad not for curiosity, was promptly reflected in the vaults of the Bank. Between that date and the end of the first quarter of 1818 the reserve of treasure fell by about £2,600,000. Of this outward drain "hardly any part remained in circulation" in the country, Vansittart said in April.[4] This was true also of the continued

[1] From the long memorandum prepared by the Bank for the *Committee on Cash Payments of* 1819; *C.B. Oa*, 4 March 1819.

[2] Lords' *Committee on Cash Payments of* 1819, p. 3.

[3] The Bank memorandum, as above.

[4] *Hansard*, XXXVII, 1230 (9 April).

drain during the next fifteen or sixteen months. Samuel Gurney—a first-rate witness—stated in 1819 that few sovereigns ever got really into use.[1] Between 1 January 1817 and 25 March 1819 the Bank issued about six and three quarter millions of the beautiful new coin, and the country lost it nearly all.

Meanwhile the Bank, and its circulation, were influenced for ill by the effects of cowardly public finance. The government, refused the Property Tax by a Parliament of men of property, was borrowing in time of peace to meet current expenses and maintain Pitt's Sinking Fund—borrowing at the Bank. Protesting against this policy, objecting to the renewal of Exchequer Bills, the delays in repayment of advances, the requests to take more Exchequer Bills for the payment of the dividends, and so forth—the Bank still went on doing what the Court regarded as its duty.[2] Its holding of public securities, nearly all Exchequer Bills, which had been worked down to £19,400,000 in February of 1816 was up to £27,300,000—its post-war peak—in August of 1818. A main reason for the Bank's high average of notes outstanding in 1817 and 1818 was this incessant lending to the Treasury: the commercial lending, as has been seen, was abnormally low.

Already in February of 1818 Vansittart felt unable to face resumption of cash payments in the coming July, when it was due. He told the House so, Pascoe Grenfell said that he was not in the least surprised. He had always expected this would come "on some pretence or other"; and he moved for papers.[3] In April and May, Vansittart's Bank Restriction Continuance Bill went through its various stages, to become law on 28 May as 58 Geo. III, c. 37. It had only one clause. It said, as all its

[1] *Committee on Cash Payments of* 1819, p. 172.

[2] The minutes of the *C.T.* for 1818 are full of these transactions and protests. The Committee did refuse to recommend the Court to accept Exchequer Bills for payment of the dividends: *C.T.* 12, 1 July 1818.

[3] *Hansard*, XXXVII, 131 (3 Feb.).

predecessors had said, that resumption was "highly desirable... as soon as possible"; and it postponed it until 5 July 1819. Pascoe Grenfell declared that this meant "permanent paper currency in time of peace".[1]

In spite of the papers of returns which Grenfell secured, the debates took place in a fog of ignorance about essential matters that it is hard for those who live in an age of public statistics to picture. The historian writes about the Bank's treasure from within; but no Member of Parliament, unless he were a Director, had any accurate information, except what the Bank told Vansittart and Vansittart told the House. A Member who was also a Director, Samuel Thornton, for instance, always spoke in very general terms. During the May debates of 1818 the Bank had perhaps eight millions of treasure, gold and silver, falling rapidly; it had never had twelve millions, yet one Member, and he a Gurney, began his speech—"it is very commonly rumoured that the Bank possess in their coffers, either fourteen... or sixteen millions of gold".[2] He argued on that basis—oddly enough as it happens, against resumption, for he had currency fads; but Samuel Thornton never rose to contradict him. Pascoe Grenfell knew a great deal. Ricardo thought with a mathematician's clarity—and limitations. Henry Thornton, who had combined great knowledge with clear thinking, was dead. But none of these ever had command of all the relevant facts. For this the Bank's refusal to publish them, as Allardyce and Grenfell and Ricardo had urged, must be held responsible.

Why the exchanges turned against Britain and why the new money was lost, Vansittart tried to explain in the House in April 1818, and a Secret Committee to the House in April and May

[1] *Hansard*, XXXVII, 1283 (9 April).

[2] *Hansard*, XXXVIII, 775 (18 May). The Gurney was Hudson, M.P. for Newtown, I.W., a Vice-President of the Society of Antiquaries and a verse-writer. His antiquarianism came into his speech: the pound of 1818 was not the pound of 1695, he said.

1819. Vansittart, on this occasion at least, was much more adequate than Whigs, historians and economists have often suggested,[1] though he naturally slurred a little over government pressure on the Bank as a cause of that excess of issue on which Ricardo and its other critics harped. He made a good point about the nineteenth-century tourist industry, which was a new thing and had never before come into politico-economic discussion. The English, kept at home all through the long wars, had been pouring abroad since, and indeed before, Waterloo: it was presumably English money that paid for the "sound of revelry by night" from which the Duke rode off to the field. Byron went in 1816 and threw English money about. So did Shelley and his mixed set. Lady Hester Stanhope queened it among the Arabs on English money. Milords travelled with their trains on their rents. And there were scores of thousands of humbler travellers with many thousands of now permanent residents, all—even the broken men, dodging their creditors at Boulogne—spenders not earners. Vansittart had some statistics. From 1814 to February 1816, and from Dover alone, 90,230 British subjects had sailed. Most of them had spent their money and come back. But he guessed—it was a frank hypothesis—that 13,000 might have become permanent continental residents, all spenders not earners. He put their spendings at perhaps £200 a head, keeping his figure low he said because so many of them were servants. His estimates are not unreasonable; exact they could not be; but his point was ignored in all later discussions. Possibly he made too much of it, yet it had size. There is no evidence that it had been suggested to him from the Bank.

Nor had the Bank much to say about a second factor, of which Parliament was very conscious, the state of the corn trade. In 1815 the net British import of wheat had been only 156,000 quarters; in 1816, 210,000. It was 772,000 in 1817 and 1,107,000 in 1818. During these two bad years the home price only once

[1] In his speech of 9 April, quoted above.

fell to 80*s*., the point below which imports were prohibited under the new Corn Law: the average home price for the two years was 91*s*. 7*d*., the peak price 116*s*. 3*d*. With such prices, the import of an extra 1,563,000 quarters in two years created a debt approaching £3,000,000 a year for a country whose total yearly exports, including those from Ireland, for the two years averaged less than £44,000,000. This meant a sharp strain on the exchanges: something must go to pay for the corn, and the immediately free and easy-moving thing was treasure.

This heavy corn debt, which had become recurrent since the country lost her self-sufficiency in years of bad harvest, was a familiar, if unpleasant, thing. It was reasonable to hope that with the return of average or good harvests no further debt would be incurred. But something newer and less familiar now came with it, debts created in peace-time because England, like eighteenth-century Holland, had become a lending nation, and the loans had not begun to yield interest. With the new thing came the new powers in international finance, Nathan Rothschild and the house of Baring. It was Rothschild who stipulated for interest payable in sterling to attract the English investor. In 1819 he appeared for the first time before a parliamentary committee as an expert, shrewd and confident. Between 1815 and 1818 loans were floated in London for France, Prussia, Russia and Austria. Investment in American funds, from London and Liverpool, was already "a practice...of many years standing".[1] The French loan was the largest and the one that attracted most attention. Things were well enough "till the financial operations in France began", Jeremiah Harman said: "great pains were taken" to induce people to sell out from the funds and buy French and Russians and Prussians: there was nearly as much jobbing of the French funds as of the English.[2] Another Bank Director, William Haldimand, noted that very few of those travelling gentlemen came back from

[1] *Committee on Cash Payments of* 1819, p. 109: John Gladstone, father of W. E. Gladstone.

[2] *Ibid.* pp. 41, 52, 53.

Paris without a little French stock. And Alexander Baring reported that a great number of the new sovereigns had been turned into twenty-franc pieces at the Paris Mint.[1]

With the jobbing, much of the foreign stock subscribed for was disposed of at home or abroad. What the actual drain of capital outwards had been down to the spring of 1819, when all this evidence was given, no one precisely knew. Haldimand, who was familiar with Paris, dealt with St Petersburg, and was very knowledgeable about the exchanges, estimated the total value of holdings in foreign loans at £10,500,000. But they had not cost that. Of the £7,000,000 at which he valued the French holdings, he put £2,000,000 down to appreciation. S. C. Holland of Barings agreed that the capital placed permanently in foreign funds was "certainly not" so much as £10,000,000; he added that the interest due, which from France alone he put at £150,000 a year, was now beginning to come in.[2] The outward drain through loans to the Continent was increased by continental sales of British securities. In February 1816 foreigners held £17,300,000 in the funds. By February 1818 their holdings were down to £12,700,000. There were also heavy sales of Bank stock: the Bank's foreign proprietary was dwindling away.[3]

In connection with the foreign loans, Nathan Rothschild said he had sold perhaps £2,500,000 of what he called "real investment".[4] His house was only one of three or four concerned in the business. "Certainly" the loans had affected the exchanges. "Certainly: an immense deal" of specie had gone out in connection with them.

[1] *Ibid.* pp. 70, 184. Haldimand, though born in England and an M.P., was of Swiss stock. In 1827 he retired from business and to Lausanne, where he died in 1862. His firm were silk and general merchants and dealers in exchange. Its history is sketched in *Morris Prevost and Co.* (1904), the story of a firm with which the Haldimands were connected.

[2] *Committee on Cash Payments of* 1819, pp. 119, 122.

[3] For the Bank's proprietary see p. 131 below; for sales of British government securities, Acworth, *Financial Reconstruction in England*, 1815–1822, p. 80.

[4] *Committee on Cash Payment*, pp. 157 sqq.

"Certainly", if the Bank had been paying in cash, this business of his could not have been done. It is not surprising that he showed no enthusiasm for resumption, and thought that Ricardo's scheme for it, which the Committee was considering, would not work.

Rothschild did, however, point out that recent sales to France of appreciated French stock had given the exchanges a tilt in our favour; and he confirmed the opinion expressed by Haldimand and others that the spell of capital export was over and that the stage of interest import was setting in. We know that in a few years, with the rapid growth of British industrial exports—especially to America—the financing of loans would present no difficulty. For goods and services England would become the world's creditor; by 1832 Nathan Rothschild would be able to say that "in general the exchange is always in our favour".[1] But in 1819, the various drains on the Bank's treasure continued to operate until August. Then came the first of a run of good harvests; the regular flow of interest from foreign investments; and a state of the export trade to the world at large which eventually made the financing of tourists and continental residents a simple thing. The exchanges turned; the market price of gold fell; and the Bank's treasure, from £3,600,000 in August 1819, rose to £11,900,000 by February 1821. But to produce that result another cause had contributed—a law of 1819.

The Secret Committee of the Commons "on the expediency of the Bank resuming cash payments", Peel's Committee, reporting in April and May of 1819, had no difficulty in deciding that resumption on the appointed day, 5 July, was again out of the question; although Ricardo told the Lords' Committee that he thought it might be done with "some little Inconvenience", say a price fall of 4 per cent.[2] (But he did not know the precise state of the Bank's treasure.)

[1] *Bank Charter Report*, 1831–2, Q. 4804.

[2] Lords' *Committee Report*, p. 184. The Commons' *Reports* are of 5 April and 6 May; the Lords' was "communicated" to the Commons on 12 May. They are in 1819, III.

The Bank Directors had drawn up a long defensive memorandum for the Committees in March.[1] Restriction of cash payments, they had argued, was not their fault. They doubted whether the public could stand immediate resumption. Expansion of the note issue had been necessary in a war which had drained away our coin and would have been lost had there been no substitute. They told the post-war story of the currency and of the delays in repaying their advances, owing to "the System of Finance which it has been thought proper to adopt"—a fair hit at the Treasury and Parliament. Their failure to resume cash payment they assigned to "the extensive Financial Operations on the Continent, in which British subjects have taken so large a share". They did not see how they were to get gold immediately, and—once more, as in 1810—did not believe that curtailment of their issues *per se* would cure the exchanges. All that could reasonably be expected of them was that they should find gold for internal circulation. The Bank could hardly be asked to face "ruinous loss from causes...which...it cannot control".

But Parliament, advised by Peel's Committee, was going its own way, which was also the way the economists in the government—Lord Liverpool and Huskisson—approved.[2] The day after the Commons' Committee put in their first report (5 April) it forbade the Directors to make any more payments in gold.[3] On receipt of the second report, dated 6 May, paying no attention to—perhaps not aware of—another memorandum from the Bank to the Chancellor, it got to work on what was later known universally as Peel's Act (59 Geo. III, c. 49), completed and made law by 2 July. Seven months more absolute suspension of cash payments was conceded, to 31 January 1820. From 1 February to 1 October 1820 notes might be cashed but only in gold bars

[1] The Memorandum quoted on p. 63 above. It is not certain that the Committees considered it or in fact paid much attention to Bank opinion.

[2] See Brock, W. R., *Lord Liverpool and Liberal Toryism* (1941), p. 179.

[3] By 59 Geo. III, c. 23.

of a minimum weight of 60 ounces and at £4. 1*s*. 0*d*. per standard ounce. The same method, in essence Ricardo's, was to continue until 1 May 1823, the price being stepped down in stages—first to £3. 19*s*. 6*d*., then to the Mint price of £3. 17*s*. 10½*d*. It was meant for bullion dealers not for ordinary users of Bank notes. At any date after 1 May 1822 the Bank might deliver gold coin; and from 1 May 1823 it must do so, on demand. The object, scientifically conceived, was to operate on the price of gold and the exchanges without prematurely dissipating the Bank's limited stock of coin into the pockets of the public.

The Bank had protested in advance that a system of fixed gold prices, descending in jerks, and determining its power to accommodate the public, would take away its "discretionary consideration of the necessities and Distresses of the Commercial World".[1] But, as has been seen, that world was not now relying on it for much help by way of discounts, and in other ways hardly at all. Against "discretionary consideration of the necessities" of the Treasury it had protested. Parliament took it at its word. If total advances were to be cut down, with a view to limiting the circulation and guaranteeing a deflationary equilibrium between sterling and gold, government's short-term debt to the Bank must be reduced.[2] Adopting, perhaps without completely understanding it, what was in effect Ricardian finance, the House approved a motion of Peel's for the repayment of no less than £10,000,000 of short-term debt, backing that up with an Act (59 Geo. III, c. 76) forbidding the Bank ever to lend to government for more than three months without express parliamentary sanction.[3] This deflationary policy, if applied, would supplement,

[1] Memorandum for the Chancellor of the Exchequer, 12 May 1819: *C.B. Pa*; reproduced in the *Report on Cash Payments*, p. 359.

[2] Government was also aiming at a reduction of long-term debt by imposing enough taxes to make the Sinking Fund a reality; but the tax-policy of 1819 was not a success; Brock, p. 180.

[3] That is to say, it might make quarterly "deficiency" advances, while revenue was coming in, a type of advance formally authorized two years

almost brutally, the working of those forces—cessation of foreign loans, better harvests, and the rest—which already were tending to rectify the price of gold and the exchange position. Neither price nor position was desperate: causes other than over-issue might have produced both. But Ricardo and Peel, with Huskisson and Liverpool and the Committee, were determined to get back to gold at Mint price and to the exchanges at par, from gold at £4. 1*s*. 0*d*. and the Paris exchange at 23·85, which were the February figures.[1] Yet it can hardly have been altogether because of an Act only passed finally on 2 July, and of a policy of floating debt reduction linked with it but not immediately carried out, that on 3 August gold was quoted at £3. 18*s*. 0*d*. and the Paris exchange at 25·10.

Effective repayment by the Treasury to the Bank had not begun: in fact the Bank held three millions more of public securities in August than it had held in February. Nor had its issues contracted. They were a shade higher for the third quarter of 1819 than for the second. So late as January 1820, the Bank was still pressing Lord Liverpool for repayment and reminding him of the ten millions "recommended by the Secret Committees".[2]

After that the Committee's policy went forward with a swing, except that the Ricardian bullion standard never became a reality. The Bank's public securities fell by millions each half-year: by February 1821 they were at £16,000,000, down by very nearly £10,000,000 from the level of eighteen months earlier. Notes too were down, though not as yet conspicuously. Discounts

earlier by 57 Geo. III, c. 48. It might also purchase Exchequer Bills and Treasury Bills and, naturally, consols and other long-dated securities; and it might exchange expiring Bills for new ones.

[1] Those who have forgotten the age of gold and the franc of 25 to the pound sterling may be glad to be reminded that the Mint par between sterling and the gold franc was 25·22.

[2] *C.B. Pa*, 6 Jan. 1820.

were down. Public balances at the Bank were heavily down.[1] Bar gold had been at the Mint price, which under Peel's Act it was to reach in 1823, since March of 1820. And the Bank's treasure, though it had increased slowly at first, stood at the £11,900,000 already noted. The step that should bring down to £3. 17*s.* 10½*d.* the price at which the Bank was to sell bars was timed by the Act for 1 May 1821. No one asked for bars, and the Bank was not interested in them.[2] Feeling sanguine, it saw no reason why it should not cash its notes in the old way as from that date. It procured a permissive Act (1 and 2 Geo. IV, c. 26) without any difficulty; and at the same time it ceased to issue those small notes that the gold was now to replace. This would mean special difficulties in South Lancashire, which had no small local notes and could not easily draw cash in Threadneedle Street, as London could, which had none either. So in May Bank clerks were down at Manchester, and special arrangements were being made with bankers, there and at Liverpool, for getting the gold into use.[3]

It took South Lancashire some time to settle down. In August James Brierley, the Boroughreeve of still unreformed Manchester, was begging for £1 notes or more sovereigns. The sovereigns that had been sent were vanishing into remote districts, and he feared that small local notes might break out, "which we hitherto have been wholly exempt from".[4] At a meeting that he had attended, "a more unanimous display of public sentiment against the Circulation of Local Notes" he had never seen.[5] But the Bank could not offer to send any more gold at its own expense.

[1] The average for 1817–18 was £4,400,000; for 1819, £2,100,000; for 1820, £1,700,000.

[2] For criticism of the Bank's neglect of the bullion standard see Viner, *Studies in the Theory of International Trade*, p. 179. There is nothing about it in the Bank records, and it seems that the City was cold.

[3] *C.T.* 13, 9 May 1821. The bankers employed were Jones, Loyd & Co. at Manchester and Heywood & Co. at Liverpool.

[4] *C.B. Ra*, 23 Aug. 1821.

[5] *C.T.* 14, 29 Aug. 1821.

Worse things than Lancashire's inconvenience accompanied the resumption of cash payments. In the first quarter of 1819, when Peel's Committee was at work, the general price level was 46 per cent above the level of 1790 and wheat was at nearly 80*s*. In the third quarter of 1821, when Manchester was begging for more sovereigns, the price level was only 16 per cent above 1790 and wheat was just under 53*s*.[1] Ricardo had talked about a 4 or 5 per cent price fall following gradual resumption. The far greater fall that had come while resumption was being discussed, and then rather hurriedly consummated, cannot be attributed to it, except, at most, in small part. But the fall was connected in men's minds with resumption, connected with "this wretched Act of Peel's". It was all most disquieting.[2]

[1] These are price-figures as calculated to-day. Contemporaries did not think in index numbers; but they did think, especially the country gentlemen of Parliament, in terms of wheat.

[2] There is a story that "Mr Ricardo lived to change his opinions", admitting that someone else's estimate of 25 per cent had been nearer the mark. It is told by William Ward in *Remarks on the Commercial Legislation of* 1846, p. 33. It is late and is of course disputed.

CHAPTER II

FROM THE RESUMPTION OF CASH PAYMENT TO THE CHARTER ACT OF 1833

AT the February balance of 1821, when the Bank was preparing to resume cash payment two years before the appointed day, it had more treasure in hand (£11,900,000) than ever in its history. It had been buying at a loss with a view to the resumption and the withdrawal not only of its own small notes but of those of the country banks.[1] Leave to issue these small notes—in England—had always been treated by Parliament as a temporary thing, a war measure, to be discontinued as soon as the metallic basis for the currency should be completely restored. The Act of 1816, which extended the suspension of cash payments but contemplated resumption in 1818, had allowed two years from the date of resumption within which the issue of notes under £5 was to cease.[2] Ricardo, whose balanced mind had always feared "the evil consequences which might ensue from a sudden and great reduction of the circulation, as well as from a great addition to it",[3] had suggested in 1819 that it might be wise to continue the use of the £1 note—at any rate for some time—so as to ease pressure on the gold. His ideal currency would have contained such notes permanently "in all the country districts",[4] though not in London. But his advice had not been

[1] There is some reason to think that it had been urged by the government to do so; Viner, *Studies in the Theory of International Trade*, p. 183. The surviving correspondence at the Bank throws no light on this point.

[2] 56 Geo. III, c. 21.

[3] *Proposals for an economical and secure currency*: *Works*, p. 407.

[4] *Plan for the establishment of a national bank*: *Works*, p. 509.

taken: the Act of 1816 still applied; and as resumption was antedated, at the Bank's request, so as to begin on 1 May 1821, the issue of small notes was due to cease on 1 May 1823.

To the annoyance of some of its clients, the Bank had not waited for May 1823, but had stopped issuing small notes as soon as it was ready to cash all notes whatsoever.[1] In August of 1820 there had still been £7,647,000 of the small notes in existence, though of these £948,000 were not in circulation but in store. Two years later the circulation, after deducting those in store, was down to £955,000; four years later to £486,000. As the notes came in from use, thumbed and dirty, they were not replaced. Many would never come: they were far more likely to be destroyed or mislaid than the larger notes. The Bank was relieved of the invidious responsibility, that it had shared with a Tory government, for the many hangings, under the old cruel criminal law, of forgers, both men and women.[2] The forged £1 note was an easy thing to utter, and the wish to limit forgery was a prime motive for its suppression.

English country banks, whose total issues had been again high in 1818, looking to the terminus of May 1823 and following the lead of the Bank, were also curtailing their small note circulation. This curtailment was however interrupted in 1822. Scared by the price fall and influenced by a widespread agitation against "Peel's Act" of 1819, Parliament extended the bankers' power to issue small notes[3] until 1833, the year in which the Bank's charter was timed to expire. The resulting situation was curious and a little ridiculous. Ricardo would have maintained a £1 note circulation. His preference, as was learnt after his death in 1823, was for issue not by the Bank but by a Board of Commissioners;[4] yet failing that, he would no doubt have concentrated the issue

[1] Above, p. 73.

[2] See Cruikshank's grim "Bank Restriction Note" signed by the hangman, in Acres, *The Bank of England from Within*, I, 342.

[3] By 3 Geo. IV, c. 70.

[4] *Plan for...a national bank.*

at the Bank. Now the Directors were carrying out the original policy of terminating that issue—by August 1825 small notes outstanding were down to £416,000—while country banks were free to issue as they pleased; and were so issuing.[1] The Directors' action at least earned the compliment, unusual for any issuer of paper money, of praise from William Cobbett. "I can see no blame in the bank", he wrote in November 1826. "The bank has issued no small notes, though it has liberty to do it. The bank pays in gold agreeably to the law. What more does anybody want with the bank?"[2]

What effect, if any, these shiftings of currency policy may have had on prices it is hard even to guess. Gold was passing into circulation steadily. In the third quarter of 1825 the Bank had £19,800,000 of notes outstanding as compared with £24,500,000 in the corresponding quarter of 1820. But this fall of £4,700,000 was considerably less than the fall of its small notes in the same period. These, it is reasonable to suppose, had been replaced by sovereigns and half-sovereigns; for the exchanges were continuously favourable, gold was at or below mint price, and nearly all the gold minted in these years must have remained in the country. How much the use of cheques and bills was supplementing that of notes and cash we do not know; but progress with the cheque there certainly was. Ricardo's references to cheques in 1816 have a more modern ring than Henry Thornton's in 1802; and Thornton himself said in 1811 that the use of these substitutes for "money" had been proceeding continuously during the years of suspension.[3]

That the resumption and its accompaniments tended to deflate prices is evident; but we cannot tell how far this deflationary tendency was counteracted by a possible increased rapidity of circulation or by the increasing use of credit substitutes. The

[1] The figures of small notes are from the *Stock Estimates*, I (1806–25), II (1825–39).

[2] *Rural Rides*, II, 42.

[3] Above, p. 27.

certain facts are that the price-fall from a peak in 1818 began, and went on most rapidly, before resumption; and that it continued steadily but less rapidly—and with one short interruption during the financial boom of 1825—to the close of the decade. The salient figures are these: 1818, 150 (i.e. 50 per cent above the level of 1790, which was itself a little below the average for 1779–89); 1820, 124; first quarter of 1821, 120; 1824, 106; 1825, 118; 1826, 103; and so down steadily to 93 in 1830.[1] It is still not generally realized that on the eve of the Reform Bill wholesale prices were a trifle lower than they had been during Pitt's years of peace between the American and the great French Wars.

Low prices were due in part to the increased and cheapened supply of home-grown foodstuffs which the enclosures and agricultural improvements of the late eighteenth and early nineteenth centuries had produced. The agricultural interest was working hard to make the country self-sufficient, and sometimes it almost succeeded. In 1820 there was as nearly as possible no import of wheat into Britain, and in several years of the decade a very small one. Unhappily for the squires, success meant low prices and "agricultural depression". They and their farmers, accustomed to a wheat price of 80*s.* and upwards in the later war years and again in 1818–19, cried out bitterly against the 56*s.* 1*d.* of 1821 and what seemed the starvation price of 44*s.* 7*d.* of 1822. Their cries were a main cause of the reversal of the country bank note policy in that year: give us more money; inflate a little for us. They at least saw wheat at 53*s.* 4*d.* in 1823 and above 60*s.* in 1824–5; though whether this is a case of cause and effect is most doubtful.

Home produce fell in price, but the prices of imported articles whose freight costs were relatively high fell even more.[2] These had been inflated hugely by the risks and tonnage difficulties of

[1] Silberling's index number.

[2] For these Silberling calculated a separate index number: *British Prices and Business Cycles*, p. 232.

the wars; and it took time to re-establish peace conditions for trades in which a round voyage out and back might well absorb a year. Just what part was being played in the fall of prices in both groups of commodities by forces connected with issue and the circulating medium; what by improvements in agriculture, industry and commerce; and what by a rise in the purchasing power of gold itself, in a period during which additions to the world's stock were irregular and inadequate to its growing needs, it is not the business of an historian of the Bank—and would be a difficult business for any historian—to determine. It is, however, certain that falling prices, with their whole political and financial setting, led to a fall in the Bank's profits, and that to a willingness to experiment with new types of business.

Advances to government had been curtailed at the Court's urgent request; the discounts were dwindling away; the average amount of paper under discount was down to £2,300,000 by the fourth quarter of 1824; and the income from the discount business which had reached £914,000 in its maximum year (1809–10) and was still £646,000 in 1815–16, was only £92,000 in 1823–4.[1] The income from "private loans" was down to a few thousands.[2] The accumulation of treasure in view of resumption had been expensive; and even after resumption the reserve continued to increase, to a new maximum of £13,800,000 in February 1824, "eating its head off". In order to maintain the dividend of 10 per cent that the proprietors had come to expect, the Rest was drawn upon year after year. It had still been over £6,000,000 after the share-out of 1816: it was down to £3,779,000 by August 1819, and to £2,808,000 by February 1825. Most of this last drop had come since resumption, for at the August balance of 1821 the figure was still £3,595,000; and it had come even though the Directors had cut the half-yearly dividend to 4 per cent at the first declaration of 1823.

[1] Figures from *Stock Estimates*.

[2] In 1822–3 barely £4000.

The years 1825 and 1826 brought a crisis, new banking laws, and a new phase in the history of the Bank. This makes an analysis of its receipts for the half-year that ended with the February balance of 1825 interesting. The total of receipts in the profit and loss account is £694,000. Some few thousands of this, consisting of bankrupts' compositions, is hardly income in the true sense; and it is not important. The vast bulk comes from the state, under familiar headings—interest on the permanent debt to the Bank, management of the National Debt, interest on the loan of £3,000,000, interest on Exchequer Bills. After that the most important single items are £53,000 of interest from the East India Company; then £45,000, no more, from the bills and notes discounted. With standard bar gold at £3. 17*s.* 6*d.* there was a satisfactory profit of £15,500 from the gold account. Loans on dollars to bullion dealers such as the Mocattas yielded £6000, and a few other private loans £5000. There was £1000, but for a year's work, from managing business for the Royal Bank of Scotland; and £7000, also for a year's work, for the same service to the Bank of Ireland.[1] There are some trifles from rents and other non-banking sources; and but for two other items that is all.

These two are remarkable. The first is—from Nathan Meyer Rothschild, interest on advances and loans of dollars, £33,927. 1*s.* 6*d.* Nathan Meyer was almost as useful that half-year as all the bill discounters. The second is—from interest on mortgages, £13,692. 8*s.* 1*d.* Rothschild had been in touch with the Bank for some years: he thought well of the way its business was conducted, especially now that he could bring in notes and be sure of getting gold for his international transactions, transactions which had been helped by a clause in Peel's Act[2] that

[1] These were recent arrangements. The Bank of Ireland was in correspondence about the terms in Oct. 1821 (*C.B. Ra*, Oct. *passim*), when it was agreed to have an experimental year before deciding on them finally. The Royal Bank of Scotland had agreed to pay £1000 for the management of its business, plus 4 per cent on advances, in 1822: *C.T.* 14, 10 July 1822.

[2] 59 Geo. III, c. 49.

made it lawful to melt any British coins and to export either coin or bars and ingots melted from coin. His name first appears in the minutes of the Committee of Treasury in June 1823.[1] A big transaction is on foot: Nathan wants from one to three millions of Spanish dollars. He offers to deposit securities on the basis of a price for the coined silver of 57*d.* per ounce.[2] He will pay 3½ per cent interest. He will replace the dollars in twelve months, or in eighteen months, at the same valuation; or alternatively, he will repay in gold at £3. 17*s.* 6*d.* He does not want Mocatta to know because Mocatta also is a bullion merchant and loan contractor. Evidently there is competitive loan business forward with Spain.

To this proposal the Committee, and next day, the Court, agrees. After that Nathan's hand is in with the Bank and large transactions recur. In May 1824, for instance, he is promised up to £1,000,000 in gold for a year: he is to replace it.[3] When the time is ripe he always acts quickly. On 1 December he wants from £300,000 to £500,000 of the promised gold, and deposits collateral security. He has discussed the matter with the Governor and may require £225,000 to-morrow. It is agreed that he shall have it.[4] His letters are in a new style, crisp and business-like. Letters from the Treasury, the East India Company, or any other old client or client aspirant had always been formal, stately, full-bottomed. His are concise, the point and the cash and nothing but the point and the cash. As a rule they serve merely to record and clinch an arrangement made *viva voce*—that was a thing the Bank liked—and Nathan evidently prefers financial conversations to be in few words and to be settled by the financier's nod.

This was a class of business such as the Bank had always conducted, only now it is done with a master and on the grand

[1] *C.T.* 14, 18 June 1823.

[2] This was the market price in Aug. 1822; by Aug. 1823 it was 56¾*d.*: Tooke, *History of Prices*, II, 385.

[3] *C.B. Va*, 27 May 1824.

[4] *C.T.* 15, 1 Dec. 1824.

scale, a master who very well knows where the biggest accessible heap of gold and silver lies between 1820 and 1825. The mortgage business on the other hand, if not an absolute novelty, seemed so to the Committee of Treasury, who had assured Vansittart in 1816 that the Bank "had never yet lent money on mortgage".[1]

In 1816 the Committee had rejected the suggestion without even referring it to the Court. Now the business was begun without any recorded pressure from government, though the Bank very well knew that the policy had official approval. It was a way of getting that income which the Court rather badly needed. In May of 1823 the Committee of Treasury had reported with regret that it saw no way of raising profits by "keeping out a larger number of notes under existing circumstances"[2]—the discounts were going elsewhere at low rates—and the Court had even considered, though it rejected, taking bills up to a year's currency, a thing that it had never yet done. The Governor had reported difficulty in purchasing Exchequer Bills on the market; the issue had been curtailed and bankers competed for them; and altogether the prospects even for the recently reduced dividend were not good.[3]

So it is not surprising that when a very attractive mortgage proposal was made to the Committee of Treasury in the following October it was accepted at once. The Duke of Rutland, the fifth Duke, had mortgages and encumbrances on his land amounting to £280,000. His men of business asked for a single mortgage of £300,000 at 4 per cent so that he might clear these off. (No doubt they had been contracted on worse terms.) His rent roll was returned at £71,000. Because of "the great eligibility of the security", the Committee at once recommended it to the Court and the Court accepted it next day; the Committee however noting that the rate of interest was not on any account to be

[1] *C.T.* 11, 12 Dec. 1816; above, p. 60.

[2] *C.B. Ta*, 8 May 1823.

[3] Decision and report at the same meeting, 8 May 1823.

taken as a precedent for what was to be asked "from other parties".[1]

When accepting this Rutland mortgage, the Court agreed to proceed with a policy of lending on the security of land up to a sum of £2,000,000; but no single mortgage was to be for less than £10,000. Before the end of the month the Committee of Treasury had drawn up a set of conditions for the new business. Advances were to be made only on unencumbered freehold estates held in fee simple, and in every case the rent roll was to be at least twice the interest that the mortgagor contracted to pay.[2]

Once it was known that the Bank was open to the landlords, applications poured in from the best of them. Before the year was out nearly fifty had been received. The Marquis of Bath wanted £200,000; the Duke of Devonshire £130,000; Mr Bucknall Estcourt £70,000. Earl Cowper, the Earl of Chichester, Sir John Trevelyan and a crowd of less known names are all on this first list of 1823. Only one application was turned down at sight, because the rent roll was inadequate. Chichester refused the offer made to him as not good enough. Nearly all the rest, after having been reported on by Messrs Freshfield, the Bank's solicitors, were accepted, though not all on the Duke of Rutland's terms.

The business slackened off in 1824: there were only a dozen applications from January to May, but one was big and another the biggest yet received. The trustees of Sir Corbet Corbet wanted £104,000 and the Earl of Oxford no less than £350,000. The Committee of Treasury hesitated over this last and finally declined it on Freshfield's report: the Earl's rent roll was not sufficient and in parts of his land he had only a life interest.[3] He returned in the following September with a modified request for £200,000; but he never got his mortgage. The Corbet trustees got theirs.

[1] *C.T.* 14, 8 Oct. 1823; *C.B. Ta*, 9 Oct. 1823.
[2] *C.T.* 15, 29 Oct. 1823.
[3] The applications are in *C.T.* 14, *passim*.

Not only English landlords had tried to take advantage of the Bank's need to earn on its idle capital. An early letter arrived from Ireland as might have been anticipated. The reply was clear: the Bank would not lend on Irish land, nor on Scottish; that was the business of the Banks of Scotland and Ireland, if they saw fit to undertake it.[1] This checked all except the English correspondence; but this English correspondence became very heavy, a thing to which the Bank was not accustomed.[2] Perhaps the new burden, with other difficulties still to be discussed, helps to explain the early cessation of the business. The Directors may also have been influenced by parliamentary criticism. They had been accused, in ridiculous terms, by Joseph Hume the Radical, of "acting as pawnbrokers on a large scale"; and, with much better sense, by Edward Ellice—"bear" Ellice of the Hudson's Bay Company—of locking their money up in an unrealizable form of security, the very thing that had brought down so many country banks in 1815.[3] This was in 1824 when new mortgage business was already slackening off. By October 1826 applicants were being told that the Bank meant to do no more of it.[4] Not all the £2,000,000 originally voted had been used; but before the books were shut nearly £1,500,000 had been advanced, and for a number of years it yielded from £50,000 to £60,000 a year.

It is one thing to refuse fresh mortgages and another to liquefy mortgage investments. In 1869 that £300,000 Rutland mortgage, the first arranged, was still on the Bank's books, though with only £18,500 more; and there was a mortgage income of some £6000 coming in half-yearly.[5] Interest on most of the mortgages had been regularly paid: the Directors' caution had been re-

[1] *L.B.* 5, 17 Oct. 1823.

[2] There are more than 100 folios of mortgage correspondence in *L.B.* 5.

[3] *Hansard*, x, 226.

[4] *L.B.* 6, 3 Oct. 1826.

[5] *C.B, Fc*, 1858–9, contains references to the Rutland mortgage: the mortgage position in 1869 is in *Stock Estimates*, v. By 1870 the Rutland mortgage has gone.

warded.[1] A great deal of work had been provided for Messrs Freshfield, though that was no advantage to the Bank. But Ellice's criticism of the business remained valid and would certainly have been repeated in later years by Walter Bagehot or George Rae, the cautious author of *The Country Banker*, had they known of the large block of mortgages still held. Bagehot may have known: he was very well informed. But Governors did not advertise the situation to the proprietors.

With the fall of the profits from discounting, differences on discount policy arose in the Court. In December of 1821 it broke with a traditional policy when it decided to discount bills and notes with currencies up to 95 instead of only 65 days.[2] When, in June 1822, before mortgage income began to accrue, it was proposed to lower the standard discount rate from 5 per cent to 4—another revolutionary proposal, for the rate had stood at 5 since 1773—there was no opposition, or at least no amendment. It is said that the Bank had been urged to do this by government earlier in the year.[3] But when, eighteen months later, it was pointed out that the market rate was now well below 4; and when it was moved first, "that in regulating the rate...it is desirable to advert from time to time to the market Rate", and, second, "that it is expedient to reduce the Rate of Discount on commercial Bills", both motions were negatived.[4] Perhaps the negativing of the first was only an emphatic way of refusing the second: it can hardly be that the majority was resolute to ignore market rates altogether. And probably that majority included Horsley Palmer,

[1] But they had been obliged to foreclose, administer, and then sell in several instances; Acres, II, 419.

[2] *C.B. Ra*, 20 Dec. 1821.

[3] The vote is in *C.B. Sa*, 20 June 1822. There is no record at the Bank of a rejected government request to reduce, "early in 1822" (Viner, p. 181, n. 19). But the Governor may have rejected one.

[4] *C.B. Ta*, 29 Jan. 1824. Possibly the mover was William Ward. Many years later he wrote "I have often pressed on the Court the necessity of regarding the market rate": *On Monetary Derangements*, p. 13.

who held that heavy discounting should be reserved for difficult times, in which 4 or even 5 per cent would be an appropriate and welcome charge.[1]

Though the Directors had been glad, when accumulating treasure against resumption of cash payments, to reduce their holdings in the floating debt, they were only too willing in the years of high bullion reserves and low profits—from 1821 to 1824—to oblige the Treasury in any emergency: they were usually lashed by some able critic in Parliament for doing so. A sharp rise in the Bank's holding of public securities during the third quarter of 1822 resulted from one such response to the Treasury, in connection with what, in modern phrase, would be called its reflationary policy of that year. To ease the pressure on the gold now going into circulation—and, if possible, to raise prices—the country bank issue of small notes was to be extended, as we have seen; and the Bank was to advance £4,000,000 on Exchequer Bills with the treble object of helping the Treasury to help Ireland, where there was partial famine, by distress grants and public works; of assisting the conversion of the "Navy fives", by providing funds to pay off dissident stock-holders; and of forwarding reflation by increased issues from the Bank. The Bank had agreed to the loan in March and the policy was discussed in the House at the end of April.[2] Issues did increase; but as the circulation of small Bank notes was still dwindling, and as other forces were at work, there was not that note expansion of £4,000,000 which Ricardo had gloomily anticipated when the plan was first mentioned. It could not be absorbed into the circulation, he had said: it would tend to drive up the price of gold and turn the exchanges against us.[3] So it did no doubt tend; but towards the end of the year, when the transaction had

[1] See his evidence before the *Committee on the Bank Charter* (1831–2, VI), QQ. 178, 179.

[2] *C.T.* 14, 21 March 1822; *Hansard*, VII, 160 (29 April 1822).

[3] In a speech in the House: *Hansard*, VI, 483.

been carried through, gold was a little cheaper, and the Paris and Hamburg exchanges a little higher than they had been in February, when it was initiated. The Bank had lost some treasure, but still had plenty and was getting in more.

The Committee of Treasury, though ready to advance the £4,000,000, had disliked the extension of life for the small country bank notes—with reason. Government had not even had the courtesy to consult them about it. It would "materially affect the course of conduct...pursued"[1] by the Bank in curtailing the circulation of its own small notes, and by its encouragement of country issue generally would tend to keep down the Bank's own issue—and the profit of it. The Committee was the more critical because the proposal was at first linked with another that it did not like. Early in April, when communicating their plans, Lord Liverpool and Vansittart had mentioned for the first time the possibility of a territorial limitation of the Bank's ancient monopoly. They made a tentative offer of a ten-year extension of the Charter, that is to 1843. Would the Bank agree to this and to the restriction of the exclusive privilege of joint-stock banking to a radius of fifty miles about London? The Committee hesitated. It wished to be very sure of the extension—Ricardo and other critics in the Commons wanted to see a complete end of its privileges—and, while acquiescing in some curtailment of the monopoly, spoke of "a less contracted distance from the Metropolis". Liverpool and Vansittart replied, adhering to their fifty mile radius outside which joint-stock companies might issue notes payable to bearer on demand; promising that the permanent debt of the state to the Bank should remain untouched at its £14,686,800; guaranteeing that Bank notes should still be accepted in payment of taxes; and further that all other the privileges of the Bank should continue until 1844

[1] *C.T.* 14, 11 April 1822. The statement that the Bank was not consulted is in the Governor's Memorandum for the *Committee of* 1832, p. 69.

and until the repayment by the government of the permanent debt.

After that there were "several conversations" about fifty miles or sixty miles or sixty-five miles.[1] Ministers informed the House of the discussions: on 2 May the Court of Directors agreed under its seal to sixty-five miles, and of this the General Court approved.[2] But then, for reasons which do not closely concern the historian of the Bank, government decided not to proceed at that time.[3] In June the Court, in July the General Court, was notified of this; the Chancellor of the Exchequer returned the sealed document; the seal "was torn off by the Governor, and the proposal put with the Minutes...of 2 May 1822".[4] There for some years the matter rested.

Among the not too wise financial proposals of 1822 was one which has perhaps received undue notice because of the odd nickname that became attached to it—the deadweight annuity, or just the Deadweight. There was a naval and military pensions liability of a round £5,000,000 inherited from the Great Wars. Ministers argued that it was not really part of ordinary expenditure, "in fact, had nothing to do with it". The pensions were a dwindling liability, a "dead expense".[5] The government proposed to issue a 45-year annuity of £2,800,000 a year, so "saving" £1,200,000: from the funds raised by selling the annuity they would meet the heavy pensions costs of the earlier and reduced costs of later years. There were long, subtle and mocking debates in both Houses. The Bank was spared the acute comments of Ricardo, the lumbering attack of Hume, and the satire

[1] Letters and reports of conversations in *C.T.* 14, 11, 18, 24, 26 April 1822. The correspondence is printed in *A. & P.* 1822, XXI.

[2] *C.B. Sa*, 2 May; *G.C.B. VI*, 2 May 1822.

[3] Mainly because the country bankers and their friends in Parliament were opposed to more joint-stock banking; Clapham, *An Economic History of Modern Britain*, I, 271.

[4] A red-ink note to the entry of 2 May 1822, in *C.B. Sa.*

[5] *Hansard*, VII, 164: Vansittart.

of Lord Lansdowne and Lord King, because it did not come into the original picture.[1] But in 1823 government, having failed to find any purchasers of its Deadweight, appealed to the Directors. Very reluctantly, after an amendment to decline had been negatived, they agreed to take £585,740 of the annuity, paying for it £13,089,419 spread over five years and a quarter.[2] The transaction brought up Grenfell and Alexander Baring and Ricardo in the House. They exonerated the Bank, which had not sought the contract, but attacked the government, declaring that the Bill "enabled the Bank...to become...a jobber and speculator in public securities", and that it was "highly impolitic that the Bank should be allowed to make speculations in the funds".[3] But Vansittart had his majority and passed his Bill.

The Bank proved the only Deadweight buyer: five years later the whole arrangement was revised. But having paid for its annuity the Bank drew it for the prescribed period, although once—in the thirties—it made an unsuccessful attempt to sell.[4]

The venture into mortgage transactions of 1823–4 would no doubt have ended early in any case. There was a limit to what the Court was ready to engage in it. But that the end came so soon and so decisively was a result of the commercial crisis of 1825, in connection with which the Bank's treasure fell to a minimum of barely £1,000,000, its note issue rose to an average of £24,500,000 for the first quarter of 1826, and its current discounts rose from an average of £2,500,000 in the first quarter of 1825 to £10,900,000 in that clearing-up first quarter of 1826. There had been every

[1] The debates are summarized in Smart, *Economic Annals of the Nineteenth Century*, II, 85–7.

[2] *C.B. Sa*, 6 March 1823.

[3] The first phrase is Grenfell's, the second Ricardo's: *Hansard*, VIII, 823, 1124. Investment in the funds—consols, annuities, etc.—by the Bank was nothing new. At this time it held about £12,000,000 worth. *G.L. XIX*, f. 22.

[4] See Tooke, IV, 333; article "Deadweight" in *Dict. Pol. Econ.* The nickname was Cobbett's.

need for liquidity: the Bank would no doubt have been quick to turn its mortgages into cash, had that been a possible course. And as the crisis was followed by prompt legislation which affected the whole landscape of banking and currency, some revision of Bank policy was inevitable.

The banking landscape had changed very little in general character since the Bullion Committee and the crisis of 1810; but clouds were rising over it, wholesome or threatening according to the observer's knowledge and position. There were still the "800" separate country banks of England and Wales, mostly very young: "within the memory of many living, and even of some of those now engaged in Public Affairs", Lord Liverpool wrote in 1826, "there were no Country Banks except in a few of the great commercial Towns".[1] Among these "800", issuing licences were held by 552 in 1821. Many of the issues were trifling. This one would expect at the bank of Collumpton, or at that of Hartland Quay. But even including these tiny firms, the average stamping of notes per country bank that year was £8000, which, seeing that the notes remained out for several years, may mean an average circulation of perhaps £30,000, and for the great country banks some very impressive figure.[2]

As a class the issuing banks were not too secure. In quiet times, from 1816 to 1824, less than 2 per cent of them broke yearly; but in the troubles of 1816 6 per cent had gone, and for the two years 1825–6 the percentage would rise to more than 10.[3]

Some of the strongest and best of the country banks, however, were the non-issuing firms in and about Liverpool and Manchester. At Liverpool the Roscoe's issuing bank had failed in

[1] In a Memorandum for the Bank: *C.B. Wa*, 20 Jan. 1826.

[2] "An Account of the...Country Banks in England and Wales which issue Promissory Notes", *A. & P.* 1822, XXI, 47. The hypothetical figure for circulation is based on an estimate for 1818 in the Lords' *Report on Cash Payments*, 1819, App. F. 8.

[3] Number of Issuing Country Banks that have become bankrupt, *A. & P.* 1826, XXII, 5.

1820: only one insignificant bank licensed to issue survived there. In Manchester and Salford there were none. The nearest were at Rochdale and Blackburn. In all Lancashire there were only nine, and four of these, in frontier places, were in effect branches of firms from across the county boundaries, from Cheshire, Yorkshire and Cumberland. Although they did not issue notes payable on demand the Lancashire banks did issue drafts on their London agents payable at fixed dates, for the convenience of their clients. The Lancashire figures of note-issuers contrast with the fifty-six issuing banks of Yorkshire, the thirty-four of Devon, or the thirty-one of Kent. South Lancashire had already assumed its dominant nineteenth-century commercial and industrial position, yet did its business with Bank notes, bankers' drafts and endorsed bills; and it was anxious to continue doing so.[1]

Contrast Scotland. In 1825 it had fewer separate banking firms than Devon—the three chartered banks and twenty-nine others, two of which were old private concerns with few partners and a not very active business, in Edinburgh. The rest were joint-stock companies, co-partneries of many partners with unlimited liability: the Commercial Banking Company had five hundred and twenty-one partners, the National Bank of Scotland twelve hundred and thirty-eight. There was an extensive system of branches and agencies. And it was reported early in 1826 that down to 1825 no single Scottish bank had failed since 1816; in 1816 only one, a more or less private one; and even it had paid 9*s.* in the pound.[2] Certainly Scotland appeared to have secrets of sound banking that England might inquire into.

The use of branches by strong central institutions in Scotland had greatly attracted Lord Liverpool. He was "extremely keen

[1] Although the returns give one bank licensed to issue in Liverpool, John Gladstone in 1826 knew of "no local paper" there: *S.C. on Promissory Notes...in Scotland and Ireland*, 1826 (III, 259), p. 217.

[2] Return of Scotch Banks, *A. & P.* 1826, XXIII, 1: Clapham, I, 272.

upon having branch banks of England."[1] How long he had been keen we do not know. There are no official proposals in the records of the Bank before 1826, though in 1832 Horsley Palmer, when describing the branch policy as "a favourite measure of Lord Liverpool", added "but the Bank always declined it".[2] Suggestion and refusal must have been made in some of those many informal talks between ministers and "the Chairs" which were only recorded when a definite policy to be adopted or rejected by the Committee of Treasury or the Court emerged from them. It is interesting to find that so early as 1816–17 there was a notion afloat in the country that branches were coming. They had been suggested a few years back by an Earl and by a Bishop, and now people begin to write to the Bank about them.[3] It is telling a Devonshire man in February of 1817 that "there is no intention...to establish Branch Banks in any part of the United Kingdom"; and in March is assuring a business-seeking clergyman from Yorkshire that it will not want "a House in the City of York" as a branch office.[4]

If Lord Liverpool admired the branches, some business men of the North appreciated the Scottish joint-stock basis for banking. Why should a Scots bank have hundreds of partners and no English bank more than six? Why should Scottish notes, known south of the border, be so relatively secure when English banks and their notes were not? Early in 1822 Thomas Joplin of Newcastle issued an able pamphlet in this sense and a proposal for a joint-stock bank on Tyneside.[5] The joint-stock banks of Scotland, he wrote, did not fail: they were much more effective "capital merchants" than most of the weak, isolated, English

[1] Vincent Stuckey, quoting Huskisson. *S.C. on Banks of Issue*, 1841 (v), Q. 602.

[2] *Committee of* 1832, Q. 466.

[3] Acres, II, 426.

[4] *L.B.* 4, 24 Feb., 6 March 1817.

[5] *On the General Principles and Present Practice of Banking in Scotland and England.*

country banks: they had better ways of helping little men, Joplin's arguments were widely discussed in business and financial circles. He got into touch with Ricardo, and he was one of the first to argue that the Bank's joint-stock monopoly applied only to issue not to deposit;[1] though he wished to secure issuing rights for his projected bank at Newcastle.

The time seemed opportune for his plans. Trade was active. The low prices of the early twenties which sent landlords begging to the Bank meant cheap raw materials for industry. Industrial wages were low, and left a good margin for profit, though they rose a little with the trade revival. Markets were opening satisfactorily, especially in North and South America. Huskisson was improving the chaotic protective tariff inherited from the war years and was easing the Navigation Laws. Industrial and constructional output was increasing fast from 1821: it rose to a marked peak in 1825.[2] Money, like goods, was cheap, and the investor's desire to make it yield more was an encouragement to every sort of venture—industrial or commercial at home, commercial or political abroad.

Since 1821–2 there had been a spate of foreign loans contracted for in London. Rothschilds were the greatest of the contractors; but Barings and Wilsons and Grahams and Goldsmids all did business on a big scale. In 1822 the loans were mainly to the solid European states—Russia, Prussia, Denmark—states who always paid their debts; though there were £1,000,000 of Chilian 6's, issued at 70, and £2,000,000 of Colombian 6's at 84, neither of which paid any interest after 1826; and there was a fantastic little loan of £200,000 to the republic of Poyais, supposed to

[1] In his *Supplementary Observations to the Third Edition of our Essay on Banking.* Not the very first. The advocates of a scheme for an opposition bank in 1796–7 argued that the Bank's statutory monopoly was only of issuing notes payable on demand: Thomas, E., *The Rise and Growth of Joint-stock Banking* (1934), I, 73. Cp. p. 4 above.

[2] Beveridge, Sir Wm., "The Trade Cycle in Britain before 1850", *Oxford Economic Papers*, 1940.

exist somewhere in Honduras. In 1823 the loans were again mainly European—Austrian, Portuguese, Spanish. Then came the South American rush of 1824–5—Brazil and Buenos Ayres and again Colombia, Mexico and Guatemala, and the Mexican province of Guadalajara. On most of these South American loans, which amounted all told to upwards of £18,000,000, dividends ceased to be paid in 1826 or 1827.[1]

British debt conversions, which the Bank's advances had facilitated, set people seeking lucrative investment. In 1822 Vansittart had converted £150,000,000 of 5's into 4's; and in 1824 Robinson converted £70,000,000 of 4's into 3½'s.[2] With the 3 per cents above 90, as they were nearly all through 1824 and through almost half of 1825, Mexican 6's issued at 89¾ were desperately attractive to blind capital: everyone said that Mexico must be full of silver with which to pay her debts, or where did the dollars come from? As seen from the Bank Parlour, this setting free of capital by conversion was the dominant force in the boom;[3] but there were many other forces at work.

They threw up more than six hundred projects of companies, among them, as might have been expected, many wild-cat South American mining schemes. Most of the six hundred never came to anything. But when all was over and the wreckage had been cleared away, there were one hundred and twenty-seven survivors with a nominal capital of over £15,000,000. Joplin's bank was not among them. Authority had not been secured for that. But the survivors included the Liverpool and Manchester Railroad and the General Steam Navigation Company.[4]

Throughout 1823 the exchanges had remained very favourable. They were still favourable in the first months of 1824, when the

[1] See the first edition (1837) of *Fenn on the Funds* for the various loans and their histories.

[2] See the article "Conversion of British National Debt" in *Dict. Pol. Econ.*

[3] Horsley Palmer, Q. 606, in *Committee of* 1832.

[4] English, H., *A Complete View of the Joint Stock Companies formed during... 1824 and* 1825 (1827).

Bank's bullion reserve was at a maximum. It saw no reason to interfere with the heavy lending abroad which tended to reverse them. Indeed it had no power or mechanism of interference. If government had done the lending, the position might have been different. Protests from "the Chairs" might at least have been heard. But if Rothschild made loan contracts that was not their affair. If he brought notes and asked for gold they conceived it their duty to acquiesce automatically; and so it was. Rothschild found this automatic working most convenient: "you bring in your bank notes, they give you the gold".[1] If you had not notes handy, they would even lend you the gold against securities and promises: in December of 1824 he easily secured in this way that open offer of from £300,000 to £500,000 in gold bars.[2]

By that time the strain of capital exports and of commercial ventures as yet without returns had told on the exchanges. They had been about par at the end of August. By November they were unfavourable, not markedly so but, in an international bullion market safer and more sensitive than that of the war years, quite enough to affect or register the flow of treasure. The Bank knew this and proceeded confidently, for it had much treasure. In the memorandum that he submitted in 1832, Horsley Palmer, one of its best heads and at that time Governor, stated that in the course of 1825 it had exported £7,000,000 of bullion, yet retained plenty for normal domestic needs.[3] In fact it still had £3,600,000 : August balance; and the increasing body of Directors w... ...d learnt from Ricardo to watch the exchanges were entitled to some feeling of confidence, for the Paris exchange —now the best barometer—was once more a little above par But subsequently the home situation became abnormal, and at

[1] *Committee of* 1832, Q. 4847.

[2] Above, p. 81.

[3] In a report to the Chancellor of the Exchequer in 1828 the Committe of Treasury stated that while the exchanges were adverse, Aug. 1824 Dec. 1825, £6,000,000 of coin was exported "in addition to the bar an other uncoined gold sold by the Bank": *L.B.* 6, 28 April 1828.

internal drain of treasure followed the external one that had been so coolly faced. Perhaps the Directors should have anticipated this second draft on their reserves; but as things stood it is hard to see what they could have done to avert it, though they do seem to have been slow to take alarm.[1] It was not until the autumn the Deputy-Governor said, that they "began very seriously to contemplate what would be the result of the speculations and of various circumstances that were going forward".[2]

They were, and have been, blamed for not contracting issues. But on the exchange doctrine that had been preached at them there was no reason why they should have done so before November 1824. In fact they sold a considerable block of Exchequer Bills in December. Home prices were low, very low, and exchanges were favourable. True, the quarterly average of notes outstanding was the same in 1825 as it had been in 1824, both being £1,500,000—just over 8 per cent—above the level of 1823. Yet that is no unreasonable addition to one item of the whole circulating medium at a time of brisk trade and rising prices. And most certainly the Bank cannot be accused of stimulating the boom by reckless commercial lending, though it had been too complaisant towards the government. In 1824 its discounts were abnormally low and so remained until the second quarter of 1825.[3] In March 1825 it sold a very large block of Exchequer Bills, presumably to "contract the circulation": it was selling again in June, and steadily from September.[4] If discounts rose during the summer, it was because a rising money market was driving discounters on to the Bank, and the Bank was performing, though late, what George Grote—banker and

[1] William Ward, a Director in 1825, wrote later that they had too much silver; that he had advised them to realize it for gold, in the spring, as a precautionary measure; but that his advice had not been taken: *Remarks on the Commercial Legislation of 1846*, p. 44.

[2] J. B. Richards' narrative in Q. 5006 of the *Committee of* 1832.

[3] Notes and Discounts quarterly in Silberling, pp. 255–6.

[4] Account of Exchequer Bills purchased: *G.L. XIX*, ff. 775–8.

historian, no mean authority—believed was its most useful function. Should a man's banker be reluctant to discount for him, he does not know where to turn, Grote said. But "he can get to the Bank without that special, permanent, and exclusive connexion which he preserves with his own banker, and which cuts him off from all other bankers".[1]

If the Bank's copy-book was not heavily blotted that of the country bankers was. In 1824 they stamped twice as many notes as in 1820. The 1825 stampings were 30 per cent above those of 1824 and more than 100 per cent above those of 1822.[2] Stampings are not the same as issues. A representative, and apologist, of the country bankers argued a few years later, from a table of issues by 122 of them—"much closer and better evidence" than he had ever seen before, he said—that the increase in actual issues between 1822 and 1825 was only 16 per cent.[3] We do not know precisely how the table was composed or how he arrived at his results: we do know that he was acting as counsel for the defence and that he could not have access to the records of the worst over-issuers, many of whom had collapsed. It might be wise to assume a minimum extra issue of 20 to 25 per cent.

One point, however, much neglected by contemporary statesmen and economists with eyes fixed on the notes and the Bank, this bankers' man made conclusively. It was the importance of the bills. Lancashire had used notes only for wages: bills had formed its "almost exclusive currency". They had formed nine-tenths of the currency in the West Riding also, and a great part

[1] *Committee of* 1832, Q. 4773.

[2] Returns of notes stamped: *A. & P.* 1821, XXI, 43; 1825, XXI, 293; 1826, XXII, 1.

[3] Henry Burgess, Secretary of the Committee of Country Bankers, to the *Committee of* 1832, Q. 5165. For a more favourable estimate of the conduct of the country banks and useful details of the antecedents of the crisis, see Bowen, "Country banking, the note issues and banking controversy in 1825" *E.J. Hist.* 1938.

of it in Staffordshire and Shropshire.[1] Though they might not circulate so much or so fast as notes, they certainly passed through many hands in these typical industrial regions; and their aggregate value increased rapidly in times of brisk trade, when they stood for transactions in goods, and perhaps faster still when they were of the accommodation sort common in a speculative world.

It was towards autumn in 1825 that the money market and the whole country, with the Bank, began to become really uneasy. The funds had been falling, slowly but steadily, all the year. Shares in the new companies and stock of the new foreign loans were falling less slowly. Interest on some of the loans was not yet due, and returns from speculative exports still tarried. Bankers had heavy loads of unusually long-dated bills, with other non-liquid securities. Money to keep industry and trade in motion was wanted to replace funds locked up; and it became harder and harder to get. From Michaelmas abnormal bankruptcy began, and mounted at a terrifying rate through the quarter. In October and November the Bank was cautious with its discounts.[2] Late in November important banks in the West Country and in Yorkshire broke. By December panic conditions were setting in. On the 1st there was a rush to discount at the Bank like that for "the pit of a theatre on the night of a popular performance".[3] The Bank did over £900,000 of discounts that day. Soon

[1] *Committee of* 1832, QQ. 5329–36. Twelve years later the Lancashire use of small bills in this way was nearly over: "scarcely such a thing" the Bank's Liverpool Agent said in 1838: *S.C. on Joint Stock Banks*, 1837–8 (VII), Q. 289.

[2] Lord Liverpool heard that before 29 November it had refused discounts to Rothschilds, Barings, Smith Payne and Smiths, and Harmans (Liverpool MSS. quoted in Brock, W. R., *Lord Liverpool and Liberal Toryism* (1941), p. 204). No doubt it was rationing the discounts: there can hardly have been an absolute refusal to such firms, least of all to Harman, a Director still, though his firm was not too secure (see below, p. 198). From 7–26 Nov. the discounts averaged £163,000 a day. On 28 Nov. they were £184,000; on 29 Nov. £545,000; 30 Nov., St Andrew, was a Bank holiday; on 1 Dec. £926,000 of discount business was done: *G.L. XIX*, f. 325.

[3] *The Times*, 2 Dec. 1825, quoted in Acres, II, 421.

"Lombard Street was nearly filled with persons hastening to the different banks to draw money, or waiting in anxious fear of hearing of new failures".[1] On the 5th it was known that Sir Peter Pole & Co.—Pole, Thornton, Free, Down and Scott; Henry Thornton's firm—were in trouble; and known too that they were agents, as they always had been, for a long list of country banks, now forty-four in all.[2]

Sir Peter was connected, "by marriage and other circumstances of relationship",[3] with the Governor, Cornelius Buller. It fell to J. B. Richards, the Deputy, to handle the situation. With the consent of "several of the Committee of Treasury", hurriedly collected, and the Governor's natural approval, help was promised and given. It did not suffice. Pole's struggled on to the 17th but after that they went down. The week from Sunday, 11 December, to Saturday, the 17th, was the worst. The Court sat five days out of the six: one can imagine its anxious discussions, but they are not recorded—only three critical votes and some irrelevant formal business.[4] Five London banks beside Pole's stopped payment, and in the country almost too many to count. On the Tuesday the Court, encouraged by the government, tried to help the market with funds by buying £500,000 of Exchequer Bills: having discounted £1,265,000 of bills on the Monday, it also raised the rate of discount from 4 to 5, in spite of which it did £1,049,000 of discount business on Wednesday the 14th, £2,054,000 on the Thursday, and in the six days no less than £5,977,000.[5] On the Thursday it agreed to advance at 5

[1] *Annual Register*, 1825, p. 123. [2] *Annual Register*; cp. Vol. I, p. 165.
[3] J. B. Richards' narrative. [4] In *C.B. Wa*, under the above dates.
[5] The credit for the Bank's free discounting was claimed by Joplin, who inspired an article in the *Morning Chronicle* of 14 December. At "seven o'clock in the morning" of that day Vincent Stuckey also wrote to the Bank urging freedom (Gregory, T. E:, *The Westminster Bank through a Century*, II, 149–50). Possibly these urgings help to explain Thursday's high figure, but *G.L. XIX* shows that the Bank had anticipated them. The six days' figures were £1,265,000; £542,000; £1,049,000; £2,054,000; £379,000; £688,000.

against those long bills—beyond 95 days—which it did not usually discount, and against approved securities.

The ordinary non-discounting public was clamouring, through its banks, for money—Bank notes or gold. Neither notes nor sovereigns could be made fast enough: it was the literal physical limit that impeded, for gold was below Mint price and the Mint was working furiously. By the evening of Saturday, the 17th, the Bank had run out of £5 and £10 notes. However, a supply came from the printers on Sunday morning. The Bank hoped for gold on the Monday, but was not sure of it.[1] Its treasure was down to £1,027,000, including some silver and the gold at the Mint: less than half of this was gold coin. £1 notes it had not issued for a long time before the crisis. Of the £396,000 of them reported outstanding in the previous August, many were certainly lost, all were out of reach. But there were rather more than as many again stored somewhere in the Bank, though the Deputy-Governor was not aware of it. This famous "box of £1 notes", opened with government approval and utilized on the 16th, "worked wonders", Jeremiah Harman said. Asked "had there been no foresight in the preparation of those £1 notes", he replied—"None whatever, I solemnly declare".[2] Perhaps there should have been some foresight.

Among themselves, at those Courts whose discussions are not minuted, the Directors faced a stoppage. "It was mentioned to His Majesty's Government that we thought we were likely to run dry."[3] Government said, in effect, pay out gold to the last—and the Bank agreed—but we will not formally suspend cash payments. At the Bank, this absolute refusal was credited to Canning, Foreign Secretary at the time, not Chancellor or First Lord. There was a rumour afloat "that it was actually proposed to the Government of France to take measures for stopping the

[1] Richards to the *Committee of* 1832, Q. 5055.
[2] *Committee of* 1832–4, QQ. 2232–4.
[3] Richards, Q. 5031.

Bank of England".[1] If such a rumour got to Canning's ears, it would explain possible action outside his special sphere by a proud Foreign Secretary: England's Bank must not bow to the craft of the sneering French, ten years after Waterloo.

But so far from sneering or working against England, France was sending gold. It was from Paris that the gold was coming, a first consignment of about £400,000, on Monday the 19th; but the arrival was "subject to the winds and waves".[2] Silver had been shipped across and gold was due in exchange, thanks to Rothschilds and the smooth-working French bimetallic system. It was not a direct transaction between the Bank of England and the Bank of France, but no doubt that Bank was cognisant of it and may have supplied the gold, the English gold; for when the consignments did come, they mostly came in sovereigns.[3]

As between continued cash payments and a brief actual, if not statutory, suspension it was, as the Duke said of Waterloo, "a damned nice thing—the nearest run thing you ever saw in your life".[4] Canning's pride could not quicken the Mint or produce more boxes of notes to allay the panic, though perhaps the newly printed £5's and £10's that came in on the Sunday might have helped. But that anxious Saturday marked the panic's crest. Next week "things began to get a little more steady"; the Bank was called on to do only £2,622,000 of discounts; "and, by the 24th, what with the one-pound notes that had gone out, and other things, people began to be satisfied". "The Chairs" and the Court could take breath and refreshment on a Sunday that was also Christmas Day. "It happened to me", said the Deputy, "not to see my children for that week."[5]

[1] This rumour was put as a question by the Chairman of the Committee to Horsley Palmer: "Did you ever hear? etc.", Q. 799.

[2] Richards, Q. 5009. [3] Horsley Palmer, QQ. 800–2.

[4] *The Creevey Papers*, I, 236. The Duke told Earl Stanhope that "had it not been for the most extraordinary exertions—above all on the part of old Rothschild—the Bank must have stopped payment in 1826": *Conversations with Wellington*, p. 159. [5] Richards' narrative.

The wreckage was already frightful; and by the end of the year a list of the principal, not all, banks in England and Wales that had suspended payment contained seventy-three names.[1] A number resumed payment; but when the balance was struck later it was found that thirty-seven issuing banks had gone bankrupt, besides non-issuers in London and the country. The total of complete collapses for the year must therefore have been about fifty. To this have to be added twenty-two issuers' bankruptcies, and an uncertain number of others, in 1826, a year in whose second quarter bankruptcies of all kinds, the delayed ones of the "strong swimmers in their agony", reached an absolute maximum.[2]

In Scotland there were two or three bank failures, but not one among the older or the fully developed joint-stock banks, and not one in Edinburgh or Glasgow. The country seemed almost immune to the virus. Lancashire also was in health: both its issuing and non-issuing banks came through. So did the Leeds and the Newcastle banks. In Yorkshire there was more fatal disease, but mainly in one unhealthy institution, Wentworth's of York and Bradford.[3] The places that suffered most were residential and market towns. In this class, Bath, Brighton, Cheltenham, Hinckley, Saffron Walden and St Neots each had two suspensions of payment by banks in 1825; and many similar places had one. Outside London, the only other towns with more than one were Northampton, which had two, and Stockton, which had three. But one of Stockton's three, with one of Saffron Walden's two, resumed payment.

The crisis found the government ready with schemes which, whatever their merits, were already matured. Lord Liverpool

[1] List in the *Annual Register*.

[2] Number of Issuing Country Banks that have become bankrupt: *A. & P.* 1826, XXII, 5. Bankruptcy statistics in Silberling, p. 251 and on Jevons' chart in his *Investigations in Currency and Finance*.

[3] William Beckett of Leeds told the *Committee of* 1832 (Q. 1414) that Wentworth's was miserably managed.

had clear and generally sound views on currency and banking. He may be credited with the initiation of those schemes, rather than his Chancellor, "Prosperity Robinson". The £1 note, especially when issued from the factory of a country bank, he had always disliked: it had only been kept alive since the resumption of cash payments as a concession to parliamentary opinion. Branch Banks of England were an old hobby of his; he had once held a sealed agreement by the Bank to accept the narrowing of its joint-stock monopoly area to a sixty-five mile radius about London; and he knew all about Scotland. The three-pronged policy embodied in the currency law and the banking law of 1826 (7 Geo. IV, c. 6 and c. 46) was already sharpened and polished.[1]

Parts of it had been tried out, by way of experiment, in Ireland. Even before the negotiations with the Bank of 1822, an Act had been passed (1 & 2 Geo. IV, c. 72 of 1821) which allowed co-partnerships of any number of persons to issue notes outside a fifty-mile radius from Dublin, within which radius the Bank of Ireland retained the monopoly. This Act was not effective, and two more were required before a solid foundation was laid for Irish joint-stock banking. But even the second of these, which repealed the first, was already on the Statute Book, as 6 Geo. IV, c. 42 of 1825.[2]

On 12 January 1826, when the bank failures and commercial bankruptcies of the crisis were still very far from their end, the Court nominated a strong committee to report on the practicability and expediency of the branch policy—a policy which, had they known it, could claim as long a pedigree as the Bank itself.[3]

[1] Smart, II, 336, 344, gives the credit to Huskisson; but I know of no evidence for this. Huskisson himself traced the branch bank policy to Liverpool (above, p. 92, n. 1) and was slightly critical of it: "I very much doubt whether it will answer in the long run."

[2] The fullest account of this Irish legislation in relation to English banking law is in Gregory, *The Westminster Bank*, I, 14–16.

[3] *C.B. Wa*, 12 Jan. 1826 and Vol. I, p. 105.

They reported, in a week, that it was highly expedient:[1] it would greatly increase the Bank's own note circulation; would give it "a much more complete control, than it now possesses, over the whole paper circulation and enable it to prevent a recurrence of such a convulsion as we have lately seen"; would probably lead to a "very large" increase of deposits; and would protect the Bank against the competition of "large Banking Companies", should the government encourage their formation. So much for the interests of the Bank.

The public would get a better circulation; fewer vicissitudes of contraction and expansion; easier transmission of money; and widespread places of perfectly safe deposit.

As to practicability—why look at Scotland! The existence of private banks was no obstacle: "every Scotch bank except the oldest had to struggle against the efforts of one or more rivals".

So eager was the Committee that, having looked into the branch system "in the Sister Countries", it outlined a whole scheme of branch organization and policy; and it ended with an exhortation to speed. The government had "strong measures" in view: if the Bank did not act it might suffer "encroachments on its circulation by the erection of other chartered Banks".

The Court accepted the report without amendment and forwarded it, minus the final paragraph, to Lord Liverpool. Next day it discussed a memorandum from him and Robinson,[2] dated a week earlier, which blamed the country banks; proposed the abolition of the small notes; pointed out illogically that Scotland which had "escaped all the convulsions" also had small notes, so that these could not explain the convulsions; stated bluntly that the Bank must either start branches or relinquish its monopoly; discussed the radius; waved the ominous and anticipated

[1] *C.B. Wa*, 19 Jan. 1826.

[2] *C.B. Wa*, 20 Jan. 1826. The government memorandum of 13 Jan. was published later but in condensed form: see *Hansard*, XIV, 103, and *A. & P.* 1826, XIX, and 1826–7, XIV, for the correspondence as printed.

threat of other chartered banks, noting that Scotland had more than one; and observed severely that existing law allowed every sort of banking "except that which is solid and secure". The two ministers went on to tell the Bank that bargaining by it would be "very much to be regretted", and that Parliament was most critical of any "maintenance of exclusive privileges": "such privileges are out of fashion". Finally the Directors were assured that they would remain "sole Bankers of the State", and were begged, after being threatened, to "make no difficulty" in abandoning their monopoly of the joint-stock.

The Court, somewhat embarrassed, voted a wordy acquiescence, but protested that they could not recommend the proprietors "to give up the privilege which they now enjoy, sanctioned and confirmed as it is by the Solemn Acts of the Legislature". They were thinking apparently of the London monopoly.

Replying, ministers regretted the insertion of this final clause; adhered to their policy; and "formally protested" against any notion of a compensation due to the Bank for its sacrifices.

In a rejoinder the Bank noted that the Bank of Ireland had been given both a fifty-mile monopoly radius, a clause forbidding any joint-stock bank to draw bills payable within the radius on demand, or for less than £50, and certain legal facilities in actions against such banks.[1] Surely the Bank of England could not be given less!

To this, in their final letter of 30 January, the ministers agreed: they probably always had agreed. They also reminded the Bank that its willing adoption of the branch policy was not enough, yet begged it to go forward with that policy.

The parliamentary fight over the banking and currency legislation of 1826 began on 10 February and ended only in May. So far as the Bank was concerned, nothing was said or decided that had not been threshed out already; except that instead of the fifty-mile monopoly radius of the Bank of Ireland it was given

[1] *C.B. Wa*, 26 and 30 Jan. 1826.

the sixty-five miles of the abandoned agreement of 1822. By general consent it had not done too badly in the crisis: of its old critics, Ricardo was dead, and Grenfell, though still in the House, made no serious attack. Discussion turned more about the country banks and that famous right-about-turn of a government which, after announcing its intention of putting a limit to the use of £1 notes everywhere, was bullied by the Scots, led into action by Sir Walter who was ruined that year, into leaving £1 notes in Scotland while abolishing them in England. Country bankers and their friends, very well represented in Parliament, were naturally not eager either for provincial joint-stock banks or for Bank of England branches. From ministers downwards, there was a tendency to overestimate the economic importance of Bank notes and Bank-note policy: "from the discussion", a modern economist once wrote, "one would think that the business of the country was still conducted by bank-notes",[1] so little was the attention given to drawing credits and cheques and bills. As for the condemned £1 note, the notion that it had any real connection with reckless company promotion or overlending to South America was nonsensical; although no doubt its widespread use by ignorant people may have made the rush for gold more dangerous when the social temperature was at panic level. Yet the concession to Scotland made it difficult for ministers to use that argument.

The bank-notes Act became law on 22 March. Its sole object being "to limit, and after a certain period to prohibit, the issuing of Promissory Notes under a limited sum in *England*", it was very simple. Notes for less than £5, if stamped in the country before 6 February or at the Bank before 10 October of the current year, might be issued and re-issued until 5 April 1829. Thereafter re-issue was prohibited. Of its small notes the Bank was to render a monthly account.

It now had a fairly large circulation of them. There were still

[1] Smart, II, 340.

£1,161,000 out at the August balance of 1826. But by August 1828 the figure was down to £382,000. Seeing that ten years later more than £250,000 were still outstanding, some such figure may be taken as that of the "dead" notes, those lost, forgotten or destroyed, a large group in any issue of small denomination. As effective money, the notes were extinct within the time limit set.

The banking Act is dated 26 May. It contained the reference which the Bank had feared to possible "bodies politic or corporate", besides that to "co-partnerships" of "any number of persons", joint-stock banks on the Scottish pattern. The state reserved its right to incorporate a rival bank; though there was no intention of exercising it. With a radius of sixty-five miles instead of fifty, the issue limitations on corporations or co-partnerships were to be the same as in the Irish law of 1825; neither sort of bank was to draw bills for less than £50 payable on demand within the radius by any member of the corporation or partner. And "to prevent any Doubts" about the lawfulness of such action, the Governor and Company of the Bank of England were formally authorized to "empower agents to carry on banking business in any place in *England*".

The Bank was never so inert in the hands of ministers, so much ordered about, as in 1826. The records leave an impression that the Governor, Cornelius Buller, lacked character. Most Governors in difficult times—Samuel Bosanquet, Daniel Giles, Jeremiah Harman, John Horsley Palmer, Bonamy Dobree, or very much later William Lidderdale—have left their mark in the records of the country, or in those of the Bank, or in both. Buller's mark is nowhere. All that is really known of him is that he was irregular in attendance at the Court in 1811[1] and that he left the handling of the ugly business of Sir Peter Pole & Co. to Richards his Deputy. Possibly his private connection with the Poles crippled

[1] Above, p. 31.

his activity during the two or three awkward months: he certainly did not make himself felt.

The last order from government during the semi-acute stage of the crisis had come on 26 February, when Liverpool and Robinson urged the Bank to help the world of business by making advances against goods, up to three millions, repayable within three months. If the Bank would agree, ministers offered to repay six millions of floating debt during the session. The Court disliked the proposal. They thought the government should do the work itself, on the analogy of the Exchequer Bills of 1793: that was what a deputation of London merchants who interviewed Lord Liverpool had asked for. They had sympathizers in the House; but Liverpool had told Canning that he would rather resign than agree.[1] At the Bank, refusal to advance against goods was moved but was negatived; yet in the vote of acceptance the words "reluctantly consent"[2] appear—the sulky answer of driven men.

Not very much came of it; for the total sum advanced, through local committees, was not greatly in excess of £500,000. Compare the £1,800,000 of discounts during the week 13–18 February, when the discount business, which had slackened from its December spate to about £500,000 a week during January, had again flooded up.[3] Even a single week in quiet January saw almost as great advances as were made in the several weeks that it took to disburse those few hundred thousand pounds "against goods".

In fact very many of the loans—more than 66 per cent—were made not against goods at all but on personal security. Few were repaid within the prescribed three months. Of £533,040 advanced, all however were repaid except £1877 by March 1828.[4] Manchester had a fine record: fairly prompt payment and only

[1] Brock, p. 210.

[2] *C.B. Wa*, 26 Feb. 1826.

[3] *G.L. XIX*, f. 331.

[4] Report of the Committee of Treasury on the loans: *C.B. Ya*, 20 March 1828.

£70 lost out of £115,490. Liverpool paid all its £41,450 in twelve months. Sheffield was troublesome but repaid £59,500 in fifteen months; Huddersfield very troublesome, but cleared off £30,300 in twenty-one months. Birmingham, with its innumerable small workshops, did well to repay all but £285 out of £19,600. Glasgow was the worst: payment was very irregular; much dunning was needed, and £1522 (out of £81,700) was still due in 1828. London, more easily dunned, had paid all its £166,100, but had taken two years to do it. The Bank, knowing London intimately, had turned down three times as many applications as it accepted; so these were sifted debtors. The work of the local committees was probably not everywhere so thorough.

All through 1826 the figures of bankruptcies ranged extraordinarily high. October was the worst month since 1810—except all the months from December 1825 to March 1826 inclusive. In the course of the year no less than 98 firms discounting with the Bank suspended payment, compared with 37 in 1825 and 17 in 1824.[1] But Consols were slowly rising; the sounder parts of the trade of 1825 were bringing in returns; the exchanges were favourable; the balances of private drawing accounts at the Bank, which included those of the chief London clearing banks, had grown from £1,722,000 in February and £1,440,000 in August of 1825 to £2,714,000 in February and £3,496,000 in August of 1826;[2] and the Bank's reserve of treasure, which as the result of the December efforts and some return of cash from panic hoards had reached £2,500,000 by February, stood at £6,800,000 in August. By February, besides more British coin and more bars, it had acquired nearly £114,000 of French gold coin, some Dutch, some Sicilian and even £172 of

[1] *C.B. Xa*, Report on discounts, 15 Feb. 1827.

[2] These balances had never reached £2,000,000 down to 1825. From August 1826 they were never below £3,000,000; from 1830 rarely below £5,000,000. The figures are in the *Stock Estimates*.

"German".[1] It was busy all the year working off its discounts. In the first quarter there had been an average of £10,900,000 outstanding; by the fourth this was down to £2,200,000. In 1827 the London discount business almost faded out.

Meanwhile the Bank was seeking other business through the organization of its new branches. Early in April the Committee dealing with them sent in its second report.[2] It had consulted the Bank of Ireland and the Bank of Scotland; also a representative of the Provincial Bank of Ireland, and a member of Barings who knew about the Bank of the United States.[3] All these institutions had branches and the Committee found "few essential differences". They recommended local Agents and Deputy-Agents rather than boards of direction. Accommodation of clients should be kept within bounds; "accounts never to be overdrawn"; "no interest to be allowed". The branches, it was suggested, might discount bills on London and local bills payable in any place where a branch should be set up; Scottish bills through the Bank's old client the Royal; and Irish bills through the Bank itself. They might buy stock; receive dividends; collect bills and give bills on London. It was taken for granted that they would receive and remit tax-revenue and handle Bank Post Bills. Notes for local issue should be made at headquarters but with a local mark. A branch should keep coin against, say, one-fifth of its note circulation, but should have a call on further supplies from London.

The Committee thought that the new law, when it got on to the Statute Book, would not produce a rapid growth of joint-stock concerns. The Bank should act quickly, for the country needed a sound currency, and the Bank—though this the Com-

[1] From the Balance in *G.L. XIX.*

[2] *C.B. Wa,* 6 April 1826.

[3] This is the second Bank of the United States: it was chartered in 1814 and lost its federal charter in 1836, when Andrew Jackson was President. See p. 150 below.

mittee left to inference—with its discounts dwindling in prospect, and its mortgage business to be shut down, needed fresh sources of income.

