

V.—*On the Bank Charter Act of 1844.*—By S. M. Greer, Esq.

[Read May 5th, 1856.]

SINCE the passing of the Bank Restriction Act in 1797, nearly two hundred statutes have been enacted by the British Parliament, bearing wholly or partly on the subjects of Banking, Bankers, and the Currency; being an average of about three acts of parliament yearly, for a period of sixty years. This prolific legislation seems to indicate the want of any fixed and definite principle influencing the legislators during that period, in relation to these matters; and of any uniform well-matured course of action among our leading statesmen. And when we examine the comparatively limited number of their statutes which bear directly upon the regulation of the currency, we discover that they do not form a harmonious code, developing gradually a well-ordered system, founded upon sound and fixed principles, and matured by experience. On the contrary, nearly all the Currency Acts were devised to meet some pressing emergency, so that they are found to deal with only a portion of the subject, and to constitute in the aggregate a specimen of legislative patch-work rather than a consistent and uniform system.

Amid the diversities of opinion which still prevail among scientific as well as practical men, in regard to the operation and effect of the present currency laws, it may well be feared that the time has not yet come for dealing with the subject finally and conclusively, by a comprehensive measure which shall conciliate all parties, and approve itself sound and satisfactory both in theory and in practice. But the results of past legislation furnish us with most valuable materials for future use. Every new enactment may be regarded as an experiment, and we are now in a much better position for judging of the tendency and effect of these successive experiments than those by whom they were originally introduced. The merest tyro in political economy may know much about the actual working of the Bank Charter Act of 1844, which could be only matter of conjecture to Sir Robert Peel and Mr. Jones Lloyd when that act was framed. I hope I may be permitted, therefore, without any charge of presumption, to mention a few points in which it seems to require re-consideration and amendment. But before doing so, it

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twelve months! Every one of these, too, it must be remembered, represents three or four others who have fallen into the same vice; but have kept in doors, or gone home without requiring the assistance of the police; so that, although it is true that many of the 4,820 apprehensions involved the same offenders twice or thrice, or many times over, it is also true that the total number of apprehensions falls exceedingly short of the real total of drunken cases. And then, look at the ages of these degraders of their sex. How many under eighteen years of age were found drunk and disorderly? *Six hundred and fifty-four!* And of these, *twelve* were under the age of fifteen years! Add to facts startling, atrocious, and horrible like these, the further fact that of the 4,820 drunken disorderly females taken into custody during the year, *nearly one-half* were under twenty-one years of age, and what a glimpse we get into the horrors of the system still countenanced by the Christian church of this country, and which philanthropists like the Buxtons are upholding!

is necessary to indicate some of the lessons which may be learned from the previous course of legislation on the same subject.

The Bank Restriction Act (37 G. III. c. 45) passed on the 3rd May, 1797, was designed, as its preamble indicates, to meet "the unusual demands for specie that have been made upon the metropolis, in consequence of ill-founded or exaggerated alarms in different parts of the country," and to prevent the "want of a sufficient supply of cash to answer the exigencies of the public service." It therefore relieved the Bank from the necessity of paying gold in exchange for its notes, and made those notes a legal tender for the payment of all debts and liabilities throughout the country. It was intended as a mere temporary expedient; but year after year passed away, and gold was found to become scarcer instead of more abundant. The Restriction Act was therefore renewed from time to time, and it was not until the 1st May, 1821, after the lapse of twenty-four years, and nearly six years after the establishment of peace, that the Bank was again required and enabled to pay for its notes in gold at the original standard of value; and even then it was relieved for two years longer from the necessity of redeeming its notes in smaller quantities than what amounted in value to sixty ounces of gold. During this lengthened period, the Bank of England was subject to no effectual check upon the gross amount of notes which it issued; and, being tempted by the profits of discounting, to enlarge its circulation without reference to the effect of this, upon prices, or to its bearing on the interests of the public, it raised its total issue of notes from nine-and-a-half millions in 1797 to

£15,100,000	in	1802
16,900,000	,,	1807
23,400,000	,,	1812
27,300,000	,,	1817

from which amount, in 1822, after the resumption of cash payments, its gross circulation came down to £18,600,000. And if we deduct from the gross amount of notes the quantity of bullion in the Bank at the several periods above-mentioned, setting apart a portion of the bullion equal to one-third of the deposits lodged in the Bank at those periods respectively, according to the table arranged by Dr. Hancock, (page 262, *supra*) we shall find the notes then in circulation, *unrepresented* by an equivalent value of gold in the Bank, or what Dr. Hancock terms the *effective* circulation, to amount to

£13,200,000	in	1802
14,700,000	,,	1807
23,400,000	,,	1812
21,300,000	,,	1817

while in 1822 this *unrepresented* circulation of notes had fallen to £9,100,000.

