

of interest while this mass of new gold was getting into circulation, and before the prices of commodities had been adjusted to it; but after these prices, as measured in gold, had found their permanent level, the rates of interest would cease to be influenced by the change.

VI.—*Banking Reserves and Currency Reform.* By Professor C. F. Bastable.

[Read Tuesday, 2nd June, 1891.]

THE best test of the merits of a monetary or credit system is the fact that its operations attract no notice. As long as all goes well, people in general are quite content with efficient practical working, and, very wisely, do not trouble themselves with theoretical anomalies or defects. Unfortunately what is at one time a matter of purely speculative interest may at another affect the conditions of national prosperity, and become of grave practical moment.

That the English credit system has recently approached this latter position is, I imagine, not likely to be questioned. When a minister, remarkable for his acquaintance with economic and financial principles, and placed by his position under special responsibility for the views that he sets forth, gives so unmistakeable a warning as that contained in Mr. Goschen's Leeds speech, we need seek for no further opinions as to the seriousness of the situation. Entirely apart from the weight of authority, there is little trouble in showing that what may be called the "natural" course of commercial development has brought the credit system to a highly delicate and easily-disturbed state.

The present difficulty is simply due to the passage of banking into a new stage, which existing legislation never contemplated, and with regard to which its provisions are of questionable service. On looking over the old and well-nigh endless controversies about currency and banking, the enquirer is struck by the fact that they are almost entirely devoted to the function of note issue. "Should small notes be prohibited?" "Could convertible paper money be issued to excess?" "What precautions should be taken to secure the holders of bank notes?" Such were the questions that were discussed and re-discussed in the first half of this century, and it is with them that the legislation of 1844 and 1845 is concerned.

In the last forty years bank deposits have put the older notes in the background; adequate guarantees of the note issues is still essential; but, for the purposes of commercial stability, a failure on the part of a bank to meet its deposits is just as dangerous as incapacity to pay its notes. We may hesitate to accept the views of some distinguished economists who treat deposits as currency;* but

* See Sidgwick, *Principles of Political Economy*, Book II., chap. iv., sec. 3. Dunbar, "Deposits as Currency."—*Quarterly Journal of Economics*, July, 1887, pp. 401, seq.

there is no doubt that they are a form of credit of the greatest service in facilitating exchanges. Mistakes in dealing with this part of the credit system are as certain to bring disaster as in the case of notes, and yet there are no such safeguards as the Bank Charter Act has been thought to provide in the latter instance.

The note circulation, when compared with the mass of deposits, seems quite insignificant. In December, 1890, the active circulation was about $41\frac{1}{2}$ millions; the deposits were, on a moderate calculation, between 600 and 620 millions, or fifteen times as large. Moreover, the note issues are, speaking broadly, stationary, while the deposits are growing steadily. Mr. Goschen has made the *Economist* figures familiar, which estimate the increase between July, 1880, and July, 1890, at about 130 millions, or from 470 millions to 600 millions; but a more detailed examination of the figures at different periods puts the fact in a still clearer light (see table).

TABLE.—000,000 omitted.

	Years.	Notes in circulation.	
	1845	39.7	
	1855	37.1	
	1865	38.7	
	1875	46.6	
	1885	40.2	
	1890	41.5	
BANK DEPOSITS.			
Years.	Ireland.	Scotland.	England, Joint-stock Banks.
1845	8.3	33.2	—
1855	12.2	43.2	—
1865	18.6	56.1	—
1875	31.8	78.4	—
1880	—	—	210.5
1885	29.2	83.0	284.0
1890	37.8	88.2	356.9

In 1873 the estimated deposits of the banks of the United Kingdom were 486 millions. On the same basis of calculation the present liabilities would exceed 800 millions.

The enormous comparative growth of deposits is altogether unrecognised by legislation. The theory on which the existing acts are based is that commercial crises are the results of over issue of notes. They therefore provide that beyond the legal limits of about $30\frac{1}{2}$ millions no notes can be issued except against an equal amount of gold. But the vastly larger mass of deposits is all equally payable in gold, and for its security there is no special provision. It may, indeed, be said that the secret of the success of deposit banking lies in its freedom from control; if so, there is no valid reason for the

restrictions on note issues ; while, on the other hand, if those restrictions are justified on the grounds of public policy, it is plain that the same reason may make the regulation of deposits desirable.