Before the Act became law the Committee advised inquiry at Liverpool, Leeds—or, failing Leeds, Wakefield or Huddersfield—and perhaps Gloucester. The Court confirmed Gloucester and added Manchester; letters were sent to Liverpool, Manchester and Birmingham to ascertain whether "the best informed persons" wanted branches, and within a week of the Act, that is on 1 June, Charles Cripps, banker, was appointed the first Agent of the Bank of England, and at Gloucester. He was given a Sub-Agent and four clerks. His instructions were based on the April report of the Committee. Besides complying with rules there suggested, he was to discount no bill that had even the "appearance" of accommodation paper; to discount only for depositors; to allow depositors to have money paid in in London and vice versa; and to make no advances on securities not authorized by the Court. These were the chief general regulations: there were many other more technical, dealing with rates of commission and banking procedure.[1]

In July Agents were found for Manchester and for the newly approved branch at Swansea. In August Bristol was approved, and Agents were formally given freedom to discount bills payable in any place where there was a branch.[2] There was a lull for a few months, until in May of 1827 branches at Hull, Newcastle, Exeter and other places were discussed. Against the proposal for branches in Hull and Exeter "various residents" sent letters of protest in October. The month before, the Mayor of Hull had asked for a branch.[3] Evidently there were strong divisions of

[1] *C.B. Xa*, 4 and 11 May and 1 June 1826, and *L.B. A* [of *Branch Bank MSS.*] for the letters of 12 May, sent to the "Local Boards" of Liverpool, Manchester and Birmingham.

[2] *C.B. Xa*, 13 and 27 July and 17 Aug. 1826.

[3] *C.B. Ya*, 3 May, 8 Oct. 1827; *C.T.* 16, 26 Sept. 1827.

opinion in that port; for when it was decided, in the following year, that it should have a branch, the Mayor—presumably a new Mayor—and some principal merchants explained that the office was "not established at their request or for their accommodation".[1] That was in November. Eight months earlier, a similar protest had come from Newcastle, whose Chamber of Commerce —a new and perhaps not entirely representative body—begged the Governor and Company to "abstain from trying the experiment" of a branch on Tyneside. The Committee on Branches saw no sense in this; for the branch was all ready to start with Agent and Sub-Agent, both local men; and many other local men were supporting it.[2]

The situation by 1829–30 showed that the earlier calculation of the Committee had been intelligent and that the Bank had shown a rather unexpected capacity for quick action. Vigorous men were coming to the front in the Court, notably Horsley Palmer, who was chosen Deputy-Governor in 1828 and after that, most unusually, Governor for three years, from April 1830 to April 1833. No less than eight branches had been opened by the end of 1827: Gloucester, Manchester, Swansea, Birmingham, Liverpool, Bristol, Leeds and Exeter. Newcastle and Hull followed in 1828. Norwich should have accompanied them, but the opening there was delayed until 1829.[3] New joint-stock banks, which were as yet legally only huge partnerships with unlimited liability, came into being more slowly, as the Bank's Committee had anticipated. Four were started in 1827, at Huddersfield, Bradford, Lancaster and Norwich; none in 1828; and seven in 1829, two to fight for the Manchester trade, one to serve Cumberland, one each for Halifax, Leicester and Birmingham, and lastly the firm in Somerset

[1] *C.T.* 17, 12 Nov. 1828.

[2] *C.T.* 16, 12 March 1828; *C.B. Ya*, 20 March 1828.

[3] See generally Acres, II, 226–38: "The establishment of Country Branches". By August 1831 drawing accounts at the Branches already had £728,000 of balances, against £5,134,000 balances of private accounts in Threadneedle Street.

which Vincent Stuckey the private banker of Langport built up by absorbing into it four or five other banks in which he was partner.[1] Then he opened branches; showed to the future how banking might evolve from the private into the joint-stock phase; and was explaining in 1832 that he found the new facilities "of the utmost convenience in all branches of his business".[2]

Other private bankers, who might have imitated him, spent too much of their time in criticizing the undoubted weaknesses of some of the new joint-stock concerns—the law dealing with them, rather not dealing with them enough, left plenty of room for abuses—or in protesting shrilly against the Bank's new branches. Twice their association sent memorials to the government, in 1827 and 1828. They would not complain, they said, "of rival establishments founded upon equal terms; but they did complain of being required to compete with a great company, possessing a monopoly and exclusive privileges". They feared that the Bank might become "masters of the circulation of the country", a thing "dangerous to the stability of property". As ministers showed no willingness to adopt "measures for the withdrawal of the branch banks", they claimed to be heard when the Bank Charter came up for renewal, a most reasonable claim.[3] But after a few years' experience some of their leaders were more tolerant. Thomas Attwood of Birmingham had no complaints, and Forster of Walsall was even appreciative. Vincent Stuckey, though he criticized "poaching" by the branches, was sure that they lacked the local knowledge for effective competition in country districts, and was not fundamentally hostile; and William Beckett agreed that the Leeds branch was both convenient and had "added to the safety of banking".[4]

Anxious country bankers might have been more anxious still had they all known that mastery of the circulation was the very

[1] From a list submitted to the *Committee of* 1832 (Q. 4258) by the Directors of the Manchester Joint-Stock Bank. [2] Q. 1008.

[3] Clapham, I, 277. [4] Q. 1433; for Stuckey, QQ. 1129, 1185.

thing that Horsley Palmer wanted. Early in 1831 he is telling the Governor of the Bank of Ireland that he wishes to get the law altered so as to concentrate issue for each country in its central Bank. Two years later he is sounding the Bank's old Edinburgh correspondent, the Royal; would there be any support in Scotland for "one issue instead of many"? "The principle you know to be a favourite theory of mine."[1] How long he had favoured it does not appear. If for several years, probably some country bankers were aware of this in 1827–8; for Palmer was a vigorous, outspoken man. One of them certainly said in 1833 that the scheme "of monopolising to themselves the circulation of the country" had "long been cherished by the Bank Directors".[2]

William Beckett had found the Leeds branch particularly convenient as a source of coin. That was no doubt the result of recommendations from the Branch Banks Committee adopted by the Court in March 1830, by which bankers generally were allowed to open drawing accounts at the branches, either for payment of their notes there received or for procuring Bank notes and cash; and were also allowed to open discount accounts.[3] Before that some of these opportunities for country banks had been a matter of bargain. In the previous January, the new Birmingham Banking Company had been given a discount account, but on condition that it circulated only coin and Bank notes;[4] and when Charles Cripps, the banker, was appointed Agent at Gloucester it had been stipulated that banks at Cirencester and Cheltenham in which he was interested should no longer issue. Subsequently, when he wished to see the issue resumed, he bought the right by surrendering part of his stipend as Agent.[5]

[1] *L.B.* 7, 3 Feb. 1831; 29 Jan. 1833.

[2] *Hansard*, XVIII, 203: C. S. Forster, in the debate on the Bank Charter Act, 31 May 1833.

[3] *C.B. Ab*, 11 March 1830.

[4] *C.B. Ab*, 7 Jan. 1830.

[5] *C.B. Xa*, 1 June 1826; *Ab*, 9 July 1829.

In attracting discount business, and especially that of provincial banks, the branches were quickly and uncommonly successful. Already in 1830, at the eleven branches, nearly £5,500,000 of discounting was done for nearly 1000 clients, a greater total than was done that year in Threadneedle Street. Of the clients, only fifteen had suspended payment, although 1830 had been a difficult year. Among the branches, Birmingham had done most business, £1,863,000 for 236 clients. (There were two important banker discounters at Birmingham.) Liverpool came next with £923,000 for 248; then Manchester with £826,000 for 80. Leeds was only just below £500,000: the link with the main industrial regions was strong. Then, in descending order, came Norwich, as an industrial centre in decline, Hull and Newcastle, where the Bank had not been welcomed by everyone; and, after a very wide gap, Exeter with £18,000 of business for eight people.[1] The Exeter branch was a mistake that never paid. Industrially Exeter was decaying with the death of its old trade in serges and "long ells".[2] So when in 1834 branches at Portsmouth and Plymouth were suggested, for the convenience of the Navy, Exeter was closed and its small business transferred to Plymouth.

Though they did plenty of business, the branches in 1830 had not yet all assimilated Bank traditions of order and good form. Liverpool was in every way "correct and respectable". So in most ways was Birmingham, but its books were only "tolerable". Those of Manchester were "very discreditable". When challenged about them, the chief clerk, who had been sent from London and had already showed impertinence, said that the blots and erasures were much the same in both places. He was spoken to severely. It is not recorded whether the porter at Manchester, who had not "any appearance of respectability", was dismissed.[3] A Manchester porter of 1830, so completely devoid of that

[1] Reports on Discounts and on Discounts at the Branches, *C.B. Bb*, 3 Feb. and 24 March 1831.

[2] Clapham, I, 45–6. [3] Report on the Branches, *C.B. Bb*, 12 Aug. 1830.

appearance, might well be an ugly fellow. However, general respectability among the branches was on the up-grade; and there were bound to be defects at the start.

The year 1830 was difficult mainly because of political troubles at home and abroad, culminating in the French Revolution of July that brought down the Bourbons, and a whole string of other revolutions. In Britain economic activity was slackening and politics were most uneasy, but there were no desperate economic symptoms. Working-class cost of living was well below what it had been in 1820. General prices were, by a tiny fraction, the lowest for over fifty years and 7 per cent below the level of 1790. Bankruptcies were not excessive. The market rate of discount was far below the Bank's official 4 until the very end of the year, which helps to explain slack discounting in Threadneedle Street.[1] British public finance was still untidy, but the Treasury was not worrying the Bank for abnormal short-term advances.

However, a year of revolution and unrest was inevitably a complicated year for the bullion markets; and the Directors were now fully conscious of bullion and foreign exchange problems. In 1819 the Court, by a majority, had been "unable to discover any solid foundation" for the doctrine that "the Bank has only to reduce its issues to obtain a favourable turn in the exchanges". But in the margin of the resolution there stands the note—"rescinded, 6th December, 1827".[2] William Ward, the youngest Director in 1819, the great cricketer who saved Lord's from speculative building, had at that time "to disagree entirely with his colleagues".[3] We do not know what support he received, if

[1] For favoured clients, and for some equivalent, from 1830, the Bank would discount at 3 (below, p. 140). But market rate in 1830 averaged 2·81: King, *History of the London Discount Market*, p. 80.

[2] *C.B. Oa*, 25 March 1819.

[3] *Committee of* 1832, Q. 2078. Ward was born in 1787 (*D.N.B.*).

any; but presumably he had some, for even before the rescinding vote of 1827, moved and carried by him against a minority, the "exchange" policy had been "the practice in a great degree" [1] Telling the story in 1832, Ward had very rightly added that when the Bank had been most at fault it had also been "most in accordance with the Government and the Parliament and the Public at large",[2] though not with the best contemporary economic opinion. From 1827 it was in line with that opinion: it dealt with any threat of unfavourable exchanges by "shortening currency",[3] selling Exchequer Bills to take funds off the market and selling silver for gold in Paris, where a bimetallic system made the sale relatively easy.

Thanks to favourable exchanges, the Bank starts the year 1830 with a good stock of treasure—£9,200,000 in February—and is able to increase the stock—to £11,100,000—until August. But in August and September and subsequently it sells both gold and silver. Nathan Rothschild takes 400,000 ounces in dollars and no less than 200,000 ounces, roughly £779,000, in bar gold.[4] He is not the only purchaser. Besides buying gold he borrows it. Messrs Heath are conducting a "silver operation to Paris",[5] evidently as part of the now regular Bank policy; for the exchanges are falling. There is also some bullion buying; but the net result is a fall of the treasure by nearly £3,000,000—to £8,200,000—at the February balance in 1831. And the fall does not stop with February.

[1] Q. 2074.

[2] Q. 2082. When first he joined the Court, in 1817, he found it singularly lacking in general plans; see his pamphlet of 1840—*On Monetary Derangements, etc.* p. 12.

[3] Q. 2088.

[4] *C.T.* 18, 25 Aug. 1830. There had been a gap in Rothschild's dealings with the Bank after the crisis of 1826.

[5] *C.T.* 18, 27 May 1831: the result of the operation reported. Next year, with government approval, the Bank sent about £1,000,000 of melted English silver coin to Paris: Horsley Palmer before the *S.C. on Banks of Issue*, 1840, Q. 1443.

The trend of policy among the leaders of the Court is illustrated by a remarkable draft letter to the branch Agents, of November 1830. It was in fact never sent: after discussion, its despatch was deferred *sine die*; but that does not reduce its value as a record of opinion. There can be little doubt that it was drawn up by Horsley Palmer, the Governor. He had the habit, in which if the Bank's Letter Books can be trusted he was unique among Governors, of sending regular state papers on policy to the Agents or to country bankers, like a Foreign Secretary writing to an Ambassador or to the minister of some minor power. This is such a paper. The Agents, it suggests, are to explain in confidence to issuing bankers who keep accounts at the branches that, in the existing state of the foreign bullion demand, beyond their present balances and the sums that they have under discount they must fend for themselves; that if they want more, in notes or gold, they must instruct their London agents to pay it in to the Bank. As a matter of urgency, small extra payments may be made by the branch—but only on security. The Court will not extend discounts "while the Notes are returning upon the Bank for Gold".[1]

Local bankers are not to be scared; the Bank only wishes to establish the principle that no one should expand issues "in times of a continued demand upon the Bank for Bullion", but that all should "permit the contraction, which under such circumstances naturally arises, to accomplish the correction which will thereby be attained". Horsley Palmer, the favourer of centralized issue, is trying to use the new power of influencing country bankers which the branches have given him to set up at least central guidance. The circular remained only a project; but there was nothing to prevent the Governor from writing or speaking to Agents. Next year he is in fact writing long despatches on policy to his most important Agent, George Nicholls at Birmingham.[2]

[1] *C.B. Bb*, 4 Nov. 1830.

[2] His letters are in *L.B.* 7 (1831–4).

In its care for the bullion and the exchanges the Court appointed a strong committee of inquiry in December 1830. Reporting in March 1831, they first emphasized the close association of the credit of the Bank with that of "its principal debtor", the government: political shocks to credit the Bank had no means of averting. (For political shocks in 1831–2 everyone was prepared: there was actually a heavy run on the Bank in May 1832, due to a scare of revolution and to Francis Place's famous radical placard "To stop the Duke, go for gold".[1]) As to the circulation; "comparing adjoining periods", there had never been a divergence of more than £2,800,000, except just after the panic of 1825. That then was the reserve of treasure "absolutely necessary" under this head. But for safety they suggested £4,000,000. In times of low exchange, the notes ought to be reduced "by the whole amount sent in for payment in gold"; when exchange was high, to be increased "by the whole amount issued on gold, so far as this may be practicable". As backing for the private deposits, they thought that twice the maximum normal variation, or £2,400,000, would suffice. Against public deposits no special reserve was essential. So about £7,000,000 should be the normal figure for treasure of all kinds. If it were to fall lower, "direct action on the circulation" ought to be taken.[2]

Though the circular of December 1830 was never issued, Agents were instructed to discount for most bankers at 3½, instead of the favoured bankers' rate of 3, so discouraging them as the Governor wished. Apparently 3 had become a widely conceded rate for country bankers with discount accounts in 1830, though early in the year a firm of Birmingham bankers was bargaining for it. They had always used Bank notes, they said, and would like to go on doing so, if the Bank would give them the 3 per cent discounts that they could get from their London agents. This

[1] Wallas, G., *The Life of Francis Place*, p. 309. Cp. Rothschild to the *Committee of* 1832, Q. 4939 on the scare of revolution.

[2] *C.B. Bb*, 24 March 1831.

point conceded, they would continue to circulate nothing but Bank notes.[1] It was conceded, though the Bank explained that circumstances might call for a change, as they did in December when the market rate was rising towards 4.

The linking of country bankers with the Bank through their drawing and discount accounts at its branches increased the cohesion of the English banking system. In London the great majority of the bankers had used accounts of both kinds since 1797, many of them having had drawing accounts very much longer; although in 1825, out of 70 London banking firms, there were still about 20 with no account at all in Threadneedle Street.[2] These included some of the newer and more obscure houses, but were mainly old, highly respectable, gentlemanly concerns west of Temple Bar, "the principal part" of whose business was "not with mercantile men", as Sir Coutts Trotter explained of his in 1832[3]—Bouveries, Childs, Cocks, Coutts, Goslings, Hoares and the like. In the country, cohesion was strengthened when the banker not only kept accounts with a Bank of England branch but also circulated only Bank of England notes. For this the great field was the Liverpool-Manchester area, where local issue had always been insignificant. A second field was opening out in Birmingham; and the Bank's policy in connection with the Gloucester branch[4] shows it trying to carve out another patch of Bank Note territory by bargain, a method adopted systematically later.

Meanwhile the more coherent system of English banking was also becoming somewhat more concentrated. In London there was no great change. There had been 70 firms before the crisis of 1825: there were still about 60 in 1833. But in the country, what with the failures of 1825–6, what with ordinary windings up of businesses, amalgamations of private firms, and that absorption

[1] *C.B. Ab*, 28 Jan. 1830. The bankers were Lovell, Goode and Stubbs.
[2] From the *Drawing Office Ledgers* in the Bank's Record Office, Rochampton.
[3] Q. 3186.
[4] Above, p. 114.

of private firms into joint-stock companies for which Vincent Stuckey had started the fashion, the "800" banks of the early twenties had been reduced to something over 400 private firms and 25 joint-stock companies by 1832. The companies were growing very fast just then. Some of them were not too secure structurally; for the law which permitted their erection had laid down no building regulations for these big partnerships with unlimited liability. Yet that made building easy, if dangerous: next year the private firms were again down, but the companies were up by 10.[1]

For such a change in Scotland there was no room. Old banks faded out. New joint-stock banks were founded. The total number of firms declined, but very slowly; and the number of branches steadily grew.

The Bank's Charter being due for renewal in 1833, in the Reform Bill year government kept its promise to the country banks and held an inquiry. The evidence given is a mine of information about banking history and Bank policy, but there was no witness of Ricardo's quality with trenchant suggestions for the future. The Association of Country Bankers sought to justify themselves and renewed their protest against the branches. Samuel Gurney, speaking mainly for the banks of East Anglia, asserted with Quaker insistence that the crisis of 1825 was not, not, due to their over-issue. He explained how the Bank had begun to discount in the provinces at 3 per cent "some time since", and how it was doing "a vast deal" of business with merchants and manufacturers that used to go to the private firms.[2] Country bankers told their various stories, but made few suggestions about the future, except Thomas Attwood, the un-

[1] London lists in Price, *Handbook of London Bankers*; country figures are summarized in Powell, E. T., *Evolution of the London Money Market*, p. 412. They are rather uncertain, as most statistics are those of issuing banks only.

[2] QQ. 3780, 3786.

qualified advocate of paper money, who argued for what would be called in the twentieth century price maintenance and stabilization by way of a managed currency.[1]

For London bankers the chief spokesmen were Carr Glyn and George Grote.[2] Glyn was very decidedly in favour of a single bank of issue in London. The Bank he said was competing more actively with them than it used to do;[3] but though it opened private accounts as freely as they did, it made advances much less freely. Of reforms, he favoured the abolition of the new legal rule that notes or bills of joint-stock banks for less than £50 should not be made payable in London, and the reduction of the Bank's monopoly radius to, say, twenty-five miles.

His remarks on competition for private accounts referred to increased facilities which the Bank had been giving since 1825 at its Drawing Office to private customers. In 1819 it had been stated authoritatively that "few merchants, very few indeed, keep accounts with the Bank of England"[4]; and in fact during the early twenties the total number of active drawing accounts had been less than 900. Since 1825 the number had been growing fast and now stood at nearly 4000.[5]

George Grote was only one among several witnesses of different types who urged, with every reason, that more facts should be published about the Bank's affairs. In this they were echoing what Allardyce and Pascoe Grenfell had demanded thirty years earlier. Grote may have heard from banking friends that, so recently as February 1831, a proposal to communicate to the proprietors "the estimated amount of the *rest* or undivided Profits" had been

[1] QQ. 5567 sqq. For his published views see Clapham, I, 311, n. 1.

[2] QQ. 2826 sqq. and 4600 sqq.

[3] This fact was used as an argument in favour of their scheme by the promoters of the London and Westminster bank in 1833–4: Gregory, I, 124.

[4] S. C. Holland of Barings to the *S.C. on Cash Payments*, p. 125.

[5] *Drawing Office Ledgers*: 4474 accounts of which 527 were dormant. For the facilities see Acres, II, 449.

negatived on the Court,[1] where there was now at least a minority favourable to this more open conduct of business. No doubt he would know that regularly since 1828 motions for the printing of the accounts had been moved in General Court, and lost. He was most appreciative of what the Bank could do, and had done, in times of crisis; he thought that it secured better Directors by the existing method of practical co-option than it would by perfectly free and competitive election—yet he was a Radical; and his chief novel proposal was that country notes should be payable only in Bank notes, not in coin, with a view to reducing the risk of internal drains.

Of witnesses from outside banking circles, Thomas Tooke, the Russia merchant and historian of prices, interpreted recent history in the light of his own opinions; failed to see why the Bank or the bankers should need to employ their "immense resources" to assist commerce, had they not first debauched the commercial world by "misconduct"; and very opportunely reminded his hearers, who were apt to forget it, that a Banker's "book credits to his customers are virtually the same as an issue of Bank... paper".[2] John Easthope, M.P. and stockbroker, had a clear-cut opinion: he was an enemy of all exclusive privileges; he wanted "a system of free banks" for London; and held that "almost any system" was "preferable to the present system of the Bank of England".[3] He had a curious grievance against the Bank because it had lent money to the City for work on London Bridge, which seems a harmless, even a praiseworthy, form of lending.

Nathan Rothschild believed that neither the Bank nor anyone else could really control the exchanges:[4] the balance of demand

[1] *C.B. Bb*, 3 Feb. 1831.

[2] QQ. 3862, 3914. This was not a new doctrine. For those who had enunciated it see Viner, *Studies in... International Trade*, pp. 243–4. It has been said that eighteenth-century writers were "consistent throughout in declaring the bank note and the deposit identical": Rist, C., *History of Monetary and Credit Theory from John Law to the Present Day* (Eng. translation, 1940), p. 73.

[3] QQ. 5854, 5928.

[4] QQ. 4800 sqq.

was their all-powerful regulator. Governments wanted gold in times of impending war; then they would pay what they must, and it went whatever you might do. (He knew what he was talking about: he had sent it.) No: he could not generally "form a tolerable guess as to whether the Bank was well supplied with bullion or not"[1]—an apparent argument for more publicity; yet publicity he did not want, for "it would be a party business".[2] He thought that, after a little initial timidity, the Bank had done excellently in 1825; had "acted in as honest and conscientious manner as could be".[3] Their management he said was very good. How did he know that, if they were so secret? "Because I feel the management and I know that it is good."[4] He did not blame the Bank for occasional nervousness. Suppose it lost six or seven out of ten millions of gold, "if I was a Director myself I should be frightened, and afraid of stopping payment, unless I had a paper in my pocket, signed by the Government, saying, You have no occasion to pay in gold".[5]

Beyond that, this shrewd realist, with his perfectly acute sight for all near horizons, had no theories of banking or currency to propound.

Writers on such matters have perhaps made too much of opinions expressed, in fact rather tentatively and cautiously, by the spokesmen of the Bank about the ideal relation of its reserve of bullion to its liabilities. In the old days before suspension it had kept very handsome reserves, when times were good, sometimes up to 50 per cent and more, only now and then below 25 per cent;[6] but there is no recorded theory of an ideal ratio. Under suspension, the problem did not arise, but the Bank always had some reserve for foreign use. There followed the abnormal years during which reserves were twice built up with a view to

[1] Q. 4903. [2] Q. 4908.

[3] Q. 4901. If they had refused him some discounts, as Liverpool heard (above, p. 98, n. 2), he bore no malice.

[4] Q. 4946. [5] Q. 4913. [6] See Vol. I, App. C.

resumption. Then a more normal decade, split by a swingeing crisis and closing with the semi-revolutionary months between July of 1830 and the passing of the Reform Bill in June of 1832, months enlivened by Francis Place's "To stop the Duke, go for gold".[1]

A month before the Reform Bill passed, Horsley Palmer had said that against "all liabilities to pay on demand"—that is deposits in the widest sense, plus notes—"the proportion which seems to be desirable" is "about two-thirds in securities and one in bullion".[2] In February the treasure had been not quite one-fifth of the liabilities so defined; but in August of 1830 it had been precisely the third, and very near it in the quiet years since 1826 and in those immediately before 1825. Palmer's junior colleague, George Warde Norman, amplified this opinion, stating that their present principle, "when the currency is full",[3] was to aim at about the one-third of bullion and coin; but J. B. Richards, his senior, who had steered the Bank through the rough water of 1825–6, though he spoke vaguely of "something like a third", when pressed for a closer estimate, said—"the thing is not to be brought to that precision".[4] Palmer and Norman were describing the fair weather practice of a single decade, not promulgating a dogma; Richards, with his memories, showed caution in generalizing from that decade. There is no reason to think that any one of the three had studied the practice of the Bank before 1797; though Richards had been a Director since 1805 and Palmer since 1811. As Walter Bagehot wrote many years later: "during the suspension of cash payments...all traditions as to a cash reserve had died away".[5]

The committee that heard all this evidence never sent in a report. It was working through the thick of the Reform Bill fight, and it is creditable to English politics that Peel and Lord John Russell, "old, grey-headed, financial"[6] Tory Herries and

[1] Above, p. 119. [2] Q. 72. [3] Q. 2391.
[4] QQ. 4063, 5029. [5] *Lombard Street* (1892 ed.), p. 180.
[6] Disraeli to his sister in 1832, *Life*, I, 205.

Sir James Graham who helped to draft the Bill, White Ridley the Tory banker and Attwood the Radical banker all served on it, so far as is known in reasonable harmony. At least all the committee except one—Sir Henry Parnell, now a complete free trader—were agreed that the Charter ought to be renewed. When Althorp brought in his Bill next year, and argued against a Government Bank of Issue as the only alternative, no one defended that alternative, though there were with Parnell a few other advocates of free trade in banking.[1] The Charter question being settled, the rest might well be left to the Chancellor of the Exchequer and the Bank, especially at a time when minds were so much occupied with other things. Parnell complained because the committee was not re-appointed in 1833: he said the evidence had been "*ex parte* and one-sided",[2] and that witnesses of his had not been heard; however he received no support. There were long debates, but these were mainly about a subsidiary question of currency. The Bank followed them with care, and among its papers are some "Notes on Parliament, 31 May 1833" in this style—"Mr Baring made a favourable speech to the Bank; Mr Grote a fair speech advocating publicity of accounts; Mr John Smith a speech highly favourable to the Bank....Mr Hume complained of the Bank and found fault with everybody and everything".[3] But the debates produced no important amendments, and the Act that became law on 29 August (4 & 5 Wm. IV, c. 98) was very like the outline of his plans that Althorp, having

[1] Easthope, Colonel Torrens, Poulett Scrope and, hesitatingly, Joseph Hume. Althorp's speech is in *Hansard*, XVIII, 169 (31 May 1833). Parnell put his opinions into a pamphlet of 1832, *A plain statement of the Power of the Bank of England, and of the use it has made of it; with a Refutation of the Objection made to the Scotch System of Banking; and a Reply to the "Historical Sketch of the Bank of England"*. The *Historical Sketch* appeared in 1831: it is so thoroughly on the Bank's side that inspiration from the Parlour has been suspected. J. R. McCulloch was the author, though like the *Plain Statement* it appeared anonymously. Neither adds to our knowledge.

[2] *Hansard*, XVIII, 1330.

[3] *Secretary's Records, Bank Act*, 1844.

discussed them with "the Chairs", had sent to the Bank on 2 May, just before he tabled his Bill.[1]

The Charter, he said in that sketch, was to be renewed for twenty-one years with liberty for the government to "break the lease" at the end of ten, plus one year's notice: it was so renewed. The sixty-five mile radius was to remain: it remained. Bank notes were to become full legal tender, except at the Bank itself and its branches: this was the currency clause that provoked debate: Peel voted against it because it broke with "the true principles which should govern a paper currency";[2] but he was left in a minority, though a considerable one.[3] Dealings in bills and notes which had less than three months to run were to be put outside the Usury Laws with their 5 per cent limit to non-usurious interest: this also was agreed, and six years later the Bank first tried 6 per cent as cure for a crisis.[4] The Chancellor had said that he would require a weekly confidential statement of accounts from the Bank and a public monthly summary of them: he got both. Finally, Althorp had proposed that the government should repay one-quarter of the long-standing £14,686,800 of debt to the Bank, and that the Bank should lose £120,000 of what it now received for the management of the national debt: these clauses also went into the Act unchanged.[5]

One clause foreshadowed in his letter of 2 May Althorp included in a subsidiary Act (3 & 4 Wm. IV, c. 78) which obliged all issuing bankers to make returns of their circulation, but at the same time authorized them to issue notes for less than £50 payable in London. He had meant to go further in legislation

[1] *G.C.B. VII*, 31 May, 1833; letter of 2 May.

[2] *Hansard*, XVIII, 1345. [3] Beaten by 316 to 83.

[4] G. W. Norman had explained to the Committee of 1832 (Q. 2430) that, with the Usury Law in force, the Bank at a crisis must either over-issue or reject "private paper capriciously".

[5] The Bank received £4,080,000 of 3 per cent annuities in 1834, but it was decided not to divide this among the proprietors. The Bank's capital therefore remained at £14,533,000.

about joint-stock banks and to offer limited liability to those that did not issue; but, as he wrote to the Governor, finding "the opposition of the Country Bankers too strong for me on the question of Limited Liability, my colleagues have decided that I must not persevere in this question".[1]

About one clause (§ 3) put late into the main Act the Bank felt very bitterly. It was a declaratory clause, not referred to by Althorp in May and based on opinions given by the Law Officers of the Crown while the Bill was before the House. "Whereas doubts had arisen" on a certain matter of importance, it "declared and enacted"—in short, that the Bank's monopoly of joint-stock banking within the radius meant only monopoly of issue there, so that companies might carry on "the trade or business of Banking in *London*", provided they circulated no notes. There is no doubt about the genesis of this clause. A group of "Noblemen and Gentlemen" with a markedly Scottish flavour—the Noblemen were Bute and Lord Stuart de Rothesay, and among the Gentlemen were a Stewart, an Arbuthnot and a Douglas—who were eager to see a joint-stock bank started in London, had used the argument inserted later in the declaratory clause in a petition submitted to Parliament while the petitioners were watching, "with the deepest interest, the progress of the Bill now before your Honourable House".[2]

Althorp told "the Chairs" early in August that the Law Officers, whom he had consulted on the point, had convinced him that a non-issuing joint-stock bank in London would have been legal under existing statutes.[3] "The Chairs" dissented: had he not promised to maintain all their privileges? Althorp, in his naïve way, said he had supposed exclusion of joint-stock banks

[1] *C.B. Eb*, 4 July 1833. [2] Gregory, I, 70–3.

[3] The whole correspondence was read to the General Court on 13 Aug., *G.C.B. VII*. The Law Officers relied on the "monopoly" clause of 7 Anne, c. 7, repeated in 39 & 40 Geo. III, c. 28, which only forbade corporations or partnerships of more than six persons to "owe or take up... Money on their Bills or Notes Payable at Demand or at any Time less than Six Months".

from London to be one of their privileges; but he "never intended or contemplated" increasing those privileges; and now he knew that it was not one of them. If they could not agree he must postpone renewal of the Charter "till another Session", and "the whole bargain must be reconsidered". "The Chairs" were grieved and disappointed. They offered an alternative clause drafted by their solicitors. Althorp declined it: his advisers said it was not good law. He sent his clause in its final form and said he must have an answer that day (9 August) if the Charter were to go through. They replied that he was breaking an agreement, but that it was "the determination of the Directors to submit to the terms".

All was reported to the General Court, where some strong protests were submitted and some angry amendments negatived. The draft protests declared that the Chancellor had "most improperly and unjustly departed from the terms of his own proposition", and that his action was a "complete breach of contract". Legal opinion was heard on the Bank's side rebutting the opinion of the Law Officers; but in the end the wording of the draft protest was softened; and the Bank as a Corporation, like its Directors, submitted.[1] That was on 16 August, three days before the Bill, with its declaratory § 3, passed the Commons, after a rather fatuous motion of Cobbett's that it should be read this day six months because the legal tender clause "usurped the King's prerogative" had been brushed aside as it deserved.[2]

The Directors made one more effort: they memorialized the House of Lords on 22 August. To permit joint-stock banks in or near London would "have the effect of destroying the present character of the Bank of England and forming it into a Bank of competition". A clause based upon "the mere opinion of the Attorney and Solicitor General" on a point of law, not on an interpretation of the law by judicial decision, was "without precedent in the Annals of Parliament".[3] But the Lords, towards

[1] *G.C.B.* 16 Aug. [2] *Hansard*, xx, 764. [3] *C.B. Eb*, 22 Aug. 1833.

the close of a warm and exhausting August, were not provoked to cut it out, although the Duke of Wellington opposed the Bill and four peers entered a protest directed mainly against the offending clause.

The royal assent was given on 29 August. Ten days earlier the group of Noblemen and Gentlemen had completed a final draft of their prospectus for a non-issuing London joint-stock bank. They had first thought to call it "The Royal Bank of London and Westminster", but finally adopted the more concise title of "The London and Westminster Bank".[1]

[1] Gregory, I, 80.

CHAPTER III

BETWEEN TWO CHARTER ACTS, 1833–1844

THOUGH English, even London English, both in its qualities and its defects, the Bank of the eighteenth century had been to the eye of the law in considerable part the property of foreigners. So late as 1811, when for years the gulf of war had divided England from the Continent, nearly a tenth of the proprietors of Bank stock still had foreign addresses. But during the two decades after Waterloo in which the foundations of Britain's vast nineteenth-century overseas investment were laid, while impoverished Europe was licking its wounds, foreign investment in England dwindled into insignificance.

The Bank, re-chartered in 1833, was now as thoroughly English in proprietary as in policy and name. Of the 2846 individual holders of its stock in 1835 no more than 63 lived abroad; and among these 2846, the 103 who were not qualified to vote because their purchase of stock was too recent did not include a single alien. In place of the thousand or so Dutch names of the mid-eighteenth century there were now forty-four: a sprinkling of old proprietors had clung on, including the Professors of Divinity in the University of Utrecht,[1] but no Dutchman bought. There were eight Belgian proprietors; three Swiss; three Spanish; two Portuguese; and one each from Italy, Austria and the Free City of Hamburg.[2]

[1] See Vol. I, pp. 286, 288–9. They still held their stock in the present century.

[2] *Proprietors' Lists*, 1811 and 1835. The Bank's collection of Lists for the early nineteenth century is defective, but these two serve for this discussion. Possibly there were more foreign holders than appear, Englishmen acting as nominee holders for them.

An Act of the next year made the Bank, now so thoroughly English, at length and at law the effective public treasury of the United Kingdom.[1] More than half a century earlier Lord North had said that it did all the work of the Exchequer better than the Exchequer used to do it. "All" was an exaggeration, but in any case North was not the man to abolish an old institution because nearly all its work was done somewhere else. And although within a few years the cautious pruning of Exchequer sinecurists began, the deputies of their survivors in 1829 were still paying out salaries, pensions and emoluments to 3530 persons—and were not keeping their books by double entry. Since the reforms of 1806–8, all public accounts had been with the Bank; but not all these accounts were complete: some revenue-collecting departments paid in only net takings. Twice a week was enacted what the Committee of Public Accounts in 1831 rightly called the Fiction by which payment of Taxes to the Exchequer was sustained. The tax-collecting departments sent cancelled Bank notes, true fictions, from Threadneedle Street to what the law called "The Office of the Receipt of His Majesty's Exchequer at Westminster". The Exchequer Teller told them, and they were then taken back to London by a Bank clerk who may well have enjoyed the trip.[2]

The Act of 1834 cleared away, with compensation, all the remaining Tellers, Clerks of the Pells, and what not. The Bank took over the Exchequer Tellers' work. Public money in its hands was consolidated into a single account of His Majesty's Exchequer. From day to day the Comptroller of the Exchequer, a new official, was to authorize the Bank to put specified sums at the disposal of the Paymaster, also new.

And—but this was not in the Act, nor was it in essence new—the Bank could use this consolidated government balance like

[1] 4 & 5 Wm IV, c. 15.

[2] *S.C. on Public Monies*, 1856, xv, 1. App. I, quoting the Report of 1831 and a Treasury Minute of 26 Sept. 1834.

the rest of its deposits, lending out some two-thirds and keeping the remainder in hand. So in the United Kingdom, and in this the United Kingdom was unique, all the money that for the moment a government did not want was available for use by the business community.[1] This money was less important than it had once been. In 1814 or 1824 public balances at the Bank had much exceeded private. By 1834 the position was normally reversed. But the public's millions were far from negligible.

Between the two Charter Acts of 1833 and 1844 there was a re-shaping of that banking world at whose centre this English Bank of England stood.[2] Changing a little from year to year, but now as a whole fairly stable in composition, the undiminished group of some sixty London private firms were ranged close about it. In the country the number of private banks declined continuously, but in the early forties almost 400 still issued notes. Beside them had grown up nearly 100 issuing joint-stock banks.[3] About twenty joint-stock banks, in South Lancashire and elsewhere, had either never issued or had abandoned an experimental issue. And scattered about the country, usually in groups, were a number of strong banking firms, some private, some joint-stock, which had regular agreements with the Bank of England to use its notes exclusively. At Liverpool in 1841 there were seven of these; in Manchester three; in Birmingham six; in Newcastle four; in Hull two; and others at Portsmouth, Swansea and Gloucester.[4] By the end of 1844 there were forty-three in all; more in the places already occupied, some at Plymouth,

[1] A fact specially interesting to foreign students, stressed by Philippovich, "History of the Bank of England" (*U.S. Monetary Commission*, 1911), p. 267.

[2] It is curious to note that the term "central bank" appears to occur first in the *Doctrine de Saint-Simon, Exposition*, 1830–1, pp. 272–3, to describe a bank which is to be the "depository of all wealth" in a socialist community: Hayek, F. A. v. in *Economica*, May 1941, p. 145.

[3] *S.C. on Banks of Issue*, 1841 (v), App. 13*a*.

[4] *Ibid.* App. 2.

Bristol, Leeds and Leicester, and five within the London radius.[1]

The non-issuing joint-stock bank arrived in London as an immediate result of that clause in the Act of 1833 which the promoters of the London and Westminster had inspired and which the Bank thought a breach of contract by Lord Althorp. Both the Bank itself and the London bankers resented the invasion and did what they could to cold-shoulder the London and Westminster. The clearing bankers denied it access to their Clearing House: the Bank refused permission for J. W. Gilbart, the forcible manager of the new concern, to open a drawing account, and would not discount bills payable at his bank.[2] And as the state of the law did not allow the London and Westminster to sue or be sued in the name of its chairman, its enemies joined to help defeat in the Lords the private bill which would have given it that convenient right.[3] However, Gilbart's ingenuity and persistence brought his bank over these and other obstacles thrown in its way from Threadneedle and Lombard Streets: within ten years it had branches from the West End to Wellington Street, Borough.

Those ten years also saw the opening in London of offices for the London Joint-Stock Bank, the National Provincial and a few more domestic banks of the new type. More important still perhaps, they saw the rise of the first imperial joint-stock banks, or of banks that hoped to act imperially—the Bank of Australasia, the Royal of Australia, the Union of Australia; the Bank of British North America; the Bank of Ceylon; and others. Their histories were varied, often unhappy, but their arrival on the banking field suggested great future possibilities.[4]

[1] "A List of Banks with Circulation Accounts": *C.B. Qb*, 26 Dec. 1844.

[2] Gilbart's evidence before the *S.C. of* 1841, Q. 1307.

[3] Gilbart, *The Principles and Practice of Banking* (ed. of 1873), p. 466. And see Gregory, *The Westminster Bank*, I, Ch. IV, "The Struggle for Recognition".

[4] See generally, Baster, A. S. J., *The Imperial Banks*.

Even before 1833, a development of function, not merely of form, had been in progress, which was to affect the whole character of the London money market. In December of 1829 an entry occurs in the Bank Ledgers of £10,000 advanced to Overend, Gurney & Co. on India Bonds.[1] This is followed by advances to them on Exchequer Bills and other securities; but from June 1830 the bulk of the advances to Overends, which became very regular and very large, are made on the security of bills of exchange.[2] Bill-brokers Overends were called, but they had ceased to be merely that long before the first recorded transaction with the Bank: they were dealers in bills, "money dealers".

The Bill-broker originally had been what his name implied—a specialist broker who for a commission found a buyer for a bill or bills for buyers. In the eighteenth century produce brokers had also handled the bills which represented that produce. "Bill-broker" as a description only came into use about the year 1800. The business had developed with that of the country bankers who wished to find investments for their accumulations. It extended when, in the early years of the suspension, London bankers had ceased to allow interest on balances and the country banks had been stimulated to find other profitable ways of using their surplus funds. By 1810 Richardson, Overend & Co.—the firm which young Samuel Gurney had joined three years earlier—were doing a huge broking business, and had large sums placed with them—mainly by country bankers from East Anglia—for investment in bills.[3] They profited by the Bank's refusal to discount paper longer than 65 days, and by its insistence on two good London names for every bill that would pass the Committee in Waiting. Country bills had usually only one London name,

[1] *G.L. XX*, f. 971.

[2] *Ibid.* f. 950; and see King, *History of the London Discount Market*, p. 89.

[3] Cope, S. R., "The Goldsmids and the London Money Market", *Economica*, 1942, has shown that the Goldsmids both dealt in bills and took call loans from bankers round about 1800.

of the man who had bought the corn or the calico or whatever it might be. Besides, Richardson from his start in business had asked no commission from those whose money he put into bills: he was content with one-eighth per cent "brokerage on the bill discounted".[1] All this brought business to that Quaker firm.

Until 1825 the firm were still primarily what they were called, brokers, agents. Their connections, and those of smaller men in the same line, had spread fast in the decade before the crisis when cheap money and the Bank's long adherence to its 5 per cent rate were diverting discount business from it. After 1825, Gilbart once wrote, "the London bankers changed the mode of their investment. Instead of employing their surplus funds in the purchase of Government Securities, and discounting at the Bank...they placed their surplus funds with the bill-brokers, and ceased to discount with the Bank".[2] What the broker offered paid them better than their old favourite security, the Exchequer Bill, on which the yield was now low. Besides, the Exchequer Bill was a rather formal, cumbrous, instrument. With these bankers' surpluses the broker bought bills, to hold them till maturity, or to re-discount if that suited him. Gilbart's is a general statement. The transition was naturally a gradual one and had begun earlier than he suggested. But Carr Glyn referred to it in 1832;[3] and as the Bank itself was lending to Overends on the security of part of their stock of bills by 1830, it is safe to assume that the transition had already gone far. That discounting by bankers in Threadneedle Street had dwindled, the state of the Bank's discounts and its annual reports on them show clearly enough.[4]

The freedom of the bill market and the attractions of the bill of exchange as a banker's investment were increased by the clause

[1] King, p. 11.

[2] *Logic of Banking* (1859), p. 555, quoted in King, p. 63.

[3] *S.C. of* 1832, QQ. 2870 sqq.

[4] See App. C and e.g. the Discounts Report for 1827 in *C.B. Ya*, 6 March 1828 and for 1832 in *C.B. Db*, 31 Jan. 1833.

in the Act of 1833 which exempted bills and notes with less than three months to run from the restrictions imposed by the Usury Laws; they were henceforward handled without risk, whatever the rate of discount.

At another point a decision made by the Bank before 1833 affected the functioning and the future of the London money market vitally. By vote of Court in June 1829, a plan drawn up by the Committee of Treasury was approved which sanctioned loans up to two millions for one month on deposit of Exchequer Bills. The object, as stated, was to prevent a further shrinkage of the circulation by the influx of revenue at the quarter's end and "consequent cancelment of the Deficiency Bills held by the Bank".[1] This was the start of the familiar system of advances by which were counteracted the disturbing effects of quarterly payments on revenue account into the Bank, accompanied by its closing of the government stock transfer books while preparing the dividend warrants. Within a few years "the quarterly loan during the shutting"[2] is an established thing, though with a shortened currency. The Deficiency Bill, representing advances to the Treasury in anticipation of the quarter's revenue and paid off within the quarter, was the principal type of Exchequer Bill now familiar at the Bank. Asked about Exchequer Bills in general in 1832, Horsley Palmer said he really could speak of no other sort: it was "so long since" the Bank had handled any. But it had in fact handled a few.[3]

[1] *C.B. Ab*, 11 June 1829. And see Horsley Palmer in the *Report of* 1832, Q. 255.

[2] See e.g. *C.B. Ab*, 4 March 1830; *C.T.* 21, 3 June 1835. The security accepted varies, but usually includes good bills, East India Bonds, etc.

[3] *S.C. of* 1832, QQ. 34, 106. Either Palmer was ill-informed or he had in mind the old style Exchequer Bill "taken" by the Bank. The Bank purchased some Exchequer Bills on the market that very year. *G.L. XX*, f. 770. Purchases and sales continued after 1832. A recent Act (11 Geo. IV, c. 2 of 1830) had regularized the Ways and Means advance, and the Ways and Means Bill. It resembled a true Deficiency Bill, but was payable in the following, not the current, quarter and was applicable to Supply Services only.

Decline in the discount business in Threadneedle Street was being offset appreciably during the decade that began in 1830 by the growth of discounting at the new branches. And that in spite of the strict procedure enforced on branch Agents by the Court of Directors. As in London, at the branches distinct discount accounts must be opened by clients. Each client had his discount limits, and he was forbidden to overdraw his current account—on which he got no interest. The absolute limit, however, was only on bills of his own drawing: if he presented good paper of other drawers, which had circulated into his hands, the Agent might allow some latitude. All bills had to be passed by the London Committee in Waiting, with whom the Agents were in weekly contact. Each bill needed two good names, though naturally no longer two good London names. The only bill acceptable was a genuine product of trade with not more than three months' currency: no Agent might handle a promissory note without special leave. And the Agents, though not rigidly so instructed, did very little formal lending on any sort of security to supplement the severely controlled discounting.[1]

The country was accustomed to more elastic, more discriminating or accommodating, treatment from its bankers than this. In particular, at many of the new joint-stock banks which, like Douglas, Heron & Co. in eighteenth-century Scotland, set out to catch clients by easy terms, and gave interest on deposits, there was accommodation enough and to spare; yet the branches, with few exceptions, did a satisfactory and growing business.

In 1830 the two best patronized branches, Liverpool and Birmingham, each had upwards of 200 discounting clients. Manchester had only 80, but its business was nearly as big as

[1] See Second Report of the Branch Banks Committee in *C.B. Wa*, 6 April 1826; Report from the Committee, suggesting some changes, *C.B. Ab*, 11 March 1830; evidence of S. Turner, the Bank's Liverpool Agent, on the course of business, *S.C. on Joint-Stock Banks*, 1836, QQ. 279 sqq. A special vote of Court was needed to sanction the discount of a promissory note for £5000 at Leeds: *C.B. Hb*, 5 May 1836.

Liverpool's. The total of branch discounts was £5,500,000.[1] In 1832 it was £7,200,000; in 1835, £13,800,000; in 1838, a year of slack trade, £17,600,000; and in 1841, another gloomy year, £24,300,000.[2] From 1835, when the separate figures are first entered in the general books of the Bank, down to 1844, the contribution of branch discount business to income exceeded, as a rule greatly, that of the Head Office, except during the troubled and active year in the City from August 1836 to August 1837. Sometimes the branch income was three times that of head-quarters; and at the very close of the period, in the accounting year that ended with February 1844, it was more than seven times as great—£57,700 against £7500. That, however, was an abnormal situation and an abnormally low Threadneedle Street figure. More representative of the average position for the decade from 1834 to 1844 are the figures for 1835–6 (August to August) of £29,600 for Threadneedle Street and £78,800 at the branches. But the caution required in speaking of what is average or representative in so very elastic a thing as the discount business is shown by the figures for the critical year 1836–7: discount income in London, £199,000; discount income at the branches, £168,000.[3]

To the income from private loans the branches contributed as a rule only a few thousands, six or seven, except in 1836–7, when they yielded more than twenty-one; but in the next year the yield was below a single thousand. The average for these years is, however, just over the seven. Branches also earned a little in commissions.[4]

Linked with the Bank's policy of penetrating the country through its branches was that of binding to itself by concessions such country banks as had never circulated any but Bank of England notes, or now promised that they never would. Issuing

[1] Discount Report, *C.B. Bb*, 24 March 1831.
[2] Annual Reports in *C.B. Gb*, *Kb*, *Ob*.
[3] The figures of income are given at length in App. C.
[4] From the half-yearly profit and loss statements in *Stock Estimates*, II, III.

banks, competitors whose indiscretions the Bank feared, were little favoured except temporarily between 1828 and 1833, when they were given discount accounts to help them to get sovereigns to replace their £1 notes. To assist their policy of favouring non-issuers, "the Chairs", in December 1829, secured the verbal consent of Wellington and Goulburn, his Chancellor of the Exchequer, to the grant of discount facilities to non-issuers at 1 per cent below the public rate.[1] A beginning was made with regular agreements on this head in 1830; the Birmingham Banking Company being the first to sign on.[2] In succeeding years the work was carried farther, with special success in South Lancashire and the Birmingham region; and low discount rates were promised independently of the London rate, which however remained steady at 4 from 1828 to 1835, both included. In November of 1833, for example, the following typical contract was made for a year with the Liverpool District Bank. It was given a "discount account for circulation" at 3 per cent; that is, it might discount its own drafts or re-discount commercial bills, up to £100,000, at that rate, receiving in exchange Bank notes which it might then lend out at some higher rate.[3] If its officials wanted to go beyond their limit, "they came in like other customers" at competitive rates.[4] By 1841, there were twenty-five such client banks under contract. One result of these

[1] From a retrospective report of 5 Jan. 1871: *C.B. Sc.* The minute of the interview there quoted has not survived.

[2] *C.B. Ab*, 7 Jan. 1830. There is a list of 21 banks in this class, with the dates of these contracts in *S.C. on Joint Stock Banks*, 1837–8, App. 8.

[3] *C.B. Eb*, 21 Nov. 1833.

[4] *S.C. of* 1837–8, Q. 114; T. A. Curtis, Governor of the Bank. In Sept. 1835 Cunliffes of Manchester agreed to keep £80,000 of first-rate mercantile paper, none above 95 days, constantly under discount at 3. They might go elsewhere to discount only when the Bank would not do business beyond £80,000. They would not resume issue (they had once issued) or reissue any other bank's notes. And they would not "issue Bills of Exchange as cash", that is, "pay away the Bills of one customer to another", and so aid the bill circulation against the note circulation: *C.B. Gb*, 17 Sept. 1835.

arrangements was that at the three principal centres of this tied-bank system most of the discounting done at the local Bank of England Branch was of paper presented by bankers, not by manufacturers or traders; in 1835, for instance, out of a total £11,700,000 of discounts at the Birmingham, Liverpool and Manchester Branches, not less than £10,200,000 was of bankers' paper and only the balance of traders'. Leeds, which came fourth, though a poor fourth, on the business scale was completely different. There were no special arrangements with local bankers, and all the discounting except a negligible fragment was of traders' bills.[1]

Writing confidentially of this circulation account system to the Governor of the Bank of Ireland in 1837, Timothy Curtis, Governor in Threadneedle Street, explained that it gave the Bank most useful knowledge of "the transactions of the interior"; and that, although as yet not very effective use could be made of the knowledge, he hoped the system might lead to "such control as may render the monetary system more substantial".[2]

Further to attach the client banks of Liverpool, Manchester and Birmingham, by vote of 12 December 1833 the Directors had offered them those convenient quarterly loans which had been used in London for the last four years.[3] The era of Reform had proved almost as creative in the world of banking as in that of politics. "The Bank of London", first turned into an effective bank for England by the wide circulation of its notes during the suspension, was now becoming a true Bank of England, both by its closer relations with the developed or developing cells of that central ganglion in the nerves of the national financial system, the London money market, and by the growth and increased

[1] *C.B. Gb*, 28 Jan. 1836. At Liverpool £7,200,000 of bankers' and only £270,000 of traders' paper was handled.

[2] *L.B.* 9, 13 Dec. 1837; a long, and rare, banker's state-paper of 8 folios. The contract with Cunliffe's suggests the sort of control he had in mind.

[3] *C.B. Eb*, 12 Dec. 1833.

efficiency of those lesser ganglia, its branches, in the most important centres of commercial and financial life.

The decline of the discount business, except in difficult or dangerous times, gave added importance to that of the private loans. In many years there was a return to a situation which had not existed since the early part of the eighteenth century, when the loan income had often exceeded the discount income. And this without taking the loans on mortgage into account.[1] In the year which ended in August 1835, for example, the discounts—at the Head Office—brought in £35,900; the private loans £100,600. Next year, but this was altogether exceptional, the loan income was £201,700 against £39,700 from the discounts.[2] After that came the year 1836–7 in which the discounts were so high and the income from them greatly exceeded that from the loans; then two years during which the loan income was more than twice the discount income; and so into the early forties (February 1840 to February 1844) in which except for the first half-yearly statement, that contained four months' takings of the active discount year 1839, the discount income was never high, and often, as in the final half-year, all but negligible.[3]

The sources of this private loan income were varied and shifting. The quarterly loans and the loans to bill-brokers started in 1829–30 were an important element in it. The former were short but regular; the latter almost equally regular and often long. Four firms constantly recur, the only bill-broking firms of any significance at this time—Overend, Gurney, of course; Sanderson & Co.; Alexanders & Co. and James Bruce. Overend's have a more or less running loan, not often smaller than £100,000. In

[1] The mortgage income was declining after 1840. In the thirties it brought in more than £50,000 a year. For the early eighteenth century, see Vol. I, App. E.

[2] *Stock Estimates*, III; profit and loss accounts for the years quoted.

[3] Above, p. 139.

December 1834 they get £250,000 for six months, and Sanderson's no less than £500,000, also for six months.[1] In June 1836 all four are given six months' loans at 3½—Overend's £400,000; Sanderson's £250,000; Alexanders' £100,000 and Bruce's £50,000.[2] Those four transactions alone meant £14,000 from private loans in the profit and loss of a single half-year, more than the Head Office discounts often contributed.

Then there was Nathan Rothschild. He too took a large sum, £200,000, for six months in June 1836.[3] But he had had much larger sums on loan, besides constant bullion transactions. Early in 1831 he was quarrelling with the Bank about its charges for "upwards of £350,000" in bar gold that he had "borrowed" during the continental crisis of 1830. The Bank had wanted it back. He had "sent off expresses to hasten its return". Then—this is his story—the Governor asked him to postpone the re-delivery. That he could not do, and what came back was nearly all the same bars as had been sent out. He accused the Bank of wishing both to charge interest and change the price of the gold. He said it was a loan at interest, not a sale and re-purchase plus interest. The Governor retorted that sale at £3. 17*s*. 10½*d*. and purchase at £3. 17*s*. 9*d*. was automatic and part of the contract, and that Rothschild was trying to sell back more than he bought, and at £3. 17*s*. 10½*d*. The bargain stood and must be carried out or cancelled. So Rothschild's request to be charged interest only was refused.[4]

In this business of semi-political international remittance the Bank and he were competitors; that was why it was stiff with him. In December of 1830 the Chancellor of the Exchequer had needed money in Holland. The Bank had about half of what he wanted

[1] *L.B.* 8, 12 Dec. 1834.

[2] *C.B. Hb*, 30 June 1836: there are many similar notes in *C.B.* and *C.T.* Bruce's firm is best known as Bruce, Buxton & Co., a title which dates from about 1837: King, pp. 118–19.

[3] As above.

[4] The correspondence is in *C.B. Bb*, under 12 Jan. 1831.

lying at Hope's in Amsterdam, and offered to assist on easy terms. It had been told that Rothschild gave better. "Of this I am sure", the Governor wrote to Althorp, "that Mr Rothschild never draws a Bill without his receiving in one way or another ample remuneration...the probability is that what government gained on agency they fully lost on the exchange."[1]

But rival as he was, Nathan remained a good client. Two years later he is borrowing a million dollars. In December of 1834 he has, like Sanderson's, £500,000 for six months "on the usual approved securities".[2] Sanderson's "usual" was bills, Rothschild's bills and bullion. In August of 1835 he is borrowing silver ingots; at the end of the year £300,000 on security at 3½ for ten months[3]—nearly another £9000 for the account of private loans from that single transaction. But his transactions are not single; they are complex and they overlap. At one time, when the Bank strikes the balance, he will owe it £500,000, a single transaction apparently; at another £900,000, perhaps two or more such; once—in February 1834—£2,048,272. 12*s*. 2*d*., an obviously complex debt.[4] He borrows on silver; he borrows on gold; the Bank lends him silver ingots; he borrows on bills of exchange. His name recurs and recurs in the great ledger of the thirties. It is carried on into that of the forties; but his account is balanced and closed on 11 December 1843,[5] why is nowhere explained.[6]

Among traditional borrowers are the Hudson's Bay Company, the still unburied South Sea Company, and the City authorities—£150,000 in 1838 to improve the Royal Exchange site; a little later £60,000 for Holborn Bridge and Clerkenwell Street. In 1843 the Mercers are helped to complete Gresham's College.[7] The London and the St Katharine's Dock Companies are regular

[1] *L.B.* 6: the Governor to Lord Althorp, 4 Dec. 1830.
[2] *L.B.* 8, as above.
[3] *C.T.* 21, 13 Aug., 30 Dec. 1835.
[4] *G.L. XX*, ff. 14, 16, 18.
[5] *G.L. XXI*, f. 887.
[6] Its closure may have been a backwash from an episode of 1836, referred to on p. 154 below.
[7] *C.T.* 23, 22 Aug., 12 Sept. 1838; *C.T.* 25, 1 March 1843.

clients, if not always quite satisfactory. In 1838 an income of £8000 for seven years is secured by a loan of £200,000 to the London at 4 per cent.[1] New public or semi-public borrowers are the Department of Woods and Forests and the Brethren of Trinity House. The Bank's inside knowledge of Birmingham leads it to finance the local Paving and Lighting Board in 1844—the first loan of the kind outside the metropolitan area.[2] It is becoming a provincial lender. True, it declines to help dock enterprises at Hull and at Liverpool that same year; but its clients now include the Ellesmere and the Birmingham Canals. Canals are being threatened by railway competition; and in the young railway companies the Bank has already discerned more useful borrowers. By a vote of 5 May 1842, the Court of Directors had decided that the Committee of Treasury might lend up to £250,000 upon debentures "of the best description".[3] The Governor had already begun to do this when the vote passed. He had lent £100,000 to the London and Brighton, and was considering other possibilities.[4]

There were occasional loans to firms in difficulties, as there always had been, or to well-tried firms for purposes of development. In May of 1832 Spooner, Attwood & Co., the Gracechurch Street bankers, had a loan of £40,000 from the Governor so confidential that it was not reported to the Committee of Treasury until August.[5] In January of 1835 Messrs Thorneycroft of Wolverhampton got £9000 through the Birmingham Branch[6]—an early case of a direct industrial loan in the provinces. Provincial bankers were helped a good deal throughout the decade, but especially in its later years, when the banking world had been disturbed by the boom of 1835–6 and its after effects.

Those after effects involved the Bank in heavy private lendings to crippled firms; and these had been preceded by heavy lendings to firms not crippled, before and during a boom for which its

[1] *C.T.* 23, 5 Dec. 1838.
[2] *C.T.* 26, 29 May 1844.
[3] *C.B. Ob*, 5 May 1842.
[4] *C.T.* 25, 27 April 1842.
[5] *C.T.* 18, 15 Aug. 1832.
[6] *C.T.* 20, 21 Jan. 1835.

critics held it responsible.[1] From these criticized loans came the abnormal income of £201,700 in the year 1835–6; from the loans to the cripples £136,000 in 1837–8; £101,000 in 1838–9, and £103,200 in 1839–40.

The boom and the dragging years that followed can be viewed either from the narrower banking or from the broader international standpoint. A historian of the Bank of England may start from the first while believing that the view from the second is really much the more important.

From 1831 to 1835 harvests were so good that the price of wheat fell continuously to a minimum of 35*s.* 4*d.* for December of 1835, cheaper than it had been for fifty years. The country was relieved almost entirely of any need to import bread-corn, except from Ireland; the continental exchanges were continuously favourable; the price of gold steady enough; the bullion at the Bank between about 20 and about 30 per cent of its total demand liabilities, yet never in that relation to its securities of one to two that Palmer and Norman had praised to the Committee of 1832. However, the bullion was normally some 33 per cent of the circulation. Meanwhile market rate of discount was consistently below Bank rate, sometimes much below it, which explains the slack discounting in Threadneedle Street.[2] Horsley Palmer, who held that the Bank should not discount much except in difficult times, no doubt welcomed this slackness, unprofitable though it was.

Recent, and now whole-hearted, converts to the "exchange" doctrine of their issues; noting how the exchanges stood and how very reasonable those issues were; and anxious to do well by their proprietors, the Court of Directors and its executive officers apparently saw no danger whatever in a policy of generous

[1] See e.g. the criticism of J. B. Smith, President of the Manchester Chamber of Commerce, before the *S.C. on Banks of Issue*, 1840, (IV) Q. 6.

[2] E.g. in 1833 market rate averaged 2·85 to the Bank's 4: Silberling, *British Prices and Business Cycles*, Table 13.

lending.[1] Nor did the business world at the time, except perhaps those bankers who disliked the 3 per cent discount bargains with the tied banks; for 3 was a little below even the London average market rate for the years 1831–5 inclusive, and well below provincial rates.[2]

Two events of a semi-political kind affected both the money market and the Directors' course of action. In 1833 the East India Company, that aboriginal client of theirs, lost its last trading monopoly, the monopoly of the China market. The loss became effective as from April 1834, and in the interval the Company began to realize commercial assets.[3] Its balance at the Bank accumulated fast. Half-way through December 1833, when the balance was nearing three millions, "the Chairs" of the Company told the Committee of Treasury that they would have to withdraw it unless they were allowed interest. The Committee, its hand forced, instructed the Governor to take a million and a half at interest on the lowest terms he could arrange, an unprecedented decision.[4] Both the deposit and the rate of interest allowed grew in time, the deposit to a maximum of £4,700,000, the rate from 2 to 2½ and then 3.

The view of the Directors, no doubt a correct one, was that if they had not borrowed the Company's surplus cash it would have flowed into the Money Market through other channels. By taking it themselves they kept some measure of control.[5] They used it, one of them explained later, not to discount but mainly in those advances to "bill-brokers" which swelled the income from the private loans.[6] The rate charged to these bill merchants went up

[1] These points are made or implied in Horsley Palmer's evidence before the *S.C. on Banks of Issue*, 1840, QQ. 1144 sqq.

[2] E.g. Vincent Stuckey before the *S.C. on Joint Stock Banks*, 1836, Q. 1415.

[3] Clapham, *An Economic History of Modern Britain*, I, 486.

[4] *C.T.* 19, 18 Dec. 1833; and Horsley Palmer's evidence in 1840, QQ. 1157 sqq.

[5] G. W. Norman, *S.C. of* 1840, Q. 1707.

[6] Horsley Palmer, Q. 1157.

with rising market rates, until in 1835 the Company was getting 3 from the Bank; the Bank $3\frac{1}{2}$ from the brokers; and the brokers $3\frac{4}{5}$ in the open market. They were used to fine margins and this was well above $\frac{1}{8}$.

The February balance of 1836 showed £2,750,000 out with the four chief borrowing brokers, and £900,000 with Rothschild. These five loans absorbed more than three-quarters of the East India Company's maximum deposit—fine wholesale transactions.[1]

Second in importance to that deposit was the floating in 1835 of a loan for £15,000,000 to compensate slave owners under the Emancipation Act of the previous year, the West India Loan as it was generally called.[2] There had been no long-term public borrowing worth mention since the unhappy "Deadweight" annuity, so the loan was something of an event. The Bank approached it cautiously and did not at first adopt its former war-time policy of advances to help subscribers in paying their instalments. But this caution was not sustained. Soon subscribers received the old-style help.[3] Payment of the instalments, from August 1835 to April 1836, swelled deposits at the Bank: they rose sharply from August 1835. With full coffers, the Bank about this time was lending on the security of stock, a thing not hitherto customary. Horsley Palmer, a Director still but no longer in control, hardly approved; he preferred advances only on self-liquidating bills. He explained, however, that it was done "to prevent an undue contraction of the circulation";[4] for odd as it must have seemed to the many bankers and public men who exaggerated the significance of the mere number of notes in use,

[1] *G.L. XX*, f. 18.

[2] See *Camb. Hist. of the British Empire*, II, 328–9. The loan was sanctioned by 3 & 4 Wm IV, c. 73. The contractors for it were "the Rothschild list"—Rothschilds, Montefiores, David Robertson & Co. *Min. of Correspondence with H.M. Government* 2: 29 July 1835.

[3] Horsley Palmer in 1840, Q. 1203.

[4] *Ibid.* QQ. 1211, 1220.

that number—in spite of active trade—was actually showing signs of contraction between 1834 and 1836.[1]

Palmer's defence of free lending is instructive. He fixed his eye on the barometer which he had been taught, or thought he had been taught, to treat as a safe and sufficient guide.[2] The continental exchanges were favourable and that justified an attempt to maintain the circulation. It was not in fact maintained; for every month of 1836 but one, the figure was a little below the corresponding month of 1835.

Nor did country banks as a class, including the many new joint-stock concerns, enlarge their issues unduly in 1836; though some acute contemporaries supposed that they had done this.[3] Their average aggregate issues for the year were only 10 per cent higher than in 1835; and from April onwards they were falling.[4] Yet 1836 was a peak year in industrial activity; a year for which average general prices were 12 per cent higher than in 1835; the year of the first real boom in railway promotion; and a most exciting year in Anglo-American trade relations.[5] All of which only shows that bankers and statesmen, full of their memories of the great wars, thought too much and too complacently of the mere number of notes out, neglecting rapidity of circulation and other forms of purchasing power. In June of this very year 1836, Vincent Stuckey, the banker of the slow-moving South-West, was telling a parliamentary committee that of late "almost all the farmers had begun to keep accounts with a bank", and make their big payments by cheque.[6]

[1] The circulation figures have often been printed, e.g. Tooke, *History of Prices*, II, 386.

[2] His evidence, Q. 1236.

[3] Tooke thought so at the time, but later realised that he had been wrong: *History of Prices*, II, 316.

[4] Clapham, I, 515.

[5] Beveridge, *The Trade Cycle in Britain before* 1850; Silberling, *British Prices*; Clapham, I, 513–15.

[6] *S.C. on Joint Stock Banks*, Q. 1312.

The Bank also overlooked—or, if not, failed to deal with—drains on its reserves due to capital movements like those which had forced it to defer the resumption of cash payments after Waterloo. Most of the capital was now moving west. London was making its first really close acquaintance with the volatile and adventurous world of American commerce and banking. For that relationship its movements, and perhaps its thought, were a little slow. America was buying and borrowing to excess, and her banking "system" was in one of its recurrent states of chaos.

Early in 1835 the happy United States paid off their remaining federal debt. The proceeds, and a tax revenue now in excess of current needs, flowed into the banks. Next year the chief of these, the Bank of the United States—second of that name—in Philadelphia, lost its federal charter, after a famous fight with President Andrew Jackson.[1] Official deposits that might have gone to it had been divided among what critics called the President's "pet banks". Money was easy. Land speculation, railway investment, enterprises of any and every kind were financed. New banks sprang up like toadstools. If the Union was not borrowing, states and muncipalities were. On their securities and in business undertakings yields were high. In England the price of Consols had been rising until depressed a little by the West India loan; and £6,500,000 of the 4 per cents had been converted by Althorp to 3½'s in 1834. The average British investor who wanted a higher yield looked to the home railway projects—there were five separate ones for lines from London to Brighton alone—or, if more daring, to American state loans; but many mercantile and financial firms, generally those with Liverpool connections, were putting capital into American hands in a variety of ways for a great range of objects, mostly determined by the Americans.

Eager to get money on easy terms to earn American rates, American firms were drawing on England, and English firms were

[1] See Catterall, R. C. H., *The Second Bank of the United States*; Sumner, W. G., *Andrew Jackson*.

obliging them rather recklessly. A currency re-arrangement in the United States made it desirable and simple for America to import gold: in June 1834 the ratio between gold and silver was changed and the sovereign, previously rated at $4.44, was rated now at $4.87½. To help the straightening out of its affairs on the expiry of its charter, the United States' Bank was arranging a loan in London.[1] American securities were sold there—directly or indirectly—for gold. English firms, creditors in America, and of these there were plenty because America bought more than she sold, often left their money to earn the fine American rates. For these various reasons, England though America's creditor on the long period was her debtor on the short. Given time, all English complaisance in the lending of money and good names would be fully repaid—provided American firms and municipalities and states remained solvent, could get the necessary facilities in time, and kept their word. But a state might repudiate; a firm might fail; and an honest solvent firm might be unable, owing to some breakdown in American banking arrangements, to remit in time to save its British creditor from the worst consequences.

Judging by the course of discount rates, the London market was no more prescient than the Bank; though the Bank was responsible for the market's abundance of funds in 1836. Bank rate had been a steady 4 since 1827, and at that rate very little business had been done. Market rate had got near to it in 1835; but in the second quarter of 1836 the market was so flush that it was discounting at 3½.[2] Within a month of June quarter-day, however, the Bank was becoming anxious. Its bullion was falling, though not as yet very fast, and it found that it had on its hands acceptances for large sums from a group of seven firms, English or Anglo-American, all of which were closely associated with the flotation of American loans or the financing of American trade.

[1] See the Governor's memorandum for the Chancellor of the Exchequer of 6 Aug. 1836: *Min. of Correspondence with H.M. Government*, 3. And cp. Tooke, II, 285.

[2] Statistics in Silberling, p. 257.

They were Baring's; Brown's; Lizardi's; Morrison, Cryden & Co.; and three that became notorious later as "the three W's", Wilson's, Wiggin's and Wildes'.[1] Week by week to the end of the year the Committee of Treasury brooded over reports on the affairs of these seven. Baring's stood up to the Committee as equals; gave them much and rather patronising advice through their American specialist, Mr Joshua Bates;[2] and were never in danger. Lizardi's appear in the records mainly as suppliers of information about the intricacies of bill-drawing at New Orleans;[3] they were agents for some New Orleans' banks, and so were Baring's and Wilson's. Brown's of Liverpool—the firm became Brown, Shipley & Co. three years later—also acted mainly as informants at first, not as suppliants. They were expert in the sterling-dollar exchange and in the troublesome effects of the recent alteration in the American bimetallic currency system. America was doing her utmost to procure and retain gold. "If they fancy you want gold," Brown's write in September, "they will pay you in silver." They admit that they have shipped £150,000 in gold to America, but say they think that the amount of the total shipments has been exaggerated.[4]

Morrison's also had nothing to fear; but all through the autumn of 1836 and the spring of 1837 the "three W's" were sinking. In July Wiggin's—Timothy Wiggin & Co.—had more acceptances with the Bank (£384,700) than any of the seven. Both Wilson's and Wildes' had above £250,000, far more than Morrison's or Lizardi's and not much less than the strong Brown's and Baring's.

The Bank accompanied this first inquiry into its relations with the American houses in July by a rise in its discount rate to 4½. By the general consent of well-informed critics then and since this rise was overdue.[5] A further rise to 5 followed in August. It was accompanied by the rejection of all bills on which there

[1] *C.T.* 22, 27 July 1836.
[2] *C.T.* 22, 26 Oct. 1836.
[3] *C.T.* 22, 26 Oct. 1836.
[4] *C.T.* 22, 7 Sept. 1836.
[5] E.g. Tooke, II, 300; King, p. 95.

appeared the name of a joint-stock bank of issue. There were banks of this class whose signature anyone might well distrust; but this general refusal seemed vindictive. Critics said that bills drawn from America whose "acceptors were considered to be of the most unquestionable solidity"[1] were rejected—but with so much questionable solidity about the Committee in Waiting may have had good reasons for whatever it did. And the Bank was entitled to take even painful action to check that reckless grant of drawing facilities for unlimited amounts which had become very much too common, and was a main cause both of the westward gold drain and of the troubles of the "three W's". A part of this action was the absolute refusal of the Bank's Liverpool Agent, no doubt under orders, to handle paper drawn from America on these firms.[2]

The market discount rate for the quarter in which the Bank made its belated decision averaged 4½. For the two quarters from Michaelmas 1836 to Lady Day 1837, the average was over 5, and discounters were driven on to the Bank. The consequences are best shown in its discount income. In the half-year that ended with February 1836, it took only £11,000 in Threadneedle Street; in the half-year to 31 August only £18,500; but in the next £124,500; and in the half to August 1837, £74,500. After that, with market rate again below 5, even below 4, the income fell back for a time to about the level of 1836.[3]

By the end of September, bullion at the Bank, which had been £7,801,000 in April, was down to about £5,500,000. By 7 February 1837 it had reached the bottom of its fall, at £4,032,000. So far as is known, the drain of the early months was mainly external, that of the autumn and winter internal—due to anxiety among bankers and the public. In January of 1837 there was "An advertisement of a very mischievous tendency in

[1] Tooke, II, 303.

[2] According to Tooke, II, 303: there is no evidence at the Bank.

[3] From *Stock Estimates*, II.

several Newspapers recommending the Public to exchange their Bank Notes for gold".[1] Ireland had been specially anxious and eager to get gold; when bank failures had begun there in November, the Bank had refused to help a couple of Irish banks.[2] It was becoming known that, in Ireland as in Britain, some of the new joint-stock banks deserved the Directors' distrust of their signatures.

Early in October the Bank tried to close its loan accounts with a group of Liverpool banks, and also its accounts with the great bill-brokers and with Nathan Rothschild, and so to stint the market.[3] Late in the month, and indeed rather late in the day, the Governor had interviewed representatives of "the houses principally concerned with the trade to the United States"—six of the seven great houses—and explained to them that excessive facilities given to foreign bankers, "either as open Credits or in anticipation of the sale of States' Securities in this country", were objectionable to him and the Company as note issuers.[4] The representatives were asked to limit such facilities in the interest of the currency. It was in reply to this communication that Baring's and Lizardi's argued with the Bank as equals, Joshua Bates of Baring's explaining that its "proceedings" had "produced a shock not wholly uncalled for", and advising it to continue generous discounts and 5 per cent.

At the end of November, when the Irish failures had begun, the Directors learnt that a young and showy joint-stock bank with headquarters in Manchester and thirty-nine branches all over the country was in difficulties. Its pretentious name was the Northern and Central Bank of England and it had existed for less

[1] *C.T.* 22, 1 Feb. 1837; and see Acres, *The Bank of England from Within*, II, 465.

[2] The National and the Agricultural: *C.T.* 22, 16 Nov. 1836.

[3] All these loans to be repaid when due, within the month, unless pressure is excessive: *C.T.* 22, 5 Oct. 1836.

[4] *C.T.* 22, 26 Oct. 1836.

than three years. It issued notes in plenty, a thing which for Manchester the Bank particularly disliked: its shareholders had been so pleased with its first dividend that they had given their directors "costly services of plate".[1] Now it came begging for £100,000 down, with £400,000 more as and when required. Early in December the Bank offered help, but on very stiff terms. Any advance that it might make was to have precedence of an unsecured £150,000 which the Northern and Central had somehow got from the London and Westminster, its agents; and the Northern and Central was to close all branches except Liverpool, though to retain, for the moment, its link with the London and Westminster.[2]

The directors from Manchester, after losing but happily recovering the carpet-bag that contained their securities for pledge, fought for a time; but before the end of the year it was clear that they were fighting foul. They had not disclosed all their liabilities, and their methods of business, when investigated, would not bear investigation. Just before Christmas they gave in; and the Bank opened credits for them on its own terms, having forced Gilbart of the London and Westminster to accept the unpleasant part of those terms which affected his shareholders, and to close the agency. "Difficulties were thrown in the way by the London and Westminster", the Governor had written to the Chancellor of the Exchequer, "which required all our firmness and resolution from a sense of duty to the public to resist."[3] It is conceivable that the final defeat of Gilbart gave some satisfaction to the winning side. The Bank took entire control of the Northern and Central under warrant of attorney signed at the pistol's point by

[1] Grindon, L. H., *Manchester Banks and Bankers*, p. 267. There is a full account of the bank in Thomas, S. E., *The Rise and Growth of Joint-Stock Banking* (1934), I, 281–94.

[2] *C.B. Hb*, 1 Dec. 1836. And see Gregory, *The Westminster Bank*, II, 231–4.

[3] *Min. of Correspondence with H.M. Government*, 3: 2 Dec. 1836. The London and Westminster resisted still, and complete success could only be reported on 23 Dec.

the Manchester men. Two junior Directors and future Governors, Bonamy Dobree and Henry James Prescott, went to Manchester to "take possession of the effects", with Freshfield the lawyer to impound the deeds.[1] Disgusted with the incompetence and "gross abuse of trust"[2] that they found, they collected with difficulty a committee of shareholders to help in a liquidation. In the end, depositors were paid in full; the Bank, which had taken its precautions, lost nothing; rank and file shareholders lost a great deal; but directors and directors' friends, who owed the company large sums, when sued from the ranks put in the plea that one partner cannot sue another for debt—and, as the law then stood, they got away with it.[3]

The two junior directors were barely back from Manchester when the Court found itself concerned in a more serious, but vastly less disreputable, problem of support for a shaken bank—Esdaile's; Sir James Esdaile, Esdaile, Grenfell, Thomas & Co. Esdaile's, like Sir Peter Pole's ten years earlier, were agents for crowds of country banks—no less than seventy-two. All the best banking names in the City—Lubbock, Masterman, Barclay, Glyn, Thornton, Smith, and more—told the Governor that, for this reason if for no other, Esdaile's must not be allowed to break. The position was investigated: it was found that Esdaile's sound assets were well in excess of their liabilities: the bankers were prepared to help with guarantees: the Bank found £150,000 as its share; and Esdaile's survived, to pass away with credit two years later.[4]

When the "mischievous" advertisement about notes and gold was issued at the end of January 1837, it was already too late to hurt the Bank much. The American drain was over: there was no day of real panic, and bullion fell no lower after 7 February.

[1] *C.B. Hb*, 29 Dec. 1836; and see *C.T.* 22, 7 and 26 Dec. 1836.
[2] Dobree and Prescott's report: *C.B. Hb*, 7 Jan. 1837.
[3] Thomas, I, 292.
[4] A full report on the affair is in *C.B. Hb*, 16 Jan. 1837.

But recovery was slow until May. It might have been quicker if a motion in Court of 26 January had been carried. The Governor had been selling Exchequer Bills. Overend and Gurney were "relieving" the Bank of commercial securities, yet all that spring its total of securities was to its bullion as seven or eight to one. The motion adverted to this, and stated that "the most practical mode" of cure would be a rise in the Bank rate from 5 to 6. (The average market rate to Lady Day was 5·5.) But the previous question was moved and carried.[1]

Meanwhile the bankruptcies were setting in. In 1836 they had been low. In that first quarter of 1837 they were a little higher than even in the difficult first quarter of 1830. The second quarter in 1837 was the worst second quarter between 1826 and 1842; not absolutely feverish like that of 1826, but unhealthy enough.[2]

Towards the end of the first quarter the most shaken of the American houses, the "three W's", had come to ask for help. Reluctantly, and with a declaration that their act was not to become a precedent, the Court granted to each £200,000 of abnormal discounts, on personal and other security.[3] This proved only the beginning of a long dreary tale of debt. Fourteen years later Timothy Wiggin's heir was writing about his "unfortunate position" during all that time, and offering some settlement.[4] This was accepted; but not until March 1853 was the "American balance" still due reported to be down to £39,000 and Wiggin's to be clear.[5]

It was in April 1837 that a memorial from Liverpool to the Chancellor of the Exchequer had referrred to distress "intense and beyond example" in the cotton world that faced America, "involving the prudent with the imprudent, the Manufacturer

[1] *C.B. Hb*, 26 Jan. 1837.

[2] The bankruptcies, from the *Annual Register*, are in Silberling's *British Prices*, p. 252, and on the chart in Jevons' *Investigations in Currency and Finance*.

[3] *C.B. Hb*, 21 March 1837. [4] *C.B. Yb*, July 1851.

[5] *C.B. Zb*, 31 March 1853: one of the many reports on the American debts.

with the Merchant".[1] There were two hundred names on it, among them every Liverpool name that counted—Booth, Cropper, Gladstone, Holt, Horsfall, Roscoe, Sanders, Yates. In May, Wilson's were offering the Bank their American debts as security, a sort of security to which it was not accustomed.[2] It was inspecting the affairs of Wildes' and further financing Wiggin's. On 30 May Wilson's and Wiggin's reported that they could not meet their liabilities because they could get no remittances, owing to the "almost universal suspension of credit throughout the principal commercial cities of the United States"[3]—an adequate explanation that other firms would have to repeat in other nineteenth- and twentieth-century crises. In June, Lizardi's and Brown's and Morrison's, all hit but not mortally, were getting help—well secured. Wildes' were refused it because they already owed the Bank "a considerable sum without even nominal cover".[4] Brown's were loaded up with bills on exports to America that had not been paid for: they wrote tragically of those whom their fall would drag down. In the end the Bank, trusting them and their security, backed them up to nearly £2,000,000; and they were saved.[5]

The "three W's" remained in a state of suspended payment while inspectors looked into their debts: "our continued suspension", Wildes' wrote sadly, produces "a feeling of ill-will".[6] No doubt it did. So things stood through the summer, while the Bank's bullion was rising from four to five and then six millions, the market rate of discount falling towards 3, and the bankruptcies easing off. Then, in September, the Directors tried a novel experiment: they sent an agent to America to inquire into debts

[1] It is reproduced in *C.B. Ib*, 13 April 1837.

[2] *C.B. Ib*, 3 May 1837. Wilson's, the Bank records, already have the "unprecedented" advance of £1,192,369; and it also holds £736,000 of their acceptances.

[3] *C.B. Ib*, 30 May. The American suspension was of 10 May.

[4] *C.B. Ib*, 8 June 1837.

[5] *C.B. Ib*, 1, 8, 15, 22 June 1837.