This enormous increase of the circulating medium may have been rendered necessary, in part, by the stimulus given to various branches of trade and manufacture by the war. But such needful increase was far exceeded, and consequently the paper currency

became greatly depreciated, in comparison with the gold which still remained in circulation. The full extent of this depreciation it is impossible to ascertain; it varied moreover at different times. But some record of it has been preserved and published by Mr. M'Cullagh, shewing a continued depreciation, from 1801 till 1820, inclusive, varying from two to twenty-five per cent., and averaging nearly eight per cent. for those twenty years. During all that time, therefore, every debt or pecuniary obligation which had been contracted before the depreciation of the currency, and was then discharged in Bank of England notes, involved a direct loss to the receiver, and a gain to the payer, of about eight per cent. on an average. In this way annuitants and persons living on fixed incomes, fund-holders, landlords, mortgagees, and many other classes suffered to an extent which it would be difficult to estimate, but which must have amounted to many millions every year, and which in the aggregate may have greatly exceeded one hundred millions. And all, or nearly all this grievous social injustice, enriching one class at the expense of another, was occasioned by the Bank Restriction Act, and would have been prevented if other means had been devised in 1797 to check the drain of gold, and save the credit of the Bank, or even to restore cash payments within a few years afterwards.

The depreciation of Bank of England notes seems to have reached its maximum in 1814, at the close of the war, when it amounted to twenty-five per cent. It must have required vigorous and active measures on the part of the Bank to raise the value of the notes, as appears to have been done, from that enormous depreciation to a depreciation of only two per cent. in 1817, three years after. The secret of this operation consisted in raising the amount of bullion in the Bank from £2,200,000 to £9,600,000, an amount which emboldened the Bank, in the months of April and September in that year, to undertake the payment in gold in the one case, of all its small notes dated prior to 1st June, 1816, and in the other case, of all its notes of every description dated prior to 1st January, 1817. But these attempts to return to cash payments proved abortive; and it was only by virtue of the statute 59 G. III., c. 49, passed on the 2nd July, 1819, that cash payments were finally resumed. And even this act recognised and regulated the existing depreciation of the bank notes, requiring them to be redeemed in certain prescribed quantities, with gold valued at £4 1s. per ounce, from 1st February till 1st October, 1820; and valued at £3 19s. 6d. per ounce from 1st October, 1820, till 1st May, 1821; after which date the gold was to be reckoned at its standard value of £3 17s. 10½d. per ounce, and paid out accordingly.

Now, the effect of this resumption of cash payments in 1821, without any legislative adjustment of the contracts entered into under a depreciated currency, was equally injurious to private interests as the Bank Restriction Act had been, though operating in a different direction. In the former case, annuitants, fund-holders, landlords, mortgagees, and similar classes received less than they were entitled to. But in the latter case, where their titles commenced under the depreciated currency, they obtained,

after the resumption of cash payments, a much larger amount in value than they were entitled to, although paid the same nominal sum. Nor did this injustice in any degree balance or correct the former, as it took effect entirely upon new classes of sufferers, in regard to transactions that had originated between 1797 and 1821. A very large proportion of the injustice inflicted by the resumption of cash payments was thrown upon the tax-payers of the country, who were compelled to pay interest in a convertible currency for some four hundred millions of the public debt contracted in a depreciated currency.

Now, if we are to estimate the injustice done by the enhancement in value of the currency in 1821, as equal in amount to what was caused by its depreciation in 1797, we have here a double illustration, upon an enormous scale, of the evils that must necessarily arise from the fluctuations of the standard of value, whether upwards or downwards in the scale; and an example of the mischief that may be occasioned by legislating for an emergency, or in view of some special objects to be gained, without taking the whole subject into account in all its bearings. Nothing can establish more conclusively the extreme danger of tampering in the slightest degree with the accredited standard of value; and as a result of the experience which we have derived from these legislative measures, I would lay it down as the first grand leading principle in regard to the currency, that the standard of value should, above all things, be preserved free from fluctuation; and for this purpose, that the precious metals, which have their value fully recognized by all civilized nations, should hold their place, as at present, in our currency, being less liable to fluctuation in value than any other circulating medium.

The next great era in our banking laws is the year 1826, in which two important acts were passed, whose influence is still deeply felt in every department of our monetary system. The year 1825 had been signalized by an extraordinary degree of over-trading and speculation. A terrible commercial crisis ensued, in which multitudes were ruined. Throughout the whole of Great Britain the private banks especially suffered; a very large proportion of them failed, and spread ruin and distress more widely around them. This disastrous commercial crisis, which continued during part of the year 1826, was ascribed, whether rightly or wrongly, to the over-issues of the banks, both public and private; and particularly to the facilities for such over-issues that were afforded by the circulation of small notes which then prevailed in England. Accordingly, to cut off this supposed source of danger to the banking and commercial classes, the statute, 7 Geo. IV., c. 6, was passed on the 22nd March, 1826, "to limit, and, after a certain period, to prohibit, the issuing of promissory notes, under a limited sum, in England."

