

HISTORY OF THE
BANK OF ENGLAND

1640 to 1903

A. ANDRÉADÈS

Translated by Christabel Meredith
with a preface by H. S. Foxwell

AUTHOR'S PREFACE.

THE Author of this book gladly welcomes the appearance of an English translation of so satisfactory a character. At the same time it may be well to remind the English reader that this is a history of an English institution written by a foreigner and intended for the use of foreigners. Difficulties must arise in any attempt to judge the institutions of other countries and to form an opinion with regard to advisable reforms. The task is especially hard in the case of a country like England, where more attention is paid to facts than to theories. Hence with respect to various questions, especially some arising towards the end of the work, when I have been unable to support my own views by the opinions of an English authority, I have chosen rather to confine myself to a statement of the facts than to set forth theories which might be disproved by subsequent events.

Moreover, in writing for French readers, I have described various matters and in particular historical events, the discussion of which may perhaps be superfluous for English readers. I must then ask the latter to remember that the political and

economic history of Great Britain is less well known to continental readers than to themselves.

I am conscious of many other short-comings in this book, which is a product of youth; were it not for the pressure of University duties and other work I should have completed and revised it. In its present form it is the result of the conscientious study of several years; and as such I hope it will obtain the indulgence of my new readers.

It only remains for me to express my thanks to Mrs. H. O. Meredith, who has spared no pains in the work of translation, and to Professor Foxwell, whose instructive preface is sufficient in itself to give the book a special value.

A. ANDRÉADES,
Professor at the University of Athens.

AUTHOR'S PREFACE TO THE SECOND EDITION

THIS is less a preface than a kind of apology. I was from the first fully aware of the many shortcomings of a work, which, though it took nearly four years of constant work, was written when the author was still very young. As a matter of fact it was his first large publication.

In consequence I looked forward to a second edition with the hope of re-moulding many chapters, especially those concerning the eighteenth century, of adding some tables showing the progress of the Bank in the different branches of its activity, and last, but not least of devoting a large chapter to the History of the Bank of England during The Great War.

But the Greek and the Continental libraries generally are insufficiently equipped for a work of such a description, and moreover, while my time in Greece was taken up by several works on Greek finances and their history, such short stays as I was able to make in England in recent years were absorbed by a work on the population of the British Empire during and after The Great War.¹

My only chance of carrying out my plans would have been a postponement of this second edition till 1926, which would have allowed me to spend two summers at least in England, viz., the minimum of time which a thorough revision would have required. But I have to pay the ransom of a somehow unexpected success, and the demand of the public obliges the publishers to bring a new edition without delay through the press.

This being so, it was thought better to leave the book as it stands, and, while apologising to my new readers, to hope

¹ It was published in 1923 as a Supplement to *Metron*, the International Magazine of Statistics.

that their numbers will be great enough to allow for a third—this time enlarged and revised—edition—at a not too distant date.

I cannot bring these few remarks to a close without expressing once more my gratitude to Mrs. Meredith and to Prof. Foxwell. I am aware that the popularity of this book—which in many respects is a *pêché de jeunesse*—is due to a very large extent to the admirable translation of the former and the not less admirable preface of the latter.

A. ANDRÉADÈS, C.B.E.,

*Dean of the Faculty of Law
of Athens.*

Athens, June, 1924.

PREFACE.

ENGLISHMEN may be pardoned if they regard the Bank of England as the greatest financial institution in the world. It is far inferior, no doubt, to many Continental banks, in the extent of its metallic reserves and of its note circulation; and there are even other English banks which hold a larger amount of private deposits. It can hardly be considered so essentially a *national* bank as the Banks of France and Germany, each of which does a larger business in the provinces than in the capital: it is not so democratic in the range of its operations as the Banque de France, perhaps not so directly associated with general enterprise as the Reichsbank. No existing bank can boast a history at the same time so long, so continuous and so distinguished; nor has any played so large and so worthy a part, not merely in the fortunes of a great nation, but also in the general financial activities of the world.

The history of this famous Bank, here presented in an English version by Mrs. Meredith, must be held to be in many respects a *tour de force*. It was written by a Greek, in French: and notwithstanding the double difficulty with which the author had to contend in describing an institution, so characteristically English, in a language not his own, it is the most comprehensive and most readable account of the Bank yet published. Dr. Andréadès, indeed, following Mr. Stephens, goes so far as to say that nothing deserving to be called a history of the Bank had previously been written, though the attempt had more than once been made. If this be so, the fact is

sufficiently remarkable, and suggests reflections, some not too pleasant, to those who are concerned for the credit of English Economics. In what sense must we accept the statement?

We must certainly agree, with M. Lyon-Caen, that no complete history of the Bank existed before the appearance of this book. Many valuable contributions to such a history had been published from time to time; but all of them left something to be desired. Some were fragmentary, some were hardly scientific; in the best of them history is often only incidental to the author's main purpose; nearly all, a characteristically English fault, were unsystematic; none of them covered the whole period, even approximately. We had no complete, formal and scientific account, such as would compare for instance with Alphonse Courtois' history of the Banque de France.

Let us glance at some of the more important existing works. The account given by Macleod, in his *Theory and Practice of Banking*, may be said to have held the field before the appearance of Dr. Andréadès' history. It is in many respects very good within its limits; the present writer, like the late Henry Sidgwick, found it more suggestive and instructive than any other. But the historical work was merely incidental with Macleod, not his principal aim; as may be gathered from the fact that the word 'history' does not even occur on the title of his book; and his vigorous sketch deals with banking rather than with the Bank: a distinction, I will admit, which counts for less in earlier times than it would to-day.

Tooke and Newmarch (the former especially) have also contributed invaluable material in their well-known *History of Prices*, notably for the period of the Napoleonic war, but in hardly less degree for the whole period 1793-1857 covered by them. But Tooke's work might be regarded as a documented argument rather than a reasoned history: an objection

which would apply to Macleod as well, though perhaps not quite to the same degree. The object of both writers was rather to establish a controversial thesis than to give a scientific explanation of the course of events. None the less, each work contains abundant and trustworthy historical material: the unconcealed bias of the writers does not seem to have interfered with their accurate record of the facts. Avowed bias, indeed, rarely misleads; what is really dangerous is the pretence of impartiality. Tooke, perhaps, sometimes puts upon the facts a construction they cannot fairly bear; on the other hand, he is most careful to give references, the lack of which is a principal defect in Macleod. It is certain that everyone who essays to deal with the history of English banking must be deeply indebted to both these writers.

There are some excellent authorities, too, upon the earlier years of the history of the Bank. First among them in merit, though not in time, I would mention Thorold Rogers, whose *First Nine Years of the Bank of England* has always seemed to me the most brilliant of his many contributions to economic history. It is, of course, only a fragment; but it is a model for the economic historian. Among others who have thrown light on the earlier history must also be mentioned Mr. Hilton Price, Mr. Maberly Phillips, and the late Mr. J. B. Martin whose numerous works and papers are full of valuable information as to early banking history, banking practice, and banking documents. Many others might be named, did space permit, who have made similar valuable studies of local banking, and individual banks. What seems to be an admirable sketch, covering a longer period in a more connected way, must be noted here; I mean Mr. W. R. Bisschop's *De Opkomst der Londensche Geldmarkt: 1640-1826*: S'Gravenhage, 1896. Unfortunately many of us are debarred by linguistic limitations from profiting as we otherwise

might from the acute and critical exposition of this scholarly writer.

Returning to the larger works, Lawson's *History of Banking* is another book of considerable merit. It wants system, but has a great deal of interesting information about the early history of banking, is throughout well-informed on points of banking practice, and deserves special mention for the frequent references to the relations between the Bank and the Government, on which little has been written in English, though Dr. Philippovich, in his *Die Bank von England im Dienste der Finanzverwaltung des Staates*, has treated it exhaustively over the whole period up to 1884. Lawson's book too has an Appendix full of interesting matter, including a reprint of the Charter and By-Laws of the Bank. It has been objected to Lawson, and it is still more true of the better-known *History of the Bank of England* by Francis, that his history is too anecdotal and popular in form. Neither writer, however, appealed to an academic audience, nor would have found one at that time if he had. It may at any rate be said of both works that they contain matter of value, the result of pretty wide reading. Gilbert again is a writer of whom we must speak with respect. His contributions to the history of banking range wide over both time and place. He has written of banking not merely in the United Kingdom, but in America as well; and has not confined his studies to the period he knew best, the first half of the 19th century. No one could accuse him of being unduly readable; his writing is always methodical and often didactic to the verge of pomposity. As might be expected from the founder and manager of the first great London Joint Stock Bank, his works are full of details of administration, of which modern students may be a little impatient; but they are solid, well furnished with statistics, and of real value to the historian. They

are not however so directly concerned with the Bank of England as with Joint Stock Banking. Passing over slighter sketches and papers, of which there are very many, as well as books like those of Maclaren, really a history of opinions, and of Doubleday, a notable criticism of the funding system, we come in conclusion to a writer of foremost importance, happily still active, Mr. Inglis Palgrave. He is our main source of information for the history of English banking in the last half-century. His mastery of English banking statistics is unrivalled; he has given us, partly in published works, partly in the *Bankers' Magazine* and elsewhere, a long series of studies of the discount rate and the changes in English banking structure and banking methods; and in his last work, *Bank Rate and the Money Market*, we have a collection of comparative statistics from 1844 to 1900 which seems to exhaust the available material on the subject.

