every prospect of a violent run taking place on the following Monday. In this emergency, an order in council was issued on Sunday the 26th, prohibiting the directors from paying their notes in cash until the sense of Parliament should be taken on the subject. And after Parliament met, and the measure had been much discussed, it was agreed to continue the restriction till six months after the signature of a definitive treaty of peace.

As soon as the order in council prohibiting payments in cash appeared, a meeting of the principal bankers, merchants, traders, &c., of the metropolis, was held at the Mansion-house, when a resolution was agreed to, and very numerously signed, pledging, as had been done in 1745, those present to accept, and to use every means in their power to make bank-notes be accepted, as cash in all transactions. This resolution tended to allay the apprehensions that the restriction had excited.

Parliament being in session at the time, a committee was immediately appointed to examine into the affairs of the bank; and their report put to rest whatever doubts might have been entertained with respect to the solvency of the establishment, by showing, that at the moment when the order in council appeared, the bank was possessed of property to the amount of £15,513,690, after all claims upon it had been deducted. This suspension of cash payments being naturally followed by a withdrawal of gold from circulation, made it necessary to allow of the issue of notes of a smaller denomination than £5, and the statute of 1777 was accordingly also suspended.

Much difference of opinion has existed with respect to the policy of the restriction in 1797; but, considering the peculiar circumstances under which it took place, its expediency seems abundantly obvious. The run did not originate in any over-issue of bank paper, but grew entirely out of political causes. So long as the alarms of invasion continued, it was clear that no bank paper immediately convertible into gold would remain in circulation. And as the bank, though possessed of ample funds, was without the means of instantly retiring its notes, it might, but for the interference of Government, have been obliged to stop payments,—an event which, had it occurred, might have produced consequences fatal to the public interests.

The error of the Government did not consist in their coming to the assistance of the bank, but in continuing the restriction after the alarm of invasion had ceased and there was nothing to hinder the bank from safely reverting to specie payments.

It had been generally supposed, previously to the passing of the Restriction Act, that bank-notes would not circulate unless they were immediately convertible into cash. But the event showed that this was not really the case. Though the notes of the Bank of England were not, at the passing of the Restriction Act, declared by law to be legal tender, they were rendered such in practice, by being received as cash in all payments on account of Government, and by the vast majority of individuals. For the first three years of the restriction, their issues were so moderate that they not only kept on a par with gold, but actually bore a small premium. But in 1801, 1802, and 1803, they were so much increased that they fell to a discount of from 8 to 10 per cent. In 1804 they again recovered their value; and from that year to 1808, both inclusive, they were at a discount of 2½ per cent. In 1809 and 1810, however, the directors appear to have embarked on a new course, and to have entirely lost sight of the principles by which their issues had previously been governed; for the average amount of bank-notes in circulation, which had not exceeded 17½ millions, nor fallen short of 16½ millions, in any one year, from 1802 to 1808, both inclusive, was in 1809 raised to £18,927,833, and 1810 to £22,541,523. The issues of country bank paper were increased in a still greater proportion; and, as there was no corresponding increase of the business of the country, the discount on bank-notes rose from 2½ in 1808 to from 13 to 16 per cent. in 1809 and 1810.

This depreciation in the value of bank paper being accompanied by a corresponding fall in the exchange attracted the attention of the public and the legislature. In consequence, the House of Commons appointed, in 1810, a committee to inquire into the subject; and having examined several witnesses, the committee in their report, which was both an able and a celebrated paper, justly ascribed the fall in the value of bank paper, as compared with gold, to its over-issue; and recommended, in the view of correcting the existing evil and of preventing its recurrence, that within two years the bank should be obliged to resume specie payments. But this recommendation not being adopted, the over-issue of paper went on increasing. In 1812 it was at an average discount, as compared with bullion, of 20 per cent.; in 1813, of 23 per cent.; and in 1814, when the maximum of depreciation was attained, it was at 25 per cent.

At the period when the restriction on cash payments took place in 1797, it is supposed that there were about 280 country banks in existence; but so rapidly were these establishments multiplied, that they amounted to above 900 in 1813. The price of corn, influenced partly by the depreciation of the currency and the facility with which discounts were obtained, but more by deficient harvests and the unprecedented difficulties which the war threw in the way of importation, rose to an extraordinary height during the five years ending with 1813. But the harvest of that year being unusually productive, and the intercourse with the Continent being then also renewed, prices, influenced by both circumstances, sustained a very heavy fall in the latter part of 1813 and the beginning of 1814. And this fall having ruined a considerable number of farmers and produced a general want of confidence, such a destruction of provincial paper took place as has rarely been paralleled. In 1814, 1815, and 1816, no fewer than 240 country banks stopped payment; and *eighty-nine* commissions of bankruptcy were issued against these establishments, being at the rate of *one* commission against every *ten and a half* of the total number of banks existing in 1813.

