

Nos certe, æterno veritatis amore devicti, viarum incertis et arduis et solitudinibus nos commisimus; et divino auxilio freti et innixi, mentem nostram et contra opinionum violentias et quasi instructas acies, et contra proprias et internas hæitationes et scrupulos, et contra rerum caligines et nubes et undequaque volantes phantasias, sustinuimus; ut tandem magis fida et segura indicia viventibus et posteris comparare possemus. Quâ in re si quid profecerimus, non alia sane ratio nobis viam aperuit quam vera et legitima spiritus humani humiliatio.

BACON—*Instauratio Magna—Præfatio.*

For my own part at least, in obedience to the everlasting love of truth, I have committed myself to the uncertainties, and difficulties, and solitudes of the ways; and relying on the divine assistance have upheld my mind against the shocks and embattled ranks of opinion, and against my own private and inward hesitations and scruples, and against the fogs and clouds of nature, and the phantoms flitting about on every side; in the hope of providing at last for the present and future generations guidance more faithful and secure. Wherein if I have made any progress, the way has been opened to me by no other means than the true and legitimate humiliation of the human spirit.—*Spedding's Translation.*

A  
DICTIONARY  
OF  
POLITICAL ECONOMY:

Biographical, Bibliographical, Historical, and Practical.

BY

HENRY DUNNING MACLEOD, Esq., B.A., F.S.S.,

OF TRINITY COLLEGE, CAMBRIDGE; OF THE INNER TEMPLE; BARRISTER-AT-LAW; FELLOW OF THE  
CAMBRIDGE PHILOSOPHICAL SOCIETY.

AUTHOR OF "THE THEORY AND PRACTICE OF BANKING," AND "THE ELEMENTS OF POLITICAL ECONOMY."

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These obligations were to be guaranteed by the investments which they represented, as well as by a Capital appropriated to the purpose. They proposed to issue these obligations to the amount of 240 millions.

The extraordinary dividends declared by the Company, and the boldness with which it published its plans of embracing all Europe in its operations, directed the attention of the financiers in every country to it. Their alarm was excited by its scheme of issuing so vast an amount of paper currency, and they dreaded the revival of the days of Law. A note inserted in the *Moniteur* in March, 1856, forbade the creation of the proposed obligations. This blow deprived the Company of much of its public interest, and from that time its dividends greatly declined. They fell to about 22 per cent. for 1856. The great commercial crisis of 1857 still further reduced them, so that in that year they were only 5 per cent. They were the same for 1858. For 1859 it rose to 7½. In 1860 it was 10 per cent., and in 1861 the same.

The prohibition by the Government of the creation of its paper obligations, saves us the necessity of examining them at length. The *Crédit Mobilier* has no doubt been eminently useful in developing industrial associations, but the securities which it receives are much more liable to fluctuation in value than those of the *Crédit Foncier*, and for that reason its operations are more hazardous. This is fully shown by the remarkable variations in the dividends.

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**CRISIS, COMMERCIAL.**—We have under the article CREDIT, endeavoured to explain to our readers the mechanism of the grand system of

Credit, and shew the marvellous effects it is capable of producing on the prosperity of nations. But there is a reverse to the picture. Like every other great power, like gunpowder, like steam, it is attended with commensurate dangers. Misused Credit is the cause of those terrible mercantile catastrophes which periodically sweep over the world. They increase in magnitude and danger with the gigantic development of Credit. It is, therefore, one of the most transcendent problems in practical Political Economy to know how, if possible, to discern the symptoms which betoken the approach of these terrible convulsions, and to deal with them when they occur.

We have shown under Credit that its fundamental conception is the *Present Right to a future payment*. Nearly all modern Economists are agreed that transfer is one species of production, and that Credit is productive by being a real and powerful—purchasing power, however, which has always to be redeemed.

If, therefore, persons produce, or bring forward for sale in any way whatever, or buy so much on credit, so that the price of the goods, &c., when sold cannot redeem the credit, it is evident that they have brought forward or produced too much. And this is the true meaning of that often used but ill-defined expression **OVER-PRODUCTION**. Every mercantile operation, therefore, attended with a loss, is over-production, and every person who does it is brought by so much nearer to bankruptcy.

All commercial crises arise from a large portion of the commercial community having brought forward, or produced, more than they can sell. Hence we may say, in general, that all commercial crises spring from over-production.

Credit being the great productive power of modern times, and being divided into Commercial and Banking Credit, of course a Commercial Crisis may originate out of the abuse of either, or both. Many speculators on the subject have supposed that by legal regulations they might be prevented or greatly mitigated. It becomes, therefore, of the greatest consequence to modern society to ascertain the sources whence commercial crises originate, and especially how the conduct of great Banks, which are the pillars of Credit, should be guided during the tempest.

Commercial Crises originating in Credit have, of course, a comparatively modern origin. If there were none but transactions in ready money single individuals might be ruined, who speculate injudiciously; but they would involve no one else in their misfortunes. The increased danger under the modern system of credit is that most persons, even of the highest standing, are so involved with others that it is always impossible to tell how the greatest names may be entangled with others. When, therefore, considerable numbers are affected the discredit is sure to enlarge itself very considerably beyond the actual danger.

A very important branch of the inquiry, therefore, is to consider what means should be adopted to extend temporary aid to those persons who are really solvent, but whose credit may be affected by the general distrust.

Commercial Crises may arise out of one or more of the following causes—

*First.* A long-continued very low rate of interest. Persons in such times who have nothing

but the interest of small capitals to live on, are so straitened in their means, that they look out for more profitable investments. At such times wild speculators are sure to abound to take advantage of the credulous. One scheme breeds another, and a speculative fever seizes upon the public like a *manie*. Multitudes of schemes are set afloat for no other purpose than gambling in the shares. Numbers of persons then rush to buy the shares merely for the sake of selling them again, knowing full well that a crash must come, but hoping to make a lucky hit during the fever. Then at last, either when calls come, supposing them ever to get to that stage, or when the circle of dupes is found to be exhausted, prices begin to waver, and every one rushes to sell, and of course things fall as rapidly as they rose, and then comes the crash.

*Secondly.* When some new large market is opened at home or abroad, in which extraordinary gains are realized by the first adventurers. Numbers then rush in, and over-production takes place, and the herd of adventurers is ruined.

*Thirdly.* A great and general failure of some great crop necessary for subsistence. The enormously increased price deranges the demand for other things, the sudden rise of price tempts great speculation, sure to be followed by enormous disasters.

*Fourthly.* A great derangement of the ordinary course of trade from some great general cause, such as the sudden commencement, or the sudden termination, of a war. The sudden cessation of demand for some articles deranges the calculations of the producers of them, and the sudden demand for large quantities of others raises their price suddenly, and gives rise to immense speculations in them, which are sure to be overdone and end in general ruin.

Each of these causes separately, if on a sufficient scale, may produce a Commercial Crisis; but as several of them may happen together, it will, of course, be proportionably intensified. And these effects are immensely increased by that abominable system of accommodation paper we have described under CREDIT, § 169-198. Bad speculation might no doubt cause serious disasters, but after all, these disasters would be limited to the resources of the speculators, and when they came to an end, further progress in ruin would be arrested. But when a herd of speculators can, by means of writing their names on bits of paper, extract funds without limit from bankers to speculate with, the area of ruin is vastly increased.

The object of the present article is to examine the history of these catastrophes, and to explain what has been the action of the Bank of England, to consider the opinions of various persons, who are regarded as authorities on the subject, and to investigate the principles and the policy of the Bank Act of 1844.

#### The Crisis of 1763.

It is a very favourite doctrine with some persons that Commercial Crises are chiefly caused by the abuse of the power of issuing notes by banks, and that if that power were taken away, such crises would be prevented.

For this purpose they advocate what they call the "Currency Principle" (CURRENCY PRINCIPLE).

But that this is no guarantee against a crisis is shewn among other instances by that of the year 1763. The termination of the war in 1763 was followed by an immense number of failures at Amsterdam, Hamburg, and other great cities abroad. They began on the 29th July, at Amsterdam, by the failure of two brothers, named Neufville, for upwards of 330,000 guineas; in a week they were followed by 30 other houses, and 14 at Hamburg. Discount rose from 3 to 7 per cent., and soon after there was a general failure of private credit, and no business was transacted except for ready money. In the beginning of August the bankers of Hamburg were so alarmed by the report that those of Amsterdam intended to allow the Neufvilles to fail, that they wrote them a most pressing letter to say that such a step would infallibly plunge all Europe into an abyss of distress, and that they had unanimously determined to suspend their own payments if this were not done. "The fate of the general commerce of all Europe is at present absolutely in your hands; determine, gentlemen, whether you should crush it totally, or support it." (*Annual Register; Gentleman's Magazine* for 1763.) This letter came too late, for the Neufvilles had been allowed to fail several days before it was written. And the consequences were very much as the Hamburg bankers had predicted. This crisis extended to England, and Smith says that the Bank of England extended its support to the merchants to upwards of a million.

#### The Crisis of 1783.

Ten years after the preceding crisis of 1763, another of a very severe nature took place in 1772, and the beginning of 1773. It extended over all the trading nations of Europe. The Bank of England came forward with judicious liberality to assist the merchants, and by this means the general destruction of credit was averted. In 1782, the unfortunate war with America was terminated, and immediately an immense extension of foreign commerce took place. The Bank greatly increased its issues; they rose from about £6,000,000 in 1780, to £9,600,000 in March, 1782. The directors then seem to have become alarmed, for they soon afterwards as violently contracted them; so that in December, 1782, they were reduced to £5,994,000. This course of conduct naturally produced a great demand for specie on the Bank, and a rapid drain set in, which in May, 1783, inspired the Directors with considerable alarm for the safety of the Bank. The Directors considered that if they continued the contraction of their issues, the drain must at length be arrested, and the exchanges turned in their favour by the returns for the exports. They refused to make any advances to Government on the loan for that year, but they did not make any demand for the repayment of the other advances to Government, which amounted to between nine and ten millions. They continued this policy till October, when their specie was reduced to £473,000; but at last the exchanges were turned in their favour, and specie began to flow in from abroad. As soon as the favourable symptoms had decidedly manifested themselves, the Directors advanced freely on the loan, and to the merchants. The doctrine which Mr. Bosanquet, one of the direc-

tors, stated guided them was this; that while a drain of specie is going on, their issues should be contracted as much as possible; but that as soon as the tide had given signs of ceasing, and turning the other way, it was then safe to extend them freely.

#### The Crisis of 1793.

The great crisis of 1793 may be considered as the first of those great catastrophes in modern times, of which we have a sufficiently distinct account for scientific purposes, and in which the Bank of England acted a decided part, which has been the subject of much criticism from persons who enjoy the highest name in finance.

We have, under BANKING IN ENGLAND, § 107, shewn how the seeds of disaster were sown by the monopoly of the Bank of England. Soon after the peace of Paris, in 1763, the industrial energies of the people burst forth in that brilliant career which they have ever since pursued. After they recovered from the interruption of the war with America, commerce, aided by the new means of production and carriage, received an extraordinary stimulus. In 1786, a memorable Treaty of Commerce and Navigation was concluded by Mr. Pitt with France, negotiated by Mr. Eden, afterwards Lord Auckland, providing for the entire abolition of all impediments to the free intercourse between the nations, and the reciprocal and entirely perfect liberty of navigation and commerce between the subjects of each party, in all and every the kingdoms, states, provinces, and territories subject to their majesties in Europe, for all and singular kinds of goods in those places." We may judge how lamentably the French Revolution threw back the progress of economic light, when we see that after a dreary period of mutual mischief, we have not even yet, by the Cobden Treaty of 1861, recovered the ground where we were in 1786!

To shew the astonishing progress of the commerce of the country from 1782 to 1792, we subjoin the following amounts of imports, exports, tonnage inwards and outwards, and the concomitant increase in the issues of the Bank of England. We may premise the valuations of the imports and exports indicate quantities, and not values, which custom was continued till 1798.

Imports.	Exports.	Tonnage.
£	£	Inwards. Outwards.
1782—10,341,628	13,009,458	777,253 ... 851,512
1783—13,122,235	14,681,494	1,135,674 ... 1,039,045
1784—15,272,877	15,101,491	1,215,702 ... 1,050,487
1785—16,279,419	16,117,168	1,241,761 ... 1,182,479
1786—15,786,072	16,300,730	1,264,356 ... 1,236,219
1787—17,804,024	16,869,789	1,316,501 ... 1,349,419
1788—18,027,170	17,472,238	1,553,172 ... 1,540,686
1789—17,821,102	19,340,548	1,589,009 ... 1,591,838
1790—19,130,886	20,120,121	1,705,975 ... 1,548,207
1791—19,669,782	22,731,995	1,773,862 ... 1,696,023
1792—19,659,358	24,905,200	1,891,711 ... 1,739,300

Thus shewing that in the space of 10 years, the commerce of the country had more than doubled. Concomitantly with this increase of commerce, the issues of the Bank of England increased from an average of about six millions in 1782, to upwards of eleven millions in 1792. But this gives a very inadequate idea of the increase of paper currency in the country, as during this period the country banks multiplied to an enormous extent, filling all the country districts with paper cur-

rency, a very large portion of which was of a very dangerous and rotten nature, owing to the monopoly of the Bank, which prevented powerful and wealthy banks being founded.