[6] *C.B. Ib*, 22 June 1837.

due from firms in the United States to them, as backers and creditors of the English houses. He was to get into touch with the President of the Bank of the United States, which was now doing business as the United States Bank of Pennsylvania.[1]

The Bank of England had been in loose and cautious contact for over a year with this bank whose old name echoed its own. In June of 1836 the Americans had suggested an account and an open credit in Threadneedle Street, so that they might avail themselves "of the great fluctuations...in the rate of exchange on London".[2] Naturally, this was refused: it was far too dangerous. The reason given was that the Bank of England did not discount for banks of issue.[3] It did however offer Jaudon, the American agent, a drawing account. Rather surprisingly, nine months later (March 1837) it proposed a credit of two millions for the Bank of the United States—but on condition that the Americans covered half their drafts with bullion.[4] The motive, when the date is considered, is obvious: bullion in London was very low. The proposal came to nothing, but the two banks kept in light touch with one another, and when realizing assets for the "three W's" the Bank of England used an account at the Bank of the United States.

Relations nearly ended in January 1838, with a long retrospective and argumentative letter from Nicholas Biddle, President of the American Bank.[5] He complained that the Bank of England would not "receive his funds" or discount for him. His Bank was an entire stranger to the Bank of England—this was hardly correct—when the English offer of March last came. That offer was refused. Then he was sent masses of bills for collection—an invidious task and not part of his usual business. The Bank of

[1] *C.B. Ib*, 14 Sept. 1837. The agent was J. W. Cowell.

[2] *C.T.* 22, 8 June 1837.

[3] *C.B. Ib*, 22 Feb. 1838: a narrative letter to Nicholas Biddle of the Bank of the U.S. The Bank of England always used this old name.

[4] *C.B. Ib*, 14 Sept. 1837: mentioned in Cowell's instructions.

[5] *C.B. Ib*, 15 Feb. 1838: Biddle's letter is of 7 January.

England would not handle his drafts, though his Bank was its agent and received the deposits resulting from its American realizations. He suggested that the drawing account in London, offered to Mr Jaudon, should be closed and that no more bills should be sent to the Bank of the United States.

In reply, the Governor gave his, rather different, version of the story, with his Bank's reasons for refusing the discount business.[1] All that it had ever wanted, and wanted still, was a deposit account in Philadelphia for what Mr Cowell, its agent, might collect there, just such an account as it had offered Mr Jaudon. Mr Cowell would gladly act with the Bank of the United States; failing that he would act with someone else. Nicholas Biddle replied—in effect—that all was explained and forgiven; and he retained the account.[2]

Some care in dealing with his bank was prudent. With the other American banks it had suspended payment in May of 1837. American critics said it was "the prime mover and master manager of the suspension" and that it was then "rotten to the core".[3] That may be. It cannot have been very sound when, in the following autumn, it made a rather audacious suggestion to Mr Cowell. The suggestion is known only from the Bank's reply to him: "for the Bank of England to furnish capital to any other bank of issue for three years would be *monstrous*".[4] Governors of the Bank did not often use italics. Two years later the Bank of the United States tried again; asked for £300,000 and was refused.[5] That year (1839) Nicholas Biddle left it. By 1841 it was pledging securities and property "to provide for the payment of sundry persons and bodies corporate which" it was "at present

[1] *C.B. Ib*, 22 Feb. 1838.

[2] His letter is in *C.B. Kb*, 19 April 1838.

[3] Quoted in Bolles, A. S., *Industrial History of the United States*, p. 792.

[4] *L.B.* 9, 6 Oct. 1837.

[5] *C.B. Lb*, 26 Sept. 1839. But though the Bank refused this request the Bank of the United States was able to raise £800,000 in the London market: *S.C. on Banks of Issue*, 1840, Q. 1777; evidence of G. W. Norman.

unable to pay". When liquidation came, not a cent was returned of its $28,000,000 of capital.[1]

For sixteen years realization of the assets of the "three W's" went on. The original debt of £2,445,000 was paid off all but £250,000 by May 1848; by April 1852 the balance was down to £106,000; by March 1853, to £39,000. The Wiggin family was at last out of its "unfortunate position"; the Wildes and Wilsons nearly out.[2]

"The Bank," Thomas Tooke wrote rather unkindly in 1838, "having scrambled through its difficulties into a position of safety may naturally claim merit from the event".[3] But, he added, with truth, had the harvest of 1836 been bad, and had the American banks resolutely contracted their liabilities and called in every dollar due to them, instead of suspending payment, its last £4,000,000 of treasure might not have seen it through the spring of 1837. As things fell out, it started the year 1838 with £8,895,000 of treasure and £22,606,000 of securities, compared with £4,287,000 and £30,365,000 a year earlier.

Harvests lost their brilliance from 1836 onwards and the population to be fed grew faster than ever. While Tooke was writing, wheat prices were working up from their average of 39*s.* 4*d.* a quarter in 1835 to just above 80*s.* at the end of 1838. For 1839 they would average 70*s.* 8*d.* The amount of wheat imported in that single year would be appreciably more than it had been in the three years 1834–6 taken together, and worth at those high prices some £10,000,000—a serious item in the trade balance.[4]

But, apart from corn, there was nothing abnormal in the course or level of wholesale prices; and even including the corn they

[1] Bolles, p. 793. The American public held Biddle responsible: he died "insolvent and broken-hearted", Sumner, *Andrew Jackson*, p. 342.

[2] *C.B. Vb*, 4 May 1848; *Yb*, 8 April 1852; *Zb*, 31 March 1853.

[3] Tooke, II, 308.

[4] For the three years 1834–6 the average annual value of all imports into the U.K. was £51,700,000. These are "official" values and not exact, but they illustrate the importance of the extra liability for wheat.

were only 11 per cent higher in 1839 than in 1835.[1] Throughout 1838 general trade was rather sluggish and the market rate of discount for the year averaged only 3 per cent. In February the Bank dropped its own rate from 5 to 4; but as things stood that could not mean much discount business at headquarters, though there was a decent amount at the branches.[2] When it dropped the rate it had about £9,500,000 of treasure; and it still had more than £9,000,000 in January of 1839. Yet by the end of May 1839 the treasure was barely £5,000,000, and the rate of discount had been raised to 5. Before the end of June it was 5½ and all advances except on bills of exchange had been stopped; in July the Bank was borrowing in Paris; on 1 August the discount rate was raised to the "unexampled"[3] level of 6—even 5 had been a "supposed impassable line"[4] in May; and, in spite of the French loan, the treasure dwindled away to an estimated minimum of about £2,300,000 in October. The whole course of events was puzzling to contemporaries, bewildering and damaging to the Bank's reputation for foresight—so far as it had one—and still remains a little puzzling to the student of Bank history. He gets the impression that the leaders of the Bank were pursuing vague and not well-thought-out policies, that they were working from hand to mouth, by trial and error, and that the best opinion did not always prevail on the Court of Directors, which—as historians and critics sometimes forget—was a voting and often a divided body.

As to policies, there was that suggested in 1832 of aiming at about a third of the assets in treasure and two-thirds in securities. This was Horsley Palmer's ideal for "full currency ... in ordinary times";[5] and his opinion was based on the experience of the twenties. At no time between 1833 and 1839 was it attained; in

[1] Silberling's price index.

[2] See App. C.

[3] Horsley Palmer's word: *S.C. of* 1840, Q. 1487.

[4] Tooke, III, 87: the sequence of events is given in pp. 78–89.

[5] *S.C. of* 1840, Q. 1142.

1835, 1836, and most of 1837, the proportion was anything from a quarter to a seventh; though in the quiet year 1838, the securities fluctuated about twenty-two millions and the treasure varied from about nine to about ten. But Thomas Tooke used to point out how, whenever the Bank got into this position that its own leaders favoured, it was apt to show signs of "impatience...to reduce the [barren] stock of bullion".[1] As George Warde Norman admitted in 1840, its duties to the currency and what it held to be its duties to the public clashed.[2]

There was also the principle of regulating the currency by keeping "a fixed amount of securities", not always but "during the efflux of treasure".[3] This, Norman said, had "been to a certain extent recognized by the legislature and the public",[4] though when and to what extent is not clear. In fact the securities were only kept approximately stable in 1838, though from 1832–3, through successive influxes and effluxes of treasure, they had fluctuated less than the ratio of the treasure to them. The uncertainty and trial-and-error nature of Bank policy is shown by Norman's very next frank observation in 1840, that in retrospect he thought they had been wrong in favouring the second "principle".[5] He meant no doubt that it might have been wiser to take more money off the market by sale of securities in times of efflux.

In fact the Court, feeling its way, had for some time been divided on the "principle", as a motion moved in July of 1838 shows—"that it is expedient to abandon the plan lately acted upon of attempting to regulate the circulation by holding a fixed

[1] Tooke, III, 114.

[2] *S.C. of* 1840, Q. 2181; and see his *Remarks upon...currency and banking of* 1838, p. 33.

[3] *Remarks*, p. 79. There is no evidence that, as stated in Viner, *Studies in... International Trade*, p. 224, "in 1827 the Bank adopted a rule" to this effect: there was no "rule", only an ill-observed "principle".

[4] *S.C. of* 1840, Q. 1892.

[5] Q. 1892 as above.

amount of securities".[1] The mover seems to have realized that, as has been said, the Bank had "tried to reconcile two incompatible things: stability of the cash ratio with stability of its earning assets, the 'securities'".[2]

Fairness to the much criticized Court of the late thirties and early forties makes it necessary to say that most of the advice that it got, or might have got, from economists, statesmen or the outside business world was likely to be crude, contradictory or as tentative as its own policies.[3]

Beginning the year 1838 with a nearly "full currency", the Court in February did what a minority had advocated in November, when the currency was "filling up"—dropped its rate from 5 to 4. What Tooke called its impatience to reduce its stock of bullion showed itself during March in some novel transactions with America. Americans still wanted gold for currency purposes. The Committee of Treasury evidently thought that the sooner American currency and banking were put in order, the better would be its chances of realizing the assets of the "American houses". So on 15 March the Governor and the Deputy were authorized to send gold to America on Bank account. They employed Baring's agents in New York—Prime, Ward and King—whom Baring's, who may have inspired the transaction, guaranteed for three months. So long a guarantee was not needed: the business was quickly done. On 22 March the Governor reported a consignment of 320,000 sovereigns in three

[1] *C.B. Kb*, 26 July 1838.

[2] Gregory, *The Westminster Bank*, II, 166; Gregory, T. E., *Introduction to Tooke and Newmarch's History of Prices*, pp. 55–7, and p. 172 below.

[3] Even Tooke, one of the best-informed and fairest of the critics, held the curious merchant's heresy that any action by the Bank of England, "or any other banks", with a view to reviving trade between, e.g., England and the United States, was "most earnestly and strenuously to be deprecated and reprobated": "the trade of this country requires no such fostering and forcing process", etc.: *History of Prices*, III, 80.

ships, and on 29 March 360,000 in two more, one of them the *George Washington*.[1] The sovereigns were to be "disposed of" by Prime, Ward and King, the purchasers' bills to be remitted to the Bank. This completed a transaction about which little more is known, except that the Bank made £18,930 out of it.[2]

The policy was without precedent; but the recognition that English and American interests were interlocked was wise.[3] To those who later criticized its impatience to get rid of bullion, the Bank might fairly have replied that, in spite of the American shipments, from May to September it had more in hand than in February, and only a fraction less than in February up to the end of the year, when the worst wheat harvest since 1816 was beginning to disturb the balance of trade.

A damaging consequence of the judicious and friendly help given to United States bankers was the encouragement that it afforded indirectly to the issue of more American securities, their continued sale on the English market in 1838 and 1839, and their renewed use as a basis for American credits in England, all of which turned the short-term balance of indebtedness further against Britain at a time when the harvest of 1838 had already turned it decisively.

The Bank's circulation throughout 1838 was as steady as its treasure and its securities, with a minimum of £17,900,000 in January, a maximum of £19,500,000 in August, and £18,500,000 in mid-December. Nor were the country banks, private or joint-stock, in any way guilty of inflation by issue either in 1838 or in 1839. Trade was quiet, and prices—except that of corn—were, as has been seen, appropriate to quiet conditions. The country bankers seem to have been what in 1841 one of them claimed that

[1] *C.B. Ib*, 15, 22 and 29 March 1838.

[2] And that freight and insurance came to about 3*d.* per £: *C.T.* 23, 2 May 1838; cost returned at £8277. 7*s.* 11*d.* The profit of £18,930 is shown in the profit and loss account of the year in *Stock Estimates*, III.

[3] *Pace* Tooke, as above.

they normally were, "perfectly passive":[1] their circulation he argued was determined by the price-level, was not a determinant of it. For the agricultural districts which he represented he was certainly right, and his argument had weight for all districts. In 1838–9 the facts were as he stated.

Criticism of the Bank's conduct in those years condenses into the charge that it did not look far enough ahead, or carefully enough into continental affairs and their probable reactions on the flow of the precious metals. In view of the course of events, criticism of its American bullion transaction in the spring of 1838 seems captious; but from the autumn of that year its actions do suggest a rather short-sighted complacency and an undue reliance on the easy doctrine of allowing "the public to act upon the Bank", as its leaders were in the habit of putting it in evidence before parliamentary committees.[2] When forced to act for its own and the public interest, in the summer of 1839, it showed enterprise and decision; though with more foresight applied earlier less enterprise might have been required.

The nearer Continent, and especially the young and precociously industrial Kingdom of Belgium, had just seen the close of a boom, in joint-stock banking, joint-stock mining and metallurgy, and other branches of trade.[3] Promotion of banks of issue was particularly active from 1835 to 1838, in France and Switzerland as well as Belgium. The boom ended in 1838 with a fight between the Belgian *Société Générale* (an industrial banking concern) and the *Banque de Belgique*, in which the *Société* forced the *Banque* to suspend payment. In Paris there was a run on the banking house of Lafitte, and throughout the country a collapse of commercial credit and a wave of bankruptcies. French and Belgian prices and exchanges were falling, and a tendency

[1] *S.C. on Banks of Issue*, 1841: evidence of H. W. Hobhouse, Q. 26.

[2] E.g. Norman in 1840, Q. 1670.

[3] See, for an outline, Clapham, J. H., *The Economic Development of France and Germany*, 1815–1914, pp. 126–9.

for the precious metals to cross the Channel eastward was setting in.

The situation was reflected in a steady rise in the English market rate of discount from its minimum of 2½ early in the year to 3¾ at the close. In these circumstances, the Bank's offer of 29 November to make its quarterly advances not only on bills of exchange but on various other securities at 3½ looks a little ill-advised; and its repetition of the offer at the end of February 1839 more than a little.[1] Its securities naturally went up and its bullion was going down. Sales of bar and foreign coin had begun on 10 January.[2] The fall from 9 January to 5 March was £1,230,000. This fall continued, at an average rate of nearly a million a month, until 23 July, when the bullion stood at £3,785,000—little more than a seventh of the securities or than a fifth of the circulation. The securities had risen in spite of a sale of Exchequer Bills and 3½ per cent Annuities in April.[3] So in June, when the rate was put up to 5½, the Bank announced that advances would now be made on bills of exchange only. A month later some of the "Deadweight" Annuity was offered for sale.[4] From the high reserve price laid down Tooke inferred that the offer was not sincere, that the Bank was professing a desire "to reduce the circulation" though "in fact...not disposed to make any real sacrifice for the purpose".[5] Nothing in the Bank's record or records suggests any such sham and subtle action: a blunder in estimating the pulse of the market seems far more probable.

Securities in hand were rising in spite of efforts, half-hearted or miscalculated, to keep them down, because market rates of discount were tending to rise faster than Bank rates, and so

[1] It was, however, its regular practice to make these quarterly advances on easy terms.

[2] *C.T.* 23, 10 Jan. 1839. [3] *C.B. Lb*, 18 April 1839.

[4] *C.T.* 24, 17 July 1839. For the "Deadweight" see above, pp. 88–9. It was an annuity terminating in 1867.

[5] Tooke, III, 88.

discounters were being driven on to the Bank. In the end the market got to 6½ while the Bank stopped at its "unexampled" 6. For the whole year, average market rate was a shade above average Bank rate, an event unique in twenty years. The discounts and the income from them reflect this situation. There had been £1,500,000 of discounts in 1838: there were £15,100,000 in 1839. For the half-year ending with February 1839 the income from them at Threadneedle Street was £12,500. For the half ending with August it was £56,500: for that ending with February 1840, £74,000. Then it fell away again, and in the early forties sometimes almost disappeared.[1]

Three days after the announcement that did not produce any sales of the "Deadweight", that is on 20 July, the Court authorized the Governor and Deputy-Governor, "assisted by the Committee of Treasury", to negotiate for a credit of £2,000,000 with the Bank of France.[2] The Governor was Sir John Rae Reid, Bart., his Deputy, John Henry Pelly, who became a baronet next year. They had already been in touch with the house of Baring and with the Comte d'Argout, Governor of the Bank of France, who "happening to be in England" showed the most "obliging readiness" and offered to accompany to Paris T. A. Curtis, who had just "passed the Chair" and was to act as the Bank's representative. Thomas Baring was to go also, for his house would come into the transaction.[3]

Baring missed the "steam-boat" at Dover, and Curtis arrived in Paris ahead of him. The Governor of the Bank of France called at his hotel—Meurice, one imagines—at 7.30 a.m. on his first day, having already settled matters with his colleagues, with the Minister of Finance, and with certain Paris bankers. As an institution, he explained, the Bank of France could not lend the money; it might only advance on bills payable in Paris or on

[1] *Stock Estimates*, II. [2] *C.B. Lb*, 20 July 1839.

[3] This account is based on Curtis' long report of his mission dated 30 July and given in *C.B. Lb* under 1 August. The quotations are from it.

French government securities; but it was ready to do everything short of lending. Before Baring arrived, Curtis found that the proposition was too big for the two bankers whom he first interviewed, Hottinguer and Delessert. With Baring's help a group of these and eight more was got together. They included d'Eichthal and Périer; but the Paris Rothschilds would not come in.

Baring's were to draw on the various firms in the syndicate. The Bank of France agreed to discount the bills. It did not agree by formal contract, for this the law would not allow, but it took "a moral responsibility from which it will not recede". At the English end, the Bank guaranteed Baring's bills and the Bank of France's discounts; and there was a formal "treaty" in French with the syndicate of ten. The contract was for 48,000,000 francs and for three months.

Curtis could not write too warmly of the Governor of the Bank of France or overrate the value of his help. He and his Bank were ready to start a "direct intercourse and exchange of good services" with the Bank of England. He even spoke of possible changes in its charter, so as to relieve the Bank of England "from the necessity of applying to individuals in business when it may be desirable to operate on the Foreign Exchange", and to facilitate future action from either side.

Curtis' report on his mission is dated 30 July. His success could not bear fruit at once, and on 1 August the final upward move of the discount rate was voted. There were demands for silver from Germany, and from Russia in connection with a reorganization of the currency there.[1] To help with these, the Bank arranged to draw up to £900,000 on Hamburg, in the same way as it was drawing on Paris; but no personal details about the transaction survive.[2] And as the harvest was bad in England,

[1] Clapham, *An Economic History of Modern Britain*, 1, 518.

[2] It was referred to by Horsley Palmer (*S.C. of* 1840, Q. 1437), who has often been quoted since.

and in Ireland so bad that, instead of having a surplus of wheat for export—as in the thirties she normally had—she was expected, on the balance, to be an importer for the season 1839–40, treasure at the Bank went on falling until October. It remained low for years.

One country banker said in 1841 that in 1839 the convertibility of the Bank of England note had been "virtually at an end".[1] That was going too far; but certainly it had been in danger. Speedy and skilful co-operation with the friendly French had done much to save it. Thomas Tooke thought this co-operation a "discreditable expedient", a circumstance "of almost national humiliation".[2] No doubt more foresight and more hoarding of gold might have made it unnecessary; but in itself it makes a humane and pleasing story. Curtis and Baring and the helpful Count who governed the Bank of France were not discreditable persons, and there was nothing humiliating to either side in their courteous dealings. They acted as good Europeans and effected an economy in Europe's use of treasure.

The policy of allowing the public to "act upon the Bank" assumed a "return of notes for gold".[3] But in 1839, between March and November, treasure dropped by about £5,500,000 and the notes by barely £1,000,000. At the February balance the Bank held £3,900,000 of British gold coin, £721,000 of bars and foreign gold, and £986,000 of silver. By August the British gold stood at £1,174,000, the other gold at £87,000, and the silver at £15,000.[4] And that was not the bottom.

This drain fell "almost wholly upon the deposits".[5] The bullion dealers and the public had got their treasure, and someone had shipped much of it, without any serious contraction of the

[1] *S.C. of* 1841, Q. 248: H. W. Hobhouse.
[2] Tooke, III, 115 and 90.
[3] *S.C. of* 1840, Q. 1670: G. W. Norman.
[4] *Stock Estimates*, II, III, under the two dates.
[5] *S.C. of* 1840, Q. 1890: G. W. Norman.

"currency"; for to Bank Directors deposits were not "currency", hardly even "money".[1] People with balances who wanted it had drawn British gold. Other people with balances had bought bars, foreign coin, or silver. The Bank speakers explained correctly that its deposits were far more volatile than those of private bankers.[2] To his private banker a man felt some personal obligation. To a "soulless" corporation he felt none. A banker in particular thought of his cash at the Bank as cash in hand. Directors, giving evidence in 1840, quoted no figures of how these vulnerable deposits had been swollen after 1835 and since depleted, but figures would be in their minds. At 31 August 1835 the private drawing account balances in London had been £3,650,000; at 31 August 1837, £5,549,000; and at 31 August 1838, £5,820,000. They were still £4,612,000 in February of 1839, but were down to £3,527,000 by the end of August.[3] For the calendar year 1839 the average balance kept by twelve leading London banks was 21 per cent lower than it had been for 1838.[4]

By November of 1839 the Bank was buying more bullion than it was selling, or losing in the shape of sovereigns withdrawn, and the reserve was mounting slowly. By 7 January 1840 the reserve was more than £1,000,000 above the October minimum: all immediate anxiety was over. But as Tooke wrote indignantly that same year in his clumsy English, it seemed to many people that "there must be something essentially erroneous in the

[1] Norman, for example, refused to regard deposits as currency because their circulation was so much slower than that of bank notes. *S.C. of* 1840, QQ. 1691–2. And see Viner, *Studies in... International Trade*, p. 251.

[2] *S.C. of* 1840, Q. 1568: Horsley Palmer.

[3] From the Half-yearly Statements in *Stock Estimates*, II, III. The story of the balances at the Branches was different.

[4] The percentage decline would have been a good deal higher if one of the leading banks—Smith, Payne and Smiths—had not had abnormally small balances in 1838. The other eleven are Barclay, Bevan, Tritton; Robarts, Curtis; Coutts; Williams, Deacon; Glyn, Hallifax, Mills; Martin, Stone; Jones, Loyd; Masterman, Peters; Barnett; Lubbock; Hankey. The figures are averages of the balances shown at the four quarter days in each year.

system or in the regulation by which, in a state of profound peace, and without any counteraction from the country banks, the Bank of England should have sustained so narrow an escape from suspension of cash payments".[1]

The Committee of Treasury and the Court were as much worried as their outside critics, and had been for some time. They were not happy in the least about the way their "principles" were working out. Moreover, as is natural to committees, they were divided. That motion of July 1838, which proposed the abandonment of the attempt to regulate the circulation by holding a fixed amount of securities, was a reasoned motion. The reasons were these: because the policy confuses circulation and deposits [an anticipation of the trouble in 1839] and fails to "make the issue of Bank Notes vary exactly as a metallic currency would", the only sound principle; because it cannot be carried out; and because the public cannot understand it. So, the argument went on, let us have Circulation and Banking Departments distinct, the sole function of the former being to exchange notes for gold and gold for notes. And let a committee be appointed to look into this.[2]

The idea of separating issue from banking was Ricardo's; but he had been in favour of a distinct issuing corporation, in effect a government department. George Warde Norman, who as an original member of the Political Economy Club had known and admired Ricardo, had agreed, in a pamphlet that he wrote in 1832 but only published—with additions—in 1838, that the ideal arrangement was one by which an official or semi-official body should regulate the variations of its issue "exactly as a metallic currency would vary". But it is clear that, like Horsley Palmer, he would have liked to see that "single issue" in the hands of the Bank. The abolition of private issue he was not sanguine

[1] Tooke, III, 115. By "counteraction from the country banks" he apparently meant action counter to sound policy in the matter of issue.

[2] *C.B. Kb*, 26 July 1838; and see p. 164 above.

enough to expect; but he thought "there could be no objection to pass a law forbidding any persons not now in possession of the privilege to make use of it".[1]

Before Norman actually published, the notion of a formal separation of departments in the Bank had been put forward by that rather amateurish economist, Colonel Robert Torrens, in a *Letter to Lord Melbourne*.[2] Torrens wanted this as a provisional solution only; his Ricardian ideal was to withdraw the right of issue from the Bank altogether. The same year (1837) Jones Loyd, in controversy with Horsley Palmer, had said that it was not "very easy to perceive any insuperable difficulty in rendering the currency department of the Bank of England totally distinct and separate from the management of its other business".[3] Norman, in 1838, wrote appreciatively but rather guardedly of the Torrens plan. The Colonel's pamphlet had gone through two editions and his scheme was well afloat, as the July motion in Court shows.

An amendment to that motion to the effect that two departments were not desirable was carried; but the proposed committee was nominated—Palmer, Norman, William Cotton, John Benjamin Heath and Thomson Hankey. No written report survives; probably there was none. Nothing was done in the matter during 1839; but in March 1840 a report appears signed by Cotton, Norman and Pelly, then Deputy-Governor.[4] They were led to think, they wrote, that no great change was needed in the public management of the Bank's business.

[1] Norman, G. W., *Remarks upon some prevalent errors with respect to currency and banking* (1838), p. 102. Norman explains that he wrote his pamphlet in 1832 but suspended publication in 1833; he now publishes "with a few trifling alterations". For Horsley Palmer and "single issue" see p. 114 above.

[2] *A Letter to...Lord Melbourne on the causes of the recent derangement in the Money Market and on Bank Reform*, 1837.

[3] Horsley Palmer issued *The Causes and Consequences of Pressure on the Money Market*. Loyd wrote a reply, *Reflections suggested by a perusal of...Palmer*. The passage quoted is on p. 11.

[4] *C.B. Lb*, 26 March 1840.

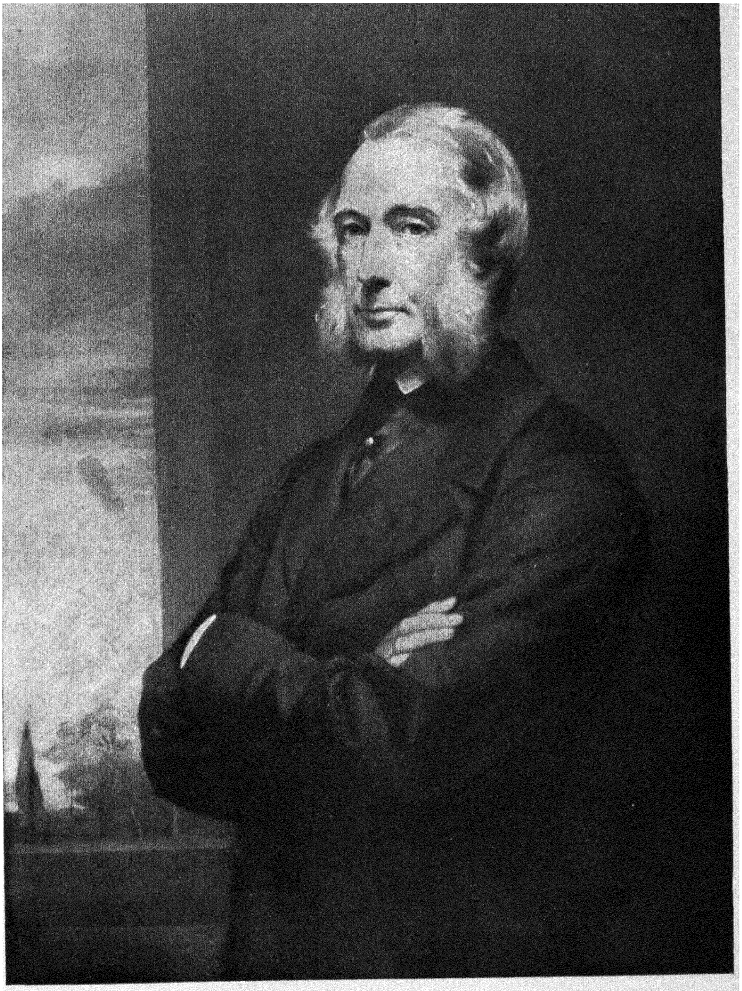
This produced a series of amendments. These were lost, but they are significant. The first was—that with the exchanges at par, two-thirds of the issues should be made against a fixed and permanent figure of securities, "the remaining third being allowed to expand or contract in proportion to the import or export of the precious metals". (The mover did not explain how a third expands and contracts yet remains a third.) Second, that what are first called the Issue and Deposit Departments should be kept separate. So should accounts of dividends on the funds, as these have no relation to bullion movements. It was suggested that £10,700,000 of securities, plus such additional quantity as would cover the quarterly advances and the deficiency bills, might be held against issues. Finally, that what was now called "The Banking Department" should be worked like any good private bank.

Whose the amendments were we do not certainly know. Horsley Palmer gave evidence in the following June before a House of Commons Committee on Banks of Issue. Asked about separation of the departments, he said that he had not considered it in detail, but had never anticipated any benefit from it.[1] Norman, interrogated in the same way, replied that he would separate the accounts, "without introducing an absolute separation of the departments".[2] It was Jones Loyd who was arguing decidedly in favour of full separation to this same Committee in July.[3]

The amendments put forward at the March discussion, and rejected, are not perfectly lucid at all points, but their drift is clear enough. So is their resemblance to the Bank Act of four years later—separate departments, a fixed amount of issue against securities. Though they were not carried, a motion in favour of

[1] *S.C. of* 1840, Q. 1561. [2] *Ibid.* Q. 2161.

[3] *Ibid.* Q. 2878: 21 July. He also circulated privately in 1840 his *Thoughts on the Separation of the Departments of the Bank of England*, which he expanded and published in 1844.



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a weekly return of the "Circulating and Banking Departments" was. This return was to be on lines suggested by a recent recruit to the Court, who remained a leading member of it for fifty years, John Gellibrand Hubbard. Behind it lay the doctrine that, beyond some fixed point, issue should be regulated "by ingress and egress of the precious metals",[1] which makes it likely that the amendments as well as the form of return came from Hubbard.

A week later the first Hubbard return appeared.[2] Its issue coincided with a second report from the same committee of three, which shows that the March amendments, though rejected, had not been ignored. The committee thought that £12,000,000 of notes might safely be circulated against securities and £2,000,000 more against what were called "unemployable deposits". So £14,000,000 of securities might be held "on circulation account"; all issue beyond that to be "on bullion only". (They were thinking of a total issue of some £20,000,000.) About £150,000 of gold should also be held in the Banking Account.

The minute on this report is "further consideration postponed"; but though votes are not taken, the gestation of an embryo Act of 1844 in the womb of the Bank itself is apparent. The Old Lady is big with child. But a court of law could not have implicated Peel. He was not yet in office.

Gestation was prolonged. The committee to discuss division of the Circulating and Banking Accounts—as opposed to making a return about them—was not renewed until May 1841.[3] Pelly and Cotton, now Governor and Deputy, were members, also Heath and Norman: separation of accounts was Norman's own policy. With them was James Morris, who was to be Governor at the crisis of 1847. But from this committee again no written report has survived. Three years later correspondence about the renewal of the Charter begins with Goulburn at the Exchequer.

[1] From Hubbard's memorandum on his suggested return: *C.B. Lb*, 26 March 1840.

[2] *C.B. Lb*, 2 April 1840.

[3] *C.B. Nb*, 6 May 1841.

Meanwhile the accounts continue to be drawn up in the old fashion. The first divided account is that of February 1845, when division was already statutory.

The Bank had many preoccupations to distract attention from questions of reorganization during these years. Prices fell continuously and far from 1839 to 1843, although until the good harvest of 1842 that of bread kept high. The whole country was distressful and discontented, never more so. The new Poor Law of 1834 was desperately unpopular. Employment was irregular. Rioting was endemic. Chartism was in its militant phase. From 1840 bankruptcies were steadily and abnormally high. Discounting was slack; private lending was not very active; the market rate of discount was sliding away to an average of 2·17 for 1843. In September of 1840 the Directors had even to face—but to face and defeat—a motion in General Court to cut down their salaries because of their failure to maintain profits.[1] Public finance during the last years of the Whig Ministry was most unsatisfactory; and when Peel came into power in 1841 his much needed financial medicine upset many of the Bank's proprietors.

Notably so his "temporary" Income Tax and its incidence. In March 1842, the General Court protested, rightly enough, against the taxation "during the three years that the Tax is to continue" of incomes from such a terminable annuity as the "Deadweight" at the same rate as permanent incomes.[2] The protest was sent to the Prime Minister. But six months later a relevant amendment moved in General Court was lost. It was to omit from the dividend vote the words "deducting therefrom the 7*d.* in the £ on account of the Income Tax".[3] That, it may be recalled, was the whole amount of the tax; and three years was to be its duration. It has not been abolished yet.

[1] *G.C.B. VII*, 17 Sept. 1840. The motion was countered by one of "ful confidence" in the Court.

[2] *Ibid.* 17 March 1842.

[3] *Ibid.* 15 Sept. 1842.

Throughout 1840 and 1841 the level of the bullion reserve caused anxiety. It rarely touched £5,000,000 and was often under £4,000,000. Subsequently it improved; after Peel's fiscal reforms and the good harvest of 1842 markedly. It got to £7,000,000 by March of 1842; to £11,000,000 by March of 1843; and was above £15,000,000 from 16 January 1844. Before the rise set in, the Committee of Treasury had been naturally solicitous about the convertibility of the notes. Late in 1840 it was discouraging the discount of long-dated bills and of "paper connected with... export of gold".[1] It was also anxious to see bankers' excess drawings checked, and cash brought in by sale of securities or borrowing on them.[2] Its anxieties were increased late in 1841 by appeals for help from provincial bankers: some were helped in moderation, some sent empty away.[3] But with 1842 anxiety lessens: both the Committee of Treasury and the Court are busied mainly with the normal activities of healthy times.

The years from 1836 to 1841 saw repeated parliamentary banking inquiries, centred in 1836–8 on the new joint-stock banks, in 1840–41 on issue and the Bank of England. Peel when he came into office had abundance of recent information available, and he held no further public inquiry. Besides, he had his own long experience of currency legislation. And he had the opinions of Jones Loyd, on which he is often thought to have relied. "There was always some person representing some theory or system exercising an influence over his mind", Disraeli wrote;[4]

[1] *C.T.* 24, 7 Oct. 1840.

[2] There is, however, no evidence in the Ledgers of borrowing on stock at this time.

[3] *C.T.* 25, 3 Nov. 1841: the Bank of Manchester, which sends a deputation, is refused an open credit of £300,000; 10 Nov.: Dixon and Dalton of Dudley are helped up to £50,000; 1 Dec.: Hector & Co. of Petersfield are refused help, the Portsmouth and Portsea Banking Co. are allowed £5000; 15 Dec.: £30,000 lent to the London and County Joint-Stock Bank to enable it to take over Hectors of Petersfield.

[4] *Lord George Bentinck*, p. 200.

and on the list of persons he put "Mr Jones Loyd...and finally Mr Cobden". As it happens, Jones Loyd "never exchanged one word upon the subject"[1] with Peel, but William Cotton, Governor of the Bank, 1842–5, exchanged many. Cotton had shared in all the discussions in the Bank Parlour. He was in general sympathy with Jones Loyd, whom he once praised to Peel as a good banker and "sound bullionist",[2] and it may well have been through Cotton that Loyd's—and Norman's—influence affected Peel.

During the session of 1842 the Bank was never mentioned in Parliament. In 1843, as the end came in sight of those ten years after which a revision of the Charter was allowed under the Act of 1833, Peel was asked if he meant to legislate that year. He answered, no.[3]

But early in January of 1844 he wrote to ask Cotton and Heath, his Deputy, to confer with him and Goulburn about the Charter.[4] Peel already knew, from the evidence given by Horsley Palmer and Norman in 1840 and earlier, that leaders in the Bank inclined to a "single issue".[5] The point was discussed, but circumvented.[6] The statesmen evidently felt that the only form of "single issue" that Parliament could be expected to accept would be Ricardo's sort, by a government department or board. That they did not want; and no doubt they easily convinced Cotton and Heath.

One other thing that they discussed is evident from a memorandum sent by Cotton at Peel's request on 26 January—"a sketch of the division of the Bank", a notion with which the Governor was very familiar.[7] On 2 February he and Heath, without consulting any other Director, sent in a long memorandum of

[1] *S.C. on the Bank Acts*, 1857 (x), Q. 4020.

[2] Cotton to Peel, 9 May 1844: 1844 *Correspondence* [MSS. at the Bank].

[3] *Hansard*, LXVI, 419 (13 Feb. 1843).

[4] Peel to Cotton, 10 Jan. 1844.

[5] E.g. *S.C. of* 1840, Q. 2061: Norman favours "a single issue".

[6] Goulburn to Cotton, 16 Jan. 1844.

[7] Cotton to Peel, 8 April: how on 26 Jan. he sent "a sketch of the division of the Bank".

suggestions: no new bank of issue to be allowed; existing banks to have their maximum issue fixed at its present level; the Bank to be split in two; its issue department to circulate a fixed maximum of notes against securities, the rest against bullion only; any extension of this fiduciary issue to require the written sanction of three ministers of the Crown; the difference between the agreed or fiduciary issue and the old government debt of £11,015,100 to be made up by a further loan, on easy terms, from the Bank. There were some minor suggestions of less importance, but here is the whole skeleton of the Act of 1844 plus one bone for which it would have been the better.[1]

Peel took the memorandum with him to Drayton Manor early in April, and obviously used it in drafting his own memorandum for the Cabinet. He wrote to ask if there was any later document. There was not.[2] On his return to Whitehall he convinced Cotton that an extra loan by the Bank was unnecessary; it could more easily transfer some government securities to the new Issue Department.[3] In these discussions he is assuming a fiduciary issue of £14,000,000, a figure that must have come from the Governor, for it was four years old at the Bank.

Things were now ripe for publicity and for Peel's financial henchman, the Chancellor of the Exchequer; so Goulburn wrote a formal letter to the Bank on 26 April.[4] He had sent a draft in advance to "the Chairs", and all was in order for the open air. Issue, he pointed out, might have been taken over by the Treasury; but ministers were "willing in the first instance to consider whether this [the separation of issue from banking] can be effected by a division of the Bank". He proceeded to explain

[1] The suggestion that in emergency three ministers might sanction an excess issue. The three ministers first occur in Norman's *Remarks* of 1838, p. 106.

[2] Peel to Cotton, 6 April: from Drayton Manor. Cotton to Peel, 8 April. Peel's Cabinet Memorandum is in Parker's *Peel*, III, 134.

[3] Peel to Cotton, 16 April: from Whitehall.

[4] It is in *G.C.B. VIII*, under 7 May, and has often been printed.

the rest of a Bill that in the end went through Parliament unamended, noting that it was not proposed to "continue the prohibition...now in force as to the drawing, accepting, or paying Bills within the sixty-five mile radius", and that the Bank would not lose the management of the public debt or the custody of government accounts. But the government would retain entire discretion as to the amount of its balances and to participation in the profit from them; and on these matters he went into detail. He also touched on the possibility of the government repaying the ancient debt of £11,015,100; and mentioned that the Charter would be extended for ten years only.

Replying formally through its General Court on 30 April, the Bank—in a letter that Goulburn had seen in draft[1]—accepted the policy of separation without comment. It pointed out that in 1833 it had agreed to relinquish £120,000 a year, but had never been given the extension of its circulation anticipated at that time from some nearer approach to a "single issue". It had no objection to a proposed weekly publication of its accounts nor to the withdrawal of the rule about bills, unless it were used "for the purpose of circulation". Repayment of the £11,015,100 it did not desire; reduction of the interest on it below 3 per cent it deprecated.

Arguing for a return of part of the £120,000, it mentioned that £600,000 to £700,000 of notes were cancelled daily. Re-issue had been tried as a measure of economy in 1838, but had been abandoned because so inconvenient. The cancelling policy was useful but costly. In reckoning what it made by its issues, there were also losses from forgery to be considered. As for its gains from government balances, these had been greatly reduced by changes in the Exchequer Acts made in 1834. Goulburn was reminded further that in 1843 Bank clerks travelled 75,090 miles to collect the public revenue. And the Bank paid £49,000 in stamp duty on its notes issued.

[1] The draft and Goulburn's comments are in the 1844 *Correspondence*, as is the draft of his official letter. The letter of 30 April is in *G.C.B. VIII.*

It would greatly like a twenty-year extension of its Charter rather than the suggested ten years.

Goulburn was courteous and complimentary in his rejoinder,[1] but officially severe. As he wrote privately to Cotton, he wanted to make it evident "that we have not altogether yielded to you".[2] He would watch that matter of the bills and their circulation. He could not concede the twenty years. On the repayment of the £11,015,100 he would accept the Court's view. (He had always meant to do so.) He also accepted its estimate of the expenses of issue. He regretted that he could hold out no hope of a reduction of the £120,000. The stamp duties might be compounded for at £60,000. So the Bank would sacrifice a trifle more —but only £11,000—to be deducted, like the rest, from what it received for management of the debt. And it was not asked to pay a fine for the renewal of its lease, as in the eighteenth century. To all this the General Court bowed in eleven resolutions on 7 May.[3]

Discussion of the Bill in Committee had begun the day before.[4] Neither this discussion nor that on the second reading was of great value. Peel made long, able, but in no way original speeches. There was no Member with the economic ability of Ricardo or Henry Thornton. Except Sir John Rae Reid and Alderman William Thompson, no Directors of the Bank sat in the House; and Reid did not speak. Joseph Hume the Radical made a long, dull speech; Sir Charles Wood, a future Chancellor of the Exchequer, one longer and less dull. Peel showed himself a complete convert to what George Warde Norman in his evidence of 1840 had first nicknamed "currency principles",[5] the view that a

[1] Also in *G.C.B. VIII*, under 7 May.

[2] 1844 *Correspondence*: Goulburn to Cotton, 2 May. [3] *G.C.B. VIII*, 7 May.

[4] *Hansard*, LXXIV, 719, the discussion in Committee, 6 May; LXXV, 777 and 1308, the second reading debates, 13 and 24 May.

[5] Tooke, IV, 166, says this was the first use of the phrase. Viner, however, points out (*Studies in the Theory of International Trade*, p. 220, n. 1) that William Ward spoke of "the principle of the currency" in his evidence of 1832. Too much ink has been spilled over it.

bank-note circulation ought to rise not with a rise of interest and prices—that, in current jargon, was the "banking principle", and, to its thoroughgoing advocates, implied free competitive issue, coupled with a faith that this could not produce purchasing power for which there was not a "demand"[1]—but should rise only when the central stock of bullion rose. "Currency principles", "bullionist principles", lay behind the familiar central clause of the Act, the clause which limited to £14,000,000 the notes that might be issued against securities. There was a strong "currency" party in the Parlour; but a man might hold "currency principles" and still find the proposed Act too stiff. It omitted the method, first suggested by Norman, for extending the fiduciary issue in emergency on the authority of three ministers.

Among shorter speeches in the debate was one from Alderman Thompson criticizing the Bill from this standpoint, because of its inelasticity; and another, abler, in the same sense from John Masterman, Member for the City, who, "living as he did among bankers and merchants",[2] feared that the rigid limit of issue might actually increase anxiety and lead to panic when times were difficult. It did. The same point was well put in a protest entered in the Journal of the Lords by the Earl of Radnor; the Act would not check a bullion drain resulting from a bad harvest, but it would check the very course of action—openhanded issue and lending—by which the Bank had restored confidence in 1825.[3] Peel had been begged, both by a group of London bankers collectively and by one of the Bosanquets, writing from Lombard Street, to make the rules of issue more elastic. He had been resolute in opposition.[4] If his Act did not greatly reduce the risks of crisis, he held, "the whole measure is a delusive one".[5]

[1] See Gregory, T. E., *Introduction to Tooke and Newmarch's History of Prices*, pp. 25, 80 sqq.; Morgan, E. V., *The Theory and Practice of Central Banking* (1943), Ch. VI.

[2] *Hansard*, LXXV, 1308.

[3] *Hansard*, LXXVI, 736.

[4] Parker's *Peel*, III, 140–2.

[5] To Cotton: Parker's *Peel*, III, 139.

Should it fail and a crisis occur, he dared to say that men would be found willing to assume the necessary responsibility—in short, of authorizing its breach.[1]

The real name of "the Bank Charter Act" of 1844 is "An Act to regulate the Issue of Bank Notes, and for Giving to the Governor and Company of the Bank of *England* certain Privileges for a limited Period" (7 & 8 Vict. c. 32). Issue is to be kept "wholly distinct from the general banking business", and it may be managed by a separate Committee of Directors. (It never was.) Fourteen millions of securities, of which the government debt shall be a part, are to be transferred to the Issue Department, with all the bullion not needed for day-to-day banking purposes. The Issue Department shall thereupon deliver to the Banking Department notes equal to this joint amount, less the value of the notes then in circulation. The £14,000,000 of securities may not be increased—except in one way to be mentioned later—but may be reduced and then replaced. Only the acquisition of more bullion is to justify an absolute increase of issue—except in that one case. (Clauses I, II.)

Silver is never to rise above one-fifth of the Issue Department's bullion. Notes are to be given for gold bullion on demand at £3. 17*s*. 9*d*. per standard ounce. (Clauses III, IV.)

No one but a banker who issued notes on 6 May 1844 may issue in future, and Parliament may at any time stop such issue entirely: no bank's notes may exceed their average in the twelve weeks ending 26 April 1844; a lapsed issue cannot be resumed; and a partnership the number of whose partners rises above six may no longer issue. Issuing banks must pay a licence, make various returns, and allow inspection of their books. Those banks which at present under agreements with the Bank of England do not issue are to terminate the agreements, but to receive compensation. If any issuing bank ceases to issue, the Bank of England, under an Order-in-Council, may increase its own issue

[1] In the letter to Cotton.

against securities up to two-thirds of the amount of notes so abandoned, the bank ceasing to issue also to receive compensation. (Clauses V, X–XIV, XVIII–XXIV.)

The Bank's summary of accounts is to be published weekly. It is released from the payment of stamp duty on its notes. It will pay £180,000[1] to the public out of its earnings from the management of the debt, plus the net profit on any issue against securities arising from bankers' abandoned issues. (Clauses VI–IX.)

Joint-stock banks within the sixty-five mile radius may "draw, accept, or endorse Bills of Exchange, not being payable to Bearer on Demand". The Bank retains all privileges not specifically abrogated by the Act until the expiry of a year's notice, given at any time after 1 August 1855, and the repayment of all that government owes it. (Clauses XXVI, XXVII.)

With definitions of Bank Notes, Bank of England Notes, Banker and Person, the statements "that the Singular Number in this Act shall include the Plural" and "that the Masculine Gender in this Act shall include the Feminine" (Clause XXVIII), a law which was to stand for eighty years, but not always upright, drew to its close.

It has three schedules—the form of the new Bank account; the form for issuing bankers' accounts; and a list of the forty-three banks which "have ceased to issue their own...notes under certain agreements with the Bank of England".[2]

Jones Loyd, Colonel Torrens and other "currency" men thought even more decidedly than Peel that the Act would be "delusive" unless it did "effectually prevent the recurrence of those cycles of commercial excitement and depression of which our ill-regulated currency has been the primary and exciting cause".[3] And they did not believe it to be "delusive". But

[1] The £120,000 referred to on p. 180 above plus the £60,000 in lieu of stamp duty.

[2] The Act is printed in Gregory, T. E., *Select Documents and Reports Relating to British Banking*, I, 129.

[3] Torrens, quoted in Tooke, IV, 282.

strong forces of informed opinion were against them. Thomas Tooke, the historian of prices, rejected the doctrine of the Act in advance.[1] John Stuart Mill, turning over in his mind his *Principles of Political Economy*, argued that, as export drains of gold were apt to come from deposits, "the deposit department might have no alternative but to stop payment", although "the circulating department was still abundantly supplied with gold";[2] a year later, James Wilson, who had recently founded the *Economist*, said that if Peel's object had been "to increase the intensity of...a crisis" he could not have adopted "a more certain plan";[3] and another new financial journal, the *Bankers' Magazine*, quoting and endorsing Wilson, asserted that all writers "in publications more particularly devoted to banking affairs" agreed that, in the event of a crisis, the Act would directly "aggravate the evil".[4]

While the champions fought with pen and ink, a surge of trade that was influenced by many other things than currency, well or ill regulated, was moving up with power towards its crest: when the Act was little more than three years old its value and their opinions would be tested by events.

[1] In his *Inquiry into the Currency Principles*, March 1844.
[2] "The Currency Question", *Westminster Review*, June 1844.
[3] *Economist*, 3 May 1845.
[4] *Bankers' Magazine*, IV, 18 Oct. 1845.

CHAPTER IV

THE DECADE FOLLOWING THE ACT OF 1844, AND THE CRISIS OF 1847

THE Act of 1844 was a purely English Act. It dealt with country banks only in England and Wales. Bank of England notes which were legal tender in England, except when tendered by the Bank itself, were not legal tender in Scotland or Ireland. A main reason why Peel moved so cautiously and with so much compromise was the risk that he saw in trying to apply "at once to three constituent parts of a great Empire, in each of which there is a different system of currency, any unbending uniform rule".[1] Scottish banks were already few and reasonably secure. He was too intelligent a politician to touch their £1 notes: he remembered 1826. He had stopped the creation of fresh banks of issue in any part of the United Kingdom; but there remained points to be dealt with by legislation in the following year.

The results of that legislation did not affect the Bank closely although, in case they might and for their own guidance, Peel and Goulburn had discussed its details in advance with "the Chairs".[2] By the Act of 1845 for Scotland (8 & 9 Vict. c. 38) the nineteen Scottish issuing banks were left with a legal circulation, ascertained in the same fashion as in England, of £3,087,000, compared with a maximum country issue for England of

[1] Parker's *Peel*, III, 136.

[2] 1844 *Correspondence* [MSS. at the Bank], Aug.-Sept. 1844—a series of letters.

£8,632,000. But the Scots might increase their issue indefinitely against gold and silver held in their head offices, a privilege offered in England to the Bank only; and whereas in England if either party to a banking amalgamation had more than six partners fusion of issues was not allowed, in Scotland where every bank had more partners than that there was no such handicap on amalgamations. The Scots loved their notes and their issuing banks and must be allowed to keep them all. Peel was aiming, though with a long shot, at a "single issue" for England; but no one since Horsley Palmer in 1833 had ventured even to discuss a "single issue" for Scotland.[1]

The Irish Act (8 & 9 Vict. c. 37) also retained the £1 note, and regulated issue as in Scotland. To assimilate Dublin to London, it abolished the sixty-five mile monopoly radius against the joint-stock banks which the Bank of Ireland had hitherto enjoyed; but its clauses did not influence in any important way the history or policy of the Bank of England.

Peel had also sponsored in 1844 an elaborate law for the regulation of joint-stock banks (7 & 8 Vict. c. 113), a law that was repealed and replaced thirteen years later. It was strict, and its main effect and main significance for the history of the Bank of England and the economic history of the country was the temporary check that it gave to joint-stock bank promotion. For some years there was none at all; so among the railway maniacs of those years there were most fortunately no bank maniacs.[2]

When discussing separation of issue from banking in 1840, the advocates of separation on the Court had argued that the banking department might be run just like any other good bank and in competition with the others. Peel had hammered this principle in when introducing his Bill—banking activities in Threadneedle

[1] Cp. p. 114 above.

[2] See Thomas, S. E., *The Rise and Growth of Joint-Stock Banking* (1934), I, 414 and Clapham, *An Economic History of Modern Britain*, II, 351.

Street "should be governed on precisely the same principles as would regulate any other body dealing with Bank of England notes"; "banking business, as distinguished from issue is a matter in respect to which there cannot be too unlimited or unrestricted a competition".[1] Years later Jones Loyd, a consistent man, was repeating and even underlining this doctrine.[2] It is not surprising that the Court listened; and, although long experience and tradition saved it from acting simply as the governing body of an ordinary bank with no special public responsibility, it has been said that, "paradoxical as it must seem to-day", the first effect of an Act which undoubtedly emphasized and strengthened the Bank's central position, was to make it "less of a central bank than it had been previously".[3] But, as will appear, not so very much less,

In discussion with Peel himself, the Governor had referred to a problem which worried some of his colleagues. Suppose there were a sudden big demand for Deficiency Bills dangerous to the Banking Department's reserve, what then? The answer, said Peel, was "call Parliament together". "The Bank was absolved from all such obligations."[4] Government must not depend on it, but must keep expenditure within income. This was a sound maxim and became established practice in the Peel-Gladstone era. The Bank was to go about its commercial bankers' business, and regulate its reserve accordingly. It need make no provision for emergency short-term help to the Treasury.

Of liability for the currency Peel had absolved it altogether. Asked a few years later if they considered that his Act relieved them "entirely from any responsibility as regarded the circulation", the then Governor and Deputy replied "entirely". "The

[1] *Hansard*, LXXIV, 742–3, and often quoted since.

[2] *S.C. on the Bank Acts and...the recent Commercial Distress*, 1857–8, Q. 4149.

[3] King, *History of the London Discount Market*, p. 103.

[4] 1844 *Correspondence*: Memo. of an interview with Peel of 24 May 1844.

issue department might be in Whitehall and the banking department in Threadneedle Street", the Governor added.[1] That was not simply a Bank interpretation of the law: it was the law as Peel meant it to be understood.

The Act came into operation on 2 September 1844. In preparation for it a Committee had been appointed to report on "the present state of the Discount Department". Of late, with low market rates and Bank rate at 4, "the only means the Bank had of getting out its notes"[2] had been the purchase of dear securities. The Committee noted the "rapid and considerable fluctuations of the discounts"[3] during the last ten years and how inconvenient these were. Either the Bank would have to sell securities cheap to get cash, in times when the discount demand was brisk, or keep a large reserve of unemployed notes when it was not. A full stock of self-liquidating bills was valuable to any bank. They therefore recommended a reorganization of the Discount Department and, among other things, the adoption of maximum and minimum discount rates "approaching as nearly as possible to the market rate".

This would bring discounting customers to the Bank, whereas hitherto the Bank, with its high fixed rates, had had to look out for custom when money was cheap. When old Samuel Thornton, who had been Governor in 1799–1801, retired from the Court in 1836 he had expressed in his letter of resignation one wish and regret—"that by a variation from time to time in the rate of discount, our customers should come to us and the Directors not seek them through the instrumentality of Brokers".[4] His wish was to be realized.

[1] *S.C. on Commercial Distress*, 1847–8, QQ. 2652, 3007.

[2] Jas. Morris, the Governor, in 1848, Q. 2641.

[3] *C.B. Qb*, 8 Aug. 1844.

[4] *C.T.* 21, 30 March 1836. This is the only direct evidence I know of that the Bank had regularly employed brokers—true brokers, who procured bills for it.

A week after this report was made, on the advice of the Committee of Treasury the Court rescinded a vote forbidding discount of bills endorsed by banks of issue: the field for discount was to be widened.[1] After further discussion and postponement, it sanctioned the proposed reorganization of the Discount Department, but modified slightly the Committee's recommendation about the rates: in fixing "a rate or rates" only "reference" was to be "had to the market rates". The Court agreed that the Governor should fix daily the amount to be employed in discounts; and that, besides customers with discount accounts, anyone who had a drawing account "exclusively with the Bank" might present paper—unless he were a bill-broker. Branch rates were to be fixed weekly, independently of the London rates; and there were other more technical decisions.[2]

On 5 September the first action was taken under these votes. The Bank's rate which had never been below 4 since 1699 and had been at 4 since early April 1842, having previously been at 5, was fixed at a minimum of $2\frac{1}{2}$ for bills and 3 for notes—in London. This was drastic, but less so than it appears; for market rate was most abnormally low. It had only averaged a little above 2 for the whole of 1843, and for the first eight months of 1844 even a shade below 2.[3] Goulburn, the Chancellor of the Exchequer, was taking the opportunity to convert no less than £249,000,000 of $3\frac{1}{2}$ stock into $3\frac{1}{4}$ and eventually 3. At the Bank, while its rate was maintained at 4 per cent, discounting had almost ceased: a whole year from February 1843 to February 1844 yielded only £7500 from the Threadneedle Street discounts, compared with

[1] *C.B. Qb*, 15 Aug. 1844. Between 1833 and 1840, issuing banks had been allowed to have discount accounts at the branches, for certain limited purposes, but this privilege had been withdrawn in 1840: Report on Bankers and Discount of 1871, *C.B. Sc*, 5 Jan. 1871.

[2] *C.B. Qb*, 29 August.

[3] King, p. 80. Morgan, E. V., "Railway Investment, Bank of England Policy and Interest Rates, 1844–8", *E.J. Hist.* 1940, emphasizes this and argues "that the change in Bank...policy was not important".

£57,000 at the branches. The revival that followed the new and more competitive policy, when the Bank according to Samuel Gurney was "canvassing for discounts and fomenting transactions",[1] was less rapid and less abnormal than the comments of this contemporary critic and of some later historians might suggest; for in the first half-year (to 28 February 1845) the discount income was only £11,500 and in the second (to 31 August 1845) £23,600, although the rate was kept all the time at 2½ to attract business, the special rate for notes having been dropped by vote of 13 March 1845.[2] For that second half-year the private loans brought in nearly three times as much. True, in the electric atmosphere of 1846–7, working up to the storm of October 1847, discounts were heavy and discount income high, with a maximum income in Threadneedle Street of £168,000 for the half-year August 1847–February 1848 that contained the actual crisis. But it is for its 1846 income—£116,000 in the half-year February–August alone—rather than for that of 1847 that the Bank may not unfairly be criticized.[3] In boom conditions its rate was kept at 3½ from November 1845 to August 1846, and then at 3 to January 1847. It might have made as much with fewer transactions at higher rates; but it would have given less encouragement to reckless speculation and investing.

The income of 1847–8 was normal for such times, Horsley Palmer's "times of discredit",[4] and had been exceeded in 1825.

[1] Lords' *Committee on Commercial Distress*, 1848, Q. 1098.

[2] *C.B. Qb*, 13 March 1845. For the income see App. C. There had always been difficulty in distinguishing between notes and bills: "a promissory note (or an accepted bill which is the same thing)"; Thornton, *Paper Credit*, p. 83. To help its officials, the Court on 12 Sept. 1844 (*C.B. Qb*) had voted that "when the Discounter is also the Drawer of the Instrument it shall be deemed a Note". This was "more clearly to define the distinction"; but the subsequent dropping of the special rate for notes shows that the distinction was hard to maintain.

[3] As it is, with some acerbity, in King, p. 134.

[4] Above, p. 62.

In criticizing the low rate, it is to be remembered that the Bank was deliberately, and for the first time, using both shifting and discriminatory rates. By no means every applicant got that minimum which in 1845 and 1846 was actually below the market average. As announced in March 1845, this was reserved for prime bills at not more than 95 days. Only the minimum was announced. Instead of checking demand by rationing discounts, the Bank now checked it by asking higher rates for second-grade or long-dated paper[1]—and it could interpret the term long-dated variously. It has been suggested[2] that by using these shifting and discriminatory rates, while it was actually a part of the discount market, the Bank gained experience which proved invaluable to it when, after 1848, it resumed that relative aloofness from the market in quiet times which Horsley Palmer had advocated.

Both contemporary and recent critics have argued that by abandoning his policy in 1844 it helped to make the times unquiet. Perhaps it did, though by how much it is hard to say. Far more powerful forces than its handling of the discount rate were working to that end. If blame is to be apportioned, most will go to a great minister who had exhorted the Bank to compete; to a Parliament from which came no word of protest on that head; and to a free-trade and even free-banking public opinion—represented in the parliamentary minority that thought Peel's Bill too regulative—which had no right to complain of the Bank's policy of competition. Thomas Tooke saw this. He half-acquitted the Directors of blame, arguing that "at all events, they are not open to reproach...from the promoters and admirers of the Act".[3] But he did not know to how great an extent the Act had been designed, if not by the Bank, yet by Bank Directors.[4]

[1] But there was a touch of rationing in April 1847: see p. 201 below. Tooke resented the abandonment of the uniform rate: Gregory, T. E., *Introduction to Tooke and Newmarch's History of Prices*, p. 92.

[2] By King, p. 112.

[3] Tooke, *History of Prices*, IV, 295; also quoted in King, p. 137.

[4] Above, p. 178.

Before plunging with the Bank into the rough water of 1846–8, it will be well to note that during the whole decade 1844–54 it was building up for itself an income independent of what it drew in various ways from government, and less liable to extreme fluctuations than the income from the discounts. (It had begun lending cautiously to railway and canal companies, on their bonds and debentures, before 1844.)[1] To the Issue Department—not an organized department or office, but a function with a distinct set of accounts[2]—it assigned the income from the old government debt and from a block of annuities. That Department's profit and loss account also received any "gain on bullion" that there might be; but this was always insignificant. All other investments and their yields appear in the stock (capital) and profit and loss accounts of the Banking Department.

Take the August statement of 1851, which those of 1852 and 1853 closely resemble.[3] In the capital account now appear £3,070,000 of debentures of eleven railway companies and two canal companies. Loans to municipalities, another recent type of investment, have grown to £543,000.[4] They are more important than the mortgages, which have dwindled to £462,000 and are only kept up by the perennial £300,000 of the Dukes of Rutland. Canada 4's and East India bonds, with a trifle from South Australia and a remnant of South Sea stock, stand at £1,057,000. Among older clients, the City owes £502,000; Trinity House and the Department of Woods and Forests together £608,000. Dock companies owe £328,000, most of it due from the St Katharine Docks, a little from Liverpool. And long-term government

[1] Above, p. 145.

[2] From 1845 to 1850, inclusive, the Bank's House Lists show some offices grouped under 'Issue Department'. But this was artificial. In 1851 the old grouping under Accountant's Department, Cashier's Department and Secretary's Department is resumed.

[3] Figures from *Stock Estimates*, IV, a volume which covers the years 1851–60.

[4] Of this £400,000 was lent to Manchester on the security of the rates in May 1850: *C.T.* 27, 8 May 1850.

securities in the Banking Department are entered at £11,887,000, more than half of which is the "Deadweight".

Of short-term securities there are £958,000 of Exchequer Bills purchased, £1,154,000 of miscellaneous advances, and lastly £3,380,000 of bills discounted.

These are all London figures. Statistics of income, which are in some ways more illuminating, include what the branches earned from discounts, advances and commission. For the half-year ending 31 August 1851 the total income of the Banking Department was returned at £603,000. Of this £237,000 came from British government securities, long and short term, and £125,000 from management of the National Debt. Other long-term securities of all sorts, from railway debentures to dock bonds, brought in £124,000. The discounts yielded £72,000; advances £17,000; commission, mainly earned at the branches, £14,000; and miscellaneous sources, including a few rents, another £14,000.

Discount income was rather low in 1851, as compared with most years in the fifties.[1] For the last half-year of the decade following the Bank Act (February-August 1854) it stood at £167,000, and for the half-year August 1857 to February 1858—which, however, covered the worst crisis of the mid-nineteenth century and a 10 per cent Bank rate—at £444,000. Though the new discount policy saved the discount income from fading almost utterly away in very quiet times, it did not do much to iron out those fluctuations which, as the Committee of 1844 had reported, were likely to be so awkward for the banking reserve. And the chief of the fluctuations resulted from the Bank's fulfilling, almost automatically, its central functions in recurrent spells of trouble.

The banking reserve was the crux of the settlement of 1844 but it was hardly discussed in Parliament. In the Bank Parlour

[1] See App. C.

it was obvious that, even if the risk of emergency demands from the Treasury could be excluded—as Peel had assured the Governor that it might—there was always the risk of discount drains, unless the discounts could be induced to fluctuate much less; and it was soon evident that, even if the Bank did rather more discounting in quiet times, they could not. Francis Baring said in the House in December of 1847 that "the question of the reserve was not sufficiently considered either by those who were favourable or those who were opposed to the bill".[1] This was true of the politicians and of the noisier publicists. It was not true of John Stuart Mill or of Tooke nor, one may fairly say, of the leaders of the Bank, rather inarticulate as they were. Whether or not they all accepted the argument implicit in Peel's policy that a drain on their reserves would pull prices down and eventually cure itself, they knew that a drain might be sudden and a price fall slow. "A considerable period may elapse before the check arising from the exportation of the precious metals, and the consequent return of notes, is felt", George Warde Norman had written in 1838.[2] And their action and anxieties show that they would not have accepted Baring's other dictum that, in 1844, "it never entered into the contemplation of anyone then considering the subject...that £7,000,000 of gold should run off, and yet the notes in the hands of the public should rather increase than diminish",[3] as happened between September 1846 and April 1847. They did not want to keep a very large reserve of notes in the Banking Department; but they saw from the first that this was the best safeguard against discount drains. They felt in their bones that such drains would come, and that it would be their interest, and "central" duty, to meet them. Norman had thought in 1838 that drains might be anticipated "with almost perfect certainty"[4] if country issue remained free: even its limitation in

[1] *Hansard*, XCV, 615–16 (3 Dec. 1847).
[2] *Remarks upon...Currency and Banking*, p. 53.
[3] From the speech quoted above.
[4] *Remarks*, p. 106.

1844 did not by any means exclude the risk of them. Whatever Peel may have said, the Directors were not as other bankers. And, though they often lacked imagination, they cannot have failed to realize that withdrawals of gold from the Issue Department against notes handed in from circulation might easily be balanced by a flow into circulation from the big discounting and lending reserve of notes that they felt bound to keep in the Banking Department.

That the outflow of a buried treasure of notes, which so long as it is buried need have no effect on prices, might delay that price fall on which the Peel argument relied, they may not have seen clearly. Those were not the days of index numbers and price graphs. But visible or not, that was the possibility.

However indistinct their sight, their instinct, their experience, and the signs of the times made them keep a strong banking reserve from the start. Until October 1845 it was never below £8,000,000—notes and coin—and was often above £10,000,000.[1] If, as Gurney said, they canvassed for discounts, they were at first only moderately successful. In the autumn, market rates were rising, and as the Bank's rate only moved up from 2½ to 3 on 16 October, and to 3½ on 6 November, more business came to it, and the reserve dropped for a time below £6,000,000. In the first half of 1846 it would have done plenty of business, even if it had never abandoned 4 per cent, for market rates were higher. The August balance sheet for that year showed a six months' discount income of £116,000 in London and £85,000 at the branches.[2]

Market rate was driven up to a nominal 5 in February of 1846, not because of Peel's recent change of front over the Corn Laws

[1] The weekly Bank returns from 1844 are in the files of the *Economist*, in *The Times*, and elsewhere. The originals are at the Bank in a long series of volumes.

[2] Branch discounting was at 4–4½. Up to 1844 branch and London rates had been identical.

but because there was difficulty in finding cash to meet the calls on the new railway shares:[1] the country was deep in the railway jungle. In January the Governor was keeping the Chancellor informed every few days. He had "dispersed money pretty freely as fast as it came in, first at one month and now [24 January] at 21 days at 3½...."[2] Fortunately the harvest of 1845 had been satisfactory, and Irish potatoes had not failed so badly that year as Peel had feared when he decided to suspend the Corn Laws. There was no foreign drain to pay for corn. The exchanges are favourable and "gold keeps dropping in", the Governor reports.[3] By the end of the month the bill-brokers are "refusing all discount"; "bankers and money dealers will advance nothing on trade bills".[4] At the opening of February, bankers' balances at the Bank are down to £4,344,000, of which the Governor estimates that £3,344,000 is due to go out in railway calls. On the eleventh, when the call payments are over, the Bank is "dreadfully pressed"—the market had not been lending at its 5 per cent—yet is generously extending the period of its advances.[5] After that pressure eased. Bullion gave no trouble, and later in the year was abundant: by Christmas the banking reserve was well above £9,000,000.

But the crest of the railway and trade wave had passed. Irish potatoes had failed again, and worse. So had the much less vital English crop; and so had the now very vital crop of Western Europe. English wheat proved not bad but short, continental crops even shorter. Wheat prices rocketed up from a minimum of 45*s.* 1*d.* in August 1846 to an average of 80*s.* 6*d.* for the three months ending with 29 May 1847, and to 94*s.* 10*d.* for the six weeks ending 26 June. During May there were sales in Mark Lane at 115*s.*[6]

[1] See Morgan in *E.J. Hist.* quoted above, p. 190, n. 3.
[2] *Min. of Correspondence with H.M. Government*, 4: 24 Jan. 1846.
[3] *Ibid.* [4] Letters of 27 and 31 Jan. [5] Letter of 11 Feb.
[6] See Clapham, 1, 527–9 for the general situation.

The world's corn-bins were scraped for wheat, oats, rice and maize—any food-grain that the starving Irish would or might eat. Naturally there was speculation in grain. Import was slow work in the age of sailing-ships; but supplies began to pour in during the summer of 1847. These, together with a promising harvest and news of a better potato crop, broke the market. Prices were falling all through July and August. By mid-September the gazette average was 49*s.* 6*d.* The ports now being open, the basic price continued to fall in 1848 and 1849, to settle for the years 1850–52 round about 40*s.*

The year 1846 had been difficult, with bankruptcies abnormally high. One that came in October touched the Bank nearly, though not its purse. Jeremiah Harman, Governor after Waterloo, had died in 1844 at a great age. It was the firm which bore his name that failed in October 1846, and for over half a million. After the failure evidence came to light of unsound business for many years back, and of a most unsatisfactory situation even before he left the Court in 1827.[1] But it was the fourth quarter not of 1846 but of 1847 that saw more bankruptcies than any quarter since 1826. One was that of Robinson & Co., whose senior partner, W. R. Robinson, had been elected Governor of the Bank in the previous April. Another was that of Reid, Irving & Co., a firm in which Sir John Rae Reid, Bart., Director and former Governor, was a partner. A third Director, Abel Lewes Gower, had to leave the Court when his firm also went down. There had never been such commercial slaughter of Directors, though ex-Governors had been through the Bankruptcy Court before Sir John Reid.

The Governor's firm was in the corn trade. To the credit of his high office, it paid 20*s.* in the pound.[2] Reids were East and

[1] Harman was born in 1763. In 1844 assets amounted to only 3*s.* 3*d.* in the pound of liabilities. The firm was solvent in 1817, but by 1825 liabilities already exceeded assets. The facts are in Evans, D. M., *The Commercial Crisis, 1847–8* (1848), p. 49.

[2] The liabilities and assets are given in Evans, p. lvi.

West India merchants and Gowers Mauritius merchants—sugar people all originally.[1] But great houses in such trades had every kind of activity. Most had helped to find corn for starving Ireland: it was their duty. Gowers had been concerned in railway promotion and "the gains...which the partners were known to have acquired...had tended in a measure to reassure their credit even in quarters where it had been in reality questioned".[2] A. L. Gower was also governor of an ancient but now struggling corporation, the Company of Copper Miners in England: it was a few years older than the Bank. But his firm proved "hopelessly insolvent", with liabilities four times their estimated assets. Reid, Irving & Co. appeared solvent: assets were well above liabilities. But the assets contained large blocks of East and West Indian plantations and of "sundry debtors in the Mauritius". They were not very liquid: it was not until June 1848 that Reid's paid their first 1*s.* in the pound.[3]

Corn and railways; these were at the back of the crisis of 1847—corn and railways, and to a certain though disputable extent the Bank's new competitive policy and its failure to realize the amount of control that it might exercise over the market. There had been every kind of reckless business and doubtful business in the wake of cheap money and the railway mania, when over 9000 miles of line were authorized and nearly 1900 miles opened in Britain between 31 December 1843 and 1 January 1848. From the Bank's point of view, heavy investment in foreign railway enterprises was even more serious. In January 1847, for example, railway calls of £4,500,000 for home use and of £1,650,000 for foreign had been due. That meant a locking up of capital tem-

[1] The full titles of the three firms were W. R. Robinson & Co.; Reid, Irving & Co.; and A. A. Gower, Nephews, & Co.

[2] Evans, p. 70.

[3] Statements of their affairs in Evans, pp. xix and xiv. For the Company of Copper Miners, founded in 1691, see Hamilton, H., *The English Brass and Copper Industries to* 1800, pp. 101–3 and *passim*, and Scott, W. R., *Joint-Stock Companies*, II, 430.

porarily unproductive at home and, combined with the abnormal grain imports, an adverse balance of international indebtedness, temporary also but formidable.

The Bank rate, set at 2½ for bills and 3 for notes in September 1844, at 2½ for both in March 1845, had not been raised to 3 till October, and was kept at 3½ from November 1845 to 27 August 1846.[1] Then it was dropped again to 3 and not put back to 3½ until 14 January 1847, although a section of the Court had wished to raise it in the previous November.[2] These last were most decidedly competitive rates, even though they were given only to first-class bills. They probably explain Samuel Gurney's grumble of 1848, for market rates in 1846 varied between February's 5 and an autumnal 3, averaging for the year 3¾. The foreign drain of gold which began to tell in January of 1847 led to a belated rise at the Bank, to 3½ on the 14th and to 4 on the 21st. The Bank of France was in trouble: it had been given by Barings a credit of £1,000,000 which, thanks to the central position of the Bank of England, was in effect a liability of the Court; and it had put its rate up to 5 for the first time in twenty-five years.[3]

Yet the Bank of England carried on at 4 until April—though market rate that month got to 7, and though James Morris, the Deputy who replaced Robinson later in the year, admitted subsequently that its sluggish motion from January to April had been mistaken.[4] One must hope that the Committee of Treasury's delays had no connection with the needs of any of its prominent

[1] Though not at the branches. See p. 196, n. 2 above.

[2] Both the Governor and the Deputy seem to have been in this section. See their joint evidence before the *S.C. of* 1847–8, Q. 2661. There had been panicky conditions in November; and in December the young *Bankers' Magazine* was saying that the Bank's "injudicious policy" of cheap money had "assisted and encouraged the railway mania"; IV, 121, Dec. 1845. The *Magazine* was started in 1844; it was, in its early days, a frank "banking school" journal, very hostile to the Act of 1844.

[3] On 14 Jan. 1847: Juglar, C., *Des crises commerciales*, p. 417.

[4] *S.C. of* 1847–8, Q. 2662.

members. On 3 April it appeared that the bullion, in both Departments, had fallen from the £15,000,000 of Boxing Day to £10,200,000 and the banking reserve of notes from £8,800,000 to £3,699,000. This last was, and remained, the crux, as the Court had foreseen. The note circulation varied and contracted little. All through the year and the crisis bullion never got down to £8,000,000, a comfortable figure judging by precedent.[1] The very events that precipitated the crisis worked in its favour. No one bought much corn abroad after August; and the bullion closed the year at £12,200,000.

On 7 April the Committee of Treasury had advised the Court to raise the rate to 5: this was announced next day.[2] It was made a very real minimum, applicable only to the best bills. At first such bills when up to 95 days were taken freely; but in the announcement of 15 April the days were omitted, and after that "it was understood"[3] that only first-class bills with a month or two to run were being taken so low as 5½. More than that, unable to gain control of the market by its new weapon of the shifting and discriminatory rate, the Bank not only borrowed £1,275,000 on Consols, but for a time rationed the discounts. "No measure of so extreme a character", Tooke wrote, "had, I believe, been resorted to...since 31 December, 1795".[4] But it was an old and

[1] The bullion position both in London and Paris was eased by the action of the Russian government, which bought £6,600,000 of French and other securities for gold: Viner, *Studies in the Theory of International Trade*, p. 274. The Bank of France in fact drew gold from London (and the Bank) through a loan from a London banker (*ibid.*). So far as its records tell, the Bank of England was not consulted about this.

[2] *C.B. Sb*, 8 April 1847: "that the rate be raised to 5 on bills not having more than 95 days to run, and...a proportionate rise...at the Branches".

[3] Tooke, IV, 73. A party in the Court wished to gain control by higher minimum rates. On 15 April an amendment for a 6 per cent rate was lost, before it was decided to announce 5, with no reference to days: *C.B. Tb*, 15 April 1847.

[4] Tooke, IV, 305. There is no vote about this either in the *C.B.* or the *C.T.* Both sets of books are very formal for this period, and there is no useful information in *L.B.* 11.

recently reiterated doctrine of Bank policy that the Governor should fix daily the amount to be employed in discount—which might mean rationing; though the reiteration suggests that practice had ignored doctrine.

The Bank did well to be cautious: its banking reserve was at a spring minimum of £2,558,000, on 17 April. But the commercial public naturally resented the resulting "paralysis" of trade.[1] This was, however, very short if most uncomfortable. With high rates, gold ceased to flow out. It is said that some which "had been actually placed" on ship-board for America[2] was unloaded for use at 5½, 6 or 7—the short market rates—and in May the Bank was working with some freedom at 5–5½.

The bullion remained fully sufficient to meet the only drain probable so soon as harvest and corn import prospects became good—that to America, where the cotton essential for that export trade in cotton goods which formed such a dangerously high fraction of total British exports was short and dear. The banking reserve of notes also recovered in June, but fell away rapidly from 1 July. Market rates were very high and the Bank was doing a great deal of discount business: for the half-year to 31 August this business brought in £150,000 in London and £83,000 at the branches. And there was another £44,000 from the high rates charged on the quarterly and other short-term loans.[3]

In July America was pulling at the gold, and a group of "merchants, bankers and traders of London" was petitioning Parliament against the Bank Act—for the old "banking" reason that it prevented the Bank from acting freely with its treasure in emergencies, and because they held it responsible for the April "paralysis" with its deadening effect on business. They also raised

[1] King, p. 139, points out that the word "paralysis" is used "by at least three authoritative contemporary commentators". But I am not sure this proves that it was used exactly rather than rhetorically.

[2] Tooke, IV, 74.

[3] The income from the "advances" was at this time almost all earned in Threadneedle Street.

the silver question—how the Bank, having all the silver that the Act permitted, had refused either to buy or lend on consignments of silver "arrived from the Pacific in payment for British manufactures". This, to men familiar with the Bank's former silver policies, seemed peculiarly irrational and irritating. They thought that there should be some change in the silver rule, and that a regular "relaxation" clause in the Act—which the Bank itself had originally suggested; but this they did not know—would "at all times prevent that destruction of confidence which is... the greatest evil that can befall a commercial community".[1]

The July drain proved manageable, and the Bank reached September quarter-day[2] with £8,190,000 of bullion in the Issue Department, £591,000 of coin and £4,112,000 of notes in the Banking Department. Again it was this limited banking reserve that gave cause for anxiety.

Cause enough, for the failures had begun early in August—in the corn trade where all the early wreckage was. On the 2nd, the Governor and Deputy, without waiting for a Court, had fixed 5, the existing rate, as the rate for one month's bills; 5½ for two months; and 6 for three months. The Court put the general minimum at 5½ on the 5th.[3] The Governor must have been distracted and preoccupied. His firm's failure came in a few days, and on the 21st he disqualified for office by sale of his Bank stock. Gower and Reid went in September: on the 23rd the Committee of Treasury was arranging for a General Court to elect three new Directors. Robinson had already disqualified by sale, and Reid and Gower now disqualified because of "unpaid bills on the discount accounts of their respective firms".[4] Their firms had suspended payment together with a crowd of provincial houses,

[1] The petition, of 13 July 1847, is reprinted in Gregory, *Select Statutes, Documents and Reports relating to British Banking*, II, 3–7. There is an anonymous criticism of it, clause by clause, in a pamphlet, *The Petition...against the Bank Charter Act*, 1847. Actually by S. J. Loyd.

[2] To be precise, 25 Sept., the day of the return.

[3] *C.B. Tb*, 5 Aug. 1847. [4] *C.T.* 27, 23 Sept. 1847.

also outside the corn trade proper and, what was worse, with Sanderson's the bill-brokers. Like Robinson's, Sanderson's were able to pay in full and resume business;[1] but even a short stoppage of a firm of their class and size shook credit and gravely dislocated the trade of the country.

The Bank had been freely criticized at the beginning of the month for offering its usual quarterly advances at 5 when its own minimum was 5½ and the current market rate of discount was 6;[2] but no doubt if it had asked 6½ or 7 it would have been criticized for failing to assist a worried City. Its own, reasonable, defence was that the quarterly loans always had been made below the discount rate; and that it was better to help by loans "repayable at or before the period of the dividends" than on bills many of which would not fall due until after that period.[3] Perhaps its dividend policy for the year was more fairly open to criticism, as some even of its own proprietors appear to have thought. For when in March the proposal had been made to add 1 per cent to the 3½ for the half-year recently paid, and the statutory ballot on a rise was taken, 57 proprietors had voted against their own immediate interests to 196 contents.[4] But there is no evidence for similar opposition to 4½ in September, though a ballot was taken on the question of freedom from Income Tax.[5] A year of heavy discounts always provided funds for good dividends, and the Court is not to be blamed much for proposing them, nor proprietors for accepting.

It was estimated that failures of first-rate firms alone during September showed liabilities of from £9,000,000 to £10,000,000.[6]

[1] Evans, pp. 71, xlii. [2] Evans, p. 71.

[3] *S.C. of* 1847–8, Q. 2642—the Governor and Deputy-Governor. Leaders of opinion in the Bank, as Mr R. G. Hawtrey points out in *A Century of Bank Rate*, p. 28, were well aware of the deadening effect of a high-rate policy on industry: "it destroys the labour of the country", Horsley Palmer said in 1848.

[4] *G.C.B. VIII*, 23 March 1847.

[5] *G.C.B. VIII*, 16 and 22 Sept. 1847. [6] Evans, p. 74.

October opened dark and cloudy. On 30 September the Court had decided, and on 1 October it announced, that 5½ would be the minimum rate only on bills due within the month; others would be taken at 6 or upwards.[1] It was also decided, though without formal vote and presumably by a ruling of "the Chairs", that no further advances would be made for the time being on stock or Exchequer Bills. The Bank, which had been blamed for advancing in the ordinary way a month earlier, was now automatically blamed for this limiting of advances; although in so doing it was only reverting to its practice before 1844.[2] Meanwhile new railways, their works held up for lack of cash, were paying what they must to get it. Market rate was moving fast to its ultimate 10.

