

CHAPTER XXVI.

Bank of England.

THE charter of the Bank of England has to be altered before any steps can be taken either to improve our banks, as commercial business establishments, or to adopt a new system, for the management of the currency, the necessity for which, at least, has been, we trust, sufficiently established.

During the last session of parliament, the directors gave considerable opposition to the views of government. They conceived that the alteration of the charter was a measure vitally injurious to the interests of the bank; and that being the case, it was proper for them so to do.

Any scheme, however, which diminishes the importance of the bank, in the monied system of the country, is injurious to its interests; and whatever may be the individual wishes of the bank directors, must officially be opposed by them, in discharge of their duty to their constituents, unless an opposite conduct would be more advantageous.

But a person, with firm standing, may be confident and at ease in his position, while if, when he conceives himself upon solid ground, you are enabled to shew him that he is upon very thin ice, you may be certain that at least he will cease to cut capers.

I cannot help thinking that the Bank of England stands upon very thin ice, and that it would, therefore, be exceeding dangerous for the directors to caper. Perhaps, the following reasons, for this opinion, may not appear altogether absurd:—

In the first place, the bank is too large for a commercial institution, and too expensive for a government establishment; and, in the next, its charter is not, for the purpose of securing its monopoly, worth the parchment it is written upon.

The proper use of a bank to trade, we have sufficiently pointed out in the Essay on the Principles of Banking, to which we have before referred, and which forms part of this volume. Human institutions must have their limits. One bank could not undertake the business of the world; nor yet of a nation; nor yet it appears of London. Experience proves that the Bank of England is too large for commercial purposes. The only service which it is of to commerce, is in discounting commercial bills. But a very small part of its issues are so applied, ex-

cept when money is very much in demand. Nor is it, probably, at any time, of much use in checking accommodation paper. Its observation must necessarily be confined to a few leading houses. The trade of London is too extensive for that kind of knowledge of the transactions of individuals, which country banks possess. Besides in London, merchants receive less accommodation from banks. Their credit, in a great measure, depends upon their having capital to spare, in their banker's hands. Their bankers are more obliged to them, than they are to their bankers. Therefore the Bank of England can, in no respect, be of the same use to commerce, as a similar establishment would be in a smaller place.

The bank, properly, is a government establishment, for the management of the national debt, keeping its cash accounts, and conducting the circulation of London. It is the bank of the state. Much has been said about the trafficking of government with the bank, as if it were criminal. It would, however, just be as proper to blame the trafficking of government with the exchequer, or the traffic of a person's hand with his pocket, or to blame a merchant for trafficking with his banker. If a merchant had business to require nearly a bank to himself, he must have transactions with it daily. But it would never occur to him as a necessary

consequence, that if he only wanted one bank, there should be no more than one. No merchant would surely be so unwise, though he did transact with one bank alone, as to prevent, if he had the power, any other competitor, and render himself dependent upon it, both as to the amount of its charges, and the accommodation it gave him. Butler, in his *Hudibras*, somewhere speaks of a man, who "caught the itch, on purpose to be scratched," and this conduct would certainly be something like it, only we may add—and skinned into the bargain. This, however, is just what is done with respect to the Bank of England. A commercial monopoly is given to it, of which it can make no adequate use; which is the cause of immense loss and inconvenience to the country; and by which government is rendered dependent upon it, without either government or the country gaining any one advantage therefrom, that, at least with my limited perceptions, I can make out.

The usual result of want of competition is dearness, and this the government feels in its transactions with the bank in no small degree. When interest of money in government securities was at 5 per cent. by lending its capital of £14,686,800 to the state at three, the bank may be said to have paid annually about £300,000 per annum for its monopoly and the business of the state. Now that interest is

at 4 per cent. it does not pay more than half that sum. For this it enjoyed the circulation of London, which would amount since the present charter to, say £25,000,000 upon the average, and this at 5 per cent. would leave £1,250,000 per annum. I have no means at this moment of estimating what it may have realized from the balances of government in its hands, or have cleared by the management of the national debt; but if we state this at £300,000 a year, it would leave a gain of £1,250,000 from the circulation.