The history of banking supports this view. The legislation as to notes was the natural result of the mismanagement of its reserve by the Bank of England, and whatever success it has attained is due to the higher standard of diligence that it has forced on the directors in regard to the maintenance of a sufficient store of gold. In its new position the banking system is likely to suffer from the same cause. Many competent observers have, during the last twenty years, drawn attention to the weak foundation on which the whole edifice of English credit is erected.* In hour of need the ultimate resource is the reserve of the Bank of England. There is no other store of the standard metal, which alone is legal tender. At the end of 1890 that reserve (increased by the loans obtained from abroad) was only £22,740,000. The provincial, Irish, and Scotch banks possess some millions of gold ; but in times of pressure they are dependent on London, and London depends on the Bank of England. But of the small store (*i.e.*, comparatively to the possible demands on it) of less than 23 millions, over 8½ millions, or more than one-third, were marked off by law as necessary for the security of the notes, leaving barely 14 millions for all demands connected with deposits. Nor is the metallic reserve increasing in proportion to the growth of liabilities. In 1880 it was £24,200,000, or nearly 1½ millions larger than in 1890. The general result, therefore, is that the present system of credit rests on an insecure basis, and unless modified in some way, is exposed to serious risks. The only open question is the nature of the remedy to be applied, and, in regard to it, the main condition requisite is to bring about an increase in the ultimate metallic reserve, while interfering as little as possible with existing methods of working.

Such being the situation, the best mode of reform appears to be very decidedly marked out. Concomitantly with, but quite independent of, the criticisms of the weak reserve, a prolonged discussion on the question of small note issues has been carried on, which has resulted in the complete removal of the prejudices formerly so prevalent against this form of note. The English witnesses before the Committee of 1875 on Banking were opposed to it, so was the *Economist*. In 1882, the present Chancellor of the Exchequer argued strongly against any issue of the kind. Now the *Economist* supports the Chancellor of the Exchequer in advocating it. The old pleas of "danger of forgery," "probability of over issue," "drain of the metallic circulation," and the rest, have become as destitute of weight with the public as they always were of logical force. The advisability of note issues of denominations as low as £1, perhaps as 10s., is generally admitted.

The weak position of the bank reserves, however, suggests a different mode of treating the resources obtained by this issue from

* Bagehot's *Lombard-street* has insistence on this point as its main theme. Mr. Newmarch was another strong advocate of an improved reserve.

what would otherwise appear to be the best. The obvious service of a paper currency is the economy of the precious metals that it facilitates. As Adam Smith puts it—"Circulation comes to be carried on by a new wheel which it costs less both to erect and to maintain than the old one." A part of the stock of barren metal can be turned into productive capital. A small note circulation would, under normal conditions, enable a large portion of the gold in circulation to be exported, and its representative to consist of interest-bearing securities. Such is in substance the use of the fiduciary issues of the Bank of England. In a former paper* I have argued that the gain from such an operation would be well worth attention. But while the principle on which the excess over the reserve needed for the particular issues may be profitably used is undoubtedly sound, it loses its application owing to the fact that, in the present case, the general rule of economy, of which it is an instance, has already been carried too far. Where there is a reserve amply sufficient for all times of trial, economizing expedients are in place; when it is otherwise, the withdrawal of gold from the actual circulation should only be for the purpose of concentrating it in a more easily available way. Thus the additional gold that extra note issues would afford seems almost specially provided to fill the vacancy in the existing reserves.