The Bank's action, a contemporary said in true journalist's metaphor, "forthwith gave birth to universal panic"[3]—which was worst on the Stock Exchange where there were crowds of sellers and no buyers. Yet it is hard to see what else the Bank could have done, on the principles which both it and the law acknowledged. The notes in its banking reserve on 2 October stood at £3,409,000. They had been £4,466,000 on 11 September. As it continued to lend all it could, even doing a little on Exchequer Bills after 6 October, on 23 October they were at £1,547,000; and of these £566,000 were scattered among the branches.[4] The three weeks between the 1st and the 23rd had heard a crescendo of panic cries.

Until October only commercial houses had gone down. Then came the turn of country banks, private and joint-stock. The Royal of Liverpool stopped payment, although the Bank of

[1] *C.B. Th*, 30 Sept. 1847. [2] As pointed out by King, p. 144.

[3] Evans, p. 75. Evans was assistant City correspondent of *The Times* (*D.N.B.*).

[4] This figure was given to the Lords' *Committee of* 1848 and is quoted in Evans, p. 88. The other figures are in the ordinary Bank returns. The gold and silver coin in the Banking Department had also fallen, from £562,000 on 11 Sept. to £447,000 on 23 Oct.

England unable to give it more help in cash had lent it £300,000 of Consols: "it suited us better to give them Consols than bank-notes", Morris the Governor said; it was as if we had sold Consols to help them.[1] No wonder the Royal broke; with £600,000 of paid-up capital it had £500,000 out with a single firm. Two more Liverpool banks went—so much explosive corn and cotton came up the Mersey—with other banks from Newcastle to Shaftesbury.[2] All London banks stood; but every sort of commercial failure occurred in London—in corn, stock-broking, insurance-broking, silk dealing, and all branches of the overseas trade, especially that with Mauritius and the East Indies. There were packs of old hidden debts and commercial malpractices on the shoulders of some of these Mauritius sugar firms.

Outside London, Liverpool was hardest hit. There as everywhere else merchants suffered most, but a few manufacturers also went down, principally in the Lancashire cotton industry.

The Bank, blamed for not lending enough, was yet able to show to a parliamentary committee in 1848 that between 15 September and 25 October it had advanced £2,255,000 in all sorts of ways, usual and unusual: on personal and other security at rates varying from 5, the criticized September rate, up to 8, 8½ and 9; on mortgage; on real property not formally mortgaged; and in Consols to a total of £400,000.[3] Its most difficult operations, and those most important for its future business, were connected with the Company of Copper Miners and with Bruce, Buxton & Co., the bill-brokers who negotiated for the Company. Though the bankruptcy of Abel Lewes Gower, governor of the Copper Miners, had lost him his seat on the Courts of both institutions,

[1] *S.C. of* 1847–8, Q. 3108.

[2] Eleven banks altogether; Clapham, I, 532.

[3] From the summary of Bank activity given by the Governor, *S.C. of* 1847–8, Q. 2645. Particular instances are £80,000 on a mortgage and £50,000 on personal security: *C.T.* 27, 13 Oct. 1847.

his seventeen years on the Bank Court should have acquainted the Parlour with the Copper Miners and their affairs.

If they had, it must have been dreary learning. The concern had long been on the down grade. When the storm came it had "liabilities to the extent of several millions sterling". The brokers, who held some of its bills, approached the Bank, and the Bank advanced £150,000 on the Company's debentures to save it from stopping payment: "it was distinctly understood that the operation was for that purpose", the Governor stated.[1] Neither the Company nor Bruce, Buxton & Co. was saved. The Bank was left with copper works on its hands, at Cwm Avon east of Swansea.[2] They gave it a world of trouble. Four years later it wanted to get rid of them "whether at a profit or at a loss".[3]

In the week 16–23 October the banking reserve fell precipitately. It was £2,376,000 on the Friday (22 October), of which £726,000 was in the country. Next day it dropped to £1,194,000, but would not have gone so low but for what happened that Saturday morning.[4] "The week of terror" men called it in retrospect. "I would not advise you to take bills on Baring's even", so one sound man of business wrote on the 19th.[5] Prices of stocks and commodities tumbled: anything to be realized had to be realized at a loss. "Every man seemed to be afraid of his neighbour", George Warde Norman said. "Bank notes were provided [for themselves] by people of power to a much greater extent than they were wanted",[6] said Samuel Gurney. He, if any man, was in a position to know. The Bank

[1] In the evidence of 1848 quoted above, Q. 2645.

[2] The Bank refused to lend except on personal security and "took the mortgage for the benefit of the guarantees": *C.T.* 27, 26 June 1848.

[3] *L.B.* 12, 9 Oct. 1851. Next year a new company took them off its hands: *L.B.* 12, 17 April 1852.

[4] This is the figure at the close of business, as given by the Governor in 1848, Q. 2642. The figure quoted above on p. 205 refers to an earlier hour.

[5] Alexander Matheson to Donald Matheson, *Jardine-Matheson MSS.*

[6] Gurney, *S.C.* 1847–8, Q. 1596; Norman, Lords' *S.C.*, Q. 2702.

was in constant touch with the government. "I think", the Governor said five months later—it seems odd that he was not sure—"I think the question was put to us, whether the Bank required any relaxation of the Act...and our answer was this, that...we were perfectly prepared to maintain the law, but if the Government had any political motives, as, for example, to prevent the stopping of mills, or disturbances in the country, that was a subject for the Government to decide, and not for the Bank".[1]

They were cool in the Bank Parlour, over confident their critics said. Gold was coming in to earn the high rates; there was no doubt of that: £40,000 in sovereigns has arrived in Liverpool on the *Mary Sands*, the Governor tells the Chancellor of the Exchequer on the 23rd, and another ship with £200,000 is signalled.[2] For each of the two coming weeks they have a million and a half "going off"—good paper that will bring in cash.[3] They believed they could do it, and to the last they never asked for relaxation, or even suggested any such thing.

But deputations came from Liverpool and the industrial towns where mills might stop or disturbances break out—England was not happy in 1847, and the North-West was crowded with sick and angry Irishmen—to wait on Lord John Russell and his Chancellor of the Exchequer, Sir Charles Wood. Banks in Scotland were beginning to ask for help, and "the sense of danger was seriously aggravated" in consequence;[4] for their reputation was high, if not entirely deserved: they had always relied on the Bank for gold in the last resort, economizing cannily at its expense until the water got rough. After that, early on Saturday the 23rd, a group of ten men of weight came to Downing Street to suggest a suspension of the Bank Act. Among

[1] As above, Q. 2666. He said much the same to the Lords' *Committee*, Q. 41.

[2] Minute of a meeting between the Prime Minister, the Chancellor, the Governor and Mr Norman at 12.0 noon, 23 October, in *Min. of Correspondence with H.M. Government*, 5.

[3] The Governor in 1848, Q. 2763.

[4] Wood's speech on 30 Nov. in the House: *Hansard*, XCV, 374 sqq.

them were Abel Smith, Robert Bevan, Thomas Masterman, George Carr Glyn and Samuel Gurney.[1]

At 12.0 noon Wood saw the Governor and Mr Norman. Presumably the Deputy was left on the bridge in Threadneedle Street. Suspension was discussed, and the rate of interest to be charged *ad interim*. Wood said that there was great objection to putting a specific rate into the letter that he meant to write to the Bank. (Was it Trevelyan at the Treasury who objected, or those powerful bankers? Circumstances suggest the bankers.) Morris and Norman dissented strongly—and for an interesting reason. There would be difficulty, they said, in persuading the Court to keep the rate high enough for a time long enough to achieve what was wanted, unless a figure were named by government. They also said once more that they believed they could avoid any breach of the Act, although to do this they might have to sell securities and keep discounts within bounds.[2] Morris had consulted the Bank's broker and was confident that he could sell Consols without serious loss.[3] After further discussion, he and Norman left knowing that a letter would come on Monday morning; and with that knowledge in hand the Bank made advances more freely than it would otherwise have done on the Saturday afternoon. There were no week-ends in the City of 1847.

The letter was made public on the Monday at 1.0 p.m.[4] Ministers, it stated, had hoped that high rates and bullion imports "would have removed the prevailing distrust", as in April. But it was now time for "some extraordinary and temporary measure"; time for the Court to "enlarge the amount of their discounts and

[1] Evans, p. 85; King, p. 146.

[2] Minute of the meeting, as above.

[3] Morris mentioned this again in 1848; Q. 2787. He had confirmed it by subsequent consultation with the broker, who said they could have sold £1,000,000 Consols in a week "without producing any very great fall in the market". For some fall Morris was fully prepared.

[4] Printed in Gregory, *Statutes, Documents and Reports*, II, 7. And in many other places.

advances", but at a rate—it was suggested—of not less than 8 per cent. "If this course should lead to any infringement of the existing law", there would be a Bill of Indemnity.

The Court agreed, but saw no need for any law-breaking. They would lend on "bills...stock...Exchequer Bills and other approved security...for periods to be fixed by the Governor", in sums of not less than £2000.[1] About the 8 per cent there was at the moment no difficulty. The Governor had asked 10 of Samuel Gurney on the Saturday, on a loan of £200,000, and had only come down to 9 when Gurney explained that, though a few hundred pounds were nothing to him, the City would be shocked to learn that even Overend and Gurney could not borrow below 10 per cent.[2]

On Monday Gurney wanted £200,000 more. Wait till 2.0 p.m., the Governor said. He led Gurney to expect something, and as they had both been in Downing Street on the Saturday an augur's wink may have passed between them. When 2.0 o'clock came Gurney found that £100,000 would serve. Clients "had only ordered payment by way of precaution". He got his £100,000 easily.[3] The panic phase was over. The 8 per cent minimum remained in force for four weeks. Then the Governor dropped it to 7 without consulting the Court. He had just heard from Downing Street that the October letter need no longer be observed: the spell of government control had ended.[4] On 2 December the Court fixed the rate at 6; on 23 December at 5; and on 27 January 1848 at 4.

Banking reserves had fallen for one more week after 23 October, as was to be expected, but the law had not been infringed.

[1] This is merely a variant of the notices issued in connection with the quarterly advances, but in these the period was stated—about 5 weeks in quiet times, less in difficult ones. These notices for 1832–45 are printed in App. 10 of the *S.C. of* 1847–8.

[2] *S.C. of* 1847–8, QQ. 1599, 1600. [3] *Ibid.*

[4] Treasury letter reported in *C.B. Th*, 23 Nov. 1847. The rate was reduced on 22 Nov.

English and Scottish banks were helped early in November.[1] Gold still flowed in. After 30 October both reserves mounted fast. The Issue reserve of bullion which was just under £8,000,000 on the 23rd—ample for all needs under the old system, enemies of the new Act pointed out—was at £11,609,000 two months later; and the Banking reserve was at £8,413,000.

Whether it could have reached that point, or somewhere near it, without the Chancellor's letter, as the leaders of the Bank believed, is a hypothetical problem in economic mass psychology. Many well-informed contemporaries seem to have believed not; but it is possible that the cool, if not very imaginative, heads in the Parlour, who thought that "it is in the nature of a panic to exhaust itself",[2] were right, though most umpires have given the appeal against them.

The handling of the crisis led to that very rare thing in the history of the Bank; recorded criticism of "the Chairs". To help it, in October, they had borrowed money on stock through Messrs Mullens and Marshall, the government brokers.[3] Some members of the Court held that such borrowing was counter to the policy of the Chancellor's letter. It was discussed on 28 October and formally disapproved on 4 November.[4] No reflection was intended on the Governor and his Deputy, it was explained. To emphasize this a clause containing the words "any further borrowings...be postponed, until directed by this Court" was withdrawn. "The Chairs" now knew the Court's mind, and the Court had no wish to interfere with "their general authority in

[1] The Edinburgh and Glasgow, the West of Scotland and Small & Co.: *C.T.* 27, 4 and 5 Nov. 1847.

[2] The Governor, *S.C. of* 1847–8, Q. 3159.

[3] *G.L. XXI*, f. 524; on the debit side of the Account "Interest on Private Loans" are entries for interest on money borrowed on Exchequer Bills and on Stock through Mullens and Marshall. This is the first recorded borrowing through "Mullens'". See p. 297, n. 1, below.

[4] *C.B. Th*, under the dates quoted.

the management of the Bank under the peculiar monetary difficulties" of the time. Who led the opposition we do not know, but it would be surprising if it were not Horsley Palmer. He had been opposed to the Court's competitive discount policy, as was to be expected, and he was in a critical mood.[1]

Another after-effect of the crisis, perhaps of Robinson's failure, was a report from the Committee of Treasury to the Court of 20 January 1848.[2] It had been usual, this report said, to expect each Director to take his turn as Deputy and then as Governor. Those who could not had generally resigned from the Court. It was a pity thus to lose good men, or—this the report was careful not to say—to gain mediocre Governors. So it was suggested that rotation be dropped and that the best man be chosen by ballot, even if he had served before. Further, the requirement that Directors be actually engaged in business might be abandoned. Again it was not stated, though implied, that such engagement might make good men refuse "the Chair" or mediocre men neglect its affairs. All that was essential, the Committee reported, was that Directors should have served at some time in commercial houses.

The Committee of Treasury for 1847–8 contained, as usual, six elder statesmen who had "passed the Chair"—and George Warde Norman who had never sat in it and never did, though with tiny intervals he was a Director for fifty years. He had been out of his own business for seventeen or eighteen years in 1848.[3] "The ordinary preliminary condition of having filled the Chair was dispensed with" in his case because "the Health of the Party rendered his Appointment as Governor inexpedient".[4] Norman,

[1] *S.C. of* 1847–8, Q. 2224, his criticism of low rates; and King, pp. 151–2.

[2] *C.B. Th*, under the date.

[3] He stated this in his evidence before the Lords' *Committee*, Q. 2682. And see the *D.N.B.* for an excellent notice of Norman, which touches, among other things, on his cricketing career.

[4] From the Lords' *Report*, quoted in Gregory, *Statutes, Documents, and Reports*, II, 42, without specific reference to Mr Norman.

it is said, always persuaded his colleagues that he was too nervous for "the Chair", though his health let him serve those fifty years.[1]

The Court accepted the suggestions of the Committee, and the implied change of custom which permitted Norman to remain a Director, but added a rider that no one should be chosen Governor who had not served on the Court for five years. However, this rider was formally rescinded in the following November;[2] and all that the General Court was told, as a matter of interest, was that there might be changes in the traditional practice of rotation.[3]

"The modern tendency in economic thinking...is to discard the old notion of the quantity of money as a causative factor in the state of business", says an economic writer who sits in Bagehot's chair.[4] Even with the very different popular notions of the mid-nineteenth century, the Bank's relation to the quantity of money could only be held partially responsible for the state of business in 1844–7; not responsible for the railway mania; in no way responsible for such Acts of God as crop failure and famine, the immediate "causative factors"—to retain scholar's jargon—of the catastrophe of 1847. Through mania and famine the Bank's circulation remained amazingly steady. Probably that fact misled Directors and others who overrated the importance of the mere number of notes. As more "money" was wanted, more cheques could be, and were being drawn. Yet the Bank had not whistled for the wind that brought up the storm, though it had carried on too long with no reef in its topsails, and by example had encouraged others to do the same.

The governing majority on the Court seem to have believed

[1] It is said by his grandson, the Right Hon. M. C. Norman.

[2] *C.B. Vb*, 9 Nov. 1848.

[3] The policy contemplated, but not the five year rider, was reported to it on 16 March 1848: *G.C.B. VIII.*

[4] Crowther, G., *An Outline of Money* (1940), p. 136.

that their example could have no influence—Peel had said that they were just like any other banking ship—to drop the metaphor, that market rate was outside their control and in no way their liability. That they could have had absolute control no one has ever argued, then or since. But, as Gurney put it, they could control "our Market" "in a very material degree".[1] From the inside minority, Horsley Palmer vigorously concurred, and blamed the Bank for the low rates of 1845–6.

As the top of the gale passed and the Bank, getting into easier water, found time to overhaul its tackle, the after-swell threw masses of commercial wreckage on to the beaches. More bankruptcies were recorded in the first quarter of 1848 than in any previous quarter whatsoever. The figure was still very high in the second quarter, and rather high in the third and fourth.[2] But of firms discounting at the Bank only 11 suspended payment in 1848 against 32 in 1847, 6 in 1846, and 5 in 1845.[3]

And all the year, although it was the year of European revolutions, and although the special constables and the Duke of Wellington's troops were standing to when the Chartists gathered on Kennington Common in April, Bank rate went down—4 in January, 3½ in June, 3 in November—and the Banking reserve, never more than a shade below £8,000,000, was often above £10,000,000 and even above £11,000,000. The Committee of Treasury and the Court were busy with normal problems of

[1] Lords' *Committee*, Q. 1107—quoted and discussed in King, pp. 151–2.

[2] Silberling, *British Prices*, p. 252. Down to Feb. 1848 there had been 80 failures in London; 48 in Liverpool; 32 each in Manchester and Glasgow; in no other place more than 3; in Leeds, Bradford, Belfast, Preston, Oldham, Blackburn, Rochdale each only 1. This distribution is significant. It is from a list in the *Bankers' Mag.* VIII, 81, Feb. 1848.

[3] Discount reports in *C.B. Tb*, 23 March 1848; *Vb*, 22 March 1849. The *Bankers' Magazine*, which thought the crisis was all due to Peel's Act, and that most firms could have been saved by freer lending at the Bank, said that "of 56 large failures there are scarcely half-a-dozen that can be considered bad ones": VIII, 3, Jan. 1848.

banking and administration. In May and June their leaders were giving evidence in the elaborate inquiry into the Commercial Distress conducted by Secret Committees of both Houses. Every possible view on the Bank Act and the Bank was expounded at length; by them, by Jones Loyd and Thomas Tooke and Samuel Gurney, by men from Lancashire explaining their misfortunes and men from Birmingham advocating "fiat money"—inconvertible state paper and plenty of it. The Lords' Committee wanted the Act amended; and there was an important group in the Commons' Committee who wished to condemn it formally. But they were outvoted, though only by 13 to 11, and the Committee, having provided a store of information for controversialists, economists and historians, made no recommendations upon which action might have been taken; and there was no action.[1]

In May the Committee of Treasury and the Court were considering a proposal from David Salomons, chairman of the London and Westminster Bank. He argued, urgently but prematurely as banking opinion then stood, that both the Bank and the joint-stock banks should join the bankers' clearing system. All Dublin, he pointed out, cleared at the Bank of Ireland and all Newcastle at the Bank of England's Newcastle branch. But the Court replied that the private and the joint-stock banks must come to some agreement before it could be expected to move. This was reasonable, and the proposal dropped.[2]

The liquidation of the Copper Company took its place with that of the still considerable debts of the "three W's", and with a few mortgages where foreclosure had proved necessary, on the list of troublesome reminders of unhappy ventures or expensive acts of public duty.[3] The "rapid diminution of Government

[1] Gregory, *Statutes, Documents and Reports*, I, 40; Clapham, I, 534–5. Peel voted in the majority, for which he was freely criticized.

[2] *C.T.* 27, 3 May; *C.B. Vb*, 4 May 1848.

[3] The Committee for American Accounts reported yearly and there are many entries about Copper in the *C.B.* and *C.T.*

annuities", in a time of peace when there was little long-term borrowing, led to increased holdings of railway debentures: in June 1848 the Committee of Treasury thought that £2,500,000 might safely be invested in this class of security, and the Court agreed.[1] In October it was decided that the Gloucester branch, which had never been very profitable, should be closed. Earlier in the year John Knight, the Secretary, had to tell a correspondent in the Isle of Man that a Manx branch was not contemplated, just as in 1844 he had had to inform George Fordham of Cambridgeshire that there would be no branch at Royston.[2]

Then, towards the end of the year, the question of elections was again debated. The Committee of Treasury reported on it. The Court referred it back to them, requesting them "to devise a scheme which shall place the initiative" with the Committee, where in practice it already lay. But the Committee proposed no formal change; the decision was still to be by ballot in Court, with no "initiative" regularly taken by the elder statesmen of the Committee. No doubt they trusted to influence and good sense. And in this way, in January of 1849, H. J. Prescott, the Deputy, was recommended to a General Court as Governor and Thomson Hankey as Deputy.[3]

Before the close of 1849 Bank rate was at 2½. It was not again so high as 4 until September 1853: for months in 1852 it stood at 2. All that time it was normally a little above, and was never below, market rate. Without formal vote or any public declaration, the Bank became rather less competitive. It never "led the way in the rate of interest",[4] its Governor said in 1857; though

[1] *C.B. Vb*, 8 June 1848; decision on a report from the Committee of Treasury.

[2] *C.B. Vb*, 19 Oct. 1848 and *L.B.* 11, 6 March 1848 and 23 Nov. 1844.

[3] *C.B. Vb*, 16 and 30 Nov. 1848 and 11 Jan. 1849.

[4] *S.C. on the Bank Acts* (1857, x), Q. 270. The change in Bank policy is fully discussed, and perhaps a little overstated, in King, pp. 161–6, where Weguelin's statement is quoted.

by keeping near market rate it saved its discounts from dropping to the ridiculously low level of 1842–4. Money was cheap and bread was cheap and the Great Exhibition of 1851 was to bring in an age of peace and gold. The gold came, first from California and its "forty-niners", then from Bendigo and Ballarat. From California it came in bars *via* Panama: a necessarily cautious Governor thought that so much as £600,000 of it might have arrived even before Christmas, 1849.[1] As creditor of the whole earth, London got the first of this gold. By July 1852, there was more bullion in the Bank than ever before—£22,000,000, nearly all gold, because although the Act of 1844 allowed one-fifth of the bullion to be silver the Bank bought very little after 1848.[2] Gold served its purpose better, and of gold there was now plenty, indeed so much that it was beginning to tell on general prices, which had started the upward movement that continued intermittently until 1873.

The years 1847–8 had brought a very large income from the discounts, and at the General Court in September 1848 an amendment was carried in favour of a bonus of 1 per cent on the now normal 3½ per cent dividend for the half-year. On the ballot this was barely lost—by 123 to 138. Its supporters then moved that the state of the Rest should be taken into account when the dividend came to be fixed.[3] So in March 1849 the Governor reported that profits had exceeded "the usual...3½" by £35,318. 2*s*. 8*d*.; and that the Rest stood at £3,843,862. 2*s*. 9*d*. He therefore suggested 5½. There was no amendment.[4] But when September came it was necessary to propose 3½, and amendments for 4½ and 4 were rejected.[5] For the discount income had collapsed, though not completely.

[1] *Min. of Correspondence with H.M. Government*, 5: the Governor to the Chancellor of the Exchequer, 14 Dec. 1849.

[2] See p. 280 below.

[3] *G.C.B. VIII*, 21 and 27 Sept. 1848.

[4] *G.C.B. VIII*, 15 March 1849. [5] *G.C.B. VIII*, 20 Sept. 1849.

It fell still further in 1849–50 and remained down through the whole spell of low Bank rates, revival only setting in during September 1853, when the rate was moved up in three steps from 3½ to 5. There were war clouds in the Near East during 1853: the harvest had failed badly, and the price of wheat which had been about 45*s.* in the spring would be at 80*s.* the quarter by Christmas. How things had stood during the spell of low rates is shown by the balance of 31 August.[1] Discounts, although they had recovered from their lowest point, had brought in only £86,000 during the half-year, almost equally divided between Threadneedle Street and the branches. Advances, nearly all to the City, contributed £21,000. Compare these receipts with those from recently developed sources of income, railway debentures, £73,000 and loans to corporations, £21,000.

The growing connections with municipalities have both economic and political significance. They helped to make the Bank more central and more national. The City and the metropolitan authorities were old clients. In 1844 lending had begun in "the provinces"—to the Paving and Lighting Board of Birmingham.[2] In May of 1850, Heron, the vigorous town-clerk of reformed Manchester, is arranging for a loan of £400,000, and two years later Manchester gets another £150,000, for its waterworks.[3] Besides Manchester and Birmingham, Liverpool and Leeds are borrowers. Towards the close of 1850 there is correspondence with Edwin Chadwick, that uncompromising sanitarian, Secretary of the new General Board of Health.[4] Can his Board have long-term loans for sanitary improvements? (They were certainly needed; cholera had come back in 1849.) In reply, he is told that the Bank has lent to towns where it has branches, but that other loans are unusual. It had in fact lent recently to

[1] In *Stock Estimates*, IV. [2] See p. 145 above.

[3] *C.T.* 27, 8 May 1850; *C.T.* 28, 10 Nov. 1852. For (Sir Joseph) Heron see Redford, A., *The History of Local Government in Manchester*, II, 62, 169 and *passim*.

[4] *L.B.* 12, 18 Dec. 1850.

Brighton and to Devonport; but Brighton was now almost a London suburb, and Devonport a true suburb of Plymouth where there was a branch. The Secretary's other argument that loans were usually only for ten or twenty years, and repayable by annual instalments, was more convincing. With falling discounts the Bank did well to look for such self-liquidating securities.

Next year, following out this practice, it declined to make a loan for a "distant period" to the borough of Salford, although only residents could, or can, tell where Salford stops and Manchester begins. It also finally rejected the application from the Board of Health.[1] But loans were not all repaid by annual instalments or confined to towns with branches. By 1855 Bradford is getting £150,000 for five years at 5 per cent.[2] Bradford was not an outlying part of Leeds, and would have hated to have been thought so, though Bradford wool-men were valuable clients of the Leeds branch.

During these quiet and rather lean years between 1848 and 1854 the Court had opportunity to deal with a few other less important matters of general banking policy. In 1850 there was a report on the private drawing accounts, the main problem discussed being whether, or in what circumstances, commission might be charged for working them. There were, it appeared, 4855 accounts all told, of which 1070 were unremunerative, the highest proportion of unremunerative accounts—over one in four—being among those of non-commercial and professional people. Inquiry showed that the private bankers were opposed to the policy of a commission, though some of them occasionally levied one on unremunerative accounts. All joint-stock banks did. It was agreed that in principle clients should keep proper balances, or pay commission, and that parties opening accounts should be informed that the proper balance was essential.[3]

[1] *L.B.* 12, 5 March and 30 April 1851.
[2] *C.B. Cc*, 16 Aug. 1855.
[3] *C.B. Xb*, 30 May 1850.

In 1851 it was the discount rules that were overhauled. Many obsolete ones were repealed and the whole consolidated. Discounting, the revised rules state, may be done either for those who have formal discount accounts or for those whose sole drawing account is with the Bank. To secure a discount account a "party" must be introduced by a Director, and he can have that account in one place only—not in London and also at a branch. Bills from bankers and bill-brokers must be approved by the Governor before going to the Committee in Waiting; but the Committee is to determine rates, subject always to the Court's declared minimum. If a Director presents a bill, the Governor must approve it; and a Governor's bill must be approved by his Deputy. No bill, draft or promissory note at more than 95 days may be touched; none not payable in London or a town where there is a branch; and none that does not bear two "good" names. The old restrictive rule about London names is gone; there are now names enough known to be good in branch towns and beyond them.[1]

The number of discounters in London in the forties and early fifties was not a third of what it had been during the French Wars. There were 448 in 1840 and 416 in 1854. As might be expected from the revised rules of 1851, the proportion of them who had no regular discount account was on the increase—1 in 8·3 in 1840 and 1 in 2·8 in 1854. But though the total number had contracted so much, most of the trades that had done business with the Bank in the crowded days of suspension were still represented on its list. Besides the bankers, various sorts of merchants and other great men of business, there are still druggists, hosiers, hatters, slopsellers, grocers, cheesemongers, china dealers, haberdashers, stationers and wharfingers bringing in bills for discount.[2]

[1] *C.B. Yb*, 11 Dec. 1851.

[2] From the yearly discount reports, 1840–54, in *C.B. Mb* to *Bc*. Cp. p. 15 above.

At the branches, bills were presented predominantly by bankers, as they always had been. They were bankers' drafts or trade bills re-discounted. In 1851, for example, of £14,280,000 of discounting at the branches £10,709,000 was done for bankers —over £4,000,000 at Newcastle, over £3,000,000 at Liverpool, over £1,500,000 at Birmingham and over £1,000,000 at Manchester. Leeds was the great exception, as it had been twenty years earlier;[1] there out of £1,474,000 of discounts the traders did £1,312,000. Of this there are various possible explanations connected with Yorkshire trade and the Yorkshire character; but they are all rather speculative.

One decision about business, of September 1852, is a reminder of the fast changing world in which the Bank had to conduct its traditional affairs—a cypher is adopted for sending messages to the branches by "Electric Telegraph".[2]

[1] Cp. p. 141 above.

[2] *C.T.* 28, 29 Sept. 1852.

CHAPTER V

WAR, GOLD AND CRISES, 1854–1866

ENGLAND and Russia were at war in the Crimea and elsewhere for two years—from March 1854 to March 1856. Harvests in England were poor and the corn-trade with Odessa, now an important source of supply for the opened English market, was interrupted. From late in 1853 until after the excellent harvest of 1856, wheat was often above 80*s*. and rarely below 70*s*. Imports of corn were heavy: war conditions tended to block some peace-time trade channels and derange the trade balance. But as Russia had no power on the oceans the blockings and derangements were on a small scale. Yet for the first time in forty years government was borrowing to fight; long-term interest rates were rising, and so Bank rate kept fairly high—at 5 and upwards—except for the months between May and September 1855, when it dropped to 4 and even 3½. These falls, and the relatively moderate average rate for the two years of war, would have been impossible but for the steady flow of gold from the South and the more intermittent flow from the West. Critics of the Bank Act were convinced that it could not have stood the strains of war, and that even the convertibility of the Bank note might have broken down, had New South Wales and Victoria remained lands of sheep.[1] A currency system which in difficult times depends on the chance occurrence of nuggets in

[1] See, for instance, Newmarch's evidence, *S.C. on the Bank Acts* (1857, X), QQ. 1423 sqq., and relevant passages in Tooke and Newmarch's *History of Prices*, V, Preface, and VI.

gulches and gold dust in river sands lacks stability. "We have looked to the arrival of these steamers from Australia as much almost as to anything else", D. B. Chapman of Overend and Gurney's said in 1857, "to know whether we were safe in going on with our business";[1] there had been such an extraordinary demand for bullion, "for war and other purposes". Many of the "other purposes" demands only revived or became more urgent when that for war purposes was over, but war and bad harvests coincided.

A specially bad harvest in 1855 combined with the strain of a second year of fighting to produce a long spell of 6 per cent—with market rates from ¼ to ½ per cent higher—from October 1855 to May 1856. Perhaps if the Bank had not allowed the Australian gold to tempt it down to 3½ in June of 1855, it need not have been driven to 6 four months later. But, if it made a mistake in going so low, it was not a mistake in its own interests. The Threadneedle Street discount income in the half-year that contained the spell of 3½, preceded by a spell of 4, was £37,000. In the half-year which contained a four-month spell of 6 it was £118,000, with £97,000 more at the branches.[2]

Overend and Gurney had been looking for the arrival of the steamers with their gold before the Crimean War, and they went on looking for them after it. Before the war the gold, heaping up in the Bank's vault, had helped to keep interest rates low, and that in its turn had encouraged every kind of overseas enterprise and a constant foreign resort to the London money market. In England, the law of the joint-stock company and limited liability was being completed—one can hardly say perfected. The Act of 1856 (19 & 20 Vict. c. 47) contained all the essentials of the better known Act of 1862 (25 & 26 Vict. c. 89).[3] To pave the

[1] *S.C. of* 1857, Q. 5310. [2] See App. C.

[3] Shannon, H. S., "The coming of general Limited Liability", *E.J. Hist.*, 1931.

way for unrestricted private enterprise in lending and borrowing and investing, the last remnants of the Usury Laws had been removed in 1854 (17 & 18 Vict. c. 90). They had not interfered much with anyone since 1839, nor perceptibly with the Bank since 1833.[1] On the Continent also law was being liberalized and modernized, and grandiose experiments were being made with joint-stock undertakings. Of these the most notorious and most representative was Isaac Pereire's *Crédit Mobilier* of 1852. It was a sort of general development company. M. Pereire "merely invited the capitalist to bring in his money; the use to which it was put was left to the genius of the managers".[2] They took shares in harbour companies, railways, gas-works; they bought building-land and omnibus companies and ships; they planned new hotels and new theatres. To do all this they used not only their share capital but plenty of borrowed money.

Over all Western and far into Central Europe there were joint-stock experiments, particularly of a kind resembling the *Crédit Mobilier*—industrial banks, as they came to be called, banks which worked not so much to meet the needs of existing commerce and industry, like the English banks, as to promote new developments. That close association of banking with long-term industrial investment, which England generally treated as an abuse of the bankers' function but which became almost normal in Germany, had its roots in these experiments of the fifties, although few of them survived 1857.[3]

The capital goods for much of this continental enterprise—railway material, locomotives, gas and water equipment, and the like—came from England. British railway contractors, led by

[1] Clapham, II, 350.

[2] Evans, *The History of the Commercial Crisis of* 1857–58, p. 40. There is a full modern account of the Crédit Mobilier in Plenge, J., *Gründung und Geschichte des Crédit Mobilier* (1903).

[3] A contemporary's account is in Wirth, M., *Geschichte der Handelskrisen* (2nd edition, 1874); a more recent study is Rosenberg, H., *Die Weltwirtschaftskrisis von* 1857–1859 (1934).

Thomas Brassey, were operating in half-a-dozen European countries, and many of the shares in the lines that they built were held in Britain. Add to that the demand for British goods, both for construction and consumption, in the gold-mining districts and throughout America, goods the return for which when the money to create them had been either lent or advanced in England was necessarily slow—it was a long journey to Australia and back—and it is easy to see how, in spite of all that was owed to her, England often found that the gold flowed in only to flow out again, and occasionally flowed out too fast for her financial comfort. That it should go was normally a good thing. More was coming in than she wanted for use either in currency or in the arts, although the Bank's estimate was that in the six years from 1851 to 1857 the gold coin circulating in the country had increased by 30 per cent, and amounted at the close to nearly £50,000,000.[1] But inflow and outflow were at times ill-adjusted to one another. In the financial journalism of the day it is remarkable how prominent are the names of ships and the figures of the gold that they carry. Like Chapman of Overend and Gurney's, everyone had his eye on these ships and their cargoes.

Fortunately for the country, the gold came in steadily during the war. The year 1853 was the peak year of the seven, but 1854 was very little below it, and 1856 barely 5 per cent below. For reasons partly connected with the war, and in 1857 closely connected with the Indian Mutiny, there was very heavy shipment of silver from Europe to the East from 1855 onwards, rising in 1857 to over £20,000,000. With an effective bimetallic system in France and some neighbouring countries, it was easy to replace silver in their currencies by gold, five-franc pieces by Napoleons. Frenchmen and other franc users liked it; the new French Emperor liked it greatly. It gave gilding and apparent stability

[1] The estimate given by T. M. Weguelin to the *S.C. of* 1857 and quoted in the *Report* of 1858, § 3.

to his empire. In this way quantities of gold were absorbed into the continental, as into the British, currency systems. All this flowing to and fro of the precious metals, accompanied by perpetual sellings and investings and remittings overseas, kept the Bank's Bullion Department busy, sometimes even a little anxious; and it called for constant observation from the Parlour.

The commercial crisis of the autumn of 1857, in which all the feverish and gold-dazzled activity of the mid-fifties ended, has been called the first really world-wide crisis in history, the crisis that broke out at almost the same moment in the United States, England and Central Europe, and was felt in South America, South Africa, Australia and the Far East.[1] At almost the same moment, but not quite. Though England and Europe were ripe for trouble, the actual beginning was in the sanguine and mobile United States, where vision was so eager but so easily misled by hope for the short period, so often dimmed by indifference for the long. English eyes were turned East after Lucknow and Cawnpore; but although Delhi was not taken until late in September, there was no marked economic anxiety in London that month. Financially, the Eastern strain was bearable, though the East India Company was in need. The harvest had been good. In spite of industrialism and free trade that still meant a great deal. Bank rate, which had been high since October of 1856, had been dropped from 6 to 5½ in July, when heavy gold shipments arrived; and it was kept at that level until 8 October.

But September brought bad news from the West—not yet by cable. In 1856 between a quarter and a fifth of all British exports had gone to the United States; it was believed that Britain held £80,000,000 of United States stocks and bonds, and there were many big open credits for American firms in England, as there had been in the thirties; so bad news from the West was very

[1] Rosenberg, p. 8.

bad. Now, failures of American trust companies and banks were reported. Prices of American securities sagged. Between 25 and 29 September no less than 150 banks stopped payment in only four of the United States—Pennsylvania, Virginia, Maryland and Rhode Island. With October the panic swept north. On the 13th mobs of desperate clients were storming the New York banks. Out of 63 of these, 62 suspended payment. All told, in the single month of October, 1415 banks stopped up and down the United States—there was never a country with so many—and business came to a standstill along the whole of their long eastern and south-eastern seaboards.[1]

Liverpool took the shock first as usual. The first financial institution to go down there was the Liverpool Borough Bank, on 27 October. Its rediscounted bills "were largely held by the Bill Brokers and others in London",[2] so the shock was passed on. The Continent also felt it, especially Hamburg, the Liverpool of North-Western Europe. Already in September market discount rates there—and at Amsterdam and Berlin—had risen to 6½. In October that became the official rate at the Bank of France. The Bank of England, acting with commendable foresight as its critics subsequently allowed,[3] moved its rate up to 6 on 8 October, to 7 on 12 October, and to 8 a week later. Sheffield Neave was Governor with Bonamy Dobree as his Deputy; but Neave was ailing and often absent, so the weight of responsibility and action fell heavily on Dobree.[4] He and the Court evidently hoped that

[1] For the general course of the crisis see the *Report of* 1858 and Evans, *op. cit.*; Wirth, *op. cit.*; Rosenberg, *op. cit.*; Clapham, II, 368–9.

[2] *C.B. Ec*, report to the Chancellor of the Exchequer of 1 Dec. 1857. The *Diary* of Bonamy Dobree, the Deputy, and his letters have recently been found at the Bank: they touch on all these events.

[3] *Economist*, 14 Nov. 1857.

[4] Neave was absent from four Court meetings out of seven in October but attended regularly in November, *C.B. Ec.* His correspondence with Dobree is full of sickroom news. He had been absent a great deal earlier in the year: *Dobree MSS.*

8 per cent, the 1847 rate, if resolutely maintained—as it was—would serve. Until the end of October there were few failures in the City and "great confidence was felt in the ultimate adjustment of mercantile relations".[1] But Dobree was getting the bad news from New York, and he was in daily touch with Sir George Cornewall Lewis, Chancellor of the Exchequer.

Then came the failure of the Liverpool Borough Bank. The Bank of England had seen what was coming and had written on 26 October to offer £1,500,000, but only on condition that the Borough should "cease to transact new business and liquidate its affairs".[2] That brought it down publicly. The quick transmission of the shock to London was felt on 29 October: D. B. Chapman of Overend and Gurney's called at the Bank to ask for "unlimited assistance", should his firm be pressed. He was given a non-committal answer, but was offered 14-day advances on bills not exceeding 95 days, or the discount of bills with not more than 30 days to run—at the Bank's stiff rate.[3]

Inquiries like Chapman's were pouring in from Scotland, where Glasgow, commercially a second Liverpool, had seen some very discreditable mercantile failures during October.[4] Will the Bank of England help Messrs A.B. or C.D. in case of need? Can the so-and-so bank count on assistance?[5] For the moment, other Scottish banks were propping the Western of Scotland, a Clyde-side joint-stock hard hit by the October failures: three firms that had gone down owed it in the aggregate nearly £1,200,000. But conditions were becoming dangerous both in Scotland and Ireland. Scots were losing faith in their own notes, Irishmen catching panic from the air. In the four weeks ending 12 November, the Bank sent more than £2,000,000 of extra coin north and west; in the final week more than £1,000,000 to Scotland and about £250,000 to Ireland; and still on the 12th Dobree was

[1] Evans, p. 180.
[2] *C.B. Ec*, 26 Oct. 1857.
[3] Dobree's *Diary*, 29 Oct.
[4] *Report of* 1858, § 30.
[5] Dobree's *Diary*, 29–30 Oct.

being told that Irish demands were not satisfied, that the Bank "must be prepared for the worst".[1]

It was considering joint action with the Bank of France; but nothing came of this.[2] Its rate had been pushed up to 9 on Guy Fawkes Day, but that had not put out the fire. Two days later a powerful firm of "American bankers and exchange brokers", Dennistoun's of Liverpool, London, Glasgow, New York and New Orleans, stopped payment for £2,144,000. (They paid in the end and with interest: prompt payment was not easy with banks shut in New Orleans and New York, and shaking in Liverpool and Glasgow.)[3] Then, on 11 November, Sanderson's the bill-brokers suspended payment, as they had in 1847, with £5,299,000 of liabilities.[4] Two days earlier "the Chairs" with "divers Directors" had put the rate up to 10, where it had never been before. They had wanted to do this on the 5th, but had been outvoted.[5] As it was, Dobree noted in his diary that "Cotton and Weguelin object"[6]—powerful objectors, Cotton the Governor of 1844, and Weguelin who had just "passed the Chair". However, the thing was done and the Court ratified it later.

Dobree had been with the Chancellor on the tenth. He had reported the discount figures and the advances: quite apart from discounts, the Bank advanced £661,000 that day, mainly to the great bill-brokers, and more than half of it to Overends alone.[7] He reported also the Irish drain and the run by humble folk on

[1] *Diary*, 12 Nov.: the currency facts are from the Bank's letter to the Chancellor of 2 Dec. 1857, reprinted in Gregory, *Statutes, Documents and Reports*, II, 74.

[2] A volume of *Deputy Governors' Letters* contains references of Nov. 1857.

[3] Evans, p. 35 (the failure), p. cxxxvii (statement of affairs).

[4] *Report of* 1858, § 52; Evans, p. 52.

[5] *C.B. Ec*, 5 and 12 Nov. 1857. The vote of 12 Nov. confirms the action of 9 Nov.

[6] *Diary*, 9 Nov.

[7] *G.L. XXII*, f. 429; £484,000 to Overends, Alexander's, Sanderson's and the National Discount Company; of this Overends had £264,000. These were all 14-day advances.

the savings departments of the Western and City of Glasgow banks. The Chancellor feared that the Union Bank of Glasgow might go—it did not—and explained his inability to make Bank of England notes legal tender in Scotland by Order in Council. He could however authorize "the surviving banks in Scotland to adopt *pro rata* the annihilated circulation" of those that failed. Did the Bank think that this would be of any use?[1]

Neave, Dobree and Weguelin discussed the notion next day with him and James Wilson, now Financial Secretary to the Treasury as well as editor of the *Economist*. It was abandoned. "National feeling in Scotland", the Chancellor said, would prevent any voluntary substitution of Bank of England for Scottish notes. Wilson agreed, adding—"all that the Bank of Scotland had done in the crisis was simply to exchange Bank of England notes for gold"; an obvious but not at all a helpful course of action. Then ministers asked what the Bank thought about a repetition of the Chancellor's letter of 1847? This had been suggested to them by Chapman of Overend's—one sees very clearly why. The three were decidedly against such action for the moment: they were not sure that they could get the Court to accept it.[2]

They returned to the Bank, which Dobree only left at 10.0 p.m., "to visit Mr Weguelin in Park Crescent", and no doubt to discuss the coming day. One reason for their reluctance to accept a Chancellor's letter was the success of their high-rate policy abroad. By 10 November all risk of a continental gold drain was over, and the American demand also "had become unimportant".[3] Bullion stood at £6,666,000 on the 11th. This was why there was so little talk of the exchanges and so much of Scotland, the main seat of that panic disease which can upset the best banking

[1] Memo. of the interview: *Dobree MSS.*

[2] Memo. of the interview: *Dobree MSS.* Dobree wrote of Wilson as Joseph, but he was James.

[3] The Bank to the Chancellor, 2 Dec. 1857, as above.

system. The English shires were steady. They were all sending gold to London, or at least were prepared to send it. Their spokesman, a few months later, knew of no single case of a demand for gold from them.[1] Not one old-style country bank failed, nor any London bank.

But the City of Glasgow Bank had not opened on Wednesday, 11 November; and on the Thursday discounts had "almost entirely ceased in London, except at the Bank of England".[2]

When the Governor and Deputy saw the Chancellor on the 12th they reported "rather better news from Glasgow"—this was sanguine—and the renewed run on gold for Ireland. However the *Avon* and the *Emeu* had come in with fresh supplies. But one London banker wanted to discount £100,000 of bills for the account of a Scottish bank; Alexander's the bill-brokers wanted £400,000 on doubtful security; and Overend and Gurney's no less than £700,000, on a deposit of bills, as offered to Chapman a fortnight back. Finally, "when the Governor left the City, there were applications from general parties to the extent of £200,000". That makes a formidable total, with the banking reserve down to £1,462,000.

On policy "the Chairs" were guarded. They could "hardly venture an opinion", but said the situation was one of "great gravity". The day before, a majority of the Court had been against a Chancellor's letter, but the circumstances of the Thursday might change their view. Directors' opinions were quoted, but Neave and Dobree declined to quote names. Dobree, however, went so far as to say that now they could hardly obey the Act of 1844.

The government, the Chancellor said, was ready to act. From them he wanted only facts. There was a letter ready and if the Governor would accompany him to Palmerston, the Prime Minister, it should be signed. As they left the room, James Wilson said to Dobree—"do not on any account let Alexander's

[1] W. Rodwell of Ipswich to the *Committee of* 1858, Q. 1604.

[2] The Governor, quoted in the *Report of* 1858, § 17.

go down", and to the Chancellor—"Lewis, you know that Parliament must be called together immediately".[1]

The letter was signed, with its general remarks on the situation and its suggestion that the existing rate of 10 per cent should be maintained. The Court met soon after 3.0 o'clock, received it, and wired it to the branches; the public read it in the second edition of the *Globe*. After the Court, Mr Alexander was received. With some encouragement, he said, "he could struggle through to-day". He was given "a sort of tacit assurance" of general support—and £335,000 for fourteen days. Overends that day were content with £182,000 for twenty-two.[2]

How desperate the situation was among the great bill-brokers on the 12th is shown by some notes in Dobree's diary—"Sanderson's stopped—Bruce's in effect have stopped—Alexander's feel that they can only continue discounting on an extremely limited scale—Overends are in a similar position so far as he [Dobree's informant] believes".[3] No wonder the Governor said subsequently that market discounting had almost entirely ceased.

Things were much too far gone for a Chancellor's letter to work "like magic" as in 1847. Besides the advances, there were £1,208,000 of discounts done on the 12th, and an average of £440,000 a day for the next five business days.[4] Two millions of "illegal" notes were transferred by the Issue to the Banking Department, in exchange for securities, after the receipt of the letter; and by the night of Saturday, 14 November, £554,354 of these excess notes had passed into circulation. There would be plenty "to begin with on Monday", Matthew Marshall the Chief Cashier reported to the Deputy-Governor. He was hoping for a Sabbath "day's quiet and repose".[5]

[1] All from Memo. of the interview, *Dobree MSS*. Palmerston was no financier and left everything but a signature to his Chancellor.

[2] *Diary*, 12 Nov., and the day's advances in *G.L. XXII*, f. 429.

[3] Bruce's (now Bruce, Wilkinson & Co.) did stop: Evans, p. 52.

[4] *G.L. XXII*, f. 233.

[5] *Diary*, 14 Nov.

Monday brought news of failures in Birmingham and Leeds, of a continued run on gold in Ireland, and the request—eventually complied with—to join other banks in propping up the great Anglo-American firm of George Peabody. Help was refused to Hoare, Buxton & Co., a mercantile firm with Hamburg connections, and to the City of Glasgow Bank which asked for £750,000 to enable it to re-open.[1] Hoare, Buxton's broke, but the City of Glasgow managed to re-open after a month—to shut finally with endless discredit twenty-one years later, there being then doubt as to whether it had ever been really solvent since the first shutting.[2]

On the 19th, a week after the letter, the Bank was keeping a tight hold on its notes and "taking every opportunity to sell stock".[3] No wonder. The excess notes in circulation were still mounting. They reached their maximum, £928,000, on the 20th. That day news from the provinces was bad. The world-wide crisis was telling gradually on all producing regions: it was no mere question of bills and banks. The Newcastle and Durham District Bank wanted help to help Tyneside and Teesdale. There would be no cash to pay wages to ironworkers about Wolverhampton unless the Wolverhampton and Staffordshire Bank were enabled to resume payment. The Wolverhampton Iron Company and four other Wolverhampton firms had already gone, and another was going.[4]

On the 24th help was given to the Durham Quaker banking firm of Backhouse, and on the 25th the Bank's Newcastle Agent was authorized to discount colliery bills to enable the collieries to pay wages. But a fresh clamorous appeal from the City of Glasgow Bank was rejected.[5] The Wolverhampton Bank was helped in December, on severe terms, and was able to resume

[1] *Diary*, 17 Nov.
[2] Clapham, II, 383–4.
[3] *Diary*, 19 Nov.
[4] *Diary*, 20 Nov. and Evans, pp. 182–3.
[5] *Diary*, 24 and 25 Nov.

business;[1] the Newcastle and Durham succumbed. Wage paying on Tyneside then became so difficult that the Agent was authorized, on 28 November, to make advances even on security "not of a strictly banking character".[2]

By the end of November, however, no excess notes remained in circulation. The eighteen days during which any were out may be called the monetary phase of the crisis.[3] The commercial phase was far longer, the industrial slump longest of all. It was only on 2 December that the Bank learnt of the "total suspension of business" at Hamburg.[4] On the 18th it was agreeing to accept promissory notes of the Norwegian government—at 6 per cent—in support of overdue bills that it held on Norwegian houses. Next day it was in correspondence with two of the greatest Bradford firms who were inquiring what the chances of help were—Titus Salt's and S. C. Lister's.[5]

On Christmas Eve the emergency period officially ended, with the reduction of Bank rate from 10 to 8. There was a party in the Court even then—after more than six weeks of 10 per cent—who wished to defer the reduction until more securities had been liquidated. But their amendment was negatived.[6] After that the rate went tumbling down—6 on 7 January; then 5, 4, 3½; by 11 February 1858, 3—and no one raised any objection. There was £15,746,000 of bullion in the Issue Department and £11,446,000 in the Banking reserve on 10 February.

While its rate tumbled down side by side with the market rate, the Bank was very naturally considering whether its relations with those bill-brokers who had left it to do all the heavy work, and then come crying to it and to the government, might not be improved. In the first week of February it was discussing some

[1] *C.B. Ec*, 11 Dec. The Bank required personal promissory notes for the whole sum discounted.

[2] *C.T.* 30, 28 Nov.

[3] The Bank to the Chancellor, 4 Feb. 1858, *C.B. Ec.*

[4] *Diary*, 2 Dec.

[5] *C.B. Ec*, 18 Dec. and *Diary*, 19 Dec.

[6] *C.B. Ec*, 24 Dec.

very drastic proposals, including two which suggested that there should be no discounting whatsoever for the bill-brokers or discount companies, and that no advances should be made to them other than the regular quarterly ones. But, on consideration, these and other of the original proposals were withdrawn, and it was only agreed—on 11 March—that there were to be no advances by way of discount or loans to "Bill Brokers, Discount Companies or Money Dealers" so "habitual" as to make them rely on the Bank in time of pressure; but that they might receive the quarterly advances, and loans in emergency, such loans however to be reported by the Governor to the Court.[1]

The special Committee on the Discounts, which had raised these questions, reported on the day that they were so decided that in 1857 there had been £48,830,000 of discounts in Threadneedle Street (against £30,490,000 in 1856, £21,687,000 in 1854 and £8,250,000 in 1852) together with £22,420,000 of short loans. These £71,250,000 measured the Bank's direct relations with the money market in a very abnormal year. It had influenced the Market rather less directly by those sales of stock for which, in the difficult weeks, it had "taken every opportunity", and by that prescient handling of the discount rate which had yet failed to save London from crisis and suspension.

In the spring and summer before the crisis a Committee of the Commons was at work inquiring into the Bank Acts.[2] For the Bank, Weguelin saw no reason to alter the law; Norman approved of it "thoroughly"; and Hubbard argued that the amount of the circulation was an effect not a cause of price movements.[3] Weguelin explained that the Bank had "a limited power over the money market at certain periods of the quarter, when public balances are accumulating, and...no money to be had except at the Bank";[4] with this explanation Chapman of Overend's agreed.

[1] *C.B. Ec*, 4 Feb. and 11 March 1858.

[2] *S.C. on the Bank Acts*, 1857 (x): the Report is of 30 July.

[3] Weguelin, Q. 77; Norman, Q. 2860; Hubbard, Q. 2579. [4] Q. 475.

His firm cut a bit under Bank rate when they had idle money, he said, and they went to the Bank at the seasons noted by Weguelin.[1]

Asked by Mr Gladstone, "is not the rate of interest now the great restriction to which you look for bringing back the bullion to this country", Weguelin replied that "in that respect" there was "a difference of opinion among the Directors". He himself looked more "to the restraint which is placed upon the term of bills than to the rate of interest". But Sheffield Neave, who accompanied him, pointed out that these were not alternative and distinct but "simultaneous and concurrent" measures. Those who thought with Weguelin that limitation of the term of bills was "a very effective measure as regards the exchanges" were aware that its chief effect was "in raising the value of money. But", he added, "the Court look mainly to the raising of the rate of interest as the mode of protecting the bullion."[2]

Weguelin gave an interesting account of the movements of treasure. Since 1 January 1851, £109,500,000 of gold and £25,800,000 of silver had come into the country from the mining regions; and rather more than that—he put it at £139,900,000—had been exported, taken into circulation or consumed. As a result, whereas in 1851 the Bank held an average of £15,000,000 of bullion, latterly its reserve had been about £10,500,000, nearly all gold.[3] There was much more gold in circulation than there used to be and "by far the larger amount of transactions" were now "carried on... by cheques".[4] From statistics that he handed in it appeared that Bank notes never now circulated to a greater amount than £25,000,000; English private bank notes to more than £4,000,000; English joint-stock notes also to a maximum of £4,000,000; and all Scottish notes to a maximum of £4,500,000. It also appeared that the proportion of bankers' to private deposits at the Bank was growing. Whereas in 1847 and 1853 the ratio was often no more than 2 to 3, since 1854 it had averaged

[1] Chapman, QQ. 4840, 4864.
[2] Weguelin, Q. 311; Neave, Q. 327.
[3] QQ. 15 and 18.
[4] Q. 671.

more nearly 3 to 3; and out of twenty-two weeks in 1857 the bankers' deposits had been above those of the private customers in five.[1]

The Committee was renewed in 1858, but now to report on the Acts and the recent Commercial Distress.[2] It did report, telling the story of the crisis well, but in doing so it paid too much attention to open credits given in Northern Europe. Some witnesses had treated this as a new and a vicious thing. Weguelin, who recalled 1837, had not minimized its vices, but had told the Committee that it was "not a new thing at all"; though, as another witness explained, it was rather recent in that particular trade.[3] Weguelin, Neave and others described the functions of the accepting houses. "A man in Boston cannot buy...tea in Canton without getting a credit from Messrs Matheson or Messrs Baring? That is so". His bill must be accepted in London, for "English credit supplies the capital of almost the whole world". Nothing was better than a good bill on London; but Neave said that careless accepting by many banks had helped to get a mass of doubtful paper into circulation.[4]

He also explained the Bank's new policy towards the bill-brokers. The practice among bankers of putting out surplus funds at call with these houses was growing—it was very far from new—and the Bank meant to force the brokers to build up their own emergency reserves. Quarterly advances they should have, but "the discount to the bill-broker is closed altogether".[5] He must not assume that the Bank was there to make good his own neglect. In the crisis, some bankers had demanded call loans back from brokers and had put them into the Bank for greater

[1] Figures from the various *Appendices to the Report* (Vol. II).

[2] This is the *Report* (1857–8, V) already quoted. The evidence was all taken in 1858.

[3] Weguelin, Q. 1690; the other witness was John Ball, Q. 1668.

[4] Weguelin, QQ. 1700, 1702; Neave, Q. 234.

[5] Q. 688.

security. Was the broker then entitled to come to the Bank and get the money out again?[1]

From joint-stock, country and Scottish bankers the Committee learnt about their methods of business; how few failures there had been among them; how steady the English shires had been; how little industrial Yorkshire and the Birmingham area had been affected; and the bitter grievance of the issuing banker because the Bank would "never discount a bill of any quality whatever" for him.[2] They heard very little fresh criticism of the Act of 1844—plenty had been heard the year before—and in their Report explained, very sensibly, that as the crisis began in America and was worse in Hamburg than in London, it could hardly be traced to British currency law. To explain it, they fell back on "the great abuse of credit and consequent over-trading".[3] Weighing the matter up, they advised no immediate change in the law. In reaching this conclusion, they seem to have been most impressed by an argument from the Bank that, whatever the law's defects, at least—as worked by their Court—it had safeguarded the ultimate reserve of bullion and kept the Note convertible.[4]

The Committee of 1858 sat too early, and was not provided with facts enough, to explain the world-wide crisis of 1857 or to comment on it intelligently. Even John Stuart Mill, whose book was now everyone's compendium of economic truth, did not see very far behind "over-trading" and such vague phrases when he touched lightly on the trade-cycle.[5] "There was never a more severe crisis nor a more rapid recovery", the *Economist* was writing in January of 1858.[6] But that rapid recovery was only at financial headquarters. Industrially, and from the workman's

[1] This part of Neave's evidence is reprinted in Gregory, *Statutes, Documents and Reports*, II, 80–4.

[2] S. S. Lloyd of Birmingham, Q. 2785.

[3] *Report*, § 35; see also § 34.

[4] *Report*, §§ 60, 81.

[5] Mill's *Principles*, Bk. III, Ch. 12, § 3.

[6] *Economist*, 5 Jan. 1858.

point of view, 1858 was one of the worst years of the later nineteenth century, probably worse than 1879 or 1886; and for the whole country worse than the Cotton Famine of the sixties, when Lancashire was thrown idle but Yorkshire and Belfast thrown busy: if you cannot get cotton goods you fall back on linen or wool.[1] The Committee of Treasury, recognizing a duty to those industrial centres where there were branches, voted £50 to the Birmingham Unemployed Relief Fund on 7 March. This was a rather novel sort of charitable expenditure for the Bank; but it had done the same kind of thing once before.[2] It had no unemployment statistics to go on, but it had Poor Law statistics and lamentable stories from well-informed clients.

Recovery at financial headquarters did not mean robust health. Gold that came into the Bank now tended to stay there. The rate was kept low for nearly two years, except for six weeks in the spring of 1859, when a flurry on the Stock Exchange called for 3½ and 4½, but no more. That was soon over; and from July 1859 to January 1860 the rate was a flat 2½.[3] But it is much easier for high rates to check a boom than for low rates to start one. Business activity lagged and saving tended to outrun investment. "Deposits", as the *Bankers' Magazine* wrote in August 1858, "are crowding in upon the banks daily, only to remain locked up in their strong-rooms, or...to swell the practically useless hoards in the Threadneedle Street cellars".[4]

While the useless hoards were piling up, during the relative stagnation of 1858 and 1859, a pretty quarrel was on foot between

[1] Clapham, II, 373, 455.

[2] The gift in 1858 is in *C.T.* 30, 7 March: in March of 1855 it had voted money to "unemployed labourers" in Birmingham and to the "distressed poor" in Leeds: *C.T.* 29, 3 March.

[3] The changes are 11 Feb. 1858, 3; 9 Dec. 1858, 2½; 28 April 1859, 3½; 5 May, 4½; 2 June, 3½; 9 June, 3; 14 July, 2½; 19 Jan. 1860, 3. See App. B.

[4] Quoted in King, p. 205. Twentieth-century economic theory was not needed to tell the men of 1858 that saving is not the same thing as investment.

the Bank and the bill-brokers to whom it had refused their old facilities—as its critics said, in a moment of panic or pique. There were anonymous criticisms in sections of the financial press and there were various anonymous pamphlets. "The monetary world" was "much divided with respect to" the Bank's new policy, and a proprietor once said in General Court that it had done "a great deal of harm";[1] but as it was not the Bank's habit to enlist pamphleteers or inspire newspapers, the division may have seemed far more one-sided than it was. The most measured and weighty City voice, the *Economist*'s, in March of 1858 expressed dislike for this treatment of bill-brokers as a class without consideration for "the character of the house or the quality of the bills it may offer".[2] The Bank's answer, could it have made one, might have been taken from Bonamy Dobree's diary of November 1857—when no bank failed, not one of the leading brokers but was in difficulty; or from the railway-call pressure in January-February 1846, when the brokers were "refusing all discount".[3] The brokers, the *Economist* went on to say, had needed no reserves when they were mere brokers: now they needed them as much as any banker. Yet if they keep reserves, those reserves would be in banks; and their bankers' reserves would be at the Bank; so in the last resort it was the Bank's duty to keep more in hand, as Thomas Tooke had always maintained.

The Bank, the *Economist* argued, ought to accept the brokers as regular customers, and deal with them "on such terms and to

[1] Report of the meeting of 19 March 1863, in the *Bankers' Mag.* XXIII, 251. King discusses the pamphlets: it is doubtful whether they, and the *Bankers' Magazine* which he also quotes, deserve so much attention. The *Magazine* was ill-edited and had second-hand opinions. At first it strongly supported the Bank; then it hedged. See XVIII, 342; XX, 153, 290.

[2] *Economist*, 20 March 1858.

[3] Above, p. 197. In the *Chief Cashier's Private File*, No. 141, is a printed summary dated 1860 of argued resolution against the relaxation of the rule of 1858.

such extent only as from time to time may suit its convenience".[1] Nearly two years later, in February 1860, it pointed out that "as the bill-brokers are the rivals of the Bank they cannot expect that the Bank should act towards them with special and peculiar favour".[2] That was the view, and those were probably the words, of Walter Bagehot who had taken over the editorship late in 1859.[3] And afterwards, when the quarrel was coming to a head, he was arguing that the reasonableness of the Bank's action in 1858 "can scarcely be gainsaid. The bill-brokers kept no money at the Bank...they were reducing its profits at the very time that they were relying on it for safety".[4] Things were different now, the *Economist* was informed. The best bill-brokers were believed to keep reserves. Then why not at the Bank, as it had formerly suggested? The interests of the country called for "a business-like arrangement" between the disputants.[5]

The Bank's policy had inconvenienced no one during the slack water of 1858–9. Some of the discount houses, their funds not being much wanted, were in fact said to have built up reserves, not of cash but of Exchequer Bills and Consols.[6] They had also replaced call loans, to some extent, by loans subject to notice of 3, 7 or 14 days.[7] But the Stock Exchange flurry of April 1859 scared them all. They put up their rate to Bank rate level at once, and only allowed that on the very best bills. The banks also took

[1] From the article just quoted. Bill-brokers did keep Drawing Accounts with the Bank. The reference was to discounts or advances.

[2] *Economist*, 4 Feb. 1860.

[3] As I am informed by the present staff of the *Economist*.

[4] *Economist*, 7 April 1860. That "they kept no money" was not strictly true: as will be seen they kept money but in very varying amounts, and the Bank could not be sure of their balances.

[5] "The importance to the country of a business-like arrangement" is the title of a note in the *Economist* of 22 Sept. 1860.

[6] From a letter to a "daily paper" quoted in the *Bankers' Mag.*, and from it by King, p. 206. This is rather poor and roundabout evidence, but may be correct.

[7] This is certain. King, p. 206 as above.

restrictive precautions. There was a short squeeze and a loud outcry from holders of second-grade or long-dated bills and their sympathizers.

There was another squeeze in January 1860; and though Bank rate, which had been 2½, only moved up to 3 and then to 4 in the second half of the month, there was anxiety over the Bank's strict use of the rule of 1858.[1] Representatives of both Overends and Bruces called on the Governor to ask for relaxation, but were not given "the smallest hope" of it.[2] Early in April, rates being still rather high, Bank rate having gone up to 4½ at the end of March, the *Economist* was defending the rule, or at least its application in existing circumstances. It was "founded on sound principles", yet the quarrel over it was to the public hurt.[3] Bagehot went on to argue his case for compromise.

But Overend and Gurney, whose control had passed into younger and ambitious hands, preferred a fight. From the Bank return of 12 April it appeared that notes in the hands of the public had risen abruptly that week by £1,622,000. A rumour went round the City that this withdrawal had been concerted by Overends to embarrass and punish the Bank by troubling the currency. Its only immediate effect was to send Bank rate up to 5. It also led Alderman Salomons, M.P., of the London and Westminster Bank and of many other City interests, to put down a question in the House. (He was a proprietor of Bank stock and he had consulted the Governor about this.)[4] Could the Chancellor of the Exchequer throw light on what appeared to be a concerted attack on the currency, most "disparaging to the character of London"?[5] The question was down for the 19th, and Gladstone was Chancellor.

[1] *Economist*, 4 Feb. 1860.

[2] Dobree's *Diary*, 31 Jan. and 1 Feb. 1860. The callers were a Gurney, a Bruce and a Birkbeck.

[3] From the article of 7 April quoted above.

[4] *Diary*, 14 April. He asked would the Bank object.

[5] *Hansard*, CLVII, 2002.

On the seventeenth an anonymous letter had come to the Bank with the postmark, London E.C.—"Overends can pull out every note you have, from actual knowledge the writer can inform you that with their own family assistance they can nurse *seven* millions".[1]

Bonamy Dobree, the Governor, went with his Deputy to see Gladstone on the 18th.[2] The Chancellor also saw representatives of Overends, it is not known whom. What Dobree told him about Overends was this: on 9, 10 and 11 April £1000 notes to the amount of £1,545,000 had been withdrawn "by themselves, Messrs Barclay, Bevan & Co.; Barnett, Hoares & Co.; and their stock brokers, Messrs Shepherd Bros".[3] Barclays, the Governor believed, could never have drawn out £1,050,000—their share—in three days without some previous concert with Overends and with Gurneys of Norwich. To dispose of a story, which as he heard "from several quarters" was being spread in the City, that Overends attacked the Bank because it was using this very large sum, all "actually at their own credit", to compete with them, he gave the Chancellor facts about the daily balances on their drawing account for the last two years.[4]

So far back it is not necessary to go. The early months of 1860 will suffice. A large daily balance Overends often had. But when the year opened it was insignificant, and on one day—6 January—negative. From 9 January to 25 January it was high, never below £132,000 and once so high as £632,000. Then for some days it was again insignificant. In February it was very high indeed, with an average of £779,000. In March it dwindled away, on seventeen out of twenty-seven working days being below, sometimes well

[1] *Dobree MSS.* 17 April.

[2] *Deputy-Governor's Letters*; Dobree to Gladstone, making the appointment, 17 April.

[3] A Memo. among the *Deputy-Governor's Letters*: it is undated and marked "private and confidential". It may be a copy of an enclosure in the above letter.

[4] Dobree to Gladstone, 18 April: *Deputy-Governor's Letters*.

below, £10,000; and it was only three times above £100,000. For February Overends might perhaps have supported their case: for March they could not. Theirs was inevitably a varying business; and their balance was one on which the Bank could not rely for use. In March it averaged barely £30,000. In April it was being built up again, but the highest figure, that of 7 April, was £396,000. The 8th was a Sunday; and on the 9th the withdrawals began. On the night of the 11th £76,000 remained.[1]

When he got back to the Bank on the 18th Dobree found that the notes had been returned by Overends "within the last half-hour", all cut in two, "probably to enable them to have them deposited in separate places of security". What relation their return had to the original plan of the raid we do not know. We do know that on the 16th Overends had intimated, through Barings, that the notes should be returned "to-night", if the Bank would modify its discount rule, and had met a flat refusal; and that on the 17th they had let it be known, this time through Thomas Masterman, a Director, that "if it would be considered a conciliatory step" they would return the notes "at once". "They are sorry for what they have done." Had the question in Parliament scared them?[2]

There is no exact record of what they told the Chancellor. Gladstone said in the House that they were most frank and had argued that their action was of the nature of a public protest against a public evil and a bad rule which tended to "throw... their legitimate business into the hands of the Bank of England". Gladstone "gave no opinion on the existence of any such public evil".[3]

[1] Figures taken from the daily balances by the officials of the Bank Record Office, Roehampton. In 1859 the highest daily balance was £841,000, but there were only four months in the year in which this maximum exceeded £500,000. In three other months it was below £150,000. The minimum was negative in two months and below £5000 in eight.

[2] *Diary*, 16, 17 and 18 April.

[3] *Hansard*, CLVII, 2002 sqq.

The Bank, he said, had acted with the "most perfect propriety and prudence". (In private he expressed his satisfaction that the Governors had not yielded to Messrs Gurneys' proposals.[1]) The Bank thought that its rule tended to reduce the risk of suspensions of the Bank Act. On that again he gave no opinion.

This was a free country. We could all withdraw our balances. The Bank, a public institution, we might censure: he did not. But it would not be proper for him as Chancellor to "pass sentence" on a private firm.

Obviously he was a good deal embarrassed, in the hey-day of *laissez-faire*. He wished to be scrupulously considerate of private interests. But with Dobree's statement before him need he have opened with the ambiguous "I will not say that it was a concerted action in the natural interpretation of the words—namely an action determined on by a combination among a variety of parties"? He was pinned to the word "concerted" by Salomons' question. All the facts he could not state. But he had great ingenuity of phrase; and if a firm of bill-brokers, two—and by suggestion three—firms of bankers, and one firm of stock-brokers, are not a variety of parties, even though most of them are Quakers, what is ? His private defence was that he understood "concert" to "refer to agreement among a variety of independent parties"; presumed that Barclays "drew simply as they were obliged"; and of "the proceedings of the Norwich house" knew nothing.[2]

"The Bank of England could not afford to be frightened", the *Economist* said a month later when reviewing the episode.[3] Certainly it was not. "It is plain I think", Gladstone wrote to the Governor, "that you have come off on the whole winners and

[1] *Diary*, 18 April. I can see no support for the view expressed in King, p. 213, that his reply shows that Gladstone's "sympathies were chiefly with the market". His bias was against the Bank, but I see none in favour of "the market".

[2] His letter, in *Diary*, 24 April.

[3] *Economist*, 21 May 1860.

probably Messrs Overend might have done better for their ultimate object had they adopted the method of public discussion or appeal to Parliament. There are I apprehend at least *three* parties and not two only in the case: the Bank, the discount banks and the Law. Perhaps it may turn out that the Act of 1844... which was to have separated effectually between the Law and the Bank has in effect united them more closely than ever".[1] There was really no perhaps about it.

Though many people thought with Bagehot that the time was ripe for compromise, the episode stiffened the Bank in its policy—especially against Overends. However much or little "concert" there may have been, there was no doubt that it had been conducted by the firm who returned the cut notes—"the conspirators of Bank Notes", "these tricksters", as one Director called them.[2] The discount houses, so the Bank seems to have argued, had only half learnt the lesson that its rule was meant to teach. "In this disreputable affair"[3] it had beaten off the attack of Overends, their leading division. But it made no formal concession for over twenty years, partly perhaps because that division, recklessly led, was "liquidated" in 1866.

It may be that Overend, Gurney & Co. were encouraged to try their fall with the Bank because of the undoubted decline of its relative weight in the London money market since the forties. The fifties, the decade of gold, unquestioned British industrial and commercial supremacy, and the limited liability legislation that was codified into the Act of 1862, saw an immense expansion of banking and money-dealing activity in which the Bank did not take its proportionate share. Its total deposits in 1854 were almost exactly what they had been in 1848; only in 1858 did they

[1] *Dobree MSS.* 24 April. [2] Charles Pascoe Grenfell: *Dobree MSS.* 18 April.

[3] *Diary*, 19 April, the Governor's phrase when explaining the whole affair to the Court. There is no reference to this in the Court Minutes, presumably because there was no vote.

get above the highest point touched during the forties. The deposits of the London and Westminster multiplied more than fourfold between 1845 and 1857. When the Bank looked into the matter, rather anxiously, in 1856, its report showed that though the private deposits, taking averages for groups of years, had not declined, it had secured only a small share of the increase due to growing wealth, whereas in only four years the deposits of the five large London joint-stock banks had grown from £14,460,000 to "the enormous amount" of £29,350,000. Its own private deposits for 1852–5 had averaged only £7,014,000. The explanation was fairly simple: joint-stock banks gave interest on deposits, the Bank and other banks "conducted on the old system" did not; and the Bank meant to stick to "the old system".[1]

Estimates of the Bank's share in the discount business, especially a famous one made by Newmarch for 1850,[2] are spoiled by the great fluctuations in its discounting activity, which happened to be at a very low level in the early fifties; but there is no doubt at all that its relative importance was declining with the gigantic growth in that of the discount houses. In 1856 came the first joint-stock discount company, the National. Others followed—but had to meet the crisis of 1857; were "most frightfully" affected by the Bank's rule of 1858 and succumbed or were wound up, leaving the National alone at the end of the decade. There was talk of winding it up too; but it got into the sixties alive and with a 6 per cent dividend for 1861.[3]

[1] Report on Deposits: *C.B. Cc*, 3 May 1856. The Report decided definitely against interest on deposits. And see the discussion of the Bank's relative decline in importance in King, p. 191. It was the formal deposit, in the modern sense, that earned interest at the joint-stock banks. At the Bank deposit and current account were one and the same.

[2] Tooke and Newmarch, *History of Prices*, VI, App. XI. Newmarch spoke of £12,000,000 employed by the Bank "generally speaking in commercial loans and discounts".

[3] King, Ch. VII: "The Rise of the Discount Companies." The words quoted are from a chairman's speech in 1860; p. 227.

Many people believed in 1857–8 that the Bank was still the greatest single discounting establishment. Just then, with its discount income—central and provincial—at about half-a-million in a year, it pretty certainly was; but everything depends on the year taken.[1] Overends and the other leading houses were now connected, not only with long lists of country bankers, but directly with merchants and manufacturers in "the provinces". They kept agents there who drew in lenders as well as borrowers: Overends' deposits from these "private parties" had increased greatly just before the crisis of 1857.[2] It was this firm of growing and enterprising competitors, the "bankers' bank", the house which "stood next to the Bank of England in the City of London"[3] that came to Threadneedle Street for "unlimited assistance" when the storm threatened; and it was they, but under changed and less responsible management, who cut the Bank notes in two in 1860, when the Bank, though a lighter weight than it had once been, was not frightened.

The huge expansion of banking activity during the fifties and the early sixties was not accompanied by any fundamental change in banking structure. The Bank itself had opened a Western branch. In June of 1855 the Committee of Treasury suggested this and the Court approved. In July the Governor bought Uxbridge House in Burlington Gardens for £42,500, and there business was opened on 1 October following.[4] The business done had something of a West End deposit character—it never included much discounting[5]—but otherwise was merely an extension of that in Threadneedle Street. Meanwhile a few other London banks, all of the joint-stock class, were spreading their

[1] See App. C.

[2] See D. B. Chapman's evidence to the *S.C. of* 1857, QQ. 4840 sqq., especially QQ. 4947–8.

[3] Bagehot, *Lombard Street*, p. 18.

[4] Acres, *The Bank of England from Within*, Ch. LXI: "The establishment of the Western Branch."

[5] But large advances were made there, summarized in the *Stock Estimates*.

metropolitan branches. The London and Westminster had four in 1850, seven in 1865. There were four others each with four or five branches in the latter year, and one—the London and County of 1851—with no less than twenty, from Albert Gate to Stratford Broadway and from the Caledonian Road to the Borough High Street. It was the pioneer of really widespread branch banking about London; for it had another hundred or so branches in the Home Counties.[1]

A great many of the old private firms remained, though some had joined one another and some had been absorbed by, or had become, joint-stock concerns. For London was already dominated by the joint-stock type, which was specially adapted to overseas enterprise. Most bankers had some connections overseas; but of 136 banks of every sort existing in London in 1865, 44 had names suggesting that their treasure and their heart lay there—from the Bank of Agra and Mastermans, through the Bank of New Zealand, the London and Baghdad and the London and Buenos Aires, to the Scinde Punjab and Delhi and the Standard of South Africa.

In the country the number of joint-stock banks stayed fairly level, at something over a hundred; that of the private banks slowly declined. As yet only a few of the joint-stock group had adopted the branch policy with vigour. The National Provincial of Birmingham had about 120 branches and the Manchester and Liverpool District had between 30 and 40. But the other hundred odd had an average of barely four each. Many private banks had sub-offices on about this scale, though a large number had only the single head office. For every five private bank offices, head or branch, in the country there were now about eight joint-stock offices.

That is in England and Wales. In Scotland the number of banks had fallen to thirteen and the number of offices had risen to over 600, as compared with not much above 1400 of all sorts

[1] Hilton Price, *London Bankers*, p. 311; Clapham, II, 341.

in England and Wales. As there was only about one Scot to every seven Englishmen and Welshmen, his banking needs were already well served.[1]

That concentration of issue for England at the Bank, which Horsley Palmer and George Warde Norman had desired and Peel had cautiously encouraged, was carried a stage farther during the fifties and sixties. In November of 1855 the Governor and Cornewall Lewis, the Chancellor of the Exchequer, were in correspondence about it. It was the Chancellor who took the initiative.[2] Since the Act of 1844 no less than forty-seven banks had abandoned issue, by amalgamation with joint-stock concerns or for other reasons. They were mostly small issuers. One had an authorized maximum of £89,000, but another had a mere £909. The average was only £14,800, and just half the banks on the list had authorized maxima under £10,000. The aggregate of the abandoned issues came to £712,623; so under clause five of the Act of 1844 the Bank, having duly applied, was authorized by Order-in-Council to increase its issue against securities by two-thirds of that sum, £475,000. The process was repeated to the amount of £175,000 in 1861 and of £350,000 in 1866, leaving the fiduciary issue at £15,000,000; it was not repeated again for fifteen years.[3]

So early as 1848 David Salomons had argued to the Bank that it and the other joint-stock banks should join the bankers' clearing system; but the Bank had then deferred action until the old privates and the new joint-stocks should have come to terms.[4] Terms were not arranged between these parties until 1854; and even after that the Bank postponed action for another ten years.

[1] Clapham, II, 340–1.

[2] *C.B. Cc*, Correspondence of Nov. 1855.

[3] The figures are given in all Bank statistics and have often been quoted, e.g. Bagehot's *Lombard Street* (1892 edition, p. 24 n.).

[4] Above, p. 215.

As a result of the agreement of 1854, clearing by transfer of Bank notes was abandoned in favour of cheques drawn on bankers' accounts at the Bank, a change which reduced further the working importance of the note and the demand for notes. This demand was again reduced by the institution in 1858 of the "country clearing", of cheques from country banks, which "more than all else...brought about the almost universal use of checks in England, to the exclusion of notes and coin".[1]

At last, in May of 1864, the Governor approached the Bankers' Committee through John Lubbock its Secretary, with a proposal that the Bank should "enter the clearing". Delegates met and the business was settled promptly. "Articles on the Bank" in bankers' hands were to be paid in as at present, and credited at once; the Bank, that is, was in the clearing "on one side only". Cheques on clearing bankers in the Bank's hands were to be passed through the clearing. "Transfer cheques"—that is, cheques drawn on a banker's account at the Bank—were to be considered as paid, unless they were returned on presentation. The Bank was to enter the clearing of country cheques in the same manner as other banks. A few more technical points were dealt with in the agreement, which is dated 5 May; and on Monday, 16 May it came into operation.[2]

The Treasury, where Gladstone had long spells of service in the fifties and early sixties, was revising some of its methods and reconsidering some points in its relations with the Bank. The traditional Exchequer Bill had long since lost importance. The Bank took from the Treasury direct the Deficiency Bills, self-liquidating every quarter, and not very many of these; and it sometimes purchased a few Bills in the market. But ever since the late thirties, when there first appear in its books blocks of

[1] R. M. Holland (later Holland-Martin), in "The English Banking System" (*U.S. Monetary Commission*, 1910), p. 280.

[2] *C.B. Mc*, 5 May 1864.

3 and 3½ per cents "standing on the account of the Governor and Deputy-Governor for the time being",[1] it had preferred these more marketable securities for short-term investment. Bankers also had turned away from the Exchequer Bill, as its narrowing market became uncertain, in favour of the call or short loan to a discount house. The last funding operation for Exchequer Bills was undertaken in 1858; and in 1861 (by 24 Vict. c. 5) the traditional system, going back to Montagu and so familiar at the Bank, was abolished: under it they were "circulated" annually and bore a daily rate of interest in pence.[2] Interest was now to be regulated by the Treasury from half-year to half-year, and the Bills to be current for five years. The Bank would prepare and issue them; but from 1861 there was no new issue, though the five-year sort were renewed from time to time, just as the one-year Bills had been.

A new form of security of some interest to the Bank was tried in 1853, the Exchequer Bond. Gladstone was clearing off a block of old 3 per cent stocks and surviving South Sea annuities. He experimented with forty-year bearer Bonds, interest at 2¾ for the first ten years and then at 2½. But very few were taken up, and those few were nearly all accepted in exchange for cancelled Exchequer Bills. Later, Gladstone asked the Bank to find out whether there would be a market for the Bonds in Holland; but Hopes of Amsterdam sent a most discouraging reply.[3] In 1854–5, as a war measure, £6,000,000 of Bonds were issued, yet not of the original type: they ran for various periods but with a maximum of only six years. Of these, while they were current, the Bank always held a fair stock.

[1] *Stock Estimates*, II; accounts for 1837–8.

[2] See Vol. I, p. 39 and *passim*. For bankers and the Exchequer Bill, see King, pp. 115–17, 275–6. It was now mainly used for issue by the Treasury to other government departments. And see *Dict. Pol. Econ.* s.v. "Exchequer Bill".

[3] *Deputy-Governor's Letters*, 1 and 9 June 1854. And see *Dict. Pol. Econ.* s.v. "Exchequer Bond".

In his first spell at the Exchequer, Gladstone got across the Court over the payment of dividends on the National Debt. It had been usual to credit the Bank by Treasury Warrant with the whole dividend on each class of stock on the first day of the quarter in which the payment would fall due—26 March for the April dividends—and for the Chancellor, whose funds were depleted by this large payment, to issue interest-bearing Deficiency Bills for the full amount. Until paid out, this dividend money was "reckoned as a part of the monies of the Bank". Gladstone's view—the Treasury view—was that "public monies continue to be public monies until...disbursed".[1] He decided therefore, in April of 1854, to assimilate dividend finance to Consolidated Fund finance and only make provision for the dividend monies as and when they were needed, taking into account the general state of the Treasury balances; for "the public balances are in truth one balance".[2] In the following October, for example, when £6,540,000 was—in the Bank's view, and by custom—due for dividends, the warrant sent was only for £4,718,000.