The result of this act was to withdraw by degrees all the bank notes under £5 which were then circulating in England, and to substitute in their place a corresponding amount of metallic currency to meet all the variety of small payments which are continually required, between *twenty shillings and five pounds*. It is diffi-

cult to estimate the amount of gold required to replace these small notes in England, but it probably ranged between £20,000,000 and £30,000,000; and this immense sum had to be provided out of the capital of the country, to be absorbed into the circulation, without making any return. After thirty years' experience of the working of this act, we may be allowed to doubt whether it has not produced more evil than good. It did not suffice to prevent the commercial crisis of 1837, nor that of 1839, or of 1847; and ever since its enactment, the people of Ireland and of Scotland have been enjoying the accommodation of a small note circulation, without being so deeply involved in over-trading and over-speculation as their fellow-citizens in England. It is to be feared, therefore, that the small notes in England were made the scape-goat for evils that might more justly have been ascribed to some other cause.

The second act of 1826, to which I referred, is the 7th Geo. IV., c. 46, passed on the 26th May, "for the better regulating of co-partnerships of certain banks in England; and for amending part of 33 and 40 Geo. III. c. 28."

By the act, 39 and 40 Geo. III., c. 28, the Bank of England had secured, as one of the conditions for advancing £30,000,000 to the Government on loan for the public service, the continuance of an old prohibition, originated in 1708, against carrying on the business of banking in England, save by itself and by co-partnerships of not more than six partners. This prohibition had acted most injuriously upon the trading and mercantile interests of the community; for while it did not put an end to private banking, it had thrown it exclusively into the hands of small firms possessed of local influence, but without sufficient capital to deserve the confidence of the public, or ensure the stability of their banks. Most of these private banks were unable to maintain their ground in the violent re-action in regard to prices and commercial credit which prevailed from 1814 till 1816, after the conclusion of the war; and of those that were able to survive that trying crisis, a large proportion yielded to the pressure and the panic of 1825, and were ruined. Some part of the mischief caused by that dreadful panic was naturally and properly ascribed to the instability of these private banks. The Bank of England was therefore compelled, in 1826, to relinquish its monopoly, save in London and within sixty-five miles of it; and in all parts of England outside this circle, co-partnerships for banking were permitted by this statute to be established, consisting of more than six partners, provided the names and addresses of all the partners, and of two public officers to represent each firm, were duly registered at the Stamp Office. A similar act was soon after passed for Ireland; and since that period a considerable number of Joint-stock Banks have been established in Great Britain and Ireland, supported by numerous and wealthy shareholders, and carrying on a steady and flourishing trade. A few of these Joint-stock Banks have failed, on account of the fraud or misconduct of their founders or managers. But in no instance that I am aware of, did the note-holders eventually lose any part of their claim. The fact, therefore, that Joint-stock Banks, with registered proprietors of known character and solvency, may be safely allow

ed to conduct banking business and to issue bank notes, may be regarded as one of the lessons which we have learned during the last thirty years.

And now, having cleared the way by this historical retrospect, we are the better prepared for considering the present Bank Charter Act, 7 and 8 Vic., c. 32, passed on the 19th July, 1844. If the measures of 1826 were expected to prevent all future monetary or commercial embarrassments, they were signally unsuccessful. In 1837, and again in 1839, there was very severe pressure upon the mercantile classes, and much consequent distress, although no small notes were then in circulation, and comparatively few private banks remained to occasion doubt or panic as to the security of their issues. On both of those occasions there had been a continual drain upon the banks for gold; so that if gold, equal in value to one-third of the deposits then in bank, had been set apart on those two occasions to meet such deposits, there would only have remained in the coffers of the Bank, in 1837, the sum of £700,000 to meet a total issue of £18,100,000; and in 1839, a balance of £300,000 to meet a circulation of £17,900,000 in notes; while the reserve of gold for deposits would have been on the former occasion £3,300,000, and on the latter, £2,100,000. This state of affairs was sufficiently alarming; and if a salutary lesson had not been learned by all classes from the Bank Restriction Act of 1797, the Parliament would most probably have been loudly invoked to interpose once more between the Bank and its note-holders. By efforts, however, which were active and energetic, if not sufficiently prompt, these dangers were at length avoided, and the Bank once more regained its command of the bullion market. But the danger of a temporary insolvency, to which it had been exposed, had excited the utmost apprehension among some leading statesmen and economists; and the act of 1844, introduced by Sir R. Peel, to continue the charter of the Bank, was intended to guard most effectually against all such dangers in future. For this purpose, the issue department of the Bank of England was wholly separated from the banking department; and in order to secure an effectual control over all future issues of bank notes, the Bank Charter Act restricted the circulation of all then existing banks in Great Britain and Ireland, other than the Bank of England, to the average amount of their circulation for the *twelve weeks* immediately preceding the 27th April, 1844; while it limited the issue by the Bank of England, of notes unrepresented by an equivalent amount of gold, to £14,000,000. It then prohibited the establishment of any new banks of issue, and provided for the transfer, under certain circumstances, to the Bank of England of the right to issue unrepresented notes, thereby secured to existing banks. In this way it established, *in the first place*, a *minimum* beyond which the issue of unrepresented notes as distinguished from bullion, circulating within the United Kingdom, should never, under any circumstances, extend. In the second place, it created a monopoly of the privilege of issuing notes, in favour of the existing banks; and in these two points I take the liberty of disputing the soundness of its principles, and the

