Walter Bagehot, *The Works and Life of Walter Bagehot, vol. 6 (Lombard Street, Essays on Guizot & Cairnes, The Depreciation of Silver)* [1915]

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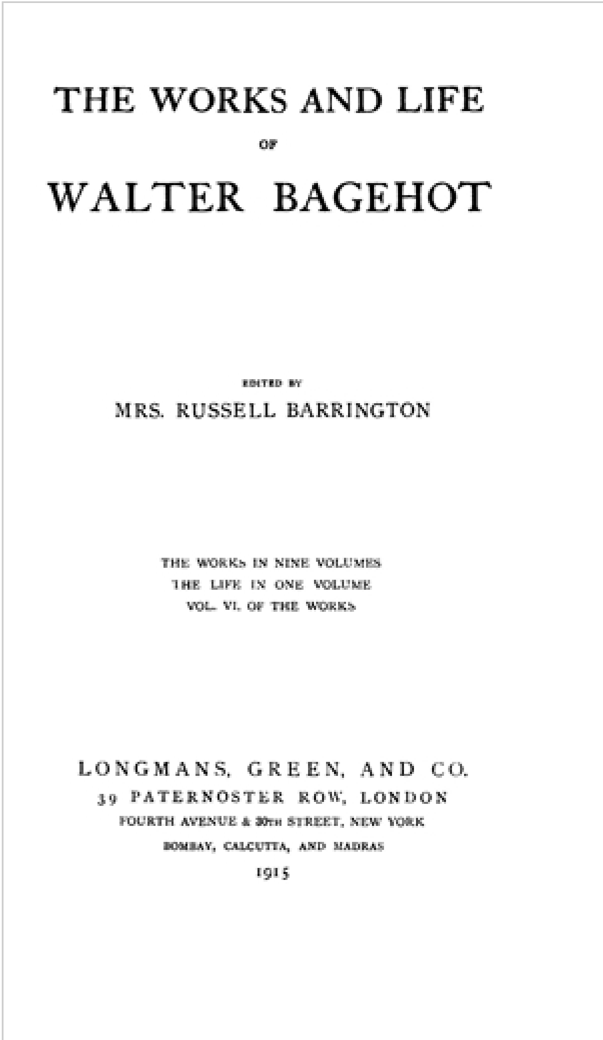
THE WORKS AND LIFE

OF

WALTER BAGEHOT

EDITED BY

MRS. RUSSELL BARRINGTON

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THE LIFE IN ONE VOLUME
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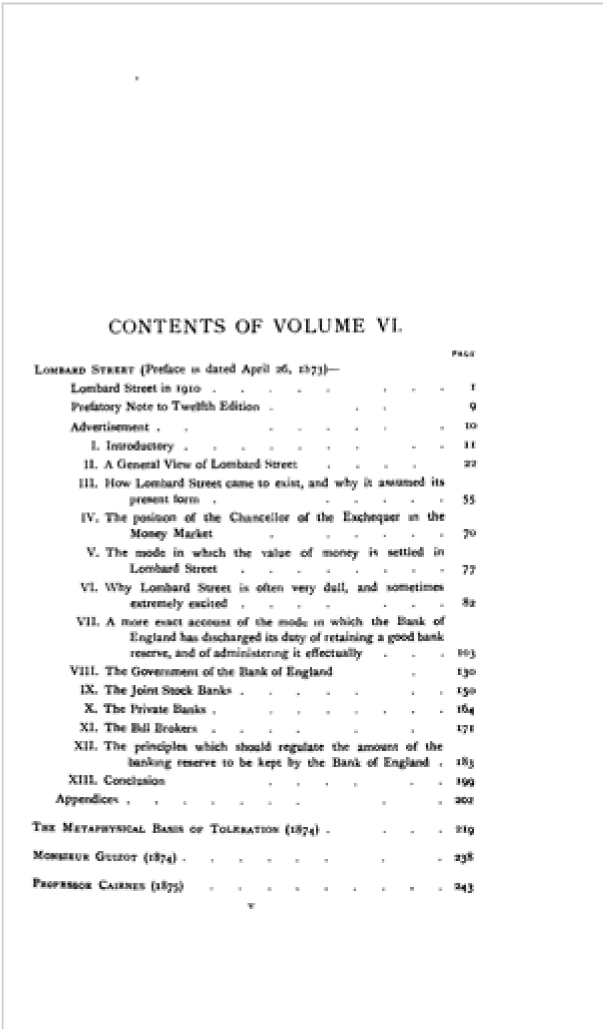
This volume contains Lombard Street, essays on Guizot & Cairnes, and The Depreciation of Silver.



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The Works And Life Of Walter Bagehot Volume VI

LOMBARD STREET.

LOMBARD STREET IN 1910.

Bagehot's "Lombard Street" was begun, as he tells us in his "Advertisement," in the autumn of 1870. It is a wonderful achievement, that a book dealing with the shifting quicksands of the Money Market should still, after forty years, be a classic of which no one who wishes to understand the subject can afford to be ignorant. Since it is so, it is evidently desirable to give, for those of its readers who are not acquainted with the Money Market of to-day, a brief account of the chief movements and tendencies which have altered the conditions since Bagehot wrote.

This task is all the easier, since the most notable results of these movements and tendencies have amply confirmed what he said. Lombard Street has accepted the bill that Bagehot drew on it. There are two chief outstanding facts of modern monetary development. One is the reliance of the London Money Market and the Money Markets of the world on the Bank of England as the custodian of the central gold reserve. This is the principal theme of Bagehot's argument, to which all its digressions and excursions ultimately return. The other is the development of joint stock banking in England by the gradual diminution of the old private banking firms and the coincident expansion of the banking companies by growth and amalgamation. All this Bagehot foresaw and predicted.

The Cheque Currency Of To-day.

This development has modified the problem of the Money Market in several important respects. Since the ordinary joint stock banks with offices in London were forbidden, by the Bank of England's charter, to exercise the right of note issue, it has been their special function to spread the use of cheques in England and to make them the predominant form of paper currency, reducing the bank-note to a secondary place as currency, and at the same time raising it to a more important one as part of the basis of credit. Since the joint stock banks have covered England with branch offices, ready and eager to give banking facilities to customers of quite moderate means, the cheque has become the chief circulating medium in commercial payments, and the bank-note has almost ceased to circulate. The outstanding note issues of all the English banks, other than the Bank of England, have now sunk below £250,000, and it is significant to observe that they are habitually below the amount authorised by the Act of 1844, so that their diminution has been due, not so much to the reduction of the number of banks with the right of issue, as to a change in the habits of the people, which does not now want even as many bank-notes as it might have, since it has been accustomed to the greater convenience and safety of the cheque.

At the same time what is usually described as the circulation of the Bank of England note has increased, but its actual circulation as currency in the hands of the people is probably less than when Bagehot wrote. The Bank return for the last week of 1869, which he quotes in Chapter II., shows notes issued by the Issue Department £33,288,640, and notes held by the Banking Department £10,389,690, making the amount in circulation just below 23 millions. In recent years the circulation has fluctuated from 28 to 30 millions, but it is probable that the whole of this apparent increase has been due, not to circulation in the strict sense of the word, but to the use of Bank of England notes as till money and cash reserve by the other banks. It is impossible to arrive at definite figures on this subject because the banks do not, in their published statements, give any clue to the details of which their cash holding is composed—how much of it is coin and how much consists of Bank of England notes. But the great increase that has taken place during the last forty years, both in the number of bank offices open and in the aggregate liabilities of the banks, makes the probability of the above assumption almost amount to certainty.

The Bank-note And The Fiduciary Issue.

This change in the position of the Bank of England note is highly important. It is due, not to any action by the Bank of England, but to an external process arising out of the development of the other joint stock banks and the rapidity with which they have multiplied offices, sowing their banking crop all over the country. By means of it the Bank of England note has largely ceased to be an instrument of credit passed from hand to hand in the course of commercial transactions, and has become part of the cash on which the other banks base their credit operations, and multiply the evergrowing volume of the cheque currency which is now, to an overwhelming extent, the money of modern England. This development has greatly modified the views of the commercial community on the subject of the regulations imposed by Peel’s Act of 1844 on the issue of the Bank of England note. By this Act the note issue could only be increased beyond a certain point by the holding of actual bullion against each new note issued. As long as the Bank of England note was currency required for business circulation, this restriction was open to criticism as the infliction of a cast-iron fetter where elasticity was most of all desirable; and the advantages of the German system, which provided for an expansion in the issue of notes against securities—the fiduciary issue as it is generally called—when money is in great demand, was frequently held up as an example for England. But now that it is more clearly perceived that the money of England is the cheque, which can be multiplied to an extent which is only limited by the prudence of bankers and the security that their customers may be able to provide, and that the Bank of England note is chiefly used as part of the banking cash reserve, the opinion is commonly held in the City that the restrictions on its issue imposed by Peel’s Act should be carried still further, and that that part of the issue which is fiduciary, or based on securities, should gradually be abolished, the securities behind it being replaced by gold. Since most of the profit on the fiduciary issue goes to the Government the difficulty of introducing any change tending towards its abolition is redoubled; but as a matter of theory it is safe to say that a majority of well-informed City opinion is now in favour of making the Bank of England note a pure and simple bullion certificate. And this change of opinion concerning the only law which seriously restricts the banker in the conduct of his business is striking evidence of the extent to which English banking has been modified by the development of the use of the cheque.