Now, if instead of one public bank in London, there had been half a dozen, of size sufficiently extensive for security, but sufficiently limited for commercial business, and the government account had been subject to a fair competition, while the circulation had been divided amongst them, or given to those only who would give the most for it, there is no man of business can entertain a doubt, that when money was so scarce, $3\frac{1}{2}$ or 4 per cent. would have been given for both the circulation and the balances of government. I have no doubt also, that the national debt would have been managed for less money; but as it is a mere matter of accounting, it would perhaps have been both better and cheaper to have put it at once into the hands of commissioners. If we, therefore, say that government must have

lost one million per annum for want of competition, we shall not, perhaps, be far from the truth.

Now, in addition to this, when we consider all the inconveniences to commerce and agriculture that have resulted from the rickety system of banking to which the monopoly has given rise, and the number of failures that have been the consequence, we shall be surprised that in the present century any thing so absurd could have existed.

The ingenuity of man may be defied to point out any peculiar advantage which is derived from the bank. Indeed the ingenuity of man has been most sadly puzzled upon the subject.

Mr Mc'Cay, who has lately published a general view of the history and object of the bank of England, which is a very sensible publication, and who, as is perfectly natural, is very much disposed to say all that can be said for it; after stating that it is a most valuable institution to commerce, thinks it necessary, for want of better arguments, to support his opinion by a reference to authorities. "Many great authorities upon the subject might," he says, "be adduced in support of this opinion; among many, I shall produce two writers of considerable celebrity, Mr Rolt, in his Dictionary of Trade and Commerce, under the head of Bank of England, finishes that article in these words:

“ ‘ Thus firmly established is this glorious superstructure of the national credit of Great Britain, having the legislative power of the kingdom for its foundation ; a security sufficient for so noble, so extensive a fund ; a security coeval with the liberties of the people, that cannot perish without the extinction of freedom, and which has so closely riveted the constitution of the bank with the common interests of the country, that they should now co-operate against the extended arm of ambition, —the designing eye of avarice,—the envy of surrounding enemies,—and the force of future invasions.’ ”

This, I dare say, may be depended upon as a very clear account of the matter, the whole of which is, no doubt, implicitly believed by the directors ; for I myself heard one of them, in his place in parliament, either quote some other great authority, or from himself gravely compare it to the sun in the hemisphere.

But “ Dr Adam Smith, in his *Wealth of Nations*,” alluding to the bank, “ says, with greater sobriety, that

“ ‘ The stability of the bank of England is equal to that of the British government. All that it has advanced to the public must be lost before its creditors can sustain any loss.’ ”

This is certainly sober enough for a choice eulogium, out of so many great authorities ; but

it is unfortunately not true. It is quite possible that the directors might ruin the bank, and the British government remain just as stable as ever. The eulogy, at the same time, is rather a doubtful one ; it amounts to this :—that the capital of the bank is lent to one creditor, with whom it consequently must either stand or fall ; and the sponge that wipes off the national debt, makes a clean sweep in Threadneedle-street. The quotation, however, shows that Dr Smith would have said something in favour of the bank, had it been possible.

But the charter of the bank does not secure it the circulation of London : there is no law to prevent other banks competing with it ; and when I found the directors opposing the views of government, (see letters from the *Times*, in the Appendix to the Pamphlet on Banking,) it occurred to me that they might be brought to their senses in another way. I immediately drew out a plan for the establishment of a private bank, for the circulation of notes, in competition with the Bank of England ; and through a channel which gave it weight, submitted it to some of the leading monied men in London. They were unanimous in thinking that it would be a most advantageous speculation, as well as a measure of public utility. The plan, or at least that which was thought practicable, was simply this : that five or six individuals should