sufficiency of its provisions to secure adequate accommodation for the commercial wants of the country.

1. With regard to the policy of this act in restricting the issues of unrepresented notes, that is, notes for which the bank does not retain in its coffers an equivalent of the precious metals, I would venture to lay it down as a general principle, that, so long as the convertibility of bank-notes for their equivalent in gold can be maintained, the larger the proportion of bank-notes that can be kept in circulation, and the smaller the proportion of gold, it is so much the better for the country; for besides the loss of interest upon the gold so employed, the loss by tax, and war, and other casualties, is reckoned by Mr. M'Culloch at  $\frac{1}{4}$  per cent. per annum. The advocates of the Bank Charter Act are bound, therefore, to demonstrate that, keeping in view the convertibility of bank-notes, no greater quantity of them could be safely issued than that act permits.

Now, to take the Bank of England first, its unrepresented circulation is fixed at £14,000,000, either because that is pretty nearly the amount of that part of its capital which has been lent to the nation, or because it nearly coincides with the amount of unrepresented Bank of England notes in circulation for the previous twenty years on an average. But during that period these notes frequently circulated to the extent of £15,000,000, or £16,000,000, when there was no special or dangerous drain of bullion; and if at such times the issue had been restricted to £14,000,000, there would have been a very severe and unnecessary pressure exercised upon the industrial resources of the country; and much distress and suffering would have been occasioned, which were avoided as the law then stood. During thirteen out of these twenty years the average unrepresented issue exceeded £14,000,000. Therefore, to take the *average*, and at once constitute it the *maximum* of unrepresented bank-notes, is to insure that for at least half time the ordinary amount of banking accommodation shall be withheld. If it had been merely intended by the act to prevent any increase in the issue of unrepresented notes, such a maximum should have been assumed as, with the ordinary fluctuations of business, would have permitted £14,000,000 to remain the average; whereas, when that sum is made the maximum, the average, if there be any fluctuation at all, must be lower. But keeping up a circulation equal to the average amount of the previous twenty years would not have fully met the necessity of the case, for the amount of circulation required in any country depends upon the population of the country, and the quantity of business to be transacted on an average for each individual. Now in Great Britain the population has been steadily increasing. It has risen from 14,402,643 in 1821, to 16,813,786 in 1841, and 21,121,967 in 1851. Therefore the circulation which was sufficient in 1821 would not, *cæteris paribus*, afford equal accommodation to the community in 1851. And besides this, there have been amazing advances made by the nation within the last thirty or forty years in the industrial arts, which would require an increased currency to keep pace with the same amount of population. For all these reasons I am persuaded that an unrepresented circulation

of £14,000,000 was too limited an amount for the legislature to assign to the Bank of England in 1844, during the term of its renewed charter.