It has been revolutionised rather than modified, for the cheque has freed banking from the fetters of the Bank Act. The Bank Act said that there should be no increase in the note currency except by an increase in the Bank of England's bullion. If commerce had continued to use the note currency and had expanded as it has, there would by this time have been a vast pile of useless gold in the Bank's vaults. But the Act laid no restriction on the drawing of cheques, and all the new joint stock banks, which had sprung up when it was discovered that banking did not necessarily mean note-issuing, pushed on the use of the cheque currency wherever they carried their victories. They thus developed that side of banking which was free from legal restriction and at the same time gave the commercial community the most perfectly safe, elastic, and adaptable form of currency that the world has yet seen. And in another respect the growth of these great institutions which have carried out this important development has modified in a very important respect the problem of the Money Market as it showed itself to Bagehot. When he wrote, the Bank of England was at all ordinary times the most important factor in the market. "At all ordinary moments," he wrote, "there is not money enough in Lombard Street to discount all the bills in Lombard Street without taking some money from the Bank of England." This is no longer true.

The Power Of The Outer Banks.

So far is the above quotation—from Chapter V. of "Lombard Street"—from being verified by modern conditions that it may be said that at all ordinary moments Lombard Street carries on its business without any necessity for taking money from the Bank of England, and that consequently the Bank rate—the rate at which the Bank will discount bills—is at all ordinary moments not a direct influence in the rate at which the outside market—consisting of the other banks and bill brokers—is working. It is only in times of special demands, such as quarter-day payments, the collection of the direct taxes in the January to March quarter, abnormally active trade, or a foreign drain of gold, that the Bank of England's assistance is required, and its rate only becomes an influence when there is apprehension or expectation in the market that it may be raised or lowered. Since Bagehot wrote, the process that he foretold of the growth and predominance of the joint stock banks has gone so far that they have not only almost obliterated the old private firms, but have taken out of the Bank of England's hands the business of providing currency and regulating the London Money Market, except on special occasions. They provide the cheque currency of to-day, and in ordinary times the rate at which they lend to the bill brokers makes the price of short loans, and the rate at which they discount bills makes the discount rate in London. Between these rates made by the outer banks and the official rate of the Bank of England, there is only a slender and shadowy connection which comes into being from the fact that the rate allowed to depositors by the outer banks is usually 1½ per cent. below Bank rate. But of the sum of money held by the banks on behalf of customers, it is probable that less than half is on deposit, the rest of it being held on current account, and so in most cases receiving no rate at all. It is impossible to be certain on this point, since very few of the banks show in their balance sheets separate statements of current and deposit accounts. But among those which do so, deposits are half the amount, or less, of the current accounts. And consequently it often happens that bankers lend money to bill brokers at the same rate at which they are paying to depositors. There is thus this loose connection between Bank rate and the market rate for loans, that the latter is not as a rule likely to be more than 1½ per cent. below the former, but the connection is so indefinite and untrustworthy, and the funds over which the outside market now has control are so vast, that when the Bank of England considers it necessary, owing to the threat of a foreign drain or for any other reason, to raise its rate, it often has to make this action effective by borrowing from the outside market in order to curtail artificially the supplies of the latter, and compel applications to itself, so as to make its rate an effective influence on those current in the market.

The Problem Modified.

Modified by this development, the problem of Lombard Street to-day is concerned rather with the conduct of the outer joint stock banks than of the Bank of England. The difficulties and responsibilities of the Bank of England have been increased, but at least they are recognised and provided for. If Bagehot could look back over the history of the Money Market through the forty years that have passed since he wrote "Lombard Street," he would see that his criticisms of the attitude of the Bank towards its position had borne good fruit. Its duty as custodian of the gold reserve has been definitely recognised by its consistent action, and by the equally constant pressure of public opinion. Between them the Bank's sense of duty and the public's insistence on its responsibility have produced a marked advance along the line indicated by Bagehot. He pointed to ten millions as the limit below which the Bank's rèserve should not be allowed to fall; now it is rarely below twenty millions. He maintained that "one-third of its banking liabilities is at present by no means an adequate reserve for the Banking Department". During the years 1907 to 1909, which included an American crisis, involving a great drain on England's gold, the average proportion of the reserve to liabilities has been 48·0 per cent. And all this has been achieved in spite of the growth of banking development outside, which, as has been shown, has made Lombard Street independent of assistance from the Bank, save at exceptional times, instead of being normally dependent on it and so constantly under its control. It is this outside development that has changed the face of the problem. It has already been shown to have altered England's currency, which now consists chiefly of cheques, and it is also the cause of continued heart-searchings among the banking community concerning the adequacy of its cash reserves, in spite of the improvement achieved by the Bank of England. The increase in the Bank's reserve has been great, both absolutely and relatively to its own direct liabilities, but it is criticised as insufficient when compared with the mass of banking liabilities of the country, which are based on the outer banks' cash holding, included in which are their balances at the Bank of England. It is the proportion of cash to liabilities shown by the outer banks which is the problem that vexes the banking world to-day, and has vexed it for nearly twenty years. This problem has been aired and discussed at bank meetings and in addresses to the Bankers' Institute ever since the crisis of 1890. No definite step has been taken towards its solution, but the discussion is very far from having been fruitless. The proportion of cash held by the leading banks has improved steadily and rapidly. Bagehot quotes, in Chapter IX., Mr. Weguelin, Governor of the Bank, as stating in 1857 that the joint stock banks of London had deposits of 30 millions and 2 millions of cash reserve. Here the proportion is 6·6 per cent. The latest statement[1] of the London joint stock banks shows deposits 475 millions, cash 75 millions, proportion 15·8 per cent. The improvement is remarkable, and if we could be sure that the rest of the banks were equally prudent, and that the proportion shown by the London banks were normal and habitual, and not to some extent and in some cases specially arranged for purposes of publication, critics could find little more to say on this subject. Unfortunately, we cannot be sure of either of these things. The evidence is all on the other side. Banking reformers press continually for more frequent and clearer statements of their position by the country banks, and for the adoption of the average system in all bank statements, so that there may be no possibility of specially arranged displays. And they contend, with much good reason behind them, that, if this system were adopted, the question of an adequate cash reserve would very quickly be solved.

It should be noted that experience in this country and elsewhere has not endorsed Bagehot's view that our one-reserve system, based on a gold store held by one chief bank, is unnatural and wrong, and only to be tolerated because it is now so deeply ingrained in our banking habits that its alteration would be a dangerous experiment. It is now generally recognised that this system gives us a credit organisation of unrivalled elasticity, and banking reformers in America look with regretful longing at its efficiency. A Monetary Commission appointed by the United States Government is about to make a report to Congress, and is generally expected to recommend the foundation of a central bank.

In his concluding chapter Bagehot states that the account of the Secretary for India in Council is contained in the public deposits in the Bank return. This was so when he wrote, but the public deposits are now only those of the various departments of the British Government. The India Council's balance is included in the other deposits, and has been so since 1892.

Such are the main points in which the problem of Lombard Street and the relations of the various components of the Money Market have been modified since Bagehot wrote. It should also be noted that the progress of banking development abroad has lessened the difference which he described between England and other countries in the matter of the use of credit.

Hartley Withers.

June, 1910.

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PREFATORY NOTE TO TWELFTH EDITION.

As more than thirty years have elapsed since the first publication of this little book, it has been thought desirable to bring the figures, and some of the examples used, up to the present time.

My best thanks are due to the friend who has placed his services at my disposal for this purpose.

The new matter is confined to notes, and the text of the original work has not been touched.

Eliza Bagehot.

May, 1906.

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ADVERTISEMENT.