If, then, we have no adequate history of the Bank, it is evident that very important contributions to such a history exist. Moreover, as Dr. Andréadès truly says, the records they contain are full of incident and attraction, almost of romance. Why have we had to wait so long for a worthy formal and fairly complete handling of such an interesting and fundamental chapter in our economic history? Dr. Andréadès makes a modest reference to the difficulty and magnitude of the task; but he does not seem convinced that this is quite an adequate explanation. Probably various reasons will occur to the reader. I will venture to suggest two considerations which may have given pause to others, as they certainly did to myself; and I write as one who for more than a quarter of a century has felt that special fascination in banking history to which our author refers.

The first is the remarkable absence of official records in connection with the Bank, especially for

the first century of its activity. It has often been observed that the English are peculiarly fortunate in this matter of records; a result partly of their habits of publicity, and of the representative character of their political life. Speaking of our legal records, Maitland says they form "a series which for continuity and catholicity, minute detail and authoritative value has—I believe that we may safely say it—no equal, no rival, in the world." This is equally true in the case of many of our economic and political institutions. The Bank of England stands out as a striking exception to the rule. It never seems to have published any reports, or even to have preserved its own minutes and accounts. We have mainly to rely for any official knowledge of its operations on the occasional returns extracted by Parliamentary Committees, and on the weekly returns under the Act of 1844, which competent judges have declared to be the most valuable result secured by that Act. But the Committees throw no light on the period before the French war; and the returns under the Act of 1844 are very inadequate. Neither source gives the mass of valuable information contained in the Annual Reports of the Banks of France and Germany, and indeed of most of the foreign banks. Hence there are many questions of Bank policy which can only be studied upon such basis as is afforded by hearsay, and the articles or occasional utterances of individuals.

This absence of official records greatly increases the labour involved in writing a history of the Bank, and makes the result of it, after all is done, less complete and authentic than could be wished. But we should probably have had our history, authentic or not, if this had been all that stood in the way. It was not the absence of official records that left so many other chapters of English economic history to be first dealt with by foreigners. The main cause is to be found in the anti-historical bias of the dominant

school of English official economists, most of them avowed disciples of that most unhistorical writer, David Ricardo. Their *doctrinaire* habits of thought, and their belief that they were in possession of a set of "principles" of universal application, led them to frown on historical research as at best mere waste of time. No physician, worthy of the name, will prescribe without some knowledge, direct or inferred, of the history of the case under treatment. To the typical English economist, however, who claimed that his "laws" were, would or should be (he was not *quite* clear about the tense) of world-wide pertinence, historical differences had no interest, and he relegated history to the antiquary. This, as we now see, is really the attitude of the quack. What is curious is, that in England, and to some extent in France also, the quack methods received the sanction of the professed practitioner, and it was left to the layman to follow the sounder practice. Hence for the half-century and more during which this "orthodox" school has been supreme, such economic history as was written in England was written outside academic circles, or at least by men whose work was under the ban of the dominant school. I well remember how completely this school ostracised Macleod. His admirable historical work, to which so many writers are indebted, was appreciated in every country but his own. Here, because of certain eccentricities in his theoretical position, his whole works were proscribed. Richard Jones in earlier days met a similar fate, though Whewell preserved him from entire neglect; and Cliffe Leslie in later times did not fare much better. There are many living economists who are not likely to forget the discouragement they suffered by this official blight on historical studies.

Fortunately this has all passed away, never, we may confidently assert, to return; passed away so completely that the younger men perhaps hardly

realise how much it crippled and narrowed the work of the generation before them. Thanks mainly to the example of leaders like Archdeacon Cunningham and Professor Ashley, and later to the encouragement given to realistic studies at the London School of Economics, we now have a public which welcomes the results of historical research, and there is a large and growing number of scholars actively engaged upon it. The worst reproach on English economic achievement is now in a fair way to be removed.

With these attempts to explain what I cannot pretend to excuse, let me leave the question of our English shortcomings in this matter, and turn to the more agreeable work of considering the brilliant essay in which Dr. Andréadès has gone so far to supply what we lacked.

No two persons, reviewing so large a mass of situations and incidents, would be likely to agree in every estimate of evidence, or in all their judgments upon the actors in the drama. If I may venture to express an opinion, I should say that Dr. Andréadès seems, on the whole, to have shown a singularly sure instinct in his appreciations. There are of course a few points of fact, and some minor contentions, which might deserve examination, if this were the proper place for it; but in general, and notably on many much disputed issues, his conclusions seem to me, at any rate, to be sound and scholarly. Where I should differ most, is in regard to the period covered by the French war, and more particularly as to the conduct of the Bank during the Restriction.

This period is classical in the history of banking, and has attracted the attention of every writer on the subject. Never was the fate of England and her Empire more intimately bound up with the fortunes of her national credit; and there is no chapter in the long story of the Bank of England in regard to which her conduct has been so severely censured. On both

grounds it must always be of special interest to an historian of our National Bank; and we might expect that the traditional verdicts would receive a very careful and critical scrutiny at his hands. It is just here that our author, who is not afraid to make excursions into party politics, and to shower censures on Pitt which will not commend themselves to everyone, seems to become less venturesome in dealing with the banking history, and follows too faithfully, as some may think, the generally accepted views. It may be worth while, then, to state briefly some considerations which he has perhaps under-rated.

Too much can easily be made of the iniquity of the Restriction itself, especially as a ground for reflections on the Bank. The difficulties of the Bank throughout were mainly due to its strong patriotism and loyalty to the Government. Even the Government, in the persistent demands upon the Bank which made the Restriction necessary, was only following the well-established policy of the time. In the eighteenth century nations exploited their banks in the same ruthless, impenitent way as they exploited their colonies and their trade. The contemporary *Caisse d'Escompte* in France, otherwise a very promising and well-managed institution, was completely wrecked by the insatiable demands of the State: and in later years the *Banque de France* was more than once brought by the same policy to a temporary suspension of payments. Nor is it so certain, quite apart from 18th century notions, that we could even now get through a first-rate war without an inconvertible currency. Gilbert, giving evidence before the Committee on Banks of Issue in 1841, says very frankly and emphatically that in the event of another war such as the war with France, "I would, immediately on the commencement of the war, issue an order in Council for the Bank to stop payment." He says he formed the opinion that the suspension of cash

payments in 1797 "was not a matter of choice, but of necessity—it has since been confirmed by the writings of McCulloch." Quite recently again, at the discussion of Sir Robert Giffen's important paper at the Royal United Service Institution in March, 1908, several speakers expressed their conviction that a suspension of payments would be inevitable on the outbreak of a first-rate war; and Sir Felix Schuster said that we should certainly prohibit the shipment of gold to the enemy, which would involve a partial suspension. To find precedents for such a policy we need not go back to 1797. We have an excellent example to hand in the case of France in 1870. Suspension, then, must be considered as a still possible expedient, rather than as the scandal of a less enlightened age.

It is admitted by the severest critics of the Bank that there is no substantial ground for complaint as to its conduct during the Restriction until 1808-9. There does not seem indeed to have been any real depreciation of its paper until that date. The price of £4 per ounce which figures monotonously for the years 1803-9, was really an arbitrary price, fixed by the Bank itself as one at which it would purchase foreign gold.* The Bank, in fact, was adopting at its own expense the policy so common on the Continent to-day of strengthening the reserve by buying gold at a premium. No doubt it is less easy to defend the action of the Bank just after 1808. It might have done more than it actually did to check the speculative movement at that time. But events in South America were opening up splendid opportunities, which the English did well to seize, even at some risks. We must consider too, how limited were the means of control then at the disposition of the Bank. Regula-

* Cf. the Resolution of the Committee of Treasury, 28 Mar. 1804, in Appendix to Report of 1819.

tion by the rate of discount, the method now approved, was quite out of the question. The Usury law prevented a higher rate than 5%, and the Bank had long made 5% its minimum. It had to work therefore with a fixed rate of discount. Its policy in regard to the granting of accommodation seems very cautious, even in comparison with modern practice. Tooke tells us (I., p. 159) "The rule by which the Bank directors professed to be, and were in the main guided," was "the demand for discount of good mercantile bills, not exceeding 61 days date, at the rate of 5% per annum"; and he adds that this rule "did, with the necessary policy of Government in periodically reducing the floating debt within certain limits by funding, operate as a principle of limitation upon the total issues of the Bank." If the Bank wished to contract its circulation, what courses were open to it? To refuse accommodation altogether is always held to be dangerous. To make personal preferences is invidious, especially for a National Bank. It is just possible the Bank might have resorted to the expedient used in 1795-6, I mean the granting of *pro rata* discounts; but even so, it must have put severe pressure on the market, and risked the creation of panic. Further, its power over the market was seriously diminished by the rapid growth and reckless advances of the country banks. It was to these banks, and not to the Bank of England, that most of the troubles of the Restriction were due. The Bank was practically responsible for the solvency of this crowd of small, ill-managed institutions, but dared not call them to account, on peril of provoking a general collapse of credit. Thus the country banks over-traded without check, and on a moderate estimate had afloat a circulation of £30,000,000, a figure never touched by the circulation of the Bank itself.