But then, it is said by the advocates of this act, that the currency is not necessarily restricted to the amount of unrepresented notes. When the wants of the country require an addition to the currency, our merchants have only to import an additional amount of bullion, and let that be put into circulation, either in the shape of coin, or by bullion notes, which the bank can issue as well before as after it has reached the limit of £14,000,000 of unrepresented notes, on account of, and to the extent of, any additional bullion which it may receive and retain. No doubt this operation is always open to our merchants and bankers; but it has been admitted to be a fair and reasonable provision for a banker's liabilities if he take care to be always supplied with gold equal to one-third of his notes in circulation, and of the deposits intrusted to him. If he were required by law to have gold in reserve equal to the full amount of his issues and deposits, he could not do it; he would have no profit by his banking. It would be an oppressive and an intolerable law. And yet this is no more than what is done by this act, when the exigencies of trade require a circulation above the limit which it has fixed, and fixed as we have seen below what was required to meet the ordinary wants of the population even in 1844. For, instead of requiring a sovereign to be provided and kept in store for every three pounds that are put in circulation, it makes it necessary to have a sovereign provided for every pound that is put into circulation. And it sounds very like mockery, when the bullionists remind those who want merely their ordinary discounts to meet the ordinary exigencies of trade, that there is gold in Australia, or somewhere else equally out of their reach. The practical effect of this act has been found to be to raise discounts, and give a fictitious value to money, and to impose great and sometimes insuperable difficulties upon manufacturers and merchants of undoubted solvency in the transaction of their business. It creates too great a difference between the ordinary healthful operations of banking, and those which are required when some departments of business have been stimulated into more than usual activity. The act would not have been so objectionable on this ground, if it had authorized the bank, after its issue of unrepresented notes had reached £14,000,000, to extend its issues to the further limit of £18,000,000, requiring that the additional £4,000,000 or some portion of it should be represented in the coffers of the bank by one-half its value in gold; or if, without requiring any bullion, it had imposed on the issue of the first £2,000,000 of this extra supply of notes, a tax of one per cent. per annum for the benefit of the state, and two per cent. on the second £2,000,000. Either of these provisions would have imposed a timely check upon any speculation, or dangerous operations, or over-trading; whilst it would have imposed far less difficulty upon fair and legitimate trade than the present law throws upon it. As a sample of those difficulties, take the facts described in the following extract of a letter from a Manchester house declining a large order for goods in 1847:—



“No purchases can be made except for hard cash; universal distrust prevails. . . Although there are numerous orders in town from America, Greece, and other countries, and although manufacturers are holding large stocks at an enormous sacrifice, and are obliged to stop their works, and throw their hands out of employment, they prefer to do so rather than sell for bills which they cannot discount.”

Such, then, is the working of this highly-extolled statute. It makes the Bank a mere machine for curtailing the circulation, and will not allow it to discriminate between the safest and most necessary transactions, and those which are purely speculative and dangerous. It must refuse accommodation to all alike, and therefore it locks up capital, and makes the industrious idle, because trade cannot, at a moment's warning, cut out a new channel for itself, and pay in hard cash instead of the usual medium of bills of exchange.

There is no doubt but when there is a drain of gold from the Bank, whether to pay for an unusual supply of foreign corn, or for any other cause foreign or domestic, it is necessary for the Bank, in order to secure the convertibility of its notes, to retain a sufficient stock of bullion to raise its discounts, and to be more discriminating than usual in the selection of its bills for discount. But when a stop is suddenly put to all discounts, or when from three or four per cent. the interest is rapidly raised to six, seven, or eight per cent. an end is put to much of the fair legitimate business of the kingdom, many of the poor are thrown out of employment, and a heavy tax is at once imposed upon all commercial transactions, so far as these are represented by bills of exchange,—a tax which does not find its way into the coffers of the state, but into the pockets of bankers and money-lenders. It has been computed by Mr. Newmarch, of the London Statistical Society, as may be seen in that society's Journal for May, 1851, that there are at all times bills under discount in Great Britain, amounting on an average to £100,000,000. Now the difference in the discount of such an immense amount of securities for a single year, occasioned by a monetary crisis raising the rates of discount from three and four per cent. to seven and eight per cent. respectively, would amount to no less than £4,000,000. But this is not all; for anything which enhances the value of the circulating medium affects all the transactions of society, of which it would be almost impossible to form an accurate estimate. Let us suppose, however, that there are at present in Great Britain and Ireland 29,000,000 individuals, allowing for some increase since the census of 1851. If each of these individuals, young and old, rich and poor, consume, on an average, £25 worth of commodities during twelve months, for food, clothing, and other requisites; and if each of these commodities should have been the subject on an average of four distinct transactions between the original producer and the consumer, the mercantile transactions represented by each unit of the population would amount to £100 in a single year; and consequently the transactions of the entire population would rise to the enormous aggregate of £2,900,000,000, or nearly £8,000,000 for every day.

This rough calculation makes no pretensions to exactness or accuracy; but it may shew how extensively everything that affects

the currency acts upon every class of society, and how dangerous it is to tamper with the currency, or in any way to change even for a short period the standard of value or the rate of discount. For it is unquestionable that such a sudden restriction upon the amount of the circulating medium, as renders it inadequate for the time to subservise all the purposes of social and commercial intercourse by raising the rate of discount, enhances the value of what is permitted to circulate, and thus virtually, though not nominally, raises the standard of value. So far as this may be occasionally necessary to regulate the exchanges, and prevent the inordinate exportation of gold, it is not only salutary but indispensable. There ought not, however, to be a sudden break, such as the act of 1844 occasions in the working of our monetary system. It should be made more elastic in its operations, so as to work up to the required point which will act upon our foreign exchanges by a gentle and gradual process, and not by a sudden and violent strain.