The adoption of this policy is not, however, so plain as might be thought at first. Objections of more or less weight exist to it, and some of them are deserving of notice. May it not be said with much truth that it is the duty of the bankers to maintain a proper reserve? Why should the state undertake this onerous task? The economy of the circulation is a source of gain that ought not to be devoted to relieving one class from their normal burdens. The profit gained from the mint might as well be employed to assist over-trading jewellers. To this contention, which I have tried to state in its strongest form, the answer seems to be: that public action has deprived the banks of their freedom in regard to note issues, and that it is quite admissible to use the gain obtained by this restriction of a special industry in a way calculated to strengthen the commercial system. Any other way of reaching the object is open to greater objection. The introduction of a stringent rule as to the amount or proportion of bankers' reserves, besides being a serious interference with the working of the business, would not really meet the difficulty. The character of the liabilities of a bank is just as important as their amount, and no process of discrimination could possibly be attempted. Moreover, the fixing of a minimum proportion of reserve to liabilities, say one-third, unless there is a provision for suspension in cases of need, causes trouble as soon as the limit is approached; it, in fact, renders useless the specified part of the reserve, *i.e.*—If a bank has deposits to the amount of 6 millions, and has to keep one third as reserve, and actually has one-half, or 3 millions, in its possession, the withdrawal of one-fourth of the deposits (£1,500,000) will reduce its reserve to £1,500,000, or the minimum for its remain-

* *Journal Statistical Society of Ireland*, 1886.

ing claims (£4,500,000). A fixed amount of reserve as minimum leads to the same result. The stability of a complicated credit organisation depends far more on the ability and prudence of those who manage it than on the excellence of the regulations to which it is submitted. The real place of legislation is in remedying those evils which arise rather from changes in general conditions than from definite wrong-doing. The peculiar strain on the banking system is distinctly of the latter kind. Deposit banking has grown up almost insensibly, and at the same time London has become the monetary centre of a large portion of the world. As a consequence of the latter change, the possible demands for gold arise from the most unexpected quarters. At one time the German government was said to command a large amount of English deposits. Now it is the Russian government that is credited with this power. A commercial crisis in any country may involve a drain of gold from England. For the variety and uncertainty of these claims the banks can hardly be held responsible. Further, the tendency to lean on the Bank of England in times of pressure, that is so characteristic of the English system, is really the result of its history. Legislative privileges have largely helped this quasi-state bank to obtain its present position, which must be recognised as a leading element in any effective remedial measure. The course then that historical conditions and the realities of the system suggest is a strengthening of the metallic reserve by means of an issue of notes of the smaller denominations. To gain from this course the maximum of advantage, it seems to me that the further step of unifying the note issues is desirable. The original plan of the Charter Act of 1844 placed the whole English issue in the hands of the Bank of England. Though this was somewhat relaxed in the act as passed, the concession of about 5 millions issue to country banks was a small one which might well be withdrawn in consideration of the advantages that a strong reserve would afford to them. For Ireland and Scotland the case is somewhat different; but even here there would be an evident gain in the facility with which the notes of a single issuing body would circulate between different districts so that any expenditure in compensating vested rights would be more than repaid by the increase in issues. Such questions are, after all, rather matters of detail than of principle.

The most noticeable outcome of such a change would be the increase in the reserve of the Central Bank. Assuming that the small note issues were successful they would, I believe, dislodge from circulation at least two-thirds of the gold at present in use, that is an amount variously estimated at from 50 millions to 70 millions. Taking the lowest figure there would be an addition of more than twice the now usual metallic reserve to the store, as from 20 millions the bank reserve credit would rise to 70 millions. A large proportion of the added gold would be needed as reserve against the new notes, but placing the amount at one-half, 25 millions would remain for treatment. It is with reference to this surplus stock that Mr. Goschen speaks of a *second* reserve; it is not easy to gather the exact nature of the plan which is probably not worked