We have no authentic statistics of the increase of banks, and their issues during this period, but Burke says that when he came to London in 1750, there were not more than 12 bankers out of London; in 1792 there were supposed to be little short of 400, and we may fairly assume that the amount of their issues may have multiplied in a somewhat similar proportion. Many of these country bankers were in the habit of issuing notes with various conditions for the purpose of guarding themselves against the consequences of a run for gold, when communication with the metropolis was so slow and difficult. The bankers at Newcastle issued notes which allowed interest to commence at some months after date, and then they were payable on demand. Those at Exeter and in the West of England issued notes payable at 21 days' sight, with interest commencing from the date of the note, and ceasing on the day of acceptance.

Subsequent experience enables us to perceive that an increase of commerce proceeding at such a pace was sure to end in a catastrophe. During the first ten months of 1792, the average of bankruptcies had been about 50, in November they suddenly rose to 105, by far the highest number that had ever been known in a single month. In December they were only 47, but in January 1793, they again increased to 77. The declaration of war in January 1793, gave a shock to credit, which was already staggering from over expansion. On the 15th of February, a house of considerable magnitude deep in corn speculations, failed, and on the 19th the bank refused the paper of Lane, Son, and Fraser, who stopped the next morning to the amount of nearly a million, involving a great number of other respectable houses. The panic now spread to the bankers. It began at Newcastle. The partners in the Newcastle banks were rich, but their funds were locked up, and when a run came upon them they were unable to realize, and stopped. The panic immediately spread throughout the country. It was computed that there were nearly 400 country banks at that time, of which 300 were much shaken, and upwards of 100 stopped payment.

This great pressure extended to the London bankers as well as to the country ones. One of them says that the extraordinary state of credit has obliged every person, connected with trade and money transactions, to gather in and husband every resource to meet all demands. That for six weeks every man of money and resources had been straining every nerve to support himself and immediate friends, and could not give that support to others, which they would have been disposed to do. All these circumstances naturally produced a demand on the Bank of England for support and discounts. But the bank being thoroughly alarmed, resolved to contract its issues. Bankruptcies multiplied with frightful rapidity. In January they were 77; in February 87; in March 105; in April 188; in May 209. The government urged the bank to come forward and assist credit, but they resolutely declined.

Sir Francis Baring (*Observations on the establishment of the Bank of England*) greatly blames

the directors for their conduct on this occasion. He says that they at first accommodated themselves to the crisis, but their nerves could not support the daily demand for guineas, and for the purpose of checking that demand, they curtailed their discounts to a point never before experienced; and that, if they determined to reduce their issues, it should have been gradual. Their determination, and the extent to which it was carried, came like an electric shock.

He says that there are three different causes for a great demand for guineas.

1. For export.
2. For the purpose of hoarding from want of confidence in the government, and in the circulating paper.
3. To enable country banks to discharge their demands, whilst confidence in the government, and in the bank, remained entire.

That every measure ought to be taken to prevent and mitigate the first cause, except prohibition or bankruptcy. We may reserve the second till we come to 1797. That the third ought to be viewed, not with indifference, but with a disposition to spend almost their last guinea. He shews from the state of the exchanges that it was quite impossible the guineas could have left the country, as the loss on exporting them to Amsterdam was £3 6s. 3d., and to Hamburg £4 2s. 6d. per cent., and it was notorious that large quantities of gold and silver were coming in from France. This of course was owing to the immense issues of assignats that were taking place, and their continued depreciation. Under these circumstances, he says the directors acted quite wrongly, they ought to have seen that the guineas would have very soon come back to them, and that they ought, in fact, to have followed the precedent of 1783, which had been so successful.

When the bank adopted this perverse course, universal failure seemed inevitable. Sir John Sinclair remembered the precedent of 1697, when Montague had sustained public credit by an issue of exchequer bills, and thought that a similar plan might be followed in this crisis. The minister desired him to propose a scheme for the purpose, which he presented on the 16th of April. A committee of the House of Commons was immediately appointed. In the meantime a director of the Royal Bank of Scotland came up with the most alarming news from Scotland. The public banks were wholly unable, with due regard to their own safety, to furnish the accommodation necessary to support commercial houses and the country bankers. That unless they received immediate assistance from government, general failure would ensue. Numerous houses which were perfectly solvent, must fall, unless they could obtain temporary relief. Mr. Macdowall, M. P. for Glasgow, stated that the commercial houses and manufactories there, were in the greatest distress from the total destruction of credit. That this distress arose from the refusal of the Glasgow, Paisley, and Greenock banks to discount, as their notes were poured in upon them for gold.

The committee reported (*Parl. Hist., Vol. XXX., p. 740, &c.*) that the general embarrassment of commercial credit was so notorious as to call for an immediate remedy without much examination. That the failures which had taken

place had begun with a run on those houses that issued circulating paper without sufficient capital, but had extended so as to effect many houses of great solidity, and possessed of funds ultimately much more than sufficient to answer all demands upon them, but which could not convert these funds into money in time to meet the pressure. That the sudden discredit of so large an amount of bankers' notes had produced a most inconvenient deficiency of the circulating medium. These circumstances had caused bankers to hoard to a great extent. That unless a circulating medium was provided, a general stoppage must take place. That they had requested a number of the most eminent merchants to meet and consider a plan of issuing Exchequer bills to a certain amount under proper regulations, who had unanimously agreed in the propriety of such a course, as the best remedy that could be devised.

The committee recommended that Exchequer bills to the amount of £5,000,000 should be issued under the directions of a board of commissioners appointed for that purpose, in sums of £100, £50, and £20, and under proper regulations. After considerable doubts were expressed by Mr. Fox and Mr. Grey, as to the policy of this extraordinary measure, which was unknown to the constitution, and might subvert our liberties, the bill passed. The committee set to work immediately. A large sum of money, £70,000, was sent down to Manchester and Glasgow on the strength of the Exchequer bills which were not yet issued. This unexpected supply coming so much earlier than was expected, operated like magic, and had, says Sir John Sinclair, a greater effect in restoring credit than ten times the sum would have had at a later period.

When the whole business was concluded, a report was presented to the Treasury. It stated that the knowledge, that the loans might be had, operated in many instances to prevent them being required. The whole number of applications was 338, and the sum applied for £3,855,624, of which 238 were granted, amounting to £2,242,000; 45 for sums to the amount of £1,215,100 were withdrawn, and 49 rejected. The whole sum advanced was repaid; two only of the parties assisted became bankrupt, all the others were ultimately solvent, and in many instances possessed of great property. A considerable part of the sum was repaid before it was due, and all the rest with the utmost punctuality. So much scrupulous care was taken to preserve secrecy as to the names of the applicants, that they were not known to that hour, except to the Commissioners and their own sureties. After all expenses were paid, the transaction left a clear profit to the government of £4,348.

Whatever were the prognostications of its utility and danger before it was done, its success was perfect and complete. The contemporary writers all bear witness to the extraordinary effects produced. Macpherson says, that the very intimation of the intention of the legislature to support the merchants, operated like a charm all over the country, and in a great degree superseded the necessity of relief by an almost instantaneous restoration of confidence. Sir Francis Baring concurs in this view, and adduces the remarkable success of the measure as an argument to shew the mistaken policy of the Bank.



The panic was at length happily staid. The failures up to July had been 932, in the remaining five months they were reduced to 372. This was, however, upwards of double the number that had ever happened in any year before. Gold continued to flow in, and during the last six months of 1793, and two following years, money became as plentiful as in time of peace, and 4 per cent. interest could scarcely be got.

All contemporary writers bear witness to the wonderful success of this expedient. After careful deliberation the Bullion Report warmly approved of it, censured the proceedings of the Bank of England, and especially cite it as an illustration of a principle which they laid down, that an enlarged accommodation is the true remedy for that occasional failure of confidence in the country districts to which our system of paper credit is unavoidably exposed.

Notwithstanding all this weight of testimony in favour of the happy effects of this measure, some rigid doctrinaires afterwards condemned the proceeding as a violation of the true principles of Political Economy. Even some who helped to devise it, changed their opinion afterwards upon the subject. Thus Lord Sidmouth in 1811 (*Parl. Deb.*, Vol. XIX., p. 530) observed, that he was upon consideration inclined to doubt of its wisdom and policy. Lord Grenville also said (*Ibid.*, p. 534) that from experience and reflection he was convinced the measure was founded on wrong policy; as one of those who were concerned in the measure, he was perfectly ready to avow his error, for he was perfectly satisfied in his own mind that it was unwise and impolitic. And such would be the opinion of those who favour the policy of the Bank Act of 1844.

It appears to us that the reply to these objections is short and simple. In the first place, if it were a violation of the true principles of Political Economy, it immediately resolves itself into a question of loss of capital. It is quite easy to shew that all great errors in Political Economy are destructive of capital. They may be estimated in money. Was this measure a pecuniary loss to the country? But what would have been the loss to the country if it had not been adopted? Who can estimate the destruction of capital that would have ensued in the general wreck of public credit? It might have endangered the safety of the State. But there are other arguments which appear to us to be conclusive of its propriety. The general loss of credit was chiefly caused by a thorough want of confidence in the currency of the country. The miserable notes of the majority of bankers were utterly blown upon. The great desideratum was a sound currency. Now what was it caused such an unsafe currency to be in circulation? It was nothing but the unjustifiable monopoly of the Bank of England. It was this monopoly, which was itself the most flagrant violation of the true principles of Political Economy, which caused the bad character of the currency. Consequently the measure of the government in providing a currency in which people would have confidence, was merely a correction of the error which had produced these deplorable results. We fully acknowledge that as a general principle it is highly undesirable that the government should interfere in any way

whatever in commerce, but in this case it was a compensation of opposite errors, and no other course was possible under the circumstances.

*On the Crisis of 1797, and the Suspension of Cash Payments by the Bank of England.*

We have seen that the Bank in 1793 pursued a policy of restriction in a commercial crisis, which threatened to bring about a general overthrow of commercial credit, and which was only alleviated by the government stepping in in an abnormal manner, and supplying a currency in which people might have confidence. We have under BANKING IN ENGLAND, § 113—137, given a full detail of the circumstances which brought about the stoppage of cash payments in 1797. We have shewn that the Bank pursued exactly a similar course of excessive restriction as they did in 1793.

An event of such portentous magnitude as the suspension of cash payments by the Bank of England, of whose effects there had been no previous experience, could not fail to give rise to the most conflicting opinions as to the necessity of the measure, of the course of conduct of the Directors which led to it, and as to the policy which ought to have been adopted under the drain which occurred in the last week of February, 1797. Many men of eminence and ability changed their opinions in after times, when they came to look back upon the subsequent events. In examining this question, so as to form a just estimate of the conduct of the Directors, we must remember that they were not masters of their own policy. They were distracted by two antagonistic claims, both of which they conceived it impossible to satisfy at the same time—namely, that of the Chancellor of the Exchequer, and the demands of commerce. They considered that if they advanced to the government they must contract their issues to the merchants, and as the Minister was the more powerful and imperious party of the two, they were obliged to yield to his power.

Several of the Directors being examined before the Committees of Parliament, unanimously attributed the necessity of stopping payment to the enormous amount of their advances to government, and they gave it as their decided opinion, that if the government had repaid these advances as they ought to have done, this catastrophe would have been avoided. We may take it therefore as admitted on all hands, that if they had been repaid by government, they would have very greatly extended their advances to merchants. The real question then, is, considering that they were under such advances to government, would it have been prudent to have been more liberal in their accommodation to merchants?

Several of the Directors and eminent merchants were examined before the Committees of Parliament. Mr. Henry Thornton was very strongly of opinion that the excessive contraction of bank notes had produced the most injurious effects in shaking public credit of all descriptions. That the excessive reduction of notes had caused an unusually severe demand for guineas, and that the great public distrust was directed against the country Bank Notes, and that the Bank of England ought to have extended their issues, to supply the place of the country notes.

Mr. Walter Boyd, an eminent merchant, was very clearly of opinion that the restrictions upon the issue of notes by the Bank was the chief cause of the forced sale and depreciation of the public securities, and if the Bank had only maintained its issues at the same height as they were in December, 1795, the drain of specie from the Bank, as well as the embarrassments in the mercantile world, would have been avoided, and a great part of the fall which public securities had experienced would have been prevented.

Mr. George Ellison, who was secretary to an association of a great part of the country banks, considered that the quantity of the coin in the country was greater than it was in 1793, though a very considerable part was hoarded away, owing to the public alarms that were abroad. He attributed the great public distrust to the remembrance of the conduct of the Bank in 1793, when it suddenly contracted its discounts, just at the period when they were most wanted.

The Committee of the Lords called the attention of the House very strongly to these opinions, but they did not venture themselves to pronounce an opinion on their justness. The Committee of the Commons went considerably nearer towards approving of them. In the year 1810, the governor of the Bank being examined before the Bullion Committee, stated that after the experience of their policy of restriction, many of the Directors repented of the measure, and the Bullion Committee explicitly condemned the policy of the Bank both in 1793 and 1797.

The directors of the Bank, acting in the midst of such unprecedented circumstances and so tremendous an emergency, are entitled to have their conduct examined with all forbearance. But taking all these circumstances into consideration, we cannot fail to acquiesce in the opinion expressed by so many eminent bankers and merchants at the time, by the subsequent avowal of many of the Directors that experience had led them to repent of the policy they then pursued, and by the decided opinion of the Bullion Committee, that the policy pursued by the Bank in this momentous crisis was erroneous, and that the severe restrictions they attempted to place upon commerce, very greatly contributed to bring on the calamity by which they were subsequently overwhelmed. Nothing, in short, could be more unhappy than their regulations of the amount of their issues. When the exchanges were violently adverse, so that it was enormously profitable to export gold, they enlarged their issues to an extravagant extent, and when the exchanges were extremely favourable, so that gold was sure to flow in, they restricted them with merciless severity. The issues, which were £14,000,000 when the exchanges were against the country, were reduced to £8,640,250 when they had been for several months eminently favourable. It appears from the entire evidence in the reports, that it was this excessive restriction of notes which drained away their cash during the autumn of 1796, and if they had been more liberal in their issues, their vaults would have been much better replenished with cash.