Still there were those who held that, cost what it might, the Bank could and should have brought its

paper and the exchanges to par. Tooke seems on the whole to have been of this opinion; but he clearly perceives and fairly states the extreme danger of such a course. After noting the difficulties imposed by the Usury law, he says, "Under these circumstances, and at such a time of unprecedented political difficulties, I am perfectly convinced that if the attempt alluded to had been made, there would have been a moment of total stoppage of business, something very like a general suspension of all payments except for retail purposes, and of all business excepting retail trade" (IV., p. 118). The alternative open to the Bank is admirably stated by him in another passage (I., p. 164), too long to quote here. The Bank had to choose between "violent changes in the state of the money market" and "extraordinary fluctuations in the exchanges." If the issues had been rigorously contracted so as to keep the exchanges at par, the most disastrous pressure would have been caused in the money market. In this earlier passage Tooke seems to think a financial crisis the lesser evil of the two. But there is much to be said for the opposite view.

We should remember that it was a main point with Napoleon to wreck our national credit. He regarded the remarkable credit development in England as a prime source of its military power, so long as it could be maintained; but he was equally satisfied that the development had proceeded to a dangerous extent, and that it would be quite possible to bring about its collapse.* To that object he directed many of his measures. He permitted the free import of corn to England, in the hope that it would cause a drain of gold. The Berlin and Milan decrees not only aimed at injuring our trade, but at destroying the basis of our credit, by causing drains of bullion; and they

*This has been clearly shown by Miss Cunningham, in an interesting paper, shortly to appear, upon *Napoleon's Attack on British Credit*, which I have had the advantage of reading in MS.

undoubtedly helped to bring about the high premium on exchange in 1810. If the Bank, in the attempt to correct this premium, had caused an internal stringency, and thereby provoked a general crisis, it would have exactly realised Napoleon's aims. Our credit, then (as now), was our strongest resource in war; then (as now), it was a vulnerable point, and its destruction was the first and main objective of the enemy.

Considerations of this kind, no doubt, rather than abstract arguments, led Parliament and the Bank in 1811 to reject the main recommendation of the Bullion Committee. For my part, I believe they were right; and that if at a time of such unprecedented disturbance to trade, the Bank had followed the counsels of the *doctrinaires*, the whole system of war finance would have collapsed. But the rejection of the Report, together with the passing of Lord Stanhope's Act in the same year, which put a check on the not too patriotic Lord King, and saved us from the danger of "two prices," enabled the Bank to pull through. As it was, and without the forced contraction of issues which resumption must have caused, prices fell, according to Jevons' investigations, from 164 in 1810 to 117 in 1819, or nearly 29 per cent. in nine years. It may be doubted whether, at such a critical time, the country could have supported a more rapid fall.

The situation, one would think, was so difficult and uncertain, that even if Parliament and the Bank had made an error of judgment, the error might have been pardoned, or at least gently handled; all the more too, inasmuch as many weighty authorities, merchants, bankers, and writers, inclined against the recommendation of the Committee. But the Bank had a consistent and uncompromising enemy in Ricardo. He came to the front in the currency controversies, and was soon to be the acknowledged

head of the "new school" of economists; and his hostility is reflected in the unconsidered severity of traditional censure. Ricardo's animus was unconcealed; its origin I do not know, and it would be unprofitable to speculate upon it. In a letter to Malthus in 1815, he writes, "I always enjoy an attack upon the Bank, and if I had sufficient courage, I would be a party to it." He seems to have found his courage later. In 1822 he denounced the Bank in Parliament as "a company of merchants who . . . did not acknowledge the true principles of the currency, and who, in fact, in his opinion, did not know anything about it." It was precisely because they were a company of merchants that they saved the trade of the country from the crude prescription of the *doctrinaires*. However it is only fair to Ricardo to note that though he never tired of abusing the Bank, he was far from entirely approving the Report of 1810, which he is so often assumed to have inspired. For in a letter to that able writer Wheatley, dated 18th September, 1821, we find him writing "You rather misconceive my opinions on this question. I never should advise a government to restore a currency which was depreciated 30 per cent. to par . . . It was without any legislation that the currency from 1813 to 1819 became . . . within 5 per cent. of the value of gold,—it was in this state of things, and not with a currency depreciated 30 per cent., that I advised a recurrence to the old standard." The policy he here disclaims was precisely the policy recommended by the Bullion Committee. It is perhaps doubtful whether Ricardo's view was so qualified in 1810-11; and we may well be thankful that men of more cautious temper were at the helm then. Huskisson, who knew both the times and the man exceptionally well, pronounced a judgment on Ricardo in 1826 which we may extend to the whole party of the *doctrinaires*. "I believe," he said, "that if that gentleman, ingenious as he was, had been the

sole director of the Bank of England, the country would before this have seen the stoppage of that establishment." (Speeches, II. p. 462).

Other critics have taken a kinder view of the action of the Bank. Baring in 1819, and Adam Smith fifty years before, both agree, that, as Smith puts it, the duty of the Bank to the public "may sometimes have obliged it, without any fault of its directors, to overstock the circulation with paper money." There was no severer critic of the Restriction finance than Doubleday, the opponent of funding in all its forms. But Doubleday, far from thinking that the Bank should have acted on the recommendation of the Bullion Committee, says that it "seemed to smack of a degree of fatuity that looked like political insanity" (p. 184). Senior, too, even when criticising the Bank for the extension of its issues, concludes with words of praise. "Such conduct," he says, "injurious as it was, is a model of sobriety and moderation when compared with that of any other individual or community invested with similar powers": and again, "The Bank directors exercised their power with extraordinary moderation." And Fullarton, in 1844, speaks of "the deep debt which the nation owes the Bank for its services throughout that long and trying crisis" (p. 68), and adds, "I believe they cannot be too highly appreciated; and I believe, further, that the same services could not have been so beneficially performed by any mere Bank of the State, or by any body whatever less intimately bound up in all its interests and relations with the commercial affairs and prosperity of the country."

This impression certainly grows upon me, the more I read the history of the period. I doubt whether the crowd of critics who have repeated Ricardo's censures of the Bank have sufficiently distinguished between the speculative views and the practical measures of the Directors. I think it will

appear, the more the circumstances are examined, that their actual policy during the Restriction was generally guided by a sound instinct. It would be impossible to defend some of their arguments; but they were not there to argue. As so often happens with men of affairs, their policy was much better than the reasons they gave for it. The fact remains that where there was about an even chance of failure, the Bank succeeded: we may well be grateful to it for steering the country safely through the most critical period in the whole history of its banking and credit system. No doubt the Bank had the defects of its qualities; it may have laid rather too much stress upon the urgency of accommodating the trade and commerce of the country: but if so, its vices leaned to virtue's side. Its principal difficulties were due to its unwavering loyalty to the State; and to its endeavour, so far as lay in its power, to avert undue pressure on the commercial community. These are the ends for which a National Bank exists.

If we are to criticise the Bank, its conduct seems more open to objection in the twenty years *after* than in the twenty years *before* the Resumption of Cash Payments. As our author's account clearly shows, its management of the crises of 1825-6, and 1837-9 was far from prudent; and this after full allowance is made for the difficulties caused by the Usury Law and the conversion of the debt in the first period. One cannot help feeling too that much grave currency trouble might have been spared to our own times if the Bank had given a more favourable consideration to the currency proposals of Alexander Baring and Ricardo. But here again the Directors might plead that they were hardly free agents; the political situation was dominated by Cobbett, whose hostility to these schemes is well-known. For the worst blemish on the long and honourable record of the Bank we must go back to earlier times, to that fevered

year 1720. It was the wild competition of the Bank with the South Sea Company which, more than anything else, as was ably argued by a contemporary writer, was the prime cause of the speculative mania of that year. The Bank was never nearer ruin than at that time, and only escaped, as Dr. Andréadès neatly puts it, by the rejection of its own proposals. His caustic judgment upon this episode seems fully warranted.

Dr. Andréadès apologizes for not having discussed more exhaustively the question of liberty of note issue, and the particular system of issue imposed by the Act of 1844, another legacy of the *doctrinaires*. English readers will hardly complain of this: the Act has been discussed *ad nauseam*. The vital question for us to-day is not so much liberty of issue, as the discovery of some means of regaining the elasticity of issue of which the Act of 1844 deprived us. The whole question of note issue, in so far as it is separable from the question of reserve, is of much less importance for England than for most other countries.

But there are some omissions in this history which strike one. It is hardly as strong as might be wished on the documentary and statistical side. One would have welcomed an Appendix containing some fundamental statistics: for instance, statistics of Capital, Dividends, Reserves, Discount Rates, and Note Circulation. A history of the Charter renewals would have been convenient: the original Charter and By-laws, the monopoly and other important Acts, and certain Orders and other documents might well have been printed. These are the things most useful, and generally most inaccessible, both to the student and the man of affairs. Again, some account of the various forms of Notes, Cheques, Bills, Tokens, etc., issued or handled by the Bank, such as might have been gathered from the writings of Maberley Phillips, Hilton Price, Bisschop and Philippovich, would certainly have been instructive. It may be said

generally that the development of English banking is very closely connected with the currency development, and neither can be thoroughly understood without some reference to the other. Some of the incidents connected with the Recoinages of 1696 and 1774 have left their mark not only on the currency history of the world, but upon its banking history also, and certainly on the history of the Bank of England. It would be difficult, for instance, to exaggerate the importance of the rejection, in deference to Locke's plausible platitudes, of the very well considered Report of the Parliamentary Committee of 1695. Much the same may be said in regard to outside systems of banking. The development of banking in Scotland and Ireland is intimately connected at many epochs with the history of the Bank. More information also might have been given as to the relation of the Bank to various groups of other English banks. The growth of the country banks and the extent to which they were able to force the hand of the central institution, might have formed a special study, which would have thrown much light on the period 1793—1844. Another might have been devoted to the Bank's relations with the group of City bankers, and with the Clearing. More detail might been given, too, in regard to Joplin's movement, the relaxation of the Bank monopolies, the growth of the great Joint Stock Banks, and the effects produced by these changes upon the position of the Bank, and its control over the money market.