subscribe a million of capital, establish a bank, and issue notes, in discount of commercial bills, &c. ; and that the affairs of the concern should be examined every six or twelve months, by gentlemen of known character and respectability, and published to the world. By these means, the credit of the bank would never be questioned, and considerable profit would be realised, without any considerable risk. Its merits in the public estimation would be, that it possessed an actual subscribed capital, and publicity was given to its affairs. The above plan was thought the most simple and practicable. Mine, however, was originally much more involved. It was to form the outlines of a public bank, which was to be carried on as a private concern, until the bank charter was altered, and then resolve itself into a public establishment. I had proposed only half a million, but it was thought that if the plan was approved, there would be no difficulty whatever with respect to the amount of capital.

As this would at once have brought the bank directors to reason, and have induced them to apply for an alteration of their charter, with a view to secure their monopoly, which would, I have no doubt, have been granted, the defect of the plan was, that after the expence of fitting up an office, preparing the establishment, &c. had been incurred, it might be rendered useless.

This, however, I proposed to obviate, by suggesting that when this happened, which would of course be immediately followed by the establishment of joint stock companies in different parts of the country, the concern should immediately offer itself to undertake exclusively, without doing any other business, the agencies of these banks, and propose to submit annually to their directors, a statement of its affairs, inspected and verified by deputies from a few of them, annually sent to London for the purpose, in the event of their not having a public bank to draw upon. This I was aware would fall in with the ideas of the stock holders and directors of the proposed companies, and I even thought that as I should probably have some interest in the concern, the new banks might have pleasure on that account in giving it a preference, as they would perhaps readily acknowledge that they were under more obligations to me than to any person connected with any other establishment. Consequently there seemed little reason to doubt that these agencies, if gone properly about, might be secured; and as I understand that the agencies of considerable banks are worth from one to three or four thousand pounds each, supposing them not to be worth more than a thousand upon the average, forty or fifty of such, or even half the number, would form a valuable business to any concern, and would be unattended

with the usual risk and trouble of banking. I further would have proposed, that the capital of the bank should, as far as possible, be vested in country bank stock, by which 50 or even a 100 per cent. would, in all probability, be made.

These plans and views, however, did not occur until other duties rendered my longer stay in London impossible, and as the gentleman to whom I originally communicated them was about to leave it for six months, the matter was left to a future opportunity. I, however, was satisfied that proper people might be very easily found in London to enter into such an establishment, and this was what I was in the first instance desirous to ascertain.

I had not long left London, however, until a still better idea presented itself. I saw that it would be perfect nonsense for such a bank to trouble itself with discounting commercial bills, with stocks at their present price. Its best plan would evidently be to purchase into the funds at once, by which as much interest might be made as by discounting bills, without any risk or trouble.

Notes issued in purchase of stock could never be returned upon the bank, if it maintained its credit, until the balance of foreign trade was turned against the country. No payments, either in its own notes or any other, would be made to it. It would hold stock equal to the amount of its notes in circulation; and they

would never be presented in a demand for gold until it was wanted to send out of the country; by which time it was evident, at least to me, that the 3 per cents. would probably be a 100, or 90 at all events; while as the stocks could not be lower than they are at present, the speculation would be perfectly safe.

My views upon the subject generally, however, had now so much improved, at least I could not help supposing so, that after some little hesitation, I determined to give them to the public. But as it will help to strengthen my argument, that the present charter is but a very slippery dependance for the bank, and the plan may not be in itself, perhaps, an entirely uninteresting speculation to men of business, I shall take the liberty of detailing the steps which it appears to me it would have been proper to have taken, and the measures which it would have been the best, with such a speculation, to have pursued.

In order to prove, to a few individuals, the advantage of a private speculation, it would not have been necessary to have gone through the whole range of subject contained in this Essay. After the fourth chapter it might have been proved by a much shorter process of reasoning, that the contraction of the currency kept down the funds, and that the exchanges must continue favourable until corn attained