This disaster was the second notable penalty which the country paid within four years for the unjustifiable monopoly of the Bank. Never was there a more unfortunate example of monop-

lizing selfishness; it would neither establish branches of its own in the country, nor would it permit any other private company of power and solidity to do so, whose credit might have interposed and aided in sustaining its own. Moreover, when a failure of confidence was felt in the country notes, it refused to supply notes of its own to supply their place. The power of issuing what plays so important a part in commerce was absolutely forbidden to wealthy companies, and left in an unbounded freedom to private persons, many of whom had no capital or property to support their issues, and whose credit vanished like a puff of smoke in any public danger. The Bank consequently was left to bear the whole brunt of the crisis, solitary and unsupported, and finally succumbed.

From the foregoing considerations, as well as the weight of authority on the subject, we can scarcely have any room to doubt that the suspension of cash payments was brought about, at that particular time, by the erroneous policy of the Directors. Moreover, the weight of evidence and opinion tends to shew that there was no necessity for their stopping when they did. Their treasure, it is true, was reduced to little more than a million, but that was more than twice what they had in 1783, and the exchanges were favourable to the country and gold was pouring in. On the 30th May, Mr. Manning stated in the House, that vast quantities of gold had flowed into the Bank, both from the country and from abroad. In August the Bank had upwards of four millions of treasure, and this continued steadily to increase till August, 1799. But we must in candour state that it appears open to much doubt whether any management, however skilful, could ultimately have saved them from such a disaster during some period of the war. Several of those who concurred in the measure at the time, after their judgment had been corrected by experience, expressed their regret at having done so; Sir Robert Peel, in 1844, said it was a "fatal" measure. Notwithstanding, however, the concurrence of so many weighty authorities—and this is peculiarly a case where great authorities carry much weight—we cannot help thinking that it was fortunate that it occurred at this early period. The alarm and dangers which preceded its stoppage were comparatively slight compared to those which menaced the country after that event. The mutinies in the fleet, the rebellion in Ireland, the enormous accumulation of troops on the heights of Boulogne flushed with victory, led by a more fortunate, though probably not a greater soldier than Hoche, and burning with zeal for the invasion of England, were dangers of such portentous magnitude as to render it to the last degree improbable that any paper currency convertible into gold could have survived them. That Montague was a greater and more successful financier than Pitt, can, we think, scarcely be doubted; and the carrying through the re-coinage of the silver, in the midst of so much public distress, was a financial operation, of which the audacity, skill, and success, must ever be regarded with admiration. But it must be remembered that the crisis in that reign lasted a much shorter time than the revolutionary war, and was never fraught with so much real danger to the independence of the country. At that period there was probably



no paper credit in the form of bank notes out of London, and William was at the head of a great European confederacy against one overgrown power, so that the circumstances of the two periods were in no way parallel, but rather, we may say, reversed. The confederacy against England at the latter period was far more menacing and formidable than the alliance against France. The fortunes of Venice, with the enemy at Chiozza, were scarcely at a lower ebb than those of the British Empire in 1798, and there seemed to be but one thing wanting to complete the destruction of the country—the loss of public credit. However great and invaluable are the blessings of a paper currency in time of peace, there does not appear to be any instance of its having successfully withstood the danger of invasion by a foreign enemy. Even in Scotland, where it had been confessedly conducted on a better system, and obtained the confidence of the country to a much greater degree, it could not have withstood the dread of invasion, if it had not been for the timely assistance of the Bank of England. And if it could not do so in that country, where the danger was remote, it is not probable that it could have done so in England, where not only it was of much inferior stability, but was the very part of the empire aimed at, and first exposed to danger. The constant power of producing public embarrassment by demands for gold would have been a powerful weapon in the hands of the enemy, in which they would have found many in this country to support them from political sympathy. This measure, therefore, removed one perpetual source of terror and alarm from the Ministry. The great depreciation of the currency, which took place some years afterwards, was not by any means a necessary consequence from such a measure, but was produced by the infatuated perversity, both of the Government and of the Bank of England, who with fatal obstinacy persisted in a system combining almost every false principle that could be thought of. Upon the whole, then, we think that the suspension must have taken place sooner or later, and therefore it was probably advantageous for the country that it did occur so early in the struggle.

#### The Crisis of 1825.

The circumstances which led to the great depreciation of the Bank Note and the appointment of the Bullion Committee in 1810, its report and its rejection by the House of Commons in 1811, the subsequent increased depreciation of the Bank Note, and the fearful monetary disasters in 1815-16-17, and the crisis of 1819, followed by the total suspension of cash payments by the Bank, and the circumstances preceding the great crisis of 1825, are fully detailed under **BANKING IN ENGLAND AND BULLION REPORT**. We shall therefore not repeat here the details given under these articles, but shall confine ourselves to an examination of the conduct of the Bank of England during the crisis.

The exchange on Paris began to decline at the close of 1823. The last time it was above par was in June, 1824, and it steadily declined till November. On the 18th of that month, Mr. Ward, one of the Directors of the Bank, said that the demand for bar gold shewed that it was being exported. The following table shews that

the treasure in the Bank had been steadily and rapidly declining ever since January, 1824. Now when it was known that immense sums were leaving the country and the exchange falling lower, what did the Bank do? It increased its issues. When every consideration of common sense and prudence demanded a rapid contraction, when the speculative fever was plainly declared, instead of doing what they could to check it, they added fuel to the flames, in defiance of the principles of the Bullion Report. The following table exhibits the state of their treasure and their issues from the end of 1823 to that of 1825.

COIN AND BULLION. NOTES ISSUED.			
1823.			
Dec. 27	14,049,860	17,551,530	
1824.			
Jan. 31	13,577,850	20,260,620	
Feb. 28	13,800,390	19,738,940	
March 27	13,811,380	19,156,930	
April 24	13,463,550	20,546,540	
May 23	13,867,840	19,456,970	
June 26	13,800,140	19,183,570	
July 31	11,814,120	21,938,640	
Aug. 28	11,763,550	20,268,320	
Sept. 25	11,811,500	18,716,500	
Oct. 30	11,433,430	21,042,020	
Nov. 27	11,323,760	20,850,360	
Dec. 24	10,721,190	19,447,330	
1825.			
Jan. 29	9,490,420	21,960,330	
Feb. 26	8,867,780	21,060,140	
March 26	8,152,340	19,611,340	
April 30	6,659,780	20,636,630	
May 28	6,131,300	19,658,010	
June 25	5,482,040	18,372,360	
July 30	4,174,880	20,794,720	
Aug. 27	3,626,570	19,290,070	
Sept. 24	3,426,090	10,008,780	
Oct. 29	3,150,860	18,692,220	
Nov. 26	3,012,150	17,464,890	
Dec. 31	1,260,890	25,709,420	

The speculative fever was at its height in the first four months of 1825, when it had spent its force, and came to an end in the natural course of things. Vast numbers of persons who had embarked in these wild schemes, with the hope of selling out of them before the inevitable crash came, were now called upon for their subscriptions. Vast quantities of capital having been absorbed had the inevitable effect of raising the rate of interest. Successive calls compelled the weaker holders to realize, and while the calls for ready money were immediate and pressing, the prospect of returns was distant and uncertain. Accordingly, after May and June, the decline was rapid. The South American loans and the Mexican mining schemes proved almost universally total losses. In the meantime that *slack water*, which Mr. Tooke observes always precedes a great turn in the tide of prices, took place. The increased prices of commodities which speculation had caused, could no longer be kept from being realized, and prices fell as rapidly as they had risen. The obligations of the speculators now became due, and the sale of commodities had to be forced to meet them. Universal discredit now succeeded, goods became unsaleable, so that stocks, which are usually held in anticipation of demand, were wholly unavailable to meet the pecuniary engagements of the holders. Merchants who had accepted bills for only half the value of the goods consigned to them, were unable to realize even that half, or even obtain advances on security of

the bills of lading. The advances already made were peremptorily called in. The usury laws, which limited interest to 5 per cent., greatly aggravated the distress; nobody would lend money at 5 per cent. when its real value was so much greater. Hence numbers, who would have gladly paid 8 or 10 per cent. interest, were obliged to sell goods at a difference of 30 per cent. for cash, compared with the price for time.

The bankers in the country had followed exactly in the steps of the Bank of England. While the fever was raging, they had increased their issues and liabilities by speculative advances on commodities. The persons to whom these advances had been made had no means of repaying them, but the "promises to pay" the bankers had lent them still remained in circulation, and must be met. The bankers foresaw the coming storm, and endeavoured to provide funds to meet it. The Bank of England itself had its eyes opened to the suicidal career it was following in May, and then endeavoured violently to contract its issues. This sudden change of policy only aggravated the general feeling of discredit. During the autumn everything portended the approach of the impending catastrophe.

The inevitable *contre coup* of the undue expansion of credit in the spring began to press heavily on the country banks in the autumn of 1825. It gradually became severer during the month of November. As the crisis was evidently approaching at the end of November, the papers discussed the probable policy of the Bank, and it was generally anticipated that it would continue to contract its issues, and let the evil work its own cure by the fall of the houses which had been imprudent in their speculations. On the 29th November it was announced in the London papers that Sir William Elford's—a large bank at Plymouth—had failed, and that was immediately followed by the fall of Wentworth and Co., a great Yorkshire firm. By the 3rd of December the panic had fairly set in, and the whole city was thrown into the most violent state of alarm and consternation. On that day (Saturday) some of the Directors of the Bank were informed that the house of Pole, Thornton and Co., one of the leading city banking houses, was in difficulties, and at a hurried meeting held on the following day, it was decided to place £300,000 at their disposal on proper security. During that week the utmost attention was paid to the position of that house, which fought it through the following week, though it was privately known to the governor that if the storm did not abate they must fall on the Monday morning. Instead of abating, however, it became more furious than ever on the Monday. Pole and Co. stopped payment, and the ruin of 40 country banks which were connected with them was expected.

The fall of this great banking house was the signal for a run upon all the London bankers. Another great house of equal magnitude, Williams, Burgess and Co. and three or four more, gave way, and spread universal consternation among the country banks, 63 of which succumbed to the crisis, though a considerable number paid 20s. in the pound, and eventually resumed business.

The Bank at first maintained a policy of vigorous restriction, in which they were supported by public opinion. Mr. Huskisson said afterwards

in the House of Commons, that during 48 hours (Monday and Tuesday, December 12 and 13,) it was impossible to convert into money to any extent the best securities of the government. Persons could not sell Exchequer Bills, nor Bank Stock, nor East India Stock, nor the public funds. Mr. Baring said that men would not part with their money on any terms, nor for any security. The extent to which the distress had reached was melancholy to the last degree. Persons of undoubted wealth and real capital were seen walking about the streets of London not knowing whether they should be able to meet their engagements for the next day. The Directors thought that they would certainly have to stop payment, and sounded the government as to a restriction act. But the government would not hear of such a thing, and it was resolved that the Bank should pay away its last guinea and its last shilling.

On the 14th December Mr. Vincent Stuckey, an eminent West country banker, wrote to the Directors recommending them to issue a million of notes a day. That the discredit was directed against the country bank paper, and all they would have to do would be to exchange their powerful credit for the tottering credit of the country banks, and they would not increase the total of the circulation. Whether it was in consequence of this advice or not it does not appear, but they adopted this plan. On Wednesday, the 14th, the Exchange had decidedly turned in favor of the country in consequence of the pressure, and the Bank totally changed its policy. From a policy of the most stringent restriction, they discounted with the most enormous profuseness. They made immense advances on Exchequer Bills and securities of all sorts. Mr. Harman says (*Report Bank Charter, 1832, p. 154*):—"We lent it by every possible means, and in modes we had never adopted before; we took in Stock as security, we purchased Exchequer Bills, we made advances on Exchequer Bills, we not only discounted outright but we made advances on deposit of bills of exchange to an immense amount, in short by every possible means consistent with the safety of the bank; and we were not on some occasions overnice, seeing the dreadful state in which the public were, we rendered every assistance in our power." This audacious policy was crowned with the most complete success—the panic was stayed almost immediately. On Friday evening, the 16th, the *Courier* said:—"We are happy to think that the worst is over, though there are still great demands upon the Bank, particularly from the country. The same paper, on the next day, the 17th, said:—"Although public confidence is on the return in the metropolis, and things are resuming their usual course, yet, as might be expected, this has not yet communicated itself to the country." In fact, the London panic was completely allayed in this week by the profuse issue of bank notes. Between Wednesday, the 14th, and Saturday, the 17th, the bank issued upwards of £5,000,000 of notes!

The waves of discredit, however, were propagated through the country, and throughout the following week the demand still continued great from the London bankers for their country correspondents. During the course of it, it came to the remembrance of some of the Directors that there

was a chest of their £1 notes which had never been used. As soon as this was discovered, it occurred to them that they might be used to stay the panic in the country districts, and the discredit of the country bank notes. Upon communicating this idea to the London bankers it was eagerly approved of, and the sanction of the Government was asked for the experiment. The Government consented, and the notes were sent off to the country bankers without delay, and produced instantaneous relief. "At Norwich, when the Gurneys shewed upon their counter so many feet of bank-notes of such a thickness, it stopped the run in that part of the country."