The great reduction that was thus suddenly and violently brought about in the quantity of country bank paper, by extending the field for the circulation of Bank of England paper, raised its value in 1817 nearly to a par with gold. The return to cash payments being thus facilitated, it was fixed, in 1819, by the Act 59 Geo. III. c. 78, commonly called Sir Robert Peel's Act, that they should take place in 1823. But to prevent any future over-issue, and at the same time to render the resumption as little burdensome as possible, it was enacted, in pursuance of a plan suggested by Mr Ricardo, that the banks should be obliged, during the interval from the passing of the Act till the return to specie payments, to pay its notes, if required, in bars of standard bullion of not less than sixty ounces' weight. This plan was not, however, acted upon, during the period allowed by law; for, a large amount of gold having been accumulated at the bank, the directors preferred recommencing specie payments on the 1st of May 1821.

The fluctuations, referred to above, in the value of paper were exceedingly injurious. From 1809 to 1815, the creditors of every antecedent contract, land-holders whose estates had been let on lease, stockholders and annuitants of every description—all, in short, who could not raise the nominal amount of their claims or incomes proportionally to the fall in the value of money, were to that extent losers. The injustice that would have been done to the creditors of the state and of individuals, who had made their loans in gold, or paper equivalent to gold, by raising the denomination of the coin twenty-five per cent., however gross and palpable, would not have been greater than was actually done them in 1814, by compelling them to receive payment of their just debts in paper depreciated to that extent.

It is true, that after a currency has been for a considerable period depreciated, as much injustice is done by raising, as was previously done by depressing, its value. But there is good reason to doubt whether the depreciation from 1809 to 1815 (for the depreciation of 2½ per cent. during the six preceding years is too inconsiderable to be taken into account) extended over a sufficiently lengthened period to warrant the Legislature in departing from the old standard. It is needless, however, to offer any opinion on this rather difficult point, for we have seen that the value of paper was raised in 1816 and 1817 almost to par by accidental circumstances without any interference on the part of Government or of the bank. Sir Robert Peel's Act, to which this rise had been ascribed, not being passed till 1819, could have nothing to do with what occurred two or three years previously. Its object was twofold, to redeem the pledge given by Parliament to restore the old standard on the return of peace, and to shut the door against any fresh depreciation of paper.

History of Banking from the Resumption of Cash Payments to the Crisis of 1825.

The resumption of cash payments did not, however, put an end to the vicissitudes of banking. Notwithstanding the ample experience that had been supplied by the occurrences of 1792–93 and 1814–16, of the mischievous consequences of the issue of paper by the country banks, and of their want of solidity, nothing whatever was done, when provision was made for returning to specie payments, to restrain their issues, or to place them on a better footing. The consequences of such improvidence were not long in manifesting themselves. The prices of corn and other agricultural products, which had been greatly depressed in consequence of abundant harvests, in 1820, 1821, and 1822, rallied in 1823, and the country bankers immediately began to enlarge their issues. It is unnecessary to inquire into the circumstances which conspired, along with the rise of prices, to promote the extraordinary rage for speculation exhibited in 1824 and 1825. It is sufficient to observe, that in consequence of their operation, confidence was very soon carried to the greatest height. It did not seem to be supposed that any scheme could be hazardous, much less wild or extravagant. The infatuation was such, that even the most considerate persons did not scruple to embark in visionary and absurd projects; while the extreme facility with which discounts were procured upon bills at very long dates, afforded the means of carrying on every sort of undertaking. The most worthless paper was readily negotiated. Many of the country bankers seemed, indeed, to have no other object than to get themselves indebted to the public. And such was the vigour and success of their efforts to force their paper into circulation, that the amount of it afloat in 1825 is estimated to have been nearly 60 per cent. greater than in 1823. The consequences of this extravagant and unprincipled conduct are well known. The currency having become redundant, the exchanges began to decline in the summer of 1824. The directors of the Bank of England having unwarily entered, in the early part of that year, into an engagement with the Government to pay off such holders of 4 per cent. stock as might dissent from its conversion into a 3½ per cent. stock, were obliged to advance a considerable sum on this account after the depression of the exchange. But despite this circumstance, they might and ought to have taken measures, in the latter part of 1824 and the earlier part of 1825, by lessening their issues to stop the efflux of bullion. But not being sufficiently alive to the urgency of the crisis, the London currency was not materially diminished till September 1825. The recoil, which would have been less severe had the efforts of the bank to prevent the exhaustion of its coffers taken place at an earlier period, was most appalling. The country banks began to give way the moment they experienced a considerably increased difficulty of obtaining accommodation in London, and confidence and credit were immediately at an end. Suspicion having awakened from her trance, distrust had no limits. All classes of depositors made haste to call up the sums they had entrusted to the care of the banks. There was also a run upon them for payment of their notes, not in the view of sending the gold as a mercantile adventure to the Continent, but to escape the loss which it became obvious the holders of country paper would have to sustain. *Sauve qui peut* was the universal cry; and the destruction was so sudden and extensive, that in less than six weeks above seventy banking establishments were swept off, and a vacuum was created in the currency which absorbed from eight to ten millions of additional issues by the Bank of England, at the same time that myriads of those private bills that had previously swelled the amount of the currency, and added to the machinery of speculation, were wholly destroyed.