out in all its branches. So far as the evidence goes competent opinion seems against this subdivision of the reserves. The system of specializing funds that really serve a common purpose is as faulty in currency matters as in public finance. What is needed is a support strong enough to meet any possible emergency, and division of resources will not accomplish this object. I would therefore advocate the formation of a single gold reserve liable for the note issues of all denominations. The provisions of the act of 1844 would then need amendment. The limit of the fiduciary issue of the Bank of England was empirically fixed at 14 millions, and though it has risen to £16,450,000 it certainly has no reference to present conditions. The rule that requires gold to be retained for every note over that limit is also too unyielding for practical use, and at times of crisis is so dangerous that it has to be relaxed or evaded. The German system which allows the limit of issue to be exceeded on paying a fine is an improvement that might be extended on a scale increasing in amount as the excess became greater. The effect of that method would be that the greater portion of the metallic reserve could in case of necessity be used for supporting deposits, but its application to the purpose would be accompanied by a higher rate of discount. To give definiteness to this general statement let us assume that the present fiduciary limit is retained, and that the gold obtained for the new notes is all added to the metallic reserve, but with the condition that by a payment of 1 per cent. 5 millions may be added to the existing limit, by paying 2 per cent. a second sum of 5 millions, and that for each additional 5 millions an increase of 1 per cent. should be charged. It might also be provided that the bank note should be at least the amount of the fine plus 5 per cent., thus, at 6 per cent., 5 millions would be available for advances; at 7 per cent., 10 million; 8 per cent., 15 millions, and so on. These figures are simply given as a rude illustration of the way in which a plan of the kind may be applied, but it would be necessary to settle on the best evidence, the proper fiduciary issue with regard to the number of notes that would be certain to stay out at any crisis, and also to the amount of reserve that it is proper to keep as a basis for the growing deposits of the United Kingdom. Regulations that were wise and proper in 1844 (whether they were so even then is one of the most hotly disputed questions in economic practice, and one on which the weight of authority is very evenly balanced), require to be re-modelled for 1891. As to the exact form or amendment, opinion will naturally vary. The banking interest, so strong from the ability and superior technical knowledge of its advocates, has always been hostile to the existing restrictions, and it will in any discussion contend that the over-issue dreaded by the currency school is in fact impossible. But whatever be the force of this contention in respect to large notes it is hard to prove it for small ones. It was by abandoning altogether the small note issues that Tooke and J. S. Mill made so strong a case against the currency school. For the accomplishment of the main object in view, *i.e.* strengthening the available reserves, a single source of issue with suitable regulation is decidedly preferable.

Such a system suggests at once a further difficulty. Disguise it how we will, the fact remains that for succour at the moment of extreme pressure, we have to rely on artificial machinery—in most cases state intervention. The issue of notes for gold and the payment of gold for notes, may be made so purely mechanical that intelligence can be altogether dispensed with in the administrators, but when the use of a part of the gold for other purposes is allowed, the case is materially altered; any employment of the reserve is a dealing with *capital*, and where regulation exists the state is brought in as a party to the most complicated and critical of questions. There is, however, no escape from this position. An examination of the many commercial crises in English history proves that intervention has in nearly every instance been necessary. In 1782, 1792, and 1811, the government issued exchequer bills against deposited goods, and by this contrivance relieved panic; in 1825 an issue of one-pound notes was the mode of escape; in 1847, 1857, and 1866, a suspension of the Charter Act; in 1839 and 1890 a loan from France.* The methods adopted change, but the essential fact of intervention remains, and the best course is to make that intervention as systematic as possible. The use of what may be called a graduated “disposable reserve,” as suggested above, would involve the minimum of discretionary action. At present the Bank of England is compelled on each slight fluctuation to raise its rate rapidly, and until the increased rate attracts gold from abroad the strain of the situation is unrelieved; the permission to use a larger portion of the reserve, as the rate of discount rose would obviate the difficulty. Thus, a rise of from 5 per cent. to 6 per cent. would give a temporary use of £5,000,000 to the support of deposits—the so-called banking reserve. If pressure increased further aid could be obtained by the simple course of raising the rate still higher. To test the use of the method let us suppose that the reserve had been so arranged in 1857. At the time of the suspension of the Bank Act on that year (November 12th), the banking reserve was only £1,400,000, the metallic reserve over 7 millions, and the rate of discount, 10 per cent. The mere announcement of the suspension so far dissipated apprehension, that the legal limit was only slightly exceeded. Under a more elastic system the reserve, largely increased by the small note issues, would have been available for advances as the rate of discount rose, while the application of a fairly high rate would have had time to operate on the exchanges, so that the very high point of 10 per cent. perhaps need not have been reached at all.