During the week ending the 17th, the Mint had been kept constantly at work day and night, but notwithstanding all its efforts it could not supply coin with sufficient rapidity, so that it kept continually diminishing. On the Saturday the coin and bullion in the Bank scarcely exceeded one million, but the profuse issue of notes had stayed the panic, and on Saturday evening the Directors were able to assure the ministry that all danger was over. The great pressure had produced the effect which necessarily results from such circumstances. The great increase in the value of money here had turned the exchanges in favour of the country. The Directors expected remittances from Paris, and they fortunately came sooner than was expected. On Monday, the 19th, about £400,000 came from France, and the demand having sensibly abated, the supplies from the Mint fully equalled the sums drawn out of the Bank,—or rather exceeded them. By the 24th the panic was completely allayed all over the country, and the amount of the £1 notes issued was under £500,000, and by the beginning of 1826 the credit of the banking world was completely restored.

The circumstances of this famous crisis are the most complete and triumphant example of the unquestionable truth of the principles of the Bullion Report, and of Sir Francis Baring already quoted. When the drain of treasure from the Bank was severe and unceasing, and notoriously for exportation on account of foreign loans, the Bank with infatuated obstinacy had increased their issues instead of contracting them, in defiance of the clearest warnings of the Bullion Report. After six months' continuance in this fatal course, they at last reversed their course and contracted them. In July 1825, after a steady and notorious drain had been going on for exportation, their issues were upwards of three millions greater, when their treasure scarcely exceeded four millions, than when it had been 14 millions. In the course of the autumn the drain for exportation ceased, but began to be severe for internal purposes. The demand for gold was entirely to support the tottering credit of the country bank notes. Now, as the country bankers were only too glad to withdraw their own notes and substitute gold for them, there was not the slightest danger of an increase of Bank of England notes adding to the general amount of the paper currency in the country, but just the reverse. Consequently it was just the precise case in which Sir Francis Baring and the Bullion Committee said it was the duty of the Bank of England to extend its issues to support general credit. There was not the smallest danger that an extension of

issues would, under such circumstances, turn the foreign exchanges against the country. The character of the demand was declared in the most unmistakable way. On Thursday, the 15th, a meeting of merchants and others took place at the Mansion House, when it was stated that Sir P. Pole and Co. had a surplus of £170,000 after payment of all claims against them, besides large landed property belonging to Sir Peter Pole, and about £100,000, the private property of other members of the firm. Williams and Burgess had enough to pay 40s. in the pound. Now if the course which was adopted on the Wednesday had been adopted on the Monday, the whole of that terrible crisis would have been saved. All contemporary evidence proves that it was this profuse issue of £4,000,000 in a few days that stayed the panic. If they had persevered in the restrictive policy for three days more, the total and entire destruction of commercial credit would infallibly have ensued. In short if they had followed the precedents of 1793 and 1797, so strongly condemned by the Bullion Report, all credit would have been destroyed; they followed the principles laid down in the Bullion Report, and the country was saved.

With respect to the issue of the £1 notes, Mr. Horsley Palmer, the Governor of the Bank, was asked (*Report on Bank Charter, 1832*—Q. 99: "Was not the difficulty of which you have been speaking in the year 1825, when there was such a run upon the Bank, unconnected with any foreign demand, in fact, met by the re-issuing of the £1 notes?—At Norwich it was, and I believe at one or two other places." Q. 117: "Can there be any doubt that that issue of £1 notes made in 1825 had a most beneficial effect upon the transactions of this metropolis?—I believe that it proved beneficial in stopping the run upon the country bankers." After describing the effect of the fall of Pole and Co. upon commercial credit, in questions 607-616, Mr. Palmer said that the danger to the Bank was in a great degree averted by the issue of its £1 notes, which were a very material aid to it when it was difficult to get coin from the Mint in sufficient quantities. Mr. Stuckey, the eminent banker, said that if the Bank had not done as they did, most of the banks in London as well as the country must have stopped. Mr. Jeremiah Harman was asked—Q. 2,232: "The Bank of England issued £1 notes at that period—was that done to protect its remaining treasure?—Decidedly, and it worked wonders. Do you think that the issuing of the £1 notes did avert a complete drain?—As far as my judgment goes, it saved the credit of the country." Mr. G. W. Norman was asked—Q. 2,479: "Do you not think that with a reduced treasure in the Bank, accompanied with embarrassment in commerce, and workmen thrown out of employment, a prudential regard to the safety of the Bank would cause that to be considered a period of danger to the Bank?—Certainly I should say it would be an anxious period for the Bank; but I think we have generally seen in periods of commercial distress the credit of the Bank rather rose higher above the common credit of other bodies of individuals than at any other time. Why do you think so?—I may refer particularly to the example of 1825; at that time the Bank had the means of increasing its issues prodigiously;

at the moment the crisis took place there was nothing like a want of credit in the public mind with respect to the Bank. Do you suppose that the £1 notes of the Bank at that time stopped the panic?—To a certain degree." Even Mr. Samuel Jones Loyd (now Lord Overstone) whose opinions on Currency we have examined at great length under CURRENCY, testified as to the good effect of the issue of the £1 notes. Q. 3,446: "Do you conceive that any part of what has been called the commercial discredit in the year 1825, consisted in a doubt of the ultimate solvency of the Bank of England?—Not the slightest; and the best proof of that is, that when they had no further sovereigns that they could issue, they luckily found a large quantity of £1 notes, and the public were perfectly satisfied with the £1 notes."

#### On the Crisis of 1847.

The great crisis of 1825 is the most striking proof of the truth of the fundamental principles of the Bullion Report, one of which was that it was inexpedient to impose a numerical limit on the issues of the Bank, because there were occasional crises to which our system of paper credit was subject, when a liberal issue of Bank notes was indispensable to prevent general commercial ruin. After many long controversies we have seen that the Directors of the Bank were brought to admit the principle that the issues of notes should be regulated by the state of the Foreign Exchanges. We have shewn under BANKING IN ENGLAND, § 218, the rules proposed by the Directors for controlling their issues by the Exchanges, and how utterly futile they were. The mismanagement of the Directors brought the Bank into difficulties in 1837 and 1839, but these crises are not sufficiently important in a scientific point of view to demand a separate notice. The repeated instances of mismanagement, however, turned the attention of writers to devise some plan by which the Bank should be compelled to maintain itself in a position of solvency, and a plan was adopted by Sir Robert Peel, very much in conformity with the ideas of Colonel Torrens, Mr. Samuel Jones Loyd (Lord Overstone), and others, which was carried into effect by the famous Bank Act of 1844. The details of this Act are fully explained in BANKING IN ENGLAND, § 235. We have shewn there that it imposed a definite limit on the issues of the Bank, being allowed to issue notes to the amount of £14,000,000 based on public securities, together with an amount equal to the quantity of coin they possessed in their vaults. This theory was based upon what is called the Currency Principle, which shortly stated is this:—That Bank notes payable to bearer on demand are currency, as distinguished from all other forms of paper credit. That when Bank notes are permitted to be issued, they ought to be exactly equal in quantity to the bullion they displace, and that the quantity of notes in circulation ought always to be exactly equal to what the coin would be if there were no notes. Such was the theory the promoters of the Act intended to carry out. But we have shewn under BANKING IN ENGLAND, § 236-7, and CURRENCY PRINCIPLE what a complete delusion it is to suppose that the Act does really carry it out. However, that is not the most important point which affects us at

present. The chief point we have to consider at present, is the policy of imposing a definite numerical limit on the issues of the Bank, in diametrical opposition to the opinions of the most eminent banking authorities up to 1840.

The intention of the framers of the Act was that, as bullion left the country, the issues of the Bank in the hands of the public should be gradually diminished, so as to make money more valuable, and arrest the drain. After the passing of the Act of 1844, from various circumstances, there was a continual increase in the bullion in the Bank until August, 1846, when it reached a maximum of 16 millions, and the rate of discount was 3 per cent. The following figures shew the notes held by the public, and in reserve, the total amount of bullion, and the rate of discount, from August, 1846, to the crisis of April, 1847.

BANK NOTES.			Total Amount of Bullion.	Rate of Discount.
1846.	Issued.	In Reserve.		
	£	£	£	
Aug. 29 ..	20,426,000	9,450,000	16,366,000	3
Oct. 3 ..	20,551,000	8,809,000	15,817,000	3
Nov. 7 ..	20,971,000	7,265,000	14,760,000	3
Dec. 19 ..	19,549,000	8,864,000	15,163,000	3
1847.				
Jan. 9 ..	20,837,000	6,715,000	14,308,000	
" 16 ..	20,679,000	6,546,000	13,949,000	3½
" 30 ..	20,469,000	5,704,000	12,902,000	4
Feb. 20 ..	19,482,000	5,917,000	12,215,000	4
Mar. 6 ..	19,279,000	5,715,000	11,596,000	4
" 20 ..	19,069,000	5,419,000	11,232,000	4
April 3 ..	19,855,000	3,700,000	10,246,000	4
" 10 ..	20,243,000	2,558,000	9,867,000	5

When the public saw the whole banking resources of the Bank reduced to 2½ millions, a complete panic seized the Directors and the public. The Directors adopted measures of the greatest severity to check the drain. Discount out of doors on the best bills rose to 10 and 12 per cent. In consequence of these measures bullion began to flow in, and continued to do so till the end of June, when it was upwards of 10½ millions. At the end of June, however, a new drain began, which continued steadily till after the great crisis in October. At the end of July, the Bank had £9,331,000 of bullion and coin, the notes issued were £18,892,000, and those in reserve were £3,775,000. They had been so severely blamed in April for not taking timely precautions to check the drain, that they now proceeded with greater energy. Discount was raised to 5½, being 1½ per cent. higher than when they had a similar amount of reserve in April.

The crisis of 1847 began in August. There had undoubtedly been a long period during which houses that had been insolvent for years had maintained themselves afloat by the low rate of discount. But besides that, the extraordinary rise in the price of wheat in the spring had led to enormous speculation in corn. The price of wheat had ranged from 70s. to 77s. from January to April. In May the average rose to 105s., a considerable quantity being sold at a much higher figure than that. It did not vary much during June. These high prices, of course, attracted an immense amount of supplies; and during July



the price gradually fell to 76s. The cargoes, however, purchased at the prices of the spring, now arrived. Besides that, the new crops began to come in, and were found to be of excellent quality; and thus the price was still further lowered. The frightful catalogue of failures began in the first week of August. During the first week they were about £1,200,000. In three weeks they amounted to £3,027,000. Week after week followed, each one increasing in severity, until the total exceeded £15,000,000. The increasing severity of the crisis had its usual effect of turning the exchanges in favour of the country, and by the end of September bullion began to flow in.

By the 2nd of October, the reserve was reduced to £3,409,000, with the crisis becoming severer every day. The Bank began to perceive that it was time for them to think of their own safety. On that day they gave notice that the minimum rate would be  $5\frac{1}{2}$  on all bills falling due before the 15th October, and they refused to make any advances on stock or exchequer bills. This last announcement created great excitement on the Stock Exchange. The town and country bankers hastened to sell their public securities, to convert them into money. The difference between the price of Consols for ready money and for the account of the 14th October, shewed a rate of interest equivalent to 50 per cent. per annum. Exchequer bills sold at 35 per cent. discount. On the 16th October the rate of discount varied from  $5\frac{1}{2}$  to 9 per cent. At this time the bullion was £3,431,000; the notes issued £19,359,000; and in reserve £2,630,000.

The following week, from Monday the 18th to Saturday the 23rd, was the paroxysm of the crisis. On Monday the Royal Bank of Liverpool, with a paid-up capital of £800,000, stopped payment, which caused the funds to fall 2 per cent. This was followed by the stoppage of the North and South Wales Bank, also of Liverpool, the Liverpool Banking Company, the Union Bank of Newcastle, heavy runs on the other banks of the district, and other bank failures at Manchester and in the West of England. As the whole commercial world knew that the resources of the Banking department were being rapidly exhausted, a complete panic seized them. Private discounts ceased. At Liverpool bills of the best houses, bearing the endorsement of the Bank of France, and having only three days to run, were refused discount at the branch of the Bank of England. No one would part with the money or notes they possessed. The most exorbitant sums were offered to merchants, and refused, for their acceptances.

The continued and ever increasing severity of the crisis caused deputation after deputation to be sent to the Government, to obtain a relaxation of the Act. For a long time they were unsuccessful, the Ministry clinging with obstinacy to their pet theory of currency. At last it became evident that matters could go on no longer. Ruin awaited the whole commercial community. On Saturday, the 23rd, the Ministry found that the Act must be abandoned, and communicated this determination to the Directors, who immediately acted upon it, and discounted freely at 9 per cent. The letter itself was not actually sent till Monday, the 25th. It stated that the Government

expected that the pressure which had existed for some weeks would have passed away like the one in April had done, by the operation of natural causes. That, being disappointed in this hope, they had come to the conclusion that the time had come when they ought to attempt, by some extraordinary and temporary measure, to restore confidence to the mercantile community. That for this purpose they recommended the Directors of the Bank of England, in the emergency, to enlarge the amount of their discounts and advances on approved security; but that, in order to restrain this operation within reasonable limits, a high rate of interest should be charged, which, under the circumstances, should not, they thought, be less than 8 per cent. That if such a course should lead to any infringement of the law, they would be prepared to propose to Parliament, on its meeting, a bill of indemnity. This letter was made public about one o'clock on Monday, the 25th; and no sooner was it done so, than the panic vanished like a dream! Mr. Gurney stated that it produced its effect in ten minutes! No sooner was it known that notes *might* be had, than the want of them ceased! Not only did no infringement of the Act take place, but the whole issue of notes in consequence of the letter was only £400,000; so that, while at one moment the whole credit of Great Britain was in imminent danger of being totally destroyed, within one hour it was saved by the knowledge that notes *might* be had, and the actual issue of £400,000!