The present system seems to have been devised with a special view to regulating the supplies of bullion, and without sufficient regard to its effects upon the internal economy of the empire. If we are to draw any special lesson from its tendency and effects, as we have done in regard to the other currency acts, I think we would be justified in saying that it is essentially a bankers' act, and has postponed the interests of all other classes to those of the bankers and bullion merchants.\*

“In regard to the restriction of the circulation by the act of 1844, in as far as this applies to private and joint-stock banks, whose aggregate average circulation in England amounted then to nearly £8,000,000, there is this anomaly, that whereas the Bank of England was known to have an available capital of nearly £18,000,000, while its issues of unrepresented notes were limited to £14,000,000, these other banks were authorized to issue their £8,000,000 without any guarantee or security that they had either gold or capital of any kind to meet their issues. Then the principle of an average circulation was applied to these banks, and to an average including only the spring months of 1844, which may in many cases have been exceedingly unequal and unjust to these banks and to their customers, for the reasons already given in reference to the Bank of England. There seems to be this further anomaly in regard to the English private and joint-stock banks, as compared with those of Ireland, that the latter have the right, like the Bank of England, of increasing their issues beyond the statutable average upon the security of bullion or coin, to the full extent of those extra issues in their respective coffers, while the English banks are deprived of this privilege.

With regard to the discounting operations of the private and joint-stock banks, as well as those of the Bank of England, there are several classes of transactions which they have it in their power to discourage, and in many cases to prevent,—transactions which

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\* In proof of what is here advanced, I may refer to the reports published since this paragraph was written, of the enormous profits of some of our Irish joint-stock banks during the past year, one of them having realized a profit of nearly twenty per cent. on its paid-up capital, and another of about eleven or twelve.

are dangerous to the healthful operations of commerce, and frequently disastrous to those who are concerned either as principals or accessories. I refer to speculations and over-trading outside the course of ordinary business. Very low discounts, when money is abundant, frequently lead to unsafe investments and idle speculations, which are dangerous to the safe and steady progress of trade, commerce, and manufactures. Sometimes even the Bank of England presents temptations to such unsafe and hazardous undertakings. Soon after the passing of the act of 1844, and before the end of that year, the Bank of England was discounting bills at two per cent., and even as low as one and three-fourths. Now, when it becomes necessary to raise discounts in order to check the over-trading which very low discounts have a tendency to encourage, and to prevent the exportation of gold which is required at home or for other protective purposes, it would be much less injurious to the public interests to refuse accommodation or encouragement to parties that are known to be engaged in doubtful and dangerous speculations, rather than permit the crisis to attain such magnitude that accommodation must be refused to all alike, and multitudes must necessarily be ruined.

II. The second great objection which I make to the Bank Charter Act is, that it has established a monopoly of the issuing of bank-notes in the hands of the banks that existed when that act was passed. If my previous position be well established, that the maximum circulation authorised by that act must often fall short of the wants of the country, the circulating medium will necessarily on such occasions become considerably enhanced in value, to the great profit of those who enjoy the exclusive right of supplying it to the public, while a corresponding loss is sustained by those to whom it is supplied. If, as a matter of state policy, it was resolved by the legislature of the country that any parties should thenceforth be invested with the exclusive right of circulating paper money, to be used for the time instead of current coin, I submit that a fair portion of the profits of their protected issues should have been reserved to the public in return for so valuable a privilege.

But not to dwell on this point, the great and avowed object of this Bank Charter Act was to give to the Bank of England a control over the circulation; so that, by limiting its accommodation, and raising its rates of discount a considerable time before it had attained the maximum of its unrepresented issue, it should always be able to check the exportation of gold, and turn the foreign exchanges in our favour. Now, by permitting other English banks to share with the Bank of England in this privilege of issuing notes to the extent, say of eight out of twenty-two millions, or more than one-third the circulation of unrepresented notes, that Bank is virtually deprived of the control which it was intended to exercise over the circulation; since the country banks may be, and in point of fact are, found to be increasing their issues and pushing their circulation, when the Bank of England deems it necessary to restrict its issues.

If, therefore, it was deemed a paramount object to secure unity of purpose and action in dealing with the circulation, the legisla-

ture should at once have made arrangements for investing the Bank of England or some other national institution with the exclusive power of issuing bank-notes, either immediately, or by permitting it gradually to absorb, within a given time, the issues of the other banks. In this way the proposed object could have been effectually and gradually attained, without deranging the affairs of the existing banks and of their customers. There would then have been no conflicting banks of issue, seeking to encroach on each other's fields of operation, and playing at cross-purposes with each other; one endeavouring to contract, while another was trying to extend the circulation.