The composition of this little book has occupied a much longer time than, perhaps, my readers may think its length or its importance deserves. It was begun as long ago as the autumn of 1870; and though its progress has been often suspended by pressing occupations and imperfect health, I have never ceased to work at it when I could. But I fear that in consequence, in some casual illustrations at least, every part of the book may not seem, as the lawyers would say, "to speak from the same time". The figures and the examples which it is most natural to use at one time are not quite those which it is most natural to use at another; and a slowly written book on a living and changing subject is apt a little to want unity in this respect.

I fear that I must not expect a very favourable reception for this work. It speaks mainly of four set of persons—the Bank of England, joint stock banks other than that Bank, private bankers, and bill brokers; and I am much afraid that neither will altogether like what is said of them. I can only say that the opinions now expressed have not been formed hastily or at a distance from the facts; that, on the contrary, they have been slowly matured in "Lombard Street" itself, and that, perhaps, as they will not be altogether pleasing to anyone, I may at least ask for the credit of having been impartial in my criticism.

I should also say that I am indebted to a friend for the correction of the final proof sheets, which an attack of illness prevented me from fully revising. If it had not been for his kind assistance, the publication of the book must have been postponed till the autumn, which, as its production has already been so slow, would have been very annoying to me.

Walter Bagehot.

The Poplars, Wimbledon:*April* 26, 1873.

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Chapter I.

INTRODUCTORY.

I venture to call this Essay "Lombard Street," and not the "Money Market," or any such phrase, because I wish to deal, and to show that I mean to deal, with concrete realities. A notion prevails that the Money Market is something so impalpable that it can only be spoken of in very abstract words, and that therefore books on it must always be exceedingly difficult. But I maintain that the Money Market is as concrete and real as anything else; that it can be described in as plain words; that it is the writer's fault if what he says is not clear. In one respect, however, I admit that I am about to take perhaps an unfair advantage. Half, and more than half, of the supposed "difficulty" of the Money Market has arisen out of the controversies as to "Peel's Act," and the abstract discussions on the theory on which that Act is based, or supposed to be based. But in the ensuing pages I mean to speak as little as I can of the Act of 1844; and when I do speak of it, I shall deal nearly exclusively with its experienced effects, and scarcely at all, if at all, with its refined basis.

For this I have several reasons—one, that if you say anything about the Act of 1844, it is little matter what else you say, for few will attend to it. Most critics will seize on the passage as to the Act, either to attack it or defend it, as if it were the main point. There has been so much fierce controversy as to this Act of Parliament—and there is still so much animosity—that a single sentence respecting it is far more interesting to very many than a whole book on any other part of the subject. Two hosts of eager disputants on this subject ask of every new writer the one question—Are you with us or against us? and they care for little else. Of course if the Act of 1844 really were, as is commonly thought, the *primum mobile* of the English Money Market—the source of all good according to some, and the source of all harm according to others—the extreme irritation excited by an opinion on it would be no reason for not giving a free opinion. A writer on any subject must not neglect its cardinal fact, for fear that others may abuse him. But, in my judgment, the Act of 1844 is only a subordinate matter in the Money Market; what has to be said on it has been said at disproportionate length; the phenomena connected with it have been magnified into greater relative importance than they at all deserve. We must never forget that a quarter of a century has passed since 1844, a period singularly remarkable for its material progress, and almost marvellous in its banking development. Even, therefore, if the facts so much referred to in 1844 had the importance then ascribed to them—and I believe that in some respects they were even then overstated—there would be nothing surprising in finding that in a new world new phenomena had arisen which now are larger and stronger. In my opinion this is the truth: since 1844, Lombard Street is so changed that we cannot judge of it without describing and discussing a most vigorous adult world which then was small and weak. On this account I wish to say as little as is fairly possible of the Act of 1844, and, as far as I can, to isolate and dwell exclusively on the "Post-Peel" agencies, so that those who have had enough of that well-worn theme (and they are very many) may not be wearied, and that the new and neglected parts of the subject may be seen as they really are.

The briefest and truest way of describing Lombard Street is to say that it is by far the greatest combination of economical power and economical delicacy that the world has ever seen. Of the greatness of the power there will be no doubt. Money is economical power. Everyone is aware that England is the greatest moneyed country in the world; every one admits that it has much more immediately disposable and ready cash than any other country. But very few persons are aware *how much* greater the ready balance—the floating loan-fund which can be lent to any one or for any purpose—is in England than it is anywhere else in the world. A very few figures will show how large the London loan-fund is, and how much greater it is than any other. The known deposits—the deposits of banks which publish their accounts—are, in

London (31st December, 1872)	£120,000,000
Paris (27th February, 1873)	13,000,000
New York (February, 1873)	40,000,000
German Empire (31st January, 1873)	8,000,000

And the unknown deposits—the deposits in banks which do not publish their accounts—are in London much greater than those in any other of these cities. The bankers' deposits of London are many times greater than those of any other city, those of Great Britain many times greater than those of any other country.

Of course the deposits of bankers are not a strictly accurate measure of the resources of a Money Market. On the contrary, much more cash exists out of banks in France and Germany, and in all non-banking countries, than could be found in England or Scotland, where banking is developed. But that cash is not, so to speak, "Money-Market money": it is not attainable. Nothing but their immense misfortunes, nothing but a vast loan in their own securities, could have extracted the hoards of France from the custody of the French people. The offer of no other securities would have tempted them, for they had confidence in no other securities. For all other purposes the money hoarded was useless and might as well not have been hoarded. But the English money is "borrowable" money. Our people are bolder in dealing with their money than any continental nation, and even if they were not bolder, the mere fact that their money is deposited in a bank makes it far more obtainable. A million in the hands of a single banker is a great power; he can at once lend it where he will, and borrowers can come to him, because they know or believe that he has it. But the same sum scattered in tens and fifties through a whole nation is no power at all: no one knows where to find it or whom to ask for it. Concentration of money in banks, though not the sole cause, is the principal cause which has made the Money Market of England so exceedingly rich, so much beyond that of other countries.

The effect is seen constantly. We are asked to lend, and do lend, vast sums, which it would be impossible to obtain elsewhere. It is sometimes said that any foreign country can borrow in Lombard Street *at a price:* some countries can borrow much cheaper than others; but all, it is said, can have some money if they choose to pay enough for it. Perhaps this is an exaggeration; but confined, as of course it was meant to be, to civilised Governments, it is not much of an exaggeration. There are very few civilised Governments that could not borrow considerable sums of us if they choose, and most of them seem more and more likely to choose. If any nation wants even to make a railway—especially at all a poor nation—it is sure to come to this country—to the country of banks—for the money. It is true that English bankers are not themselves very great lenders to foreign States. But they are great lenders to those who lend. They advance on foreign stocks, as the phrase is, with "a margin"; that is, they find 80 per cent. of the money, and the nominal lender finds the rest. And it is in this way that vast works are achieved with English aid which but for that aid would never have been planned.

In domestic enterprises it is the same. We have entirely lost the idea that any undertaking likely to pay, and seen to be likely, can perish for want of money; yet no idea was more familiar to our ancestors, or is more common now in most countries. A citizen of London in Queen Elizabeth's time could not have imagined our state of mind. He would have thought that it was of no use inventing railways (if he could have understood what a railway meant), for you would not have been able to collect the capital with which to make them. At this moment, in colonies and all rude countries, there *is* no large sum of transferable money; there is no fund from which you can borrow, and out of which you can make immense works. Taking the world as a whole—either now or in the past—it is certain that in poor States there is no spare money for new and great undertakings, and that in most rich States the money is too scattered, and clings too close to the hands of the owners, to be often obtainable in large quantities for new purposes. A place like Lombard Street, where in all but the rarest times money can be always obtained upon good security or upon decent prospects of probable gain, is a luxury which no country has ever enjoyed with even comparable equality before.

But though these occasional loans to new enterprises and foreign States are the most conspicuous instances of the power of Lombard Street, they are not by any means the most remarkable or the most important use of that power. English trade is carried on upon borrowed capital to an extent of which few foreigners have an idea, and none of our ancestors could have conceived. In every district small traders have arisen, who "discount their bills" largely, and with the capital so borrowed, harass and press upon, if they do not eradicate, the old capitalist.[1] The new trader has obviously an immense advantage in the struggle of trade. If a merchant have £50,000 all his own,—to gain 10 per cent. on it he must make £5,000 a year, and must charge for his goods accordingly; but if another has only £10,000, and borrows £40,000 by discounts (no extreme instance in our modern trade), he has the same capital of £50,000 to use, and can sell much cheaper. If the rate at which he borrows be 5 per cent., he will have to pay £2,000 a year; and if, like the old trader, he make £5,000 a year, he will still, after paying his interest, obtain £3,000 a year, or 30 per cent. on his own £10,000. As most merchants are content with much less than 30 per cent., he will be able, if he wishes, to forgo some of that profit, lower the price of the commodity, and drive the old-fashioned trader—the man who trades on his own capital—out of the market. In modern English business, owing to the certainty of obtaining loans on discount of bills or otherwise at a moderate rate of interest, there is a steady bounty on trading with borrowed capital, and a constant discouragement to confine yourself solely or mainly to your own capital.