The extraordinary and disastrous state of public credit at this period may be judged of by the aid afforded by the Bank of England to different establishments from the 15th September to the 15th November, as follows:—

1. It advanced £150,000 to a large firm in London, who were under liabilities to the extent of several millions, on the security of debentures of the Governor and Company of the Copper Miners of England, which prevented them stopping payment.
2. It advanced £50,000 to a country banker, on the security of real property.
3. It advanced £120,000 to the Governor and Company of Copper Miners, which prevented them stopping payment.
4. It advanced £300,000 to the Royal Bank of Liverpool, on the security of bills of exchange, over and above their usual discounts; but this was inadequate, and the bank, having no further security to offer, stopped payment.
5. It advanced £100,000 to another joint stock bank in the country.
6. It advanced £130,000 on real property to a large mercantile house in London.
7. It advanced £50,000 on bills of exchange to another mercantile house, on the security of approved names.
8. It advanced £50,000 on bills of exchange to a joint stock bank of issue, which soon after stopped payment.
9. It advanced £15,000 on real property to another mercantile house in London.
10. It saved a large mercantile house in Liverpool from failing, by forbearing to enforce payment of £100,000 of their acceptances falling due.
11. It assisted another very large joint stock bank in the country by an advance of £800,000 beyond its usual discount limit.

12. It advanced £100,000 to a country banker on real security.

13. It advanced to a Scotch bank £200,000 on the security of local bills, and £60,000 on London bills.

14. It assisted another Scotch bank by discounting £100,000 of local and London bills.

15. It advanced £100,000 to a large mercantile house in London, on approved personal security.

16. It assisted a large house in Manchester to resume payment, by an advance of £40,000 on approved personal security.

17. It advanced £80,000 to a country bank on real property.

18. It assisted many other houses, both in town and country, by advances of smaller sums on securities not usually admitted; and it did not reject, in London, any one bill offered for discount, except on the ground of insufficient security.

The far larger portion of this assistance was given before the 23rd October.

On the meeting of Parliament the Chancellor of the Exchequer moved for a committee to enquire into the causes of the recent commercial distress, and how far it was affected by the Act of 1844. He spoke of the panic in the spring. He said that he had seen no reason to change the opinion he had then expressed, that it was mainly owing to the imprudence of the Bank, which, having full warning of the various demands it would have on it, was too tardy in raising the rate of discount, and had lent out, over the period when the dividends became payable, the money they had provided for that purpose, so that they were not in possession of adequate funds when they were required. The low state of their reserve then excited consternation. The Bank then took the severe step of reducing the amount of discounts. They pulled up as suddenly as they had unwisely let out their reserve before. With respect to the panic of October, he said that the severe pressure in the money market had abated when the bank failures in Liverpool and the North of England took place, which renewed the alarm. After describing the great pressure on the country banks, he said—"The Bank of England were pressed directly for assistance from all parts of the country, and indirectly through the London bankers, who were called upon to support their country correspondents. The country banks required a large amount of notes to render them secure against possible demands; not so much for payment of their notes, as of their deposits. Houses in London were applying constantly to the Bank for aid. Two bill brokers had stopped, and the operations of two others were nearly paralysed. The whole demand for discount was thrown upon the hands of the Bank of England. Notwithstanding this, as I said before, the Bank never refused a bill which it would have discounted at another time; but still the large mass of bills which under ordinary circumstances are discounted by bill brokers could not be negotiated. During this period we were daily, I may say hourly, in possession of the state of the Bank. The Governor and Deputy-Governor at last said they could no longer continue their advances to support the various parties who applied to them; that they could save themselves, that is, they could comply

with the law; but that they could not do so without pressing more stringently on the commercial world. At this crisis a feeling as to the necessity of the interposition of Government appeared to be generally entertained; and those conversant with commercial affairs, and least likely to decide in favour of the course we ultimately adopted, unanimously expressed an opinion, that, if some measures were not taken by the Government to arrest the evil, the most disastrous consequences must inevitably ensue. Evidence was laid before the Government, which proved, not only the existence of severe pressure from the causes I have stated, but also that it was aggravated in a very great degree by the hoarding, on the part of many persons, of gold and Bank notes to a very large extent, in consequence of which an amount of circulation, which under ordinary circumstances would have been adequate, became insufficient for the wants of the community. It was difficult to establish this beforehand, but the best proof of the fact is in what occurred after we interfered. As soon as the letter of the 23rd October appeared, and the panic ceased, thousands and tens of thousands of pounds were taken from the hoards, some from boxes deposited with bankers, although the parties would not leave the notes in their banker's hands. Large parcels of notes were returned to the Bank of England, cut in halves, as they had been sent down into the country; and so small was the real demand for an additional quantity of notes, that the whole amount taken from the Bank when the unlimited power of issue was given was under £400,000. The restoration of confidence released notes from their hoards, and no more were wanted; for this trifling quantity of additional notes is hardly worth notice. \* \* \* Parties of every description made applications for assistance to us, with the observation, 'We do not want notes, but give us confidence.' They said, 'We have notes enough, but we have not confidence to use them; say you will stand by us, and we shall have all that we want; do anything, in short, that will give us confidence. If we think that we can get Bank notes, we shall not want them. Charge any rate of interest you please; ask what you like.' (*Mr. Spooner*, "No! no!") "I beg pardon of the honourable gentleman, but I may be permitted to know what was actually said to me. I say that what I have stated was the tenor of the applications made to me. Parties said to me, 'Let us have notes; charge 10, 12 per cent. for them; we don't care what the rate of interest is. We don't mean indeed to take the notes, because we shall not want them; only tell us that we can get them, and this will at once restore confidence.' We have been asked what was the change of circumstances which induced us to act on Saturday when we declined acting a day or two before. I reply that the accounts we received on Thursday, Friday, and Saturday, were of a totally different description from those that were previously brought us. It was on Saturday, and not before, that this conviction was forced upon us; and it was not till then that we felt it necessary to sanction a violation of the law." The persons applying generally said that it was necessary to place a limit on the amount to be authorized, which they proposed should be two or three

millions; but the Government thought the limit should be placed on the rate of interest, and this was the method adopted. There can be no doubt whatever of the soundness of this opinion. If the Bank had been limited to the paltry sum of two or three millions, it would probably have gone but a little way to stay the panic, or the demand for hoarding. But when everybody knew that they might have notes at a high rate, they did not apply for them, unless they really required them. We have already shown that Sir Robert Peel entirely approved of the conduct of the Government, which was a distinct repudiation of the currency principle. We have given a long extract from Sir Robert Peel's speech under BANKING IN ENGLAND, § 246.

On the meeting of Parliament, both houses appointed committees to inquire into the causes of the commercial distress, and the working of the Act of 1844. Before the Committee of the Commons, Mr. Adam Hodgson, a Director of the Bank of Liverpool, gave it as his decided opinion that, if the Act had not been suspended, the Bank of England would have stopped payment. Mr. Samuel Gurney stated that he was quite satisfied there were at least £4,000,000 of notes hoarded from panic, and alarm that notes could not be got at all. He gave the experience of his own firm to illustrate the nature of the crisis. On Saturday, the 23rd, owing to the feeling of alarm that it would not be possible to get circulating medium, they considered it prudent to negotiate a loan for £200,000, which was done at 9 per cent. On the Monday the feeling became still more intense; both from the country and from London there was a general rush to get notes while they were to be had. The firm made an application for a similar amount on Monday, and were told that they should have an answer by two o'clock. Before that time, however, the Government letter came out, and the orders for money were very generally withdrawn. Sums of money were offered them; and before the week was over they had to go to the Bank, to ask them, as a favour, to take back the money they had lent. He was of opinion that the crisis would have been mitigated if the letter had come out sooner. He stated that at first his opinion had been in favour of the Act, but, after seeing its operation in April and October, his opinion had decidedly changed and become adverse to it. He said that, when there was a panic, the only cure was a liberal issue of notes.

Mr. Lloyd (Lord Overstone) was of opinion that the Act of 1844 had no effect whatever in causing or aggravating the pressure in April or October; that the course pursued by the Bank from January to April was extremely erroneous and detrimental to the public interest, and was only stopped by the positive provisions of the Act; and that, if that system of procedure had not been stopped, it must have ended in the most disastrous consequences. The bullion in the Bank would have been greatly diminished, and the pressure far more severe, if it had been put off longer. He, however, under the circumstances, approved of the issue of the Government letter to allay the panic, which, he said, was not amenable to the principles of reason. He considered the issue of the letter to have been quite successful.

The Committee of the Commons presented their report on the 8th of June, 1848. It entered into no philosophical examination of the correctness, or the contrary, of the opinions of the witnesses. It aspired to and attained to no higher function than acting as a kind of preface to the mass of evidence, but concluded by stating the opinion of the committee that it was not expedient to make any alteration in the Act of 1844.

The report of the Lords was a much more elaborate production, and is a proof of what has been often remarked of the superior capacity of the Lords as men of business to the Commons. It stated that the committee had come to the conclusion that the recent panic was materially aggravated by the operation of the Bank Act of 1844, and by the proceedings of the Bank itself. The operation of the Act had aggravated the panic by imposing a legislative restriction on the means of accommodation while a large amount of bullion was in the bank, and the exchanges were favourable. They traced the causes of the panic, and entirely approved of the issue of the Government letter. They refused to recognize the doctrine of Mr. Lloyd, that "although the letter was a departure from the positive permission of the Act, it was not a departure from the principle of the Act." In section III. they said that the inflexible rule considered to be invariable and self acting, and adopted by the Legislature as connected with, and consequent upon, the separation of the Departments of Issue and Banking; and the regulations provided for both, is founded upon certain principles, which before they can be adopted demand very serious consideration. They then pointed out that some very material considerations enforced by the most eminent authorities of former times, had been entirely overlooked by the framers of the Act, and the supporters of the theory upon which it is founded, and said:—"Many other statements, authorities, and illustrations might be given, exemplifying the same principles, and proving the evil consequences of disregarding them; but enough has been stated to prove, in the judgment of the committee, that the inflexibility of the rule prescribed by the restrictive clauses of the Act of 1844 is indefensible, when equally applied to a state of varying circulation, and that its enforcement in 1847 was an aggravation of the commercial distress, and was therefore wisely set aside by the authority of the Government on the 23rd and 25th October." They then shewed that the same rule was not applicable to periods of an adverse and a favourable exchange, and shewed that the Act of 1844 errs in applying the same rule to these two different cases. They recommended that a discretionary relaxing power should be introduced, which should be exercised only during a favourable exchange.

#### The Crisis of 1857.

The crisis we have just been considering was the inevitable termination of a multiplicity of derangements of the proper course of commerce. No one conversant with commercial history could fail to foresee that the entanglements of so large a portion of the public with railway speculations, and the losses caused by the failure of the harvest must produce a crisis. We have seen that this crisis gave a fatal blow to the prestige of the

Bank Act of 1844, which was enacted in express contradiction to the opinions of the most experienced authorities of former times, whom it professed to follow. They had always protested against imposing a numerical limit on the issues of the Bank. The experience of the crisis of 1847, amply confirming that of 1793, 1797, and 1825, shewed that such restrictions cannot be maintained in the paroxysm of a great crisis without endangering the existence of the whole mass of commercial credit.

The crisis we are now going to describe was of a very different nature. It burst upon the world in the most unexpected manner. It gave no premonitory symptoms which were apparent to any but very watchful and experienced eyes; and when it did come, it revealed a depth of rottenness in the commercial world which appalled every one, and proved to be of much severer intensity than that of 1847.

The supporters of the Act were much crestfallen by its failure in 1847, but they took courage again after the Crimean war. The Act had been subjected to the test of a great commercial crisis and had failed. It was now subjected to the test of a war, and many of its opponents predicted that it would fail again; but it did not. Its effects during the Crimean war were probably salutary; but the war did not proceed to such a length as to test its powers severely. Peace was restored before the resources of the country were in any manner strained.

A very severe drain happened in the autumn of 1855, but the Bank, warned by previous experience, met it promptly and successfully. In April, 1855, discounts on three-month bills were 4½, in May 4, and in June reduced to 3½. In July the drain began, and continued with rapidity through August. On September 6th the rate was raised to 4, on the 13th to 4½, on the 27th to 5. On October 4th it was raised to 5½. The drain, however, continuing to increase in severity, discount was raised on the 18th October to 6 per cent. for two-month bills, and to 7 per cent. for three months. These rates continued till May 22nd, 1856, when it was reduced to 6 per cent. On the 26th it was reduced to 5 per cent., and on the 26th June to 4½ per cent. This continued till October, when, a great demand again going on, the rate was, on the 1st, raised to 5 per cent. On the 6th it was raised to 6 per cent. for two-month bills and 7 per cent. for three-month bills. On November 13th the minimum for all bills was 7 per cent. On December 4th it was reduced to 6½, and on the 18th to 6 per cent., and continued so till the autumn of 1857.