After all is said, however, the fact remains that we have in this work of Dr. Andréadès the best general survey of the subject which exists. It is the only one that covers the whole period of the Bank's history, and takes note of all the most important passages in it. Its author shows a remarkable familiarity with English methods and habits of thought, and his criticism is usually most just and temperate, and full

of suggestion and stimulus. The earlier part of the history has never before been thrown into a form so convenient for English students; and they will find in the later part some new matter of interest, especially the sketch of the relations between the Bank and the Treasury, and a Memorandum by Sir Robert Peel which has not appeared in any previous work on the subject. The whole treatment is always alert and animated, the topics are vividly presented and well arranged, and above all, the book is eminently readable and attractive.

These merits seem to have been generally recognized. Dr. Andréadès' history has been everywhere well received, and by none more cordially, I think, than by those who best appreciate the great difficulty of the task. As I have ventured to touch on one or two matters in regard to which our points of view are not exactly the same, it is all the more pleasant to me to be able to congratulate the author upon his remarkable success, and upon the recognition it has received, not only in other countries, but in his own, where he now holds an important Chair in the University of Athens.

The work of the translator also calls for grateful recognition. The lucidity and vivacity of the original have been admirably preserved in Mrs. Meredith's effective and idiomatic version. While the translation is accurate, and keeps closely to the text, it has the unusual merit that it bears no trace, except perhaps in its clearness and point, of the original language from which it has been rendered. Perhaps it should be mentioned here that the translator did not attempt a general revision of the work, or the completion of the Bibliography; though many obvious slips and mis-spellings, and occasional inaccuracies of quotation and fact have been carefully corrected by reference to the original authorities.

It only remains to note that the appearance of the book is most timely. The question of the constitution

and policy of National Banks is in some respects the supreme economic question of the day. The financier is in the ascendant; his is the dominating influence on modern economic activities. We are living in an age when financial fortunes and financial operations are upon a scale never dreamt of before; and when price manipulations and gold movements are constantly causing wreckage and dislocation of industry in greater or less degree. If disturbing forces of this magnitude are to be kept within due control, it can only be by institutions wielding national resources, and under the direction of men representing general public interests—men in touch with the national commercial and industrial conditions, and with the general aims of the State.

National Banks, then, are more necessary than they ever were; though their rôle has changed. If we look at their early history, either here or abroad, we shall find that the main object of the State in establishing relations with a Bank was to become its immediate beneficiary: indeed by the loans it exacted it very frequently crippled the Bank for its proper function of controlling the monetary position and securing due accommodation to industry and commerce. In modern times the public or national character of a Bank is mainly important in so far as it may be a guarantee that the Bank will safeguard public interests: that is to say, will realise that its chief duty is to the business world rather than to its shareholders, and its chief purpose to maintain financial security and stability rather than to make profit. It is from this point of view that National Banks will now be judged, and that we interest ourselves in their history. So regarded, the world's great National Banks have no cause to be ashamed of their record, the Bank of England least of all.

Cambridge, Xmas, 1908.

H. S. FOXWELL.

CONTENTS.

	PAGE
VOLUME I. 1640—1819.	
INTRODUCTION	1
<p style="margin-left: 2em;">Importance and Difficulties of the Subject. Reasons why no History of the Bank of England has ever been written. Examination of Sources: (a) Narrative sources and general works on Banking, (b) Official publications, (c) Pamphlets and tracts. Observations in reply to two criticisms likely to be made of the present work.</p>	
PART I.	
ORIGIN AND DEVELOPMENT OF BANKING IN ENGLAND	14
<p style="margin-left: 2em;">Political situation in England about 1640. Financial difficulties of Charles I. Seizure of Bullion deposited by the merchants in the Tower. Serious results of this proceeding. It encourages the development of Banking, but delays the establishment of a National Bank.</p>	
RISE OF BANKING	21
<p style="margin-left: 2em;">Position and transactions of the Goldsmiths. Reasons for their success and their unpopularity.</p>	
BANKING UNDER THE REPUBLIC AND THE PROTECTORATE	26
<p style="margin-left: 2em;">Extension of English Trade. Projects for a National Bank. Pamphlets by Gerbier and Lamb. The return of the Jews, its influence upon Banking.</p>	
BANKING AFTER THE RESTORATION	32
<p style="margin-left: 2em;">The Bankers and the Government of Charles II. The King's Foreign Policy. Dutch War. First Run on the Banks. Financial Relations between Charles II. and Louis XIV. Second Dutch War. Suspension of Exchequer payments. Results and criticism of this Policy.</p>	

PART II.

FOUNDATION OF THE BANK OF ENGLAND.

CHAPTER I.

	PAGE
NECESSITY FOR A NATIONAL BANK	43
COMMERCIAL NECESSITY FOR A BANK	45
<p>Sketch of the commercial requirements. The rate of interest. Importance attached to a low rate. Theories of Sir J. Child. The paper currency. In what way this could be made less variable than a metallic currency. Account of the proposed schemes. The <i>Bank of Credit</i>. Failure of the schemes. Reasons for this failure.</p>	
POLITICAL NECESSITY FOR A BANK	54
<p>Bad state of the public finances. Heavy expense of the War against Louis XIV. Inadequate returns from taxation. Montague's financial expedients. The Tontine and the Lottery Loan. Montague and Paterson's scheme.</p>	

CHAPTER II.

PATERSON'S LIFE AND WORK. FOUNDATION OF THE BANK OF ENGLAND.

LIFE OF WILLIAM PATERSON	60
<p>Birth and youthful adventures. Return to England after 1688. Active share in public affairs. Explanation of his leaving the Bank of England shortly after he had founded it. The Darien Expedition. Last years of his life. His claims on public gratitude.</p>	
W. PATERSON AND THE BANK OF ENGLAND	65
<p>Paterson's first scheme, 1691. His Pamphlet in 1694, "<i>A Brief Account of the Intended Bank of England</i>." Principles on which the new Bank should be based.</p>	
THE OPPONENTS OF THE BANK	67
<p>Political opponents; Jacobites and Tories; Commercial rivals; the Goldsmiths. Hostility of the landed gentry; its causes. The dissentient Whigs. Arguments used by the Bank's opponents. Opposition in Parliament. Bill only passed because the Government wanted money and could not obtain it otherwise.</p>	

CHAPTER III.

ORGANISATION OF THE NEW BANK.

CHIEF PROVISIONS OF THE TONNAGE ACT AND OF THE BANK CHARTER	72
<p>The Tonnage Act. The Bank supported by Government and by the commercial world. Enthusiastic subscription for its stock. The Bank Charter.</p>	

	PAGE
COMPARISON BETWEEN THE BANK OF ENGLAND AND THE PRINCIPAL CONTINENTAL BANKS OF THE PERIOD	75

The Bank of Venice. Primitive Venetian Banks; their transactions resembled those of modern Banks. Reasons for the establishment of a single Bank by the Senate. The Banco della Piazza del Rialto (1584) and the Banco del Giro (1619). Amalgamation of these two establishments. Their transactions. The Bank of Genoa. Origin and original character of the Bank of Saint George. The *biglietti di cartulari di San-Giorgio*. The Bank of Amsterdam. Its importance. Its exceptional position up to the end of the eighteenth century. Distinctions between the bank of England and the three continental Banks. Bank money and the English bank notes. Resemblance in this respect between the Banks of England and Sweden. The use of the continental bank notes forced, and the English ones not even legal tender. No monopoly enjoyed by the Bank of England when first founded. Gradual disappearance of these distinctions. Close resemblance between the Bank of England in the present day and the primitive Banks of Italy and Holland.

THE TRANSACTIONS OF THE BANK OF ENGLAND	84
<p>Character of the new notes. Not guaranteed by any metallic reserve. The discounts and deposits.</p>	

CHAPTER IV.

RESULTS OF THE FOUNDATION OF THE BANK	86
<p>Political and economic condition of England at the time of its foundation. Success of the Bank. Causes of this success. Michael Godfrey, his salutary influence on the commercial world, his pamphlet, "<i>A Short Account of the Bank of England</i>." Services of the Bank to the Government and the public.</p>	

CHAPTER V.

THE RESTORATION OF THE COINAGE	90
<p>Scandalous condition of the English coinage. Laws powerless to prevent clipping. The <i>Re-Coinage Act</i> of 1696. Examination of this Law. Montague's difficulties, (a) Great expense involved in the successful completion of the operation, (b) The standard of the new coins. Controversy between Lowndes and Locke. Decision of the House of Commons.</p>	

CHAPTER VI.

THE LAND BANK—RENEWAL AND EXTENSION OF THE BANK CHARTER	103
<p>(a) Dr. Chamberlain. His Economic theories and scheme for a Land Bank. Bill for the Land Bank passed by the House of Commons. Collapse of the Land Bank. (b) Position of the Bank of England after the re-coinage and the foundation of the Land Bank. Partial suspension of the Bank's payments. First Exchequer Bills issued. (c) Grievances and demands of the Bank of England. Renewal and extension of the Charter. Chief provisions of the Act of February 3, 1697. Question of a monopoly.</p>	

CHAPTER VII.