The Bank—through the Committee of Treasury and the Deputy-Governor; the Governor was away sick in April—argued that a Chancellor was legally bound to pay on a given date under certain Acts of Parliament. Gladstone resented this intrusion of the state's financial "employee" in the sphere of law;[3] but he agreed, after long pertinacious argument by letter, to adopt in part a suggestion made to him by the Court, and to take the opinion of the Law Officers of the Crown, a step which, as he wrote to the Deputy-Governor, "but for your suggestion I should not have taken".[4] The Law Officers decided for him, and so at a later

[1] Gladstone to the Deputy-Governor, 6 April 1854. The correspondence is in *C.B. Ac* and *Bc* and was issued as a House of Lords return. *A. & P.* 1854–5, xxx. [2] Gladstone to the Governor, 15 June 1854.

[3] He stresses the employer and employed view in his letter of 15 June.

[4] To the Deputy-Governor, 27 April 1854. The Bank had suggested consideration by the Law Officers of a case prepared by the Treasury and the Bank Solicitors jointly; but the Bank Solicitors were ignored.

stage did the Lord Chancellor, most emphatically: he held that the dates mentioned in the Acts were "merely directory" and that "so long as you keep the Bank well in funds, to meet the demands made on them by the creditor, they have no right to be heard in the matter".[1] But the Bank had taken other and rebutting legal opinion, and proposed to submit it to the Prime Minister. Gladstone was furious. He said that he would have been bound by the Law Officers' opinion, had it been adverse, and that the Bank had asked for it.[2] The Bank view, which at one stage of the correspondence Gladstone had apparently accepted, was that the reference to the Law Officers was not "by way of appeal of which the result was to be binding on them".[3] A second reference was made, and Gladstone was again supported. The Bank had been ill-advised enough to suggest that it was a sort of trustee for the fundholder. So in a last haughty letter, of October, Gladstone, who had told the Prime Minister that it would be "poltroonery of the first water" to refuse a fight, wrote that he was advised "in a sense entirely opposite to that of the opinion for which the Bank had been pleased to call"; and stated simply that the Bank had "no right of intervention as between the fundholders and the State".[4] With this knock-out blow the open fight ended.

But Gladstone also sent pungent private letters to Hubbard, the Governor, with whom he was on "My dear Hubbard" and "My dear Gladstone" terms, whereas the Deputy was only "My dear Sir". "I do not study diplomacy in letters of this kind and there is no sort of doubt that I am very angry." Hubbard had written without anger and with dignity, and he kept his end up to the last.[5]

[1] Lord Cranworth to Gladstone, 25 Sept. 1854: Lords' return as above.

[2] Gladstone to Aberdeen, 8 Sept. 1854.

[3] Hubbard, the Governor, to Gladstone, 9 Sept. 1854: *Gladstone MSS.* See App. F.

[4] Gladstone to Aberdeen, as above, and to the Deputy-Governor, 18 Oct. 1854.

[5] Morley's *Gladstone*, I, 518 and Hubbard's letter in App. F.

When Gladstone left the Exchequer in 1855 the Bank appealed on the point of law to his successor, Cornewall Lewis; but Lewis refused to sacrifice the principle and the small economy already fought for and won.[1]

Back at the Exchequer in 1859, Gladstone turned the formidable eye, which many years later a man who disliked and feared him[2] called that of a bird of prey, once more on economy through the Bank. In December of 1860 he suggested to the Governor a "large reduction of the allowance made...for the management of the Public Debt". He was told that such a thing could hardly be recommended to the proprietors; but he was not the man to be stopped by that. On 1 February 1861, the Governor received from him a ten-page letter.[3] First, he explained, he meant to abolish the Deficiency Bill. (It was in fact replaced by deficiency advances some years later.) Coming to his main theme, he pointed out that the price paid for management had not been reviewed since 1808. The Bank received £340 per million for the first £600,000,000 and beyond that £300. *Per contra*, the Bank paid £188,078 "in respect of composition for Stamp Duties and of profit on the issue of notes". As he wished the gross revenue of the country to be received by the Exchequer, the Bank ought not to deduct this sum from its management bill as in the past, but to pay £60,000 for the stamps to the Inland Revenue and the balance, for issue profits, to the Exchequer.

In reckoning the amount of the managed debt, the various terminable annuities were now valued at twenty-five years' purchase. Gladstone meant to reduce this to fifteen years for some and to ten for others. That done, he proposed to cut the management charge from £340 and £300 to £300 and £150. He

[1] The correspondence, of March and April 1855, is printed in the Lords' return.

[2] W. E. H. Lecky, the historian.

[3] *C.B. Hc*, 7 Feb. 1861. The whole correspondence is printed in *A. & P.* 1861, XXXIV.

would abolish the £4000, latterly called "House-money", that most ancient payment, dating from 1694, which the Bank had fought for and retained in 1808;[1] and also the similar payment of £1898 inherited from the South Sea Company.

Finally, he suggested that the Bank might reduce the period of the quarterly "shuttings"—to transfers, while dividend warrants for the National Debt were preparing—and pay out those dividends at its branches as well as in Threadneedle Street. Perhaps he had been in discussion with relatives at Liverpool.

The proposals for these "heavy reductions" the Court accepted rather sorrowfully, and passed to the proprietors, who acquiesced in General Court on 7 February.[2] They became law that year by 24 & 25 Vict. c. 3. Gladstone's suggestions about the shuttings and the dividends were hardly matter for compulsion. They were accepted by the Court, which undertook to arrange for payment at the branches "to the utmost extent practicable";[3] and there were provisions in the Act which facilitated the abolition of the shuttings. So eventually all Gladstone's wishes were complied with.

That great economist, who was to leave public life more than thirty years later on a scruple of economy, had deserved well of the taxpayer if not so well of the Bank proprietors.

Stock Exchange restlessness in the early months of 1860 was in part a result of news from America, where the Union was in danger and there was so much English capital. South Carolina seceded after Abraham Lincoln was elected President in April, and in January of 1861 six other Southern states, from Texas to Georgia, took their stand with her. Three months later the guns opened on Fort Sumter, and four more states joined the Confederate South, including the key state of Virginia to which America's best soldier owned allegiance. It is not surprising

[1] Above, p. 49. [2] *G.C.B. IX*, and cp. Acres, II, 524–5.

[3] The Governor and the Deputy to Gladstone, 6 Feb. 1861.

that for the first seven months of 1861 Bank rate was only once so low as 5, and that for only five weeks; was often at 6 or 7; and was even for six weeks in February and March at 8. The spell of 8 came when the six cotton states seceded and dealers anticipated an immediate and complete famine of England's principal raw material. Gold was taken out to buy silver with which Indian cotton might be bought; and Americans were so eager to sell cotton and anything else while there was time that treasure went West as well as East.[1]

The scare was in part irrational as all scares are. Before the blockade of the South began, enough cotton was got in to serve England for many months; and the blockade was never quite complete. Fresh supplies of gold were always coming up from Australia; by mid-August the Bank could announce $4\frac{1}{2}$; and gold became so abundant, the market so dead, that 1862 proved the year of cheapest money since 1852, with Bank rate at 2 from late July to October.

It was also the year in which the law of limited liability was codified by that Act of 25 & 26 Vict. c. 89 which was quoted for more than a generation on all stock and share certificates. Though cotton was running short and unemployment spreading in Lancashire, the country as a whole was getting busier: in 1863 it was decidedly busy. Fresh markets were being opened for British manufactures by "Cobden's Treaty" of 1860 and its successors.[2] India had become a great field for railway investment; and there was now always Australia. Money, which remained reasonably cheap far into 1863, lay ready to the hand of company promoters under the new code.

The promoters were hard at work in the thundery atmosphere spread by the American Civil War: in 1862–3 the *Bankers'*

[1] Clapham, II, 373 and Henderson, W. O., *The Lancashire Cotton Famine* (1934).

[2] For which see Levi, L., *History of British Commerce*, p. 571 and Clapham, II, 247.

Magazine was writing about a "Speculative Mania" and a "Banking Mania".[1] After two years of war, cotton was very short in England. The world was being ransacked for it—India, Brazil, Egypt—and diversions of the normal tides of commerce were diverting the flow of treasure. Fortunately the Bank Parlour was better equipped with information about the exchanges than perhaps ever before. In 1858 the young George Joachim Goschen joined the Court. He served until 1860; again from 1861 to 1863; and for the last time in 1864–5. He became Member for the City in 1863, and—very appropriately—Vice-President of the Board of Trade in 1865. In 1861 he published, first as an anonymous pamphlet, his *Theory of the Foreign Exchanges*. Before he took office it was in its fourth edition, a City classic. Written by a man who had "daily opportunities" of "practically feeling the effect of each different phase"[2] of the exchanges, it had weight in Lombard Street, and its principles could be advocated in Threadneedle Street. Young as he was, Goschen was not the man to keep silence in Court, though the anonymous Minutes never say that "Mr Goschen moved" so-and-so.

For reasons connected with the cost of transmitting bullion, he advised in his book that when the Bank wanted to affect the exchanges and draw in gold, it should move the rate up not by ½ per cent at a time, but by 1 per cent. Those costs having been covered by a 1 per cent rise, and the gold got moving, a further 1 per cent would be very attractive. The rate had in fact often been so moved in difficult times, but generally rather late. The change that can be marked from 1859–60 is that the 1 per cent upward movement occurs oftener and earlier. It was not a popular change—"on the contrary, most unpopular". "On this occasion, and, as far as I know, on this occasion alone", Walter Bagehot wrote in 1873, "the Bank of England made an excellent

[1] Titles of articles in Vols. XXII, XXIII.

[2] P. ix of the original preface. Goschen was born in August 1831, so he joined the Court at 26.

alteration of their policy, which was not exacted by contemporary opinion, and which was in advance of it".[1]

"The beneficial results of the improved policy", he added, "were palpable and speedy." Cotton buying in unaccustomed places combined with heavy foreign investment and other circumstances to produce the threat of an external drain of treasure towards the close of 1863. Bank rate was at 4 on 2 November: it had been at 4 since 21 May, and had only risen to 3½ on 16 May. On 2 November it was raised to 5; and by 3 December it had moved up by three more jerks of 1 per cent to 8. Lowered one full point on Christmas Eve, it was put back to 8 on 20 January. The effect was as anticipated: "large amounts of capital" came in from "Germany, Holland, and other places where the cotton pressure was not felt".[2] Before January was over the rate was at 6.

Lower it was never allowed to go throughout the difficult year 1864, a year of true cotton famine, the last year of a war of attrition in America, a year of war in Denmark, and a year of experimental and rather reckless applications of British capital overseas. The rate was moved up and down, always by whole points, twice standing so high as 9—for a fortnight in May and for two months (8 September–10 November) in the autumn. The May rise was connected with the crisis of the Danish war; the long-drawn maintenance of a high rate in the autumn with the coincidence of the several pressures, especially that coming from cotton on to silver, and through silver on to gold. Bagehot believed that the Bank's action that autumn "preserved the country from calamities which, if we had looked only to precedent, would have seemed inevitable. All the causes which produced the panic of 1857 were in action."[3] This last sentence

[1] *Lombard Street* (1892 edn.), p. 184. Mr Hawtrey, *A Century of Bank Rate*, p. 244, thinks that "there was very little to be said for Goschen's original recommendation"; but he may not interpret Goschen's mind correctly.

[2] *Economist*: Review of the year, p. 2. [3] *Lombard Street*, p. 184.

might be criticized; but no contemporary had, and no historian has, a better right to speak on the matter than Bagehot.

During the long spell of 9 per cent not merely were calamities in the City averted; the dominant pressures were easing. Cotton men and cotton speculators were beginning to discount the expected defeat of the South—Sherman had marched through Georgia; Lee's armies had been exhausted in the Wilderness; and by April of 1865 he would be forced to surrender. There was a temporary slackening of financial and industrial activity in Britain: the political sky of Europe was for the moment clear. (For the moment only; Bismarck was at work.) So when the fall from 9 per cent began, it went on fast. With the new year—on 12 January—the rate, then at 6, resumed movement by ½'s, but downward always, which was not a challenge to Goschen's doctrine.

The downward movement ended on a flat 3 per cent in the middle of June. That demand from America for goods and capital which everyone anticipated was delayed; partly because the murder of Abraham Lincoln kept the American atmosphere thundery; partly because both North and South were exhausted; mainly perhaps because the Atlantic cables were not yet laid and so all correspondence was a matter of weeks. By September things were in motion as anticipated; and, before September, Bank rate began to move up again, cautiously at first and by the old ½'s; for the Court was not yet thinking mainly of the exchanges.

It was while the rate was at 3, and while investors who wanted their 5 or more were looking about for good things, that Overend, Gurney & Co. was floated as a limited company.[1] To the average investor this seemed the very best of things. Well-informed people knew better. The *Economist* had welcomed the change only because the firm would now have "to publish an account of the nature of their business".[2] But it could not "without legal

[1] It began business as a company on 1 Aug. 1865.

[2] *Economist*, 15 July 1865.

consequences"[1] say what it believed, namely that the firm was rotten: there was not proof to show. It was a misfortune that things known to wise men in the City were hidden from outsiders who thought of investing in "the bankers' bank"; a misfortune too that not all financial journalists were wise. The *Bankers' Magazine* welcomed the flotation almost ecstatically as a triumph for limited liability. Overend, Gurney & Co. Ltd. would "henceforth be a standing quotation in the official lists": the £500,000 paid for goodwill was a stiff price, but no doubt "the eminent gentlemen" of the new board knew their business.[2]

This is not the place for a full story of the decline and fall of Overends; but a historian of the Bank cannot watch in complete silence the ruin of its most famous neighbour and sometime rival, "the Corner House", the greatest private firm in England. Overends' epitaph was written by Bagehot. "In six years"—from 1860 to 1866—the immensely rich partners "lost all their own wealth, sold the business to the company, and then lost a large part of the company's capital. And these losses were made in a manner so reckless and so foolish that one would think a child who had lent money in the City of London would have lent it better."[3]

Samuel Gurney's old sound business called for great care with every bill, great knowledge of "the standing of parties", and considered use of that knowledge. The younger men now in charge had as watch-dog of the bills a doubtful subordinate. Portfolios filled up with all sorts of flimsy paper, including the so-called "finance securities" issued in advance by company promoters, perhaps before the public had even subscribed, to contracting firms, and by them discounted. And Overends had gone far beyond dealings in bills, good or bad. They were mixed up in all sorts of financing, were "partners in almost every kind

[1] *Economist*, 12 May 1866. [2] *Bankers' Mag.* xxv, July 1865.

[3] *Lombard Street*, p. 19. The most recent discussion of Overends is in King, pp. 242 sqq.

of speculative and lock-up business".[1] Such was that condition of things which it was so necessary for people to understand when they took shares in Overend, Gurney & Co. Ltd. in the summer of 1865. The directors of the new company were in part "Gurneys", in part new men. The new men seem to have hoped that by reverting to sound methods they might save the concern. But for a fresh start it was far too late.

The foreseen revival of American demand at the time when Overend, Gurney Ltd. was floated, the conclusion of more "free trade" treaties, and the opening of markets all over the world, are enough to explain the extraordinary expansion of business in 1865–6. During the first four months of 1866 British exports were worth 30 per cent more than in the corresponding months of 1865. There had been no important change in the level of prices: it was an increase of actual things shipped. This trade boom was accompanied by more company promotion and by all the sanguine scheming and doubtful financing that are to be expected in such times. The Bank was watchful. From early October 1865, it was again moving its rate by 1 per cent at a time; and during the next eleven months the rate was never below 6. It stood at 8 for several weeks in the early months of 1866, a threatening start for what was to be a dark year.

There were signs of war again on the Continent in March and April. It was fairly certain that the reserves of treasure which the Bank was fighting to protect were being drawn upon for the war-chests of the powers. There was also a domestic storm-warning early in the year, and in an ominous quarter. A firm of those contractors known to be rich in doubtful paper which they placed with finance and discount houses went down in January. Its name unfortunately was Watson, Overend & Co. It was mixed

[1] King, p. 247. Anthony Trollope's *The Three Clerks*, published in 1858, reflects the sorts of business into which Overends plunged—Wheal Mary Jane, the Ballydehob Railway, the Limehouse and Rotherhithe Bridge, and the great contracting firm of Blocks, Piles and Cofferdam.

up with a certain Contract Corporation and with the Joint-Stock Discount Company.[1] They had lived by drawing on one another and by discounting, with Overend and Gurney among others. All three broke, and in March and April other firms followed, but not yet firms of the best class or the best repute.

When May came in the Bank had retained a very satisfactory stock of gold, about £12,000,000; but as a matter of precaution it moved the rate up from 6 to 7 on 3 May, and to 8 on 5 May. In its Banking Department there was "an exceedingly good reserve according to the estimate of that time—a sufficient reserve, in all probability, to have coped with the crises of 1847 and 1857".[2] Directors had inside knowledge of the state of Overends and were getting ready. Bagehot, writing on 12 May, said he would not have been surprised at Overends' failure "any time these three months".[3] Men who had served on the Committee in Daily Waiting to pass or reject the bills would be even less liable to surprise.

It was on Thursday, 10 May 1866, that Overend, Gurney & Co. Ltd. failed for over five millions; and Friday, 11 May, was the City's Black Friday.

Panic, true panic, came with unexpected speed and violence that day. The word had appeared in accounts of the state of the City since 1 May; and on 9 May *The Times* was saying that "the mania of terror seems likely...to proceed unchecked", for "the very establishments that neglected to perform their duty...by setting their faces against finance paper" were refusing "to touch it, even to the extent of a few hundreds, with the offer of positive securities to back it". On 11 May it was writing about the shock that would be felt "in the remotest corners of the Kingdom", so powerful for evil was Overends' name; and on 12 May of the Panic—now written with a capital—"which swayed the City to

[1] King, pp. 240–1.
[2] *Lombard Street*, p. 185.
[3] *Economist*, 12 May.

and fro yesterday", or of "yesterday's madness",[1] when, as another paper put it, "Lombard Street looked more like a country fair than its usual self"[2]—an odd sort of frightened, tumultuous, anxious fair. It was essentially "a *credit* panic". "Suspicion got abroad not because our whole reserve of bullion was too low; not because our annual expenditure had dangerously surpassed our annual saving; but because the lenders of money were *suspected* of misusing it; because the most celebrated of old houses evidently had misused it."[3]

The thing came on London with a rush, "before the Chancellor of the Exchequer was perhaps out of his bed,"[4] as the Governor said later—but he must have been ignorant of Gladstone's habits. Strained by the conditions of the previous week, the Banking reserve stood at £5,727,000 when business opened. Well before the working day was over, Lancelot Holland the Governor and Newman Hunt his Deputy reported that they had lent an "unprecedented sum" of upwards of four millions sterling[5] to bankers, bill-brokers and merchants, upon government stock and bills of exchange. Formal discounts to the amount of £1,698,000 were done that day; £919,000 was advanced against government securities; and there were other advances. (For 10–16 May the income from short loans, which in normal busy times was from £2000 to £5000 a week, came to £33,000.)[6] In reporting to the Chancellor of the Exchequer this unprecedented lending, the Governor and Deputy also reported that they could not "cal-

[1] These quotations from *The Times* are all given in Gregory, *Statutes, Documents and Reports*, II, 127 sqq. The *Economist* articles are also reprinted there.

[2] *Economist*, 19 May.

[3] *Economist*, 19 May.

[4] Lancelot Holland to the Bank Proprietors, 13 Sept.: *Economist*, 22 Sept.

[5] Holland to Gladstone, *C.B. Oc*, 12 May.

[6] *G.L. XXIII*, f. 101 (the discounts), f. 330 (income from advances) and *Hansard*, CLXXXIII, 1050, the advances on securities as reported by the Governor to Gladstone. The income from short loans for the six months Feb.–Aug. 1866 was £170,000; for the same period in 1867, £32,000.



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culate upon having so much as £3,000,000 this evening, making a fair allowance for what may be remaining at the branches".[1]

When he rose that afternoon in the House to answer an emergency question from Disraeli, Gladstone had not received their letter. Only eight days back he had opened his Budget. He had spoken with exuberant confidence about economic progress and that race among nations in which "the people of the United Kingdom are by far the foremost". He was anxious to pay off the National Debt before our coal-measures began to give out—Stanley Jevons had just frightened people about this—but he had hoisted no warning signals against over-trading or finance paper.[2]

No "representation or formal report of any kind" had come to Whitehall from the City until from two to two-and-a-half hours before he answered Disraeli's question. But those had been full hours. "Very influential persons" had come with "an important requisition". He had interviewed a group of leading private bankers. A deputation of joint-stock bankers was even then waiting to see him. Everyone had told him of "panic and distress...without parallel in the recollection of the oldest men of business in the City of London".

But he had "not the least reason to suppose" that the Bank would ask him to suspend the Act. He was right. At the Bank the rate had been raised to 9, and in the last clause of the letter which Gladstone received in the course of the afternoon the Governor and Deputy wrote: "we have not refused any legitimate application for assistance, and unless the money taken from the Bank is entirely withdrawn from circulation there is no reason to suppose that this reserve [the estimated £3,000,000 or less] is insufficient".[3]

[1] The letter quoted above.

[2] *Hansard*, CLXXXIII, 398 (3 May, 1866). Jevons' *Coal Question* was published in 1865.

[3] The speech and letter quoted above.

But, as *The Times* put it next day, "deputation after deputation" had besought Gladstone to suspend the Bank Charter Act, and "at length had prevailed"[1] upon him. The panic was psychological and needed a psychological palliative; and on that day of lost heads Gladstone was no doubt right to give these scared deputations what they asked for "with unanimity and with earnestness". He and Lord John Russell signed the letter that night. It spoke of the "intense rapidity" with which the shock had arrived; the shortness of time for deliberation; the unprecedented fall in the Bank's reserve in a single day; and the need "to compose the public mind". So to the now recognized conclusion. If the Bank, "proceeding upon the prudent rules of action by which their administration is usually governed", should issue beyond the legal limit, government would at once "make application to Parliament for its sanction".[2]

But no discounts or advances were to be made below 10 per cent, and government reserved the right to impose a higher rate.

On Saturday the Court agreed to conform, and raised the rate on bills not having more than 95 days to run from 9 to 10. It did £1,081,000 of discounts and advanced £747,000 on government securities that day.[3] Other firms had followed Overends—among them Peto and Betts, great world-wide and venturous contractors, with liabilities of some £4,000,000, the Consolidated Discount Company, and the Imperial Mercantile Credit Association. Alarm had been increased by the belief, which seems to have been based on some misunderstanding, that "after a certain though very late period" on the Friday the Bank "did not make advances on Government securities".[4]

[1] *The Times*, 12 May.

[2] The Chancellor's letter, often reprinted, and in Gregory, II, 125.

[3] References as above, p. 264, n. 6.

[4] *Economist*, 12 May. In a later article, 19 May, the *Economist* spoke of "a trifling hesitation" and a "rare and occasional delay": the suggestion is being watered down.

The account which the Bank gave Gladstone subsequently was that there had been no such hesitation on Friday or Saturday; but that on the Monday it had in fact suggested to "one or two applicants" that they might "try the open market and realize for themselves". Those who failed so to realize were helped. It was also explained that the only discouragement shown to would-be discounters was refusal at the branches of requests for discounts "for an unlimited amount"; a wise refusal, Gladstone thought, "so far as he could judge".[1]

If the panic and disbursements of 11 May were without precedent, so was the three months' 10 per cent which followed them. The City settled down so slowly that on 24 May there was actually a motion proposed by a Director for 11 per cent; but this was negatived.[2] The three months, it is not to be forgotten, covered Prussia's "Seven Weeks War", her conquest of Hanover, and her driving of Austria out of Germany—with the battles of Langensalza (27 June) and Sadowa (3 July). Coming on top of an untimely spring crisis—it was generally held that May was no proper month for such a thing—this irruption of war into North-West Germany was enough to keep London anxious. Besides, in spite of 10 per cent, some foreign capital—what sixty-five years later would be called "hot money"—was being withdrawn from Lombard Street. "The French", Bagehot wrote on 19 May, "fancy we have suspended cash payments, but this is a total misconception."[3] A misconception no doubt it was; but people deceived by it were not likely to leave their money in London. "In 1866", he wrote seven years later, "we held only a much smaller sum of foreign money [than in 1872–3], but that

[1] *Min. of Correspondence with H.M. Government*, 5: Deputy-Governor to Gladstone, 17 May; Gladstone's report of this in the House, also 17 May; *Hansard*, CLXXXIII, 1050 sqq. The Deputy also reported that, since the previous [Black] Friday, the Bank had advanced £2,874,000 on government securities and £9,351,000 on bills of exchange.

[2] *C.B. Oc*, 24 May.

[3] *Economist*, 19 May.

smaller sum was demanded and we had to pay it at great cost and suffering."[1] Part of the cost was the long-drawn-out 10 per cent. The suffering was not eased by an imprudent circular that the Foreign Office had issued to all courts on 12 May. It explained that British business was essentially sound. The courts and bourses at once assumed that this was a screen for unsoundness; and in consequence "every English signature was suspected abroad".[2]

How strictly British the original panic, and the strain which preceded it, had been was shown by the contrast between London and other discount rates on 10 May: London 8; Paris 4; Vienna 5; Berlin 7[3]—but in Berlin war was being planned, and the planners knew, as they knew in 1914, how to make finance do its part by keeping or drawing money in. The Paris rate is the significant one. Paris was clearing up some earlier financial troubles, yet was only "slightly disturbed" by the Overend crisis.[4]

That the Bank kept its gold reserve up so well was due to the joint working of Australian shipments and 10 per cent; for in spite of foreign distrust 10 per cent had an effect. The Banking reserve did what "the Chairs" expected when they drafted their letter on 11 May; that is, it sufficed to see the Bank through the long strain without having to be augmented by notes issued "illegally". Gladstone never had to bring in the bill of indemnity to which he had pointed in his reply. *The Times* of 12 May "was persuaded" that, "had the government stood firm" and resisted the clamour of the deputations, "the Panic would have subsided of itself". That presumably is what the Governor thought; but Bagehot disagreed with them both, and so probably should history.

Even with the Chancellor's letter as safeguard, the Bank had a difficult time until August. In the general discredit and distrust, its notes remained out far longer than usual. Two months after Black Friday their circulation was almost £6,000,000 above the normal figure. It was still not necessary to break the law; yet

[1] *Lombard Street*, pp. 17–18. [2] Juglar, *Des crises commerciales*, p. 386.
[3] Wirth, *Gesch. der Handelskrisen*, p. 424. [4] Juglar, p. 427.

there might have been a breach, but for a device not officially recorded but well authenticated by tradition. Tradition tells how once, at a dinner of the Political Economy Club, Newmarch—who was Tooke's collaborator, and secretary of Glyn, Mills, Currie & Co.—was heard to say, with imperfect control of his aspirates, to a great man from the Bank, "You did not break the Act, and I'll tell you 'ow you did it. You sent the 'at round Lombard Street every night, and we all paid in all the Bank Notes that we had, and we drew them out again the next morning. That's 'ow you did it."[1]

At last, on 16 August, peace between Prussia and Austria being in sight, the rate was dropped to 8, and the emergency period ended. Gladstone had been questioned about it in the House more than once. He had made it clear that a drop below 10 would close the indemnity guarantee; but had insisted that the Bank was keeping the rate up "entirely on their own judgment".[2] No doubt they had been influenced by three months' continuous bankruptcies. Three London banks had gone into liquidation, the Asiatic Banking Corporation, a "bubble" of 1864–5; the Bank of London of 1855, crippled by the locking up of its funds in non-liquid securities and pressed by frightened depositors after an organized bear raid on the prices of its shares; and the Agra and Masterman's, until 1865 the Agra and United Service, "in which the families of so many Indian officers had invested their savings",[3] which had suffered both from the fall of Overends and

[1] The story was told by Sir R. H. Inglis Palgrave, who was at the dinner, to Henry Higgs: *Minutes...of the Political Economy Club*, 1921, pp. 350–1 and Gregory, *The Westminster Bank*, I, 277. The form may be defective, but Palgrave wrote in "The English Banking System" (*U.S. Monetary Commission*, 1910), p. 172, that he had "every reason to believe" the fact. It was rumoured at the time "in Parliament and in the press"; *Bankers' Mag.* XXVII, 359 (1867).

[2] *Hansard*, CLXXXIV, 718 (5 July). Disraeli succeeded Gladstone a few days later.

[3] *The Times*, 9 June. For the Bank of London see Gregory, *The Westminster Bank*, II, 54–64.

at the paws of unusually unscrupulous bears. Many scores of credit, finance, and similarly named companies had gone under; and the total of bankruptcies between 10 May and 10 August was upwards of a hundred and eighty.

Once the fall in the rate had begun, it went on steadily, while saving continued and investment lagged. By 30 August the rate was at 6; by 27 September at 4½—the first movement by ½ for two years—and before Christmas at 3½. With February of 1867 there began a cheap-money spell, nearly two years long, during which it was never above 3.

Writing just after the crisis, Bagehot had argued the urgent necessity for what he called an "expansive clause" in Bank law, a clause permitting automatic expansion of the issue in emergency. Norman and Cotton, as we know, had suggested this very thing before Peel drafted his Act; and Peel had rejected it, apparently for what might be called political reasons. "If it is not inserted soon", the critic wrote in May 1866, "the Act will be repealed soon."[1] The clause was never inserted and the Act was not modified until 1928. There was not another Chancellor's letter—until August 1914, and then it was not acted on. Nor was there ever again, until August 1914, 10 per cent. The total bank-note circulation of England and Wales in June 1914 was almost precisely what it had been in 1866 and in 1844, that is, between £28,000,000 and £29,000,000. Peel's Act became a class-room theme, while with every decade the bank note became less and less important. The Bank's reserves were managed with increasing good sense; and there was no crisis of a sort to bring the Act vividly to the mind of an average man of business.

[1] *Economist*, 19 May.

CHAPTER VI

THE NEW ENVIRONMENT, 1870–1890

THE years from 1866 to 1873, as seen from any public standpoint, by statesman or banker, merchant or industrialist, look like a gigantic hinge on which the history of the later nineteenth century turns. The States have remained United and the first railway to the Pacific has been opened across them. Germany has become united and is looking to a future of prosperity and above all power. Italy, like Germany, has completed her unification; but for her, power or prosperity is less certain. France is beaten and penalized but far from broken, though her troubles and her penalization have removed any chance of Paris challenging London for the financial headship of the world. The Suez Canal, cut by French enterprise through English opposition, has proved the highway, not for the Levantines and Italians as many expected, or even for the French who cut it, but for the British. The ocean cables are a-laying or laid: the normal pulse of international finance is becoming such as once would have suggested high fever. More and more new railways are being built everywhere—except in England which already has plenty—and goods are moving in masses never before known. Steel rails and iron ships have come. Steel ships and triple-expansion engines are coming. There is furious industrial activity in Britain during the years 1871–3, and the export of British capital and capital goods is at its maximum.[1] On the Continent, outside beaten France, and in America there is activity as furious and more reckless, both in industry and in finance. Then—the world-wide economic crash of 1873, leading in that fall in world

[1] Cp. Jenks, L. H., *The Migrations of British Capital to* 1875 (1927).

prices which continues, with interruptions, for twenty-three years, from a peak level—as measured in England—represented by over 150 for 1873 to a trough level of less than 90 in 1896.[1] And during these years the Continent moves into the armed peace.

Down to 1870, while the great doors of history were slowly swinging, "there was almost an unbroken calm" in the City. "The Bank of England had no difficulties to cope with.... The Money Market took care of itself."[2] But this lack of difficulties meant very quiet business for the Bank—small discounting and small advances, with comparatively little income from either.[3]

These still times followed the close of Gladstone's longest and greatest spell at the Exchequer (1859–66). In them the position and business of the Bank at this historical turning-point may appropriately be reviewed. And first of Gladstone and the Treasury. In his old age Gladstone jotted down how when he first took charge there, in 1852, he "began to learn that the state held in the face of the Bank and the City an essentially false position as to finance". To the City mind—so he interpreted it in retrospect—"the government itself was... to leave the money power supreme and unquestioned". That is as it may be: it hardly fits the relations between the Bank and his master Peel. But, believing this, being the gladiator that he was, and having with him as permanent adviser at the Treasury that other fighting reformer Sir Charles Trevelyan, he had opposed "the money power" "by financial self-assertion from the first".[4] Hence the passage of arms with the Bank in 1854 and the drastic revision of its receipts for management, together with the suggestions, which amounted to instructions, of 1861.[5]

[1] This is the old Board of Trade Index Number of Wholesale Prices, in which prices in 1900 are taken as base (100).

[2] Bagehot, *Lombard Street*, p. 186. [3] See App. C.

[4] From an undated memorandum in Morley's *Gladstone*, I, 651.

[5] Above, p. 253 and p. 255.

In the same undated memorandum, Gladstone recalled that he was "tenaciously opposed by the Governor and Deputy-Governor of the Bank who had seats in parliament". Here his memory was slightly at fault. Neither during his first or his second Chancellorship had a Governor and a Deputy seats in Parliament together. But in 1854 John Gellibrand Hubbard, Governor, had opposed Gladstone's dividend and deficiency-bill policy tenaciously from the Bank; and Thomson Hankey, who "passed the Chair" and went into Parliament in 1853, had accused the Chancellor in the House—just before he opened his dividends campaign—of cutting Treasury balances too fine in his anxiety to leave no public money idle, and then coming on "us"—the Bank—for deficiency bills at 3, when "we" could have lent on equally good security at 5. Memories of this rather tactless attitude, with its opposition of "us" and "you", may well have clung about the aged Gladstone.[1]

No doubt he had Hubbard and Hankey in mind; for Hubbard, besides fighting in 1854 as Governor, had begun to criticize one aspect of Gladstonian finance while Deputy-Governor, though not yet in Parliament, and went on criticizing it for many years after he entered Parliament in 1859. It was an aspect not directly facing the Bank; but Hubbard's opinions about it, those of a leading man in the Parlour, are of interest.

He published in 1852 a pamphlet called *How should income-tax be levied?* Gladstone always disliked this tax that he yet felt obliged to levy, and was always hoping for its abolition. Hubbard thought that it might be of permanent value if made fairer. He wanted differential rates on what he called "industrial" and "spontaneous" incomes. This notion Gladstone ridiculed and rejected. Was an income from Barclay and Perkins' brewery

[1] For Hubbard, see above, p. 254 and App. F. For Hankey, *Hansard*, CXXXI, 1086 (21 March 1854). There is a letter of 13 April from Gladstone to Hankey, criticizing his facts and pointing out that people would fancy that he spoke officially for the Bank, in *Gladstone MSS.* 44379, No. 268.

"industrial" or "spontaneous"? and what about Miss Coutts' income from the bank? Hubbard was still fighting for his notion in the eighties.[1] He went to the Lords in 1887, as Baron Addington, and he died at a ripe age in 1889, without having seen it prevail; but history has decided very nearly for him, rather than for his formidable adversary.

More important, both in Gladstone's mind and in fact, for his policy of "financial self-assertion", than any parliamentary opposition from representatives of the Bank was the lack of "an instrument sufficiently powerful to make" a Chancellor "independent of the Bank and the City power when he has occasion for sums in seven figures". Such an instrument he saw in the Post Office Savings Banks "and their great progressive development". He set them up during his second Chancellorship, in 1861, by 24 Vict. c. 18. By 1870 they had £15,000,000 of deposits. When they were founded there were already large sums in the Trustee Savings Banks; and the £5,000,000 of Savings Bank stock which Gladstone turned into terminable annuities in 1863, with a view to an ultimate reduction of debt, had been accumulated mainly in these Trustee Banks.[2] But Post Office stock was even more accessible to the Treasury; and from this time forward Gladstone or his successors could carry out similar conversions and reductions, involving "sums in seven figures", without direct reference to Threadneedle Street.[3]

Gladstonian finance with its regular budgetary surpluses further strengthened the hands of the Treasury against the Bank. A Chancellor now never had to beg. In 1870 the Bank still held a few Exchequer Bonds; but not much more than a quarter of

[1] See Clapham, *An Economic History of Modern Britain*, II, 401–3.

[2] Buxton, *Finance and Politics*, II, 28.

[3] The *Bankers' Mag.* (May 1861, XXI, 297) spoke of the use that might be made of these accumulations "in the grasp of an adventurous financier like Mr Gladstone": he had always wanted money at 2½, and now he had got it. It is to be noted that Governors of the Bank are National Debt Commissioners but do not, as such, influence policy.

the £2,594,000 that it had held in 1862.[1] They were being paid off. The balance, of £700,000, with £193,000 of Exchequer Bills, was the whole of the short-term government paper in its possession; and the Treasury was in no way beholden to it for retaining this small amount.

Of long-term securities there was the ancient unchanging debt of £11,015,100 credited since 1844 to the Issue Department. To that Department were also assigned enough Consols and kindred securities to make up the £15,000,000 at which the fiduciary issue stood in August 1870. And it had £19,748,000 of bullion.

As income, the Issue Department had the yield of these securities plus any small sum, never more than a few thousands, of profit from the bullion dealings, a total of from £230,000 to £240,000 each half-year.

The Stock, or Capital, Account of the Banking Department, on that 31 August when the German armies were gathered for the attack about Sedan, stood at £47,453,000.[2] Of this £12,281,000 was cash at the head and branch offices, mainly the Threadneedle Street reserve of notes. There were £11,591,000 of government long-term securities, including all colonial and even Turkish securities that had the benefit of a British guarantee; and the £893,000 of short-term securities. Among what were still rather curiously entered as Private Securities, whose total was £7,769,000, were included Indian, railway, City, other corporation, canal, and dock bonds or debentures, with the tiny remnant of the mortgages. It was a moment of fairly brisk discounting, and there were £9,106,000 of bills on hand, of which £5,410,000 were in Threadneedle Street. There were £2,408,000 of short private loans outstanding, of which over £2,000,000 were in London;[3] and there was a loan of £877,000 without interest to government on account of unclaimed dividends. The balance, some £2,500,000,

[1] *Stock Estimates*, v, which covers the years 1861–72.

[2] All figures from *Stock Estimates*, v, under 31 Aug. 1870.

[3] In Threadneedle Street, £1,913,000 and £120,000 at the Western Branch.

covers the "sundries"—buildings and so forth—and advances made by the head office to the branches.

In the Profit and Loss Account of the Banking Department, the discounts did not make so good a showing as in the Stock Account: they had not been at the late August level all the half-year. To a total credit side of £756,000 they had contributed £113,000. The private advances had contributed £74,000, and commissions, earned mainly at the branches, £18,000[1]—or £205,000 from this strictly commercial section of the Bank's business. From interest on all its investments, "public" and "private", it received £407,000, including the trifle of £15,000 from the Exchequer Bonds and the Exchequer Bills. For managing the national debt, it drew £100,000, a very few hundreds of which were paid for work with the Bills and the Bonds. There was also a recent and promising item of £9000 for management of Indian debt and of the consolidated stock of the Metropolitan Board of Works.[2] This new management income helped to make good the fall in the old, due to a stationary or declining total of National Debt and a scale of remuneration for handling it reduced in 1861. There were now other debts that might be managed, and the Bank will be seen taking charge of more of them.

The rest of the income came from miscellaneous sources, mainly rents, including the substantial rent charged to the Issue Department—quite properly; if issue had been in Whitehall, as a Governor once said that it might as well have been, rent would have been payable to someone. No income is shown at this time from the business of printing for the Government of India, though this began with Indian Currency Notes in 1867. Perhaps payment

[1] These are not merely commissions charged on Drawing Accounts, but include commissions for handling silver coin for other banks, for collecting bills for Scotch and Irish banks, and many other services: see e.g. *G.L. XXV*, f. 369.

[2] The Board of Works was founded in 1855, by 18 & 19 Vict. c. 120.

for the work no more than covered expenses; or perhaps it was treated as a thing apart. Later, a regular income from this source is shown.[1]

In the higher organizations and government of the Bank there had been no change. Not until 1872 was the ancient rule that permitted only two-thirds of the outgoing Directors to be re-elected modified by raising the proportion to seven-eighths.[2] The position and functions of Governor and Deputy, Committee of Treasury, House Committee and Committee in Daily Waiting were much what they had been for a century and a half. There were special committees for the Law Suits and the Branch Banks, and for the Inspection of the Chief Accountant's and Chief Cashier's Offices; but these were not concerned with high or public policy. Bagehot was soon to argue that government by a board of amateur bankers, all of whom from the Governor downward had businesses of their own to attend to, was inexpedient. "A 'board' can scarcely make any improvements, for the policy of a board is determined by the opinions of the most numerous class of its members—its average members."[3] There was no general manager of the professional type that had developed in the joint-stock banks, no whole-time banker as in the private firms. Why not, it might be suggested, a permanent Governor who would accumulate knowledge as a King does? No, said Bagehot, and for that very reason. Such an official "would be one of the greatest men in England". "Scarcely anything could be more unpopular in the City than the appointment of a little King to reign over them."[4] He had other reasons, shrewd ones, which it is not necessary to repeat; for neither

[1] The Bank had printed for itself since 1810. Indian Currency Note printing is referred to in *C.T.* 33, 20 Nov. 1867; machinery for Rupee Notes appears in the *Engineer's Order Book*, Aug. 1871.

[2] By 35 & 36 Vict. c. 34, the Bank of England Election of Directors Act

[3] *Lombard Street*, p. 176.

[4] *Ibid.*, pp. 226–7.

a permanent or semi-permanent Governor, nor the permanent professional Deputy for whom he argued—a Director, "a man of fair position", who "must not have to say 'Sir' to the Governor"[1]—was seriously considered either by the Bank or by Parliament for another half-century. His book, an economic classic, was in a tenth edition within twenty years of its publication in 1873; his views on Bank policy had been influential; yet his scheme for the reformed government of the Bank remained just a scheme, read by students but ignored by men of affairs.

This was no doubt partly because as a rule the Bank seemed comfortable, and the City comfortable also, under the rule of the "amateurs". There was grave trouble in 1890, a brief scare of mismanagement in 1893,[2] and difficult times later, but the "amateur" Governor and his colleagues came through with credit; so that in both internal and external opinion the Bank's system of government retained a prestige which stood unimpaired until the iron age that opened in 1914. Even then, in spite of Bagehot's repeated editions, external opinion remained curiously inarticulate; and when new needs called for a reorganization of the Bank's administrative system, the initiative came from within.

There had been very little change in the ordinary course of business. The "shuttings" for the preparation of dividend warrants on government stock, during which no transfers of stock could be made, had been abolished as a result of Gladstone's pressure in 1861. Stock might "now be sold and transferred every day in the year, holidays excepted".[3] This, however, was more important for the stock-broker and the investor than for the Bank—except for the group of its clerks affected, whose

[1] *Ibid.* p. 236. This was not a new proposal; a semi-permanent Sub-Governor had "been frequently suggested"; *Bankers' Mag.* 1872, xxxii, 935. Tooke had opposed the notion of a permanent Governor before the Committee of 1848 (Q. 5424).

[2] See p. 326 and p. 358 below.

[3] Hankey, Thomson, *The Principles of Banking* (1867), p. 87. But not Bank Stock; see p. 342 below.

numbers naturally had to be increased. Another investor's convenience was the decision made in March 1870 to send Bank Stock dividends, when desired, by the post.[1]

The bullion business had expanded greatly since the Californian and Australian discoveries, but had not changed much in essentials.[2] Gold purchases had been at their maximum in 1852, with more than £15,300,000, of which over £10,000,000 was in bars. During the sixties the purchases of bar gold varied between £5,300,000 and £9,300,000 a year; and there was always a certain amount of foreign gold coin bought, ranging from about £500,000 to about £1,500,000 a year. The kinds now ordinarily dealt in were Russian, French and United States. The Bank also bought those worn British sovereigns which the automatic scales that William Cotton the 1844 Governor had invented showed to be too light for legal circulation. These were either melted down for the Mint or sold for the jewellery and gold-leaf trades, mainly at Birmingham, but also at Bristol and in London. Foreign coin might be melted, but normally it was held to be sold when wanted by some bullion-dealer for remittance. Except for a little United States gold picked up at Liverpool, it was all bought in London.

The British imports of gold and silver came to the Bank almost without exception. Its bullion office was "used precisely as if it were a dock warehouse", and that not only for the metals but often also for diamonds "imported in the Rio packets"[3]— Kimberley and De Beers still lay in the future. The bills of lading for the precious metals were mostly endorsed over to bullion-brokers or refiners. Before the great gold discoveries, when the amount of bar gold coming in was relatively insignificant, the Bank had only a single approved refining firm, Browne and

[1] There had been correspondence about it with Lowe in July, 1869 (*Min. of Correspondence with H.M. Government*, 5): the final decision was made at the General Court on 17 March 1870: *G.C.B. X.*

[2] *The Bullion Business of the Bank of England*, by G. Forbes, Chief Cashier (1869), is the authority for what follows.

[3] *The Bullion Business*, p. 2.

Wingrove. But after 1850, first Rothschilds and then Raphaels had set up refineries of their own; and these were put on the approved list in 1852 and 1856. In 1861 a fourth firm, Johnson and Matthey, was approved. They were also on the short list of approved assayers, which the other approved refiners were not.

Minting was done to order as required. A working stock of sovereigns of from £12,000,000 to £6,000,000 was kept in London and at the branches, about two-thirds of it in London. Fresh supplies were ordered at latest when the lower figure was touched; and when coining was in progress, from £240,000 to £480,000 of bars would be delivered to the Mint every week.

In law, the Bank had nothing to do with the coinage of silver, but in practice controlled it. The Mint was notified when the supply ran short; and the Bank usually took all the coin struck except that wanted to meet colonial and other overseas demands. The Bank supplied other bankers, and also relieved them of their surplus silver—often at some inconvenience, but for a commission. Note issue against silver had entirely ceased long ago, though it was still legal. Indeed since 1848 hardly any silver had been bought, none whatever from 1854 to 1859 or from 1862 to 1869, all four years included, and only about £2,500,000 in the twenty-one years following 1848.[1]

In its dealings with clients the Bank adhered to the old rule of allowing no interest on deposits, however long, and requiring the maintenance of a balance adequate to cover the cost of working the account. There was no fixed balance stipulated for, but a new client was given an indication of what would be appropriate. It was reckoned roughly that unless the Bank earned 6*d.* a year in interest on the balance for every cheque drawn the account was not remunerative.[2] On unremunerative accounts

[1] Of which £1,800,000 was bought in 1861: this was to oblige the Bank of France, which undertook to repurchase; *The Bullion Business*, p. 20; and see Viner, *Studies in the Theory of International Trade*, p. 273.

[2] Hankey, *Principles*, p. 98.

commissions might be charged; but they were exceptional and the income from such commissions at Threadneedle Street was small. It was greater at the branches, where the business men of the Midlands and the North were more reluctant to keep idle balances—and indeed were sometimes allowed to overdraw, a thing all but unknown in London.[1]

"The Bank", Thomson Hankey was explaining in 1867, "afford every convenience to their customers, and will buy, or sell, or take charge of securities, receive their dividends of all kinds, and make payments at almost any place."[2] This universal complaisance was a relatively new thing, though the Bank had never had any difficulty in paying into its customers' accounts the dividends on the funds that it managed. Even in 1872–3 Bagehot was writing, not of the Bank but of bankers in general, that they had "of late begun almost a new business. They not only keep people's money, but also collect their incomes for them... see when the coupon is due, and... cut it off and transmit it for payment."[3] The business had grown with the growth of foreign, railway and industrial investment and limited liability, and with the emergence of an important rentier class who lived "entirely on the income of shares, or debentures or foreign bonds"—men of property, Forsytes. Joint-stock banks had been the pioneers in this business, the Bank itself among them. Bagehot referred to it as an illustration of the growing difficulties of the private banker: "the detail of all this is incredible, and it needs a special machinery to cope with it. A large joint-stock bank, if well worked, has that machinery."[4] He implied that an ill worked joint-stock bank might not have it, and that the private banks might break down for lack of it, or under the weight of it.

[1] Hankey (p. 98) says quite unknown, referring to London; but in the early seventies the Bank made £2–3000 from commission on Drawing Accounts, e.g. *G.L. XXV*, f. 369.

[2] *Principles*, p. 98.

[3] *Lombard Street*, p. 279.

[4] *Ibid.*, as above.

That the private banks as a class were breaking down neither he nor any one else argued. But he noted that "no new private bank is founded in England because men of first-rate wealth will not found one, and men not of absolutely first-rate wealth cannot".[1] No one knew how much business the private banks did: "their balance-sheets are effective secrets—rigidly guarded"; but "according to universal belief the deposits of most private bankers in London" tended "rather to diminish than to increase".[2] And slowly, but as yet very slowly, the number of private banks in the country tended to decline. In Scotland there were none left.

In England, Bagehot thought, the great private firms still had a long expectation of life; but he could not anticipate "with certainty the continuance of our system of private banking".[3] While private bank deposits were "universally believed" to be declining, those of the joint-stock banks were as universally known to be increasing: in the London joint-stock banks alone they were rising towards £90,000,000. In this rise the Bank had shared, but not proportionately. Part of its sharing was automatic: as deposits at other banks rose, so did their cash at the Bank. Part was due to that growing complaisance towards strictly private depositors of which Hankey modestly boasted in 1867. In the early fifties, when it first grew anxious over the rapid rise of joint-stock deposits and the comparative stagnation of its own,[4] the total of its private deposits had averaged—for 1852–5—£7,014,000, of which £2,811,000 were those of London bankers. In the sixties the bankers never had less than £3,700,000 and sometimes as much as £9,600,000. At the end of August 1869, a typical statement showed £21,300,000 of private deposits of which a full third (£7,100,000) was bankers' money,[5] almost the exact equivalent of the total private deposits for 1852–5. The

[1] *Lombard Street*, p. 272.
[2] *Ibid.* p. 273.
[3] *Ibid.* p. 278.
[4] Above, p. 247.
[5] Return of London bankers' balances at the Bank, *A. & P.* 1873, XXXIX, 161.

word private, as officially used, needs a commentary. There were in 1861 forty-one distinct accounts under the heading public. But under the other heading were put twenty-four accounts which a grammarian might have scrupled to call private. They ranged from the accounts of the Astronomer Royal, the Royal Military College Sandhurst, Trinity House and the Master of the Mint to those of the Commissioners of Woods and Forests, the Copyhold Commissioners, the Registrar of Joint Stock Companies and even the Poor Law Board.[1]

At intervals between 1866 and 1873 there were clashes of opinion about the correct Bank policy towards the bankers and the money market, between, not as there is a temptation to write the Bank and the economists, for as a body corporate the Bank had no opinion—only votes and acts—and there was not any recognized opinion of economists, but between Thomson Hankey and those who thought with him, and Walter Bagehot and his growing body of supporters, a body which included some Bank Directors. What was the duty of the Bank to the market, if any? Supposing it had a duty, was that duty being fulfilled? In this clash the chief antagonists were unequally matched, Bagehot with as good a head and as good a pen as any in England, Hankey with—well—neither.

At the General Court meeting on 13 September 1866, Lancelot Holland the Governor had spoken, more freely than men often spoke from "the Chair", of the Overend crisis of the previous May. He had kind things to say about the bankers and warm things to say about the banking system. In that crisis the Bank had "exerted itself to the utmost". "We did not flinch from our post...we made advances which would hardly have been credited...before the Chancellor of the Exchequer was perhaps out of his bed we had advanced one-half of our reserves....I am

[1] In Appendix to correspondence between the Chancellor of the Exchequer and the Bank, *A. & P.* 1861, xxxiv.

not aware that any legitimate application for assistance made to this house was refused."

In discussion, Alderman Salomons was appreciative of the Governor's graceful reference to the joint-stock banks, for which he was the leading spokesman in the General Court. He added, rather platitudinously, that it was "manifestly desirable that the joint-stock banks and the banking interest generally should work in harmony with the Bank of England".[1]

Taking these speeches as text, Bagehot preached a sermon on harmony and co-operation in the *Economist* of 22 September. He argued that the Governor's speech, with its "our post" and its meeting of every "legitimate application", was an admission that the Bank held and was responsible for holding "the sole banking reserve of the country". He emphasized what would be called later its central duties and the need for keeping that reserve ample.

Next year, in republishing a lecture on banking that he had given to his constituents at Peterborough in 1858, Thomson Hankey, "formerly Governor of the Bank of England", described Bagehot's doctrine as "the most mischievous ever broached". He interpreted it to mean "that it is the proper function of the Bank...to keep money available at all times to supply the demands of bankers who have rendered their own assets unavailable".[2] This doctrine—as put by him a slight, but only a slight, parody of Bagehot's statement—he wanted to see "repudiated". There was no hope for sound banking until it was. He knew that there was "a general opinion" in favour of it, but confessed his "surprise at finding an advocate for such an opinion in the *Economist*". He had already quoted Peel's speech of 1844 about the Banking Department being "governed on

[1] The speeches are reported in all the financial journals, e.g. *Economist*, 22 Sept.

[2] *Principles* (1867), p. 25. The phrase "formerly Governor", etc. is on the title-page. But of course he had not authority to speak for the Bank.

precisely the same principles as would regulate any other body dealing with Bank of England Notes". He now repeated that "the more the conduct of the affairs of the Bank is made to assimilate to the conduct of every other well managed bank in the United Kingdom the better for the Bank and the better for the community at large". And, apparently with a side cut at Lancelot Holland, he could "only express his regret that the Bank, from a desire to do everything in its power to afford general assistance in times of banking or commercial distress, should ever have acted in a way to encourage such an opinion".[1] One wonders how he had argued on the Committee of Treasury. There were no votes taken there on these questions of principle, and there are no conversations recorded.

But however Hankey argued, for parts at least of his argument he must have received the valuable support of George Warde Norman, Director since 1821 and nearing the close of his long service.[2] Writing to the *Economist* in December of 1866, Norman spoke of Hankey's "recent publication"—evidently the original lecture—with the "general views" of which he agreed. He agreed not so much because he wanted to make the Bank of England just like other banks, but because he wished to assimilate other banks to the Bank of England—by inciting them to keep greater reserves. "That the Bank of England should keep the whole unused reserve of the country" seemed to him "impracticable and unsound in principle". Since 1857 he had ceased to believe that the Bank's discount rate manipulation was sufficient for safety. For the control of the exchanges it was "infallible": at home a rise might merely augment alarm. If things went on as they were, Norman "fully expected" that younger men would witness "such a financial catastrophe as we have never yet seen, nor can now imagine".[3]

Hankey reprinted the extract from Peel, the attack on the

[1] *Ibid.* p. 26.

[2] He resigned in 1872.

[3] *Economist*, 22 Dec. 1866.

Economist and the views about "the community at large" in his second edition of 1873, dedicating it with praise of the Act of 1844 to Edward Cardwell, who at the moment as Secretary for War was busy reorganizing the army. Hankey did not further emphasize Norman's advocacy of adequate reserves in all banks, leaving that to be implied from his decided repudiation of the Bank's duty to help them.

Events since 1867 had forced people to think a little about armies, and had raised problems for bankers to which Thomson Hankey did not refer. After all he was reprinting; and certainly he had not a very elastic mind. But the emergence of these problems made Walter Bagehot less and less inclined to repudiate his doctrine of 1866, and yet more anxious about the Bank's reserves. This doctrinal obstinacy and this anxiety were the bones and breath of his *Lombard Street*. Its preface is dated 26 April 1873; but he had begun to write it "as long ago as the autumn of 1870",[1] that is under the shadow of the collapse of France.

Of that catastrophe the first financial result had been the suspension of cash payment at the Bank of France; the bank that had more than once collaborated with the Bank of England in difficult times; the bank which was, after Threadneedle Street, the freest official source of treasure in the West—though never quite free; the bank which moreover had adopted in the sixties a policy of varying its discount rate in relation to its reserve of which England in general, and Bagehot in particular, approved. Now, Bagehot wrote, the Bank of England remained "the only great repository in Europe where gold could at once be obtained".[2] In the world, he might have written. At this very moment Hankey was asserting "unhesitatingly" that it was "no part of the duty of a London banker to keep any part of his ordinary reserve for the special purpose of meeting a demand for gold for export". So, as the Bank had the authority of Peel and of Robert Lowe, Chancellor of the Exchequer 1868–73, for the view that it

[1] *Lombard Street*, p. vii. [2] *Ibid.* p. 187.

was just a London bank among the rest, it was "no part of the duty of the Bank... to make any provision for providing gold for export".[1] Import and export of gold, Hankey said, was "a trading not a banking business". "Exactly the most mischievous doctrine that could be maintained",[2] Bagehot retorted.

What worried Bagehot was that, since the Atlantic cables had been laid and the French Empire had fallen, the world was moving so fast and the mind of the Bank, or at any rate the minds of some of its Directors, so slowly. London was now the sole city of refuge for fluid international capital—"hot money". The French indemnity of 1871 was being financed mainly through London while he wrote. The German government kept an exceedingly large account with the London Joint-Stock Bank. It was drawing gold out of London at will, very considerately he allowed, but at will none the less. "It might have broken the Bank of England if it had liked", for its huge balance was just an "item in the general funds of the London money market".[3] The reputed three or four millions of this balance, "if not more", amounted in the end—spread about as it was, when lent by the London Joint-Stock, among bankers' and bill-brokers' accounts at the Bank—to a claim on the Bank of huge unknown amount from a single customer. That kept Bagehot a little anxious when, as he supposed, Hankey and perhaps with him a majority of the Court were completely imperturbed, except by his own heresies.

His practical conclusion was that, since "the monetary world would become feverish and fearful if the reserve in the Banking Department went below £10,000,000",[4] it ought never to go below £11,000,000 or £11,500,000; and that the Bank should begin to take precautions when the reserve was between £14,000,000 and £15,000,000.

[1] *Principles* (ed. of 1873), pp. viii, xi.

[2] *Lombard Street*, p. 187.

[3] *Lombard Street*, pp. 314, 311.

[4] *Ibid.* p. 328. A reserve of £10,000,000 had been Tooke's ideal so far back as 1838: *History of Prices*, II, 331.

The weak point in his argument was that he regularly spoke of a system in which all banks should keep substantial reserves of gold or legal tender—which in fact none of them did—as the "natural" system. This "natural system" he had often praised in the *Economist*; and the word natural carried far more weight in 1873 than it does to-day.[1] If Hankey had replied—why should the Bank bear all the cost of reserve-carrying when the London and Westminster, relying on the Bank at a pinch, pays substantially higher dividends, his only reply—an adequate one for the short period—was that "a many reserve system...would seem monstrous" in Lombard Street. "Nobody would understand it, or confide in it."[2] But, with his very great authority, he might have advocated some move in that "natural" direction. What he did say was that any such advocacy would only make him ridiculous.

He allowed that Bank practice was better than Hankey's and Lowe's theory. What he most wanted was an adjustment of theory to facts. The Bank did keep reserves entirely unlike those of other bankers. Even as he wrote, for the quinquennium 1871–5, the banking reserve averaged £12,200,000—not quite what he asked for, but well above his minimum. For the quinquennium 1876–80 it would be £14,722,000—so high, however, less as a matter of policy than of hard necessity in time of depression. Meanwhile the Germans with their gold were building up a reserve of treasure in Berlin, the Bank of France had resumed cash payments

[1] The "free banking" controversy had been acute in France during the sixties, and had been debated before the French *Enquête sur les principes...qu régissent la circulation monétaire et fiduciaire* of 1865–6, to which Bagehot gave spoken, Hankey, Mill and others written evidence. "Free banking" implied free issue and multiple reserves. There had been also a not very important English journalistic attack on the Bank in the interest of "free banking", for which see Smith, V. C., *The rationale of central banking* [1936], Ch. IX. That Herbert Spencer, writing in the *Westminster Review* in 1858, showed himself a "free banker" is as natural as it is unimportant.

[2] *Lombard Street*, p. 71.

on 1 January 1878; and Bagehot had died—in 1877. And as the Bank had come through 1873, that year of shattering financial, commercial and industrial storms in Europe and America, with only one short touch of 9 per cent and no serious talk of a suspension of the Bank Act, radical changes either in the Act, the Bank's policy, its government, or the banking system were no longer discussed with any fire.

How quickly and completely the fire died down is illustrated by an episode of the summer of 1873 itself. In June of that year, at the very moment when Bagehot—the known advocate of a more elastic system of Bank note issue—was publishing *Lombard Street*,[1] Robert Lowe, the Chancellor of the Exchequer, introduced a Bill "to provide for authorizing in certain contingencies a temporary increase of the amount of Bank of England Notes issued in exchange for securities". The operative clause of this Bill stated that when the First Lord of the Treasury and the Chancellor of the Exchequer were satisfied, *first*, that Bank rate was not below 12; *second*, that the foreign exchanges were favourable; and *third*, that "a large portion" of the national stock of notes was "rendered ineffective for its ordinary purpose by reason of internal panic", excess issue against securities might be authorized. This Bill was tabled on 12 June, never given a second reading, and withdrawn on 7 July.[2]

No opinions from the Bank on Lowe's proposals have survived; but it may be assumed that the Court agreed with a contemporary banker and student of banking who wrote, many years later, that these were "so cumbrous and exacting" as to be "unworkable";[3] and that recognition of this fact accounts for the dropping of the Bill. Perhaps Lowe's personality and his

[1] The Preface is dated 26 April and the book was out before 4 June.

[2] *Hansard*, CCXVI, 1852. Some interest was taken in the Bill in the City: John Lubbock suggested 10 instead of 12 per cent and the *Bankers' Mag.*, XXXII, 33 (July 1873) thought 10 too high.

[3] Sir R. H. I. Palgrave in "The English Banking System" (*U.S. Monetary Commission* 1910), p. 178, where the Bill is printed.

difficult position in the Cabinet had something to do with it: he left office in August. He was given to ingenious, "unworkable", suggestions. A proposal of his for making the half-sovereign into a token coin had recently been snubbed by the Bank; and Gladstone once said that he was capable "of tearing anything to pieces, but of constructing nothing".[1] But apart from Lowe and his defects, the general indifference to Bank law reform is shown by the absence of any sustained attempt to improve his Bill and the subsequent omission to replace it by something less "cumbrous and exacting". Certainly 12 per cent, a rate never touched in the worst crises, was "exacting" enough to suggest amendment —or that the Bill, in Lowe's unconstructive hands, was not seriously meant.[2]

Indifference to banking reform was no doubt a testimonial to the combined skill and good fortune of the Bank, from the quiet times of the late sixties through continental war, Parisian revolution, post-war trade boom and subsequent collapse, between 1869 and 1874. Far into 1870 the general course of prices was downward, and Bank rate was only once, and for a very short time, so high as 4½. When war broke out between France and Prussia in July 1870 a precautionary 5 was announced, and with the first clash of the armies in August a precautionary 6; but there was no need to maintain the precautions, and on 1 September, the day Napoleon III capitulated at Sedan, the rate was down to 3; by Michaelmas to 2½—so completely was Britain a spectator in this struggle, though at one time it had seemed that her neutrality, her isolationism, was in danger. Men of business watched and waited. There was so little use for money in January of 1871,

[1] *L.B.* 17, 19 July 1872; Morley, *Gladstone*, II, 417. There was also his abortive match-tax with its motto of *ex luce lucellum* on the boxes—too clever by half for the House.

[2] The *Bankers' Mag.* (July 1873) said he put it so high to save Chancellors all responsibility: that is quite possible.

when Paris surrendered, that the rate still stood at the 2½ of Michaelmas. It was back at 2½, after six weeks of 3, in April, when the French plenipotentiaries were struggling for the peace and the *Economist*, the organ—as a continental might have put it—of safe John Bull and his money-bags, was writing that "from the long suspense which has prevailed, and which has checked new undertakings of every kind, there has never been a greater accumulation of money in Lombard Street".[1]

But for this long suspense, more money might have flowed west, for there had been fierce railway building activity in the United States since 1869, and Britain was normally both lender to American railroads and supplier of metal and equipment for them. As it was, money lay quiet until peace came. Then it was ready to meet the demands of peace and that financing of the French war indemnity which was done mainly through London.

Through London, but not directly through the Bank, though it affected the fortunes of the Bank, and might have affected them dangerously in the way that made Bagehot anxious. The words, France, Germany, Indemnity occur nowhere in the Court Books or the Minutes of the Committee of Treasury. In the Letter Books for 1872–3 are thanks to the Foreign Office for information about the Indemnity, and a letter referring to, and denying, a ridiculous rumour that the Bank of England had thought of applying for a loan to the Bank of France.[2] That is all. For the most part Court Books and Letter Books are formal and jejune; the Committee of Treasury Minutes reasonably full—of other things. The financing of the Indemnity is in the background, but is just one of the many currents of money that the Committee must watch when advising the Court on changes in the rate. In 1871 nothing is thought necessary but five or six weeks of 5 per cent during October-November. That is followed by 4, 3½ and 3; and 3 runs from 14 December 1871 to 4 April 1872, while

[1] *Economist*, 15 April 1871.

[2] *L.B.* 17, 30 Oct. and 18 Nov. 1872.

the trade rush of the peace is gathering momentum. Nothing higher than three weeks of 5, in May, occurs again until October; and in June-July there is reversion to 3½, even to 3. Neither in discounts nor in advances is the Bank doing more than moderate business.[1] The constant and mounting changes in its official rate—nine in 1871; fourteen in 1872; no less than twenty-four in 1873—point to both a feeling after business and the restless caution made necessary by its certainly narrow and relatively inadequate reserves, and by the stormy weather of 1873. From this time forward some observant critics are beginning to think that these incessant fluctuations, like the limited reserves that condition them, are not in the national interest.[2] Yet the Bank came safely through the rough weather, even though it had to trim its sails those twenty-four times.

By the end of 1872, in the United States 25,000 miles of railway had been constructed in four years; but that was only one, though a dominant, element in the commercial and industrial boom of 1872–3. Germany, half-drunk with victory, gorged with the French millions, and thanks to her creditor position able to draw in what sovereigns she pleased, was lurching into every sort of enterprise, honest, on the honesty margin, or simply fraudulent. Berlin swelled out like Aesop's frog. Peasants who made fortunes by selling what not so long ago had been strip-holdings in its open fields were creating a new social type, the *Milliarden-Bauer*. The thing spread over most of Western Europe except France, saved from economic excesses by defeat. In England, *Punch* drew pictures of colliers and coal-heavers drinking champagne. Yet the Bank did not feel called upon to put its rate up from 3½ to 4 and 4½ until September of 1872. In October "Goschen's" 1 per cent moves began—5 to 6 and, early in November, 6 to 7. The

[1] See App. C, D, noting that the years there summarized are Aug.-Aug.

[2] See the criticism, based on long experience, in Palgrave, *Bank Rate and the Money Market*, of 1903.

Court had its eye on the exchanges. But it judged the need only temporary. By 12 December the rate was back at 5; and then down by halves to 3½ again in January 1873.

But in March the rate was again moved, on the Governor's authority, and only confirmed later by the Court, as the move from 6 to 7 in the previous November had been. This was always a sign of the need for quick and delicate steering. In April there was a pause; but from 7 May to 6 June the new Governor—it was Benjamin Buck Greene—moved the rate four times in succession.[1] The continental crack, the *Krach*, had begun early that month, in Vienna. From Vienna it spread upwards and downwards into new Germany, Switzerland, recently united Italy. Everywhere contraction and liquidation set in, but there was no single moment of overwhelming panic. Buttressed by France, in sober *recueillement*, hoarding and encouraged to hoard by a series of wonderful heaven-sent harvests and vintages, England was not in any danger as yet. B. B. Greene and the Court let the rate down, first by full points and then by half-points, actually to 3 per cent in August. In September it began to rise again, and on the 29th there set in a fresh series of "Governor's" rises—five in succession, from 4 to 5 and then up by whole points to very near the panic level, at 9, on 7 November.

The Governor acted because a rise from 3 to 4 on 25 September, that followed the arrival of bad news from America on the 20th, was not enough to meet financial pressure on two fronts. In New York banks were shutting and closing down and the usual madness of an American crisis was impending. Though it was primarily a New York storm—of $225,000,000 of bankrupts' liabilities in the United States during 1873 $93,000,000 were in New York alone—it affected more or less all commercial and financial relations between England and America. Most of all it affected Stock Exchange values. And it ushered in the final phase

[1] 26 March, 3½ to 4; 7 May, to 4½; 10 May, to 5; 17 May, to 6; 4 June, to 7.

of the drawn-out continental crisis.[1] Continentals like Englishmen were holders and speculators in American shares. Western Germany in particular had commercial links with America like those of England. The shaking edifice of German post-war industrial and commercial promotion was given another push. There had been much recklessness and too much dishonesty in the building; and dishonesty and recklessness were not confined to Germany.

The final "Governor's" rise, to 9 per cent, came on the second day of a Stock Exchange panic which was a natural result of the November situation. But there was no general financial panic. Nine per cent was retained for thirteen days; the rate was then dropped by the Court to 8; a week later to 6; a week later again to 5. Suspension of the Bank Act had been feared for a moment, but neither by the Court nor by Gladstone, back for six months at the Exchequer.[2] There was never less than £7,861,000 in the Banking reserve as reported, nor less than £18,600,000 of gold in the Issue Department; and when in that second week of November the Governor of the Bank of Prussia, not yet turned into the Imperial Bank of Germany, wrote to offer a loan of gold "now or at any future time", the Governor in London politely but curtly declined this suggestion from the *nouveau riche*, which could hardly fail to seem to him impertinent. He is much obliged, but is happy to say that the Bank "is not, nor has been, in want of such aid and need not avail itself of the arrangement you so kindly suggest".[3]

[1] For the general situation and some references, see Clapham, II, 380–3. There is an article on "The Panic on the Continental Bourses" in the *Bankers' Mag.* for June, and one on "The Panic in the United States" in that for October. The former is said to have had "little more than a passing and spasmodic effect on our markets". The autumn trouble was more serious.

[2] There is no reference to any such possibility in the Bank records, which are however for this period formal and rather barren.

[3] *L.B.* 17: the Governor to the Governor of the Bank of Prussia, 15 Nov. 1873.

Yet the Bank was doing what it had not done for seven years—borrowing freely, not gold but money-market surpluses. It had plenty of gold, and was thinking of home conditions, not of the exchanges. Between mid-October and early December a long series of short loans—for from one to forty days—were taken through Messrs Mullens, Marshall & Co., the government brokers.[1] The reason is nowhere recorded. In October the Bank was lending rather freely—for instance, it lent £100,000 to Becketts, the Leeds bankers[2]—and it was apparently taking advantage of the partial paralysis of the Stock Exchange to get control of idle money at rates well below its own minima, and help at the same time to make those minima effective. Between 14 October and 4 December its rate ran from 6 up to 9 and down again to 5. Some of the earlier short borrowings were at 3¼: none was at more than 6¼.

By 5 December this series of transactions was closed. The Bank had paid £7830. 18*s.* 1*d.* in interest, a figure which suggests their size, for all were short. It had just dropped its own rate to 5, and soon would drop it to 4½. The special circumstances which had combined with a normal autumn tightness of money had passed. For twelve months there was no more market borrowing.

The antecedents of these market operations, which were no novelty, are worth examination. During the years of restricted cash payments, the Bank had bought Exchequer Bills on the market when it wanted to expand its circulation. After resumption, and especially after 1827, it did the same, and also sold Bills when it wished to contract the currency. In 1837 David Salomons, of the London and Westminster, is found suggesting

[1] *G.L. XXIII*, f. 300 records the last such borrowings, Sept. 1866. The 1873 series is in *G.L. XXIV*, f. 331. For the security on which these borrowings were made see p. 297, n. 3 below: the Ledgers do not give the security.

[2] *C.B. Vc*, 23 Oct. 1873.

that the Bank would be well advised to use Consols, instead of Exchequer Bills, for such operations. Perhaps by an accidental coincidence, there appears that year in the Ledger a special and active account, which runs to 1844, for dealings in Consols in the names of "The Governor and Deputy-Governor...for the time being", not of the Governor and Company.[1] There is plenty of buying and selling, on several occasions five or six transactions each way in a month; though sometimes nothing will be done for many months. In 1848 Horsley Palmer told a Committee of the Lords, who had criticised the Bank's dealings in Consols, that it bought them mainly for investment, but also because of "the Facility afforded to borrow upon Stock for limited periods".[2] Evidently the special account had been used to take money off the market, or put it on. The Bank may have sold for cash and bought for the account, a method of "borrowing on Consols" which tradition has magnified, but there is no direct evidence for its use, at this or at any other time.[3]

Plain borrowing from the market is first clearly recorded, and incidentally condemned by the Court, at the crisis of 1847. But this borrowing—"through" Messrs Mullens and Marshall—seems more like an emergency expedient than a market operation

[1] *G.L. XX*, f. 600; *XXI*, ff. 879, 874, 873. For the antecedents see p. 96 and p. 211 above, and the discussion in Viner, *Studies in...International Trade*, p. 257. Salomons' views are in *A Defence of Joint-Stock Banks*, pp. 34–5. From 1844 all Consols were part of the public securities of the Governor and Company.

[2] Lords' *Committee on Commercial Distress*, Q. 1041. There is a letter from the Governor to the Chancellor of 15 April 1847, stating that the Bank has borrowed on Consols; that this is no novelty; and that all large banks do it. *Min. of Correspondence with H.M. Government*, under the date.

[3] Sayers, R. S., *Bank of England Operations*, 1890–1914, p. 27, notes the absence of direct evidence. He says (p. 28) that Horsley Palmer "explained" the method in 1848; but Palmer's reply to Q. 1041 does not contain such an explanation. Viner, *op. cit.* p. 261, n. 22, refers to the "testimony" of James Morris in the 1848 *Report...on Commercial Distress*, Q. 2641. Morris there talks about dealings in securities, but not about the spot and account device.

as later understood, intended to make Bank rate effective.[1] Nearly another decade runs out before anything of the kind recurs. Autumn borrowing with a rising Bank rate is used on a small scale in November-December 1855, and on a large scale exactly a year later. In 1856 the Bank is taking short money through Messrs Mullens at 6 while its own rate is 7.[2]

After several years with none of these operations, they revive on a very large scale in 1861, from January to April, and again from July to September.[3] In the earlier months the Bank is evidently taking funds off the market to support its own very high rate—7 and 8. In the later this motive is rather less obvious. As however the Bank was trying until 1 August to keep up a 6 per cent rate, yet was driven down to 3½ early in September, its working may be assumed.

That is very evident in 1864, a year of continuously high rates and continuous and very large market borrowings through Messrs Mullens: from October to December alone, the Bank paid £15,600 in interest on short loans, and in the whole year nearly twice as much. There was again heavy autumn borrowing in 1865 and 1866;[4] but in the quiet times of the late sixties the policy was abandoned, not to be revived until October of 1873. After that it is an established thing, though not always necessary: in the seventeen years from 1873 to 1890 there are only four in which no market borrowing is done, and in several the borrowings are repeated and complex. From October to December 1888, for

[1] It is hidden on the debit side of the Account "Interest on Private Loans", *G.L. XXI*, f. 524: "to cash paid Messrs M. and M. for interest on loan to the Bank on Exchequer Bills, £153. 8*s*. 4*d*."; "to cash paid to Messrs M. and M. for Interest on Money borrowed on Stock, 26 and 27 ult. (viz. 7½ per cent 60,000 Consols, 30 days, 200,000 Consols, 29 days, £216,100) £1297. 19*s*. 7*d*."

[2] *G.L. XXII*, ff. 407 sqq.

[3] *G.L. XXIII*, ff. 279 sqq. There is a book, *Money Borrowed*, in the Chief Cashier's Office which begins in 1861. The security is normally Consols, but Exchequer Bills, India Debentures, and 'New Threes' appear also.

[4] All in *G.L. XXIII*: the 1865–6 borrowings are on f. 300.

example, there are twenty-one entries in the Ledger, usually with several sub-entries recording individual transactions, many of them the shortest of loans—day-to-day or for three days.[1] Bank rate was not particularly high that autumn, never above 5 per cent; but 1888 was a year of great industrial activity at home and financial activity overseas, with an upward ripple in the long downward slide of wholesale prices. The Bank was bound to be careful, and alert to exercise a maximum of control.

After 1873 neither 9, nor 8, nor even 7 per cent was announced again for a whole generation.[2] An occasional 5 and a very occasional 6 was all that proved necessary, either during the twenty-three years of falling prices, connected with a relative scarcity of gold, that followed 1873, or during the spell of rising prices and relative gold abundance that set in from 1896. With the establishment, or revival, of other gold centres in Europe during the deep if tense peace of the late nineteenth century; the Court being satisfied with its technique for safeguarding the reserve and operating on the exchanges through the rate; that technique working on the whole well; Britain yet remaining a creditor of all the earth; incessant improvements in transport allowing her to draw on five continents for her food, so that she was no longer dependent on the crops of any particular area; British public finance being consistently methodical, correct, and almost parsimonious—the Bank was free of all major anxieties, except on one or two abnormal occasions; was not provoked to make important experiments in organization or policy; declared steady dividends; and moved formally and safely through the

[1] The transactions of 1883–9 are in *G.L. XXVI*, ff. 268 sqq. They still appear on the debit side of the account "Interest on Advances", a description which has superseded "Interest on Private Loans". By the eighties a very varied list of securities is used in connection with the borrowings—Turkish and Egyptian guaranteed, Indian railways and so on—though Consols predominate. It is, however, not the traditional 'borrowing on Consols'; though possibly there was some of this behind it.

[2] The next 7 is on 7 Nov. 1907.

years of falling prices, through several spells of marked trade depression, and through the era of South African gold that ended in a South African war, a war which, with a far bloodier one in the extreme East and a failed revolution in Russia, threw on to the clouds shadows of things to come.

During all this last Victorian era the nation's stock of coined money and notes remained extraordinarily uniform: nothing could better illustrate its insignificant function in daily business, in spite of the utility of that thin film of gold, on which a few notes and piles of cheques rested, in linking the currency of Britain with the world's other currencies. Estimates of the gold circulation at various dates are uncertain, but may be reasonably accurate. In 1846, before the discoveries, Newmarch had put it at £46,000,000. After the discoveries, for 1856, he raised his estimate to £75,000,000. Twelve years later Jevons believed it was still under £80,000,000. In 1895, before the South African mines began to tell, the Master of the Mint suggested £92,500,000, of which £30,000,000 might be in the hands of bankers, including the Bank. Even in 1903, when South Africa was certainly telling, the Mint estimate rose only to £116,500,000.[1]

The total supply of notes of all the banks in circulation in the United Kingdom, accurately known, grew hardly at all. It had been just below £39,000,000 in the last quarter of 1844; it was just under £40,000,000 in the last quarter of 1888, having been sometimes rather higher in the forty-four year interval. It rose a little in the nineties and a little more, with the rise in the gold, between 1895 and 1903; but these changes had no real significance.[2] The note was a convenience for certain purposes and people; it was no sort of force in the field of prices.

[1] These various estimates are quoted in "Statistics for Great Britain, Germany and France" (*U.S. Monetary Commission*, 1910), p. 75. In 1892 two very competent observers, J. R. Martin and R. H. I. Palgrave, had suggested only £75,000,000; *Bankers' Mag.* 1892, I, 246.

[2] The figures are from the published returns and are summarized in the *Statistics*, as above. They exclude the notes in the Bank's reserve.

Had the Bank not lost all interest in silver, the Court's policy might have been affected by that astonishing change in the silver-buying power of gold—a change without parallel in the known history of the world—which began in 1873. All through the Bank's lifetime silver, priced in gold, had fluctuated by a very few pence on either, but normally on the upper, side of 5*s.* 0*d.* the ounce: just before the Bank was founded it averaged 5*s.* 3*d.*: in January of 1862 it was 5*s.* 2*d.*; in January of 1872 just above 5*s.* –½*d.* Next year the great fall began, slowly at first; but in July 1876 the price was at 3*s.* 10¾*d.* That was the lowest of this first phase, the average price for the late seventies being just over 4*s.* 4*d.* Later a fresh fall set in, and from 1894 onwards the price was normally below 2*s.* 6*d.*

The Bank had to face the resultant problems of trade disorganization between gold and silver using countries, the troubles of the rupee and the Shanghai tael; but these problems have left little trace on its records before 1890, and not deep traces anywhere. In February 1875, when the price was at what then seemed the low level of 4*s.* 9½*d.*, a former Governor, who had been a Director in the days when silver was regularly bought, moved that purchase be resumed.[1] He may simply have argued that, with silver so cheap, it might be good business to keep some of the bullion reserve in ingots, as the law allowed. He may have hoped to support the silver exchanges, with the Bank as a regular operator in the market. We do not know. That he had in mind what was just beginning to be called bimetallism, the double standard, is unlikely though just possible; if the word was new the thing was very old. Whatever his motive, his policy was rejected as "inexpedient", and no more is heard of it.[2]

During the dull years of the late seventies, and even more during the eighties, the Bank's income from its discount business

[1] Alfred Latham; Director, 1838; Governor, 1861.

[2] *C.B. Wc*, 25 Feb. 1875.

was most unsatisfactory. In 1876–7 it was down to £60,000—Threadneedle Street and the branches—and in 1886–7 to £30,000.[1] This was to be expected. Without saying much about it—as there was no parliamentary inquiry into banking matters in all these years, Governors and Deputies now seldom spoke about policy so that the public and posterity might hear—the Court obeyed Horsley Palmer's doctrine of not seeking discount business in quiet times; and the times were unusually quiet. The Bank of 1880 was once called "an investment bank", because of its tiny portfolio of bills and its great holding of other securities.[2] There had been a tendency since the fifties for the income from short loans and advances to replace that from the discounts; but until 1888–9 this process of replacement proceeded slowly. For the seventies, the short-loan income averaged £110,000; and for the years 1880–1 to 1887–8, £142,000. From 1888–9 onwards it was very rarely below £200,000; often above £300,000; and by the end of the century was reaching £400,000. But by that time market conditions were changing.[3]

Almost unsought, but very welcome, there had been coming to the Bank since the late sixties a steady access of colonial, municipal, and other business for bodies corporate, safe and certain and of a kind that it was well qualified to handle. And the Indian business that it had carried on from the beginning, first with John Company and now with the Secretary of State and the India Council, was always expanding and becoming more regular and formal.