These rates were of course very much higher than the average ones of former times, and they were one ground of accusation brought by many against the Act. But, in truth, they were its very merits. The Directors had now learnt from experience, and it was these very variations which preserved the security of the Bank.

In August nothing seemed amiss to the public eye. "Things were then pretty stationary," said the governor of the bank—"the prospects of harvest were very good, there was no apprehension that commerce at that time was otherwise than sound. There were certain more far-seeing persons who considered that the great stimulus given by the war expenditure, which had created

a very large consumption of goods imported from the East and other places, must now occasion some collapse, and still more those who observed that the merchants, notwithstanding the enhanced prices of produce, were nevertheless importing as they had done successfully in the previous years. But the public certainly viewed trade as sound, and were little aware that a crisis of any sort was impending, far less that it was so near at hand."

The bullion at this time was £10,606,000, the reserve £6,296,000, and the minimum rate of discount 5½, when on the 17th August, the bank entered into a negotiation with the East India Company, to send one million in specie to the East.

Things were in this state, when about the middle of September, news came of a great depreciation of American railroad securities. It was found that for a long time they had been carrying on an extravagant system of management, and paying dividends not earned by the traffic. The system had at last collapsed, and of course an enormous depreciation of their stock followed, to the amount of nearly 20 per cent. It was supposed that as much as eighty millions of this stock was held in England, and that the effects of this fall would be very serious. On the 25th of August, the *Ohio Life and Trust Company*, with deposits to the amount of £1,200,000, stopped payment. The panic spread throughout the Union. Discount rose to 18 and 24 per cent. On the 17th October, news came that 150 banks in Pennsylvania, Maryland, Virginia, and Rhode Island had stopped payment. The drain was then beginning to be severe on the Bank of England. On the 8th, the bullion was £9,751,000, the reserve £4,931,000, and discount was raised to 6 per cent. On the 12th, the rate at Hamburg was 7½, and bullion was flowing towards New York; discount was then raised to 7 per cent. About this time, rumours strongly affecting the Western Bank of Scotland were abroad. On the 19th, discount was raised to 8 per cent. The commercial disasters were increasing in America. In one week the Bank of France lost upwards of a million sterling. The Bullion in the bank had sunk to £8,991,000, and the reserve to £4,115,000. Discount was raised to 7½ in Paris, and to 9 per cent. at Hamburg. On the 26th a deputation from the Western Bank of Scotland applied for assistance, but the Bank was afraid to undertake so enormous a concern. The Borough Bank of Liverpool was also in difficulties, and after some time the Bank agreed to assist them to the amount of £1,500,000 on condition of their winding up. But the arrangements fell through in consequence of the Liverpool bank closing its doors before it was completed.

On the 13th October a general run took place on the New York banks, in consequence of the severe measures of restriction they were obliged to adopt to protect themselves. Eighteen immediately stopped, and soon afterwards, out of 63 banks, only one maintained its payments. This immediately reacted on Liverpool and Glasgow, which were much involved with American firms. By the 19th October the failures began to be numerous in this country. Uneasiness greatly increased in London. On the 28th the principal



discount house applied to the Bank for an assurance that they would give them any assistance they might require. On the 30th an express came for £50,000 sovereigns for a Scotch bank, part of £170,000, and £80,000 for Ireland. On the 6th November discount was raised to 9 per cent. The great house of Dennistoun, with liabilities of nearly two millions, stopped payment on the 7th, and the Western Bank of Scotland closed its doors on the 9th. Failures in London were rapidly on the increase. Purchases and sales of stock were enormous, much beyond what they had ever been before. The bullion in the Bank had sunk to £7,719,000, and the reserve to £2,834,000. On the 9th, discount was raised to 10 per cent. On the 10th November, a large discount house applied to the Bank for £400,000. The Bank of France raised its rate to 8, 9 and 10 per cent. for one, two, and three months. Another English bank was assisted. The City of Glasgow Bank then stopped. On that day the discounts at the Bank were £1,126,000. On the 10th and 11th, upwards of one million sterling in gold was sent to Scotland, and there was a great demand from Ireland. On the 11th, Sanderson and Co., the great bill brokers, stopped payment, with deposits of 3½ millions. On the 12th the discounts at the Bank were £2,373,000. On the 11th, in consequence of these sudden demands for Scotland and Ireland, the bullion was reduced to £6,666,000, and the reserve to £1,462,000.

As the failures in London became more tremendous, discounts became more and more contracted. The stunning news of the stoppage of so many banks created a banking panic. Private banks stopped discounting altogether. The only source of discount was the Bank of England. The public, however, and the directors knew that the precedent of 1847 must be followed, and though they made no direct application to the government for the suspension of the Act, they laid the state of the Bank continually before them, and continued to discount as if they knew the Act must be suspended. At last private persons being unable to obtain discounts, began to make a run for their balances. When universal ruin was at last impending, the government, on the 12th November, sent a letter to the Bank to say, that if they should be unable to meet the demand for discounts and advances upon approved securities, without exceeding the limits of their circulation prescribed by the Act of 1844, they would be prepared to propose to parliament a Bill of Indemnity for any excess so issued. In order, however, to prevent the temporary relaxation of the Act from being extended beyond the necessities of the case, the rate of discount was not to be reduced below their present rate, 10 per cent.

The issue of this letter immediately calmed the public excitement. But on the evening of the 12th the total banking reserve of the Bank and all its branches was reduced to £581,000. Truly said the Governor of the Bank to the question 132, "Supposing that the letter in question had not been issued on that day, would the Bank, on the morning of the 13th, have been in a condition to continue its discounts?—No; certainly not."

"133. Would it not have been compelled to announce it could not discount any more commercial paper?—Yes, or nearly so.

"138. Is it not likely that the announcement of the cessation of discounts at the Bank of England would have increased the alarm of the mercantile public in London?—Materially.

"139. Would not an increased alarm on the part of the mercantile public have naturally led to an increased demand upon the bankers?—It would have led to immediate failures, and would so far have lessened the quantity of bills coming for discount, by the number of bills which were actually rendered unavailable.

"140. Without reference to bills, do you not think it likely that there would have been increased demands upon the bankers, which would have compelled them to withdraw a portion of their deposits from the Bank of England?—I think certainly that in part there would have been."

To shew the state the Bank was reduced to, the Governor gave in a paper to the Committee with the following figures, shewing its reserve on the 11th and 12th November:—

On Wednesday, November 11th, the reserve consisted of—

	£	£
Notes in London .....	875,005	
" at Branches .....	582,700	
		957,715
Gold coin in London .....	810,784	
" at Branches .....	97,665	
		408,449
Silver coin in London .....	44,046	
" at Branches .....	51,948	
		95,994
<b>Total Reserve .....</b>	<b>£1,462,153</b>	

On Thursday, November 12, at night, the reserve consisted of—

	£	£
Notes in London .....	68,085	
" at Branches .....	62,545	
		130,630
Gold coin in London .....	274,953	
" at Branches .....	83,255	
		358,208
Silver coin in London .....	41,106	
" at Branches .....	50,807	
		91,913
<b>Total Reserve .....</b>	<b>£580,751</b>	

That is to say that the total reserve in London on the evening of the 12th was £384,144. Such were the resources of the Bank of England to commence business with on the morning of the 13th! Truly, said the Governor, it must have entirely ceased discounting, which would have brought an immediate run upon it; and the banker's balances alone were £5,458,000. It is easy to see that the Bank could not have kept its doors open an hour.

The Governor of the Bank said that the panic of 1857 was not so great as that of 1847, but the real commercial pressure was more intense. This is proved by the fact that while in the former year the issue of the letter immediately allayed the panic, and by that means stopped the demand for notes, and there was only required an issue of £400,000 in notes to surmount all difficulties, which did not exceed the statutory limits; in 1857 the issue of the Government letter produced no cessation of demand for advances. The statutory limit was £14,475,000 of notes issued on

securities, and there were issued in excess of these—

	£	£
Nov. 13 .....	186,000	
" 14 .....	622,000	
" 16 .....	860,000	
" 17 .....	836,000	
" 18 .....	852,000	
" 19 .....	896,000	
" 20 .....	928,000	
" 21 .....	617,000	
Nov. 23 .....	397,000	
" 24 .....	317,000	
" 25 .....	81,000	
" 26 .....	243,000	
" 27 .....	342,000	
" 28 .....	184,000	
" 30 .....	15,000	

On the meeting of Parliament an Act was passed permitting a temporary suspension of the Bank Act till February 1st, 1858, provided the directors did not reduce their discount below 10 per cent. On the 24th December they reduced it to 8 per cent., thereby reviving the operation of the Act.

The following table shews the figures of various departments of the Bank before and during the crisis:—

ISSUE DEPARTMENT.			BANKING DEPARTMENT.						
	Notes Issued.	Gold Bullion and Coin.	Public Deposits.	Other Deposits.	Seven day and other Bills.	Government Securities.	Other Securities.	Notes.	Gold and Silver Coin.
	£	£	£	£	£	£	£	£	£
Oct. 3 ...	24,553,315	10,078,315	8,243,217	10,002,282	877,439	10,593,607	21,835,843	4,606,040	584,377
" 10 ...	24,014,510	9,539,510	8,502,326	9,667,123	872,580	10,560,607	22,398,877	4,024,400	570,433
" 17 ...	23,400,430	8,925,430	4,833,021	11,132,431	869,070	10,254,541	20,539,565	3,217,185	599,048
" 24 ...	23,252,105	8,777,105	4,861,740	11,263,986	819,442	10,254,541	20,404,597	3,485,840	592,689
" 31 ...	22,630,245	8,155,245	5,160,918	11,489,979	812,306	10,254,541	22,197,320	2,258,275	576,301
Nov. 4 ...	22,422,060	7,947,060	4,871,944	11,910,670	813,197	10,120,104	22,628,251	2,155,815	550,720
" 11 ...	21,141,065	6,666,065	5,314,659	12,935,344	853,075	9,444,828	26,113,453	957,710	504,443
" 18 ...	22,554,595	6,079,595	5,483,881	13,959,165	829,544	6,407,134	30,299,270	1,148,185	404,501
" 25 ...	23,259,145	6,784,145	5,788,198	14,951,516	815,838	5,807,447	31,350,717	1,918,840	479,527
Dec. 2 ...	23,370,770	6,895,770	6,072,267	14,436,186	841,261	5,441,647	31,191,386	2,268,840	460,697
" 9 ...	24,043,255	7,568,255	6,648,062	14,440,724	811,222	5,434,022	30,111,185	3,900,485	501,234
" 16 ...	25,400,735	8,925,735	6,944,352	15,077,428	893,754	5,446,131	29,264,940	5,757,175	525,120
" 23 ...	26,683,790	10,208,790	7,428,807	15,151,818	876,438	5,492,756	28,018,186	7,426,670	544,491
" 30 ...	25,380,555	10,905,555	7,443,613	15,072,971	827,405	7,541,491	27,299,815	6,064,985	459,406

Having thus laid before our readers an historical account of the various commercial crises which have occurred in this country, we may now make a few remarks on the policy which various authorities have recommended should be pursued by the Bank of England during them. And this is an inquiry of the highest national importance. Under the immense development of the system of credit in modern times, these crises are sure to be of periodical recurrence, and a wrong course of action may be attended with the most serious consequences to the public.

Ever since the crisis of 1793, there have been strong differences of opinion as to what ought to be the policy of the Bank in the midst of a crisis. Some contend that its issues ought to be rigorously limited, thinking apparently that if it extends its issues, they will only be thrown back upon it and gold demanded. Others maintain that its true policy, under such circumstances, is to enlarge its issues to support public credit.

In the crisis of 1793, the Bank acted upon the restrictive system, and steadily refused to enlarge its issues, though pressed to do so by Government. When all credit was threatened with ruin in consequence of this policy, the Government at last came forward, and by an issue of Exchequer Bills restored confidence, and the crisis passed away.

In the crisis of 1797, the Bank acted upon the same policy of rigorous restriction, and it had to suspend cash payments.

On both these occasions, 1793 and 1797, the severe policy of the Directors, which was perfectly right to a certain length, had turned the exchanges in favour of the country, and gold was coming in. The precedent of 1783 shewed that under such circumstances their issues might have been enlarged with perfect safety. And this was further proved by the fact that even after the

suspension in 1797, and the increase of their issues, gold continued to flow in in vast quantities, so that in the month of November, they had upwards of five millions of treasure in their vaults. This decisively proves that they might have enlarged their issues with perfect safety, and such a course would have prevented them from being obliged to stop payment.

Mr. Henry Thornton, a banker of great eminence, and one of the authors of the Bullion Report, being examined before the Committee of the Lords in 1797, explained to them how too great a diminution of bank notes produced a demand for guineas. He said, p. 73—"I think that an increased quantity of notes proportioned to the increased occasion for them, must tend to prevent a demand for guineas rather than to promote it; and if the quantity of notes issued should be very considerably less than the occasion of the mercantile world requires, I should think a run upon the Bank for guineas would be the consequence."

At p. 80—"When the Bank of England materially lessens or suppresses its notes, there are no other notes which can supply their place. Their place, indeed, may be supplied partly by guineas, but these guineas must be supplied by the Bank of England itself; the distress which the suppression of Bank of England Notes, to any considerable degree, causes in the metropolis, produces distress throughout the whole kingdom. It is the means of producing the suppression of much of the paper of the country, and of a consequent demand for guineas from the Bank."