It may be worth while, perhaps, to observe that it has been alleged, in opposition to what is now stated, that the difficulties of the bank in 1825 were not caused by any excess either of its issues or of those of the country banks, but by the too great amount of the capital, that is of coin and bullion, it had lent; and in proof of this allegation, we are referred to the increase of nearly eight millions in the amount of securities which the bank held in August 1825 over their amount in August 1822, and to the simultaneous decrease of nearly six and a half millions in the amount of bullion in its coffers.[1] But a little consideration will suffice to show the futility of this statement. No issue of notes can be said to be in itself excessive. Whether it is or is not in excess depends upon its relation to the amount of coin and bullion reserved by the issuing bank in its coffers. The Bank of England enlarged its issues disproportionately and took no steps, or none of sufficient energy, to reduce the amount of notes in circulation till long after the exchange had become unfavourable, and bullion was demanded of it for exportation. The accumulation of securities was the necessary result of this radical error. The currency having become redundant in 1824, the notes of the bank were returned upon it for gold, so that its securities were augmented at the same time that its means of dealing with the unfavourable exchange were impaired. It is to be remembered, that the efflux of bullion showed conclusively that, however issued, and whether greater or less than at former periods, the paper afloat was in excess, and that its reduction had become indispensable. And such being the case, it was the duty of the bank directors, as soon as they felt the drain for gold setting steadily against them, to adopt every means in their power, by raising the rate of interest, selling securities, and otherwise, to reduce their issues, and restore

[1] Securities of all sorts, 31st August 1822,...	£17,290,510
„ „ 31st August 1825,.........	25,106,030
Excess of Securities, 31st August 1825, over those held on 31st August 1822,......................	£7,815,520
Bullion in Bank, 31st August 1822, ...	£10,097,960
„ „ 31st August 1825,................	3,634,320
Diminution of bullion, ...	£6,463,640

On the 28th February 1826, the bullion in the bank amounted to only £2,459,510.

the exchange to par. And had they done this at a sufficiently early period, it is all but certain the bank would not have lost more than two or three millions of bullion; whereas, by their following a different line of conduct, and deferring the adoption of vigorous repressive measures till too late a period, it was drained of about seven millions of bullion, and its safety seriously compromised before it could stop the drain.[1]

Legislation of 1826—*Suppression of* £1 *Notes—Joint-Stock Banks of Issue authorized.*

Notwithstanding the fact that nations are slow and reluctant learners, the events of 1825–26, taken in connection with those of the same sort that had previously occurred, produced a conviction of the necessity of doing something that should at least improve the system of country banking in England. But the measures adopted with this view were very far indeed from effectually securing their object. The law of 1708, limiting to six the number of partners in banking establishments issuing notes, was repealed; and it was enacted, that banks with any number of partners might be established for the issue of notes anywhere beyond sixty-five miles from London, and that banks not issuing notes might be established in London itself with any number of partners. The circulation of notes for less than five pounds in England and Wales was at the same time forbidden. It was intended to extend the same prohibition to Scotland and Ireland, but the opposition to the proposal excited in these countries was too strong to be overcome. Sir Walter Scott threw himself zealously into the controversy, and by his *Letters of Malachi Malagrowther*, helped to make the resistance effectual.