The Bank had been feeling its way into municipal business since the forties, beginning with judicious self-liquidating loans on the security of the rates to municipalities on whose territory

[1] See Appendix C. [2] *Bankers' Mag.* XL, Nov. 1880, p. 904.

[3] See Appendix D. The description of this source of income varies. At first the income from "advances" was grouped with the "private loans", which originally had been something very different (see Vol. I, pp. 115–7) and were now unimportant, or were entered under other headings. From the fifties it is all a short-loan income. From 1880–1 it is described as income from "loans for short periods on security"; in *Stock Estimates*, VI.

it had branches. In 1851 it had refused a long-term loan to the experimental Board of Health.[1] What it looked for when developing colonial business was a Treasury guarantee. When approached from New Zealand in 1864 it had declined to lend the colony £500,000 or any part of it; but two years later it agreed to take New Zealand guaranteed bonds.[2] In 1866 it made an important loan to the young Metropolitan Board of Works in connection with the building of the Embankment. These bonds also were guaranteed by the Treasury.[3]

By 1870, as has been seen, the Bank is not merely lending to the India Council and the Board of Works but managing their debts. In 1871 a financial concession is made to those Crown Colonies that keep accounts with it: they may be given short-term advances without depositing the additional security which had hitherto been demanded.[4] Then, in 1875, an arrangement is concluded with Sir Julius Vogel, that "imaginative materialist"[5] who was developing New Zealand by public borrowing, for the management of the New Zealand debt "inscribed in the books of the Bank".[6] Next year the Governor is authorized to make arrangements for managing the public debt of Queensland;[7] and the era of colonial management has fairly opened.

The General Board of Health, to which the Bank would not lend, was swept away in 1854; and national health was left to a Committee of the Privy Council, until the Local Government Board came into existence in 1871. But by the late sixties local Boards of Health had come into being in most urban areas; and to them the Bank was giving what it had refused twenty years earlier to the General Board. In 1870 a loan to the Bristol Board opens the list.[8] Next year come Wolverhampton and Rotherham.

[1] Above, pp. 218–9.
[2] *C.T.* 32, 10 Aug. 1864; 5 Sept. 1866.
[3] *C.T.* 32, 14 Feb. 1866.
[4] *C.B. Tc*, 20 April 1871.
[5] W. Pember Reeves, *The Long White Cloud*, p. 325.
[6] *C.B. Xc*, 11 Nov. 1875.
[7] *C.B. Xc*, 24 Feb. 1876.
[8] *C.T.* 34, 9 Feb. 1870.

In 1872 the Lincoln Board tries to borrow at 4¼, but is refused; it is however allowed to do so at 4½.[1] So the thing goes on. The Boards of Health are followed by the new School Boards, after the Education Act of 1870; and by the early nineties, in a long list of corporate borrowers in the Ledgers of the Bank, there will be a modest entry referring to the School Board of Llanrwst.[2]

With the municipalities, business or talk of business is extensive and uninterrupted. Early in 1870 Rochdale is refused £10,000 at 4, but Kidderminster gets £45,000 at 4¼. Leeds, which has just bought out its gas company, receives a large loan on that earning asset at 4½. The Bristol Corporation, in addition to the Bristol Board of Health, is obliged; so is the London Commission of Sewers; and, besides all this lending to corporations and corporate bodies, the old business of loans to railway companies goes on briskly. Five of the chief of them are assisted in 1870 alone.[3]

In 1871 comes a small, unique, transaction which deserves record as a curiosity—a loan of £5000 at 4 per cent to Wellington College without any security. The college was still in the masterful hands of E. W. Benson, its first headmaster, the future Archbishop; and evidently his mastery extended to finance. Never before or since has the Bank lent with or without security to a public school. It must have recognized in Wellington a well-managed and not just a godly school; for in 1872 it declined a request from the Church of Ireland. True, the Church wanted a great deal more than £5000, and to pay less than 4 per cent.[4]

The loans to municipalities were still normally for short periods, but they were renewable. In 1873, for instance, after Birmingham, that old and strong-backed client, has rejected the Bank's terms for a new loan, it is offered renewal of an existing one at 4 per cent if for three years or at 4¼ if for five.[5]

[1] *C.T.* 34, 3 July 1872. [2] *G.L. XXVII*, f. 210.
[3] *C.T.* 34, various entries in 1870.
[4] *C.T.* 34, 13 Sept. 1871; 3 July 1872. The Church wanted £227,500 at 3.
[5] *C.T.* 35, 27 Nov. 1872, Birmingham's refusal; 15 Jan. 1873, the loan.

In 1876 a new phase in the Bank's dealings with the cities opens with a request that comes again from Birmingham, the pioneer city of the seventies. Will the Court, not lend to Birmingham, but introduce and manage a Birmingham 3½ per cent stock, just as it manages British, Indian and Metropolitan issues? The terms suggested are not attractive to the City and the thing hangs fire. Meanwhile a half-million loan is made by the Bank to Birmingham in the old way during September, and is renewed in June of 1877; and in April of 1877 another half-million is lent for a short period. Ordinary municipal and corporate proposals for loans are dealt with on their merits. The Ramsgate Local Board pays what it is asked; Widnes and Kingstown are turned down; the Shipley Local Board from Yorkshire will not go to 4½ per cent. Of greater places or bodies corporate, Sheffield, Rotherham and the Commissioners of the River Tyne are helped on terms satisfactory to both parties.[1]

Then, in 1879, Liverpool takes up the Birmingham policy and in 1880 carries it through. A deputation waits on the Governor in September 1879, to ask for a short-term advance to enable the city to pay off certain mortgage loans as a preliminary to a regular issue of stock for which it is seeking parliamentary powers. The short loan is granted and terms for the issue and management of the stock are discussed.[2] In December 1880, in a letter to Gladstone, once more at the Exchequer, the Governor is inquiring about some difficult and relevant points in the Married Women's Property Act, "as the example of Liverpool with regard to the issue of a consolidated stock appears likely to be followed".[3] A few days later terms for such an issue are again sent to Birmingham, and early in the next year that issue is at length arranged, on bases rather different from those originally suggested

[1] *C.T.* 36, 17 May 1876, Birmingham's first request; various dates in 1876–7 for the subsequent negotiations and the dealings with the other towns and bodies.

[2] *C.T.* 37, 17 and 24 Sept. 1879.

[3] *L.B.* 19, the Governor to Gladstone, 8 Dec. 1880.

and including £500 per million per year for current management.[1] Between that time and the late eighties, the Bank has also undertaken issue and management for Nottingham, Swansea, Hull and Wolverhampton.[2]

It continues to manage various Indian and Metropolitan stocks; it adds to its Australasian management list stocks of Western Australia and New South Wales; and it undertakes issue and management for the state-guaranteed Eastern Bengal and Scinde Punjaub and Delhi railways.[3]

By August of 1890 the total half-year's income from management, including issue, is £159,228. Of this £94,376, not quite 60 per cent, comes from the management of the debt of the United Kingdom, which thirty years earlier was the sole and dwindling source of income under this head.[4] There has been a windfall into the account of over £11,000 from a Queensland issue, and one of a few hundred pounds from a small issue for the Metropolitan Board of Works. The rest is straight management income—over £21,000 from India; nearly £21,000 from the Colonies; and more than £5000 each from the Board of Works and the aggregate of the Municipalities. That half-year, management and issue, other than for the United Kingdom, had yielded considerably more than all the discounting done at Threadneedle Street and the branches; though not much more than half the very large income which was now flowing in from the short loans.[5]

In the still years that immediately followed a stormy 1873, while this income from management was being built up, the Bank

[1] *C.T.* 37, 15 Dec. 1880, the final formulation of the terms.

[2] See, e.g., the income from management for 1889: *G.L. XXVI*, f. 308.

[3] *Ibid.*

[4] In Aug. 1860 management had brought in £124,000: *Stock Estimates*, IV. The figures for Aug. 1890 are in *Stock Estimates*, VII. Only a trifling part of the management income (£1288) came from the floating debt.

[5] Discount income, August 1890, £50,000; income from short loans and advances, £121,000: *Stock Estimates*, VII.

though under capable Governors—Benjamin Buck Greene, Henry Hucks Gibbs and Edward Howley Palmer—had no call to do more than maintain its proverbial safety, and do business as it could. Outside it, wholesale prices were falling precipitately, and in 1879 bad trade and a shocking harvest combined to blacken the worst economic year of the later nineteenth century. Inside it, idle balances were normally heavy and rates in consequence low. The banking problems to be solved were simple and dull. So far as the records tell, between 1874, when it was decided not to resume silver-buying, and an important discussion and decision of January 1878, to be noted shortly, there were no debates of principle either in the Committee of Treasury or in the Court. Decisions of principle there certainly were not; if there were discussions, the traditional form of the Minutes and the traditional bankers' reticence have concealed them.[1]

In all banking circles a tradition of secrecy was still very strong. So was that of the unlimited liability which the joint-stock banks had taken over from private banking. Nearly all the older and more conspicuous joint-stock banks, such as the London and Westminster and the Capital and Counties, had declined to register as limited, either under early special banking law or under the general Act of 1862. "Limited" banks were still mostly either small or of the imperial and overseas class. In Scotland there were no limited banks at all except the old chartered institutions. Both in Scotland and England, it was supposed that for a prominent concern to register as a limited company would be a suggestion of weakness that might impair its credit.

[1] Directors of the Bank appeared before the *S.C. on Banks of Issue of* 1875, which took evidence mainly on the circulation of Scottish notes in England. Beyond repeating the Bank's old dislike of local issues, the witnesses touched on no question of principle. The Committee did not report, and Goschen brought in a Bill to deal with the situation that never became an Act: Clapham, II, 343.

An episode in the story of bank statistics to be found in these years illustrates the tradition of secrecy. After the crisis of 1847, and again after that of 1857, Parliament had called for returns of London bankers' balances with the Bank. There was a similar call in 1873, and in response the Bank compiled a full series for the years 1856 to 1872.[1] This showed that the balances, which had only once been higher than £9,600,000 before 1870, and then but a few hundred thousands higher, had touched £13,000,000 in July 1872. The Bank made the return, but did not like it; and the bankers did not like it either. It was continued yearly, for a time, but after 1877 was quietly dropped—not to be resumed until 1928.[2] There is a letter from the Bank to the then Chancellor of the Exchequer, Sir Stafford Northcote, of March 1875, which explains the attitude of the Court, or at least the argument that it put forward in favour of discontinuance. The return, the Bank said, might be most misleading, for the balances were often large or small only for very short periods.[3]

In the year for which these returns were last collected a step was taken by the Treasury, a step on which Walter Bagehot had been consulted, that was to be of the greatest importance in the later history of the Money Market and the Bank—the systematic issue of Treasury Bills, under the Act 40 Vict. c. 2 of March 1877. Unregulated issue of Treasury Bills, of the kind that had caused so much trouble under the younger Pitt, had long been discontinued. No new Exchequer Bills of the old style had been issued since 1861; but the Bills of that, and earlier, date had been renewed in the old way, and there were still a few millions outstanding in the nineties. Exchequer Bills had never been issued or renewed for less than a year, and latterly—as has been seen—

[1] *A. & P.* 1873, XXXIX, 161.

[2] The last return is in *A. & P.* 1878, XLVI, 169. For later figures see App. E.

[3] *L.B.* 17, 10 March 1875. The argument is illustrated by facts given on pp. 171, 243 above.

they had been given a five-year initial currency.[1] From time to time, as has also been seen, Exchequer Bonds with fairly long currencies had been issued for a variety of purposes, such as financing a war or facilitating a conversion. Both Bills and Bonds were formal and semi-permanent securities, not at all adapted for short-term borrowing. By the early seventies, mainly as a result of Gladstone's careful national housekeeping, neither was of much importance: the total of unfunded debt, that is of both together, was only £4,829,000 in 1873. That this total increased by £9,356,000 in the next decade would probably have been attributed, in Gladstonian phrase, to "flagitious" Disraelian imperial policy and finance. It was Stafford Northcote, Disraeli's Chancellor of the Exchequer from 1874 to 1880, who launched the new Treasury Bill system. In fact the rise on the unfunded debt was accompanied by a greater fall in the funded debt and the outstanding liability on terminable annuities.[2] Whether flagitious or not, borrowing was certainly made easy by the use of these short Bills.

For short currency, comparable with that of commercial paper, was of the essence of the new Treasury Bill. Twelve months was the maximum, but three months the normal. Issued at a discount and repayable at par, it gave the Treasury the advantages of the short, if not the very shortest, money market. Bills were sold by tender: the Bank might tender with the rest. It first took £500,000 of them—being a novelty they were carefully described in the Ledger "as per Act 40 Vict. c. 2"[3]—on 9 April 1878. These were for three months and were taken at £99. 6*s*. 6*d*. Repaid on 9 July, they brought the Bank £3375. From a small six months' transaction that year it made another £662. 10*s*. 6*d*. In 1879 three purchases of three-month bills, the first made in 1878, yielded £13,031. 5*s*. 0*d*.; and during the decade following the Act the Bank's receipts from the new business varied between £38,637

[1] Above, p. 252.
[2] Clapham, II, 407.
[3] *G.L. XXV*, f. 336.

(in 1881) and £3168 (in 1884).[1] The great significance of the Bills was for the future; the greatest for that distant, and to the late Victorians unthinkable, future which was first sighted from the bleak watershed of 1914.

Passing circumstances of no great importance had led to a five weeks' spell of 6 per cent at the very end of 1874; but that was followed by four years of 3½, 3, 2½ and 2, with an occasional 4 and a very rare 5, until suddenly the rate was again jerked up to 6, and by the Governor, Howley Palmer, on 14 October 1878. It had been at 5, high for these years, since August, and would not be back at 4 again until January of 1879. The cause of these high rates was the coincidence of a normal autumnal pressure with perhaps the most discreditable British banking catastrophe of the century, the failure at the beginning of October of the unlimited City of Glasgow Bank that held over £8,000,000 of depositors' money. Shareholders who had to meet a call of 500 per cent and depositors great and small, including some of the Scottish trade unions, suffered terribly; the business world of Scotland was shaken; the Scottish bankruptcies in 1879 were more than twice as many as in 1875 or 1876, and 50 per cent more than in 1878.[2]

The Bank of England had never trusted the City of Glasgow Bank. The Court had refused to help it to resume payment when it had first suspended at the crisis of 1857,[3] and must have known of its ill-repute among well-informed and honest bankers for years before the final collapse. "More than one of the leading banks" had refused to touch its paper.[4] There were bad debts running back to the cotton famine. Some have argued that it had never been really solvent during all the twenty years between

[1] *G.L. XXV*, ff. 336 sqq.

[2] As usual there was a lag in the bankruptcies: figures are in the *Statistical Abstracts* for the U.K.

[3] Above, pp. 231, 233.

[4] *Bankers' Mag.* XXXVIII, 1878, p. 917.

the first suspension and this second,[1] which was of such a kind that in the end manager and directors were tried and imprisoned. Half a century earlier, an English private banker had been hanged for forgery, but these were only the second batch of British joint-stock bank directors to go to gaol.[2]

It was perhaps fortunate that trade and enterprise were so stagnant in 1878, or troubled water from the Clyde might have set things rocking on the Mersey and the Thames. As it was, England was properly horrified but not seriously shaken: though English bankruptcies were very numerous in 1879, they were only 15 per cent more than in 1878, and the total bankruptcy liabilities were a shade less. After a precautionary five weeks of 6 per cent, and another five weeks of 5, Bank rate settled down at the very low levels appropriate to 1879 and the early eighties, levels which were in fact even lower than they appeared, as the result of a decision reached very early in 1878, when the relatively high rates of the autumn were not anticipated and the problem was how to get business in a market flooded with idle capital.

On 31 January the Court had dropped its minimum to 2. On the same day Mark Collet, a future Governor, moved and carried a motion that, since market rate was often below bank rate, it was desirable that clients who did business with the Bank exclusively should be allowed to do it below the official figure. A Committee was appointed to look into the matter and suggest regulations for the new policy.[3] In February—the rate still at 2—the Committee advised that a distinction should be made between clients who had their sole current account with the Bank and those who had an account simply for discount purposes. To the former

[1] See Giffen, *Essays in Finance*, Second Series, p. 152.

[2] The first were some directors of the Royal British Bank in 1858: *Bankers' Mag.* XVIII, April 1858. The man hanged was Henry Fauntleroy: his bank suspended payment and the Bank lost more than £250,000. He had forged Powers of Attorney for transfers of stock. See *The Old Lady*, Dec. 1934.

[3] *C.B. Ze*, 31 Jan. 1878. It is unusual to find who moved any motion, but in this case Collet's name is recorded.

only ought discount and advances on securities to be made in accordance with Collet's resolution. Decisions as to individuals, and the appropriate concessions on the rate, were left to the Governor and the Committee in Daily Waiting; and so the new policy was launched.[1] Questioned about it thirty years later, and asked—"Would you charge a merchant house having a good account with you the Bank rate or the market rate for prime bills?" the Governor and Directors replied in writing—"The market rate".[2]

Though the Glasgow tragedy had no important direct effect on the Bank, it had an immediate effect on the organization of British banking. Let a banker who lived through it tell the story: "there was a great feeling in the country against the unlimited liability...many responsible holders of [bank] shares, however good the concern might be, showed a desire to sell out, and there was a fear that only those people would remain shareholders whose liability would not count. The feeling...was so strong that an act was passed in 1880 enabling...unlimited companies to register themselves as limited...with a very large uncalled liability...all the...London clearing banks registered as limited companies at that time."[3] This banker explained that his bank had a reserve liability of more than five times the sum paid up on each share: for the banking system as a whole the ratio was about four to one. A call on the reserve could only be made in case of liquidation, but then it might be as crushing a call as that which ground down the Glasgow shareholders. This, if not an

[1] *C.B. Zc*, 14 Feb. 1878. It was mentioned to the General Court as an established policy in 1890: report of the meeting of 10 Sept., *Bankers' Mag.* 1890, p. 1696.

[2] "Banking Interviews" (*U.S. Currency Commission*, 1910), p. 23.

[3] Sir Felix Schuster, in "Banking Interviews", p. 34. And see Gregory, *The Westminster Bank*, I, 217; Crick and Wadsworth, *A Hundred Years of Joint-Stock Banking*, p. 309. The Act (42 & 43 Vict. c. 76) was actually of 15 Aug. 1879, not of 1880.

unlimited liability, would, it has been said, "have seemed singularly like one had there been much banking in Britain so unsound as that of the City of Glasgow. Security lay not in the law but in the management."[1]

There was a check to the general price fall in 1880, a false dawn after the gloom of 1879; but the fall soon set in again, and by 1884, almost impossible as it seemed to contemporaries, the level was many points lower than it had been even in 1879. Thinking business men, with politicians and economists, most of whom assumed that the general fall was evil, and all of whom were certain that the dislocation of the Eastern exchanges by the fall in the gold price of silver did harm, were on the look out for cures or palliatives. The time for elaborate inquiries into the Depression of Trade and Industry and the problem of Gold and Silver was getting near.

Bimetallic monetary systems, such as existed in what was known as the Latin Union,[2] were obviously those most affected by the dislocation of the silver market. So early as 1873–4 the coinage of five-franc pieces—the standard silver coins of the Union—had been restricted, first by individual states and then by the Union as a whole. From 1877 it was suspended altogether, but for a single minor exception,[3] and true bimetallism, with its free coinage of the two metals at a fixed ratio, was suspended with it. The United States, which had always been bimetallic in principle—though with several changes of ratio and interludes of inconvertible paper—had adopted the gold dollar as their unit of value in 1873, just when their own silver mines were about to upset the ratio and bring the silver question into the turbulent foreground of American politics. In England, scientific bi-

[1] Clapham, II, 352.

[2] The Union of states whose currencies were based on the old French franc of 25.22 to the £.

[3] Affecting Italy, who for special reasons was allowed to coin a little more.

metallism with a legal ratio had never existed, and the crude bimetallism of the Bank's early days was forgotten, except among students. But the price fall and the silver troubles revived interest in the question, so that for about twenty years—from the late seventies to the late nineties—it exercised and attracted acute minds, and fogged that familiar type of simpler mind which hopes perennially for all good things from some manipulation of the currency. In course of time it attracted minds both in the Treasury and the Bank Parlour; but as a body corporate the Bank would never commit itself to any solution.

When in the summer of 1881 an International Monetary Conference was summoned to meet in Paris, and the Court was invited to express a monetary opinion, it declined on the ground that a subject "partly of abstract science and partly of political application"[1] was not its business. The Treasury was being pressed for opinions or action by Mr Lowell, the Ambassador of the United States. In official and in more private letters the Governor explained to the Chancellor the story of the Bank's silver buying; how this was stopped from 1848 because silver was too dear; how it was not resumed when the price fell because the quick changes in continental mint policy made sale or purchase unsafe; but how, should other countries agree on a gold-silver ratio that would work, silver might well "re-appear" as an asset in the Issue Department, where it had a legal place that had remained empty for over thirty years.[2] In short, the Bank left bimetallism to the bimetallic countries, but would utilize the system as it had done in the old days, if they could arrange a stable price for silver. To the Eastern exchanges, the point at which the disturbed ratio pinched British commerce, it did not refer.

From nearly all discussions of principle it continued to stand apart. When, in 1887, a Royal Commission on the values of

[1] *C.B. Dd*, 30 June 1881.

[2] Official letter of 30 June 1881 in *C.B. Dd*; the Governor's fuller letter of the same date in *L.B.* 19.

Gold and Silver was sitting, in evidence before which every most subtle principle was debated, the Bank explained to the commissioners that its Court had never voted on any of these; that only a few Directors agreed with their colleagues, Gibbs and Grenfell, both ex-Governors and both bimetallists; and that as it would not be proper for Mark Collet, the Governor, to give evidence which might seem to express the opinion of a united Court, perhaps three other Directors should be called to expound their personal views.[1] The men suggested were the very mature John Gellibrand Hubbard, who had sat in the Court for forty-nine years; Henry Wollaston Blake, who had thirty years' experience; and Alfred Charles de Rothschild, who had a mere nineteen. But when in 1888 the notion of an issue of small notes against silver was suggested by some silvery members of the Commission, Collet was able to oppose it in writing because none of his colleagues disagreed with him. He and they, he added, were opposed to small notes of any kind—against gold as much as against silver—because they would greatly increase the risks of forgery and would reduce that reserve of gold in men's pockets to which, as we may think, both he and they assigned a rather superstitious importance.[2]

They had sent a memorandum on the £1 note to the Chancellor of the Exchequer, during Randolph Churchill's brief Chancellorship, a few months earlier.[3] The re-issue in England of a sort of note that Scotland had always used and prized came up for discussion of itself whenever men's minds were turned towards the currency. That £1 notes would be convenient, the Bank had allowed; but it had been sure that a limited issue, which was the thing suggested for its consideration, would not work. Further, it had used the pocket-reserve argument; had maintained that small notes would require a greater proportionate reserve of gold

[1] *L.B.* 20, 29 June 1887.
[2] *L.B.* 21, Collet's letter of 3 Dec. 1888.
[3] A printed memorandum of 17 Dec. 1886 in *L.B.* 20.

than large ones because the small-note user would be specially liable to panic; and that, what with the cost of this, the cost of prosecutions for forgery, and the destructibility of small notes, there would not be much national gain from them. The Bank, it was stated, had no bias or interest one way or the other. Of Scotland nothing at all was said, but the argument about a run on gold by scared users of small notes was no doubt a reminiscence of what had happened there in the crisis of 1857, when the Bank of Scotland was busy exchanging Bank notes for gold, and the gold poured north across the Tweed.[1]

This memorandum also dealt with another suggested policy, the withdrawal of the half-sovereign. On that the Bank said it had no opinion to give;[2] but curiously enough it pressed for the issue of a £2 gold piece. Such pieces were in fact tried experimentally next year, as part of a Jubilee coinage—but they interested collectors only.

The Jubilee issue was also used for an experiment which appealed to all those, and they were many, who wanted to encourage new demands for silver that might support its price. Some cumbrous and far from beautiful four and five shilling pieces were struck. The four-shilling piece, like the florin, was a half-hearted concession to admirers of the decimal system. It appears to have been hoped that two of the fat crowns might serve instead of a half-sovereign. The only record of opinion on the point is a letter from Mark Collet to Goschen, who had succeeded Randolph Churchill at the Exchequer when Randolph forgot him.[3] Collet had consulted the banks in Scotland, and had found that all but one were hostile to the big silver pieces. The crowns and double florins were the failure that he anticipated; and the price of silver went on falling.

[1] Above, p. 230.

[2] In 1872 it had argued against Lowe's notion of making the half-sovereign a token coin, and it repeated this argument in 1884: *C.B. Gd*, 17 April 1884.

[3] *L.B.* 21, 18 Oct. 1887.

Goschen was the solitary ex-Director of the Bank who ever became Chancellor of the Exchequer. As might have been expected, during his long spell at the Treasury (January 1887–August 1892) relations between Whitehall and Threadneedle Street were more than usually intimate. Under one immediate predecessor they had sometimes been a little tense. The predecessor was Hicks Beach, an irascible statesman quite capable of creating tension, though whether it was he or Welby, the Permanent Secretary of the Treasury, an "exponent of rigid economy in the public services",[1] who suggested courses that the Bank disliked is for Treasury historians to decide.

The first of these courses can hardly have been his, for the Bank's dislike was expressed barely a month after he took office. And as the Bank's letter of July 1885 went to Lord Salisbury, the Foreign Office was presumably the more responsible department. The letter contained a courteous criticism of the issue through the house of Rothschild instead of through the Bank of the English portion of the Egyptian loan of that year.[2] Apparently the Court or the Governor, James Pattison Currie, held that as the Bank normally issued for India and the Colonies it had almost a right to issue for this new area of British influence. Salisbury's reply, if he sent one, is not now at the Bank. It may not have been sympathetic.

Next month the Governor transmitted to the Chancellor a much more important, and an argued, protest against a course of action that he feared. Hicks Beach had let "the Chairs" know of a "hint" that the Treasury might have offers of Ways and Means advances from sources other than the Bank, from other bankers in fact. The length and urgency of the Governor's letter show that the hint was thought serious.[3] Ways and Means advances were the modern equivalent of those "Land and Malt" and similar short loans of which the Bank had a traditional and primitive monopoly.

[1] The *D.N.B.* [2] *L.B.* 20, 28 July 1885. [3] *L.B.* 20, 19 Aug. 1885.

There had evidently been reference to the abnormal accumulations of funds in London; for the Governor argues at the outset that the matter cannot "be decided by a consideration of the present or any exceptional condition of the Money Market". We are "the Bankers of the State". We always made advances "in preparation of the dividends or to meet deficits in the revenue", and at the lowest rates. The government is our largest and "under every point of view" our most important customer. Hitherto this class of borrowing has all been done through us, unlike that by Exchequer or Treasury Bills, in which the market has regularly shared. We have always felt absolutely bound to respond to a request for a loan. Often we have sold securities at "a large sacrifice" that we might do so. Treasury Bills were the device adopted to tap the surpluses of the market in an open way. Of them we at times hold a great many; and we always take the balance, if tenders are inadequate and we ourselves have not tendered. "A statement could easily be framed exhibiting over a series of years the very moderate rates charged by the Bank for the Ways and Means advances...compared with the market rate...or with the Bank's charges to its ordinary customers."

We are ready to act at any moment. Other banks would probably do so only when flush of funds, that is intermittently. Our offers are secret; theirs would certainly become known. So the letter ends.

A week later the Bank forwarded tables of its own minimum rate; of the market rate for best three months' bills; of the rate allowed by government on Exchequer Bills; and of the highest rate allowed on Treasury Bills.[1] Its own official minimum all that summer and autumn was 2 per cent. The average market rate was £1. 13*s.* 1*d.*;[2] and the Bank was making advances to the government at 1½. Whether Hicks Beach and his officials were convinced by the Governor's rather anxious letter we do not know. Nor do we know whether or not the hinted offers were ever made. But

[1] *L.B.* 20, 26 Aug. 1885. [2] For the second half of 1885.

the Bank did retain its monopoly of the Ways and Means advances.

A minor technical problem in the relations between the Bank and the government was set in 1886 when the Board of Trade applied for a five-years' loan of £250,000 in connection with the Mercantile Marine Fund. Very long ago the Bank had dealt freely with individual departments and their chiefs.[1] But to its present knowledge this was the first such application from "any separate department"; and the Court naturally supposed that it was the absolute first. There was no objection to the loan as such, but what of the procedure? The Bank's solicitors were consulted and then the Treasury. The decision to refuse, finally arrived at, was no doubt based on Treasury opinion. It was held that the Act of 1819 (59 George III, c. 76) which forbade the Bank to lend to government without *ad hoc* parliamentary sanction, except in certain limited and prescribed ways, was a statutory obstacle.[2] All help to departments must pass under the eye of Parliament and the supposed eyes of "My Lords" at the Treasury.

The conversion of debt carried through by Goschen in 1888 was far the greatest of the century, and the last. Like all previous conversions, it made much work and substantial pay for the Bank—work "beyond all precedent"[3] in the Transfer Office, which broke down its principal, and more than £112,000 of pay—yet, but for its size, because the Bank's share in it was purely administrative it might be passed over in silence, together with that routine administration of the debt which has no proper history. But the size, and the fact that the Chancellor was an ex-Director, give it a claim to attention.

Conversions of varying importance had been carried out at intervals since the vast operations of 1822–30 which reduced the

[1] Vol. I, p. 115.

[2] *L.B.* 20, 31 March, 21 April 1886.

[3] The Governor, Mark Collet, to Welby, 5 April 1888: *L.B.* 21.

burden of interest on £370,000,000 of debt inherited from the great French Wars. The chief and most decisive of the later operations had been Goulburn's conversion in 1844 of nearly £249,000,000 of 3½ per cents into 3¼'s, to become 3's after ten years, a transaction which, like those of the twenties, by stinting the hungrier capitalists of interest, had a place in the boom and crisis history of the decade. Compared with it, Althorp's little conversion of 1834, Gladstone's few millions of 1853, and even Childers' £23,000,000 of 1884 look insignificant; though Childers' replacement in the previous year of £70,000,000 of perpetual stock by terminable annuities might be reckoned a major operation.[1]

Goschen in 1888 was operating on the grand scale, dealing with nearly £600,000,000 of debt. Everything was in his favour. Money had been generally cheap and securities dear for years.[2] He was known and trusted in the City and in the Bank Parlour. The country, fresh and confident from the Jubilee "pomp of yesterday", when Emperors and Kings had ridden in procession behind its Queen, was ready for ambitious projects in any sphere —and, for a wonder, wholesale prices were rising, the last rise before the last fall, into the trough of 1896. Indeed there was an optimism and a business activity in 1887–8 that may well have warned Goschen, no dull-eyed observer, to act quickly before money became any dearer. Quick he certainly was, with Parliament's approval and help. He expounded his plan on 9 March and the Bill that embodied it became law on 27 March.

It is to be supposed that he consulted the Bank about the whole scheme, but the records do not tell. Late in February the Governor is writing confidentially to him about "any proposed conversion of Government Stock", not the proposed conversion.[3]

[1] See the article "Conversion of British National Debt" in *Dict. Pol. Econ.*

[2] For 4½ months however—September 1887 to January 1888—Bank rate was at 4; but on 16 Feb. it was 2½ and on 15 March, 2. See App. B.

[3] *L.B.* 21, 25 Feb. 1888.

That may be merely formal cautious language. It probably is; for what the Governor writes about is methods for dealing with stock whose holders do not accept the conversion terms. He is facing the problem that would be set if only a small part were converted. But that problem had not to be solved. The moment was so opportune, Goschen's preparations, offers, and presentation of his case so judicious, that of the £591,000,000 of debt dealt with nearly 96 per cent was ultimately converted into the new stock on Goschen's terms—that is, 3 per cent as before until April 1889; 2¾ for fourteen years from that date; and thereafter 2½. Only £19,000,000 of debt was paid off in cash—a manageable transaction; and a few millions stood as a temporary "Book Debt".

The Chancellor's offers included a bonus to "redemptioners" —that is holders of stocks which he had no statutory right to redeem, whom he thought it wise to tempt. Holders of stock legally redeemable (the "new 3's") were assumed to be willing to accept conversion unless they protested in form. Goschen also offered a commission of 1*s.* 6*d.* per cent to brokers and other agents who brought in stock. That absorbed £234,000. Compared with this last, the Bank's £112,000 seems exceedingly modest—little above 6½*d.* per cent—"and for services how disproportionate", as Mark Collet wrote.[1] It was a fair point. The brokers were merely conduit pipes: the Bank staff had done weeks of most exacting work.

They had been proud to do it, as William Lidderdale the Deputy-Governor wrote on 14 June when acknowledging Goschen's thanks; proud to have assisted in "the complete success of a financial operation of such unprecedented magnitude",[2] a success which owed so much to the Chancellor's wisdom and skill. It was not until a fortnight later that Mark Collet, who had been away sick when the formal letter was sent, opened the question of the Bank's fee. The brokers and agents had been tempted by a firm

[1] To Goschen, 28 June 1888: *L.B.* 21.

[2] *L.B.* 21, 14 June.

offer. The Bank had no doubt some notion of what it would get but there had been no contract. Collet said he thought that £100,000 should be a minimum—6½*d.* per cent. But the Treasury did not accept any round claim, and the Bank deferred to it. By the August balance of 1888, £72,727. 14*s.* 0*d.* had been paid. Two other payments made in 1889 brought receipts for the conversion proper to £98,247. 0*s.* 2*d.*, near enough to Collet's minimum. As in addition £14,011. 11*s.* 11*d.* was allowed for the separate handling of the redemption payments, the Bank's aggregate fee came to precisely £112,259. 12*s.* 1*d.* These odd figures, which were a result of the Treasury's exact percentage calculations, must have been reasonably satisfying to the Governor.[1]

The accumulation of unused savings and the low rates ruling in the money market during the mid-eighties, which made Goschen's conversion so easily practicable, had reduced the Bank's income from the discounts to a level lower than had been known for more than a century, and had brought a marked fall in that income from short loans and advances whose general trend since the early fifties had been upward.[2] The group of discounters, either in London or at the branches, had become small and specialized during the forty years since Peel's Bank Act was put on the Statute Book, though the Act had not been the cause of this contraction. Round about 1840, there had been usually some 450 discounters in Threadneedle Street and they still represented a wide range of London commerce and industry, from bankers to druggists, from Manchester warehousemen to slop-sellers, from East India merchants to wharfingers, or from wool staplers to gauze weavers.[3] In 1854 the list still contained 416 names; but for the vastly greater London of 1888 the number

[1] Figures from *Stock Estimates*, VII. [2] See App. C, D.

[3] There is a full list of the trades for 1840 in *C.B. Mb*, f. 291. There are hosiers, hatters, grocers, gold and silver lacemen, haberdashers, and others.

was down to 206.[1] An analysis by trades has not survived and seems not to have been made, but it can be imagined with fair certainty. Normal discount business is concentrating into the hands of the bankers and the higher mercantile community of the City.

At the branches the number of discount accounts had never been great, because at most branches—with a notable exception at Leeds—the business had always been mainly in bankers' hands. In 1888 for all the ten branches it came to only 226; but the aggregate of business done at the branches that year was about 25 per cent greater than that done in London.[2]

In May of 1883, Henry Riversdale Grenfell, who had just "passed the Chair", had raised the question of modifying the rule of 1858 which limited advances made to "Bill Brokers, Discount Companies and Money Dealers" to the periods of the regular Quarterly Advances or to times of very special emergency. It was finally decided to extend these facilities so as to include "any time when the Government balances accumulate in the hands of the Bank".[3] But the rule was strictly administered, and this formal extension did not prevent a sharp fall in the income from advances between 1883 and 1888: the bill and money dealing group was in no great need of the Bank's help.[4]

A more decided attempt to attract business was made early in the latter year when the privilege of discount below the minimum rate to customers who kept their sole current account at the Bank, granted in 1878, was extended to such customers at the branches, and made applicable there also "under similar circumstances for advances on securities".[5] But this had no immediate effect on the

[1] *C.B. Bc*, f. 316, for 1854 and *C.B. Md*, discounts report under 7 March 1889.

[2] £5,949,000 against £4,703,000.

[3] *C.B. Fd*, 17 and 31 May 1883.

[4] Apparently the rule had been rather laxly applied: the *Bankers' Mag.* of June 1883 (p. 565) treats the change as a stiffening of it.

[5] *C.B. Kd*, 26 Jan. 1888.

income now entered as coming from "Loans for Short Periods on Security", instead of from "Advances". For the year that ended with August 1888 it was actually a little lower than it had been in the previous year.

But the financial atmosphere was changing. Goschen had been only just in time. When he convinced the House and the City so quickly and decisively in March of 1888, Bank rate was at 2 per cent and market rate at 1½. Bank rate was raised to 3 in May and was not again at 2 until 1892. When the Bank received its last payment for work done on his conversion, in February of 1890, the rate, which had been lifted to 5 in September of 1889, was standing at an emergency 6; and for the whole of 1890, a year which saw a far greater emergency—but short, though great—it would average above 4½.

For over sixty years debt conversion and boom had been linked. With cheap money, a world full of economic opportunity, rising prices, and an investing public eager for more than 2¾ per cent and so ready for venturous schemes, the promoting of companies and the underwriting of loans and issues of every kind, which were developing markedly at this time, had a free field. Cheap money joined with technical progress to aid a "great forward leap"[1] of shipbuilding in 1888. The result was a drop of the unemployment figure for 1889 among trade unionists in the heavy metal trades to the negligible figure of 2 per cent. That year men were working night shifts in many Yorkshire textile factories. By the year's end, demand for coal was so pressing that famine conditions threatened: miners' wages were rocketing up from a level represented by 61 for 1887 to one of 86 for 1890—a round 40 per cent.

Throughout 1889 activity in the floating of new financial and industrial companies earned the journalist's favourite adjective "unprecedented".[2] A tightness of money in excess of the

[1] *Economist, Commercial History and Review*, 1888. [2] *Ibid.*, 1889.

ordinary autumn tightness drove Bank rate up to 5 towards the end of September and to 6, by Governor's order, on 30 December, a rate which was maintained until 20 February 1890.

The Governor and Court were watching the exchanges, and for a very sufficient reason. In the bad trade years of the late seventies export of British capital, on the balance, had ceased. There is a strong case in favour of the view that for the whole quinquennium 1876–80 "payments for exports, payments for services, and the yield of existing foreign investments had not... been quite sufficient to cover the cost of the imports";[1] for some of the years they certainly had not. But with the eighties capital export was resumed, never, it is calculated, being much less than £20,000,000 a year; rising to some £40,000,000 in 1884; to more than £60,000,000 in 1886; to over £70,000,000 in 1888, and to the peak of more than £80,000,000 in 1890.[2] While at home breweries were being "limited" right and left—Barings floated Guinness's in 1886; "the first attempt of bankers to enter the field of promotion"[3]—while investment companies were growing up like mushrooms; while Rothschilds and again Barings were issuing £4,000,000 of preference stock for the Manchester Ship Canal; capital was pouring abroad through the investment companies and many other channels. And the underwriting of loans and joint-stock issues overseas went forward briskly. But for this acceptance of liability by the underwriting firms, in case the public did not bite, promotions and flotations would have been much slower; and in some cases more wholesome. In all this overseas work the house of Baring was prominent: it was one of their traditional activities. They were not appreciably affected by the "rampant speculation"[4] in South African gold-mining shares which was on foot during 1889, the year in which the

[1] Clapham, III, 23–4.

[2] Diagram in Clapham, III, 25.

[3] O'Hagan, H. O., *Leaves from My Life*, I, 240: O'Hagan was a leading promoter.

[4] *Economist*, *Comm. Hist.* 1889.

Rand first yielded more than £1,250,000 of gold, for Africa was not their province; but they were deeply committed in South America, where their main overseas interest had always lain since their firm floated a rather speculative £1,000,000 loan for Buenos Ayres in 1824.

For home or foreign account, not less than £446,000,000 of capital was called up in London during the three years 1888–90.[1] As a large part of this was going abroad, and as returns from such very rapid overseas investment could not be expected at once, an external drain of gold was a thing to be guarded against. Hence the high rates and quick action of the Court and the Governor at the turn of the years 1889–90.

But their decisions were by way of precaution not of harsh necessity. It was expedient to retain the 6 per cent in force for seven weeks and so check both the tendency to adverse exchanges and the undue ease with which short money had been procurable in the Market; but a reduction to 5 per cent was made in February, and from April to June there was a spell of 3. After that 4 and 5 alternated in the way that they might in any averagely active summer and autumn—much as they had in each of the two preceding active years, 1888 and 1889. Then came another Governor's 6 per cent on 7 November, not a precautionary measure announced with an eye to the exchanges—which were not threatening—but the danger signal hoisted by him at what came to be known as the Baring crisis. This, as its name tells, was not the crisis of 1890, in succession to the general crises of 1825, 1847, 1857 and 1866, but the crisis in the history of one great firm; and it was so well handled, and so soon over, that the rate was not kept at 6 per cent nearly so long in 1890 as it had been a year earlier. Indeed it was down to 3 before the end of January 1891; partly because of the shock given to promotion and flotation by the Baring episode, but mainly because the wave upon which Barings had failed to swim had spent its force.

[1] From the annual statistics in the *Economist*.

Schemes promoted in 1890 had often to be put through during 1891, a year in which industrial activity only slackened gradually; but in 1892 capital export would be less than half of what it had been in 1890, and miners' wage-rates, at that time linked closely with the price of coal and so an accurate gauge of industrial activity, would be tumbling down.

A full story of the fall of the House of Baring, merchant bankers and loan issuers, would have to contain a long chapter of South American economic history and the borrowing and currency policies of the Argentine Republic and Uruguay, with a section on their political and commercial crises, and another on *cedulas*, those guaranteed bonds issued by Argentine banks corresponding to loans that they had made on the non-liquid security of land. It might even have to include extensive and not too kindly reference to the then standard of probity among business men and statesmen in the Argentine.[1] Those were matters all of which it was Barings' business, as South American specialists, to understand and take into account when dealing with the governments, the National Bank of Uruguay and the other banks, the Buenos Ayres Railways, the Buenos Ayres Water and Drainage Company, and the rest of those enterprises which appear among the Baring papers at the Bank. And a charge that might with justice be brought against them was that, in their eagerness to do business, they had not considered all these enterprises—or the expected investors in them—coolly and wisely enough. A reticent critic wrote that they had "gone far beyond the bounds of prudence";[2] a few harsher critics implied "of honour".

It was one of these few, the editor of the *Economist*, who, when

[1] See, for instance, an article entitled "Gaucho banking" by W. R. Lawson, *Bankers' Mag.* 1891, I, 33.

[2] *The Times*, 15 Nov. 1890; reprinted in Gregory, *Statutes, Documents and Reports*, II, 188.

giving thanks, after the crisis was over, that "punishment for the errors...committed" had fallen "upon those responsible for them",[1] felt it his duty to recall "the market devices that were employed to attract investors", which prevented him from joining "unreservedly in the chorus of condolence...over the collapse" of the house. "Had Messrs Baring Brothers been able to shift the burden of their South American obligations upon the investing public they would now have been standing erect." They were not able, though they "did not neglect all the means in their power to rid themselves in this way of the liabilities" which, as issuers or underwriters, they had accepted. The charge stands unanswered: it is a general charge against issuing and underwriting methods, a particular charge against a great and wealthy house which should not have stooped to them.[2]

How largely South American politics come into the story is shown by an early suggestion of the Governor of the Bank to the Chancellor of the Exchequer, when the crisis was pending; could he not get the Rothschilds to induce the Argentine government to deal somehow with "the enormous mass of discredited South American securities which were weighing on the Stock Market?"[3] —those securities which happily, as the *Economist* argued, the public had been unwilling to take up in sufficient quantity to save Baring Brothers.

That Barings were in a difficult position had been common knowledge in the City for some time before November 1890. In the second week of October they had secured "a considerable loan from a great house",[4] and the Chancellor of the Exchequer

[1] *Economist*, 22 Nov. 1890; also reprinted in Gregory, II, 195.

[2] An issuing house did not ordinarily underwrite its flotations. "But Barings had entered into commitments appropriate to underwriters in connection with some of their loans". Hawtrey, *A Century of Bank Rate*, p. 106.

[3] Lidderdale, in *Baring MSS.* 180, at the Bank: a personal narrative.

[4] From a memorandum on the Baring crisis by Lord Welby, in Eliot, A. D., *Life of Lord Goschen*, II, 283.

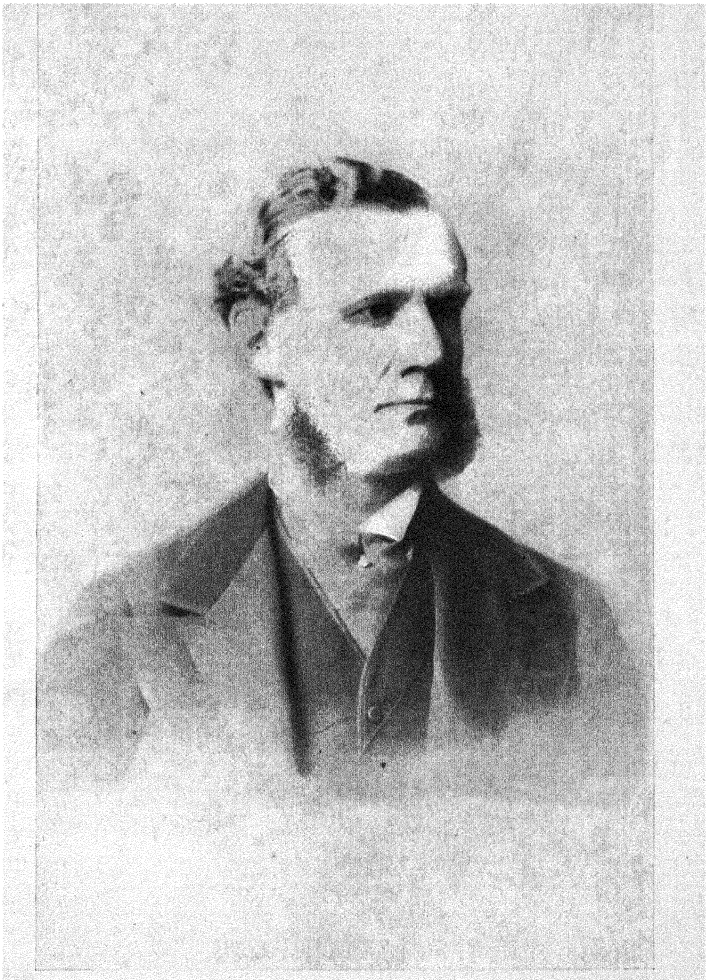
had noted in his diary—"Went to the Bank, things queer! Some of the first houses talked about";[1] but they were thought to be very strong and able to resist great pressure. Anxiety grew when they began to sell large blocks of securities. This "brought it home to one house after another to whom the proposals were made that there must be something wrong at No. 8 Bishopsgate Street".[2] It was believed subsequently that they had already disposed of some £4,000,000 worth before "a certain bank in Lombard Street", from which they had tried to raise a loan on those Guinness debentures that they had floated, advised them to apply to the Bank of England.[3]

There is a story how very observant people knew that something had gone awry in the City because Everard Hambro, a Director of Hambros and of the Bank, was sighted in St Swithin's Lane at 8.0 o'clock on the morning of Saturday, 8 November. He saw Lord Revelstoke (E. C. Baring), also a Director of the Bank, and then he saw the Governor, William Lidderdale. Barings were "much involved", he reported, and Revelstoke had said; "I shall be able to tell you on Monday whether we can go on or whether we have to stop." Hambro wished the Governor to meet two of the Barings at his office. Before going there, Lidderdale sent a note to the Chancellor of the Exchequer asking him to come to the City on the Monday. In Hambro's office, Revelstoke and Francis Baring placed before him a statement of affairs that he found black enough but neither clear nor decisive. He required more information, and waited over the week-end for the decision of which Revelstoke had spoken. Part of the waiting Sunday he spent with a small son—a non-conductor of financial worries—in the Zoological Gardens.[4]

[1] *Goschen*, II, 169: diary notes Oct. 7–13.

[2] *The Times*, 25 Nov. 1890. [3] *Ibid.*

[4] *Baring MSS.* 180 and Lidderdale's report of 20 Nov. in *C.B. Nd.* The Hambro story came from the highest authority at the Bank, the story of Lidderdale's Sunday came from his son.



WILLIAM LIDDERDALE *Governor* 1889–1892

Goschen had thought Lidderdale's note "very alarming". "You gave me an unhappy Sunday, Mr Governor", he said as he arrived at the Bank. He had guessed that it was either Barings or gold, and knew that if it was Barings "1866 would be a trifle to it". He found Lidderdale "in a dreadful state of anxiety", and anxious for some help from government. Goschen made it clear that in no case could he "interfere on behalf of an insolvent house", but said that if Barings proved solvent he would give all the support in his power.[1]

"I said", he writes, "the great houses must get together and give the necessary guarantee." "This was declared impossible if the government didn't help." Outside the Bank he found two great City figures, names not given, "both quite demoralized"; inside it, "Lidderdale much more of a man".[2] He then left, promising to consult Salisbury, the Prime Minister, and W. H. Smith, the First Lord of the Treasury. He had offered the Governor a Chancellor's letter. "This", Lidderdale wrote, "I at once declined", although the Bank's reserve—£10,815,000—was "entirely inadequate", should serious doubt arise about Barings' solvency.[3]

Two requests Lidderdale did make. Could the Chancellor influence Rothschilds to procure "several millions" from the Bank of France, and to work on the Argentine government about those "discredited securities"?[4]

The gold came from France. Perhaps Goschen "enlisted the assistance" of the Rothschilds, but Lidderdale did the work. Next day Goschen noted how "very cleverly and energetically"[5]

[1] Goschen's diary, 10 Nov.: *Goschen*, II, 170; and *Baring MSS.* 180.

[2] Diary, 10 Nov.

[3] *Baring MSS.* 180 and report in *C.B. Nd.* How little was known outside of the exact course of events is shown by an account in the *Bankers' Mag.* 1891, I, 244: "It is believed that he [Lidderdale] also applied to Mr Goschen for power to suspend the Bank Act if necessary; that Mr Goschen held out", etc.

[4] *Baring MSS.* 180.

[5] Goschen to Salisbury: *Goschen*, II, 172.

the Governor was making arrangements about it with Rothschilds, who were to see to the transmission. An Argentine Committee was also formed, with Lord Rothschild in the chair; but that could not produce quick results.

On Tuesday Goschen and Smith refused absolutely to help Barings. Any overt act by government, requiring an appeal to Parliament, "would put the fat in the fire". "This last argument convinced the Governor" finally, so Goschen thought,[1] but did not lead him to abandon all ideas of official co-operation, as will appear.

By Wednesday, 12 November, £3,000,000 of gold had been borrowed in Paris and £1,500,000 bought outright from Russia, by sale of Exchequer Bonds. Lidderdale explained to the French Governor that England could always force gold to come "by measures more or less stringent", but that such measures "would have been too severe" as things were. So they had "preferred not to adopt the course usually taken".[2] He had raised the rate to 6 the day before his first interview with the Barings, and no doubt did not wish to alarm the City by a further steep rise before he knew the full measure of the danger.

The Bank of France stood out for Treasury Bills as security; and to get them the Bank of England sold Consols to the Commissioners of the National Debt.[3]

"Those behind the scenes", the *Economist* wrote later, "although their tongues were tied, knew quite well what dictated the purchase of gold"[4] from Russia and the loan from France. How many were behind we do not know. The phrase may be only a piece of journalist's omniscience, with the implication that the writer was among them. Apparently the government brokers were not; for so late as Friday, the 14th, John Daniell, the leading

[1] *C.B. Nd* and *Goschen*, II, 172.

[2] Lidderdale to the Governor of the Bank of France, 12 Nov. 1890: *L.B.* 21.

[3] Report in *C.B. Nd.*

[4] *Economist*, 22 Nov.

man in Mullens & Co., came into the Bank crying: "Can't you do something, or say something, to relieve people's minds: they have made up their minds that something awful is up, and they are talking of the very highest names—*the very highest.*" Lidderdale well remembered "the words and the way he lifted up his arms when speaking".[1]

The Times had reported the gold transaction that morning; so perhaps it was then that "those behind the scenes" sprang to the conclusion that Daniell hesitated to put into plain words. It is certain that within an hour of his visit "Barings' bills were coming in very fast"[2] for discount—they had been coming in more slowly since Monday. Goschen had gone to make a speech that night at Dundee, fearing that to cancel his engagement might precipitate panic. He had agreed that Smith should refuse "any direct interposition on the part of the Government".[3]

When Barings' bills began to pour in, the Governor slipped away from the Bank through the bullion court and went by a devious route to pick up a hansom for Whitehall. There Smith was joined later by Salisbury—something after 2.0 p.m.[4] All the facts about Barings were now in Lidderdale's hands. Their statement had been presented on the Wednesday morning. It had been verified, on behalf of the Bank, by Benjamin Buck Greene of the Committee of Treasury, and by Bertram Currie of the firm of Glyn, Mills, Currie, a friend of the Barings, and "admittedly the first authority in the City on banking questions".[5] It showed that ultimate solvency for which Goschen had stipulated; but Greene had told Lidderdale on the Friday morning that Barings might need so much as eight or nine millions to meet immediate maturing liabilities. When he had first heard from

[1] *Baring MSS.* 182: a second statement by Lidderdale commenting on reminiscences of B. B. Greene written down in 1900.

[2] *Ibid.* [3] *Goschen*, II, 173.

[4] *Baring MSS.* 182 and Report in *C.B. Nd*

[5] Welby's memorandum: *Goschen*, II, 283.

Revelstoke that even six might be required, Greene had "considered the shutters would go up"; but Lidderdale had said, "they must be carried on".[1]

Whether Goschen was the first to speak of a collective guarantee is not quite certain. "It was present to all our minds at a very early date", Lidderdale wrote,[2] and it was very clear in his mind when he went to Whitehall.

What the Governor asked of ministers was, first, an increase of the government's balance at the Bank, and second, the assumption by government jointly with the Bank of the risk of loss on Barings' liquidation, pending the raising of a guarantee fund. Only a few days before the crisis he had been pointing out to the Treasury the often exiguous size of its aggregate balance.[3]

This the two ministers readily agreed to increase. Over the second request there was "a long fight".[4] Salisbury offered a Chancellor's letter, as Goschen had on the Monday. Lidderdale again declined flat: "reliance on such letters was the cause of a great deal of bad banking in England".[5] He said, equally bluntly, that he "could not possibly go on with the matter at the Bank's sole risk". Barings' bills "were probably coming in fast now that alarm had set in, and that unless government would relieve us of some of the possible loss, I should return at once and throw out all further acceptances of the Firm".[6]

The threat seems to have done its work. The Ministers agreed that government should bear half of any loss that might result from Barings' bills taken in between 2.0 p.m. Friday and 2.0 p.m. Saturday.[7] With this offer extracted, Lidderdale took his hansom

[1] Greene's reminiscences in *Baring MSS.* 182. [2] *Baring MSS.* 182.

[3] Once so low as £1,600,000, excluding the Chancery and India Office accounts. Lidderdale to Welby, 29 Oct. 1890: *L.B.* 21.

[4] *Baring MSS.* 182. [5] *Ibid.* [6] Report in *C.B. Nd.*

[7] *Ibid.* As this is the only record of this curious offer, it may be noted that Lidderdale's account of it was written not later than 19 Nov. and that it was made on 14 Nov.

back to the City to see if he could raise a guarantee fund fast enough to render it superfluous. The time must have been between 3.0 and 4.0.

By 5.30 he had promises of £3,250,000. The Bank led off with £1,000,000: this was the figure that he had told ministers he was prepared to risk. Glyn, Mills, Currie and Rothschilds each put up £500,000; Raphael and Sons £250,000; Antony Gibbs and Sons and Brown Shipley each £200,000; Smith Payne and Smiths, Barclays, Robarts, J. S. Morgans, Drexel Morgans and Hambros each £100,000. These made up the first list.[1]

Sometime that evening the Governor invited representatives of the five principal joint-stock banks to meet him and his Deputy, David Powell, at the Bank. He laid the case before them and asked what they could do. They were all concerned, for Barings' acceptances were widespread: no paper had stood higher. Their provisional replies were evidence of the great place that they had won in British finance; for the five suggested as big a contribution as that of the Bank and the private houses first approached combined—£3,250,000. The London and Westminster, the London and County, and the National Provincial each suggested £750,000—more than Rothschilds if less than the Bank—the Union of London and the Union Joint Stock each £500,000.[2] Their boards had to arrange special early meetings on the Saturday to approve; but the result was certain, and *The Times* of that morning was able to announce that "the worst was over", thanks to "the prompt and courageous action" of the Bank.[3] All facts were not then available, for it was not until 11.0 a.m. that Lidderdale had full formal assurance of his

[1] The late Lord St Just told me that Lidderdale's work in the crisis had been overrated and Bertram Currie's underrated. I can only suppose that Currie, besides what is recorded of him, was instrumental in raising the guarantee. This seems highly probable.

[2] The Minute of the London and Westminster is printed in Gregory, *The Westminster Bank*, I, 217–18.

[3] *The Times*, 15 Nov.

£6,500,000—more than the sum which Greene had thought would send the shutters up; ample, as he at once reported, to free the Treasury of the liability extorted from its First Lord by the threat to send them up; and three hours ahead of time.[1] Goschen was relieved from anxiety while at lunch in Scotland by a ciphered telegram from Smith.[2]

Before 4.0 p.m. other guarantors had raised the total to nearly £10,000,000. In the end it came to £17,105,000. But it was the work done on Friday that was decisive, and in particular the first part of that work. For Lidderdale, when he met the joint-stock men, was able to relieve them of one ugly fear that had haunted those really behind the scenes. The Russian government, he said, would not now withdraw a deposit of some £2,400,000 that it had with Barings. Those quick early guarantees, no doubt aided by his purchase of the Russian gold on terms very favourable to Russia, had done this. His "now" shows how real the risk had been; and though *The Times* of three days later was able to deny a current rumour that actual withdrawal by Russia had caused the crisis, it was informed that notice of withdrawal of £1,500,000 in three instalments, "for no specified reason", had in fact been given.[3]

In the form of guarantee, all participating firms promised, "in consideration of Advances which the Bank of England have agreed to make to Messrs Baring Brothers & Co. to enable them to discharge at maturity their liabilities existing on the night of the 15th November, 1890", to make good any loss which might appear at the final liquidation, all contributing "rateably" to the amount of their guarantees. A maximum period of three years was allowed for the liquidation. As security for its advances, the

[1] The times are in the Report in *C.B. Nd.* [2] *Goschen*, II, 173.

[3] *The Times*, 18 Nov. The critical "now" is from the London and Westminster Minute. If Currie was in fact primarily responsible for raising the first guarantee, he is owed much of the credit that Lord St Just was disposed to give him.

Bank took over from Barings "all the Bonds and Documents representing value".[1]

Everything was so quick, so decisive, and so highly centralized that there was no true panic, on the Stock Exchange or anywhere else, no run on banks or internal drain of gold; "the great mass of the country's business" was "comparatively little affected";[2] and early in the week that began with Sunday, the 16th, the chorus of praise, condolence and thanksgiving was going up from the Press.

It was at the close of this week that Lidderdale was able to tell the Chancellor how the fund now promised to exceed £17,000,000 —Scottish, provincial and colonial and foreign banks having come in, with discount houses, finance houses, private banks and mercantile firms. He asked Goschen for an official letter for publication confirming the verbal promise of support given by his colleagues, without which the Bank "would not have been justified in assuming so enormous a responsibility".[3] The terms of the letter were discussed between them, as the way is on these occasions, and the government's promise was finally described in the vague phrase that it would support the Bank of England "in case of necessity by such measures of financial assistance as might be required". There was also a reference, unsolicited, to "the great ability, courage and energy" with which Lidderdale and his colleagues had acted.[4]

At Christmas time the Committee of the Stock Exchange was saying on its card how it was "almost entirely owing to the masterly ability" of the Governor and the Court "that a panic

[1] Greene in *Baring MSS.* 182. [2] *Economist*, 22 Nov.

[3] Lidderdale to Goschen, 22 Nov., in *C.B. Nd* under 27 Nov.

[4] All in *C.B. Nd*, under 27 Nov. Sir Edward Hamilton of the Treasury, two months later, told Goschen that Lidderdale "was under the impression that, if he had needed it, the Government had been ready during his [Goschen's] absence in the North to provide a very large balance, which was named". To Goschen this seemed "incredible" (*Goschen*, II, 178). Evidently a snowball of legend was gathering about W. H. Smith's curious offer.

of unparalleled dimensions was averted". Replying, the Governor spoke of Lord Rothschild's part; of that of Her Majesty's government, who offered support "which it has happily not been necessary to claim"; and, of course, of that of the whole body of guarantors. For himself he would "always remember with pride and satisfaction" that, in their opinion, at "a moment of danger I was able to do my duty".[1] In the spring of 1891 he was given a City banquet, and he was sworn of the Privy Council.

How Baring private fortunes, including much on which creditors had no legal claim, were thrown into the gulf, and how a company was formed, Baring Brothers & Co. Limited, to carry on the business and work at the liquidation, is a part rather of the history of the house than of the history of the Bank. For four years, the liquidation taking longer than was first anticipated, Guarantee Accounts A and B appear in the Bank's Ledgers, with payments in from the salvage company and "interest in suspense on advances made to Messrs Baring". The maximum figure for the advances was £7,526,600. There is also the account of the gold borrowed from the Bank of France, including expenses on the £3,000,000 in gold bars "recently sent to Paris". They had been lent for three months at 3 per cent and the interest came to £22,247. 15*s*. 3*d*. on 75,197,422.99 francs. Besides that, nearly £6000 went in Rothschilds' fee, insurance, cartage, freight, and the cost of the necessary couriers and detectives, all essentials in the bullion shipping business.[2]

Hugely satisfactory as the guarantee was to the City and the country, there had been a little cautious criticism of it from the beginning. The *Economist* had thought it "rather too far reaching". "In guaranteeing the mercantile obligations of Messrs Baring", the banks "were simply acting for their own protection". But the three-year spell of liquidation suggested to the editor that there was "some intention of nursing the assets of Messrs Baring,

[1] *C.B. Nd*, 1 Jan. 1891.

[2] *G.L. XXVII*, f. 544 and a MS. report in *G.C.B. XI*.

incurring obligations not only in regard to their mercantile operations, which are stated to be perfectly sound, but also to their financial transactions with the Argentine and other South American Governments which are of a doubtful character". It feared the setting of a precedent that a big finance house had only "to over-commit" itself "to the extent of a sufficient number of millions" for the combined strength of the whole banking system of the country to be mobilized, "to tide them over their difficulties". It warned bank shareholders that, if this was what was meant, their boards were "going beyond their province", and risking shareholders' interests.[1]

Something very like this nursing was in fact meant and undertaken; but the perfectly fair criticism lost part of its force when it appeared that the firm was not merely being tided over its difficulties, but that the first and main business of the new Barings was to make such reparation as it could for the faults of the old. The directors were most successful in preserving continuity. They "retained nearly the whole of the commercial credit business of the old firm", also "the accounts of the chief foreign governments who had dealt with the old firm and the great mass of the [foreign] dividend accounts".[2] And as in the end "not a single bill...failed to be paid",[3] and no guarantor lost a penny, the interests of shareholders in other institutions were well guarded by the nursing Bank.

If the story of the long drawn-out liquidation of "the three W's" had been known to critics, the conclusion of this far larger and more complex operation in just over four years might have seemed remarkably quick. As it was, the renewal of the guarantee, in April 1893—when the Bank saw no prospect of finishing the work within the period of three years originally allowed—gave a great deal of trouble.

[1] *Economist*, 22 Nov. 1890.

[2] Chairman's speech, August 1891; *Bankers' Mag.* 1891, II, 265.

[3] *G.C.B. XI* as above.

"Several banks and the Rothschilds" stood out for a long time, on what exact grounds one can only speculate—there is no record at the Bank—and the Committee of Treasury "had a hard fight" to secure the extension that it desired.[1] Why it desired extension is clear enough. It still had a very considerable uncovered liability, and it evidently hoped that, with a little more nursing, the assets might be made to cover it.

The new form of guarantee was for a year, with power for the Bank to claim a second year, that is till 15 November 1895. In connection with it, the whole position was reviewed and the assets were re-valued. Very few guarantors had fallen out, and these were replaced, all now undertaking only 25 per cent of their original liability.[2] At the end of the first year of extension the business was not nearly done. The Bank issued a circular to guarantors in October 1894, explaining that it proposed to take advantage of the extension clause, as its liability still stood at £1,999,235.[3] But Barings Limited were working hard; private property of the family had been thrown in and in, though its realization had been slow, as that of the very mixed bag of South American assets had necessarily been. At the end of the year the firm approached the Bank's solicitors with suggestions for a final settlement. They have offered terms, Freshfields wrote to the Governor, which, when slightly modified, will enable us to advise you "to hand over all the securities and be paid off in full". The Bank accepted the terms and received the "sincere and heartfelt thanks" of the new Barings.[4]

Before the middle of January 1895, less than a year and two months after the expiry date of the original guarantee, Sir William Harcourt, the reigning Chancellor of the Exchequer, was writing to congratulate "the Sinbad of Threadneedle Street that he is

[1] *Baring MSS.* 182: Lidderdale. Discussions reported in *C.B. Pd*, 16 Feb. 1893.

[2] Details are in *Baring MSS.* 181.

[3] Letter in *Baring MSS.* 182 and *C.B. Rd*, 18 Oct. 1894.

[4] *Baring MSS.* 192 and *C.B. Rd*, 17 Jan. 1895.

delivered from the Old Man of the Sea". The guarantee "was a bold and probably necessary stroke and it has ended well—may it never be repeated".[1] A few days later a letter came from his predecessor Goschen, just as congratulatory and with at least as much understanding of the problems and appreciation of their handling, but less vivacious.[2] Goschen had been in the closest possible touch with the Bank, and especially with William Lidderdale, until his more than five-and-a-half years at the Exchequer closed in 1892, only four months after the close of Lidderdale's very unusual three years' tenure of the Governor's Chair.[3] They had been trying to draw lessons from their joint experience and to plan for the future, in an economic and financial air which already, within a few months of 15 November 1890, had the tang of a new decade. Indeed, Lidderdale's calling-in of the joint-stock men to the inner councils of the Bank points clearly enough to a change in the wind.

[1] Harcourt to Lidderdale, 11 Jan. 1895: *Baring MSS.* 193.

[2] Goschen to Lidderdale, 15 Jan. 1895: *Baring MSS.* 193.

[3] His success in 1890 probably influenced the extension, but it had been discussed before the crisis, because important negotiations with the Treasury were unfinished; and his successor said that he had consented to serve on in order to finish them: reports of General Court meetings 10 Sept. 1890 and 16 June 1892, in *Bankers' Mag.* 1890, p. 1696 and 1892, II, 51.

CHAPTER VII

FROM THE BARING CRISIS TO THE SOUTH AFRICAN WAR, 1890 to 1899

HAVING completed in 1888 their shifting of the National Debt burden on to a $2\frac{3}{4}$, and in the end a $2\frac{1}{2}$ per cent floor, Goschen and his advisers had naturally taken in hand the ancient debt of the government to the Bank. The agreement of 1861, Gladstone's agreement, had been for twenty-five years only, and since 1886 had been continued without amendment. This left the Treasury free to announce to the Bank, in February of 1889, the nomination of a departmental committee to investigate the relations of the two high, but unequal, contracting parties.[1] It was not solely, perhaps not primarily, the rate to be allowed on the debt of £11,015,100 that interested the Treasury officials. In the later correspondence they pointed out that, as all bankers now did more for their clients without pay than had been customary in 1860, it was reasonable that the Bank should either take less pay or do more work for what it took.[2]

The inquiries and discussions were long and close. They were barely half through when the question of Lidderdale's remaining in office to finish them was raised on the General Court, in September of 1890: the Act of Parliament which legalized their main conclusions is dated 27 June 1892. It passed an almost silent House of Commons, and the Lords without a whisper. An Irishman spoke in the Commons because it also dealt with the

[1] *C.B. Ld*, 28 Feb. 1889.

[2] *C.B. Pd*, 2 June 1892, quoting Treasury letters.

Bank of Ireland; and there were a few trifling official amendments. That was all.[1]

The main lines of the agreement were so simple, and in view of the position from which the Treasury approached the inquiry so obvious, that the preliminary conferences and long correspondence can be ignored. Applying its principle of asking more of its bankers, the Treasury ceased to make a variety of small payments—for services rendered to the Inland Revenue, the Customs and the Admiralty—and cut the interest on the Deficiency Bills, so saving upwards of £9000. For management of the debt, the Bank was to receive £325 per million up to £500,000,000, and beyond that £100 per million, in place of the £300 up to £600,000,000 and beyond that £100 of the 1861 agreement. It was to lose a fee of £3000 for assessing income tax on the dividends. For Exchequer Bonds or Bills, the management charge was to be £100, for the more troublesome Treasury Bills £200, per million. On the ancient debt to the Bank the interest was to be cut to $2\frac{3}{4}$ until 5 April 1903, and thereafter to $2\frac{1}{2}$, so bringing it into line with Consols. All these arrangements were to run until 1912, and after that from year to year.

Goschen initialled the agreement on 4 April 1892. It was laid before the General Court on 16 June, only eleven days before the Bill that embodied it received the Royal assent. A motion that the proposals were unfair was inevitably rejected.[2]

Two clauses of the Act went outside questions of remuneration; by one, notes more than forty years old and not cleared might be omitted from the reckoning of the issue under Peel's Act and taken into profit; though the Bank would still cash them on presentation, and sometimes did. The other sanctioned the grant of a supplemental Charter to regulate the Bank's internal affairs. There were inconvenient rules or inferences from the foundation Charter and ancient Acts of Parliament, to whose

[1] *Hansard* (4th series), v, 1495, 1579, 1903. The Act is 55 & 56 Vict. c. 48.

[2] *G.C.B. XI*, 16 June 1892, with the whole agreement.

amendment or rectification no one could object; and a doubt as to whether Bank stock could be transferred ex-dividend, which had led to closing of the books for transfer business between the declaration and the payment of the dividends, had to be resolved.

When the financial clauses of the new agreement that he had negotiated were settled and the Bill was ready for the House, Lidderdale had explained to the Court that it meant a reduction of receipts from the Treasury, under certain heads, of £50,000 a year, an increase under others of £21,000. This reduction of £29,000 net was on gross receipts from interest on debt and management of £508,000.[1]

The supplemental Charter was so little urgent that it was delayed for another four years; after all the Bank had done without one for two hundred and two. When it came, besides dealing with the ex-dividend transfers, it abolished two of the four annual General Courts—so purely formal long since that they were never reported in the Press; brought in some changes and relaxations relating to Directors' and Governors' oaths or declarations, and to the filling of casual vacancies in the Court; gave voting powers to trustee stockholders; left the General Court free to re-elect any or all of the outgoing Directors; and did away with the tiresome rule introduced by the Act of 1767 which required a separate meeting of proprietors and a ballot before the dividend could be raised.[2]

For three or four years after the Baring crisis everyone interested in high finance—Chancellor, Governors, some bankers and most of the financial journalists—was talking about the inadequacy of

[1] From interest £320,000; from management £188,000. To get net income, £163,000 paid to the Treasury as its share of profits from issue must be deducted. See *Stock Estimates*, VII, 1892 and *G.L. XXVII*, f. 701. Lidderdale's figures to the Court are in *C.B. Pd*, 7 April 1892.

[2] The Charter, of 1896, and correspondence about it are in *Secretary's Records: Supplementary Charter*. For the Act of 1767 see Vol. I, p. 183.

the nation's banking and gold reserves. It was not a new topic. Writers only had to quote Bagehot from memory. So early as 1875, when *Lombard Street* was new and when "jealousy" of the Bank of England among bankers whose resources were "continually increasing with far greater rapidity" was openly spoken of, an anonymous scheme was before the City for a distinct bankers' reserve to regulate the rate of discount without reference to Threadneedle Street.[1] But as the proposal in its original form aimed at a bankers' special reserve of eight millions in Bank notes, the retention of their normal reserves at the Bank, and no change in the gold situation, even the *Bankers' Magazine*, while agreeing with the proposer that "the old system of paternal government [by the Bank] was passing away", asked pertinently how could the banks turn their backs on Threadneedle Street for years, and then in time of trouble, gold trouble, run to it saying "what can you do to help us?"[2]

In 1876 the anonymous reformer had shifted his ground and suggested a bankers' combination under the presidency of the Bank; but his revised plan appears to have stirred less interest than the original. The *Economist* wished he had "worked it out in greater detail"; the *Bankers' Magazine* thought that general feeling was "hardly ripe for so important a step";[3] and by asserting, no doubt correctly, that the whole tradition of Lombard Street was hostile to decentralized reserves of gold, endorsed Bagehot's view that what he had called the "natural" system of multiple reserves would attract no one, and that only a strengthened central reserve was worth working for.

During the late seventies and the eighties, idle capital, low rates, and the absence of serious foreign complications joined with

[1] The quotation is from *Bankers' Mag.* 1875, p. 5; the anonymous scheme is in a letter to the *Economist* of 5 Dec. 1874.

[2] *Bankers' Mag.* as above, article entitled, "Prestige and the Position of the Bank of England".

[3] *Economist*, 15 Jan. 1876; *Bankers' Mag.* 1876, p. 129.

the shifting of interest towards the gold and silver problem to drive that of the reserve into the background of average opinion, though active minds saw points of contact between the two problems.[1] The buying and borrowing of gold in 1890 pushed the metallic reserve problem, if anything, too far forward. As Lidderdale told the Governor of the Bank of France, ordinary operation with the rate would have brought the gold in time. There was nothing discreditable in unusual emergency measures to meet a most unusually sudden City storm—yet neither the City nor Lidderdale himself cared to think of being beholden to the Russians and the French. Suppose that for some politico-financial reason they had been unwilling to oblige, or suppose there had been no helpful house of Rothschild to play the honest broker? No one said that, but it was evidently in many minds.

During the weeks immediately following the crisis, Lidderdale's watch over his reserves was naturally anxious. When in January 1891, Goschen was billed to speak at Leeds, the Governor begged him to say nothing that might imperil our "very inadequate Banking Reserves", noting that "the larger the Bank's own reserves, the less bankers like to keep *their* money unused".[2] He had spoken plainly to these same bankers within a few days of the crisis in a speech at the Guildhall; and now he "sometimes almost regretted having prevented the panic threatened" by his "assault"—"they are a stiffnecked and rebellious race, each caring only for his own corporation".[3] Goschen was hankering after an issue of small notes, to be backed by a bigger metallic reserve: at Leeds he flew a small-note kite, speaking decidedly about the need for both greater central banking reserves and greater gold reserves, tentatively about £1 notes based on gold and 10*s*. notes based on silver.

[1] E.g. Samuel Montagu, M.P., in an address to the London Chamber of Commerce: *Bankers' Mag.* 1892, I, 243; and below, p. 348.

[2] *L.B.* 21, Lidderdale to Goschen, 22 Jan. 1891.

[3] *Ibid.*

Commenting to him on his speech, the Governor reported that no one in the Bank thought the bankers' reserves adequate, but that "no one cared much about £1 notes". Why should not Goschen take the joint-stock banks into his confidence? Why not tell them that their reserves were too small and that he meant to ask Parliament to compel them to publish skeleton accounts weekly? Make it clear to them that £1 notes are desirable "only or mainly" to get a bigger gold backing for the notes as a whole. And then say that if they will help in all this you will give the Bank extra powers to cope with emergencies? "My impression is that they would come to terms."[1]

Lidderdale was also telling Goschen in confidence that a sum of £11–12,000,000 had normally covered all the balances at the Bank of the joint-stock banks, the private banks, and the London agencies of the Scottish banks, in 1888–9 and down to the crisis in 1890.[2] (He was using an average: the weekly balance had actually varied between £9,100,000 and £15,200,000, low figures seeing that in 1878 the corresponding ones had already been £8,300,000 and £14,100,000.)[3] The Bank, he said, was not seeking more profit but more reserve. If the banks would not leave more, he would "look round for compensation in other ways, and these ways must produce the same result (less profit to the bankers, more to the Bank) as their leaving more money here".[4] The banks, he added, seemed to sense danger now when the Bank registered an aggregate below £10,000,000. Then they called in short loans from the market; the Bank could fix the value of money; and the market was "in the Bank". On several occasions when balances had got towards £9,000,000, "the demand on the Bank of England was *very* heavy".[5]

[1] *L.B.* 21, 4 Feb. 1891. [2] *L.B.* 21, 27 Jan. and 25 Feb.

[3] *Weekly Accounts*: a summary volume started in 1844 and still laid weekly before the Court.

[4] *L.B.* 21, 10 Feb. 1891.

[5] *L.B.* 21, 25 Feb. 1891.

In the crisis it had spent £107,000 to secure the French and Russian gold, and had lost the profit that would have come to it by adopting "the old and well proved method of raising the rate till gold flowed in naturally". As things had then stood, "a *very high rate indeed*" would have been required, since Spain, Portugal, Germany and the United States were all "under financial pressure". To get gold quickly and save the City from panic, the Bank had denied itself this panic rate and lost on the gold into the bargain.[1]

When the saved City gave Lidderdale its freedom, in May 1891, he spoke his mind again, courteously and in athletic metaphor as fitted the occasion, but plainly enough. The Bank and all the powers of finance were in one boat, he said, but "it would be for the common advantage of bankers and the country if the rowers would take their time a little better from the stroke oar".[2]

Well before the crisis he had begun to "look round" for business which would give him the deposits and potential banking reserves which, as he held, the bankers owed him. In March of 1890 he had been explaining to the Court of Proprietors that a recent, and much discussed, arrangement between the Bank and the new County Council of Hampshire was not as people said a beginning of interest on deposits. It was only a promise, that, provided the Council would keep a specified good balance, a substantial part of this balance should be lent at interest. But for this arrangement, we should have lost the account, Lidderdale said. As for interest on deposits generally, the Bank might be forced to break with tradition and consider even that.[3]

The Hampshire County Council did not stand alone. In June, Lidderdale reported a somewhat similar arrangement with the Council of India: a sum of £3,200,000 recently raised by loan

[1] *L.B.* 21, Lidderdale to Goschen, 27 Feb. 1891.

[2] *Bankers' Mag.* 1891, I, 1007. He had said this a year earlier, quoted it, and 'would earnestly' repeat it.

[3] Court meeting of 19 March: *Bankers' Mag.* 1890, p. 602.

but not wanted until December—to buy out a railway—was to be lent to the Bank meanwhile at 1 per cent below Bank rate, when the rate was 3 or lower, and at 1½ per cent below with a higher rate. He also reported earlier, shorter, loans that the Court now formally approved.[1] From this time forward such receiving of monies to lend again from clients, public or private, in return for what was in effect a commission of 1 or 1½ per cent, became a normal Bank activity: the Ecclesiastical Commissioners were one such client and another was the office of the Crown Agent for the Colonies.

Lidderdale had also conserved his resources and "pinched" the discount houses rather unexpectedly by encouraging "a more resolute attitude" at the Bank, and declining to make those open-handed offers of money which beat down the short rate. Here the bankers whom he did not love had helped him, by reducing their deposit rates and so their need to earn on short or call money with the discount houses.[2] As a result of his various efforts, Lidderdale had been able to tell the proprietors at the September Court of 1890 that the Bank's deposits at £35—36,000,000 were much greater than they had formerly been; yet that he would be glad of more, if he could get them.[3] The crisis only confirmed his opinion that—in a phrase which he did not use—it was up to the banks to supply him, in the country's interest, not in that of his proprietors.

Goschen was still hankering after the bigger reserves and more gold. He told Lidderdale in October of 1891 that he had induced the London joint-stock banks to promise him monthly, and the country banks quarterly, statements of account.[4] He had always opposed the £1 note as a means of economizing gold, he said: any

[1] *C.T.* 39, 18 June 1890. And see a Chief Cashier's book, *Money Borrowed*, which covers the years 1861–1906, p. 29.

[2] "The Bank of England and the Money Market", *Bankers' Mag.* 1890, p. 1641.

[3] *Bankers' Mag.* 1890, p. 1696.

[4] He did not get them all: fourteen years later only 12 out of 17 clearing banks issued monthly accounts; Sir Felix Schuster, in *Bankers' Mag.* 1905, II, 732.

issue should be based to only a small extent on securities. That it would drive gold out of men's pockets was a positive advantage. He would rather have £20,000,000 at the Bank mobilized than £30,000,000 in ten million scattered pockets.[1] In December he restated his case to the City. But City opinion was as little convinced as before. "A few weeks reflection...told much against it";[2] and when he left office in August 1892 there were still no small notes south of the Cheviots. Yet those in the City who knew most about gold were nearly with him. Samuel Montagu, bullion-dealer, had reminded the London Chamber of Commerce early in 1892 that there was an international "scramble for gold"; that the shutting of continental mints to silver had closed an easy door of access to it; that ours was the only free market for it; that we alone were quixotic enough to coin it for everyone and for nothing; and that our new fashionable types of colonial and overseas securities were not so saleable at short notice in exchange for it as Consols and British Treasury paper had been. The Bank, he alleged, in spite of our free market, did not hand out the best coined gold quite freely: when you asked for sovereigns it gave you those that were slightly worn though not legally light, a thousand of which might weigh only nine hundred and ninety eight new ones.[3] This was true. The Bank would sell any bullion dealer full weight bars, but it saw no reason why it should hand out nothing but new and perfect sovereigns, perhaps to be melted down abroad. It kept, as Montagu stated, bags of "export sovereigns" for clients who demanded coin. Montagu implied that the policy was new, but it was so natural that this seems unlikely.[4]

[1] A published letter of 9 Oct. 1891; printed copy in *C.B. Od.*

[2] *Bankers' Mag.* 1892, I, 208.