Mr. Walter Boyd, also an eminent banker, being asked—"Are you of opinion that an increased issue of Bank of England Notes made to the public by an extension of discounts would or would not have contributed to increase the demand of cash from the Bank?"—said, "I am of opinion

that if the amount of the issues of Bank of England Notes had been only maintained at what I conceive must have been its height in the month of December, 1795, the drain of specie from the Bank, as well as all the embarrassments in the mercantile world, and a very great portion of the fall which the public securities have experienced, would have been prevented."

Mr. Boyd and Mr. Thornton both repeated the same opinions before the Committee of the Commons, saying that a diminution of Bank Notes had the inevitable effect of causing a drain of guineas.

We shall now quote a passage from Mr. Thornton's essay on paper credit. After condemning Adam Smith's notion of restricting the paper to the actual quantity of gold displaced, which we have quoted under CURRENCY PRINCIPLE, he says—"The causes which lead to a variation in the rapidity of the circulation of bank notes may be several. In general it may be observed that a high state of confidence serves to quicken their circulation; and this happens upon a principle which shall be fully explained. It must be premised that by the phrase, a more or less quick circulation of notes, will be meant a more or less quick circulation of the whole of them on an average. Whatever increases that reserve, for instance, of Bank of England Notes which remains in the drawer of the London banker as his provision against contingencies, contributes to what will here be termed the less quick circulation of the whole. Now, a high state of confidence contributes to make men provide less amply against contingencies. At such a time they trust that if the demand upon them for a payment which is now doubtful and contingent, should actually be made, they shall be able to provide for it at the moment, and they are loth to be at the expense of selling an article, or of getting a bill discounted, in order to make the provision much before the period at which it shall be wanted. When, on the contrary, a season of distrust arises, prudence suggests that the loss of interest arising from a detention of notes for a few additional days should not be regarded.

"It is well known that guineas are hoarded in time of alarm on this principle. Notes, it is true, are not hoarded to the same extent, partly because notes are not supposed equally likely, in the event of any general confusion, to find their value, and partly because the class of persons who are the holders of notes is less subject to weak and extravagant alarms. In difficult times, however, the disposition to hoard, or rather, to be largely provided with Bank of England Notes, will, perhaps, prevail to no inconsiderable degree.

"This remark has been applied to Bank of England notes, because these are always in high credit, and it ought, perhaps, to be chiefly confined to these. They constitute the coin in which the great mercantile payments in London, which are payments on account of the whole country, are effected. If, therefore, a difficulty in converting bills of exchange into notes is apprehended, the effect both on bankers, merchants, and tradesmen, is somewhat the same as the effect of an apprehension entertained by the lower class of a difficulty in converting Bank of England notes, or bankers' notes into guineas. The apprehension of the approaching difficulty makes men eager to

do that to-day, which otherwise they would do to-morrow.

"The truth of this observation as applied to Bank of England notes, as well as the importance of attending to it, may be made manifest by adverting to the events of the year 1795, when, through the failure of many country banks, much general distrust took place. The alarm, the first material one of the kind which had for a long time happened, was extremely great. It does not appear that the Bank of England notes, at that time in circulation, were fewer than usual. It is certain, however, that the existing number became, at the period of apprehension, insufficient for giving punctuality to the payments of the metropolis; and it is not to be doubted that the insufficiency must have arisen, in some measure, from that slowness in the circulation of notes, naturally attending an alarm, which has just been described. Every one fearing least he should not have his notes ready when the day of payment should come, would endeavour to provide himself with them somewhat beforehand. A few merchants, from a natural though hurtful timidity, would keep in their own hands some of these notes which, in other times, they would have lodged with their bankers; and the effect would be, to cause the same quantity of bank paper to transact fewer payments, or, in other words, to lessen the rapidity of the circulation of the notes on the whole, and thus to increase the number of the notes wanted. Probably also some Bank of England paper would be used as a substitute for country bank notes suppressed.

"The success of the remedy which the Parliament administered denotes what was the nature of the evil. A loan of Exchequer Bills was directed to be made to as many mercantile persons, giving proper security, as should apply. It is a fact worthy of serious attention, that the failures abated greatly, and mercantile credit began to be restored, not at the period when the Exchequer Bills were actually delivered, but at a time antecedent to that era. It also deserves notice, that though the failure had originated in an extraordinary demand for guineas, it was not any supply of gold which effected the cure. The fear of not being able to obtain guineas, which arose in the country, led in its consequences to an extraordinary demand for bank notes in London; and the want of bank notes in London became after a time the chief evil. The very expectation of a supply of Exchequer Bills—that is, of a supply of an article which almost any trader might obtain, and which it was known that he might then sell, and thus turn into bank notes, and after turning into bank notes, might also convert into guineas—created an idea of general solvency. This expectation cured, in the first instance, the distress of London, and it then lessened the demand for guineas in the country, through that punctuality in effecting the London payments which it produced, and the universal confidence which it thus inspired. The sum permitted by Parliament to be advanced in Exchequer Bills was five millions, of which not one-half was taken. Of the sum taken no part was lost. On the contrary, the small compensation, or extra interest, which was paid to Government for lending its credit (for it was mere credit, and not either money or bank notes, that the Government advanced), amounted

to something more than was necessary to defray the charges, and a small balance of profit accrued to the public. For this seasonable interference, a measure at first not well understood, and opposed at the time chiefly on the ground of constitutional jealousy, the mercantile as well as the manufacturing interests of the country were certainly most indebted to the Parliament and to the Government.

"That a state of distrust causes a slowness in the circulation of guineas, and that at such a time a greater quantity of money will be wanted in order to effect only the same money payments, is a position which needs scarcely be proved. Some observations, however, on this subject may not be useless. When a season of extraordinary alarm arises, and the money of the country in some measure disappears, the guineas, it is commonly said, are hoarded. In a certain degree this assertion may be literally true. But the scarcity of gold probably results chiefly from the circumstance of a considerable variety of persons, country bankers, shopkeepers, and others augmenting, some in a smaller and some in a more ample measure, that supply which it had been customary to keep by them. The stock thus enlarged is not a fund which its possessor purposes in no case to diminish, but a fund which, if he has occasion to lessen it, he endeavours, as he has opportunity, to replace. It is thus that a more slow circulation of guineas is occasioned; and the slower the circulation the greater the quantity wanted in order to effect the same number of money payments.

"Thus, then, it appears that the sentiment which Dr. Smith leads his readers to entertain—namely, that there is in every country a certain fixed quantity of paper supplying the place of gold, which is all that 'can easily circulate' (or circulate without being forced into circulation), and which is all (for such likewise seems to be the intended inference) that should ever be allowed to be sent into circulation—is in a variety of respects incorrect." Mr. Thornton goes on to shew in other ways that Smith's idea is quite fallacious; we have given further extracts under CURRENCY PRINCIPLE, as they bear on that doctrine. At p. 245 he says—"Some political persons have assumed it to be a principle that in proportion as the gold of the Bank lessens, its paper, or, as is sometimes said, its loans (for the amount of the one has been confounded with that of the other) ought to be reduced. It has been already shewn that a maxim of this sort, if strictly followed up, would lead to universal failure." Mr. Thornton then proceeds to controvert the doctrine of the Directors, that a paper currency could not be redundant if based upon mercantile bills arising out of real transactions, which we have discussed under BULLION REPORT, § 51.

In 1810 the Governor and Deputy-Governor of the Bank were examined before the Bullion Committee about their policy in 1797:—

"What do you consider as the result of the experience which the Bank gained in 1796 and 1797?—The experience the Bank gained in those years was, that if they had persisted in diminishing their discounts to a greater degree than they did, they would have brought on ruin to the mercantile part of the community.

"Did not the diminution of discounts at these

periods create great public distress?—Inasmuch as I have already stated; many of the Bank Directors repented of the measure. \* \* \*

"Whether or not there was, in the end of the year 1796 and beginning of the year 1797, a considerable diminution of the outstanding notes of the Bank of England?—There was.

"Was not much of the public and commercial distress which arose at that period attributable to that diminution?

Mr. Whitmore—"I have no doubt about it.

Mr. Pearce—"Undoubtedly.

"Whether, in your opinion, it was not a much wiser measure, relative to the mercantile interests of the country, that the restriction of cash payments should have taken place in 1797, than that the Bank should have persevered in diminishing the issue of bank notes in discount?

Mr. Whitmore—"Certainly."

We have quoted in BULLION REPORT, § 39-41, the strong and emphatic opinion of the Committee that the Bank acted wrongly both in 1793 and 1797, and that in certain commercial crises an enlarged accommodation was the true remedy; and they further said—"Your Committee have much satisfaction in thinking that the Directors are perfectly aware that they may err by a too scanty supply in a period of stagnant credit. And your Committee are clearly of opinion that although it ought to be the general policy of the Bank Directors to diminish their paper in the event of the long continuance of a high price of bullion and a very unfavourable exchange, yet it is essential to the commercial interests of the country, and to the general fulfilment of those mercantile engagements which a free issue of paper may have occasioned, that the accustomed degree of accommodation to the merchants should not be suddenly and materially reduced; and that if any general and serious difficulty or apprehension on this subject should arise, it may, in the judgment of your Committee, be counteracted without danger, and with advantage to the public, by a liberality in the issue of Bank of England paper proportioned to the urgency of the particular occasion."

The circumstances which occasioned the appointment of the Committee were produced by improper extension of their issues. "In order to prevent this in future," say they—"your Committee have understood that remedies, or palliatives, of a different nature, have been projected, such as a compulsory limitation of the amount of Bank advances and discounts during the continuance of the suspension; or a compulsory limitation, during the same period, of the rate of Bank profits and dividends, by carrying the surplus of profits above that rate to the public account. But, in the judgment of your Committee, such indirect schemes for palliating the possible evils resulting from the suspension of cash payments would prove wholly inadequate for that purpose, because the necessary proportion could never be adjusted, and, if once fixed, might aggravate very much the inconveniences of a temporary pressure; and even if their efficacy could be made to appear, they would be objectionable as a most hurtful and improper interference with the rights of commercial property."

Thus, we see that the Bullion Committee expressly condemned any arbitrary limitation of



the issues of the Bank, on account of the bad effects it would have in aggravating a commercial crisis.

Nor did the framers of the Act of 1819 hold any different opinion. They expressly disclaimed fixing any numerical limit to the issues of the Bank. Lord Liverpool (*Parl. Deb., Vol. XL, p. 620*) speaking of the paper circulation, said that, upon a subject of this nature, it was obviously impossible to fix any nice proportion; and if he was asked what was the only criterion of a circulation being sufficient or excessive, he must answer that it could be found only in its value when compared with the precious metals. Lord King said that the numerical amount of Bank notes could be no guidance for the amount of issues. The only rule which could be given for their regulation was to keep gold at the mint price. Mr. Peel, who was chairman of the Committee, and who introduced the bill into the House, said (p. 681) "there was, in fact, no test of excess or deficiency, but a comparison with the price of gold. He said (p. 685) that some proposed to prescribe such a limitation of the issues of Bank notes as would secure the power of the Bank over the foreign exchanges. He, for one, confessed that this always appeared to him to be a very unwise position—and for this reason, that it depended so much on circumstances when to say there was an excess or not of circulation. There were occasions when what was called a run upon the Bank might be arrested in its injurious effects by an increase of the issues. There were other occasions when such a state of things demanded a curtailment. In the year 1797, when a run was made on the Bank, but when the exchanges were favourable, and the price of gold had not risen, it was proved that an extension of issues might perhaps, by restoring confidence, have rendered the original restriction unnecessary, and prevented the evils of the existing panic. On the other hand, if the run was the effect of unfavourable exchanges, and the consequent rise in the price of gold, the alarm must be met by a reduction of issues. It was therefore impossible to prescribe any specific limitation of issues to be brought into operation at any period, how remote soever. The quantity of circulation which was demanded in a time of confidence varied so materially from the amount which a period of despondency required, that the House must feel the absolute incapability of fixing on any circumscribed amount. It was impossible to advert to the evidence taken before the Committees, without being impressed with that conviction." Thus, we see that Sir Robert Peel expressly disclaimed the idea of fixing any limit to the issues of the Bank at any period, however remote. That period came, however, in 1844.

In the crisis of 1825 the Bank again tried the restrictive policy for some days, but found that if it maintained it general ruin would ensue. It then suddenly changed its policy, and issued with great profusion, and the panic passed away in a day or two. Mr. Lloyd himself spoke of the issue of the £1 notes as a fortunate circumstance, before the Bank Charter Committee of 1832. In his speech on the renewal of the Bank Charter in May, 1833 (*Parl. Debts. Third Series. Vol. xviii., p. 1336*), Sir Robert Peel deprecated the establishment of

another bank of issue in the Metropolis, as he said that the interests of commerce required that there should be but one bank of issue, in order that it might exercise an undivided control over the issue of paper, and give facilities to commerce in times of difficulty and alarm which it could not give with the same effect if it were subject to the rivalry of another establishment. Thus we see that, up to this time, Sir Robert Peel was against the numerical limitation of the issues of the Bank.

The repeated mismanagement of the Bank, however, in 1837 and 1839, convinced that eminent statesman that something required to be done, if possible, to check it. In the Committee of 1840 a very influential body of the witnesses maintained what is called the currency principle, which is this, that bank notes payable to bearer on demand alone are currency, to the exclusion of all other forms of paper credit, and that when these are permitted to be issued, they ought to be exactly equal in number to the quantity of gold that there would be if there were no notes. If this doctrine, then, were to be carried out in practice, it would be necessary to limit the issues of the Bank by some method in accordance with this principle.