The suppression of £1 notes was advantageous in shutting up one of the principal channels by which the inferior class of country bankers got their paper into circulation, to the frequent loss of the poorer classes; but it is now generally admitted that the balance of argument is in favour of the issue of notes of this denomination by the Bank of England or some agency of the state, under conditions ensuring their convertibility.

The second branch of the banking legislation of 1826 was for some time a comparative failure. Those who supposed that joint-stock banks would be immediately set on foot in all parts of England, were a good deal disappointed with the slowness with which they spread for some years after the Act permitting their establishment was passed. The heavy losses occasioned by the downfall of most of the joint-stock projects set on foot in 1824 and 1825, made all projects of the same kind be looked upon for a considerable period with suspicion, and deterred most persons from embarking in them. But this caution gradually wore off; and the increasing prosperity of the country, and the difficulty of vesting money so as to obtain from it reasonable return, generated anew a disposition to adventure in hazardous projects. A mania for embarking in speculative schemes acquired considerable strength in 1834; and during 1835 and part of 1836, it raged with a violence but little inferior to that of 1825. It was at first principally directed to railroad projects; but it soon began to embrace all sorts of schemes, and, among others, joint-stock banks, of which an unprecedented number were projected in 1835. The progress of the system was as follows:—

	Banks.		Banks.
In 1826 there were registered	6	In 1832 there were registered	10
In 1827	1	In 1833	13
In 1828	5	In 1834	8
In 1829	4	In 1835	45
In 1830	3	In 1836	11
In 1831	8	Total	114

In point of fact, however, the number of banks created in 1835 and 1836 was vastly greater than appears from this statement. It seems that, at an average, each of the 56 banks established in those years, like those previously established, had from four to five branches; and as these branches transacted all sorts of banking business, and enjoyed the same credit as the parent establishment, from which they were frequently at a great distance, they were, to all intents and purposes, so many new banks; so that, instead of 56, it may safely be affirmed that from about 220 to 280 new joint-stock banks were opened in England and Wales in 1835 and 1836, but mostly in the former year.

In January, February, and March 1836, when the rage for establishing joint-stock banks was at its height, the exchange was either at par, or slightly in our favour, showing that the currency was already up to its level, and that if any considerable additions were made to it, the exchange would be depressed, and a drain for bullion be experienced. But these circumstances, if ever they occurred to the managers of the joint-stock banks, do not seem to have had, and could not in truth be expected to have, any material influence over their proceedings. Their issues, which amounted on the 26th of December 1835 to £2,799,551, amounted on the 25th of June 1836 to £3,588,064, exclusive of the vast mass of additional bills, cheques, and other substitutes for money they had put into circulation. The consequences were such as every man of sense might have foreseen. In April 1836 the exchange became unfavourable, and bullion began to be demanded from the Bank of England. The directors, that they might the better meet the drain, raised the rate of interest in June from 4 to 4½ per cent., and this not being enough sufficiently to lessen the pressure on the bank for discounts, they raised it in August from 4½ to 5 per cent. But during the whole of this period the country banks went on increasing their issues; and the issues of the joint-stock banks rose from £3,588,064 in June, to no less than £4,258,197 on the 31st of December, being an increase of nearly 20 per cent. after the exchange was notoriously against the country; and the most serious consequences were apprehended from the continued drain for bullion.

It may, perhaps, be supposed that the increased issue of the joint-stock banks would be balanced by a corresponding diminution of the issues of the private banks, and that on the whole the amount of their joint issues might not be increased. This, however, was not the case. Some private banks were abandoned in 1836, and others incorporated with joint-stock banks; and it is further true, that those which went on managed their affairs with more discretion than their associated competitors. But, from the 26th of September 1835 to the 31st of December 1836, the issues of the private banks were diminished only £159,087, whilst those of the joint-stocks were increased during the same period £1.750.160, or more than *ten times* the falling off in the others.

These statements show the inexpediency of leaving the issue of paper to the unregulated discretion of an indefinite number of competing banks. Its issue ought in all cases to be governed by the state of the exchange, or rather, as already stated, by the influx and efflux of bullion. But previously to 1844, the provincial banks might go on over-issuing for a lengthened period without being affected by a demand for bullion, or even for Bank of England paper.

[1] It may be observed that Mr McCulloch (on whose contributions to the seventh and eighth editions of this work the present article is based) pointed out in a paper in the *Scotsman*, published in 1825, what would be the inevitable result of the bank allowing the drain of bullion to run its course, viz., that it would be drained of its last sovereign, and obliged to stop payments; and that it could not avert this result otherwise than by narrowing its issues, and raising the value of the currency. The directors did this at last, but they ought to have done it nearly twelve months sooner.