[3] The address referred to p. 344 above. The Rand was not yet very productive.

[4] Information supplied by Sir Gordon Nairne, who became Deputy Chief Cashier in 1893. The Bank, having lost millions of brand-new sovereigns in 1816–18 (above, p. 65), may well have adopted this policy early; but I have been unable to date the start.

However, coinage legislation while Goschen was at the Exchequer reduced the range of a bullion-dealer's possible grievances. A consolidating Coinage Act of 1870 had not worked so as to get rid of the legally light coins fast enough.[1] A Goschen Act of 1889 required the Mint to exchange all pre-Victorian gold that was merely worn, not mishandled, at its face value; and the Treasury had urged the Bank to hasten withdrawal by asking bankers privately to send it in for exchange at once. This was done.[2] A second Act of 1891 authorized the purchase on government account, also at face value, of all coins that had not lost more than three grains in the sovereign by wear and tear. About the time when Montagu complained, the Mint began under this Act that continuous re-coinage which removed all reasonable ground for future complaint and created those perfect new-struck sovereigns that elderly men recall. By June of 1893, a financial journalist could congratulate the country on an admirable completed restoration of the gold money, though in fact the restoration was not then quite complete.[3]

So much for quality. Two years later all anxiety about quantity was over. The Rand was doing its work. The United States government was obliged by the Sherman Act of 1890 to coin a great deal of silver: there was gold to spare which flowed out easily whenever the balance of indebtedness called for it—£66,000,000 in all between 1888 and 1896.[4] In Western Australia the Kalgoorlie field began to produce in 1894.[5] Journalists were writing not about the scramble for gold, but about the golden flood.[6] The Issue Department of the Bank, which at the close

[1] For this coinage legislation see Feavearyear, *The Pound Sterling*, pp. 294–6.

[2] *C.T.* 39, 9 Oct. 1889.

[3] *Bankers' Mag.* 1893, II, 1 and 1895, II, 1.

[4] See Hawtrey, *A Century of Bank Rate*, p. 111; Sayers, *Bank of England Operations*, 1890–1914, p. 15.

[5] Curle, J. H., *The Gold-mines of the World* (2nd ed. 1902), p. 124.

[6] Lawson, W. R., "The coming flood of gold", *Bankers' Mag.* 1895, II, 48.

of the Baring year held £22,649,000 of coin and bullion, had £30,266,000 at the end of 1894, and late in 1895 well above £40,000,000. Now this had been Goschen's ideal figure, and with it in hand the Bank need not grudge gold to the bullion-dealer; but if he asked for coin it still gave him "export sovereigns".

That financial boat of the City in which the Bank, in Lidderdale's phrase, pulled stroke oar was bigger and more elaborate than it had been when he joined the Court in 1870, though its lines were not conspicuously different. Even by 1870, the old sixty or seventy London banks of all sorts had grown to more than a hundred and twenty, mainly by the arrival of some forty imperial and overseas companies, such as the Bank of New South Wales and the Hong Kong and Shanghai. In 1890, besides a major list of a hundred and twenty-eight, which contained some of these and some purely foreign banks, there was a second list of nearly a hundred described as "not carrying on business as London Bankers".[1] In this were now placed most institutions of the foreign, imperial or Anglo-foreign types—the Anglo-Egyptian Bank, the Imperial Bank of Persia, the Yokohama Specie Bank and the rest. Of these every one had its relations with the Bank: the Comptoir d'Escompte, an early arrival, had been given a drawing account in 1874:[2] acceptances of the imperial banks were well known in the Bank's discount office. All had only single offices in London. So had most of the firms on the main list, including the still numerous surviving names from old London banking—Barclay, Coutts, Dimsdale, Glyn, Herries, Hoare, Lubbock, Martin. But that list included fourteen joint-stock companies with branches in London and elsewhere, their London branches alone ranging from the four of Lloyds to the thirty-six of the London and County and the sixty-one of the London and South-Western.[3]

[1] Price, *A Handbook of London Bankers*, p. 423.
[2] *C.T.* 35, 18 March 1874. [3] All from Price's list for 1890.

Among the joint-stock-with-branch banks was the National Provincial which had sacrificed its issuing right to get into London back in 1864.[1] All the chief Scottish banks now had their London offices, though in their case issuing rights were not affected—one of the illogical privileges reserved by British law or custom for the Scot, together with that of drawing his harvest and holiday gold, as backing for an extra issue of notes, from a Bank whose own notes were not technically legal tender in Edinburgh. Lloyds from Birmingham had followed the lead of the National Provincial when in 1884 they absorbed the two fine old London houses Barnett, Hoares and Bosanquet, Salts. Lloyds at that time was an amalgam of ten private and three unlimited joint-stock businesses.[2] It was followed in 1891 by the Birmingham and Midland, which by buying up the Central Bank of London, on the Central's terms—so eager the Midland was to make London—became the London and Midland.[3]

Fast as amalgamation was going forward, there were still, in 1890, seventy-eight private country banks authorized to issue notes, with average issues ranging from £376 to £67,881, and thirty-six joint-stock issuers, of which by far the greatest was Stuckeys of the West Country with its circulation of £173,699. It had been spreading its notes by way of its branches ever since Vincent Stuckey took advantage of the law of 1826 to amalgamate several private banks in which he was interested on the new joint-stock basis.

The highest of the foreign banks—the Banque de France, the Reichsbank, and such—did not open London offices but had their contacts with the Bank of England. Apart from crisis contacts, a certain amount of informatory correspondence passes:

[1] Clapham, *An Economic History of Modern Britain*, II, 344.

[2] Clapham, III, 281; "The Great Banking Amalgamation", *Bankers' Mag.* 1884, p. 374.

[3] Clapham, as above. "City" came into its official description by a further amalgamation of 1898.

the Bank of England may explain to the young Reichsbank its policy of pensions for the widows of clerks,[1] or to the Bank of France that its domestic movements of coin, except in abnormal emergencies, are "aussi réguliers que les marées".[2] Younger national institutions will often ask for its rules or its statutes, and are always told that there is no book of the rules; that its Charter would be of very little use to them; and that its relations with the Exchequer have never been codified from the relevant Acts of Parliament.[3]

The Bank itself had approached a little nearer, though not very near, to the joint-stock-with-branches-in-London type by the opening of its Law Courts Branch in 1888. The Western Branch had then functioned successfully for over thirty years. Its business was of the kind that its situation near Bond Street would suggest: plenty of drawing accounts of West End tradesmen and other West Enders; a fair amount in advances; very little discount—after 1873 hardly any.[4] The Law Courts Branch was opened to facilitate the perpetual and vast business that had long been carried on between the Bank and the lawyers, arising from trusts, estates in Chancery, sums paid into Court, and the like.[5] So far back as 1806, when the spring dividend was declared on 5 April, by far the largest payment went to the Accountant-General of the unreformed Court of Chancery: it was nearly three times that paid to the then greatest proprietors, the Duke of Bridgewater and the Bank of Scotland.[6] Nothing is heard of a

[1] *L.B.* 19, 4 May 1881. [2] *L.B.* 19, 11 Nov. 1881.

[3] Various letters in *L.B.* 19 to the Italian Ambassador, the Austro-Hungarian Consul-General and the Bank of Spain.

[4] For its opening, above, p. 248. Its business in the *Stock Estimates*, e.g. IV (1851–60), VI (1872–81).

[5] This dated from an Act of 1725 (12 Geo. I, c. 32) which ordered the Masters in Chancery to use the Bank; ever since this Act, the Bank had had a Chancery Office, or section.

[6] From a surviving *Dividend Book*, for Dividend 224 of 5 April 1806: the Accountant-General of the Court of Chancery, £330,770; Bridgewater, £120,000; the Bank of Scotland, £116,000.

branch for the convenience of the lawyers while the original branches were being set up. It was not till 1858 that the Incorporated Law Society asked for one, and not until 1868, when the new Courts of Justice were rising, that the Bank decided to build one.[1] But because of hitches in the negotiations for a site the scheme slept until 1880, when the Treasury reported that the Courts had moved into their new quarters and asked the Bank either to build or to send its clerks to rooms in the Courts which would be set aside for their use.[2] An Agent and nine clerks were sent next year to what, it had first been suggested, should be called the Chancery Branch, in view of the main source of the business. Renewed site inquiries, and then building operations, trailed out over years; and it was December 1888 before the Agent and his clerks moved into the Bank's own Law Courts Office at the corner of Bell Yard and Fleet Street.[3]

The extension of banking facilities, and particularly of branch banks, throughout the whole country and the steady arrival in London not merely of Anglo-foreign but of strictly foreign offices, such as those of the Deutsche Bank or the Crédit Lyonnais, had affected both the conduct and the prospects of British banking. As deposit facilities, linked up by the branch system, had spread from district to district, there had set in a decline in the importance of the inland bill. A regular negotiable instrument by the use of which money could be transferred from areas where it was redundant to those where it was short was less necessary than formerly.[4] Banks could transfer balances and allow overdrafts in the short areas. Even the foreign bill was losing ground to the cheque and the telegraphic transfer. As for the true foreign banks,

[1] There is a long memorandum on it, by the Deputy-Governor, in *C.B. Qc*, 10 Dec. 1868.

[2] *C.T.* 37, 2 Feb. 1881.

[3] See Acres, *The Bank of England from Within*, pp. 543–5.

[4] Cp. Hawtrey, *A Century of Bank Rate*, pp. 55–6.

unlike the Anglo-foreign and colonial banks, they were not in London in the interests of British or imperial trade. Their main, and often very large, capital was elsewhere. Their prime monetary concern was not with sterling but with francs or marks or dollars or even yen. In times of stress it was hard enough to induce British banks to co-operate. At such times the true foreign bank would naturally be guided by foreign interests. Some ten years after the Baring crisis a financial journalist rather given to panic-mongering would write an article headed "Lombard Street under Foreign Control".[1] He would point to the prominence of foreign names in the exchange, bill and bullion businesses right down the century—Huth, Haldimand, Meinertzhagen, Rothschild, Hambro, Göschen, Samuel, Raphael and others.[2] The bearers of all these names had, however, become completely identified with Britain and British interests. The true foreign element, he would argue, had "more influence on exchanges than all the joint-stock banks"—most of which knew very little about them—"or even the Bank of England itself". And the foreign banks were acting in the interests of foreign money centres, all jealous of London. Overstated when he wrote, his argument would have been perceptibly less valid for 1890; but it had a foundation solid enough.

By 1890–91 that important section of "the market" whose first-line members were the regular discount houses had taken a form which remained substantially unchanged for the next twenty-five years. At its head were now the joint-stock firms, few and strong, which had kept alive from among the experimental foundations of the fifties and sixties. No private business had acquired the predominance once held by Overends, although Alexanders, who survived 1866, remained the equals of the

[1] The title of an article by W. R. Lawson, author of *Frenzied Finance*, in the *Bankers' Mag.* 1901, I, 376.

[2] He mentions the fact, not these names which are collected here to support his point.

limited companies of the second rank. The leading rank, in the seventies and eighties, had contained only a single firm—the National Discount Company of 1856. Down to 1885 it was "by far the most important institution in the market".[1] In that year, however, the two companies of the second rank, the General Credit and Finance of 1863 and the United Discount Corporation, which had grown out of a business also founded in 1863 to finance the old private firm of Bruce and Company, had joined to form the Union Discount Company of London, with a capital of £1,000,000, £500,000 paid up. The year before amalgamation, the joint deposits of the General and the United had slightly exceeded those of the National; and in course of time the Union gradually became rather more powerful than the National.[2] Alexanders were already almost equal to either when, in 1891, they decided to give the public what had become the attractive bait of published accounts, by registering as a private limited company.[3] As such, they remained comparable with, though not quite equal to, the public companies, until they themselves adopted the public character in 1911.

Below these three leading houses were private firms of varying age, permanence and strength, numbering at any one time about a score. Among all the discount houses, the type of the business was approximately uniform. Loans and deposits were taken from individuals and mercantile firms, as well as from banks. The Union we know, and other firms we may perhaps assume, had some 40 per cent of these deposits at call.[4] They sold to bankers at home and abroad bills which they guaranteed, and these bills were "rarely under £10 in size or longer than twelve months".[5]

[1] King, *History of the London Discount Market*, p. 261.

[2] King, pp. 330–1. [3] King, p. 262.

[4] *Interviews on Banking and Currency* (*U.S. Monetary Commission*, 1910), pp. 104 sqq.; evidence of the manager of the Union.

[5] The Union, as above, p. 108. It is assumed that these details of business were approximately true of other houses.

From time to time any discount house might borrow at the Bank—subject to the Bank's rules for the trade and the reigning Governor's discretion. Writing in 1894, an anonymous banker asserted that during the previous decade "successive Governors" had "shown evident unwillingness to advance money freely to the market".[1] He hinted that, had the joint-stock banks been sure that the Bank would be more open-handed, they would probably not have objected to its beginning to give interest on deposits. If he was writing precisely, his criticism of Governors covered James Pattison Currie, Mark Collet, William Lidderdale and David Powell. His remark that the Bank had "got a little rusty of late" probably referred not to this alleged stinginess towards the market but to an unhappy episode of the previous year, yet to be discussed. He repeated some well-worn, but not worn-out, criticisms of the Bank's organization and management. It should improve the directorate—perhaps introduce real bankers; get rid of the "shifting and evanescent" Governor, and appoint a permanent manager. (He reads like a joint-stock man.) The implication was that, if it did these things and scraped off the rust, it would naturally proceed to encourage rather than discourage dealings with the discount houses. It is a simple, and in some ways simple-minded, banker's criticism. What, if anything, lay behind it at the Bank?

It is true that under the two Governors who preceded Lidderdale the income from the advance business was stagnant or declining, although rates were reasonably high.[2] That the Court was not unwilling to do more business is shown by the resolution of January 1888—Mark Collet in "the Chair"—which offered market rates for both discounts and advances to sole customers at the branches.[3] That Governors should be cautious about

[1] "What the Bank of England ought to do", by "a Banker": *Bankers' Mag.* 1894, I, 185.

[2] See App. D and App. B.

[3] *C.B. Kd*, 26 Jan. 1888; cp. p. 322 above.

advances in 1888–9, the time of the first "Kaffir boom", was natural and wise: Lidderdale coming to "the Chair" in April 1889 had "pinched" the market. That there was a party in the Court which was worried about the small income from discounts and advances is shown by an odd episode of June-July 1890. Thomson Hankey made the remarkable proposal that the Bank, to free its hands to all customers, should cease to publish its rate.[1] His mind had always been ruled by Peel's dogma of the Bank as a free competitive institution and he was eighty-five that year. He withdrew his motion on being offered a committee of inquiry; and this committee reported on 24 July that publication ought to continue. The rate always had some effect, although it did not always produce a full corresponding rate either at home or abroad—an understatement of its comparative ineffectiveness at times.[2] To abandon it would weaken materially the Bank's control of the exchanges. "The greater opportunity of getting discounts resulting from non-publication could be obtained in other ways." On the committee's recommendation it was accordingly resolved that "Bill Brokers, Discount Companies, Money Dealers, and Institutions of the nature of Financial Companies may with the consent of the Governor be admitted to Advances, and may be allowed to offer for discount not below published rates, bills up to 15 days"—the Governor retaining full liberty to shorten the currency or refuse any given proposal.[3]

A sharp rise in income from short loans and advances during 1889–91 was due more to higher rates than to any great increase in transactions. The Baring crisis made Lidderdale and Powell cautious with reserves and little likely to take risks under the vote of the previous July. But how far an income from the discounts

[1] *C.B. Nd*, 12 June 1890.

[2] See Clapham, III, 16, n. 3 and the references there given.

[3] This liberty Powell used rather harshly. He had been advised to renew no advances more than once; and as a result he called in 'perfectly good, well-secured, advances to old customers' (Note by Sir Ernest Harvey).

in Threadneedle Street which dwindled away almost to nothing during 1893–5, and an income from advances which fell plumb in 1894–5, were due to any omissions on Powell's part, how far to a market rate which—falling grotesquely low from the end of 1893—meant small receipts whatever he did, it is not easy to conjecture.[1] If he had been specially cautious on reaching "the Chair" in 1892, he had reason: there was fresh excitement that year on the "Kaffir Circus" in Capel Court. Internal troubles towards the end of 1893 would explain further caution. What is certainly known of Lidderdale's policy, and may with fair certainty be inferred of his, is that from 1888–9 until gold began to heap up in the vault in 1894–5 it displayed a restraint which may well have seemed excessive outside, but was not for that reason always mistaken. And perhaps the critical banker of 1894 was not in fact thinking of policies older than 1888.

That the Bank's machinery had "got a little rusty of late" had been shown, in November 1893, by some jarring irregularities at a central point—the office of the Chief Cashier, a trusted official twenty years at his post, whose father had served the Bank before him. Irregularities, acts of disloyalty and insubordination, they were, not actionable offences,[2] perhaps not by ordinary business standards moral offences. That they were possible was proof of defective internal transmission of intelligence and so defective control of the higher officers from above, even when a Lidderdale was Governor. The Cashier, a strong man, whose "military stiffness" is said to have been "much resented outside the Bank",[3] but who is remembered with affectionate respect by some who served under him,[4] had shown injudicious favour to various clients of the Stock Exchange or Financial Company type, without

[1] For the incomes see App. C and App. D.

[2] The Committee of Treasury took Counsel's opinion on this: *C.T.* 40, 22 Nov. 1893.

[3] *Bankers' Mag.* 1893, II, 807.

[4] As two who did have told me.

consulting the Governor as he should have done. One such firm had been allowed, besides a large authorized advance against securities, an unauthorized overdraft, which had run for six years, had once been so high as £180,000, and was still at £120,148. 16*s*. 0*d*. Overdrafts were out of order in any case. On an advance to another firm, authorized in 1887, no interest had been paid in 1892–3: the fact had never been reported and the security was insufficient. A third advance, for which the Cashier himself had provided the securities, had been made in an outside name: this advance had been continued for three years without authority from the Governor; and "we find other irregularities of greater or less importance", the investigating committee of three powerful Directors reported.[1]

The Cashier, who was over sixty, asked leave to exercise his right to retire under the Bank's superannuation rules; but this was refused and unconditional resignation required of him.

Rumours were soon abroad in the City, which spread later to the country. The Bank had been mixed up in "shady transactions"; "one or two directors might have to resign"; and so forth. But already by 18 November, the day after a new Cashier's appointment had appeared in the *Gazette*, the *Economist's* intelligent inquiries had made the essentials clear: there was no question of corporate misconduct: if the Cashier had dealt with doubtful trust companies and accepted doubtful securities, that was a banking blunder to be punished by bankers' loss, not a case for resignations of Directors. Returning to the subject a fortnight later, the editor remarked that no doubt the Bank's machinery was stiff and antiquated; no doubt "trust reposed in an official"

[1] *C.T.* 40, 8 Nov. 1893. The Committee members were Lidderdale, B. B. Greene and J. P. Currie. Charges were made by proprietors at the next General Court of improper advice about investment given to innocent clients of the Bank by the Cashier, but as these cannot be checked they are not here repeated. The security of three of the firms whom the Cashier had favoured was still insufficient in 1896: *Stock Estimates*, VIII, Aug. 1896.

had "not been altogether justified"; but in such matters other banks were "not more immaculate... than the Bank of England".[1]

The backwash of the rumours was felt for a time: there was talk of a parliamentary inquiry; but that was discouraged by Harcourt at the Exchequer. There were a few flaming, and some more defensive, articles in the press, until in January 1894 John Tenniel in *Punch* pictured the Old Lady of Threadneedle Street holding up her skirts in disgust as she picked her way over "a very dirty crossing". After that, complaints eased off and ceased finally when at the March General Court the Governor made a very full statement: the Cashier had committed "grave irregularities"; he had allowed that large overdraft "without any authority whatever"; and had done such things because he had become "engaged in Stock Exchange speculations which had placed him in serious pecuniary difficulties". The Bank, he added, held no financial or trust company securities as investments; and it had set aside £250,000 to meet every possible loss from improper overdrafts or inadequately secured advances.[2]

There were those inside the Bank who knew that its machinery was rusty, especially that checking machinery by which irregularities might be quickly ascertained; but their knowledge had not been pressed through to the Court. A draft report on organization exists, drawn up in 1880 by the Chief Cashier, the Chief Accountant and the Secretary—Hammond Chubb. Everything suggests that it was mainly the Secretary's work. It was for the use of Henry Riversdale Grenfell, the Deputy-Governor; but it did not reach the minutes even of the Committee of Treasury.[3]

[1] *Economist*, "Bank Management", 2 Dec. 1893.

[2] Report of the meeting of 14 March 1894 in *Bankers' Mag.* 1894, I, 594.

[3] MS. report *On the Internal Organization of the Bank*: it is referred to in a MS. *Index* to the Bank's records, drawn up by Hammond Chubb, in connection with a "strictly confidential" memorandum by Grenfell of August 1881. This has not survived. Internal evidence and the knowledge of Bank history shown point to Chubb as the principal author; but the handwriting is probably that of his Deputy, G. F. Glennie.

The whole administration of the Bank, Chubb wrote, had never yet been "systematically reviewed". His central point was not the historical lack, but the Victorian removal, of checking devices. It was implied, he said, in Thomson Hankey's *Principles of Banking* 1867, that the department of the Chief Accountant was a check on that of the Chief Cashier; but this arrangement had "been put aside" piecemeal, and Hankey's implication—true of his early days, for he "passed the Chair" in 1853—was no longer correct.[1] Chubb explained that until 1849 there had in fact existed "a vast system of supervision and administrative control", through a dual set of books. The Accountant's side, though its prime responsibility was for government issues and public work, had all the banking facts from originals. Both departments, for example, had known the balance of every customer's account. Chubb spoke from personal knowledge, for as a young man he had served in the Cash Book Office where most of the work was done. This Office was abolished—by administrative action, without vote—in 1849, and its clerks were distributed over other Offices.[2]

The legal separation of Banking from Issue in 1844 had not affected the prominence and independence of the Chief Cashier, who had on his side all the strictly banking offices—Public and Private Drawing Offices, Bill Office, Securities Office, In-Tellers' Office, Discount Office, and so on. In working

[1] Hankey wrote (4th edition 1887), pp. 135–6: "the early theory of the Bank was to keep the two departments...entirely distinct...the Chief Accountant...required the Chief Cashier to account for all cash paid and received...the working of these two departments...has been for many years...much more blended than formerly; but still the theory is kept up, and they continue to act as a check on each other."

[2] This appears from the *House List* of Offices. In an undated MS. book, earlier than 1849, from the Chief Accountant's Office, on *The Several Offices of the Bank*, it is stated that the Offices described were "instituted as a check of the business originating in the Chief Cashier's Department", and ledgers are referred to which are "a duplicate of the Hall [i.e. Cashier's]...ledgers". These ledgers have not survived.

practice he controlled the Issue Office also. In 1870 a little survival from the old system called the General Cash Book Office—it employed only six clerks—was abolished, and its business transferred to the Cashier's Office.[1] Finally in 1875 "by the abolition of the Accountant's Chancery Office", through which the Accountant had known the complex detail of Chancery business, the old system "met its death blow".[2] The Accountant's side now acquired knowledge not of such personal details but only of arithmetic totals for entry in the General Ledgers.

Two years before this final blow was delivered, Frank May, the Cashier of 1893, came into office. He served his twenty years while it was the business of no one below Governor and Deputy to learn continuously, and so be in a position to ask questions, about customers' accounts. Hence the opening for irregularities, known only to men who were his subordinates not his equal, as the Accountant was. One of these subordinates was censured by the Committée of Inquiry for not informing the Governor, but, properly enough, he was not called on to resign.

Chubb's opinion, and he knew his Bank history, was that the Accountant had remained the official equal of the Cashier, though he was never so well known to the outer world, because of the overwhelming importance of that business with the funds and the floating debt which passed under his eye and filled the main part of his time.[3] (Yet, owing to the general lack of system, he dealt with the porters, while the Cashier supervised the stores.) Technically he was still the Bank's senior servant, though perhaps

[1] This was by vote of Court: *C.B. Sc*, 23 Sept. 1870.

[2] The "Chubb" report. The clerks of this Office passed into the government's new Chancery Audit Department: *C.B. Wc*, 7 Jan. 1875. The Cashier, when signing the Bank's statement, was partly dependent for figures of Rest, Other Deposits, and Other Securities on the Accountant. Only changes made after 1909 enabled him to vouch for these of his own knowledge.

[3] The original Accountant and Cashier had equal salaries; and their basic salaries were still equal in 1871 and 1891, with increments for length of service. In 1894 the Cashier was given a higher basic stipend.

only because Accountant begins with an A; but "within the last few years"[1]—written in 1880, this suggests since May's appointment in 1873—he had ceased to be, in any real sense, the equal of the Cashier.

By an ironic accident, the well-informed Secretary, May the Cashier, and a new Accountant—Horace George Bowen—had submitted to the Committee of Treasury a joint report on Internal Administration only ten months before the Cashier's fall.[2] It contained many useful suggestions for dealing with the junior clerks and economizing clerical labour. It also strongly advised the employment of women—for sorting notes and similar tasks, tasks at which women were neater and better than men, as its authors had learnt from the Post Office.[3] But it did not touch on the inter-departmental problems dealt with in the neglected draft of thirteen years earlier. At the moment, some of them would have been rather delicate ground for the Cashier.

The Chief Cashier had no sooner gone and his successor, Bowen, been appointed than a strong committee of the Court was instructed to report on "Officers' Emoluments and Safeguards for due control of Advances and Overdrafts and Accounts generally, and the manner in which the services of the Committee in Daily Waiting may be best employed".[4] While this committee was at work, the new Cashier was sending in detailed reports of a new sort on gold, on bills, and on stock;[5] and that old experienced Director, Benjamin Buck Greene, while serving on the committee, was drafting a memorandum on what he courteously called "Relieving Directors of Mere Clerical Duties".[6] The only

[1] "Chubb" report.

[2] A printed report, dated February 1893, in *C.B. Qd.*

[3] This was done; Acres, p. 560.

[4] *C.B. Qd*, 16 Nov. 1893. The Committee included the three Directors who had originally reported on the Cashier's case, plus C. H. Goschen, E. A. Hambro and A. F. Wallace.

[5] *C.B. Qd*, 22 Nov. 1893.

[6] Memorandum of 29 Jan. 1894 in series *Audit*, Folder 11.

such duties that survived, he said, were the audits of the branches and the audits of securities. Some Directors were not good auditors and some found the work boring. Competent inspectors would do the branch audits better, and the securities audits just as well. They could serve under a Directors' Committee of Inspection. "Though happily the Bank had not suffered largely until recently from the non-observance of its Regulations written or unwritten", some authority and organization were needed to see that they were observed always.

The full report of the committee was ready in January 1894, and was being discussed in February and March. It recommended a strict observance of the old rules which had recently been neglected about the sanction of overdrafts and advances; daily reports on advances to the Committee in Waiting; a proper provision of margins on securities against which advances were made, and an absolute refusal for that purpose of securities with any liability; with many kindred detailed prohibitions and precautions. All these were accepted, but decision as to Greene's plan for an Audit Office was deferred, by vote on 1 March, until after the April renewal of the Court.[1]

When April came, the principles of an Audit Committee and an Audit Department of three inspectors were accepted;[2] and on 3 May the Agent at the Leeds Branch, who had served as Sub-Agent at Newcastle, and had previous experience outside the Bank service, was appointed Chief Auditor.[3] Before the end of the year the Audit Committee was able to report on eighteen completed audits, of very various kinds, that his Department had conducted.[4] Early in 1895 it was carrying out or recommending all sorts of other audits and checks—not only such obviously necessary audits as that of the securities against which advances

[1] *C.B. Qd*, 1 March: the printed report is in this volume.
[2] *C.B. Rd*, 12 April 1894.
[3] *C.B. Rd*, 3 May 1894. The Auditor was Ernest Edye.
[4] *C.B. Rd*, 20 Dec. 1894.

were made, but audits of blank paper for Notes and of partly printed Treasury Bills; checks on the contents of the Bank's own Treasury (or Vault); rules about the keys of "The Cashier's Vault or Silver Vault" and of "The Cave", "in which the Bullion Office occasionally find room for the Treasury Trucks".[1] Very little indeed can have escaped the eye of that imported auditor from the North.

It was in September of 1895 that the coin and bullion in the Issue Department of the Bank first touched £40,000,000. After falling a little it reverted to £40,000,000 late in November and never fell below that level until September of 1896. The maximum was £46,787,000 on 24 June. Meanwhile the reserve of notes and coin in the Banking Department, which for the year 1890 had averaged £13,683,000, for 1894 averaged £25,834,000, for 1895, £29,875,000 and for 1896, £34,645,000. It also got above £40,000,000 for a time—in the spring of 1896. A sharp fall followed, but the yearly average was not again below £21,000,000 down to 1914. The rise in the two reserves had been accompanied, and to an appreciable degree caused, by an equally remarkable rise in the "other deposits". For 1890 these had averaged £27,526,000: for 1895 the figure was £40,565,000 and for 1896, £49,390,000. Here also a fall followed; but here also a new level had been secured.[2] The lowest yearly average after 1896 was £39,247,000 in 1898.

It is to be noted that from 1896 there set in that rise of wholesale gold prices which carried the Board of Trade Index Number from the 88 of that year to the 115 of 1913. More money was needed at every point on the economic scale.

That the rise in other deposits was due partly to a response by the banks, made with varying degrees of willingness, to the

[1] Various reports in *C.B. Rd*, Jan.-March 1895.

[2] This was also true of the public deposits: 1890, £5,840,000; 1895, £7,600,000; 1896, £10,400,000; after that never below £8,400,000.

appeals of Lidderdale and Goschen, and partly to their own consciousness of the need to strengthen themselves against emergency, there is no doubt. At the September Court of 1894 the Governor had explained—in the appropriate general terms—that banks were certainly keeping bigger balances, though whether this was due to considered public policy or to inability to make good use of their money, he would not say.[1] The facts, which he was not able to disclose, were these. In the dull year 1879, when money was hard to use, the maximum weekly balance of all the London bankers in Threadneedle Street was £16,600,000, and the minimum £9,300,000. All through the eighties the maximum only rose once above that for 1879, and the minimum was four times below £9,000,000. For the decade, the average minimum was £9,100,000. For 1890 the figures were: maximum, £15,700,000 in November at the time of the Baring crisis; minimum, £10,000,000, the highest yet recorded. By 1893 the minimum had risen to £12,400,000 and by 1898 it would stand at £15,900,000.[2]

Remained the question of the gold. The Bank had so much in 1895–6 that men of average foresight in the City saw no cause for anxiety or action. But some, longer-sighted, thought that the great joint-stock banks, growing more powerful daily, absorbing clients and colleagues year by year, and in "mere banking", commercial banking, now overshadowing the Bank with its limited list of "purely business customers",[3] ought to share the honour and expense of carrying the nation's gold. Nearly ten years later, when the question was again being discussed, Felix Schuster of the Union of London and Smiths explained how he had tried to get it considered in 1896, when reserves of gold could

[1] Report in *Bankers' Mag.* 1894, II, 527.

[2] *Weekly Accounts.* In all these figures the minima are the more important: the maxima often represent only temporary "window dressing".

[3] "We do not have a great many purely business customers"; the Governor, in Sept. 1894, as above.

so easily have been built up: "I regret to say without avail", he added.[1] No doubt he had thought not of duty and honour only. By sharing the burden the banks might have claimed a voice in decisions connected with its use. Schuster was, and remained, an advocate of a policy which might naturally have developed from that of Lidderdale at the Baring crisis, a policy of communication and co-operation between bankers and the Bank. But more than ten years after 1896 he still had to say that there "was no official way of communicating". The Bank, he said, "do not take part in the ordinary meetings that bankers have among themselves....I for one most strongly advocate...periodical meetings".[2]

On 22 February 1894, when the Banking reserve was already above £22,000,000 and the gold in the Issue Department more than £27,000,000, the Court dropped its rate from 2½ to 2. At 2 it remained until 10 September 1896. There had never been so long a spell of cheap money. All the while the reserves grew; mere cheapness will not make economic activity. With little business and low rates, the discount income in Threadneedle Street was depressingly low and so was the income from the advances. The Bank dividend, which had been 10½ for 1890, 11 for 1891, and 10 for 1892, was at 8½ for 1894 and 8¼ for 1895—the lowest declared since 1868. From the branches, the "adjusted" income, that is the net income less certain charges against it calculated in London, had only for a few years been positive: for the eighties it had been negative, an actual and considerable loss. This unfortunate position was bettered in the banking year 1889–90 and the three subsequent years, when the branch income—from discounts and advances—improved conspicuously; but with the low rates of 1894–6 it again fell away, though not so grotesquely as in Threadneedle Street, where for the two years that ended

[1] From a speech at Manchester, reported in *Bankers' Mag.* 1905, II, 732.

[2] "Banking Interviews" (*U.S. Monetary Commission*, 1910), p. 51.

in August 1895 and August 1896 the whole income from the discounts was £17,000.[1]

With abundant reserves, a fallen dividend and a low rate, the Court of the mid-nineties was naturally looking about for business. As a critical but on the whole friendly joint-stock banker said some years later—"they [had] allowed the other banks to grow up round them and get very strong and powerful, and, having perceived that, they rather tried to retrace their steps and get a little of that business themselves",[2] the business of discounting in particular. For a point had been reached at which another critic could write rather later that "no one nowadays ever thinks of the Bank of England as one of the large...discounting houses in the City".[3] No wonder, in the light of those figures of 1894–6—though they were not precisely known to the critic.

How to improve business was the agendum for a committee of the Court in May of 1894. Its accepted recommendations applied to internal arrangements: there was to be more concentration and unity of management. All requests for short loans, on whatever security, from bill-brokers, discount companies, banks or stock-exchange houses—the groups are specified—were, for the time being, to go through the Discount Department, not through the Chief Cashier personally, though he and the Principal of the Discount Office were to maintain a "constant intercommunication".[4] This recommendation in part reflects the Cashier troubles of 1893.

But it did not bring the business. In August of 1895 a Special Committee on the Discounts is reporting that certainly more are wanted—for the half-year ending with the previous February they had yielded in London £3000 gross—but is opposed to the admission of bill-brokers, discount houses and money dealers to

[1] See App. C. [2] Schuster to *U.S. Monetary Commission*, p. 49.

[3] *Bankers' Mag.* 1899, II, 117.

[4] *C.B. Rd*, 24 May 1894. Strictly private advances were left to the Chief Cashier and the Governor.

discounting privileges "at all times", lest they should treat it as a right "in time of pressure".[1] It does, however, recommend that they be allowed to discount, though not below the published rate, bills with a currency up to 63 days instead of the 15 days of the vote of 1890. Times and amounts are to be fixed by the Governor and the Committee in Waiting, more business being done when the exchanges are easy than when they are not. Advances on the security of bills may be made at not less than ¼ per cent above the discount rate. Discounts and advances arranged under these suggested rules are to be reported on weekly. The business is treated as regular and current; and in time the weekly report became a part of the Court routine.

Yet neither did these recommendations bring much business at once. At the end of 1895 only 121 persons or firms had come under them during the year. That would not have mattered if they had come often and with big demands. But the gross income had been: discounts proper, £8523; advances against bills, £3199; loans against "floaters"—prime bearer securities—recently taken over by the Discount Office, £3519.[2] An unvaried 2 per cent helps to explain such figures; but if doubled they would have been poor.

The branches were doing a much better discount business.[3] The Agents, feeling their offices to be important contributors to the total effort, wanted greater freedom to compete with other banks. At the end of July 1896 a committee of the Court reports that all the Agents have asked leave to make advances to people who have accounts elsewhere, not merely—as hitherto—to "sole

[1] *C.B. Sd*, 15 Aug. 1895.

[2] The February 1896 report on the Discounts for 1895: *C.B. Sd.*

[3] The branches in 1896, besides the Law Courts and the Western, were—in order of seniority—Manchester, Birmingham, Liverpool, Bristol, Leeds, Newcastle, Hull, Plymouth, Portsmouth. Of early branches Gloucester—the very first—was closed in 1849; Exeter in 1834; Swansea in 1859; Norwich in 1852; Leicester—only started in 1844—in 1872. See Acres, *The Bank of England from Within, passim.*

customers". "The competing bankers", the committee reports, are very jealous of this. (That is not surprising.) Yet in no other way can we extend our provincial business. It must be allowed, but must be exercised with great care. The advances must be short and made at stiff rates—the market was hardening and the end of 2 per cent was in sight—and every account must be sanctioned by the Deputy-Governor.

The committee referred to certain long outstanding loans to "influential people" at the Birmingham Branch which violated the spirit of the regulation, although they were well secured. There was no risk, but because of the violation of principle these loans ought to be reduced.[1]

Trade was reviving in 1896 and was active in 1897–9. Employment improved conspicuously during 1896; and by 1899 unemployment was at a minimum. The capital was there, and only incentives to its full use had been lacking. These were now present, but as the Bank did not supply them they need not be discussed here. Bank rate began to move up in September: there was a long autumn spell of 4 per cent. During the summer of 1897, 2 per cent returned for an even longer spell. After that it was no more heard of. The two reserves declined, as has been seen, but they were now established at a level something like 60 per cent above that of 1890 which had so greatly worried Goschen and Lidderdale.

With higher rates, the income from discounts and advances moved up, steadily at the branches and intermittently in London.[2] But it was not only a question of rates. Much more business was done, though there was no great change in the number of clients. They had become a small specialized group, and they so remained. In London their number varied from the 120 of 1896 to the 148 of 1899; the aggregate figure at the branches even fell between those dates from 300 to 263. But whereas the sum total of bills,

[1] The report, of 30 July 1896, is in *C.B. Td.*

[2] See App. C, D.

advances and floaters, handled in London and at the branches, was £33,000,000 in 1895, in 1899 it was £89,000,000.[1]

By that time branch business was most active. In the year that ended with August 1899, just before the South African War, a year during which Bank rate was never above 4 and for many weeks so low as 2½, it yielded £87,000 gross from the discounts, and no less than £200,000 from the advances. (In 1895–6 the total gross branch income from both sources had been less than £25,000.) These useful figures were in great part no doubt due to the policy and vigour of the combative Inspector of the Branches and Principal of the Branch Banks Office, who took over those appointments in March of 1897. He was the man who, after branch experience at Newcastle and Leeds, had been brought south in 1894 to start the reformed auditing system in Threadneedle Street. He used to argue that branch profits were almost the only part of the Bank's net income that was earned by "pure banking".[2] The profits from discounts and advances to customers in London, he would say, "must be comparatively insignificant"; those from loans to the market might even be "largely, if not (sometimes) altogether nullified" by the cost of market borrowing. At great expense, the Bank was always bringing back gold that other people had driven away. The head office he described as carrying on "trust-like operations" with its "huge funds", invested in low-yield securities. It was quite out of sympathy with energetic Agents who wanted to use more of those funds productively in the provinces. Head office policy he found "rather depressing"; its exponents lacked "banking spirit", and thought only of their "duty to the public", and of gold.

[1] From the annual discount reports, *C.B. Td, Ud, Vd, Wd.* In London discount was negligible at the Western Branch, but a large income was made there from advances; the Law Courts Branch did a fair business in advances but a still more negligible one in discounts.

[2] From a report for the year 1904 (Folder 210) in which he reviews the recent history of the branches.

He saw no reason for sentimental consideration of the banking community, whom he credited with "a jealousy almost amounting to hatred" of the Bank, especially since in the nineties its branches had become more enterprising.[1] It had been hard at first—no doubt he meant in his early years as Sub-Agent and Agent, 1891–4—to persuade people "that business was possible at a Bank of England Branch". By 1899 that business was "on sound banking lines", and when war came and funds were called in "the liquidness of the Branch advances, which was considered doubtful, was amply proved". (As an illustration of brisk competitive methods it may be noted that the Leeds Agent did not expect Bradford men to come to him, but visited a part-time bill office in that active money-using community.[2])

The Inspector wondered whether the Bank's dual position could be maintained. Was it to be "duty to the public" and care of gold, or duty to the proprietors—mostly "trustees, spinsters and clergymen"—and the dividend? If the former, the Bank might as well be nationalized and its stock turned into Consols; to him a drab prospect. To what the latter might lead he did not stay to consider.[3]

His facts were not all accurate, his opinions not all wise. But his memorandum is a rare sort of document at the Bank, and is the last, and a vigorous, statement of the view, which goes back to Peel and his advisers in the Parlour, that the Banking Department was, and should be, a fighting unit in a competitive world of banks. The Directors, as he said, remained divided between the two conceptions of their business. At the close of the century,

[1] He alleged that "other banks had seriously tendered" for government accounts: if this is correct, it must refer to provincial accounts. There is no trace of such threatened competition in London. He also accused them of contemplating "rival issues", and of considering "schemes in which the Bank is left entirely outside".

[2] I knew this Agent in Leeds: his activity is well remembered, and appreciated, at the Bank.

[3] All from the report quoted, signed Ernest Edye.

though they had been looking about for custom, as a body they certainly had no intention of neglecting "duty to the public", or of turning the jealousy of a strong banking world into real "hatred" for the dividend's sake. Even as things were, competition between the banks and the Bank was bitter enough in the nineties to destroy any hope of systematic co-operation.[1]

When the Inspector of the Branches talked of the poor income from discounts and advances in London and the possibility that the cost of market borrowing might offset the gain from market loans, he was speaking without the book. Evidently he was not in the confidence of the Chief Accountant. Discounts and advances were often poor yielders; but when they were poorest, in times of low Bank rate, there was no market borrowing at all. In the calendar year 1891, some £12,000 was paid in interest on loans from the market; but the London discounts alone, for the year that ended 31 August 1891, had brought in £82,000. In 1892 the cost of market borrowing was only about half what it had been in 1891. For 1893 it was again about halved; and in the thirty months of 2 per cent in 1894–6 there was naturally none whatever.[2]

Late in 1896, with the rate at 4, market borrowing was resumed; it cost just over £4000 that year.[3] Then came a gap of eight months. Borrowing began again, and that on a rather large scale, in the autumn of 1897 and the winter of 1897–8.[4] As the rate stood all the time at 3, this was unusual. But the period before the South African War which most nearly justified the Inspector's conjecture ran from October 1898 to February 1899,

[1] This opinion, which external evidence supports, was expressed to me by Sir Ernest Harvey, who worked both in the Audit and the Branch Banks Offices during that decade.

[2] *G.L. XXVII*, ff. 257 sqq.

[3] *G.L. XXVII*, f. 675: two sums of interest, £1828 in Nov. 1896 and £2307 in Jan. 1897.

[4] *G.L. XXVIII*, f. 222.

with Bank rate at 4. Interest payments out exceeding £2000, £4000, £6000 and even £10,000 appear in the Ledger; and the total of these payments comes to £40,000.[1] Yet, in the half-year ending with February, £27,000 was transferred from the "Interest on Advances" account to Profit and Loss. The gross receipts had been £70,000, but besides the £40,000 there were some other small payments out.[2] And in 1897 the Bank had raised its dividend to 10 per cent, at which figure it remained until 1904.

[1] *G.L. XXVIII*, ff. 228–30.

[2] The interest paid on these market operations was still entered as a debit in the account "Interest on Advances". This was discontinued in 1899, when an account of "Interest on Bank Borrowings" was started; *G.L. XXVIII*, f. 247. Market borrowing was supplemented from time to time by sales of securities; but this method of taking money off the market was subordinate.

CHAPTER VIII

THE BANK IN THE EARLY TWENTIETH CENTURY

ONE reason at least why the Court was able to vote a dividend of 10 per cent for the seven years from 1897 to 1904 was that for two and a half of those years the country was engaged in war. War conditions put no real strain on the Bank. They are not apparent in its written records, though traceable in its accounts at various points. After the first few months, which included six weeks of 6 per cent, its rate only touched 5 now and then. For twenty weeks in 1901 it stood at 3. Yet the average rate for the war period was very nearly 4; and there was plenty of business doing, especially in the advances, which yielded well over £200,000 yearly in Threadneedle Street alone. Discounts were also active, but as a source of income subordinate.[1]

The great income from the advances—an aggregate, Threadneedle Street and the branches, of from £400,000 to £500,000 in each of the three Bank years which the war touched, and of over £500,000 in 1902–3—was due in part to war conditions and in part to earlier developments of business. War accounted for a generally high rate of interest. It also produced some lending to clients who were lending to government. War conditions, government borrowing, and high rates drove the market at intervals "into" the Bank. Discounting for, and advances to, the discount houses, bill-brokers and money-dealers, under the votes of 1890 and 1895, had become a large and regular business, reported to the Court weekly, a business whose size and yield

[1] *Stock Estimates*, VIII, XI; and see App. C, D.

were increased by the war-time state of the money market. Lastly, during the Chief Cashiership of H. G. Bowen (1893–1902) an important business had developed with the Stock Exchange.

His predecessor had allowed advances in that quarter which, besides being irregular in the granting, were dangerous because semi-permanent. That was stopped absolutely; but advances were made which were both liquid and profitable to Stock Exchange customers who wished to carry over for the account: they could be called in at each account and they commanded a higher rate than ordinary advances. Their normal amount was considerable—up to £2,000,000—and they remained a steady source of revenue down to 1914. A Court vote of January 1900 formally recognized and regularized them—"that the business in question be continued"[1]—but fifteen months later it was decided that they were not to be pushed, either in the City or at the branches, and were only to be used to retain accounts desirable for their own sake.

War meant debt, debt work for the Bank. Ridiculously small as the debt of the South African War seems to those familiar with later national indebtedness, it was a serious thing in the last Victorian and the first Edwardian times. For years before 1899 the total liabilities of the State had been dwindling, and with them the Bank's management income. At the opening of the financial year 1899–1900 those liabilities were at their absolute minimum—£635,400,000. Of this, £583,200,000 was funded debt, £36,700,000 terminable annuities, a mere £8,100,000 floating debt. The balance was made up of other capital liabilities, under Naval Defence Acts and so on. By 1903–4 the total was £798,300,000, of which £75,100,000 was that unfunded debt of War Bonds and Treasury Bills which gave the Bank most trouble and the best returns.[2]

[1] *C.B. Wd*, 18 Jan. 1900. The history of these "Bowen" advances has been explained to me by men who recall them.

[2] See Mallet, *British Budgets*, 1887–1913, Table XV, p. 494 and the *Statistical Abstracts of the U.K.*

One important novelty was connected with this public borrowing. For the first time since the Seven Years' War, when the Duke of Newcastle had leant heavily on his Dutch loan contractors, the British government at war made use of foreign capital. There was at the time a loquacious Bank proprietor named John Jones. He spoke at every General Court at which speech was in any way possible: company chairmen know his type. At the Court of 9 September 1901 he congratulated the Bank on placing half of a £60,000,000 war loan abroad, and so securing "the co-operation of those who govern the thrift of Europe and America. The property owners of those territories are thus now held by us with a chain of gold",[1] as security for friendship. No one who listened to this odd high-flown talk can have guessed how easily and often, within twenty-five years, such chains would be broken; though they had never been entirely trustworthy.

The Bank's income from the management of United Kingdom debt was £89,000 in the half year which ended with August 1899, and £97,000 in that which ended with August 1903.[2] There had also been fees earned in connection with issues of war loans. Whether there was much net profit from the increased management of funded debt is doubtful. Under the Goschen plan of 1892 the extra millions were managed for £100 per million: the Bank had reckoned in 1892 that the overall cost of managing was £204 per million; and management expenses were rising. Apart from this, interest on the ancient debt of government to the Bank was timed to fall from $2\frac{3}{4}$ to $2\frac{1}{2}$ in 1903.

For some months in the late summer and autumn of 1902 there was intricate correspondence with the Treasury. On the statutory

[1] *Bankers' Mag.* 1901, II, 512.

[2] In 1899 the floating debt yielded only £813 of this; in 1903, £3314. The total income for the half-year in 1903 from management and issue of all kinds—U.K., India, Colonies, Municipalities, etc.—was £184,000; *Stock Estimates*, VIII, IX.

point My Lords would not yield: the drop to 2½ came when due, and the management fee for the funded debt was not raised. However, they offered an illogical compensation. Under Peel's Act, the state took any profit accruing from extra fiduciary issue by the Bank of notes whose issue was abandoned by country bankers. The calculation of these profits lay between the Treasury and the Bank. Some concessions on it had been made on two occasions when the fiduciary issue had been increased; these were now generalized.[1] The Bank was due to lose £28,000 a year on the old debt: the concession offered was worth about £14,000. With this it had to be content.

That war had not made it unduly rich was seen by the fall of the dividend from 10 to 9 in 1904.

It might perhaps have been supposed that the cutting off of South African gold supplies for between two and three years would have caused the Bank grave inconvenience. It did not. Owing to the quick progress of gold mining in the Klondyke, Colorado, West Australia and elsewhere, South African gold had been not much more than a quarter of the world's fresh supply in 1898. The world acquired more gold in 1900 than in 1897; and when, for 1908, the revived output from South Africa had risen to £30,000,000, the rest of the world was providing about twice that huge amount.[2] All through the war, coin and bullion in the Issue Department never fell below £27,000,000, and seldom so low. The average was well over £30,000,000. "We had the first of the gold", a man who served the Bank in those years remembered.[3]

[1] *L.B.* 23, letters of 27 Jan., 7 Aug., 26 Sept., 3 Oct. 1902.

[2] Gold output statistics, collected by the U.S. Director of the Mint, are summarized in the *Final Report of the* [U.S.] *Industrial Commission*, 1902, pp. 18 sqq.: and see Lexis, "Gold und Goldwährung" in *H.W.B. der Staatswissenschaften*, v (1910), or, more recently, the *Reports* of the Gold Delegation of the League of Nations.

[3] Sir Ernest Harvey put it to me in this way.

On the curve of wholesale prices, the war in South Africa, confined by the power of the British Navy to a corner of the globe, had no appreciable effect—and there was at that time no official price manipulation or control. True, there was a sharp rise in 1900, but that was followed by a fall. The rising line of 1899–1902 is as nearly as possible a part of the general rising line of 1896–1914. The war peak of 1900 was well below the last peace peak of 1891; well below the next of 1907; and the rise from 1911 to 1914 was steeper than that of the years of hostilities.

Anxiety about the national gold reserve was in no way abated. For the four peace years, 1903–6, the Issue Department treasure averaged only £33,000,000, at a time when countries with fewer liabilities and a less delicately balanced financial system carried far greater quantities, as indeed they long had; at a time too when almost the whole civilized world was on the gold basis, so that, through the international banks, claims might be made on London from any, or all, of half a dozen or more financial centres. A centre so new, remote and incalculable as Tokio now kept very large balances in London. And in 1906–7 there came international disturbances which shook the Banking reserve a little and drove Bank rate in 1906 as high as it had been at the Baring crisis, and in 1907 higher than it had been since 1873.

In the war years the Court, anxious about its gold, had adopted a new and more active gold policy. Ever since the eighteenth century its practice had been to "let the public act on the Bank", that is, to take gold as and when it was offered by the bullion dealers at the statutory price of £3. 17*s.* 9*d.* Now, to ensure getting "the first of the gold", it would offer a penny or three-ha'pence more, enough in that market of fine margins to divert the flow. We hear of it also lending "money free of interest against shipments of gold for periods covering the time of transit".[1]

[1] *Bankers' Mag.* 1901, II, 594 and facts from Sir Ernest Harvey, who became Deputy Chief Cashier in 1902.

Meanwhile the bankers talked. The Bank's head of the Branch Banks Office, as jealous of them as he believed they were of the Governor and Company, reported, as a bad sign, that they were always discussing means for increasing their reserves—he did not say of gold—and that they "had not hesitated to consider schemes in which the Bank is left entirely outside".[1] They can hardly be blamed, so long as the Bank did not take a lead; but they did not get beyond consideration. Felix Schuster had failed to secure joint, or indeed any, action about gold in 1896. Three years later a bankers' committee on the subject was got together; but it "never reported".[2] However, by 1901, "one bank" was "supposed to hold a store of gold"[3]—how accurate the supposition and which the bank we do not certainly know.

From time to time long-range shots were fired by the bankers into Threadneedle Street, aimed sometimes at the gold, sometimes at other targets. In 1902, J. H. Tritton of Barclays, discussing the short loan fund before the Institute of Bankers, maintained that, when it was desirable to take funds off the market, an agreed withdrawal of, say, 10 per cent by the clearing bankers, and a further agreement as to its use—i.e. that it was not to be lent again—by the Bank, would be more effective than "secret and sporadic efforts at borrowing by the Bank of England".[4] This implied a measure of co-operation in which the Bank, it may be presumed, would not have been unwilling to share: it stood to lose nothing by it—rather the reverse. But no one approached the Bank; the bankers went each his own way; and the Bank approached nobody.

Next year one of the most learned and experienced of bankers, R. H. I. Palgrave, in his *Bank Rate and the Money Market*, was emphasizing the fact that the tendency still was to "leave no unemployed money outside the Bank of England"—which makes

[1] Edye's *Memorandum* of 1904, quoted pp. 371–2 above.
[2] *Statist*, 23 Feb. 1901.
[3] *Bankers' Mag.* 1901, II, 596.
[4] *Bankers' Mag.* 1902, I, 446.

one sceptical about the reputed "store of gold" in a single bank—and was arguing that the country was no nearer adequate banking or issue reserves than it had been in 1844. Changed Bank rate, he pointed out, had lost some of its power, but was still "regarded by the other banks as a sign that"[1] they also should make a change; and it could still affect the exchanges, although its slower working gave the impression that the exchange rather followed than led the rate.[2]

Incidentally, Palgrave, while allowing that the experience of the Court produced a rather intelligent handling of the rate, argued that the Bank "appeared to require" a "permanent governor", to direct its long-term policy, not merely a permanent Deputy as Bagehot had argued thirty years back.

In 1905 Arthur Clayton Cole, a Director and future Governor, was giving what might be called Bank advice to the bankers at their Institute.[3] Gold was his theme. His modest ideal was a "Goschen" reserve of £40,000,000, and he wanted the joint-stock banks somehow to share the burden with the Bank. There was too much of this "somehow" on both sides of the discussions. The same year, Felix Schuster, lecturing in Manchester, was explaining that "to a great extent" the banks had responded to Goschen's appeal for bigger reserves—he did not say, because he did not know, that the minimum weekly balance of the London bankers at the Bank that year was £20,300,000 against the £10,000,000 of 1890[4]—but that his own gold mission had been a failure. He rather vaguely wished the state to do something about it—"something" or "somehow" once more.[5] But politicians and economists were up to the knees—and above them—in a bog of tariff controversy which kept their thoughts off the currency, and would almost certainly have given their currency thinking a controversial twist, had they stopped to make time for it. The

[1] *Bank Rate and the Money Market*, p. 56.
[2] *Ibid.* p. 219.
[3] *Bankers' Mag.* 1905, II, 701.
[4] *Weekly Accounts*, 1905.
[5] *Bankers' Mag.* 1905, II, 732.

average ignorant protectionist might argue that Britain's "adverse" trade balance was paid in "golden sovereigns":[1] the ignorant free-trader might maintain that, always and anyhow, the open market brought all the necessary gold. Neither knew nor cared much about the fluidity of what would be called later "hot money", about the effect of Bank rate on enterprise and employment, or about the curious, possibly malevolent, alien forces that played on the London balances of the Powers.

In the war years there had been only one spell of that "secret and sporadic" market borrowing which Tritton had criticized—September 1900 to February 1901. During it, the Bank paid out £59,000 in interest on money borrowed through Messrs Mullens.[2] This means an average debt of something like £3,000,000 for the five months. After that, market borrowing was unimportant except for a moment at the turn of 1901–2. Tritton's "sporadic" was, and always had been, applicable. The Bank only borrowed when it needed to support its rate, and with an eye to the exchanges. How "secret" the operations proved is hard to say. The City knew when the Bank was taking money in: its knowledge, though never precise, is reflected regularly in the financial press.

War ended in May 1902. It had never been the sort of war that is followed by a boom. Sixteen weeks before peace was signed at Vereeniging Bank rate had settled at 3: there it remained for eighteen weeks after the signature. With falls, though not catastrophic, in both the reserves in September, the Court put the rate up a whole point on 3 October, and it took a little money off the market in November. Intermittent and inconsiderable borrowing continued throughout 1903—the rate remained at 4 until 21 May—but was interrupted at the end of the year for more than six months: it was negligible for the rest of 1904; and so remained until October 1905.[3]

[1] The once notorious view of Richard Seddon, Prime Minister of New Zealand.

[2] *G.L. XXVIII*, f. 247.

[3] *G.L. XXVIII*, as above, and *G.L. XXIX*, f. 523.

All this while the Bank had been anxious about its gold in spite of the world's huge output. The Russo-Japanese War of 1904–5 followed the South African War. Both parties controlled funds in London, and the situation was delicate. The end of this war did not end anxiety. Trade was reviving; an immense export of capital was developing; and the financial needs and devices of the recently combatant powers could not be accurately foreseen, least of all the future of Japan's reputedly huge London balances. Immigrants were pouring into the United States—1,026,000 in 1905, rising to a peak of 1,285,000 in 1907—and into Canada, Brazil, and the Argentine. "South Africa and Australasia were not much less active than the Americas."[1] No wonder that, as the financial journals put it, there was great stringency everywhere towards the close of 1905.[2]

On 28 September the Bank put the rate up to 4. It had stood at 2½ from March to September and had only been raised to 3 three weeks before the sharp step up to 4. Stringency had set in unexpectedly fast; both market and Bank moved late. Though the Bank's action was not explained in its Minutes, the explanation given outside was obviously correct: that it decided to avert an official 5 per cent, by making 4 completely effective.[3] In this, for more than a year, it succeeded, keeping the rate at 4 for over six months, trying spells of 3½ in the spring and summer of 1906, but then being forced back to 4—and after that higher. It warded off 5, in the earliest period, by some ambitious operations which began in October 1905, and by charging above its minimum rate for week to week advances—4½, and later 5.

By 30 November £18,517 had been paid out on short loans from the market. More went in December. These loans were costing anything up to 4¼ per cent. The greatest operations came in mid-December, and payment for them was made at its close,

[1] Clapham, *An Economic History of Modern Britain*, III, 47.

[2] E.g. *Bankers' Mag.* 1906, I, 353.

[3] *Economist*, 10 Feb. 1906 and *passim*.

or in January. Much borrowing was done as usual through Messrs Mullens; but the Ledger also contains notes of large round sums lent by "sundry persons".[1] Another book tells us who they were—a group of eight clearing bankers and, for distinct transactions, J. S. Morgan & Co. and Baring Brothers Ltd. The bankers lent £1,000,000 very cheap on 14 and 15 December: their rate was 2½ for sixteen days. The two great financial houses, on 15 December, asked 3¼ for seventeen days. Each of them found £1,000,000. Having got this money, the Bank charged its 4½ and 5 for short loans to the market.[2]

There were further, shorter borrowings from "sundry" in January, amounting all told to over four millions; and over three millions more—this time for eighteen and nineteen days—in February. The rate was uniformly 2½, and "sundry" were now all clearing banks—ten of them in January and a slightly different group of eight in February.[3] At the same time money was being taken in through Messrs Mullens at rates between 3⅛ and 3⅞. These were, in fact, the larger, as well as the dearer borrowings; just as market borrowings and those from Morgans and Barings had been in December. It was those from the banks that came to the ears of financial journalists: but four times so much was paid through Messrs Mullens as to these groups of "sundry persons" engaged in banking.[4]

These heavy borrowings cost the Court £77,268 between 13 October and 26 February. They drove bill-brokers into the Bank, to discount at 4 or borrow at 4½ or 5. For a moment, just before the mid-December loans, brokers thought the Bank was

[1] *G.L. XXIX*, ff. 529, 531–2.

[2] The banks were the London and Westminster, Union of London and Smiths, Parrs, London Joint Stock, National Provincial, Barclays, Glyns, Lloyds: *Money Borrowed*, 1861–1906, f. 74.

[3] The chief new names were the London City and Midland and the Capital and Counties: f. 76.

[4] For what the journalists knew see *The Times*, 3 Feb. 1906; *Statist*, 20 Jan. 1906; *Economist*, 27 Jan. 1906.

losing grip.[1] When it asked 5 they knew better. Grip was tightened because discounts and advances that it could not refuse —at its price—were setting money free again, and so in part frustrating the policy of the Court.

The February transactions, it was said, started "an avalanche of criticism";[2] but this was not from the wisest quarters. It came from the brokers and from journals inspired by them. *The Times*,[3] *Economist*, *Statist* all approved the action of "sundry", and welcomed the co-operation between them and the Bank. The *Statist* had urged "energetic measures",[4] and was naturally pleased when they came. The *Economist* agreed with "the general principles of the methods adopted",[5] but criticized the $4\frac{1}{2}$ or 5 on advances, and still more—this with excellent reason, if its facts were correct[6]—the rumoured discounting by provincial Agents of the Bank below the London minimum. "Sundry" had held conferences with the Bank, and were so complaisant that they had reverted in January to $2\frac{1}{2}$, as has been seen.[7] If the money market was "cornered", as the brokers said, there were broad shoulders to share the burden of responsibility with the Bank.

Market borrowing continued in March and April, but all through Messrs Mullens and not on so large a scale. There was even a little between 21 June and 13 September,[8] when for twelve weeks the Bank managed to keep the rate down to $3\frac{1}{2}$. But there was no change in the conditions that made for stringency. The international year had opened with the Congress of Algeciras to settle Franco-German difficulties over Morocco. War was averted, but Germany left the Congress dissatisfied; and she might take politico-financial action that would not ease tension in the City.

[1] *Bankers' Mag.* 1906, I, 357. [2] *Ibid.* I, 358.
[3] "The arrangement is a good one": *The Times*, 3 Feb. 1906.
[4] *Statist*, 13 Jan. 1906. [5] *Economist*, 10 Feb. 1906.
[6] They probably were; see p. 403, below.
[7] *Economist*, 3 Feb. 1906: there is no record of these conferences at the Bank.
[8] *G.L. XXIX*, f. 533.

In Britain, prices were rising; employment was good; exports of capital and of capital goods were proceeding on a scale that had not been known for thirty years. America was in a ferment of economic activity and enterprise. The destruction of San Francisco by earthquake and fire in April only increased the activity—for salvage and reconstruction; and increased American claims on Britain, for fire-insurance payments.[1] Foreign capital, fluid and from the British point of view irresponsible, sometimes competed in London for bills, sometimes drew away at the national call. The market will not get out of the Bank's grip, the *Statist* had written in February, unless "France sends an increased amount of money to London".[2] Berlin had kept a 6 per cent rate from 11 December 1905 to 18 January 1906: all the year it never went below $4\frac{1}{2}$, and closed with $6\frac{1}{2}$ and $7\frac{1}{2}$.

That autumn the Bank Court, to judge by its actions, also preferred a high rate to the very elaborate borrowing that had made some people so angry. Perhaps the Court was sensitive to criticism, arguing that if these people preferred high discount rates they should have them. As usual, it recorded no motives in its Minutes; but the rate, which moved up to 4 on 13 September 1906, went to 5 on 11 October and to 6, by Governor's order not by preceding Court vote, on 19 October. At 6 it remained well into January 1907; and the market feared 7. The last 6's had been those of the "black week" of the South African War and of the Baring crisis.

These high rates were supported by borrowing all the time, though not quite on the scale of the previous year, and not, so far as the records show, at least directly from the clearing banks. (Where Messrs Mullens got their money the Bank never knew,[3] so its records cannot say.) From September to December inclusive, it paid out £33,100 in interest through them, and £21,800 in January and February of 1907;[4] but as rates were high during

[1] Clapham, III. 298.
[2] *Statist*, 17 Feb. 1906.
[3] So Sir Ernest Harvey has told me.
[4] *C.L. XXIX*, f. 533.

all these six months, the aggregate of transactions was probably not half that which had cost it upwards of £77,000 during the corresponding period a year earlier.

In neither period were the reserves in really grave danger, though the situation in the autumn of 1906 was anxious, as the Bank's action suggests. For 1905, gold in the Issue Department averaged £33,855,000 and was never below £27,198,000: for 1906, the corresponding figures were £32,501,000 and £27,421,000. The Banking reserve was awkwardly low at the close of 1905—a rather low figure at the year's end was normal—and again in the autumn, particularly in October, of 1906. But in both years the Bank's curative injections were precautionary and anticipatory, not hurriedly applied to a patient in danger of actual collapse.

While the Court or the Governor operated without explanation or self-justification—it was so long since a Governor had said anything of public interest in General Court that financial journals were ceasing to insert reports of its meetings—leading bankers made occasional pronouncements on policy. There was an old bankers' quarrel with government, a quarrel from which the Bank and its Directors were very careful to stand aside, over the Post Office Savings Bank. Why should the Bank be bound by law to keep gold against its extra notes, and by custom to carry big reserves, to which the bankers were expected to contribute on national grounds, while the nation kept no fluid reserve at all against these banking liabilities? Let it keep some gold or make some sort of contribution to reserves.[1] At the British Association in September of 1906 some great banking tongues were loosed.[2] Palgrave argued for a separate bankers' reserve—the notion that put up the hackles of the Bank's Inspector of Branches[3]—while Drummond Fraser asked for a Savings Bank reserve, and the repayment by the government of its ancient debt to the Bank as

[1] *Bankers' Mag.* 1906, I, 838.
[2] *Ibid.* II, 325.
[3] Above, p. 380.

a contribution to general reserves. From outside the British Association, E. H. Holden, the dominant and aggressive leader of the London City and Midland Bank, supported him.

Bankers were talking about gold, and the Bank was moving up its rate and borrowing, in the autumn of 1906, for most sufficient reasons. Through many months, reckless activity in America had been recklessly helped from England. According to the *Economist* it had been "plain to everyone", even in 1905, "that credit facilities were being granted too readily to the United States".[1] An American wrote later of the London bankers' "remarkable infatuation of 1906".[2] Their complaisance made England a debtor for the short period: in consequence near £5,000,000 of gold was shipped to New York in September. Between 29 August and 10 October the Banking reserve fell by over nine millions, the bullion in the Issue Department by nearly ten. The Governor's 6 per cent of 19 October, and the heavy market borrowings to shore it up, were the reply to this drain. Further fall in the reserves was arrested. By November they were beginning to rise again, though slowly. The possibility of 7 per cent was being contemplated. It might have come had not the Bank of France worked for stabilization by discounting a large parcel of English bills.[3] As it was, 6 per cent, persisted in for nearly thirteen weeks, sufficed; but the very length of the spell makes clear the nature of the tension.

With the reserve above £22,000,000 in mid-January, as compared with just over £18,000,000 when 6 per cent had been imposed, the Court sanctioned 5 per cent. At 5 the rate remained for nearly three more months. Such long spells of relatively high rates had not been known since the sixties, though peak rates had been higher.

[1] *Economist*, 24 Aug. 1907. [2] *Bankers' Mag.* 1908, I, 378.

[3] In November: the bills were renewed to help the London market. From a Note on *Central Bank Credits*, at the Bank.

The year 1907 was one of uncommon international difficulty. That the Bank came through it in such fashion as to leave no troubled memories in the minds of men who were at that time in its service is greatly to the credit of the management. Reserves might be too small, as everyone had been saying for thirty years and more, but they were handled and thrown into the fight with effect. And if that could be counted on, the British economy in reserve keeping could be defended. There is no call for bigger strategic reserves than will win your battles.

Though the battles were being won at a rather heavy price—there were loud contemporary complaints about the cost of 6 per cent to industry[1]—it is remarkable that the year 1907 showed only a slight deterioration in the very sound state of employment during 1906; that 1908 proved better than 1906; and 1909 the best year for employment since 1890. The Bank's policy of relying on the use of "bank rate coupled with a rigid parity of the foreign exchanges" has been called "the most dangerous technique for the maintenance of equilibrium that can possibly be imagined".[2] However that may have been in the nineteen-thirties, when those words were written, in 1907 the technique was associated with—we must not say caused—a most satisfactory maintenance and improvement of the industrial equilibrium.

It was applied systematically, its critics said ruthlessly. The average Bank rate for the whole year 1907 was over 5: it was never below 4: for fifty-four days at the end of the year—plus another two in 1908—it stood at 7. There had not been a single day of 7 since 1873.

The bankers, while the technique was being applied, continued to talk about reserves, about gold, and about co-operation. Schuster favoured that second reserve, in which government was to share because of the Savings Banks. He favoured also the old old demand—the Bank's own demand of 1844—for an elastic

[1] *Bankers' Mag.* 1906, II, 333.

[2] Keynes, *The General Theory of Employment, Interest and Money*, p. 339.

clause in the Bank Act which would get rid of Chancellor's crisis letters. And he pleaded—again, and most sensibly—for some permanent committee of bankers and the Bank.[1] Holden approved of the committee plan; but in the matter of gold was—for the moment; he changed his mind later—critical of a published and public reserve outside the Bank of England.[2] Apparently he wanted the gold of the joint-stock banks to be unseen, a hidden reserve to be thrown in at a critical moment, and so with the more effect. It was in March of 1907 that the London clearing bankers set up a committee to consider, among other things, the best means of increasing the nation's reserves of gold and how the banks could most effectively assist that increase.[3] They went on considering into 1908, when the troubles of 1907 were over; and the Bank continued to apply the old technique and under the old conditions—successfully; though whether it would have succeeded had the foreign banks in London, whose uncontrolled action Holden rightly feared, seen occasion to make difficulties for England remains an open question.

When the Governor clapped on 6 per cent in October of 1906, and the Court retained it into 1907, America was thrown back on to her own immense but strained financial resources. Her mercurial economy was approaching one of those abrupt and steep changes of temperature which suggest her climate. But the steep and great change was delayed until late in the year, while lesser changes went forward elsewhere, and even on her soil. Japan had lost her economic head after victory over Russia, and was paying the sort of penalty that Germany paid in 1873, collapse following an orgy of promotion. Commercial centres in the Mediterranean were touched. New York had a stock-market panic in March. Yet in England the Bank felt free to drop the rate to $4\frac{1}{2}$ and 4 in April; and at 4 it remained until 15 August, when it was put back to $4\frac{1}{2}$.

[1] Before the Institute of Bankers, *Bankers' Mag.* 1907, I, 64.
[2] *Ibid.* I, 207. [3] *Ibid.* I, 591.

But by August the American productive machine was stalling: the United States Steel Corporation reported a 25 per cent drop in demand, and the demand for copper—a speculator's favourite metal—followed the same road. Theodore Roosevelt thundered from Washington against corrupt practices in business. Some people in the Standard Oil Company lost their heads. There were "rumours and rumours of rumours". Good observers, both in England and New York, expected a crash that month. But it did not come. The Bank held on at 4½ and entered September with a reserve of over £28,000,000, the best for several years at that season.[1]

October was the panic month, but not in London. Before the twentieth there had been stock-exchange collapses in New York and Amsterdam, and the failure of a great private banking firm in Hamburg. A New York bank, too closely associated with copper, was also in trouble. Then, on 22 October, began a run on the Knickerbocker Trust Company of New York—trust investment companies had been fancied by those who wanted to get rich quickly; there was true panic; and within a week people were hoarding money and state governments were proclaiming emergency bank shuttings. The near 20,000 separate and distinct banks of the United States were all anxious; many suspended payment. There was an actual currency famine: wages could not be paid in cash: the autumn crop movements were interfered with. Naturally, any institution which had chances of drawing gold from London, or from anywhere else, tried them.[2]

The full development of the American panic and demand took about a month. To meet it the Bank put the rate up a whole point on 31 October, having had to report the day before that its reserve was below £21,000,000. Four days later, the Governor—

[1] Cp. Clapham, III, 54–5.

[2] Sprague, "The American Crisis of 1907", *E.J.* 1908; Foxwell, "The American Crisis of 1907", *Papers on Current Finance*; and for week to week comments the *Economist's* New York correspondent.

W. M. Campbell—raised it to 6. On 7 November the Court said 7; and at 7 it stayed until 2 January 1908. City financial critics blustered,[1] but there is little doubt that the Court was right—on gold standard assumptions; and in 1907 there were no others outside China and a few of the lesser South American Republics. In the week before 7 was declared, the net exports of gold were £6,265,000. The Issue Department had lost £10,000,000 on balance since 25 September. The Banking reserve on 6 November stood at £17,700,000. Bankers may have refrained from reducing their reserves, in hope of averting 7 per cent, but they had not increased them.[2] But 7 per cent drew £7,000,000 of gold from Germany and £3,500,000 from France. Mining countries sent £6,500,000. India was able to sell to the Bank £2,500,000 of "earmarked" gold, and many other countries sent small contributions.[3] This was all in November and December.

A case might have been made for a drop from 7 early in December. The Court knew however that its reserve was normally low at the very end of the year, and did not wish to risk its being lower still. But as on Christmas Eve the figure was £19,700,000 and on 1 January £21,500,000, reduction was started.

Once started it moved swiftly. Before January was over the rate was at 4½, and by 19 March it was at 3, where it had not been since 1905.

This American crisis of 1907 was primarily, though by no means exclusively, a crisis in the mechanism of banking, a mechanism which the United States promptly decided to recondition.[4] Even as it was, not many banks failed absolutely, although many stopped business for a time. In purely agri-

[1] The *Economist*, 9 Nov., called it an "extraordinary step".

[2] Hawtrey, *A Century of Bank Rate*, p. 117, implies that they increased them: the *Weekly Accounts* show that they did not.

[3] Gold came from Paris partly as a result of credits granted again as in 1906 (p. 388 above). American eagles were remitted: *Central Bank Credits* MS.

[4] Following the *Report of the National Monetary Commission* (1910) the U.S. overhauled the Federal banking law.

cultural districts, observers noted, no single bank failed. And it is remarkable that the final record of American business bankruptcies, though high, was not excessive. In Britain, where the banking mechanism worked well, the bankruptcy figures were in no way abnormal, in 1907 or in 1908. They were lower in each of these years than they had been either in 1906 or in 1905. There was, however, a rather abnormally high figure for companies wound up in 1908.[1] Liquidations were nearly all voluntary. They imply financial and industrial contraction—probably in some cases connected with the high rates of interest in 1907—and they point, if not to any crisis, still to the downward slope of the curve of activity.

Yet how gentle and free of danger parts of that slope were is shown by the prompt working of cheap money during 1908. Having reached 3 by March, Bank rate dropped to 2½ at the end of May; and there it stayed for the rest of the year. As a result, the financial Press was able to report more genuine investment, that is, more money actually paid up on the London investment market, in 1908 than in 1907. Projectors had been waiting for easier conditions and were quick to seize them when they came. Capital export fell a little from the peak of 1907, but remained very high when compared with the level of the previous thirty years.

Heavy capital export was however accompanied, in part explained, by that slackening of constructional activity at home which is characteristic of the downward slope of the economic wave. This slackening was specially conspicuous in shipbuilding. It came after three years of the greatest activity in the yards—activity which cheap money could not perpetuate, since ships wear out slowly, and for the moment the world had ships enough. By 1909 the group of trade unions of the men who serve the shipyards directly or indirectly had an unemployment percentage of 13; and both for 1909 and 1908 the percentage for the whole

[1] The figures are in the *Statistical Abstracts for the U.K.*

body of trade unions stood at 8. It stood there because the building trades were slack like the shipbuilding trade, though not so slack. The Carpenters and Joiners' Union, a representative one, had an unemployment figure of over 11. Here again, cheap money alone was not enough to maintain activity in an industry which, on social grounds, might with advantage have remained active, in destruction and reconstruction of Britain's "smoky, dwarf houses", her villas "pricking a cockney ear", and other blots on her scene.

From May of 1908, when the rate was dropped to 2½, until October of 1909, it was never above 3; and there was no occasion for open-market operations. Income from discounts and advances was falling steeply away, both in London and at the branches, in accordance with the economic wave and the fallen rates asked. The Bank year 1908–9 was a particularly bad one, especially for the income from advances;[1] but it was still possible to maintain the dividend at the 9 per cent level to which it had fallen in 1904, after seven years of 10, following the bad years of the early nineties when it had once been so low as 8¼, the lowest touched since the 8 of 1868. This had been done without pushing the undivided Rest of profits—the "balance of gains resting" of the eighteenth century—below the £3,000,000 which had come to be treated as a sacred minimum. There is no record of any sort, but the statistics of Dividend and Rest show that the Court would always prefer to cut the half-yearly dividend by ½ per cent—that is by £72,765—rather than cross this traditional £3,000,000 line. After all there had been £3,000,000 of Rest when cash payments were suspended in 1797, and "when Wellington thrashed Bonaparte as every child can tell". Besides, the Rest was in fact "completely immobilized" and "regarded as part of the capital".[2]

[1] See App. D.

[2] From a report of 1919 in *C.B. Re.*

Here, in 1908–9, there is a pause before the last five active and troubled years of the Great Peace and of the almost world-wide reign of the gold standard—years of rising prices, falling unemployment, yet recurrent industrial friction; years marked by huge exports of British capital, important technical developments and quickened international competition; a time made gloomy to lovers of peace by the sharpening of swords and the building of fighting ships, and by the growing shadow of war in the air; troubled for all by domestic and international tensions—over Parliament Acts, Agadir episodes, women's suffrage scuffles, and as always Ireland. For the last three of the five years, from Agadir in 1911 to the day when "the lights went out all over Europe" in 1914, the three nations whose leaders read the signs in the clouds most clearly—Germany, France and Russia—were competing for that gold without a full supply of which, as it was supposed by those who had forgotten France of the assignats and England of the suspension, no government could hope to wage successful war.

Since the internal reorganization that followed the troubles of 1893, when what amounted to a continuous auditing of the various sections of the Bank's business had been introduced, that business was conducted with all necessary safeguards.[1] There was however always the danger, inherent in a system of short-term Governors and long-term officers, that, just as in a government department with shifting ministers and permanent officials, the officer and the department might come to think of themselves and their tradition as the essential matters, and to view other departments with an indifference verging on hostility. Old officers of the Bank recall this aloofness and secrecy tinged with dislike.

After the reorganization of 1894 and the final recognition, by

[1] For the kind of work done by the Bank's Audit Department see pp. 364–5 above.

differentiation of salary, of the primacy of the Chief Cashier[1]—the single man in the Bank whose name and signature all the world knew—the attention of the Chief Accountant was concentrated more than ever on what for generations had been his main business, the administration of the Funds and other issues made through the Bank, "the Stock side" as it is colloquially called. With what effect it was so concentrated is shown by the *History of the Early Years of the Funded Debt*, compiled for the government by G. F. Stutchbury, the Chief Accountant of the day, in 1898—a monument of industry and accuracy. Hammond Chubb's memory of the Accountant's side as a check on the Cashier's remained a memory: checking was now the work of the Audit Department. When Chubb himself retired in 1894, after thirty years of office, the Secretary's Department, never very prominent, lost a good deal of the importance which his experience and ability had acquired for it. The longest tenure of the next few years, from 1898 to 1908, was that of Kenneth Grahame, author of *The Wind in the Willows*, an accomplished, but, it would appear, not an assertive Secretary.

Although the South African War issues had made work, and what seemed to men with no war experience heavy work, for the Stock side, the subsequent reversion to sound, nineteenth-century, Gladstonian finance, with its steady repayments of debt, had brought the aggregate gross liabilities of the state, as officially returned for 1909, below what they had been in 1883. (They fell a little further down to 1914.) Handling of the National Debt in Threadneedle Street was no heavier than it had been a quarter of a century back, and methods had been simplified and improved. The Bank now had its "typists"—so indexed with inverted commas in 1899, but still only nine in March 1914—and its staff of women note sorters, in 1914 fifty-three. The male clerical staff for all purposes at headquarters remained fairly constant down to 1914, with a total of between 700 and 800 as compared with about 650 in

[1] Above, p. 362, n. 3.

1825 and about 300 in 1792. Labour-saving devices and women, both introduced slowly, had helped to keep numbers down.[1]

An analysis of the staff by departments and offices, as it stood in March 1914, furnishes a rough indication of the relative weights of the different sections of the Bank's business at the finish. It need hardly be repeated that the Issue and Banking Departments had always been abstractions, not actual organizations. In Bank language the Departments were those of the principal officials—Cashier, Accountant and Secretary; with Audit as a numerically insignificant but very important newcomer.[2] Of the 737 officials and clerks, 66 were juniors unattached who were moved from office to office or from department to department to learn the business and give assistance as required. Of the 671 established and attached, clerks of the various grades and departmental chiefs included, 10 were enough for the Department of the Secretary and 5 for the Audit Department. The majority, 360, were doing straightforward banking work, including that for government, in one or other of the offices that were under the Chief Cashier. Of these, much the largest was the Private Drawing Office, with a staff of 90. Next came the Bill Office, with 50: it handled bills and cheques and did the Bank's work at the Clearing House. For the Public Drawing Office, where government accounts, accounts of the Scottish and Irish banks, and semi-government accounts like those of guaranteed Indian railways were handled, 27 was enough. There were 14 Cashiers in the Treasury, who supervised safes and vaults, endorsed cheques, and otherwise justified their name. The 10 in-tellers handled coin and dealt with the Mint and the banks. In the Chief Cashier's personal Office, where advances and other high matters were considered, there were 16 people, including himself. Branch Banks had 21; the Dividend Pay Office 22; the Securities Office 18; and the Issue Office, where notes were given out or cashed, 15. Of the remaining 77, 53 were

[1] There were 25 women clerks of all sorts in 1895, 47 in 1904, and 65 in 1914: from the *House Lists*.

[2] See p. 364 above.

clerks not yet fully anchored in Offices, but spread among them roughly in proportion to size.