This increasingly democratic structure of English commerce is very unpopular in many quarters, and its effects are no doubt exceedingly mixed. On the one hand, it prevents the long duration of great families of merchant princes, such as those of Venice and Genoa, who inherited nice cultivation as well as great wealth, and who, to some extent, combined the tastes of an aristocracy with the insight and verve of men of business. These are pushed out, so to say, by the dirty crowd of little men. After a generation or two they retire into idle luxury. Upon their immense capital they can only obtain low profits, and these they do not think enough to compensate them for the rough companions and rude manners they must meet in business. This constant levelling of our commercial houses is, too, unfavourable to commercial morality. Great firms, with a reputation which they have received from the past, and which they wish to transmit to the future, cannot be guilty of small frauds. They live by a *continuity* of trade, which detected fraud would spoil. When we scrutinise the reason of the impaired reputation of English goods, we find it is the fault of new men with little money of their own, created by bank "discounts". These men want business at once, and they produce an inferior article to get it. They rely on cheapness, and rely successfully.

But these defects and others in the democratic structure of commerce are compensated by one great excellence. No country of great hereditary trade, no European country at least, was ever so little "sleepy," to use the only fit word, as England; no other was ever so prompt at once to seize new advantages. A country dependent mainly on great "merchant princes" will never be so prompt; their commerce perpetually slips more and more into a commerce of routine. A man of large wealth, however intelligent, always thinks, more or less—"I have a great income, and I want to keep it. If things go on as they are, I shall certainly keep it; but if they change I *may* not keep it." Consequently he considers every change of circumstance a "bore," and thinks of such changes as little as he can. But a new man, who has his way to make in the world, knows that such changes are his opportunities; he is always on the look-out for them, and always heeds them when he finds them. The rough and vulgar structure of English commerce is the secret of its life; for it contains "the propensity to variation," which, in the social as in the animal kingdom, is the principle of progress.

In this constant and chronic borrowing, Lombard Street is the great go-between. It is a sort of standing broker between quiet saving districts of the country and the active employing districts. Why particular trades settled in particular places it is often difficult to say; but one thing is certain, that when a trade *has* settled in any one spot, it is very difficult for another to oust it—impossible unless the second place possesses some very great intrinsic advantage. Commerce is curiously conservative in its homes, unless it is imperiously obliged to migrate. Partly from this cause, and partly from others, there are whole districts in England which cannot and do not employ their own money. No purely agricultural county does so. The savings of a county with good land but no manufactures and no trade much exceed what can be safely lent in the county. These savings are first lodged in the local banks, are by them sent to London, and are deposited with London bankers, or with the bill brokers. In either case the result is the same. The money thus sent up from the accumulating districts is employed in discounting the bills of the industrial districts. Deposits are made with the bankers and bill brokers in Lombard Street by the bankers of such counties as Somersetshire and Hampshire, and those bill brokers and bankers employ them in the discount of bills from Yorkshire and Lancashire. Lombard Street is thus a perpetual agent between the two great divisions of England—between the rapidly-growing districts, where almost any amount of money can be well and easily employed, and the stationary and the declining districts, where there is more money than can be used.

This organisation is so useful because it is so easily adjusted. Political economists say that capital sets towards the most profitable trades, and that it rapidly leaves the less profitable and non-paying trades. But in ordinary countries this is a slow process, and some persons who want to have ocular demonstration of abstract truths have been inclined to doubt it because they could not see it. In England, however, the process would be visible enough if you could only see the books of the bill brokers and the bankers. Their bill cases as a rule are full of the bills drawn in the most profitable trades, and *cæteris paribus* and in comparison empty of those drawn in the less profitable. If the iron trade ceases to be as profitable as usual, less iron is sold; the fewer the sales the fewer the bills; and in consequence the number of iron bills in Lombard Street is diminished. On the other hand, if in consequence of a bad harvest the corn trade becomes on a sudden profitable, immediately “corn bills” are created in great numbers, and if good are discounted in Lombard Street. Thus English capital runs as surely and instantly where it is most wanted, and where there is most to be made of it, as water runs to find its level.

This efficient and instantly ready organisation gives us an enormous advantage in competition with less advanced countries—less advanced, that is, in this particular respect of credit. In a new trade English capital is instantly at the disposal of persons capable of understanding the new opportunities and of making good use of them. In countries where there is little money to lend, and where that little is lent tardily and reluctantly, enterprising traders are long kept back, because they cannot at once borrow the capital, without which skill and knowledge are useless. All *sudden* trades come to England, and in so doing often disappoint both rational probability and the predictions of philosophers. The Suez Canal is a curious case of this. All predicted that the Canal would undo what the discovery of the passage to India round the Cape effected. Before that all Oriental trade went to ports in the South of Europe, and was thence diffused through Europe. That London and Liverpool should be centres of East Indian commerce is a geographical anomaly, which the Suez Canal, it was said, would rectify. “The Greeks,” said M. de Tocqueville, “the Styrians, the Italians, the Dalmatians, and the Sicilians, are the people who will use the Canal if any use it.” But, on the contrary, the main use of the Canal has been by the English.[1] None of the nations named by Tocqueville had the capital, or a tithe of it, ready to build the large screw steamers which alone can use the Canal profitably. Ultimately these plausible predictions may or may not be right, but as yet they have been quite wrong, not because England has rich people—there are wealthy people in all countries—but because she possesses an unequalled fund of floating money, which will help in a moment any merchant who sees a great prospect of new profit.

And not only does this unconscious "organisation of capital," to use a continental phrase, make the English specially quick in comparison with their neighbours on the Continent at seizing on novel mercantile opportunities, but it makes them likely also to retain any trade on which they have once regularly fastened. Mr. MacCulloch, following Ricardo, used to teach that all old nations had a special aptitude for trades in which much capital is required. The interest of capital having been reduced in such countries, he argued, by the necessity of continually resorting to inferior soils, they can undersell countries where profit is high in all trades needing great capital. And in this theory there is doubtless much truth, though it can only be applied in practice after a number of limitations and with a number of deductions of which the older school of political economists did not take enough notice. But the same principle plainly and practically applies to England, in consequence of her habitual use of borrowed capital. As has been explained, a new man, with a small capital of his own and a large borrowed capital, can undersell a rich man who depends on his own capital only. The rich man wants the full rate of mercantile profit on the whole of the capital employed in his trade, but the poor man wants only the interest of money (perhaps not a third of the rate of profit) on very much of what *he* uses, and therefore an income will be an ample recompense to the poor man which would starve the rich man out of the trade. All the common notions about the new competition of foreign countries with England and its dangers—notions in which there is in other aspects much truth—require to be reconsidered in relation to this aspect. England has a special machinery for getting into trade new men who will be content with low prices, and this machinery will probably secure her success, for no other country is soon likely to rival it effectually.

There are many other points which might be insisted on, but it would be tedious and useless to elaborate the picture. The main conclusion is very plain—that English trade is become essentially a trade on borrowed capital, and that it is only by this refinement of our banking system that we are able to do the sort of trade we do, or to get through the quantity of it.

But in exact proportion to the power of this system is its delicacy—I should hardly say too much if I said its danger. Only our familiarity blinds us to the marvellous nature of the system. There never was so much borrowed money collected in the world as is now collected in London. Of the many millions in Lombard Street, infinitely the greater proportion is held by bankers or others on short notice or on demand; that is to say, the owners could ask for it all any day they please: in a panic some of them do ask for some of it. If any large fraction of that money really was demanded, our banking system and our industrial system too would be in great danger.

Some of those deposits too are of a peculiar and very distinct nature. Since the Franco-German war, we have become to a much larger extent than before the bankers of Europe. A very large sum of foreign money is on various accounts and for various purposes held here. And in a time of panic it might be asked for. In 1866 we held only a much smaller sum of foreign money, but that smaller sum was demanded and we had to pay it at great cost and suffering, and it would be far worse if we had to pay the greater sums we now hold, without better resources than we had then.