In the end, no doubt, an efflux of the former was sure, by rendering money and all sorts of pecuniary accommodation scarce in the metropolis, to affect the country banks as well as the Bank of England; and then the injury to industry, occasioned by the withdrawal of their accustomed accommodations from a great number of individuals, was severe in proportion to the too great liberality with which they had previously been supplied. This was especially the case in 1836, when the Bank of England, by bolstering up the Northern and Central Bank, averted, though but for a while, the bankruptcy of that establishment, which had no fewer than forty branches, and, by doing so, is said to have prevented the occurrence of a panic that might have proved fatal to many other joint-stock and private banks. Still, however, the shock given to industrial undertakings, by the revulsion in the latter part of the year, and in 1837, although unaccompanied by any panic, was very severe. All sorts of commercial speculations were for a while completely paralyzed, and there were but few districts in which great numbers of individuals were not thrown out of employment. In Faisley, Birmingham, and most other towns, the distress occasioned by the revulsion was very general and long-continued. And owing to the Bank of England having delayed, in 1838 and the earlier part of 1839, to take efficient measures for the reduction of its issues, despite the unmistakable evidence of their being redundant, the bullion in its coffers was reduced in September 1839 to £2,406,000; and, but for the efficient assistance obtained from the Bank of France, its stoppage could hardly have been averted.

Act of 1844—*Objections to and Defence of that Act—Suspensions of in* 1847, 1857, *and* 1866.

This perilous experience having again forcibly attracted the public attention to the state of the banking system, Sir Robert Peel was induced to attempt its improvement. The clause in the Act 3 and 4 Will. IV. c. 9, which renewed the bank charter in 1833, gave Parliament power to revise or cancel it in 1845, and thus afforded a legitimate opportunity for the introduction of the new system. It was indispensable, in attempting to obviate the defects inherent in our currency, to proceed cautiously, to respect, as far as possible, existing interests, and to avoid taking any step that might excite the fears or suspicions of the public; but the measures which Sir Robert Peel introduced and carried through Parliament in 1844 and 1845, for the improvement of the English banking system, were so skilfully contrived as to provoke little opposition, at the same time that they effected most important and highly beneficial changes.

The measures in question consisted of the Act 7 and 8 Vict. c. 32, which refers to the Bank of England and the English country banks; and the Acts 8 and 9 Vict. c. 38, 37, referring to the banks of Scotland and Ireland. These statutes were intended to obviate the chances of over-issue, by limiting the power to issue notes payable on demand, and by making the amount of such notes in circulation vary with the amount of bullion in the possession of the issuers, and this object has been perfectly attained. The statutes have as completely failed to attain a second object contemplated by their author—that of preventing great and rapid fluctuations in the rate of discount; and the truth is now recognized, that the power of over-issuing notes is one of many causes which may conduce to variations in the rate of discount and by no means the most efficient of them. In dealing with the Bank of England, Sir Robert Peel adopted the proposal previously made by Lord Overstone,[1] for effecting a complete separation between the issuing and banking departments of that establishment, and giving the directors full liberty to manage the latter at discretion, while they should have no power whatever over the other.

The notes of the Bank of England in circulation for some years previously to 1844 rarely amounted to twenty, or sunk so low as sixteen millions. And such being the case, Sir Robert Peel was justified in assuming that the circulation of the bank could not, in any ordinary condition of society, or under any merely commercial vicissitudes, be reduced below fourteen millions. And the Act of 1844 allowed the bank to issue this amount upon securities, of which the £11,015,100 lent by the bank to the public was the most important item. Inasmuch, however, as the issues of the provincial banks were at the same time limited in their amount, and confined to certain existing banks, it was further provided, in the event of any of these banks ceasing to issue notes, that the Bank of England might be empowered, by order in council, to issue, upon securities, two-thirds, and no more, of the notes which such banks had been authorised to issue. Under this condition, the total secured issue of the bank has (1875) been increased from £14,000,000 to £15,000,000. *But for every other note which the issue department may at any time issue over and above the maximum amount* (£15,000,000) *issued on securities, an equal amount of coin or bullion must be paid into its coffers.* And hence, under this system, the notes of the Bank of England are rendered really and truly equivalent to gold, while their immediate conversion into that metal no longer depends, as it previously did, on the good faith, the skill, or the prudence of the directors. And these important results have been attained without imposing any burden of which any one has any right to complain. Our currency rests on the fundamental principle, that all debts above forty shillings shall be paid in gold. But individuals and associations, including the banking or commercial department of the bank, have the option, if they prefer it, to exchange gold for bank-notes, and to make use of the latter in their dealings with the public. Hence, if A or B goes to the issuers of paper, and gets 100 or 500 notes from them in exchange for an equivalent amount of gold, it is his own convenience he has exclusively in view. He was at full liberty to use gold, but he preferred exchanging it for notes because he could employ the latter more advantageously. This is the way in which paper is issued under the Act of 1844; and such being the case, it is contradictory to say that it is productive either of hardship or inconvenience.