But if the professed object of the Act of 1844 could have been more effectually accomplished in the way above suggested, the establishment of one gigantic institution, invested with exclusive and unchallenged control over the monetary affairs of the empire, might have proved dangerous to the welfare of the country, if not fatal to its liberties. Whether immediately under the control of the government for the time being, or having a *quasi* independent position, it would be almost impossible to prevent such an institution from being used for private or political purposes of a most dangerous character. About twenty years ago, the Bank of the United States of America, which was intrusted with the Treasury balances, but had no exclusive right of issue, was found to be using its extensive power and influence for political and party purposes. Its intrigues, however, enabled it to carry through both Congress and Senate a bill for renewing its special privileges as the Bank of Government Deposit. But the President, General Jackson, firmly resisted all its influences and baffled its intrigues, and finally vetoed the bill for renewing its charter. And what was the result? Within four or five years it was proved to be hopelessly insolvent, having wasted its capital in propping up its exclusive privileges, and in speculative advances on cotton and other commodities which were not immediately available in the English market, to accommodate its political partizans. And thus were justified the foresight and sagacity of General Jackson, in refusing to sanction or perpetuate powers which had been grossly abused, and had become dangerous to the liberties and rights of the community.

Even the Bank of England, though exercising no direct political influence, has frequently used its power for its own enrichment and aggrandizement at the expense of the nation. So early as 1708 it had influence enough to obtain a prohibition against the establishment in England of any other bank besides itself, with more than six partners. This restriction continued in force till 1826, and prevented, till that date, the establishment in England of a sound and healthy system of Joint-Stock Banks. The Bank of Ireland, like her English sister, obtained a qualified monopoly, and employed it for similar purposes. Again, in 1826, when it was found impossible to retain for the Bank of England this privilege in all its integrity, there was still influence enough to secure it for a circuit of sixty-five miles from London, while the Bank of Ireland secured a similar monopoly for a circuit of fifty miles from Dublin. Then, in regard to the issuing of its unrepresented notes, the Bank has managed

its negotiations so well, that it is authorised to issue such notes to the full extent of £14,000,000 and to enjoy the full benefit of them; and instead of sharing these profits with the public, it has secured a considerable annuity besides, for its trouble and expense in managing the public debt, keeping its accounts, and paying the half-yearly dividends. Its notes have also been freed of stamp duty, or composition for it, which other banks are obliged to pay.

For all these reasons I have serious misgivings about the policy of committing so important and responsible a trust to the judgment, discretion, and integrity of any single board, however respectable. We have already seen that the Bank of England has sometimes been found to act indiscreetly in exercising the powers with which it is at present invested. In the year 1844, as already stated, it entered into competition with the ordinary banks, and discounted bills at the exceedingly low rate of  $1\frac{3}{4}$  and 2 per cent. per annum, and thereby encouraged the mania for railway speculation, which soon after spread like an epidemic over the country, carrying ruin and desolation into thousands of families. And when, in 1847, the reaction produced by this fever of speculation came on, grievously aggravated by the drain of gold required to supplement, by foreign corn, the deficiencies of two successive harvests, and the utter failure of the potato crop, then the Bank Directors took fright, according to one of their own advocates; and instead of using their newly acquired rights to pilot the country safely through the dangerous crisis in which it was involved, abdicated their authority, and forced upon the Government the alternative of interfering by a vigorous stretch of arbitrary power to shield both them and the country from shipwreck, in their own chosen harbour of refuge.

If the suspension of the Bank Charter Act in 1847, by an Order in Council, was really a mistake—"a weak measure, a dangerous precedent"—what are we to think of the Bank Directors who urged this measure on the Government, and of their competency to regulate the monetary affairs of the empire? If, on the other hand, as the result seems to prove, it was a judicious and salutary stretch of authority, what becomes of the wisdom and policy of an Act that required to be suspended in the fourth year of its existence? We leave it to the apologists of the Act to choose either horn of the dilemma.

Having condemned the principle of conferring a monopoly of the right of issuing bank notes upon any single bank or board, and having also condemned the system which has now been in operation for twelve years, and which manifestly aims at such a monopoly as its ultimate object, I am compelled to advocate the opposite alternative of free trade in banking, with such restrictions and modifications as experience has proved to be necessary for the security of the public. At present it is impossible for me to enter into a full statement of my views on that part of the subject. But I may be allowed to say that I altogether repudiate the unrestricted latitude which is said to prevail in some at least of the United States of America. Sufficient securities should be taken in every case to protect the note-holders from all risk; periodical returns should be required of the issues of each bank, and the strictest vigilance exercised to protect the public from fraud and imposition; and with the ad-