The Accountant's Department with a staff of 295 kept the Bank's main books and the records of its dealings with stock of every sort, and with notes. Its biggest Office (Dividends; staff 57) was much occupied with the National Debt, but dealt also with Bank, Colonial and Corporation dividends. The second biggest (Consols; 45) was essentially "governmental", though not all the stock that it managed was technically Consols. The main business of the third (the Accountant's Bank Note Office; 32) was to keep the register of the notes, a formidable task. There were big Offices (31 and 28) called Colonial and Corporation Stock and Bank Stock Offices; but the latter did a great deal of work not with Bank Stock. (All through the Bank, a name might cover several activities.) The Accountant had his personal Office of 20; his group of 27 unattached men; and both he and the Cashier had a few other lesser Offices.[1]

Since early Victorian times, when the creditors of the state and the proprietors of Bank stock still collected their dividends in person or by attorney at the Bank, the process of dividend distribution had been modernized. So late as 1890 numerous stockholders had still attended in the old way, and a small group of cashiers might spend two or three days paying their dividends out. But the postal system, first introduced in 1870,[2] spread steadily with the spread of banks and their branches all over the country. The cumbrous power of attorney, still in use in the eighties, was

[1] Figures from the *House List*, March 1914; functions as described by various Officers of the Bank. The functions are here indicated roughly. In the Consols Office, at the end of 1914, of 177,411 accounts, 135,010 were of Consols proper and 20,583 of Annuities and Local Loans Stock; the Colonial and Corporation Stock Office kept 199,974 accounts connected with 53 separate issues; in the Bank Stock Office, out of 122,359 accounts, only 12,952 were of Bank Stock, the rest (14) being mostly Indian government or railway issues. Figures supplied to me in the Secretary's Office.

[2] Above, p. 279. Personal payment survived till 1907–8, and later.

superseded by a simple form known as a Dividend Request. By the twentieth century, dividend warrants were despatched to stock-holders as a matter of course, in the case of joint accounts the warrant being sent to the first-named holder. Handling of the Indian and imperial stocks had been facilitated by the gradual adoption of the coupon system, and the abolition at the Bank—though rather late—of the practice of addressing envelopes to holders by hand, a practice which, as was pointed out in a report of 1893, had led to "absurd errors" made by raw clerks.[1]

The closed periods for transfers of stock had gone—"shuttings" for government issues long since, "closings" for Bank stock in 1896.[2] Transfer by deed, as an alternative to transfer in the Bank's books, had been introduced, but was not yet general; and the fees formerly levied for the exchange of stock for stock certificates, and for the re-inscription of stock certificates in the case of government stocks, were disappearing. In 1890, with the approval of the Treasury, the so-called "accumulative dividend" system had been introduced, the Bank undertaking the rather tiresome business of re-investing automatically dividends due to small investors in government stock.[3]

Issue and management for India and other parts of the Empire had extended, but not conspicuously.[4] There were other powerful competitors for the business; many dominions worked entirely, and some partially, through their own banks. The government of India used the Bank for all major operations: there was an India Audit Roll parallel to the ancient Exchequer Audit Roll. The Bank also issued and managed for a couple of important Indian guaranteed railways. New Zealand was an old client, but most Australian business was done elsewhere. Some business with

[1] *C.B. Qd*: a printed report dated Feb. 1893. Stock certificates to bearer with coupons attached were first provided for in 1863.

[2] See p. 256 and p. 342 above.

[3] *C.B. Nd*, 4 Sept. 1890. The last fees went in 1917.

[4] Based on the return of management income for 1912 in *G.L. XXX*.

New South Wales had been retained, and some with Queensland, in spite of friction and a passage of arms in 1891–2, when the Queensland government was engaged by William Lidderdale. In a ministerial speech the Bank had been accused of dishonest action, in connection with the issue of a Queensland loan. The facts were intricate, the charge direct and repeated. Lidderdale demanded an apology through the Agent-General, with whom he had negotiated. He rejected circumlocutory explanations. Not getting what he asked for, he wrote on 25 January 1892—"the relations between your Government and the Bank are at an end",[1] except for the service of existing loans. However, relations were resumed under his successor, Powell, the Bank having secured a statement by way of withdrawal which it regarded as satisfactory.[2]

After the South African war, the Bank issued the Transvaal Guaranteed Loan of 1903; and on the fringes of Empire close and important relations had developed with Egypt, since the Bank had protested to Lord Salisbury against the entrusting of an Egyptian issue by the Foreign Office to Rothschilds.[3] Egyptian stocks guaranteed by the British government fell into the same privileged class as the early colonial guaranteed bonds: the Bank could issue them, manage them, and accept them as "floaters" with confidence. It had close relations with the Bank of Egypt: for a bank it naturally would not issue stock, but it held the Egyptian bank's account and also "earmarked" gold for it as backing for the Egyptian currency. In 1909–12 the Bank is issuing for the Egyptian Irrigation Trust and the Delta Light Railway. Thus altogether Egypt provides an important and not unprofitable "line" of business.

Absolutely outside the Empire, but guaranteed for political reasons by the British Treasury and issued by the Bank, was a Greek loan of 1898,[4] recalled by an old officer and Director of

[1] *L.B.* 22, letter of 25 Jan. 1892. Lidderdale's first letter is of 6 Oct. 1891.
[2] *Ibid.* letter of 3 May 1892. [3] Above, p. 316.
[4] Guaranteed under 61 Vict. c. 4.

the Bank as a late nineteenth-century instance of that semi-political international activity which became common after 1918. Before that, as a colleague of his has put it, the Bank was amazingly detached from international affairs; heard from no one; saw no one; only watched the gold and took the necessary steps semi-automatically.[1]

British clients for issue or management had changed very little. Municipalities, like Dominions, now generally worked through other banks. In the early days of municipal issue, the Bank had secured the business of a number of important cities. But legal changes, under the Public Health Act of 1890, had made it easy for municipalities to go elsewhere, if they wished. The Bank only retained the management of the older issues of its original municipal clients—Birmingham, Liverpool, Manchester. Besides these, it managed, in whole or in part, for eight towns, from Hull to Swansea and from Birkenhead to Ramsgate;[2] but new issues were now normally made through some other firm.

London business remained in its hands—City Corporation debentures, Metropolitan Police debentures and those of the Thames Conservancy. Of the new County Councils, Hampshire had come to it for issue and management, and so had West Sussex; but vastly more important were Middlesex and the London County Council, which came naturally.

Issue for corporations had from time to time affected the income entered in the Ledgers under "advances"; because if a corporation wished to float a loan at a time when market conditions appeared to the Bank and its advisers unfavourable, the applicants' temporary needs could be met by a short-term advance on the security of the rates, of the type which the Bank had regularly made in the days before municipalities borrowed like sovereign states. This same policy might also be employed by the Bank when India, or

[1] The references are to Sir Gordon Nairne and Sir Ernest Harvey.

[2] From the figures of management receipts in *G.L. XXX.*

some Colony, or a young County Council, was contemplating a long-term issue.[1]

Whole columns in the Ledgers of the period were still filled with these small and tiresome little loans to School Boards and the like which had begun, in the sixties, with loans to Local Boards of Health. The Local Boards had vanished into the County, the Rural, and the Urban District Councils: their debts might have been paid off or transferred to these. School Boards still survived: in the Ledger that covers the years 1908–13 are to be found such entries as, from the Rowley Regis School Board—£4. 2*s*. 10*d*.,[2] a retail sort of business for the Bank of England. Apart from its peddling character, there were those in the Bank who were inclined to criticize its essence. In times of low Bank rate—say 1894–6, 1897 or 1908–9—money lent to Rowley Regis at 3 or 3½ went into Rowley Regis' Bank, they argued, and so up to London to swell those headquarters' balances which were keeping the money cheap. And in times of dear money, the Rowley Regis cheap loan still ran, while the Bank might be taking money off the market through Messrs Mullens, not so cheap, to prop up its own higher rate.[3] However, tiresome as it was, this school board sort of business was, in the aggregate, such a bagatelle that its possible defects deserve no more than bare reference.

There were sustained differences of opinion in directing circles about the policy of the branches. Through their advances, and still more through their discounts, the branches continued to make a very important contribution to the Bank's total income—in 1908–9, £106,000 out of £200,000 from advances and no less than £96,000 out of £151,000 from discounts.[4] That £202,000,

[1] Information from Sir Ernest Harvey. [2] *G.L. XXX*, f. 144.

[3] A line of possible criticism suggested by Sir Gordon Nairne.

[4] These figures include the Western Branch and the Law Courts Branch. Neither did much discounting, but the Western made considerable, and the Law Courts some advances. The graph in App. C puts the London discounts together as opposed to the Country.

even when offset by administrative expenses, was a considerable contribution towards a dividend of £1,309,770, and as the Principal of the Branch Banks Office had argued in 1904 was the main stream of the Bank's whole income from "pure banking".[1] Encouraged in the belief by his Principal, an active Branch Agent naturally thought all business that he could get was good. If he wired for permission to quote the London fine rate, he usually got it; and on occasion he was allowed even to go $\frac{1}{16}$ below the fine rate to secure the trade.[2] It is not surprising that protests were made every now and then by bankers, or that co-operation between them and the Bank still had snags to get over. They kept balances at the branch, where there was one, just as London bankers kept them in Threadneedle Street. When money was cheap, the limited amount of discounting in Threadneedle Street —largely by bankers themselves—was no cause of grievance; and the advances there, especially the quarterlies, were a recognized convenience. (Though the stricter school in the Bank had its doubts about the wisdom of the large advances to the Stock Exchange, the Stock Exchange had none.[3]) But to find the Manchester or the Leeds Branch making plenty of money, at keen competitive rates, when it kept part at least of their reserves and did not perform the admittedly useful functions of Threadneedle Street, might be a cause of not illegitimate annoyance to, say, the Commercial Bank of Manchester or to Messrs Becketts of Leeds. The view that annoyance was legitimate, and that cheap discounting in the provinces might have some of the occasional direct drawbacks of cheap lending to school boards and such, was held by important men at the Bank, both officers and Directors. By 1908–9, as one of them has said, the Court was soft-pedalling the "forward" branch policy which had been followed since the

[1] Above, p. 371.

[2] Information from Sir Ernest Harvey, who served as Deputy Principal of the Branch Banks Office, 1900–2. And see p. 385 above.

[3] Doubts have been expressed in retrospect by Sir Gordon Nairne.

early nineties.[1] The eager Principal of the Branch Banks Office held that it always had soft-pedalled it.[2] But more than a soft-pedal was needed to silence a note struck by a strong man who controlled his own stops, and played a tune pleasing to his Agents. There was no great change until, in one and the same year, war shifted all banking standards and the strong man left his Office.

At headquarters the Bank had to hold its own, and its head up, in a banking community composed of increasingly stronger units, as amalgamation and branch-opening went forward. Amalgamation favoured the long-drawn-out realization of Peel and Horsley Palmer's conception of a single central issuing bank for England; but fragments of issuing rights still survived—there were £228,000 of country notes circulating in England and Wales in the last quarter of 1909—and the Bank was reluctant at the last to take over all the abandoned issues to which it was entitled; for an interesting reason. Writing in October 1911, the Bank explained that, since 1903, suspensions of issuing rights, resulting from amalgamation of country banks with those whose head offices were within the sixty-five mile radius, had entitled it to add about £900,000 to its fiduciary issue. It had not exercised this right because it wanted to keep a hand on the gold, and to increase issue only against gold.[3] In relation to circulation, prices, exchanges—all the things about which controversy had turned two generations earlier—the Bank note, used for only an infinitesimal fraction of the total business of the country, was all but negligible; but it gave its holder an absolute right to gold and might replace a certain amount of gold in the circulation. The Bank, jealous of its bullion, which averaged only £41,064,000 for

[1] Information from Sir Ernest Harvey.

[2] The whole tone of his memorandum of 1904, quoted on p. 371 above, shows this.

[3] *L.B.* 24, letters to the Treasury of 24 Oct. and to the Wilts and Dorset Banking Co. of 29 Nov. 1911.

the critical third quarter of 1911,[1] and faithful to its belief in the private metallic reserve, the reserve which men still carried in sovereign-cases at the other end of their transverse watch-chains as well as in trouser pockets, would take no step, however legal, which might endanger either. Talk about more gold, schemes about how to get it, had not ceased and would not cease until a war had begun which, if it had been waged with gold, would have emptied the Bank's vaults in a week and all other reserves in perhaps a month.

While the banks were uniting and growing stronger, no great change had come in the other constituent elements of the money market, beyond that vital one due to the growing importance of the foreign balances and the foreign banks. There had been a curious instance of that growing importance during the cheap-money spell of 1895–6. China, beaten in war by Japan, was engaged in paying her an indemnity. The Chinese accumulated their debt at the Bank. Finally it was paid over to the Japanese government account at the London office of the Yokohama Specie Bank in a single vast cheque. But while it was accumulating, the Yokohama Bank, anxious to miss no good opportunity, requested the Bank to put the accumulation "out to usury" on the London market.[2] Sixty years earlier the funds of the East India Company, no longer needed for trading since it had lost its last trade monopoly, had been used by the Bank in this way, and had flooded the market.[3] Now one Far Eastern Power, controller of a "pet" bank in London, was receiving from another Far Eastern Power an indemnity that helped to bring about the spell of cheap money which coincided with this forced transfer of purchasing power from the one to the other.

[1] Issue and Banking Departments combined.

[2] In the twentieth century the Court had a weekly statement of "money lent to the market on account of customers": see, e.g., *C.B. Ie*, 1911. The story of the indemnity and its use is from Sir Gordon Nairne.

[3] Above, p. 147.

In the market there was no important change connected with bill-broking; but the Bank gradually became more friendly and helpful towards the discount companies and private bill-dealing firms,[1] while the range of firms who did discount business with it continued to contract. In the nineties the number of discounters, or takers of advances for short periods in the Discount Office, had varied between 200 and 120. Early in the twentieth century it was falling from about 120 to about 100. In 1907 it was 109: in 1909, the last year in which the figures were entered in the Minutes of Court, it stood at 74.[2] Contrast the 1200–1500 discounters of the early nineteenth century. These frequenters of the Discount Office in 1908–9 were an even smaller and more specialized group than their predecessors of the seventies and eighties had been. The old-fashioned discounting trader was all but extinct. Things were much the same at the branches, where the total number of discounters was now only a little over 200: in 1859 the figure had been 799. The results of a vote passed in April, 1911, which graded unfavourably for discount those who had not regular discount accounts,[3] and so obliged a number of firms of the highest standing—who had found it convenient to do some discounting without such accounts—to open or re-open them formally, throws light on the composition of these small, specialized, discounting groups of the twentieth century. The list includes such high financial names as Cunliffe, Foy Morgan, Lazard, Ogilvy Gillanders, Raphael, Seligman and the Royal Bank of Canada. Among these, Woolcombers Ltd., the salvage firm which was dealing with the wreckage of that collapsed combine the Woolcombers Association, stands out as an unprosperous industrial exception. Its presence is a little surprising,

[1] Loans to them fill the weekly statement laid before the Court, e.g. *C.B. Ie*, as above.

[2] From the annual Discount reports. The figure for 1909 is in *C.B. Ge*. After that, figures "which the Committee think will be of most interest to the Court are laid on the table" (*C.B. He*) and the reports lose all interest.

[3] *CB. Ie*, 6 April 1911.

and one would like to know how the experts of the Discount Office and the Committee in Daily Waiting graded its paper.[1]

This select and contracted discount market—banks, especially colonial and overseas banks, with their big portfolios of bills for foodstuffs and raw materials; discount houses; high financial houses—normally did a great, or the greater, part of its borrowing not by discount proper but on bills deposited, or on the prime securities accepted by the Bank as floaters. The change-over was not new: it had already gone far in the early nineties, when the floaters' business was transferred to the Discount Office.[2] It had been recognized since 1900 in the title of the Committee that reported on the results annually, which was now the Committee on Advances and Discounts. In an old body corporate such recognition always comes late. Occasionally, after 1900, the discounts regained some of their old importance in aggregate amount, and still more as yielders of income: they were normally a good deal longer than the advances. In the calendar year 1907, for instance, against £30,255,000 of business in advances on bills and £16,552,000 on floaters, there were £37,328,000 of discounts in Threadneedle Street,[3] the discounts yielding £251,000 for the Bank year February–February 1907–8, and the advances £165,000; but in 1908 and again in 1909, the combined business on bills and floaters, though not its yield, was twice that of the discounts.[4]

There were, it appears, margins of uncertainty about the business and the proper place for its transaction; for in 1912 a rule was made that advances in the Discount Office be made only on the two recognized types of security—the bills and the floaters—and only to members of the discount market.[5] If this rule was more than the codification of an existing practice, it is

[1] For the Woolcombers see Clapham, III, 272. It has been suggested that it was possibly S. H. Morley, Governor 1903–5, later Lord Hollenden, who introduced their business.

[2] Above, p. 369.

[3] Report on Advances and Discounts for 1907, in *C.B. Ee.*

[4] Business from the annual reports; yields from the *Stock Estimates*; see App. C, D.

[5] *C.B. Ke*, 14 Nov. 1912.

to be supposed that members of that market had sometimes offered other security; or that perhaps stock-brokers had used the facilities of the Discount Office; or that both sorts of what were now to be irregularities had occurred.

Advances made by the Chief Cashier to Stock Exchange firms for the account, but often extended to aid carrying-over from one account to another, had become an important source of income during the nineties and had been formally blessed by the Court in 1900, as has been seen.[1] Officers of the Bank from the school that has prevailed in the current century, men who disagreed roundly with the Peel-Hankey doctrine of the Banking Department as an ordinary competitive bank, have wondered in retrospect whether this development was wise. The Bank, the Central Bank, they argue, was taking bankers' business in an unbecoming way. If money was absolutely short, when stock-brokers applied to their bankers, those bankers would be driven into the market, the market would be driven into the Bank, and the Bank would get the business "legitimately". If money was abundant, it was not for the Bank to cut into the commercial bankers' regular business of financing Stock Exchange transactions. Besides, some of the securities accepted in the trade, not being of the superfine floater sort, might have proved poor cover in a grave emergency—say a great war.[2] But few people in the City, or in England, between 1890 and 1911, gave serious consideration to the financial problems of a possible earth-shaking war. Leave that to the French and the Germans with their bellicose mental habits and their "conscript" armies.

The Court of the early twentieth century, however, did not adopt a hostile, only a cautious, attitude towards these Stock Exchange advances.[3] They were not open to all stock-brokers.

[1] Above, p. 376. Some stock-brokers had access to the Discount Office as money brokers.

[2] This line of argument was summarized to me by Sir Gordon Nairne.

[3] The Chief Cashier who developed them (H. G. Bowen) resigned in 1902; Sir Gordon (then Mr J. G.) Nairne was his successor.

There was a privileged list of those who might deliver securities, to which firms from Capel Court were admitted by a Directors' vote.[1] Of securities that might be presented there was no list: that was left to the discretion of the Chief Cashier; and it was the possible dangers of this discretion that have since impressed a man who held that office from 1902 to 1918.

Early in the nineties, Lidderdale had thrown out the hint that the Bank might find itself obliged to follow the joint-stock banks in allowing interest on deposit accounts; and its practice of lending from the balances of good customers at their request, when those balances were large, came very near to allowing interest—as its early critics had pointed out. But there had been no change of general policy; and the events of 1893 had stiffened Governors and the Court in support of another traditional mark of difference between the Bank and the bankers—especially the bankers of the industrial North—the absolute refusal of overdraft as a general thing. The report of January 1894 had re-affirmed the old policy: an overdraft was to be reported to the Chief Cashier and the Governor at sight.[2] These exercised discretion in particular cases; and gradually practices were developed which did not undercut the main principle but did regularize overdraft in special conditions. Rules put into shape in 1911 illustrate these conditions. There was no need to report an overdraft of less than £100, nor, obviously, to report one already sanctioned by Cashier and Governor. The type most usually so sanctioned was that connected with the probate of wills: executors might reasonably be accommodated while estates were being cleared up. But, to avoid all risk, the Committee in Daily Waiting was to see a list of the day's overdrafts; and each month the Governor was to consider a list of them all, including those that he had sanctioned.[3] Short of the

[1] There is, e.g., such a vote of 8 Feb. 1912 in *C.B. Ie.*

[2] Above, p. 364.

[3] *C.B. Ie*, 6 July 1911, rules for overdrafts; and the printed rules on advances generally, approved 14 Nov. 1912, in *C.B. Ke.*

emergence of an unusually rash or a corrupt Governor, there was not the least risk to the Bank's pocket or to its Directors' consciences.

The Bank's position as banker to the state had been defined and regulated for twenty years by the Goschen agreement of 1892. From 1912 that agreement was to be carried on, by mutual consent, from year to year; and as the Chancellor of the Exchequer was very much occupied with other matters at that time—"Lloyd George" budgets; insurance acts; taxation of land values; a miners' minimum wage act; and at last the struggle to keep out of war—the year to year extension came of itself, until the unaverted war upset all agreements and precedents and started a new chapter in the history of the Bank.

The Bank had not wished to start a fresh discussion in 1912. The Governor, A. C. Cole, told the Committee of Treasury in March that he had been looking into the government business and the profit of it under the 1892 agreement. Seeing what had happened to the rate of interest in the interval, his report that "the reduction in the interest now paid on the Government Debt is not equitable to the Bank" is not surprising. (Yet holders of Consols were in the same ill-paid state.) However, as he went on to report, government balances were decidedly greater than they had been twenty years back.[1] His advice was that if these larger balances were maintained, the Bank should let the matter rest.[2] The Committee agreed with him; so did the Court;[3] the government might raise the matter if it liked; the Treasury took no action; and the settlement of 1892 was extended automatically.

From 1909 wholesale prices moved upwards without inter-

[1] The Exchequer balances proper, in February, averaged for the five years ending 1892, £6,800,000; for the five years ending 1912, £11,200,000. The corresponding figures for total public deposits, including the Exchequer balances, were £10,900,000 and £18,000,000. Cole did not give these figures.

[2] *C.T.* 45, 27 March 1912. [3] *C.B. Ie*, 4 April 1912.

ruption; trade union unemployment downwards almost without interruption, falling to below 2½ per cent for 1913; Bank rate varied between 3 and 5, with spells of 5 each year and long spells in 1912–13. The estimated annual export of capital from the United Kingdom rose from the £110,000,000 of 1909 to the more than £220,000,000 of 1912. Considerable political and industrial confusion and discord accompanied this very great economic activity, an activity which, as bankers saw it, was never dangerous; that the 5 per cent maximum shows.

For the Bank and other great financial institutions what risks there were could easily be handled; but the restless business atmosphere and the fall in capital values of fixed-interest securities sifted out some weak and ill-managed concerns. In October 1910, one of these, the Charing Cross Bank, went down. With that the Bank had nothing to do. But the failure of the Charing Cross led to a run on the Birkbeck Bank. The Birkbeck was really a building society, but for fifty years it had done bankers' business and issued cheque books. Its terms were generous—too generous for its reserves. It had stood a run in 1892 and now, in November 1910, it had to face another. The strain was met, but confidence did not revive. Money drawn out was not re-deposited, and in June of 1911 the Birkbeck suspended payment.[1] Its bankers were the Union of London and Smiths; but on the committee of bankers which sat all night to discuss its affairs, the Bank, perhaps ultimately concerned, was represented by its Chief Cashier with a watching brief. Learning from his colleagues, who had rushed through the securities, that the Birkbeck was worth about 16*s*. in the £1, he agreed with them, and put his name to an agreement that 10*s*. in the £1 might be made available at once; but the Bank did not actually find the money or give a guarantee, though it facilitated the work of the Union of London and of the Westminster Bank which took over the Birkbeck business from the

[1] *Bankers' Mag.* 1892, II, 827; for 1910–11, Gregory, *The Westminster Bank*, II, 6–9.

Official Receiver. As the Birkbeck eventually paid 16*s*. 9½*d*., the Cashier's signature was fully justified.[1]

With another grave threat to a weakling that year the Bank was more nearly concerned. The weakling was the Yorkshire Penny Bank, with £18,500,000 of deposits and 700,000 depositors. Its name and these figures suggest its nature. It had no capital and depreciated reserves, and disastrous runs on it were feared. Holden of the Midland Bank, the dominant and assertive figure among bankers and a swift tactician aware of every banking phase, pursued the Governor of the Bank into the country with week-end telegrams late in July.[2] He was planning to avert all risk by having the Yorkshire Penny underpinned by a strong group of bankers. He wanted two millions guarantee. Might the government help? The Governor would not be rushed. He sent for the Penny Bank Manager, who shared Holden's fears: there had already been a run on its Sheffield branch. Then the Governor and the Chief Cashier, who "rendered most valuable assistance", negotiated with various other banks. The Chancellor of the Exchequer was apprised, but was of opinion that government should stand aside. Throughout, Holden set the pace. In the end two district groups of bankers were got together—a group of guarantors for £1,000,000, headed by the Bank with £250,000; and a group of subscribers of £2,000,000 of working capital for a reconstituted joint-stock Penny Bank, headed by Holden's Midland Bank with £500,000.[3] So the situation was saved and naturally the guarantors were never called upon.

Throughout these years the Bank played the old game in the old way, and with success. Bullion was worked up nearly to the "Goschen" level of £40,000,000 by 1911, and kept there. For

[1] Information supplied by Sir Gordon Nairne; *Economist*, 20 July and 21 Dec. 1912, for the liquidation.

[2] There is a full report by the Governor in *C.B. Ie*, 3 Aug. 1911.

[3] Crick and Wadsworth, *A Hundred Years of Joint-Stock Banking*, p. 237, describe the episode: all details are from the Governor's report.

the first quarter of 1914 it averaged £41,440,000, the highest quarterly average ever reported. But people who were reckoned far-sighted were not content; all the time there was talk of "gold gold, gold, gold, bright and yellow, hard and cold, molten, graven, hammered and rolled"[1]—and milled. More had actually accumulated in the bankers' reserves since the American crisis of 1907, when £17,000,000 left London in sixty days. Holden had suggested, in one of his moods, that the banks should show these holdings of gold in their balance sheets; but to that pitch of self-revelation they never attained. They were content to tell the public as the Chairman of Barclays Bank did on 20 July 1911, that "all the large banks have been greatly increasing their stocks of gold...we hold many millions of gold and notes in excess of till requirements".[2] "And notes"; that was only a claim on the Bank's gold. Surplus gold of its own Barclays certainly had, available as the Chairman put it "in case of any great emergency"; but how much Barclays never said.

The day after this Chairman spoke, bankers were dining at the Mansion House. Two things happened at that dinner which, if England had been a continental nation, everyone would have assumed to have been concerted. Perhaps continentals did assume this; but there is not the least reason to suppose that, if they did, they were right. The peace-loving Chancellor of the Exchequer hoisted a danger signal, in his "Agadir" speech: there were some things in the international sphere that England would not stand. Many people overlooked the signal. But as it was made in the general code of diplomacy, diplomats everywhere read it with ease. After him, the Governor of the Bank, A. C. Cole, rose to explain that his Court had agreed—at last, though this he did not say—to fall in with the suggestion which had long been before the City that the Directors of the Bank and representatives of the clearing bankers should hold regular quarterly meetings, to

[1] Tom Hood, *Miss Kilmansegg*.

[2] Chairman's speech as circulated to shareholders.

discuss matter of common interest. He spoke of no international complications. Probably he did not think of any. Certainly the Bank's decision to act had nothing to do with the Chancellor's decision to speak: the Bank and that Chancellor were not intimate in any case. The Governor seems to have expected no revolution from the meetings that he announced. No doubt they would be very useful, he said—this he was bound to say—but, he added, "it will probably only be on rare occasions that important matters will come up for discussion".[1] So far as is known, no matter of first-rate importance did come up for the next three years.[2] After that several came.

Holden was still restless. The bankers were still deliberating. A journal that bore their name was still full of articles about gold. They had a committee on it sitting in 1912–13; and about this time Holden, it is said, planned to get gold coined for his bank direct, as with perfect legality he might, but as no one except the Bank ever had, for a very long time indeed. Nothing came of this. The Mint had a large supply of the Bank's bars to work off. It is suggested that the Bank increased this supply in time. The Mint could inform Holden, with regret, that its productive capacity would be absorbed in the near future by work for the prior and very old customer.[3]

Impatient with the slow motion of his colleagues, he issued a sort of ultimatum in a Chairman's speech of January 1914. The proper proportion of gold to liabilities he suggested was 6 per cent for the great banks. (The Bank was carrying 45 per cent just then.) Unless agreement among these banks were reached, he, Holden of the Midland, would publish his gold in his next balance-sheet.[4] Twelve days later the Chairman of Lloyds said that his bank had been "maintaining a reserve of gold quite equal

[1] *The Times*, 22 July.

[2] There are no minutes of these early meetings preserved.

[3] The story, not certain in all details, must remain anonymous.

[4] *Bankers' Mag.* 1914, I, 475: the meeting was on 23 Jan.

to the percentage suggested".[1] If this were true of the other five chief firms—we do not know that it was—the seven should between them have held some £33,000,000 in 1914. Holden kept his word. In the next balance-sheet of the Midland, £8,000,000 of gold was reported, against total liabilities of £109,000,000. How this was divided between tills and reserve proper was not stated. If the Midland kept about as much till-money in proportion to total deposits as the Bank kept in its Banking Department, there would be some £2,000,000 in its many tills and some £6,000,000 in reserve. On the further assumption that the six other great banks had built up so big a true reserve as the Midland—an optimistic assumption, though the pronouncements from Barclays and Lloyds suggest that it is not impossible—we arrive, most speculatively, at a bankers' reserve resulting from many years of anxiety and discussion of perhaps £24,000,000. It is not likely that there was more, not very likely that there was so much. With a first twentieth-century war in full tide, that would have been enough to finance a few days of it. Twenty-five years later, a predatory power had learnt how to unloose a yet more expensive war with little gold in reserve, or none. But what the banks, and the Bank with its £40,000,000, had accomplished is not to be belittled, when account is taken of British opinion and international opinion, as they stood in August 1914. There was magic in gold, ignorance of the costs of twentieth-century war, a great and only half mistaken faith in gold reserves, should war come. London did not believe in its coming. If it never came, the smooth working of the world's currency system would continue to depend on the possession of appropriate stocks of gold, and on confidence in the probable handling of these stocks. Reasonable stocks had been provided, and that in spite of the fact that in 1914, partly from fear, partly no doubt from deliberate policy, international securities—claims on gold—had been unloaded on to the London market systematically and for months.

[1] *Bankers' Mag.* 1914, I, 452: meeting on 4 Feb.

In these last active years, with high rates ruling, the Bank made more by its discounts in Threadneedle Street than it had made for a very long time. For the two years and a half that ended with February 1914, the average half-yearly income from them was £104,000. There had been no such run of discount earnings since the years about the crises of 1857 and 1866; and then rates had been higher. As a result, the Governor announced in March, to the general surprise, a half-yearly dividend of 5.[1] Ten per cent for the year was anticipated, against the 9 that had ruled since 1904. Well, not quite 10 per cent; actually £9. 8*s*. 4*d*. For the Court had just decided to abandon the policy, as old as the income tax itself, of paying dividends income tax free. Tax-payers of a later day will note that the rate was 1*s*. 2*d*. in the £, and may care to know that this was considered most unseasonably high.

For the half-year that ended with August 1914, the discount income was no less than £206,000; those six months covered four weeks of war and one of 8 and 10 per cent. For the half-year August 1914–February 1915, the income would actually be £829,000. But this would be drawn from war moratorium bills—the good, if so we are to call it, that the ill wind blew. The Bank of England, founded in and for war at the close of one century, its place in the national economy modified essentially during and by war at the close of a second and in the opening of a third, was now—early in a fourth—to resume the old and what, in the past, had been the profitable business for which Jeremiah Harman, its post-Waterloo Governor, had once said that it was set up, the support and accommodation in war-time of the governments of the United Kingdom, of its allies, and of the Dominions of its King beyond the seas.

[1] "A complete surprise", *Economist*, 21 March 1914. The Bank was doing rather well, it may be noted, during these last years, from its by-industry of printing for outside customers. For the half-year to 28 Feb. 1914, the Profit and Loss account shows no less than £47,847 of printing profits—£37,042 from Indian Currency Notes; £7808 from Postal Orders and £2997 from the new Old Age Pension Orders: *Stock Estimates*, x.

EPILOGUE: THE BANK AS IT IS

THE HISTORY of the Bank of England during the war of 1914–1918 could well be written now; but as that history, at innumerable points, is only a preface to the story of the years between the wars—which in its entirety cannot be written just yet—discussion had better be deferred until story and preface can be combined. But the Bank of the thirties, and even the twenties, of the current century was in many ways so unlike the Bank of 1914 that a history which stopped dead with August of that year might easily mislead. For it would not be fantastic to argue that the Bank in 1944 was further from 1914 than 1914 was from 1844; in some not unimportant ways further from 1914 than 1914 was from 1714. War and reconstruction, government paper money and a swollen national expenditure, a return to the gold standard, Bank paper money and the abandonment of the gold standard, with all the accompanying changes in the life of the City, in the system and weight of taxation and of the public debt, in the economic status of Britain, and in the political and economic life of five continents had exerted pressures on the Bank which were met by modifications in its structure and important, if not always conspicuous, adjustments of its functions. The Threadneedle Street headquarters were rebuilt. They rose high behind their familiar massive outer wall; and that all the world could see. But those in authority did not advertise internal rearrangements or modified functions. Governor and Deputy told much to an official committee in 1929–31.[1] Bankers and well-informed journalists knew or wrote of new policies from time to time. But public discussion swung mainly about broad issues of monetary principle, issues in relation to which Bank policies and Treasury policies were much entangled. Bank policy

[1] Report of the *Committee on Finance and Industry*, Cmd. 3897, 1931.

proper, not completely explained or intelligently criticised by a Bagehot, was perhaps very often ignored or misunderstood.

The mere growth of the Bank, not of its fabric only, was remarkable enough. After Waterloo it had employed a staff of some 600. Late in the nineteenth century the figure was between 700 and 800; in 1914 about 1000. By 1930 it was approaching 4000, not counting the printers. This is easily explained—a national debt, which the Bank handled, some ten times the size of the 1914 debt; and the administration of the whole national note-issue, with £1 and 10*s*. notes, now completely in its hands, though all profits since 1928 were in the hands of the Treasury. Organic changes, far more important, were less obvious. There had never been a decision by vote that Directors should be merchants or merchant-bankers of London, or that a Deputy Governor from among them should serve for two years and then as Governor for only two more; though these were the practices down to 1914. Long Governorships had been well-known in other ancient companies, in the East India or the Hudson's Bay. The fact that the Bank's official title was The Governor and Company of the Bank of England suggests that official draftsmen may have contemplated such long service. But what became the routine policy was established early and maintained with astonishing persistence. There was a Governor who served his two years twice, under Queen Anne and George I. Three Governors in the eighteenth century and five in the nineteenth were given an extra year, for various reasons. But ninety-four followed the rule; and only two Deputies ever served for three years. Outsiders discussed long-term Governors and permanent Deputies; once in the mid-nineteenth century a Governor had toyed with the notion of a long-term "third or Sub-Governor";[1] but the Bank as a Corporation took no notice.

Then war needs kept a Governor in the chair for five years

[1] From a MS. letter at the Bank: Sheffield Neave to Bonamy Dobree, 27 Oct. 1858.

(1914–18). For his successor there was a reversion to the old two-year term. After that a Governorship began which ended only in 1944.

Change of policy over the Deputy, longer delayed, was even more revolutionary. In 1918 the Chief Cashier, who had held that office for sixteen years, was raised to the new post of Comptroller: the Bank's expanded and expanding business required more high permanent officials. When he retired, in 1925, he was elected to the Court, the first member of the staff who ever became a Director. At the same time his successor as Chief Cashier succeeded to the post of Comptroller. Three years later he also became a Director, and within six months Deputy Governor, an office which he held with great distinction not for two years but for seven. He in his turn was followed in the Deputy's chair by a Chief Cashier become Director. So Bagehot's dream of a Deputy who was both a working banker and a Director, who need not "say Sir to the Governor", came true after nearly sixty years.

The Comptrollership did not become a permanency. Its administrative and other functions were divided, from 1932–3, among a small group of executive Directors who, unlike the Director of tradition, gave their whole time to the service of the Bank. But the 'amateur' directorate was retained and used to widen the Bank's contacts with commerce and industry. Since the London merchant or merchant banker of Victorian type was declining, that was probably as inevitable as it was expedient. During the nineteen-thirties ships and railways, steel and chocolate, leather and beer, the trades of Canada and South Africa and the China trade all were, or had been, represented on the Court, besides merchanting old-style and various aspects of finance. For nearly two decades now the Court has been representative not of the City only but of the City and the Country. The big joint-stock banks that keep balances in Threadneedle Street remain without representation; but the leaders of this group, a very

small and very powerful one, have regular contacts with the Directors, both personal and official.

In 1926 a Private Member's Bill for the nationalization of the Bank was printed. It was thrown out for not complying with Standing Orders and never reintroduced. But its tentative clauses are of interest in this connection. Bank proprietors were to get a 5 per cent stock—government credit was at 5 in 1926—the Directors to be replaced by a small Council of seven, nominated by the Chancellor of the Exchequer. The most that any Chancellor could have done to make this Council, in some ways, more representative nationally than the modern directorate would have been to put on it one or two members from the Co-operative Wholesale Society or the Trades Union Congress. But as designed it was so small that there was not room for really wide representation. It would have become a narrow official body.

Besides the Directors from industry and commerce, the Bank has drawn into its service—as Directors, temporary advisers or departmental experts—men from the Treasury, the Universities, the Dominions, the United States and various sections of the City. And some of these men, as also the Governor and others, have been on long and strange journeys to confer with banks and governments, in Paris and Bâle and New York, Buenos Ayres, Canberra and Chungking. All this again is a perfect novelty. The Bank of 1914 had been governed by men who, as Directors, were uncommonly 'sessile'; and served by officers and clerks even more sessile, who had taken the Old Lady's pay since youth, together with a small but growing group of women whose service, for evident reasons, was normally shorter.

The wanderings of Governor, Comptroller, Directors and Advisers were a consequence of the new relationships which had grown up during, or after, the war of 1914 with other national and imperial banks, old and new, and with their governments. Some of the world's important banking institutions with which relations had been established did not even exist in 1913—the

Federal Reserve Banks of the United States, for example, or the South African Reserve Bank, not to mention the now rather dormant Bank for International Settlements. During the Victorian quiet the Bank of England had its intermittent relations with the Bank of France: it corresponded now and then with newer central institutions such as the German Reichsbank: when there had been a Bank of the United States it had once tried to work with it, but that was long ago. Before 1914 a few centrally placed banks in the Empire and a few in foreign countries of secondary economic importance actually kept accounts in Threadneedle Street—banks in Greece, Japan, Spain, Turkey; in New Zealand and Australia. But by 1930 the Bank of England held seventeen central bank accounts, and from all the leading countries. They might not be active but they served as connecting wires.

For the world of the twenties had become economically unified as never before. Central banking was everywhere developing into a thing distinct from banking; and the advice and authority of the Bank of England, in whose half-unconscious and sometimes rather unwilling hands the practices of central banking had originally been worked out, were respected, extended and sought. During the first post-war years it had worked systematically to promote the resumption of orderly economic life in Europe: during the years of the restored gold standard, being in direct contact with the central monetary authorities almost everywhere, it strove to keep the currencies of the world in balance and harmony for the general good. This effort was persisted in, under difficult conditions, when gold had been again deposed, the Bank all the time maintaining those specially intimate relations with the Federal Reserve Bank of New York which had begun in the years of war and British financial dependence on the New World.

At home it retained its old position as guide to the money market and adviser in the adjustment of day to day domestic problems—the adaptation of business organizations to new

circumstances and the solution of individual difficulties. There was room enough for this heavy task during the twenties and the thirties. With a view to it, touch was kept with well-established committees representing City interests, some of which were extending their functions as, for example, the ancient Committee of the London Clearing Bankers did after 1921. The Bank also welcomed and, as opportunity offered, co-operated with the various newer committees and associations that war conditions and the growing cohesion of City interests brought into existence; the Accepting Houses Committee, 1914; the British Insurance Association, 1917; the Discount Market Committee and the British Bankers' Association, 1919; the Foreign Exchange Brokers' Association, 1932. It was the better placed for guidance and advice because all thought of the Bank of England as just one bank among others had finally been abandoned. "In my early days," said a Deputy Governor in 1929 who had entered Bank service in 1885, "the branches were commercial and competitive." It was not only in his early days. Right down to 1914 this competitive business in discounts and advances made a considerable contribution to annual income. Now—in 1929—the branches were "little more really than currency centres". They handled government and bankers' funds and made some money by commissions and so on; but in August 1926, the only profitable branch was that at Newcastle, where the Bank was making large advances to a great industrial concern. By August 1931, no branch was run at a profit, though the total loss was not enough to offset the conveniences to the government and the bankers.

And the Western Branch had been disposed of, because its regular West End banking business was of the sort which the Bank now systematically left to others. This it did, its Deputy Governor said, out of common fairness, since it kept the bankers' deposits, and because it might at any time have to help take a strain on the ordinary banking machinery; and so wished to be

no part of it. New commercial accounts were not opened; old ones were mostly inactive and kept for reasons "very largely sentimental". Besides the great clearing banks, many banks of other sorts—British, imperial or foreign—were among the Bank's customers. But the only type of foreign bank for which it would now open an account was one which, in its view, was clearly central and prepared to act 'centrally'. Accounts for the discount and accepting houses were kept as a matter of principle: the working of the money market required it. That need also explained the retention of selected Stock Exchange accounts and a readiness to buy bills on occasion. But income from the discounts was small, and there was very little that was competitive about the business. Most of the bills discounted came in at times "when they could not be taken elsewhere".

The financial world has known since 1928 what proportion of the other deposits are those of the bankers, the clearing bankers that is, not bankers of any and every sort. In the last week of August 1931—to take a time of year when these balances were never abnormally high—they came to £53,600,000 out of a total of £102,300,000. On 9 December following they were £75,200,000 out of £113,600,000. If to these were added the balances, not made public, of non-clearing banks and accepting houses, the Bank's concentration, government business apart, on its function of banker to the money market would appear still more clearly. But, as the modern composition of its directorate shows, this concentration implies a watch on the whole industrial and commercial life of the United Kingdom; for at every point that life affects, and is affected by, conditions and opinions in the market. When the Court had agreed in August 1914, as agent of the Treasury, to honour masses of 'pre-moratorium' bills,[1] it

[1] The Treasury arranged with the Bank to discount all approved bills already in existence whatever their ultimate date of liquidation might become through extension of the moratorium. It also suspended the legal liability of drawers and endorsers of bills. For the resulting income see Appendix C.

was brought into contact with a great range of businesses. The affairs of some of them led to long and difficult liquidations. One of the greatest armament firms of the country, as has been seen, was an old client of the Bank's Newcastle Branch. In the rough water of the early twenties, and the still rougher of the thirties, relations with this firm and its successors raised a series of problems in 'rationalization'; for the firm's business had ramified in various ways, not all of them rational.[1] As one industry after another faced similar problems after 1931, and as the financing of reorganization in shipbuilding or cotton or whatever it might be was the affair of the London capital market, the leaders of the Bank were naturally called upon for advice and guidance. Some guaranteeing and participation in the risks of 'rationalized' industries accompanied the advice; but there was no suggestion that the Bank meant to assume the character of an industrial bank, continental style; and its resources were not even appreciably committed.

Income conditions in 1914–18 had been in every way abnormal. Large sums came in from the discounting of the pre-moratorium bills, before the discount business slumped away, with the decline in foreign trade and the commercial bill on London. Short loans and advances were sometimes lucrative, but the ordinary type of advance was normally discouraged so as to divert funds into war loans of various sorts. Loans to customers, made at the government's request, to help them to lend to the state, did bring in an income which was steady, if from the national economic standpoint rather unwholesome. The income from management of the ever-growing national debt rose to a very high figure—but not high enough to cover the cost of that management, as the Treasury subsequently allowed, after the matter had been enquired into by impartial experts. Some heavy lending to allies on their bills was a useful source of revenue; but there were also

[1] The original account, Armstrong's, was closed in December 1929.

expensive borrowings in connection with exchange control. At one point in the war, very large sums were due from Ways and Means advances; but as the Bank often borrowed to make them, and paid interest before it received it, this was far from net gain; was indeed at times net loss.

Excess profits on the balance there were; but, these, as the Deputy Governor reminded the committee of 1929–31, had been handed over to government voluntarily when the war was over. During the course of the war, the Court of Directors had often discussed how this might be done most properly, and most legally; for there were legal difficulties. Having done it, they declared no fat dividends and proposed no post-war bonus to proprietors, as after Waterloo.[1] For ten years before the war the dividend had been a steady 9 per cent without deduction of income tax. It had just been raised from 4½ to 5, with a pre-war income tax deducted, for the half-year in April of 1914: general business was very active in 1913–14 and the Bank was doing well with its discounts and advances. At the level reached in April 1914, 10 per cent for the year, the dividend remained until 1921—war and post-war income tax being deducted, and sterling being depreciated. It was raised in 1922, and in 1923 it reached the 12 per cent at which it has been pegged ever since.

For the Clockmakers' Company of London, who had got a holding on easy terms in 1697, or for the Professors of Divinity in the University of Utrecht, who had been given theirs in 1762, when Bank Stock stood only a few points above par, this was no doubt a fine yield. But such ancient holders were very few. The trustee, the insurance company, or other typical proprietor had generally bought at some price between 300 and 400, according to the times. There had been 12,804 holders in 1913: there were 17,025 by April, 1944, with an average holding of no more than £859. The yield on their investment was only a small fraction above that on Consols, and they could have

[1] See p. 56 above.

become creditors of the state, had anyone wished so to make them, without much pain.

Thus the Bank of England of the nineteen-thirties had concentrated on and developed the 'central' functions of serving the state and banking for the money market, functions which, when performed in other countries, were performed in conscious and rather close imitation of its methods. Whether it made mistakes, or what mistakes it made, in carrying them out is not here the question. On one side, it kept in intimate and continuous touch with the shifting Chancellors and the permanent Treasury; on the other, it had regular opportunities for exchange of ideas with the headquarters staff of central banks abroad and commercial banks at home. And it had not lost old contacts with bill-brokers, stock exchange leaders, and finance houses. The Bank, as its two hundred and fiftieth birthday drew near, had moved finally into a position very like that which was thought, by economists and reformers of many schools and even by some revolutionaries, the proper one for a new controlling body of some great technical and more or less monopolistic branch of national economic life—a Port of London Authority, an Electricity Commission, a Railway Board, if such a thing were ever made—the position, that is, of an organization functioning in close contact with those in political authority but not controlled by them continuously and in detail; neither wishing nor needing to have its conduct affected by consideration of maximum profit. A profit it must make: a dividend it must pay: Public Authority or Commission or Board also has to serve its stock or its bonds. But the Bank has ceased to think of raising the dividend on its stock, which the market values as a very secure debenture. And it cannot, without some special Act of Parliament, make up for mismanagement by drawing on the taxes in the consolidated fund, as a Ministry of Production might and Ministries of Railways, in countries favoured with them, not infrequently do.

It began life as an experimental bank in a small but already

rich island. Its object was to finance what its enemies regarded as a Whig war—and to make profit for its proprietors. After exactly a century and a half of life, it was urged by the greatest of early Victorian finance ministers to compete freely with other banks, and presumably to make as much profit as they, if it could. After two centuries and a half, it was a non-competitive public institution with world-wide connections and influence, not eager for profit, but anxious—in the adapted words of what was once the Oath and is now the Declaration made by all its Directors—"faithfully and honestly to demean itself according to the best of its skill and understanding", and to be "indifferent and equal to all manner of persons".

APPENDICES A–F

APPENDIX A

Half-Yearly Dividend on Bank Stock, 1788–1943

1788–1805	3½ and 3½	1872	4½ and 5
1805, Oct.	8½	1873	4¾ and 5¼
1806	3½ and 8½	1874	5 and 5
1807–22	5 and 5	1875–76	4½ and 4½
1823–38	4 and 4	1877	5 and 4½
1839–47, April	3½ and 3½	1878	4¾ and 4¾
1847–48	4½ and 4½	1879	5¾ and 4¾
1848, Oct.	3½	1880–81	4¾ and 4¾
1849	5½ and 3½	1882	5¼ and 5¼
1850–52	4 and 3½	1883	5¼ and 5
1853	4 and 4	1884	5 and 4¾
1854	4½ and 4½	1885	5 and 5
1855	4 and 4	1886	4¾ and 4¾
1856	5 and 4½	1887	5 and 4¾
1857	4½ and 5½	1888	5 and 5
1858	5½ and 4½	1889	5¼ and 5
1859	4 and 4½	1890	5¼ and 5¼
1860	4½ and 5	1891	5¾ and 5¼
1861	5 and 5	1892	5 and 5
1862	4¼ and 4¼	1893	4¾ and 5
1863	4¼ and 4½	1894	4½ and 4
1864	5¼ and 5¾	1895	4¼ and 4
1865	5½ and 5	1896	4¼ and 4¼
1866	5¼ and 6½	1897–1903	5 and 5
1867	5½ and 4½	1904–13	4½ and 4½
1868	4 and 4	1914–21	5 and 5
1869–70	4¼ and 4¼	1922	6 and 5½
1871	4½ and 4¼	1923–43	6 and 6

Note: Steady dividends aimed at before 1847 and from 1897: the intervening half-century is that of maximum competitive activity and fluctuating dividends.

APPENDIX B

Bank Rate, 1797–1914

1797		5
1822	20 June	4
1825	13 Dec.	5
1827	5 July	4
1836	21 „	4½
	1 Sept.	5
1838	15 Feb.	4
1839	16 May	5
	20 June	5½
	1 Aug.	6
1840	23 Jan.	5
1842	7 April	4
1844	5 Sept.	2½ and 3*
1845	13 March	2½
	16 Oct.	3
	6 Nov.	3½
1846	27 Aug.	3
1847	14 Jan.	3½
	21 „	4
	8 April	5
	5 Aug.	5½
	30 Sept.	6†
	25 Oct.	8
	22 Nov.	7
	2 Dec.	6
	23 „	5
1848	27 Jan.	4
	15 June	3½
	2 Nov.	3
1849	22 „	2½
1850	26 Dec.	3
1852	1 Jan.	2½
	22 April	2
1853	6 Jan.	2½
	20 „	3
	2 June	3½
	1 Sept.	4
	15 „	4½
	29 „	5
1854	11 May	5½
	3 Aug.	5
1855	5 April	4½
	3 May	4
	14 June	3½
	6 Sept.	4
	13 „	4½
	27 „	5
	4 Oct.	5½
	18 „	6 *or* 7‡
1856	22 May	6
	29 „	5
	26 June	4½
	1 Oct.	5
	6 „	6 *or* 7‡
	13 Nov.	7
	4 Dec.	6½
	18 „	6
1857	2 April	6½
	18 June	6
	16 July	5½
	8 Oct.	6
	12 „	7
	19 „	8
	5 Nov.	9
	9 „	10
	24 Dec.	8
1858	7 Jan.	6
	14 „	5
	28 „	4
	4 Feb.	3½
	11 „	3
	9 Dec.	2½
1859	28 April	3½
	5 May	4½
	2 June	3½
	9 „	3
	14 July	2½
1860	19 Jan.	3
	31 „	4
	29 March	4½
	12 April	5
	10 May	4½
1860	24 „	4
	8 Nov.	4½
	13 „	5
	15 „	6
	29 „	5
	31 Dec.	6
1861	7 Jan.	7
	14 Feb.	8
	21 March	7
	4 April	6
	11 „	5
	16 May	6
	1 Aug.	5
	15 „	4½
	29 „	4
	19 Sept.	3½
	7 Nov.	3
1862	9 Jan.	2½
	22 May	3
	10 July	2½
	24 „	2
	30 Oct.	3
1863	15 Jan.	4
	28 „	5
	19 Feb.	4
	23 April	3½
	30 „	3
	16 May	3½
	21 „	4
	2 Nov.	5
	5 „	6
	2 Dec.	7
	3 „	8
	24 „	7
1864	20 Jan.	8
	11 Feb.	7
	25 „	6
	16 April	7
	2 May	8
	5 „	9
	19 „	8

* Bills 2½, Notes 3. † 1 month bills 5½. ‡ 60-day at 6.

1864	26 May	7
	16 June	6
	25 July	7
	4 Aug.	8
	8 Sept.	9
	10 Nov.	8
	24 ,,	7
	15 Dec.	6
1865	12 Jan.	5½
	26 ,,	5
	2 March	4½
	30 ,,	4
	4 May	4½
	25 ,,	4
	1 June	3½
	15 ,,	3
	27 July	3½
	3 Aug.	4
	28 Sept.	4½
	2 Oct.	5
	5 ,,	6
	7 ,,	7
	23 Nov.	6
	28 Dec.	7
1866	4 Jan.	8
	22 Feb.	7
	15 March	6
	3 May	7
	8 ,,	8
	11 ,,	9
	12 ,,	10
	16 Aug.	8
	23 ,,	7
	30 ,,	6
	6 Sept.	5
	27 ,,	4½
	8 Nov.	4
	20 Dec.	3½
1867	7 Feb.	3
	30 May	2½
	25 July	2
1868	19 Nov.	2½
	3 Dec.	3
1869	1 April	4
	6 May	4½
	10 June	4
	24 ,,	3½
	15 July	3
	19 Aug.	2½
1869	4 Nov.	3
1870	21 July	3½
	23 ,,	4
	28 ,,	5
	4 Aug.	6
	11 ,,	5½
	18 ,,	4½
	25 ,,	4
	1 Sept.	3½
	15 ,,	3
	29 ,,	2½
1871	2 March	3
	13 April	2½
	13 July	2
	21 Sept.	3
	28 ,,	4
	7 Oct.	5
	16 Nov.	4
	30 ,,	3½
	14 Dec.	3
1872	4 April	3½
	11 ,,	4
	9 May	5
	30 ,,	4
	13 June	3½
	20 ,,	3
	18 July	3½
	18 Sept.	4
	26 ,,	4½
	3 Oct.	5
	10 ,,	6
	9 Nov.	7
	28 ,,	6
	12 Dec.	5
1873	9 Jan.	4½
	23 ,,	4
	30 ,,	3½
	26 March	4
	7 May	4½
	10 ,,	5
	17 ,,	6
	4 June	7
	12 ,,	6
	10 July	5
	17 ,,	4½
	24 ,,	4
	31 ,,	3½
	21 Aug.	3
	25 Sept.	4
1873	29 Sept.	5
	14 Oct.	6
	18 ,,	7
	1 Nov.	8
	7 ,,	9
	20 ,,	8
	27 ,,	6
	4 Dec.	5
	11 ,,	5½
1874	8 Jan.	4
	15 ,,	3½
	30 April	4
	28 May	3½
	4 June	3
	18 ,,	2½
	30 July	3
	6 Aug.	4
	20 ,,	3½
	27 ,,	3
	15 Oct.	4
	16 Nov.	5
	30 ,,	6
1875	7 Jan.	5
	14 ,,	4
	28 ,,	3
	18 Feb.	3½
	8 July	3
	29 ,,	2½
	12 Aug.	2
	7 Oct.	2½
	14 ,,	3½
	21 ,,	4
	18 Nov.	3
	30 Dec.	4
1876	6 Jan.	5
	27 ,,	4
	23 March	3½
	6 April	3
	20 ,,	2
1877	3 May	3
	5 July	2½
	12 ,,	2
	28 Aug.	3
	4 Oct.	4
	11 ,,	5
	29 Nov.	4
1878	10 Jan.	3
	31 ,,	2
	28 March	3

1878	30 May	2½
	27 June	3
	4 July	3½
	1 Aug.	4
	12 „	5
	14 Oct.	6
	21 Nov.	5
1879	16 Jan.	4
	30 „	3
	13 March	2½
	10 April	2
	6 Nov.	3
1880	17 June	2½
	9 Dec.	3
1881	13 Jan.	3½
	17 Feb.	3
	28 April	2½
	18 Aug.	3
	25 „	4
	6 Oct.	5
1882	30 Jan.	6
	23 Feb.	5
	9 March	4
	23 „	3
	17 Aug.	4
	14 Sept.	5
1883	25 Jan.	4
	15 Feb.	3½
	1 March	3
	10 May	4
	13 Sept.	3½
	27 „	3
1884	7 Feb.	3½
	13 March	3
	3 April	2½
	19 June	2
	9 Oct.	3
	30 „	4
	6 Nov.	5
1885	29 Jan.	4
	19 March	3½
	7 May	3
	14 „	2½
	28 „	2
	12 Nov.	3
	17 Dec.	4
1886	21 Jan.	3
	18 Feb.	2
	6 May	3
1886	10 June	2½
	26 Aug.	3½
	21 Oct.	4
	16 Dec.	5
1887	3 Feb.	4
	10 March	3½
	24 „	3
	14 April	2½
	28 „	2
	4 Aug.	3
	1 Sept.	4
1888	12 Jan.	3½
	19 „	3
	16 Feb.	2½
	15 March	2
	10 May	3
	7 June	2½
	9 Aug.	3
	13 Sept.	4
	4 Oct.	5
1889	10 Jan.	4
	24 „	3½
	31 „	3
	18 April	2½
	8 Aug.	3
	29 „	4
	26 Sept.	5
	30 Dec.	6
1890	20 Feb.	5
	6 March	4½
	13 „	4
	10 April	3½
	17 „	3
	26 June	4
	31 July	5
	21 Aug.	4
	25 Sept.	5
	7 Nov.	6
	4 Dec.	5
1891	8 Jan.	4
	22 „	3½
	29 „	3
	16 April	3½
	7 May	4
	14 „	5
	4 June	4
	18 „	3
	2 July	2½
	24 Sept.	3
1891	29 Oct.	4
	10 Dec.	3½
1892	21 Jan.	3
	7 April	2½
	28 „	2
	20 Oct.	3
1893	26 Jan.	2½
	4 May	3
	11 „	3½
	18 „	4
	8 June	3
	15 „	2½
	3 Aug.	3
	10 „	4
	24 „	5
	14 Sept.	4
	21 „	3½
	5 Oct.	3
1894	1 Feb.	2½
	22 „	2
1895	*No change*	
1896	10 Sept.	2½
	24 „	3
	22 Oct.	4
1897	21 Jan.	3½
	4 Feb.	3
	8 April	2½
	15 May	2
	23 Sept.	2½
	14 Oct.	3
1898	7 April	4
	26 May	3½
	2 June	3
	30 „	2½
	22 Sept.	3
	13 Oct.	4
1899	19 Jan.	3½
	2 Feb.	3
	53 July	3½
	3 Oct.	4½
	5 „	5
	30 Nov.	6
1900	11 Jan.	5
	18 „	4½
	25 „	4
	24 May	3½
	16 June	3
	19 July	4
1901	3 Jan.	5

1901	7	Feb.	4½
	21	,,	4
	6	June	3½
	13	,,	3
	31	Oct.	4
1902	23	Jan.	3½
	6	Feb.	3
	2	Oct.	4
1903	21	May	3½
	18	June	3
	3	Sept.	4
1904	14	April	3½
	21	,,	3
1905	9	March	2½
	7	Sept.	3
	28	,,	4
1906	5	April	3½
	3	May	4
	21	June	3½
	13	Sept.	4
	11	Oct.	5
	19	,,	6
1907	17	Jan.	5
1907	11	April	4½
	25	,,	4
	15	Aug.	4½
	31	Oct.	5½
	4	Nov.	6
	7	,,	7
1908	2	Jan.	6
	16	,,	5
	23	,,	4
	5	March	3½
	19	,,	3
	28	May	2½
1909	14	Jan.	3
	1	April	2½
	7	Oct.	3
	14	,,	4
	21	,,	5
	9	Dec.	4½
1910	6	Jan.	4
	20	,,	3½
	10	Feb.	3
	17	March	4
	2	June	3½
1910	9	June	3
	29	Sept.	4
	20	Oct.	5
	1	Dec.	4½
1911	26	Jan.	4
	16	Feb.	3½
	9	March	3
	21	Sept.	4
1912	8	Feb.	3½
	9	May	3
	29	Aug.	4
	17	Oct.	5
1913	17	April	4½
	2	Oct.	5
1914	8	Jan.	4½
	22	,,	4
	29	,,	3
	30	July	4
	31	,,	8
	1	Aug.	10
	6	,,	8
	8	,,	5

APPENDIX C

Income from the Discounts

Year August to August

1796–7	233,000
1797–8	230,000
1798–9	231,000
1799–1800	314,000
1800–1	368,000
1801–2	355,000
1802–3	478,000
1803–4	499,000
1804–5	513,000
1805–6	576,000
1806–7	633,000
1807–8	615,000
1808–9	708,000
1809–10	914,000
1810–11	730,000
1811–12	660,000
1812–13	587,000
1813–14	640,000
1814–15	704,000
1815–16	646,000
1816–17	250,000
1817–18	152,000
1818–19	336,000
1819–20	215,000
1820–1	150,000
1821–2	142,000
1822–3	135,000
1823–4	92,000
1824–5	140,000
1825–6	303,000
1826–7	71,000
1827–8	39,000
1828–9	94,000

	Threadneedle St.	*Branches*
1829–30	40,000	12,000
1830–1	54,000	52,000
1831–2	50,000	56,000
1832–3	18,000	25,000
1833–4	20,000	47,000

	Threadneedle St.	*Branches*
1834–5	36,000	59,000
1835–6	30,000	79,000
1836–7	199,000	168,000
1837–8	31,000	67,000
1838–9	69,000	113,000
1839–40	94,000	129,000
1840–1	70,000	105,000
1841–2	57,000	116,000
1842–3	10,000	68,000
1843–4	6,000	52,000
1844–5	35,000	46,000
1845–6	195,000	133,000
1846–7	219,000	127,000
1847–8	207,000	174,000
1848–9	44,000	64,000
1849–50	31,000	47,000
1850–1	67,000	57,000
1851–2	49,000	55,000
1852–3	68,000	61,000
1853–4	193,000	140,000
1854–5	108,000	131,000

	*London**	*Branches*
1855–6	190,000	190,000
1856–7	247,000	219,000
1857–8	298,000	225,000
1858–9	65,000	78,000
1859–60	143,000	127,000
1860–1	213,000	197,000
1861–2	87,000	87,000
1862–3	132,000	99,000
1863–4	310,000	214,000
1864–5	260,000	169,000
1865–6	405,000	329,000
1866–7	141,000	158,000
1867–8	52,000	55,000
1868–9	90,000	84,000
1869–70	102,000	90,000

* Threadneedle Street, with the Western Branch and, from 1889, the Law Courts Branch.

	London	*Branches*		*London*	*Branches*
1870–1	100,000	96,000	*1893–4*	18,000	44,000
1871–2	120,000	91,000	*1894–5*	7,000	27,000
1872–3	223,000	119,000	*1895–6*	10,000	32,000
1873–4	130,000	94,000	*1896–7*	20,000	57,000
1874–5	79,000	43,000	*1897–8*	54,000	64,000
1875–6	55,000	56,000	*1898–9*	33,000	87,000
1876–7	27,000	33,000	*1899–1900*	133,000	92,000
1877–8	44,000	39,000	*1900–1*	67,000	76,000
1878–9	107,000	62,000	*1901–2*	27,000	67,000
1879–80	33,000	31,000	*1902–3*	56,000	69,000
1880–1	33,000	29,000	*1903–4*	37,000	87,900
1881–2	40,000	32,000	*1904–5*	121,000	98,000
1882–3	50,000	31,000	*1905–6*	161,000	149,000
1883–4	30,000	21,000	*1906–7*	235,000	185,000
1884–5	26,000	21,000	*1907–8*	251,000	211,000
1885–6	20,000	14,000	*1908–9*	55,000	96,000
1886–7	14,000	16,000	*1909–10*	65,000	118,000
1887–8	18,000	14,000	*1910–11*	95,000	128,000
1888–9	21,000	23,000	*1911–12*	213,000	93,000
1889–90	27,000	63,000	*1912–13*	225,000	111,000
1890–1	82,000	89,000	*1913–14*	278,000	103,000
1891–2	25,000	59,000	*1914–15*	895,000	54,000
1892–3	34,000	50,000			

For a graph of the income see pp. 440–1.

APPENDIX D

Income from Short Loans and Advances, 1847–1914

Year August to August

	£		£		£
1847–8	112,000	*1870–1*	76,000	*1892–3*	360,000
1848–9	48,000	*1871–2*	127,000	*1893–4*	331,000
1849–50	33,000	*1872–3*	153,000	*1894–5*	160,000
1850–1	35,000	*1873–4*	98,000	*1895–6*	158,000
1851–2	16,000	*1874–5*	120,000	*1896–7*	243,000
1852–3	31,000	*1875–6*	85,000	*1897–8*	293,000
1853–4	39,000	*1876–7*	61,000	*1898–9*	356,000
1854–5	28,000	*1877–8*	89,000	*1899–1900*	410,000
1855–6	91,000	*1878–9*	189,000	*1900–1*	441,000
1856–7	106,000	*1879–80*	113,000	*1901–2*	485,000
1857–8	79,000	*1880–1*	138,000	*1902–3*	524,000
1858–9	22,000	*1881–2*	199,000	*1903–4*	429,000
1859–60	47,000	*1882–3*	215,000	*1904–5*	301,000
1860–1	51,000	*1883–4*	137,000	*1905–6*	457,000
1861–2	36,000	*1884–5*	153,000	*1906–7*	500,000
1862–3	67,000	*1885–6*	96,000	*1907–8*	322,000
1863–4	124,000	*1886–7*	125,000	*1908–9*	200,000
1864–5	107,000	*1887–8*	114,000	*1909–10*	325,000
1865–6	227,000	*1888–9*	182,000	*1910–11*	316,000
1866–7	89,000	*1889–90*	257,000	*1911–12*	287,000
1867–8	38,000	*1890–1*	373,000	*1912–13*	324,000
1868–9	52,000	*1891–2*	361,000	*1913–14*	363,000
1869–70	110,000				

For a graph of the income see p. 442.

APPENDIX E

Bankers' Balances at the Bank of England, 1878–1913

These are the deposit figures of the London Clearing bankers in millions. For the years 1847–77 returns were made and printed in the *Accounts and Papers* (1854–5, XXX, 293; 1873, XXXIX, 161; after that, annually to 1878, XLVI, 169). They were not again published until 1928–9. The figures are those reported weekly to the Court in a book beginning in 1844 and still in use. In 1870 the lowest weekly figure was £5,200,000; the highest £9,200,000. In 1877 the lowest was £8,000,000; the highest £13,300,000.

	Min.	*Max.*		*Min.*	*Max.*		*Min.*	*Max.*
1878	8·3	14·1	*1890*	10·0	15·7	*1902*	21·2	31·4
1879	9·3	16·6	*1891*	12·8	20·2	*1903*	21·3	35·4
1880	9·0	16·1	*1892*	12·4	18·8	*1904*	20·7	28·7
1881	9·4	13·8	*1893*	12·4	19·6	*1905*	20·3	27·6
1882	9·1	13·3	*1894*	12·6	21·6	*1906*	19·8	29·8
1883	8·8	12·7	*1895*	14·2	21·1	*1907*	20·7	32·3
1884	8·4	13·7	*1896*	13·3	23·4	*1908*	22·6	34·8
1885	8·8	19·8	*1897*	15·4	21·9	*1909*	20·0	37·0
1886	9·0	14·3	*1898*	15·9	24·5	*1910*	19·3	30·6
1887	8·9	14·3	*1899*	17·5	26·3	*1911*	19·4	32·6
1888	9·1	13·5	*1900*	19·7	28·2	*1912*	19·7	31·3
1889	9·4	15·2	*1901*	20·0	27·6	*1913*	21·4	40·7

N.B. The maxima are usually in the first weeks of January or of July—'window dressing'.

APPENDIX F

Gladstone and the Bank, 1854: *extracts from the Gladstone MSS**

(*a*)

Principles

1. That the several State accounts at the Bank of England are to be viewed as the accounts of one and the same customer.

2. That the State has the free and uncontrolled use of the whole of its balances.

3. That if the Bank objects to making advances on one State account in respect of balances standing on another, the remedy seems to be that the State shall consolidate its accounts (with the exception perhaps of the Audit Roll account?).

4. That the balances to the credit of the A.R. a/c are the property of the State not of the Bank until they are called for.

(*b*)

With the Bank: Principles to be established

1. That the State shall have the free use of all State monies: subject to no other condition than that of a due remuneration to the Bank for its trouble.

2. That the wants of the Consolidated Fund at the commencement of each quarter be met

(1) (as now) by the balances in the Exchequer;

(2) by transfer of money under direction of the Treasury from other public accounts—but

(*a*) the Treasury shall be held bound to leave adequate provision for the immediate wants of such accounts;

(*b*) when such accounts are under the control of any authority other than the Treasury the amount withdrawn shall be represented by an Exchequer Bill of the class named Deficiency Bill, but not bearing interest, and if the Treasury shall fail to make adequate provision then such other authority shall be at liberty to sell such Deficiency bill and apply the proceeds—claiming for the residue against the Exchequer;

* Kindly copied for me by Mr A. Tilney Bassett.

(3) by the accruing revenue of the current quarter;

(4) by Deficiency Bills upon which cash may be advanced by the Bank or by other parties as now.

3. The Bank on the other hand will be perfectly free in regard to the issue of Deficiency Bills and the rate of interest to be charged upon them.

4. The statutory remuneration to the Bank for the management of the Public Debt to be revised either in the next Session or in conjunction with the renewal of the Bank Charter Act.

5. An arrangement to be made with the Bank to fix the amount of remuneration (whether in the shape of allowance or of minimum balance and charge for interest) due to it for keeping the public accounts.

(Endorsed)

h. 24/54

Bank

Banking Account and Defy Bills.

(*c*)

Hubbard to Gladstone.

Private

Bank; 9 Sep. 1854.

My dear Gladstone,

I cannot tell you how painful it is to me to express any difference to you and how grieved that any language or phrase I used should appear to you unwarrantable and as this may be the last opportunity I may have of saying so I beg that whatever I may have occasion to write *officially* you will never believe me to have lost the affection and regard I bear to you.

I was, as you may recollect, confined to my house when on the 10th April Weguelin placed in your hands the resolution of the Com^ee^ of Treasury suggesting that you should take "the opinion of the Law Officers of the Crown upon a Case to be prepared by the Solr^s^ of the Bank and the Treasy. jointly *as respects the legal obligations of the Bank and the Government*".

The Bank were, I know, at that time anxious to avoid any public discussion upon a proposition which they considered dangerous to Public Credit, but without passing any opinion upon whether they made that suggestion as a reference to be decisive with both parties—I may remark that the suggestion itself has not been complied with. The case upon which the opinion was given was drawn up (*not* by the Solr^s^ of the Bank and Treas^y^ jointly) but by the Sol^r^ of the Treas^y^ solely—A statement from the Bank Sol^r^ did accom-

pany the other to the Law officers, but *the question* with which the statement of Mr. Freshfield closed you yourself struck out—this question being the very one which the Com^ee of Treasury suggested should be referred. The result of a reference under such circumstances could not possibly satisfy the Bank and they took the best advice they could then procure upon "*the question*".

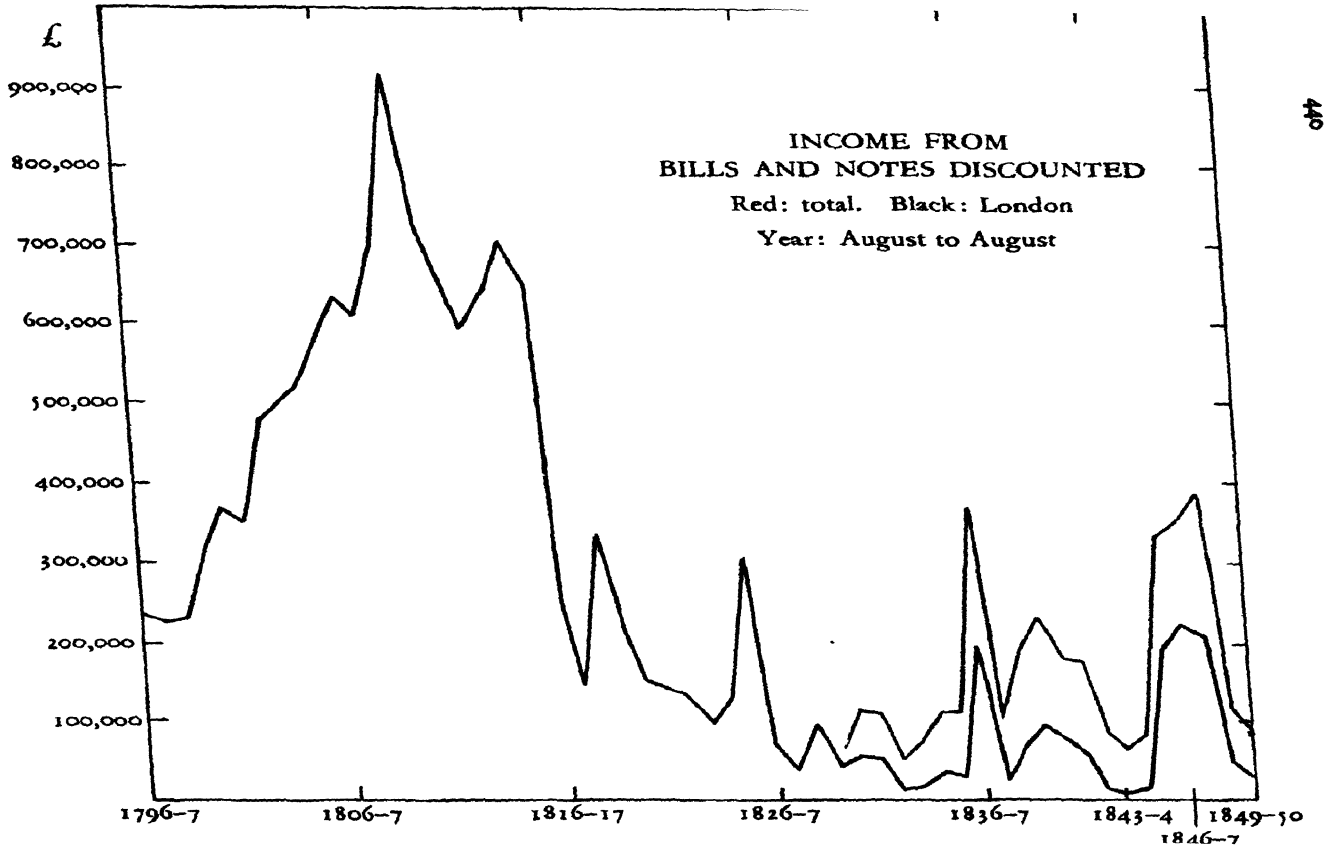
May I suggest before you write officially on the subject to look at your own letter of 27 May in which you speak of "the Case as prepared *at the Treasury*" and sent to the Bank *as matter of courtesy*—and you express your surprise that Mr. Freshfield should send in his statements "as if they related to a controversy in which the Treasury and the Bank were the parties and the Law Officers *called in by way of appeal* at the instance of the Bank".

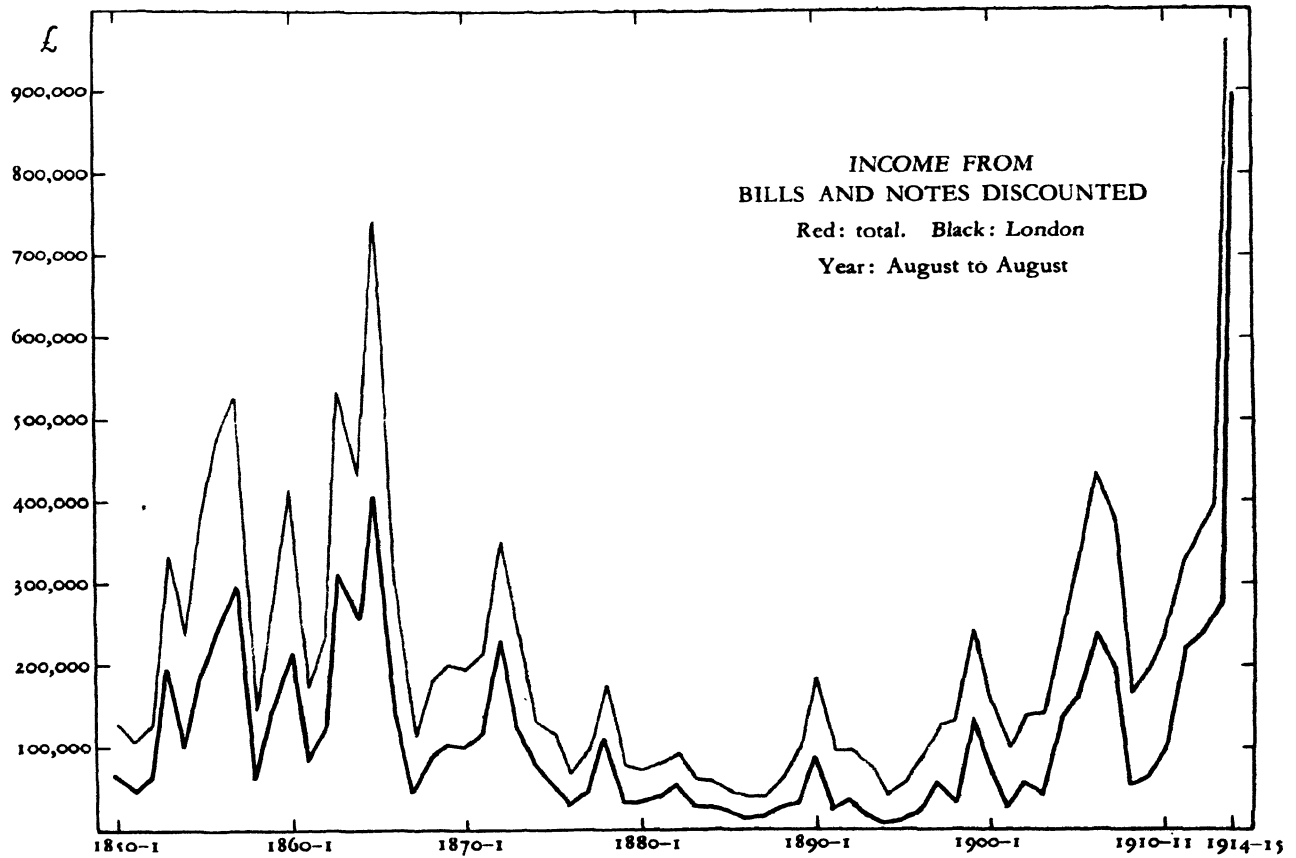
If the Bank had ever contemplated that the reference to the Law Officers was by way of appeal of which the result was to be binding on them—this letter must have dispelled any such considerations.

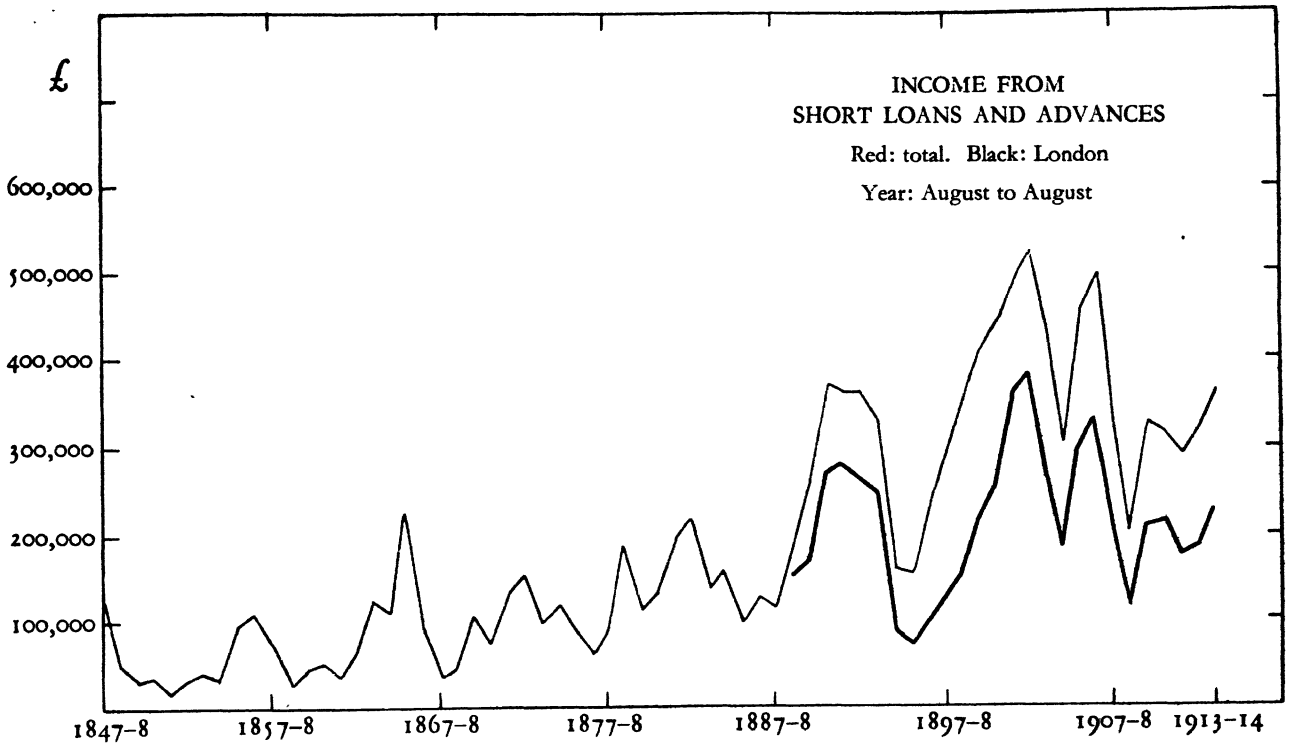
I remain, my dear Gladstone,

Yrs faithfully

(Sgd.) J. G. Hubbard.


£
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
INCOME FROM
BILLS AND NOTES DISCOUNTED
Red: total. Black: London
Year: August to August
1796–7
1806–7
1816–17
1826–7
1836–7
1843–4
1846–7
1849–50


£
900,000
800,000
700,000
600,000
500,000
400,000
300,000
200,000
100,000
INCOME FROM
BILLS AND NOTES DISCOUNTED
Red: total. Black: London
Year: August to August
1810–1
1860–1
1870–1
1880–1
1890–1
1900–1
1910–11
1914–15



Note: the income outside London before 1888 was insignificant.

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