It is alleged that the new system is injurious by shackling the bank in the use of its credit, and the answer is, that it does this in order to prevent the greater injury of over-issues of paper. The Act prevents the bank from issuing substitutes for money which do not represent money. It does not absorb or lock up a single sixpence worth of capital, nor does it interfere in any manner of way with its employment. The gold in the issue department of the bank was not purchased by the bank, and does not belong to it. The bank is its keeper, but not its owner. It belongs to the public, or to the holders of bank-notes, who deposited it in the bank in exchange for notes, with and under the express stipulation, that on paying the latter into the bank they should receive back their gold. Any interference with these deposits would be an interference with property held in pledge for others, that is, it would be an act precisely of the same kind with that which exposes private bailees to penal servitude.

But though the bank directors may not lay violent hands on the property of the public, the bank, it is obvious, has at this moment the same absolute command over its entire capital and credit, that it would have were the Act of 1844

[1] In tracts published in 1837 and 1840, and in his evidence before a committee of the House of Commons in the latter year.

non-existent. Apart from the practice of issuing transferable notes, the bank is free from all restraint, and is in precisely the same situation as other banking or mercantile establishments. Its directors may lend or not lend as they please, and may lay down such conditions as they please in regard to the interest and the terms of loans and discounts. In short, they may do whatever they like with their own; but farther they are not permitted to go. They may not substitute shadows for realities. They cannot, whether to assist others, or to relieve themselves from embarrassment, issue a single note except upon a deposit of bullion. But this rule does not operate on the bank only. It applies to all individuals and associations. And to relax it in any degree would be—disguise it as one may—to authorize an issue of fictitious or spurious paper, and consequently to vitiate the currency and to abuse credit in the way that is sure to be in the end the most disastrous.

This statement shows the groundless nature of the charge which is often made against the Act of 1844, that under its operation the bank runs the risk of being brought to a stop, though it may have some five, six, or even eight millions bullion in its coffers. For it is plain that two things are confounded in this charge, which are quite distinct, and have no necessary connection with each other, viz., the proceedings of the bank in the capacity of issuer of notes, and its proceedings in the capacity of a banking company. In the former capacity it is all but impossible that it should be brought to a stop; and if such a thing should happen, there would not then be an ounce of bullion in its coffers. It is not, however, impossible nor even very improbable, that the bank should be brought, in its mercantile capacity, into difficulties, while there may be a large amount of bullion in the issue department. But, though such should be the case, is that any reason why the bank directors should be permitted to draw on funds that do not belong to them, and over which they have no control? Supposing the bank was in difficulties, is it to be allowed to right itself by setting aside the principle of *meum* and *tuum*, and seizing on what belongs to others? The directors would be the first to repudiate such a doctrine, which must be rejected by all men who have any sense of honour or regard for character.