mittedly excellent and perfectly safe joint-stock banking system which prevails throughout the whole of Scotland, and throughout at least the North of Ireland, to serve as an example, I believe that a far more convenient, suitable, and satisfactory system of banking could speedily be established by private enterprise, than can ever be set up and regulated by arbitrary authority and unending rules. We require a system which will accommodate itself to the wants of the country—which will meet any extraordinary exigency by a corresponding effort, accelerating the circulation, or adding to its amount, as there may be a necessity for it, just as the circulation of the blood is safely and naturally stimulated by the muscular effort required for ascending a hill. Whereas the present system, like the unyielding routine which has been so fatally exemplified in the Crimea, loads the adventurous climber with its heaviest weights; equips him in heavy marching order, with knapsack and other similar aids to enable him to surmount his difficult ascent; and then, to prevent any undue or dangerous muscular development, it fits on with great care a girdle, or strait-waistcoat, nicely adjusted to the *average* circumference of the body, instead of allowing free scope and action to the chest, when circumstances require more than average exertion.

In ordinary times, it would be impossible for the banks, under a system of free trade, unduly to extend the circulation, as men will not be foolish enough to pay interest for money which they do not require. And when we did enjoy free trade in banking, although most of the private English banks were unsafe and insecure, owing to the Bank of England monopoly, it has not been proved that the crisis of 1825, or that of 1837, was brought about by any want of judgment or discretion in the private banks. That of 1825 was ascribed to the issue of small notes. But Ireland and Scotland enjoyed small notes with impunity. The crises of 1837 and 1839 were ascribed to over-trading and over-issues generally; but we had the crisis of 1847 after our banking system was restricted, and fairly put into the strait-jacket. And if we had not a monetary crisis in 1855, we had something only a single shade less disastrous—a rate of discounts which pressed with ruinous effect upon the industrial energies and resources of the country.

It is a mistake, then, to suppose that the Bank Charter Act has been a successful measure, and that it has relieved us from the periodical fluctuations and commercial difficulties to which we were previously exposed. If the mercantile community were polled, I believe the prevailing sentiment would be, that it has grievously aggravated these difficulties—that it was designed mainly to give the Bank the command of the bullion market, and not to foster or cherish the fair, legitimate trade of the country, and that it has made matters worse than it found them. If this be the general feeling among intelligent and well-informed men of business—men whose opinions would be deemed valuable on any question of administrative reform—the Bank Charter Act, which was only enacted for a limited time, and is now open to modification or repeal, will very speedily be brought before Parliament for reconsideration. And if so, I cannot but hope that it will be so amended

as to press less severely on the trade and commerce of the country, when a more gradual and elastic pressure would serve every useful purpose still more effectually, without inflicting needless injury on any class or individual.

Viewed in a strictly scientific light, this Act has also been a failure, for it has not served "to make the effective (or unrepresented) issue of paper constant," as it was designed to do (see Dr. Hancock's paper, p. 267, *supra*). I subjoin a table\* with which Mr. Cairnes has kindly furnished me, of the state of the issues of the Bank of England from 1844 till 1855 inclusive, from which it appears that the unrepresented (or effective) issue under an Act which was to render that issue constant, has actually varied from 15.5 millions in 1846, to 9 millions in 1850—that is, about 42 per cent. of the larger sum. Nor does this proportion mark the full amount of fluctuation; for it appears that in October, 1847, the unrepresented issue had reached 17.6 millions, while in June, 1852, it had fallen to 7.6 millions, showing a reduction of nearly 57 per cent. upon the *maximum* of these eleven years. Whereas, when we turn to the record of the unrepresented (or effective) issues of the Bank of England during the corresponding period of eleven years before the passing of the Bank Charter Act, we find that the extreme fluctuation ranged from 17.6 millions, in August, 1839, to 12.1 millions in February, 1838, or little more than 30 per cent., although the severe commercial crises of 1837 and 1839 took place during that period.

## \* BANK OF ENGLAND.

Years.	Unrepresented (or effective) Issue. (1)	Bullion held against Issue. (2)	Total Issue. (3)	Total Bullion. (4)	Bullion held against Deposits. (5)
	Millions.	Millions.	Millions.	Millions.	Millions.
Sept. 1844	10.1	11.1	21.2	15.1	4
March. 1845	10.5	10.2	20.7	16.2	6
1846	15.5	5.4	20.9	13.7	8.3
1847	13.2	6.7	19.9	11.2	5.5
1848	12.7	6.5	19.2	13.8	5.3
1849	9.4	9.8	19.2	15.2	5.4
1850	9	11.1	20.1	17	5.9
1851	11.6	8.7	20.3	14.5	5.8
1852	9	12	21.4	18.5	6
1853	11.4	12.6	24	19.2	6.6
1854	12.4	10.4	22.8	15.9	5.5