It may be replied, that though our instant liabilities are great, our present means are large; that though we have much we may be asked to pay at any moment, we have very much always ready to pay it with. But, on the contrary, there is no country at present, and there never was any country before, in which the ratio of the cash reserve to the bank deposits was so small as it is now in England. So far from our being able to rely on the proportional magnitude of our cash in hand, the amount of that cash is so exceedingly small that a bystander almost trembles when he compares its minuteness with the immensity of the credit which rests upon it.

Again, it may be said that we need not be alarmed at the magnitude of our credit system or at its refinement, for that we have learned by experience the way of controlling it, and always manage it with discretion. But we do *not* always manage it with discretion. There is the astounding instance of Overend, Gurney, & Co. to the contrary. Ten years ago that house stood next to the Bank of England in the city of London; it was better known abroad than any similar firm—known, perhaps, better than any purely English firm. The partners had great estates, which had mostly been made in the business. They still derived an immense income from it. Yet in six years they lost all their own wealth, sold the business to the company, and then lost a large part of the company's capital. And these losses were made in a manner so reckless and so foolish, that one would think a child who had lent money in the city of London would have lent it better.[1] After this example we must not confide too surely in long-established credit, or in firmly-rooted traditions of business. We must examine the system on which these great masses of money are manipulated, and assure ourselves that it is safe and right.

But it is not easy to rouse men of business to the task. They let the tide of business float before them; they make money or strive to do so while it passes, and they are unwilling to think where it is going. Even the great collapse of Overends, though it caused a panic, is beginning to be forgotten. Most men of business think—"Anyhow this system will probably last my time. It has gone on a long time, and is likely to go on still." But the exact point is, that it has *not* gone on a long time. The collection of these immense sums in one place and in few hands is perfectly new. In 1844 the liabilities of the four great London joint stock banks were £10,637,000; they now are more than £60,000,000. The private deposits of the Bank of England then were £9,000,000; they now are £18,000,000. There was in 1844 throughout the country but a fraction of the vast deposit business which now exists. We cannot appeal, therefore, to experience to prove the safety of our system as it now is, for the present magnitude of that system is entirely new. Obviously a system may be fit to regulate a few millions, and yet quite inadequate when it is set to cope with many millions. And thus it *may* be with "Lombard Street," so rapid has been its growth, and so unprecedented is its nature.

I am by no means an alarmist. I believe that our system, though curious and peculiar, may be worked safely; but if we wish so to work it, we must study it. We must not think we have an easy task when we have a difficult task, or that we are living in a natural state when we are really living in an artificial one. Money will not manage itself, and Lombard Street has a great deal of money to manage.

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Chapter II.

A GENERAL VIEW OF LOMBARD STREET.

I.

The objects which you see in Lombard Street, and in that money world which is grouped about it, the Bank of England, the private banks, the joint stock banks, and the bill brokers. But before describing each of these separately we must look to what all have in common, and at the relation of each to the others.

"The distinctive function of the banker," says Ricardo, "begins as soon as he uses the money of *others*"; as long as he uses his own money he is only a capitalist. Accordingly all the banks in Lombard Street (and bill brokers are for this purpose only a kind of bankers) hold much money belonging to other people on running account and on deposit. In continental language, Lombard Street is an organisation of credit, and we are to see if it is a good or bad organisation in its kind, or if, as is most likely, it turn out to be mixed, what are its merits and what are its defects?

The main point on which one system of credit differs from another is "soundness". Credit means that a certain confidence is given, and a certain trust reposed. Is that trust justified? and is that confidence wise? These are the cardinal questions. To put it more simply—credit is a set of promises to pay; will those promises be kept? Especially in banking, where the "liabilities," or promises to pay, are so large, and the time at which to pay them, if exacted, is so short, an instant capacity to meet engagements is the cardinal excellence.

All that a banker wants to pay his creditors is a sufficient supply of the *legal tender* of the country, no matter what that legal tender may be. Different countries differ in their laws of legal tender, but for the primary purposes of banking these systems are not material. A good system of currency will benefit the country, and a bad system will hurt it. Indirectly, bankers will be benefited or injured with the country in which they live; but practically, and for the purposes of their daily life, they have no need to think, and never do think, on theories of currency. They look at the matter simply. They say—"I am under an obligation to pay such and such sums of legal currency; how much have I in my till, or have I at once under my command, of that currency?" In America, for example, it is quite enough for a banker to hold "greenbacks," though the value of these changes as the Government chooses to enlarge or contract the issue.[1] But a practical New York banker has no need to think of the goodness or badness of this system at all; he need only keep enough "greenbacks" to pay all probable demands, and then he is fairly safe from the risk of failure.

By the law of England the legal tenders are gold and silver coin (the last for small amounts only), and Bank of England notes. But the number of our attainable bank-notes is not, like American "greenbacks," dependent on the will of the State; it is limited by the provisions of the Act of 1844. That Act separates the Bank of England into two halves. The Issue Department only issues notes and can only issue £15,000,000 on Government securities;1 for all the rest it must have bullion deposited. Take, for example, an account, which may be considered an average specimen of those of the last few years—that for the last week of 1869:—

An account pursuant to the Act 7*th and* 8*th Victoria, cap.* 32, *for the week ending on Wednesday, the* 29*th day of December,* 1869.

ISSUE DEPARTMENT.

Notes issued	£33,288,640	Government debt	£11,015,100	
		Other securities	3,984,900	
		Gold coin and bullion	18,288,640	
		Silver bullion	—	
	£33,288,640		£33,288,640	

BANKING DEPARTMENT.

Proprietors' capital	£14,553,000	Government securities	£13,811,953	
Rest	3,103,301			
Public deposits, including Exchequer, Savings' Banks, Commissioners of National Debt, and dividend accounts	8,585,215	Other securities	19,781,988	
			Notes	10,389,690
			Gold and silver coin	907,982
Other deposits	18,204,607			
Seven-day and other bills	445,490			
	£44,891,613		£44,891,613	
		GEO. FORBES, *Chief Cashier.*		

Dated the 30th December, 1869.

There are here £15,000,000 bank-notes issued on securities, and £18,288,640 represented by bullion. The Bank of England has no power by law to increase the currency in any other manner.1 It holds the stipulated amount of securities, and for all the rest it must have bullion. This is the "cast-iron" system—the "hard and fast" line which the opponents of the Act say ruins us, and which the partisans of the Act say saves us. But I have nothing to do with its expediency here. All which is to my purpose is that our paper "legal tender," our bank-notes, can only be obtained in this manner. If, therefore, an English banker retains a sum of Bank of England notes or coin in due proportion to his liabilities, he has a sufficient amount of the legal tender of this country, and he need not think of anything more.

But here a distinction must be made. It is to be observed that properly speaking we should not include in the "reserve" of a bank "legal tenders," or cash, which the bank keeps to transact its daily business. That is as much a part of its daily stock-in-trade as its desks or offices; or at any rate, whatever words we may choose to use, we must carefully distinguish between this cash in the till which is wanted every day, and the *safety*-fund, as we may call it, the special reserve held by the bank to meet extraordinary and unfrequent demands.

What then, subject to this preliminary explanation, is the amount of legal tender held by our bankers against their liabilities? The answer is remarkable, and is the key to our whole system. It may be broadly said that no bank in London or out of it holds any considerable sum in hard cash or legal tender (above what is wanted for its daily business) except the Banking Department of the Bank of England.1 That department had on the 29th day of December, 1869, liabilities as follows:—

Public deposits	£8,585,000
Private deposits	18,205,000
Seven-day and other bills	445,000
Total	£27,235,000

and a cash reserve of £11,297,000.2 And this is all the cash reserve, we must carefully remember, which, under the law, the Banking Department of the Bank of England, as we cumbrously call it—the Bank of England for banking purposes—possesses. That department can no more multiply or manufacture bank-notes than any other bank can multiply them. At that particular day the Bank of England had only £11,297,000 in its till against liabilities of nearly three times the amount. It had “Consols” and other securities which it could offer for sale no doubt, and which, if sold, would augment its supply of bank notes—and the relation of such securities to real cash will be discussed presently; but of real cash the Bank of England for *this* purpose—the banking Bank—had then so much and no more.

And we may well think this a great deal, if we examine the position of other banks. No other bank holds any amount of substantial importance in its own till beyond what is wanted for daily purposes. All London banks keep their principal reserve on deposit at the Banking Department of the Bank of England. This is by far the easiest and safest place for them to use. The Bank of England thus has the responsibility of taking care of it. The same reasons which make it desirable for a private person to keep a banker make it also desirable for every banker, as respects his reserve, to bank with another banker if he safely can. The custody of very large sums in solid cash entails much care, and some cost; every one wishes to shift these upon others if he can do so without suffering. Accordingly, the other bankers of London, having perfect confidence in the Bank of England, get that Bank to keep their reserve for them.