One of the great advantages of a larger reserve would be the avoidance of changing of the rate of discount for every slight fluctuation of the store of gold. The withdrawal of a few millions makes it necessary to raise the rate suddenly, and if the situation is not immediately improved, a repetition of the process has to be tried. What is a large proportion of a reserve of 20 millions is much less important with one of 70 millions; greater steadiness and less hurried action would be possible in the latter case. To escape this “extreme

*See Tooke, *History of Prices*, vol. iv. p. 495.

sensitiveness" of the money market, though of less vital importance than the security against panics, would be no small gain to the trade of the country.

Another mode of attaining the same result is the plan suggested by Professor Marshall,* by which the Bank of England would be empowered to issue twice the amount of its metallic reserve in notes, but on the understanding that 20 millions should be retained by the banking reserve for the purpose of escaping the present fluctuations. Besides the difficulty of keeping a rule of the kind in constant force there is the necessity for a provision for suspension of the restrictions as to notes which Professor Marshall states to be necessary at a time of crisis. It seems better to keep the system under definite but varying limits, and instead of removing the restrictions at the height of a crisis to gradually relax as difficulties increase.

A subsidiary question arises as to the use of silver as part of the reserve for small notes. Ten members of a strong Royal Commission have recommended this plan, but it is open to the gravest objections. The advantage that England possesses as the great market for standard gold would be impaired by a part of its circulation being, in fact, based on silver. Then it is plainly convenient that small and large notes shall be interchangeable at the place of issue; if, however, the former are payable in silver, this facility cannot well be granted. As a method of checking the depreciation in silver the plan is illusory, as the history of the silver certificates in the United States shows, and it certainly would be a departure from the simplicity so desirable in a currency system. Silver is at present used merely as a token currency, and to create on its security a paper issue, involves an abandonment of the principle of convertibility into the standard coin.

The proposals outlined above, if carried into effect, would result in a reconstitution of the Bank of England system, which may be described as follows. The note issue would as before be partly against securities, partly against gold. The amount against securities would have to be re-determined with reference to present conditions, and the probabilities of the future. It has been ingeniously calculated that in 1844 the chances were a hundred to one against the issue department becoming insolvent, and that they are a thousand to one against that event happening now.† If the privileged issues of the other banks of the United Kingdom were absorbed, the amount if the present limit were unchanged would be over 30 millions. The remaining note issue would, under ordinary conditions, have an equivalent amount of gold as its basis. Should the method of a graduated limit be applied, an additional issue of notes without gold to correspond in the reserve could be obtained by the banking department on terms that would increase in rigour as the amount so used became

* In his evidence before the Royal Commission on *Changes in the Relative Value of the Precious Metals*. See Questions 9865-9876 in *Appendix to Final Report*, pp. 25, 26.

† By Professor Edgeworth "Mathematical Theory of Banking."—*Statistical Society's Journal*, vol. li. p. 113.

larger. It is probable that these issues, would not, unless when a foreign drain was proceeding, reduce the metallic reserve. They would simply increase the liabilities of the issue department, and would make it incumbent on the bank to adopt the most effectual method of increasing the supply of gold in proportion to the notes.

The position of the banks in general as regards the keeping of a suitable reserve, would not be affected. The practice at present is to regard money "at call" as available reserve, but in cases of severe pressure nothing but legal tender is effectual, and it is essential to have an adequate supply of it, which is in fact now only obtainable from the Bank of England reserve. It is not necessary for the security of the credit system that imprudent persons, bankers, or others should be helped out of their difficulties, but it is of the utmost importance that those who have abundant assets should not fail for want of their ordinary accommodation. A crisis is marked by the limitation of the usual advances, and it is the function of the holders of the ultimate reserve to supply that gap. The aim of such intervention is really the preservation of the complex credit system of which the reserve holders are the guardians, not the protection of individuals from the consequences of their rashness. This is the policy that has been with more or less consistency followed by the Bank of England since the resumption of the specie payment in 1821, and under the present organisation of credit it is unavoidable.