	PAGE
THE BANK AND THE WAR OF SUCCESSION	114
<p>(a) Economic condition of England in 1700. Problem of the Spanish Succession. Political position of William III. Unpopularity of a War with France. War declared. (b) Policy of the Bank during the War. Bank's close alliance with the Protestant Monarchy. Attacked by the enemies of the Government, but secures the continuation and extension of its Charter. Run of 1707. Act of 1709. Criticism of this Act: (1) Bank secures a genuine monopoly. Results of this, (2) Bank undertakes to circulate Exchequer Bills. Is authorised to double its Capital. The Sacheverell affair. Attack on the Bank.</p>	

PART III.

THE BANK OF ENGLAND UNDER THE HANOVERIAN DYNASTY UP TO THE TIME OF THE FRENCH REVOLUTION.

CHAPTER I.

THE BANK AND THE SOUTH SEA COMPANY	128
<p>The South Sea Company. Offers to take over all the Public Debts. Proposals of the Bank in this matter. Government accepts the proposals of the South Sea Company. Speculative mania. Multiplication of schemes of every kind. The South Sea Company's lawsuit against the new Companies. Results of this lawsuit; Ruin of the South Sea Company. Trial of the Company's Directors. End of the crisis. Part played and risks run by the Bank during the crisis.</p>	

CHAPTER II.

THE BANK IN THE REIGN OF GEORGE II.	146
<p>Establishment of a Reserve Fund. Renewal of the Charter in 1742. Contemporary idea of the privilege of <i>Exclusive Banking</i>. Definition given by the Act of 1742. Importance of the Act. The Bank and the Jacobite rising of 1745. Black Friday. The Bank and the conversion of 1750. Relation between the Bank and the Treasury.</p>	

CHAPTER III.

THE BANK FROM THE DEATH OF GEORGE II. TO THE FRENCH REVOLUTION	154
<p>Renewals of the Bank Charter (1764 and 1781). Commercial Crises of 1763, 1772, 1783. Re-coinage. Gordon Riots. Bank afterwards guarded day and night.</p>	

PART IV.

THE BANK DURING THE REVOLUTIONARY AND NAPOLEONIC WARS

CHAPTER I.

ECONOMIC CONDITION OF ENGLAND AT THE OUTBREAK OF THE REVOLUTION	161
<p>Sketch of the Industrial Revolution in England. The Cotton and other industries. The canals. The steam engine. Results</p>	

of the transformation of England from an agricultural and commercial into a commercial and industrial Country. Its effects on the Revolutionary and Napoleonic Wars. Its effects on the organisation of provincial credit. The Country Banks.

CHAPTER II.

FINANCIAL POLICY OF WILLIAM PITT	174
<p>Pitt's financial policy before 1789. Pitt and the Revolution. Connection between Pitt's financial policy and the suspension of cash payments. Sketch of this policy. Mr. Gladstone's speech. The subsidies paid to the Allies. The rate at which the loans were raised. Loans <i>versus</i> taxation. Criticism of Pitt's policy. The Sinking Fund. Conclusion.</p>	

CHAPTER III.

THE BANK RESTRICTION ACT. SUSPENSION OF CASH PAYMENTS BY THE BANK	187
<p>Crisis of 1793. Crisis of 1797. Pitt's unwise treatment of the Bank. Advances to Government forbidden by the Bank Charter. Modification of this. Incessant loans from 1793 to 1797. Exportation and drain of specie. Disturbances among the Country Banks, Panic due to the landing of a handful of French Troops. Policy of the Bank directors. Suspension of cash payments. Decision of the Privy Council. Message from the King to Parliament. Position of the Bank and parliamentary debates. The Bank Restriction Act.</p>	

CHAPTER IV.

RESULTS OF THE BANK RESTRICTION ACT	203
<p>Results of the Act between 1797 and 1808. Pitt's caution. Prevailing errors on the subject. Increase in the issues and in the advances to Government. Results of the Act in reference to Economic theories. Parliamentary debates. Theory stated by Addington. Speeches of Fox and Lord King. The economists and the influence of excessive issues on the foreign exchanges and the price of gold. Crisis of 1800. State of public opinion. Theories of Walter Boyd, Thornton, Lord King and Ricardo on the depreciation of a paper currency. Monetary crisis in Ireland. Parliamentary inquiry. Opinion held by the Directors of the Bank of Ireland. Report of the Committee.</p>	

CHAPTER V.

THE BULLION COMMITTEE AND THE BULLION REPORT	218
<p>Appointment of the Bullion Committee. The Berlin Decree and the Spanish Wars. Speculation due to these events. Imprudent policy of the Bank. Crisis of 1809. Appointment of a Committee of Inquiry. The Bullion Report. Comparison with the Irish Crisis in 1804. The problem put before the Bullion Committee. Discussion on the depreciation of the notes. Discussion on the effects of increasing the note issue. Discussion on the effects of decreasing the note issue. Dis-</p>	

Discussion on the policy to be adopted with regard to the Issues. Conclusions of the Bullion Report. Discussion of the Bullion Report in Parliament. Speeches of Horner, Rose, Thornton, Vansittart and Canning. Horner's resolutions thrown out, those of Vansittart passed.

CHAPTER VI.

REPEAL OF THE BANK RESTRICTION ACT 235

Results of the rejection of the Bullion Report. Lord King's circular to his tenants. The Stanhope Act. The Act of 1819. Great drain of specie in 1818 and 1819. Appointment of Committees to consider the advisability of resuming cash payments. Reports of the Committees of both Houses. Proposals of Lord Lauderdale. Debates in Parliament: Robert Peel's Speech on the alteration of the standard. The Act of 1819, its chief provisions. Resumption of cash payments.

VOLUME II. 1819—1903.

INTRODUCTORY CHAPTER 245

Difference between Volume II. and Volume I. in respect to their subject matter. The possibility of omitting references to general history in Volume II. Necessity for dealing in one part of the present Volume with the working of the Bank under the existing system. The Act of 1826 regarded as one of the causes of the Act of 1844. Method adopted in examining the intention of Peel's Act.

PART I.

CAUSES AND ANALYSIS OF PEELE'S ACT.

CHAPTER I.

THE CRISIS OF 1825 AND THE ACT OF 1826 248

The Crisis of 1825. Effects of the resumption of cash payments. Renewal of speculative mania. Its causes. Speculations in South American and Foreign Loans. The crisis. Policy of the Bank during the crisis. The Responsibility of the Banks and the effects of over-issues on the crisis exaggerated. The Act of 1826. Meeting of Parliament: Speeches of Lord Liverpool, Peel and Huskisson. The Act of 1828, its two-fold object. Reorganisation of the provincial credit system. Suppression of the Bank of England's privileges in the Provinces. Abolition of small notes. Small notes continued in Scotland. Action of Sir Walter Scott.

CHAPTER II.

THE INQUIRY OF 1832 AND THE ACT OF 1833 256

The Inquiry of 1832. Chief problems brought forward: (a) The regulation of the currency. Theory stated for the first time by Horsley Palmer, that a reserve equivalent to one-third of the liabilities guarantees a Bank from all risk. Application of this theory by legislation in various cases. Its worth. (b) Establishment of Joint-Stock Banks in London. History of this matter. Mr. Joplin's book. Legal aspect of the question. (c) Bank Notes as legal tender. Advantages of making the notes legal tender as stated by Lord Althorp. Peel's opposition. Notes made legal tender. (d) The limitation of the rate of interest. Need for suspending the usury laws especially with reference to the Bank. (e) The publication of accounts. The Act of 1833. Its chief provisions. Fate of the Joint-Stock Banks.

CHAPTER III.

THE CRISIS OF 1836-1839 263

Condition of public opinion from 1833 to 1836. Extensive speculations at home. Foreign Loans. The Bank's policy during this Period. Rapid fall in the Bank reserve in 1836. Its causes: President Jackson's monetary reform in America: the crisis in Ireland. Refusal of Bank to re-discount paper already discounted by a joint-stock bank. Outbreak of the crisis in Lancashire. It spreads throughout England. Firm policy of the Bank, the crisis apparently over. Return of the crisis in 1838 on the Continent and in the United States. The Bank of Belgium suspends payment. Remarkable imprudence of the Directors of the Bank of England. Violence of the crisis on the London Market. The Bank on the verge of ruin. Assistance of the Bank of France. Painful and prolonged liquidation of the crisis.

CHAPTER IV.

THE BANKING PRINCIPLE AND THE CURRENCY PRINCIPLE 269

Active movement for reform aroused by the crisis of 1836-1839. Numerous schemes proposed. Two main tendencies: (a) The Banking Principle: Its chief exponents, Tooke, Fullarton and Wilson. The essence of the Banking Principle, Current errors on this subject. Criticism and dangers of the theory. (b) The Currency Principle: Statement of the Currency Principle. The theoretical and practical errors involved. Success of the Currency Principle. Need to examine the practical form under which this theory presented itself in England.

CHAPTER V.

THE CURRENCY PRINCIPLE AND THE PROMOTORS OF THE ACT OF 1844 (LORD OVERSTONE, COLONEL TORRENS, G. W. NORMAN) 278

Lord Overstone, the chief promoter of the Act of 1844, his pamphlets and his theories—Analysis of the "Reflections Sug-

gested by Mr. Palmer's Pamphlet." Lord Overstone and the Bank of England: Criticism of the organisation of the Bank. Suggests two reforms: (a) Full publication of accounts, (b) Division of Bank into two departments. Colonel Torrens' plan. Bank obliged to purchase bullion at a fixed price. Lord Overstone and the country banks of issue: Numerous disadvantages in the multiplicity of banks of issue. Need for strengthening the central monopoly of issue. Summary of the proposals of the advocates of the Currency Principle.