In 1844 Sir Robert Peel seized the opportunity which was allowed by the Bank Charter Act to endeavour to carry this principle into effect, which was, as we have seen, quite contrary to his previously recorded opinions. We shall not enter here into an explanation of his method of doing so, because that is done under CURRENCY PRINCIPLE. The leading features of this Act were the absolute prohibition of the establishment of any new banks of issue in the country, and the limitation of the issues of the Bank—two things which are by no means necessarily connected with one another. The preceding crises were supposed to have been mainly caused by excessive issues of the Bank; and it was supposed that if these could be prevented, the crises which grew out of them would not occur—a fallacious expectation, as they might have learned from the experience of other nations, because crises just as severe as any in England had occurred at Amsterdam and Hamburg, where the principle they adopted was in full operation.

The experience, however, of 1847 and 1857 has amply vindicated the wisdom of those authorities of former times, who condemned a numerical limitation of the notes on account of the necessity of a liberal enlargement of the issues in times of panic. The restrictive policy was attempted to be maintained in 1847, and it was found necessary to abandon it, and immediately that was done the panic vanished. But this was done in a much more serious manner than in former times. Then the Bank had nothing to do but to change its policy. In 1847 they had to commit a positive breach of the law, at the instigation of the Government. In 1857, when the pressure became very severe, they knew that the Ministry must follow the precedent of 1847, and they acted as if the Government would do so, and the Ministry were obliged a second time to instigate the Directors to break the law, rather than cause universal failure, as well as the stoppage of the Bank itself. We may observe that Sir Robert

Peel and Lord Overstone himself approved of the conduct of the Government in 1847.

There is now no further need of any more experience. Everything that can be said has been said, and the only question is to come to judgment on the conflicting views.

The arbitrary limitation of the word Currency to bank notes payable to bearer on demand exclusively, is, we hope we have shewn under CURRENCY, quite erroneous, and contrary to all sound philosophy. The Currency Principle itself is a pure delusion (CURRENCY PRINCIPLE); and, moreover, it is the greatest delusion of all to suppose that the Bank Act of 1844 carries it out.

A great part of these erroneous doctrines are founded on a mistaken view of the nature of credit. Nothing is more common than to say that money has intrinsic value, and that paper is only the representative of value. The utter contradiction of ideas involved in this language is fully shewn under CREDIT, CURRENCY, VALUE. It is totally forgotten that money has no value except what it will exchange for, and that whatever will exchange for gold is of the value of gold. Paper that is always exchangeable for gold, as every economist has shewn, is equal in value to gold. The true problem, then, is to discover how paper may best be kept at the value of gold.

The real error of the Bank has always been that, tempted by the desire of making too great profits, they let their stock of gold run down too low, so that it endangered the convertibility of the note. Trusting to their well-known and enormous capital, they thought that no one could ever doubt the solvency of the Bank, and, therefore, that their issues could not be depreciated. They never took proper measures to check a drain at its commencement, in consequence of the unpopularity of such a course with the commercial world with which they were so intimately connected.

It is perfectly well recognised now by every one who has the least knowledge of the subject, that the true method of arresting a foreign drain is by raising the rate of discount. This not only checks a foreign drain, but effectually curbs an undue expansion of the credit system at home.

The advocates of the Bank Act have always claimed for it the merit of having compelled the Directors to keep a larger stock of bullion than they did before. They also say that in the spring of 1847, it was the only thing which prevented the Directors committing the same error as they had done so often before, of letting their treasure leak out before they took effectual measures to stop it. They say, therefore, that it arrested the Bank in its mischievous career, and by bringing the pressure on earlier than otherwise would have happened, it made it less severe. They also say that when the panic came in October, 1847, it was only through the restrictions caused by the Act that the Bank had eight millions of treasure in its vaults.

There can be no doubt of the justice of these claims. It is undoubtedly certain that the Directors did commit the same error as they had done before, and it was the Act which arrested them; and it was the Act which compelled them to keep such a reserve as they had in October.

The Act has, therefore, had the undeniable merit of compelling the Directors to pay a strict attention to the rate of discount; and since that

time this principle has been constantly gaining ground, and is now fully understood. The feeling of writers and the public has undergone a wonderful change in this respect within the last few years. It is not so very long ago since the Directors were covered with abuse in many papers whenever they raised the rate of discount. Even writers of eminence, and among others Mr. Tooke, make it an accusation against the Act that variations in the rate of discount have been much more frequent since it was passed, and they exhibit tables of these changes. But, in fact, these tables are just so many testimonies to its merits; and this is happily well understood now. Instead of being abused, the directors are commended; and if they do not take timely measures, they are urged to do so by the papers.

Now, we think that the Act is justly entitled to this merit, and it is of the first magnitude.

The real and fundamental objection to the Act is its operation during a commercial crisis. Ample and undeniable experience has proved this in a way that cannot be gainsayed. Its plan and its theory were known to the most distinguished authorities a very long time ago, and were expressly condemned by them, and its mischievous effects foreseen and predicted long ago. The advocates of rigorous restriction, and the advocates of enlarged issues during a crisis, have both placed their arguments before the world, and repeated experience has shewn that the advocates of enlarged issues are in the right. The restrictive policy has uniformly failed. The only instance in which it was fully carried out it brought on a suspension of cash payments, and in the others it would have done so if it had not been abandoned.

It has often been said that on such occasions houses that have overtraded should be allowed to fall, and that it is not the duty of the Bank to bolster up insolvent concerns, and that it is to the advantage of commerce that they should be swept away. If this course of argument were applied only to insolvent houses, it would, no doubt, be true. All insolvent houses should be swept away; it is quite true that the Bank has no business to bolster them up. Nay, to do so is to do an injustice to their creditors; for, as the Bank will of course do its best to take security for its own advances, that takes away so much from the other creditors.

If the question touched insolvent houses only, the restrictive policy would, no doubt, be correct. But the fact is that the mischief extends much further than to them. By the modern system of credit, houses in commerce are so connected with one another, that the public are wholly unable to tell which are solvent, and which are not. The consequence is that a general distrust of all paper whatever arises. The paper of the greatest houses becomes unmarketable. The Bank only has the means of judging which houses are solvent and ought to be supported, and which are insolvent and ought to fall. All experience proves, and all the most eminent authorities of former times have declared, that there must be some means of extending support to really solvent houses; and of that power of support the Act of 1844 wholly deprives the Bank.

In times of panic every one wishes to obtain some solid credit. Even when the Bank is

allowed unlimited issues, if it is expected that the rate of discount is to be raised, people hasten to get discounts, or to get notes to hoard for the sake of security; and if they cannot get Bank notes, they demand gold.

In ordinary times, raising the rate of discount checks the undue expansion of credit and the demand for notes, and prevents the efflux of gold. But in times of panic, though of course the rate of discount ought to be raised to attract gold from abroad, and to prevent its export, it has no effect whatever in checking the demand for notes. It is then not a question of profit, but of existence. When the power and the resources of the Bank are visibly diminishing before the eyes of the commercial public, every one thinks only of his own security. In such circumstances, raising the rate of discount has only the effect of making the demand for notes stronger. Every one will rush to over-provide himself, and then hoard away the notes. This was decisively proved by the experience of 1847, when many millions of notes were hoarded away, but which came out of their hiding places as soon as the Act was suspended. Hence, it is the very consequence of the Act to make the demand for notes much more intense than it would otherwise have been; and if notes are not to be had, then a run for gold commences. This was the case on all former occasions when the restrictive policy was carried out, and especially in the great crisis of 1857, when a very few hours more would have compelled all the banks in London to stop payment.

The Act of 1844 was avowedly passed because the Directors were shewn to be incapable of managing their own business. It was the severest stigma that could be placed upon them. It was a public declaration, either that they did not know the true principles of banking, or that they had not the firmness to act upon them. If they had conducted the business of the Bank on sound principles, there never would have been any need for the Act; and if it were well ascertained now that for the future the Directors were determined to obey true principles, there would be no further need of it.

And this is what we believe to be the case. For several years past, the management of the Bank has been unimpeachable. It is well understood now, not only in the Bank parlour, but by the general public, that the Bank must be kept in a position to put all danger of the convertibility of the note out of all question; and this is to be done only by carefully adjusting the rate of discount to the state of the foreign exchanges. The general intelligence of the public has amazingly advanced on this point within the last few years; and even if there were any reason to suppose that the Directors were inclined to depart from these sound principles, which there is not, the increased knowledge and intelligence of the public would compel them to keep the Bank in a solvent position.

Fully allowing, then, that this merit is really attributable to the Act, for which it is entitled to the highest commendation, it may be truly said that it has done its work, and that there is no longer any necessity for it, and may now with propriety, and ought to, be repealed, so far, at least, as regards the limitation of the issues of the Bank.

By the confession of its own framer, the expectation of its power of preventing a crisis was over-sanguine. It had been observed that the Bank had greatly contributed on many former occasions to produce commercial crises by over-issues; and the conclusion was too hastily drawn that over-issues of the Bank were the *only* cause of commercial over-trading. Mr. Cobden even said that if the currency were purely metallic, accommodation paper would be prevented. Sir Robert Peel said distinctly that it was better to take measures to prevent paroxysms than to trust to desperate remedies to cure them. He, therefore, took away the power of cure, because he imagined that he had prevented the disease. But ample experience has shewn that in this he was too sanguine. Nay, the supporters of such a doctrine need only to look to the experience of those countries where the very principle they admired so much was in full operation, to see the erroneousness of such an expectation. The Banks of Amsterdam and Hamburg were expressly founded on the "currency principle." They gave no credit whatever except in exchange for bullion, and commercial crises were just as severe, nay, probably more so than in England. In the great crisis of 1857 at Hamburg discount rose higher than in London, and the Government were obliged to come forward to interpose their credit to protect the credit of the merchants, because the Bank could not do so. And there can be no reasonable question that if it is absolutely necessary to do such a thing, it ought to be done by a great commercial establishment like the Bank of England, on the recognised principles of business, rather than by the abnormal interference of Government.

The peculiar state of the law with regard to Bank of England notes adds still further force to this view. Contrary to the earnest remonstrance of Sir Robert Peel in 1833, Bank of England notes were made legal tender between all parties, except when the Bank itself is one, so long, and so long *only*, as the Bank pays them in gold on demand. Now, suppose it is generally known that the Bank is about to suspend payments, debtors may go and compel their creditors to receive payment of their debts in bank notes, and perhaps the very next hour the news comes that the Bank has stopped payment, and then these notes are so much waste paper in the hands of the very men who were compelled to receive them an hour before. They were compelled to receive payment in paper, and an hour afterwards they are compelled to pay their own debts in nothing but gold. This is no imaginary case. Every man in London on the 12th November, 1857, knew that the Bank of England could not have been kept open for two hours on the 13th unless the Act was suspended, and directly the Bank stopped payment its notes would have ceased to be legal tender; not a bill could have been paid in them except at the option of the payee.

While, therefore, we admit that one great merit which its admirers claim for it is undoubtedly true, it cannot be denied that a very serious charge brought against it by its opponents is also true. Experience as clear as the sun at noonday has shewn that it is wholly powerless to prevent a commercial crisis, and when a crisis does occur it intensifies its pressure, and converts a crisis into a panic, which is certain to end in universal

failure, including the stoppage of the Bank itself. It then deprives the Bank of what all experience has shewn to be the only remedy for such a state of affairs. On each occasion when this has happened already, the Government have found it necessary to resort to the most desperate course in a constitutional country, namely, to give their solemn sanction to a deliberate violation of the law. Every one knows that commercial crises will recur periodically, and every one knows that on their occurrence every Government will be obliged to pursue exactly the same course. In fact, it would be far more hazardous for the Government to abstain from violating the law than to do so. What example can be more pernicious in a constitutional country? What is the use of a law that every one knows will be set aside and violated, whenever certain occasions recur?

There is every reason to expect that if the Act were repealed so far as regards these points, the Directors would manage the Bank on sound principles. But if they did not, we think that every principle of sound reasoning would point to an improved constitution of the Direction itself. Nothing can be more clear than that the long monopoly of the Bank was utterly opposed to all sound principles of political economy, and inflicted immense injury on the country. The pretensions of the Directors were anomalous. They claimed to exercise a great function of State, and they claimed to be exempt from all interference as a private body. The Directors are exclusively selected out of the commercial class, and of course their sympathies would naturally go with their own class, and in former times it is undoubtedly certain that they allowed such sympathies to have a predominating influence. Their interests as merchants were opposed to their duty as bankers; and formerly, we do not say corruptly, but yet undoubtedly, the latter gave way to the former. There is no reason whatever to suppose that such would be the case now-a-days, if these parts of the Act were repealed. But if such should be the case, the State would have every right to interfere. The Bank of England has become—unfortunately, in our opinion—an engine of the State; and if it should be proved that that class of the community to which hitherto its administration has been exclusively entrusted, should be unable or unwilling to conduct it properly, it would be the undoubted right of the State to devise such an improved organisation of its Direction, as should place it in hands competent to conduct it on sound principles.

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#### CROMBIE, ALEXANDER.

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**CROME, A. F. G.** Born 6th August, 1753, at Seegwarden, near Knipphausen. He was educated at Halle, and became Professor of Geography to the Hereditary Prince of Dessau.

In 1817 he was appointed Professor of Political Economy in the University of Giessen, where he remained till 1830, and published many works on statistics. He died at Badelheim, near Frankfurt, in 1833.

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