The London bill brokers do much the same. Indeed, they are only a special sort of bankers who allow daily interest on deposits, and who for most of their money give security. But we have no concern now with these differences of detail. The bill brokers lend most of their money, and deposit the remnant either with the Bank of England or some London banker. That London banker lends what he chooses of it, the rest he leaves at the Bank of England. You always come back to the Bank of England at last.

But those who keep immense sums with a banker gain a convenience at the expense of a danger. They are liable to lose them if the bank fail. As all other bankers keep their banking reserve at the Bank of England, they are liable to fail if it fails. They are dependent on the management of the Bank of England in a day of difficulty and at a crisis for the spare money they keep to meet that difficulty and crisis. And in this there is certainly considerable risk. Three times "Peel's Act" has been suspended because the Banking Department was empty. Before the Act was broken—

In 1847, the Banking Department was reduced to	£1,994,000
1857, the Banking Department was reduced to	1,462,000
1866, the Banking Department was reduced to	3,000,000

In fact, in none of those years could the Banking Department of the Bank of England have survived if the law had not been broken.

Nor must it be fancied that this danger is unreal, artificial, and created by law. There is a risk of our thinking so, because we hear that the danger can be cured by breaking an Act; but substantially the same danger existed before the Act. In 1825, when only coin was a legal tender, and when there was only one department in the Bank, the Bank had reduced its reserve to £1,027,000, and was within an ace of stopping payment.

But the danger to the depositing banks is not the sole or the principal consequence of this mode of keeping the London reserve. The main effect is to cause the reserve to be much smaller in proportion to the liabilities than it would otherwise be. The reserve of the London bankers being on deposit in the Bank of England, the Bank always lends a principal part of it. Suppose, a favourable supposition, that the Banking Department holds more than two-fifths of its liabilities in cash—that it lends three-fifths of its deposits and retains in reserve only two-fifths. If then the aggregate of the bankers' deposited reserve be £5,000,000, £3,000,000 of it will be lent by the Banking Department, and £2,000,000 will be kept in the till. In consequence, that £2,000,000 is all which is really held in actual cash as against the liabilities of the depositing banks. If Lombard Street were on a sudden thrown into liquidation, and made to pay as much as it could on the spot, that £2,000,000 would be all which the Bank of England could pay to the depositing banks, and consequently all, besides the small cash in the till, which those banks could on a sudden pay to the persons who have deposited with them.

We see then that the banking reserve of the Bank of England—some £10,000,000[1] on an average of years now, and formerly much less—is all which is held against the liabilities of Lombard Street; and if that were all, we might well be amazed at the immense development of our credit system—in plain English, at the immense amount of our debts payable on demand, and the smallness of the sum of actual money which we keep to pay them if demanded. But there is more to come. Lombard Street is not only a place requiring to keep a reserve, it is itself a place where reserves are kept. All country bankers keep their reserve in London. They only retain in each country town the minimum of cash necessary to the transaction of the current business of that country town. Long experience has told them to a nicety how much this is, and they do not waste capital and lose profit by keeping more idle. They send the money to London, invest a part of it in securities, and keep the rest with the London bankers and the bill brokers. The habit of Scotch and Irish bankers is much the same. All their spare money is in London, and is invested as all other London money now is; and, therefore, the reserve in the Banking Department of the Bank of England is the banking reserve not only of the Bank of England, but of all London—and not only of all London, but of all England, Ireland, and Scotland too.

Of late there has been a still further increase in our liabilities. Since the Franco-German War, we may be said to keep the European reserve also. Deposit Banking is indeed so small on the Continent, that no large reserve need be held on account of it. A reserve of the same sort which is needed in England and Scotland is not needed abroad. But all great communities have at times to pay large sums in cash, and of that cash a great store must be kept somewhere. Formerly there were two such stores in Europe; one was the Bank of France, and the other the Bank of England. But since the suspension of specie payments by the Bank of France, its use as a reservoir of specie is at an end. No one can draw a cheque on it and be sure of getting gold or silver for that cheque. Accordingly the whole liability for such international payments in cash is thrown on the Bank of England.[1] No doubt foreigners cannot take from us *our own* money; they must send here “value” in some shape or other for all they take away. But they need not send “cash”; they may send good bills and discount them in Lombard Street and take away any part of the produce, or all the produce, in bullion. It is only putting the same point in other words to say that all exchange operations are centring more and more in London. Formerly for many purposes Paris was a European settling-house, but now it has ceased to be so. The note of the Bank of France has not indeed been depreciated enough to disorder ordinary transactions. But any depreciation, however small—even the liability to depreciation without its reality—is enough to disorder exchange transactions. They are calculated to such an extremity of fineness that the change of a decimal may be fatal, and may turn a profit into a loss. Accordingly London has become the sole great settling-house of exchange transactions in Europe, instead of being formerly one of two.[1] And this pre-eminence London will probably maintain, for it is a natural pre-eminence. The number of mercantile bills drawn upon London incalculably surpasses those drawn on any other European city; London is the place which receives more than any other place, and pays more than any other place, and therefore it is the natural “clearing house”. The pre-eminence of Paris partly arose from a distribution of political power, which is already disturbed; but that of London depends on the regular course of commerce, which is singularly stable and hard to change.

Now that London is the clearing house to foreign countries, London has a new liability to foreign countries. At whatever place many people have to make payments, at that place those people must keep money. A large deposit of foreign money in London is now necessary for the business of the world. During the immense payments from France to Germany, the sum *in transitu*—the sum in London—has perhaps been unusually large. But it will ordinarily be very great. The present political circumstances no doubt will soon change. We shall soon hold in Lombard Street far less of the money of foreign Governments; but we shall hold more and more of the money of private persons; for the deposit at a clearing house necessary to settle the balance of commerce must tend to increase as that commerce itself increases.

And this foreign deposit is evidently of a delicate and peculiar nature. It depends on the good opinion of foreigners, and that opinion may diminish or may change into a bad opinion. After the panic of 1866, especially after the suspension of Peel's Act (which many foreigners confound with a suspension of cash payments), a large amount of foreign money was withdrawn from London. And we may reasonably presume that in proportion as we augment the deposits of cash by foreigners in London, we augment both the chances and the disasters of a "run" upon England.

And if that run should happen, the bullion to meet it must be taken from the Bank. There is no other large store in the country. The great exchange dealers may have a little for their own purposes, but they have no store worth mentioning in comparison with this. If a foreign creditor is so kind as to wait his time and buy the bullion as it comes into the country, he may be paid without troubling the Bank or distressing the Money Market. The German Government has recently been so kind; it was in no respect afraid. But a creditor who takes fright will not wait, and if he wants bullion in a hurry he must come to the Bank of England.

In consequence all our credit system depends on the Bank of England for its security. On the wisdom of the directors of that one joint stock company, it depends whether *England shall be solvent or insolvent.* This may seem too strong, but it is not. All banks depend on the Bank of England, and all merchants depend on some banker. If a merchant have £10,000 at his banker's, and wants to pay it to some one in Germany, he will not be able to pay it unless his banker can pay him, and the banker will not be able to pay if the Bank of England should be in difficulties and cannot produce his "reserve".

The directors of the Bank are, therefore, in fact, if not in name, trustees for the public, to keep a banking reserve on their behalf; and it would naturally be expected either that they distinctly recognised this duty and engaged to perform it, or that their own self-interest was so strong in the matter that no engagement was needed. But so far from there being a distinct undertaking on the part of the Bank directors to perform this duty, many of them would scarcely acknowledge it, and some altogether deny it. Mr. Hankey, one of the most careful and most experienced of them, says in his book on the Bank of England, the best account of the practice and working of the Bank which anywhere exists—"I do not intend here to enter at any length on the subject of the general management of the Bank," meaning the Banking Department, "as the principle upon which the business is conducted does not differ, as far as I am aware, from that of any well-conducted bank in London". But, as anyone can see by the published figures, the Banking Department of the Bank of England keeps as a great reserve in bank-notes and coin between 30 and 50 per cent. of its liabilities, and the other banks only keep in bank-notes and coin the bare minimum they need to open shop with. And such a constant difference indicates, I conceive, that the two are *not* managed on the same principle.

The practice of the Bank has, as we all know, been much and greatly improved. They do not now manage like the other banks in Lombard Street. They keep an altogether different kind and quantity of reserve; but though the practice is mended the theory is not. There has never been a distinct resolution passed by the directors of the Bank of England, and communicated by them to the public, stating, even in the most general manner, how much reserve they mean to keep or how much they do not mean, or by what principle in this important matter they will be guided.