PAGE

CHAPTER VI.

SIR ROBERT PEEL AND THE ACT OF 1844 284

Action of Sir Robert Peel. Peel's theories on Banking. His two Speeches in the House of Commons. His *Memorandum* to the Cabinet. Peel's rejection of free competition as regards note issue. Argument from reason. Argument from experience; disastrous part played by country banks. Necessity for a central bank of issue: Reasons why this should be the Bank of England. The Act of 1844 passed without opposition. Chief provisions of the Act. As regards the Bank of England. As regards the country banks of issue. Limitation and gradual loss of the right of issue. Ricardo's plan for a national bank. Points of likeness to Robert Peel's Act. Its uselessness.

PART II.

THE BANK OF ENGLAND IN ORDINARY TIMES

INTRODUCTION—THE BANK RETURN 295

The weekly Bank Return. The works of Clare and Raffalovich. Outward form of the return. Comparison with a French balance sheet. The separation of the Bank into two departments; The issue department and the banking department. The plan both dangerous and artificial.

SECTION I.—THE ISSUE DEPARTMENT 297

The amount of the issue and the part played by cheques. The issue of notes from an administrative standpoint. Manufacture of the notes. Destruction of all notes returned to the Bank. Average circulation of the notes. The issue of notes from a legal standpoint. Rules governing the issue: Except for a fixed amount, the issue to be against gold. Rights of issue held by certain country banks. Present position of the question. Authorised issue much reduced since 1844, the actual issue much less than the authorised issue. Statistics. The issue and the circulation. Quantity of notes in circulation less during the last ten years than the metallic reserve of the Bank. Explanation of the fact. The function of cheques. The Clearing Houses in London and the provinces. Consideration of the English system of note issue. The English system indefensible

from a theoretical standpoint. The practical aspect of the question. Comparison between the Act of 1844 and the German Laws of 1875 and 1899.

PAGE

SECTION II.—THE BANKING DEPARTMENT 305

The Banking Department of the Bank of England is like any other bank except that it must publish a weekly balance sheet. This balance sheet, like all others, states the liabilities and the assets. The liabilities of the banking department. Proprietors' Capital and the Rest. Amount of the Capital; Comparison with that of the Banks of France and of Germany. The Rest and its amount. Public Deposits. Amount and fluctuations of these. Other Deposits. The current account of the bankers. Advantage of publishing a separate statement of this account, discontinued in 1877. Seven Day and other Bills. The assets of the Banking Department. The four headings under which the assets are divided are: (a) Government Securities, (b) Other Securities, (c) Notes, (d) Gold and Silver Coin. The two first constitute the investments of the Bank, and the two last its reserve.

CHAPTER I.

THE INVESTMENTS OF THE BANK OF ENGLAND. 311

(a) Government Securities. Their nature; (b) Other securities. Hankey's theory as to the proper nature of these. Uncertainty as to their actual character.

THE BANK AND THE DISCOUNT RATE 312

The average Bank Rate. Its fluctuations. Average since 1844 and variations. Periodic fluctuations. The Autumnal Drain. The Bank Rate and the Market Rate. The Bank Rate before 1844. Competition between the Bank and the Market between 1844 and 1878. Since 1878 the Bank Rate in London always above the Market Rate. Position different in the Provinces. Frequent fluctuations in the Bank Rate. Comparison with the chief European Banks. Bad effect of the fluctuations in the discount rate upon trade. Explanation of the fluctuations of the English Bank Rate. Special character of the London Market. Artificial character of the Act of 1844. Lack of fluidity in the securities held by the Bank of England.

CHAPTER II.

THE RESERVE. 313

Nature of the reserve. What is meant by the term. The reserve as the keystone of English credit. The bank reserve and the reserve of the bankers. Amount of the reserve. Its normal fluctuations. The reserve in time of crisis. Question whether the suspension of the limit of issue was foreseen by Peel in 1844. Obscurity of the debates in Parliament. A letter of Peel. Mr. Lowe's scheme for reform (1873).

PART III.

PEEL'S ACT IN TIMES OF CRISIS.

CHAPTER I.

THE CRISIS OF 1847

PAGE
331

Causes of the crisis: Failure of the harvests made necessary a large importation of grain and hence a large exportation of specie. Extensive speculation. The railway mania. The Crisis of 1847 and the Bank of England. Unfortunate effect of the Act of 1844; useless pressure on the Money Market; Luckily the object of its promoters not attained as regards the restriction of the interior circulation in exact proportion to the export of bullion. Unwise policy of the Bank: its reserves reduced to £2,558,000. The crisis, allayed for a time, renewed with violence. Large number of failures. Bank refuses to make advances on Government securities. Panic produced by this policy, hoarding of notes and coin, increase in failures. Bank forced to choose between complete refusal to discount and suspension of the Act of 1844. Suspension of the Act of 1844. End of the crisis. Delay of Government to suspend Act until situation desperate. Letter from the Chancellor of the Exchequer to the Governor of the Bank. Conditions under which the suspension granted. Magic effect of the suspension. The knowledge that notes could be obtained removed the desire to have them. End of the crisis. Great services of the Bank to the public during the crisis. Results of the crisis. Parliamentary Debates. Speech of Sir Robert Peel; his opinion of the effects of the Act; degree in which its object attained; modifications to be made in the Act; the joint-stock banks and the metallic reserve. The Inquiry of 1848. Report of the Committee of the House of Commons. Remarkable Report of the Lords' Committee.

CHAPTER II.

THE CRISIS OF 1857

343

Sudden outbreak of the crisis of 1857: a contrast to the preceding one. Cautious policy of the Bank during the Crimean War. Condition of the market during 1856 and more than half 1857. The crisis of 1857 in America. The three causes of the American crisis. Their influence felt also in Europe. (a) The great discoveries of gold, (b) The extension of railways, (c) The development of banking and the abuse of credit facilities. Extraordinary number of failures in America. The ruin of American banks led to that of a number of English banks. The Bank of England the only source of discount in the United Kingdom. Reduction of the Bank Reserve on November 12, to £384,114. Assistance given by the Bank to commerce in anticipation of the suspension of the Act. The suspension of the Act. Letter of the Chancellor of the Exchequer: text of this letter. Bank issues £2,000,000 notes in excess of the statutory limit; the maximum put into circulation only £928,000. Comparison between the crisis of 1857 and the crises of 1847 and 1866 with reference to the

PAGE

suspension of the Act of 1844. A Bill of Indemnity had to be passed. The Inquiry of 1858 and the causes of the crisis of 1857: (1) Unprecedented extension of International Trade, (2) Excessive importation of precious metals, (3) Remarkable development of banks of credit.

CHAPTER III.

THE CRISIS OF 1866

353

Economic results of the Civil War in the U.S.A. Influx of gold into Europe. Disturbance of the cotton trade. Immediate causes of the crisis of 1866. (1) The rage for limited companies, (2) The practice of financing, (3) Bad customs adopted by certain banks with regard to deposits. The crisis of 1866. The crisis of 1864 and the crisis of 1866. A retarded liquidation. The failure of Overend and Gurney. Black Friday. Remarks on the firm of Overend and Gurney and the causes of its collapse. Unprecedented panic resulted from the failure of this firm. Advances amounting to four millions made by the Bank in a single day (Friday, May 11). Suspension of the Act of 1844. End of the crisis. Part played by the Bank. The Act suspended on the evening of Friday, May 11. Announcement of suspension allayed panic, fresh outbreak a few days later, flow of deposits to the Bank, no additional issue required. Great services rendered by the Bank, Advances amounting to £12,225,000 made in five days. Results of the crisis of 1866. Excitement aroused by the crisis outside England. Lord Clarendon's circular. Heavy losses at home. Some good effects of the crisis.

CHAPTER IV.

THE CRISIS OF 1890

362

The Bank between 1866 and 1890. Causes of the crisis. Formation of numerous limited companies. Extensive speculation, especially in the Argentine Republic. The Argentine Land Banks and the cedula. The Bank rate of discount. Reprehensible policy of the joint-stock banks. Incidents of the crisis. Failure of the Barings. Intervention of the Bank. The guarantee fund. Firm and successful policy of the Governor, Lidderdale. Importation of foreign gold. Assistance given by the Bank of France. Fate of the firm of Baring. Comparison between the crisis of 1890 and the preceding crises. Important differences. The Bank Reserve during the various crises. The crisis of 1890 stopped in time, the others were not. The public knew nothing of the crisis of 1890 until it was over.

PART IV.

GENERAL CONSIDERATION OF PEEL'S ACT—PRESENT POSITION
OF THE QUESTION—SCHEMES FOR REFORM.

CHAPTER I.

SCHEMES FOR REFORM AND MR. GOSCHEN'S PROPOSAL PAGE
370

Opposition to Act of 1844 re-awakened by the crisis of 1890. Numerous schemes for reform. Proposal of Mr. Goschen, then Chancellor of the Exchequer. Analysis of Mr. Goschen's speeches. Criticism of existing system. (1) Insufficiency of central stock of gold, (2) Absence of elasticity in time of crisis. Plan for reform. Drawbacks to and advantages of Mr. Goschen's plan. (1) The plan too complicated, (2) No conditions specified subject to which the second reserve to be available. Advantages of the scheme. Increase of the central stock of gold through the introduction of a new and convenient form of paper currency, and without resorting to the international gold market. Fate and results of Mr. Goschen's scheme. Doubtful welcome given to his proposals. Little justification for opposition to £1 notes. The situation in 1825 and at present. Mr. Goschen's proposals never drafted in the form of a Bill, but had the good effect of increasing the central stock of gold.