One of the most plausible objections to the Act of 1844 is that it "limits the currency;" that it makes no provision for the increasing demands of the public; and confines us in 1875, when the exports will probably exceed 220 millions, to the same amount of money as in 1844, when the exports did not exceed 58½ millions. The simple truth, however, is that the Act allows money to be imported and exported, to be retained or sent elsewhere, just as it is wanted, and what it does limit is the uncontrolled issue of paper representatives of money, which experience proved were too often emitted without any reference to the reserves of money kept to maintain the convertibility of the paper issued. The £14,000,000 (now £15,000,000) issued on securities is the only thing that is limited in the Act; everything else varies with the varying condition and circumstances of the country, including the means by which the use of money may be economized. In the week ending the 7th July 1875, the issue department of the bank had issued notes to the amount of £41,029,955, being no fewer than £26,029,955 over and above the amount authorized to be issued on securities. And if the country had really required a larger supply of money, that is, if more coins, or paper equivalent to coins, could have been absorbed into the circulation without rendering the currency redundant, and depressing the exchange, the additional quantity would have been forthwith supplied. For, under such circumstances, merchants, bankers, and money-dealers would have realized a certain and immediate profit by carrying bullion to the mint or the bank, that they might obtain coins, or notes, or both, with which to increase the currency. It is one of the chief merits of the Act of 1844, that, under its agency, the supply of money is not to any extent or in any degree regulated or influenced by the proceedings of the bank or the Government. They have nothing to do in the matter, unless it be to coin the bullion which individuals or firms carry to the mint for that purpose, and to exchange, when called upon, notes for coins, and coins for notes. The supply of money, like that of all non-monopolized articles, is wholly dependent upon, and is determined by the free action of the public. It would, indeed, be quite as true to say, that the Act of 1844 limits the amount of corn, of cloth, or of iron produced in the country, as that it limits the amount of money. It maintains the value of the notes issued by the bank on a level with the coins for which they are substitutes; but beyond that its effect is *nil*. It has nothing whatever to do with the greater or less amount of the coin and notes of trustworthy convertibility put into circulation. That depends entirely on the estimate formed by the public of its excess or deficiency, an estimate which when wrong is sure to be corrected by the exchanges.

We may add, that no inference can ever be safely drawn from the number of notes or coins, or both, afloat in a country, as to whether its currency be, or be not, in excess. That is to be learned by the state of the exchange, or by the influx and efflux of bullion. If the imports of bullion exceed the exports, it shows that the currency is in some degree deficient; while, if the exports exceed the imports, it shows that the currency is in excess, and that no additions can be made to it without farther depressing the exchange and increasing the drain of bullion. When the imports and exports of bullion are about equal, then of course the currency is at about its proper level. These are the only criteria by which anything can ever be correctly inferred in regard to the deficiency or excess of currency. Its absolute amount affords hardly even a basis for conjecture. When there is little speculation or excitement, an issue of 25 or 27 millions bank-notes may be in excess; while, at another time, and with a different state of trade and speculation, an issue of 35 or 37 millions of notes may not be enough. Except in periods of internal commotion, or when we are disturbed by alarms of invasion, the state of the exchange is the only, as it is the infallible, test of the sufficiency and insufficiency of the currency. We may further state, that those who are in the habit of complaining of the limitation of the currency by the Act of 1844, almost uniformly underrate its amount. We have already seen that, in the week ending the 7th July 1875 the notes issued by the issue department of the bank amounted to £41,029,955, and of these £12,453,415 were in the banking department of the bank, leaving a balance of £28,576,540 in the hands of the general public; and this latter sum is, we are told, the real amount of the issues. But this is falling into the rather serious blunder of mistaking a part for the whole. The notes in the banking department of the bank make not only a part, but a most important and active part, of the currency of the country. They constitute the means, along with the bullion in the same department, with which the bank carries on her banking business, and are as evidently a portion of the currency as the notes in the tills of private bankers and the pockets of individuals. The notes in the banking department of the bank must therefore never be omitted in estimating the amount of notes in circulation. The latter, and the notes out of the issue department, are identical; and, in a general point of view, it matters not a straw whether they are in the hands of the banking department of the bank or of individuals.

So far we have dealt with the legislation of 1844 in its bearing on the Bank of England. The desire of Sir Robert Peel reached beyond this, but he was unable to complete his policy. He rightly held that experience had shown that the balance of advantages lay on the side of the suppression of all note issues except that of the Bank of England, as reformed by him, or of some similar supplementary establishments regulated in the same manner. But it was obviously impossible to prohibit, without compensation, the future exercise by country bankers of the rights they had legitimately acquired; and as it was not easy to buy up the existing privileges of the private and joint-stock banks, Sir Robert Peel allowed them to remain under conditions prohibiting their extension, and he apparently hoped that country isues would gradually disappear before the rivalry of Bank of England notes. The Act of 1844, accordingly, enacted that no new bank for the issue of notes should be established in any part of the United Kingdom; and that the *maximum* issue of notes by the existing country banks of England should in future be limited to the average amount which they had respectively in circulation during the twelve weeks preceding the 27th April 1844. It was also ordered that the names of the partners in joint-stock and other banks should be periodically published. A provision was also enacted under which an issuing bank could resign its privilege by composition with the Bank of England. The existing law was maintained preventing the issue of any notes other than the Bank of England in London, and the establishment, within sixty-five miles of London of any branch of an English joint-stock bank having the privilege of issue.[1]