The position of the Bank directors is indeed most singular. On the one side a great city opinion—a great national opinion, I may say, for the nation has learnt much from many panics—requires the directors to keep a large reserve. The newspapers, on behalf of the nation, are always warning the directors to keep it, and watching that they do keep it; but, on the other hand, another less visible but equally constant pressure pushes the directors in exactly the reverse way, and inclines them to diminish the reserve.

This is the natural desire of all directors to make a good dividend for their shareholders. The more money lying idle the less, *cæteris paribus,* is the dividend; the less the money lying idle the greater is the dividend. And at almost every meeting of the proprietors of the Bank of England there is a conversation on this subject. Some proprietor says that he does not see why so much money is kept idle, and hints that the dividend ought to be more.

Indeed, it cannot be wondered at that the Bank proprietors do not quite like their position. Theirs is the oldest bank in the City, but their profits do not increase, while those of other banks most rapidly increase. In 1844, the dividend on the stock of the Bank of England was 7 per cent, and the price of the stock itself 212; the dividend now is 9 per cent., and the price of the stock 232. But in the same time the shares of the London and Westminster Bank, in spite of an addition of 100 per cent. to the capital, have risen from 27 to 66, and the dividend from 6 per cent. to 20 per cent.[1] That the Bank proprietors should not like to see other companies getting richer than their company is only natural.

Some part of the lowness of the Bank dividend, and of the consequent small value of Bank stock, is undoubtedly caused by the magnitude of the Bank capital; but much of it is also due to the great amount of unproductive cash—of cash which yields no interest—that the Banking Department of the Bank of England keeps lying idle. If we compare the London and Westminster Bank—which is the first of the joint stock banks in the public estimation and known to be very cautiously and carefully managed—with the Bank of England, we shall see the difference at once. The London and Westminster has only 13 per cent. of its liabilities lying idle. The Banking Department of the Bank of England has over 40 per cent.[2] So great a difference in the management must cause, and does cause, a great difference in the profits. Inevitably the shareholders of the Bank of England will dislike this great difference; more or less, they will always urge their directors to diminish (as far as possible) the unproductive reserve, and to augment as far as possible their own dividend.

In most banks there would be a wholesome dread restraining the desire of the shareholders to reduce the reserve; they would fear to impair the credit of the bank. But, fortunately or unfortunately, no one has any fear about the Bank of England. The English world at least believes that it will not, almost that it *cannot,* fail. Three times since 1844 the Banking Department has received assistance, and would have failed without it. In 1825 the entire concern almost suspended payment; in 1797 it actually did so. But still there is a faith in the Bank, contrary to experience, and despising evidence. No doubt in every one of these years the condition of the Bank, divided or undivided, was in a certain sense most sound; it could *ultimately* have paid all its creditors all it owed, and returned to its shareholders all their own capital. But ultimate payment is not what the creditors of a bank want; they want present, not postponed, payment: they want to be repaid according to agreement: the contract was that they should be paid on demand, and if they are not paid on demand they may be ruined. And that instant payment, in the years I speak of, the Bank of England certainly could not have made. But no one in London ever dreams of questioning the credit of the Bank, and the Bank never dreams that its own credit is in danger. Somehow everybody feels the Bank is sure to come right. In 1797, when it had scarcely any money left, the Government said not only that it need not pay away what remained, but that it *must* not. The effect of "letters of licence" to break Peel's Act has confirmed the popular conviction that the Government is close behind the Bank, and will help it when wanted. Neither the Bank nor the Banking Department have ever had an idea of being put "into liquidation"; most men would think as soon of "winding-up" the English nation.

Since, then, the Bank of England, as a bank, is exempted from the perpetual apprehension that makes other bankers keep a large reserve—the apprehension of discredit—it would seem particularly necessary that its managers should be themselves specially interested in keeping that reserve, and specially competent to keep it. But I need not say that the Bank directors have not their personal fortune at stake in the management of the Bank. They are rich City merchants, and their stake in the Bank is trifling in comparison with the rest of their wealth. If the Bank *were* wound up, most of them would hardly in their income feel the difference. And, what is more, the Bank directors are not trained bankers; they were not bred to the trade, and do not in general give the main power of their minds to it. They are merchants, most of whose time and most of whose real mind are occupied in making money in their own business and for themselves.

It might be expected that as this great public duty was cast upon the Banking Department of the Bank, the principal statesmen (if not Parliament itself) would have enjoined on them to perform it. But no distinct resolution of Parliament has ever enjoined it; scarcely any stray word of any influential statesman. And, on the contrary, there is a whole *catena* of authorities, beginning with Sir Robert Peel and ending with Mr. Lowe,[1] which say that the Banking Department of the Bank of England is only a bank like any other bank—a company like other companies; that in this capacity it has no peculiar position, and no public duties at all. Nine-tenths of English statesmen, if they were asked as to the management of the Banking Department of the Bank of England, would reply that it was no business of theirs, or of Parliament at all; that the Banking Department alone must look to it.

The result is that we have placed the exclusive custody of our entire banking reserve in the hands of a single board of directors not particularly trained for the duty—who might be called "amateurs"—who have no particular interest above other people in keeping it undiminished—who acknowledge no obligation to keep it undiminished—who have never been told by any great statesman or public authority that they are so to keep it or that they have anything to do with it—who are named by and are agents for a proprietary which would have a greater income if it *was* diminished—who do not fear, and who need not fear, ruin, even if it were all gone and wasted.

That such an arrangement is strange must be plain; but its strangeness can only be comprehended when we know what the custody of a national banking reserve means, and how delicate and difficult it is.

II.

Such a reserve as we have seen is kept to meet sudden and unexpected demands. If the bankers of a country are asked for much more than is commonly wanted, then this reserve must be resorted to. What, then, are these extra demands? and how is this extra reserve to be used? Speaking broadly, these extra demands are of two kinds—one from abroad to meet foreign payments requisite to pay large and unusual foreign debts; and the other from at home to meet sudden apprehension or panic arising in any manner, rational or irrational.

No country has ever been so exposed as England to a foreign demand on its banking reserve, not only because at present England is a large borrower from foreign nations, but also (and much more) because no nation has ever had a foreign trade of such magnitude, in such varied objects, or so ramified through the world. The ordinary foreign trade of a country requires no cash; the exports on one side balance the imports on the other. But a sudden trade of import—like the import of foreign corn after a bad harvest—or (what is much less common, though there are cases of it) the cessation of any great export—causes a balance to become due, which must be paid in cash.

Now, the only source from which large sums of cash can be withdrawn in countries where banking is at all developed, is a "bank reserve". In England especially, except a few sums of no very considerable amount held by bullion dealers in the course of their business, there are no sums worth mentioning in cash out of the banks; an ordinary person could hardly pay a serious sum without going to some bank, even if he spent a month in trying. All persons who wish to pay a large sum in cash trench of necessity on the banking reserve. But, then, what is "cash"? Within a country the action of a Government can settle the quantity, and therefore the value, of its currency; but outside its own country, no Government can do so. Bullion is the "cash" of international trade; paper currencies are of no use there, and coins pass only as they contain more or less bullion.

When, then, the legal tender of a country is purely metallic, all that is necessary is that banks should keep a sufficient store of that "legal tender". But when the "legal tender" is partly metal and partly paper, it is necessary that the paper "legal tender"—the bank-note—should be convertible into bullion. And here I should pass my limits, and enter on the theory of Peel's Act, if I began to discuss the conditions of convertibility. I deal only with the primary prerequisite of effectual foreign payments—a sufficient supply of the local legal tender: with the afterstep—the change of the local legal tender into the universally acceptable commodity—I cannot deal.

What I have to deal with is, for the present, ample enough. The Bank of England must keep a reserve of "legal tender" to be used for foreign payments if itself fit, and to be used in obtaining bullion if itself unfit. And foreign payments are sometimes very large, and often very sudden. The "cotton drain," as it is called—the drain to the East to pay for Indian cotton during the American Civil War—took many millions from this country for a series of years. A bad harvest must take millions in a single year. In order to find such great sums, the Bank of England requires the steady use of an effectual instrument.

That instrument is the elevation of the rate of interest. If the interest of money be raised, it is proved by experience that money *does* come to Lombard Street, and theory shows that it *ought* to come. To fully explain the matter I must go deep into the theory of the exchanges, but the general notion is plain enough. Loanable capital, like every other commodity, comes where there is most to be made of it. Continental bankers and others instantly send great sums here, as soon as the rate of interest shows that it can be done profitably. While English credit is good, a rise of the value of money in Lombard Street immediately by a banking operation brings money to Lombard Street. And there is also a slower mercantile operation. The rise in the rate of discount acts immediately on the trade of this country. Prices fall here; in consequence imports are diminished, exports are increased, and, therefore, there is more likelihood of a balance in bullion coming to this country after the rise in the rate than there was before.