CHAPTER II.

CONSIDERATION OF THE PRESENT POSITION OF THE BANK OF ENGLAND 381

Change in public opinion as regards the Act of 1844. Opinion of the English economists. The Foreign economists. Opinions and observations of M. Paul Leroy-Beaulieu. Desirable reforms. Danger of a sudden withdrawal of large quantities of gold. Reforms suggested in the administration of the Bank. Report of the Lords' Committee of 1848.

APPENDIX.

HISTORY OF THE RELATIONS BETWEEN THE BANK OF ENGLAND AND
THE TREASURY 389

Relations of chartered banks of issue and the Public Finances. Various ways in which such banks pay for their privileges. Advantages gained by the English Government from the privileges granted to the Bank. Summary of these advantages: Business connected with the Treasury and the public money, the Administration of the national debt. Management of the revenues: (a) The management of the revenues before the Act of 1834, (b) The Act of 1834, (c) Modifications made in the Act of 1834. Present position. Management of the expenditure. The Act of 1848. The Paymaster General. Simple and practical management of the accounts. The Administration of the national debt. The Bank and the administration of the permanent debt. The Act of 1751. The Act of 1834.

Deficiency bills and deficiency advances. The Bank undertakes not only the payment of interest, but also the administration of the national debt. The Bank and the administration of the floating debt (issue, circulation, redemption of exchequer bills and bonds and of treasury bills. The Act of 1709 and those of 1834 and 1866. The exchequer bills and bonds and the treasury bills. Indemnity paid to the Bank in return for the administration of the permanent and floating debts.

CONCLUSION 402

SUPPLEMENTS—

I. Memorandum on Banking submitted by Sir Robert Peel to the Cabinet 407

II. Text of the Bank Charter Act, 1844 411

III. Ricardo's Plan for a National Bank, 1824 417

BIBLIOGRAPHY 429

INDEX 447

HISTORY OF THE BANK OF ENGLAND.

INTRODUCTION.

Importance and Difficulties of the Subject. Reasons why no History of the Bank of England has ever been written. Examination of Sources: (a) Narrative sources and general works on Banking, (b) Official publications, (c) Pamphlets and tracts. Observations in reply to two criticisms likely to be made of the present work.

THE Bank of England is the oldest of the European national banks.¹ Established in 1694, it has seen the great banks which preceded it disappear one by one and has witnessed the collapse of many later foundations. At the present day it still remains the most famous, and from many points of view, the most original bank in the world.

A very slight study of English history shows the importance of this great institution to the Government and to the English nation. The loans made by the Bank to William III. and Queen Anne enabled England to regain that position among European nations which she had to all appearances hopelessly lost. The English Government sought help from the Bank on the eve of all the eighteenth

¹ The term national bank seems well-suited to those great establishments for the supply of credit facilities, such as the Banks of France, Spain, and Germany, which are, in fact, national institutions, performing, as they do, important services for the Government and for the public, and possessing more or less exclusive privileges of issue. The expression "national" bank also enables us to distinguish these institutions from genuine State banks.

with various eminent statesmen of the past and present times. This purports to be an autobiography, but apart from its curious form the contents are wretchedly poor. The author, who is an ardent supporter of the Bank, thinks himself witty when he calls Louis XIV. Louis the Gascon,¹ or describes the Bank as being received by William III. in his palace at Kensington. When he refers to the newly opened branches, he compares the Bank to Sarah giving birth to a child in her old age, and he is guilty of a thousand other like absurdities. The book is one of the coarsest and dullest I have ever met with. It was published in 1832.

In 1848 Francis' *History of the Bank of England* appeared. Mr. Stephens² has accurately summed up its good qualities and its defects by describing it as "popular." It is certainly not a scientific work, and the writer lived at a time when those who wrote for the mass of the public were too much influenced by the author of the *Trois Mousquetaires*. Mr. Francis has, however, the credit of being a pioneer in a difficult task. His position at the Bank enabled him to give various interesting details, and I must confess to having read his book carefully and with advantage.

The one really scientific work which has been published on the history of the Bank of England unfortunately deals with but a very small portion of that history. I refer to *The First Nine Years of the Bank of England*,³ by Thorold Rogers. It is no small praise to say that this book is a worthy companion to the same author's great work, *A History of Agriculture and Prices*. It is a matter for some regret that in this book, which was written but shortly before his death, Mr. Rogers has not dealt with the period leading up to the Act of 1694, and that he begins with the actual creation of the Bank of England. This, as he explains in the preface, is due to the fact that the work was taken up accidentally. During researches connected with his *History of Agriculture and Prices*, he came across

¹ pp. 6 and 13.

² Loc. cit.

³ Oxford, 1887, 8vo.

a weekly register of the prices of Bank stock from August 17th, 1694, to September 17th, 1703; this register was found in a statistical paper published by a City apothecary called Houghton. In addition to some short articles on passing events, the paper contained a list of the prices of corn and other commodities on the markets of different English towns, as well as a great variety of notices and advertisements. Mr. Rogers applied to the Bank for an explanation of some obscure points, and found to his surprise that they possessed no record of the prices of the shares before 1705. He consequently determined to publish this register with comments; this was the origin of the book in question, and explains why it is limited to the brief period of nine years. If it was true, as Mr. Rogers¹ alleges, that the political and financial history of the Bank of England had never been written, he might congratulate himself that the gap was filled up to 1703, the last date referred to in his work.

These are, to the best of my knowledge, the only works especially devoted to the subject.

It is a curious fact that for a complete history of the Bank of England we must look, not to a book primarily concerned with the Bank itself, but to one dealing with banking in general, that is, to Macleod's treatise on the *Theory and Practice of Banking*.² In this book the Scotch economist gives the most complete existing account of the subject, especially with regard to the question of currency. Moreover, he supplies excellent analyses of the reports of Locke, Lowndes and Newton on the coinage question, and of the Bullion Report and the debates relating to it. Unfortunately, Mr. Macleod wrote history less with the object of discovering the truth than to supply proof of certain theories for which he was responsible, and of which he was for that very reason uncritical. This does not destroy the value of his work, but makes some caution necessary on the part of the reader.

Another general treatise deserving careful attention is

¹ Preface, p. 15.

² 2 Vols. 1855, 5th Edition, 1892-93.

Lawson's *History of Banking*.¹ This book appears superficial in form, but a more detailed study will show that, notwithstanding his stories of eccentric wills and celebrated frauds, of Quakers and adventurers, the author possesses a thorough knowledge of business and of the art of discussing a problem. Lawson is I believe the only English author who refers in his account of the Bank of England, to the close relations between this institution and the Treasury.² There are also interesting historical chapters in Gilbert's³ and Mr. Collins's⁴ books on Banking, but there is no reference to the history of the Bank in the best known of the general works, Bagehot's *Lombard Street*.

In addition to the histories mentioned above, and among what may be called narrative sources,⁵ there are a large number of official publications devoted to the Bank of England, such as exist for all other English institutions, and which have greatly facilitated our study. These publications form a very complete series from the early nineteenth century, dating from the appearance in 1810 of the Bullion Report and the account of the preceding Inquiry. Since 1810 there have been numerous Committees and Reports on Banking. They have followed almost all the great crises which have shaken public credit to its foundations at intervals during the nineteenth century.⁶ These reports are so valuable that the Bank of France has thought it worth while to have them translated.⁷

The Parliamentary debates⁸ are no less important than the official publications. Some of the debates on banking in the

¹ London, 1850.

² On this point see the Appendix to Vol. II. of the present work.

³ *History, Principles and Practice of Banking*. The last edition of this work was published in 1907.

⁴ *The History, Law and Practice of Banking* (1882).

⁵ Among these may be included *La Banque d'Angleterre et les Banques d'Ecosse* by Wolowski. This is a collection of studies, some of which are historical.

⁶ The correspondence exchanged from time to time between the Chancellor of the Exchequer and the Governor of the Bank of England has also been published.

⁷ *Extraites des Enquêtes anglaises sur la question des banques*. Edited by MM. Couillet and Juglar. 8 vols., 1865.

⁸ *Parliamentary Debates from 1803 to the present time*. Edited by Hansard.

English Parliament are unrivalled in their completeness. Among these may be instanced the debates on the Bullion Report, on the resumption of cash payments (1819), on the crisis of 1826, on the Act of 1844, on the crises of 1847 and 1857; in the course of these discussions, orators like Thornton, Canning, Lord King, Ricardo, Peel, and Gladstone, delivered some of their finest speeches, and the problems raised were examined from an historical as well as from a theoretical and a practical point of view.

Before 1803 the Parliamentary debates were only published in a fragmentary manner. The summaries in Cobbett's¹ *Parliamentary History* cannot however be neglected; without them it would be impossible to study the South Sea crisis, or even the Act of Restriction.

Another source of quite a different character, but affording valuable information, is the innumerable mass of pamphlets, inspired in the first instance by the idea of a national bank, and later by the Bank of England itself. These publications began to appear about 1660.² Since then they have never entirely ceased, and have always been especially plentiful at times of crisis, when every quack has a sovereign remedy for the evils from which the country is suffering.