The convertibility of the Bank of England notes has been perfectly maintained since 1844, and the management of English banks, whether private or joint-stock, has been sound and judicious, the cases of failure among them being few and contrasting strongly with the recurrent epidemics of insolvency of earlier experience. It must, however, be admitted that the variations in the rate of discount charged by the bank have been much more numerous and violent since 1844 than they were before, and on three occasions—in 1847, 1857 1866—it has been judged necessary to authorize a suspension of the Act so far as to allow the bank directors the power to strengthen the banking department by recourse to the reserves of the issue department. In each case the suspension of the Act arrested and allayed the panic prevailing up to the moment of suspension, and in 1866 it was not, in fact, found necessary to exercise the power to borrow from the issue department which had been conceded to the directors We must proceed to inquire whether the Act of 1844 is to be blamed for the increase in the number of changes of the rate of discount which has since been experienced, and whether this increase and the suspension of the Act in time of trial constitute a reason for its abrogation or for a modification of its provisions.

In the first place, the increased number of changes in the rate of discount is more apparent than real. The management of the Bank of England has become responsive to the movement in the value of money in the open market in a degree unknown before this generation. The rate of discount outside the bank changed rapidly and often before 1844, but its fluctuations were to a large extent prevented from affecting the Bank of England. Previously to the modification of the Usury Laws in 1839, the bank could not charge more for loans than 5 per cent., and for some considerable period after the restriction had been removed the directors, influenced, in part at least, by their accustomed habit on several occasions, permitted the bank to be involved in difficulties which might have been averted by their sooner raising the rate of discount. Strict limitation in the number and class of customers with whom the bank would do business, and a refusal to rediscount bills that had been already discounted by money-dealers, made it possible to keep the bank rate below the rates of the open market without exposing the resources of the establishment to an exhausting demand.

Next, it is to be observed that the methods of economizing the use of money by the development of banking have been extraordinarily multiplied since 1844. The Bank Act, as we have shown, in no way operates to diminish the supply of money in the country; on the contrary, it tends to increase it, since it forbids any extension of the use of notes issued on credit as a substitute for money. The effect of the Act has therefore been to neutralize rather than to stimulate the process of economy in the use of money to which we have called attention. But the transactions of bankers—the issue of cheques, the negotiation of bills, &c., &c.—have multiplied out of all proportion to the stock of ready money on which they rest, and the mass of transitory credits being constantly increasing while the reserves of cash suffers little change, there naturally and necessarily follows an increased sensibility in the equilibrium of the money market, with constant oscillations in the rate of interest. But although the increase in the number of changes of discount since 1844 has not been as great as may at first seem apparent, and so far as the increase has been real it must be chiefly attributed to the growing disproportion between the magnitude of transitory credits at any time existing and the reserve of cash kept on hand, yet it may be freely admitted that it is not improbable that changes have from time to time happened that might not have occurred supposing the separation of the banking and issue departments had not been established. It is evident that if the cash in the two departments had been equally accessible to the bank directors, a withdrawal of money which is now thrown upon one department would not have caused so great a change in the proportion between liabilities and reserve as is now exhibited; and if the directors had reason to believe that the withdrawal was no more than a temporary efflux to the provinces or elsewhere, to be followed by a speedy reflux, they might have been bolder in abstaining from raising the rate of discount. But this action or rather inaction would have been indulged in at the price of a certain risk to the convertibility of the note, which is now avoided, and if it should appear in the end that the directors had erred in supposing the movement of money to be but temporary, they would see reason to regret that they had not been forced to stringent action at the beginning of it. The oscillations experienced in the rate of discount, oscillations which after all indicate nothing more than the natural movement in the value of a medium which is the first to be agitated by changes in value of every other commodity, are cheaply purchased as the price of the permanent and perfect equality of the bank-note and the money it represents. The repeated suspensions of the Act of 1844 in time of trial do, *prima facie*, present a much stronger argument for the repeal of the statute. Legislation which breaks down upon critical occasions discredits the Legislature that decreed it; and it is not to be denied that the mere suspension of the Act has more than once operated as a charm to allay feelings of panic among bankers, money-dealers, and merchants. It must also be admitted that Sir Robert Peel, in common with the earlier advocates of the policy of the Act, believed that it would prevent the recurrence of commercial crises. It is strange that such an anticipation should have been entertained. Whoever will reflect on the nature of the organization of credit in the commercial world, and on the timid and self

[1] The provisions regulating the issues of Scotch and Irish banks will be found below, p. 332 *sqq*.