The application of the provisions suggested in this paper would place it in a position to carry out that policy more effectually, while the existing arrangements of business would not be affected. As the circulation of the new notes could only extend gradually, it is evident that at first the disposable amount would not be large, but it might be taken as one half of the non-fiduciary circulation and the advance of notes permitted at each step for the use of the rate of discount from 5 per cent. to 10 per cent., would be 10 per cent. of the total increase. A gold reserve of 30 millions would give 15 millions, available in divisions of 3 millions, at each rise of 1 per cent. on the discount rate, the profit of the advances going to the credit of the state. The actual amount of the fixed fiduciary issue of the extra fund available, and of the shares into which it would be divided, are matters to be decided only on the fullest evidence and after careful examination. This process, however, is for other reasons, desirable; the issues of private and joint-stock banks are settled in the most anomalous way. The largest institutions are placed on a lower footing in this respect than many small ones; the rules about legal tender need amendment, and various questions as to the competition of Scotch and English banks may at any time arise.

There is therefore a strong case for a reform of monetary legislation that will make the law clear and uniform, and at the same time strengthen the metallic reserve on which the system in the last resort depends. The establishment of a single issuing body for the United Kingdom appears to be the best way of removing the many existing difficulties, and its collateral advantages to the banking system would be so great that the banks of issue might fairly be expected to yield up whatever privilege they possess in return for the creation of a

thoroughly satisfactory reserve. This method is, too, less burdensome than any measure requiring the maintenance of large reserves on the part of individual banks would be, while its advantages to the community are beyond question.

VII.—*Irish Progress during the Past Ten Years, 1881–1890.* By T. W. Grimshaw, M.A. M.D., Registrar-General for Ireland.

[Read Tuesday, 23rd June, 1891.]

Syllabus.—I. INTRODUCTORY. II. VITAL STATISTICS—Population, Marriages, Births, Deaths, Emigration. III. VALUATION—Whole of Ireland; Towns of 10,000 Inhabitants and upwards. IV. AGRICULTURE—Extent of Land in use for Agricultural purposes; Extent under Crops, Produce of Crops, Live Stock. V. TRADE AND MANUFACTURES—Linen, Spirits and Beer, Manufactories, Railways. VI. CAPITAL AND LOANS—Banking and Railway Capital, Public Loans. VII. BANKING—Deposits in Joint Stock and in Savings Banks. VIII. TAXATION AND REVENUE—Income Tax, Customs, Local Taxation. IX. POST OFFICE—Letters, etc., delivered, Money and Postal Orders, Savings Banks. X. EDUCATION—Schools and Pupils. XI. POOR RELIEF—Workhouse and Outdoor Relief, etc. XII. SUMMARY AND CONCLUSION.

I. INTRODUCTORY.

WE have just come to the end of the decade, 1881–90; the census has been taken, we have available nearly all the information as to progress during the year 1890, which is capable of statistical treatment, and accordingly I purpose, in this paper which I have prepared, to take a survey of the progress Ireland has made during the past ten years, so far as that progress can be measured by statistical standards.

It will be remembered by many that, when I had the honour of occupying the chair of the STATISTICAL AND SOCIAL INQUIRY SOCIETY OF IRELAND as President, on the 27th of November, 1888, my Address took the form of a Statistical Survey of Ireland from 1840 to 1888, and with that Address I printed a series of tables comprising the principal statistics for that period. Since the publication of that Address I have had the columns of the tables written up year by year, and all but a few are now complete to the end of the year 1890.

It is only with the principal figures for the past ten years, extracted from the written up record, I purpose to deal on the present occasion.

Most of us have a very distinct recollection of the depressed state of commerce and agriculture in Ireland at the commencement of the decade. The disastrous failure of the crops in 1879 had inflicted such a blow on the material condition of Ireland that many seemed to think recovery impossible. Without going into particulars as to the statistics of Ireland for 1879 and 1880, which are now ancient history, and which will be found fully set out in my Address of November, 1888, I may state that in every instance in the years 1879, 1880, the figures show the injurious results of the failure of the crops in 1879. It is only those who have carefully gone into