The study of these pamphlets is particularly indispensable for the period from the middle of the seventeenth to the beginning of the nineteenth century. During this long interval owing to the lack of newspapers and of economic treatises, scientific activity of every kind made itself known by means of pamphlets. Indeed, the economists of the period wrote in this form, in which appeared the studies of Petty, Child, and Locke, as well as those of Paterson, Godfrey, Chamberlain and everyone else who discussed banking questions, from Cradocke to Sir Francis Baring.³

After the beginning of the nineteenth century it becomes

¹ *Parliamentary History of England from 1066 to 1803*. Edited by Cobbett. 36 volumes.

² There were some even before this date.

³ Many of the pamphlets devoted to the Bank of England are absurd or childish from an economic point of view, but none the less they have a vivid historical interest. They are often written in dialogue form.

above all, for the imports of corn and cotton. These causes combined with others¹ produce a phenomenon also observed in several other countries and known in England as the *Autumnal Drain*.² This withdrawal of money is important. Clare³ calculates that the average rate of discount is $1\frac{1}{10}$ per cent. higher from October to March than from April to September.

II.—The Bank Rate and the Market Rate.

The Bank's policy as regards its discount rate has varied considerably. For a long time, indeed almost up to 1844, the Bank kept its rate fixed at from 4 to 5 per cent. When the market rate was high the Bank discounted, but when it was low—and it was sometimes from $1\frac{3}{4}$ to 2 per cent. lower than the Bank rate—the Bank of necessity ceased to discount, since no one was stupid enough to apply to it.

After 1844 the Bank began to compete with the other banks of discount, sometimes leading and sometimes following the market. Then by degrees its discounts, which had been very considerable,⁴ declined, and in 1878 it even made an official statement to the effect that it did not feel bound to keep to the published minimum rate.

As a matter of fact, from 1872 until the present time, the market rate has always been less than the Bank rate. Between 1845 and 1872, on the contrary, there were ten years during which it was higher.⁵ It should be observed that in the provinces the current rate is sometimes higher than the Bank rate and, strange to say, this causes discontent

¹ In particular the periodic increase in the paper currency in Scotland, which causes an immediate demand for gold from the Bank of England. For further details on this point see Palgrave, pp. 107-110.

² For the *Autumnal Drain* see Stanley Jevons, *Investigations in Currency and Finance*, pp. 160-193. This chapter in Jevons' posthumous work had appeared in June, 1866, in the *Journal of the Statistical Society*. The phenomenon had previously been pointed out and described by Mr. William Langton before the Manchester Statistical Society.

³ *Op. cit.*, p. 9.

⁴ See the whole of the Inquiry of 1848. Mr. James Morris estimated that the discounts of the Bank at this date were one half of the total discounts.

⁵ For details see the table given by Palgrave, p. 33.

among the local bankers who have their deposits at the Bank and who complain that the latter is using their own capital as a means of competing with them.

III.—Frequent Fluctuations in the English Bank Rate; Comparison with other European Banks in this respect. Effects and Explanation of this Phenomenon.

(a) The most noticeable feature about the Bank of England rate is its lack of stability and this is yet more remarkable when we compare it in this respect with the rates of the Banks of France and of Germany.

To take the period from 1875-1900¹ alone; during this interval the English Bank rate was altered 167 times, whilst only 84 changes are recorded in the German rate and only 25 in that of the Bank of France.²

Thus the average duration of the same rate is 365 days for the Bank of France, 108 days for the Bank of Germany and 54 days for the Bank of England.

If instead of taking averages the movements of the rate are examined year by year, it is found that between 1844 and 1900, *i.e.*, during 57 years, there are only two years (1851 and 1897) during which the English Bank rate was unaltered, as compared with nine in the case of Germany and twenty in the case of France.³

What is still more serious is that the fluctuations in the English Bank rate are not only very frequent, but are also very great. The Bank of England is the only bank at which

¹ Paul Loubet, Appendix E.

² The discount rate at the Bank of France was only altered 124 times during the whole of the 19th century, so that in 25 years the English rate has changed 43 times more than the French in a period four times as long. Compare Paul Loubet, p. 104. Between 1866 and 1900 the Bank of England made 400 changes in its rate, the Bank of Germany 161, the Bank of Belgium (established in 1851) 173, the Bank of Holland 173 and the Bank of France 111. See Palgrave, Tables 37, 38 and 39, pp. 196-198. The statistics given by Mr. Palgrave with regard to the fluctuations in the discount rate are exceedingly complete and full; they begin in 1844 and relate to the five banks of issue just mentioned.

³ Palgrave, p. 211, Table 43. This Table is inconsistent in some points with Table 39, given by the same author.

- BRISCOE (JOHN).** Proposals for supplying their Majesties with money on easy terms, exempting the Nobility, Gentry, etc., from taxes, enlarging the yearly estates and enriching all the subjects of the Kingdom by a National Bank. London, 3rd edition, 1696.
- BROOM (HERBERT).** Constitutional Law viewed in relation to Common Law. London, 1866.
- BRY (GEORGES).** Histoire industrielle et économique de l'Angleterre, depuis les origines jusqu'à nos jours. Paris, 1900.
- BRUNTON (SIR J.).** Bankers and Borrowers. London, 1924.
- BURNET (BISHOP OF SALISBURY).** History of his own time. 6 Vols. Oxford, Clarendon Press, 1823.
- BURTON (J. H.).** History of Scotland. 2nd edition. 8 Vols. Edinburgh, 1873.
- BUXTON (SYDNEY).** Finance and Politics: an Historical Study, 1783-1885. 2 Vols. London, 1888.
- CARLYLE (THOMAS).** Cromwell's Letters and Speeches. 5 Vols. London, 1882.
- CARY (JOHN).** An Essay towards the Settlement of the National Credit in the Kingdom of England. London, 1696.
- CANNING (RT. HON. GEORGE).** Substance of two speeches delivered on the 8th and 13th of May, 1811, on the Report of the Bullion Committee. London, 1811.
- CAUWES.** Cours d'économie politique. 3rd edition. 4 Vols. Paris, 1893.
- CHALMERS (A.).** The British Essayists. With Prefaces, Historical and Biographical. 3rd edition. London, 1817. 45 Vols.
- CHALMERS (G.).** An estimate of the comparative strength of Great Britain. 3rd edition. London, 1804.
- CHAMBERLEN (DR. HUGH).** A Bank Dialogue between Dr. Hugh Chamberlen and a Country Gentleman. London, 1695.
A brief narrative of the nature and advantages of the Land Bank, as proposed by Dr. Hugh Chamberlen. London, 1695.
A proposal by Dr. Hugh Chamberlayne, in Essex Street, for a bank of secure current-credit, to be founded upon land, in order to the general good of landed men, to the increase of the value of land, and the no less benefit of trade and commerce. London, 1695.
- CHAMBERS (R.).** Domestic Annals of Scotland. Edinburgh, 1858. (2nd edition, 3 Vols., 1859-61.)
History of the Rebellion in Scotland in 1745-1746. 2nd edition. London, 1869.

- CHILD (SIR JOSIAH).** Brief Observations concerning trade and interest of money, by J.C. London, 1668.
Sir Josiah Child, by F. Y. Edgeworth, in Palgrave's Dictionary of Political Economy. Vol. 1. London.
- CHRISTIE (W.D.)** A life of Anthony Ashley Cooper, first Earl of Shaftesbury. 2 Vols. London, 1871.
- CLARE (GEORGE).** A Money-Market Primer and Key to the Exchanges. Revised 2nd edition. London, 1914.
- CLARENDON (EDWARD HYDE, first Earl of).** History of the Rebellion and Civil Wars in England. 6 Vols. Edit., Macray. Oxford, 1888.
The Life of Edward, Earl of Clarendon, and a Continuation of the same, written by himself. 2 Vols. Oxford, 1857.
- CLARK (HYDE).** On the Debts of Sovereign and Quasi-Sovereign States. Journal of the Royal Statistical Society. Vol. XLI. London.
- COBE (A. STANLEY).** Banks' Cash Reserves. London, 1891.
Metallic Reserves and the Meeting of Parliament. London, 1892.
- COBBETT (W.).** A Collection of State Trials. 33 Vols. London, 1809-1826.
- COLLIER (J.).** Ecclesiastical History of Great Britain. 9 Vols. London, 1852.
- COLLINS (C. M.).** The History, Law, and Practice of Banking. London, 1882.
- CONANT (CH.).** A History of Modern Banks of Issue; with an account of the economic crises of the present century. 5th edition. New York, 1915.
- COPERNICUS (NICOLAS).** Traité de la Monnaie (1526). Latin text with French translation and notes, edited by L. Wolowski. Paris, 1864.
- COQ (PAUL).** La Monnaie de Banque, ou l'Espece et le Portefeuille. Paris, 1863.
- COTTON (SIR ROBERT).** A Speech touching the alteration of coin. London, 1641.
- COURCELLE-SENEUIL (J. G.).** Traité théorique et pratique des opérations de banque. 4th edition. Paris, 1864.
- COURTOIS (ALPHONSE, Fils).** Histoire de la Banque de France et des principales institutions financières de crédit depuis 1716. 2nd edition. Paris, 1881.
- COXE (W.).** Memoirs of Walpole, with original correspondence, etc. 3 Vols. London, 1798.
- CRADOCKE (FRANCIS).** An expedient for taking away all impositions and for raising a revenue without taxes by creating Banks, for the encouragement of trade. London, 1660.