Whatever persons—one bank or many banks—in any country hold the banking reserve of that country, ought at the very beginning of an unfavourable foreign exchange at once to raise the rate of interest, so as to prevent their reserve from being diminished farther, and so as to replenish it by imports of bullion.

This duty, up to about the year 1860, the Bank of England did not perform at all, as I shall show farther on. A more miserable history can hardly be found than that of the attempts of the Bank—if indeed they can be called attempts—to keep a reserve and to manage a foreign drain between the year 1819 (when cash payments were resumed by the Bank, and when our modern Money Market may be said to begin) and the year 1857. The panic of that year for the first time taught the Bank directors wisdom, and converted them to sound principles. The present policy of the Bank is an infinite improvement on the policy before 1857: the two must not be for an instant confounded; but nevertheless, as I shall hereafter show, the present policy is now still most defective, and much discussion and much effort will be wanted before that policy becomes what it ought to be.

A domestic drain is very different. Such a drain arises from a disturbance of credit within the country, and the difficulty of dealing with it is the greater, because it is often caused, or at least often enhanced, by a foreign drain. Times without number the public have been alarmed mainly because they saw that the banking reserve was already low, and that it was daily getting lower. The two maladies—an external drain and an internal—often attack the Money Market at once. What, then, ought to be done?

In opposition to what might be at first sight supposed, the best way for the bank or banks who have the custody of the bank reserve to deal with a drain arising from internal discredit, is to lend freely. The first instinct of every one is the contrary. There being a large demand on a fund which you want to preserve, the most obvious way to preserve it is to hoard it—to get in as much as you can, and to let nothing go out which you can help. But every banker knows that this is not the way to diminish discredit. This discredit means, “an opinion that you have not got any money,” and to dissipate that opinion, you must, if possible, show that you have money: you must employ it for the public benefit in order that the public may know that you have it. The time for economy and for accumulation is before. A good banker will have accumulated in ordinary times the reserve he is to make use of in extraordinary times.

Ordinarily discredit does not at first settle on any particular bank, still less does it at first concentrate itself on the bank or banks holding the principal cash reserve. These banks are almost sure to be those in best credit, or they would not be in that position, and, having the reserve, they are likely to look stronger and seem stronger than any others. At first, incipient panic amounts to a kind of vague conversation: Is A. B. as good as he used to be? Has not C. D. lost money? and a thousand such questions. A hundred people are talked about, and a thousand think—“Am I talked about, or am I not?” “Is my credit as good as it used to be, or is it less?” And every day, as a panic grows, this floating suspicion becomes both more intense and more diffused; it attacks more persons, and attacks them all more virulently than at first. All men of experience, therefore, try to “strengthen themselves,” as it is called, in the early stage of a panic; they borrow money while they can; they come to their banker and offer bills for discount, which commonly they would not have offered for days or weeks to come. And if the merchant be a regular customer, a banker does not like to refuse, because if he does he will be said, or may be said, to be in want of money, and so may attract the panic to himself. Not only merchants but all persons under pecuniary liabilities—present or imminent—feel this wish to “strengthen themselves,” and in proportion to those liabilities. Especially is this the case with what may be called the auxiliary dealers in credit. Under any system of banking there will always group themselves about the main bank or banks (in which is kept the reserve) a crowd of smaller money dealers, who watch the *minutiæ* of bills, look into special securities which busy bankers have not time for, and so gain a livelihood. As business grows, the number of such subsidiary persons augments. The various modes in which money may be lent have each their peculiarities, and persons who devote themselves to one only lend in that way more safely, and therefore more cheaply. In time of panic, these subordinate dealers in money will always come to the principal dealers. In ordinary times, the intercourse between the two is probably close enough. The little dealer is probably in the habit of pledging his “securities” to the larger dealer at a rate less than he has himself charged, and of running into the market to lend again. His time and brains are his principal capital, and he wants to be always using them. But in times of incipient panic, the minor money dealer always becomes alarmed. His credit is never very established or very wide; he always fears that he may be the person on whom current suspicion will fasten, and often he is so. Accordingly he asks the larger dealer for advances. A number of such persons ask all the large dealers—those who have the money—the holders of the reserve. And then the plain problem before the great dealers comes to be—"How shall we best protect ourselves? No doubt the immediate advance to these second-class dealers is annoying, but may not the refusal of it even be dangerous? A panic grows by what it feeds on; if it devours these second-class men, shall we, the first-class, be safe?"

A panic, in a word, is a species of neuralgia, and according to the rules of science you must not starve it. The holders of the cash reserve must be ready not only to keep it for their own liabilities, but to advance it most freely for the liabilities of others. They must lend to merchants, to minor bankers, to "this man and that man," whenever the security is good. In wild periods of alarm, one failure makes many, and the best way to prevent the derivative failures is to arrest the primary failure which causes them. The way in which the panic of 1825 was stopped by advancing money has been described in so broad and graphic a way that the passage has become classical. "We lent it," said Mr. Harman, on behalf of the Bank of England, "by every possible means and in modes we had never adopted before; we took in stock on security, we purchased Exchequer bills, we made advances on Exchequer bills, we not only discounted outright, but we made advances on the 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 over nice. Seeing the dreadful state in which the public were, we rendered every assistance in our power." After a day or two of this treatment, the entire panic subsided, and the "City" was quite calm.

The problem of managing a panic must not be thought of as mainly a "banking" problem. It is primarily a mercantile one. All merchants are under liabilities; they have bills to meet soon, and they can only pay those bills by discounting bills on other merchants. In other words, all merchants are dependent on borrowing money, and large merchants are dependent on borrowing much money. At the slightest symptom of panic many merchants want to borrow more than usual; they think they will supply themselves with the means of meeting their bills while those means are still forthcoming. If the bankers gratify the merchants, they must lend largely just when they like it least; if they do not gratify them, there is a panic.

On the surface there seems a great inconsistency in all this. First, you establish in some bank or banks a certain reserve; you make of it or them a kind of ultimate treasury, where the last shilling of the country is deposited and kept. And then you go on to say that this final treasury is also to be the last lending-house; that out of it unbounded, or at any rate immense, advances are to be made when no one else lends. This seems like saying—first, that the reserve should be kept, and then that it should not be kept. But there is no puzzle in the matter. The ultimate banking reserve of a country (by whomsoever kept) is not kept out of show, but for certain essential purposes, and one of those purposes is the meeting a demand for cash caused by an alarm within the country. It is not unreasonable that our ultimate treasure in particular cases should be lent; on the contrary, we keep that treasure for the very reason that in particular cases it should be lent.

When reduced to abstract principle, the subject comes to this. An "alarm" is an opinion that the money of certain persons will not pay their creditors when those creditors want to be paid. If possible, that alarm is best met by enabling those persons to pay their creditors to the very moment. For this purpose only a little money is wanted. If that alarm is not so met, it aggravates into a panic, which is an opinion that most people, or very many people, will not pay their creditors; and this too can only be met by enabling all those persons to pay what they owe, which takes a great deal of money. No one has enough money, or anything like enough, but the holders of the bank reserve.

Not that the help so given by the banks holding that reserve necessarily diminishes it. Very commonly the panic extends as far, or almost as far, as the bank or banks which hold the reserve, but does not touch it or them at all. In this case it is enough if the dominant bank or banks, so to speak, pledge their credit for those who want it. Under our present system it is often quite enough that a merchant or a banker gets the advance made to him put to his credit in the books of the Bank of England; he may never draw a cheque on it, or, if he does, that cheque may come in again to the credit of some other customer who lets it remain on his account. An increase of loans at such times is often an increase of the liabilities of the bank, not a diminution of its reserve. Just so before 1844, an issue of notes, as in 1825, to quell a panic entirely internal did not diminish the bullion reserve. The notes went out, but they did not return. They were issued as loans to the public, but the public wanted no more; they never presented them for payment; they never asked that sovereigns should be given for them. But the acceptance of a great liability during an augmenting alarm, though not as bad as an equal advance of cash, is the thing next worst. At any moment the cash *may* be demanded. Supposing the panic to grow, it *will* be demanded, and the reserve will be lessened accordingly.

No doubt all precautions may, in the end, be unavailing. "On extraordinary occasions," says Ricardo, "a general panic may seize the country, when every one becomes desirous of possessing himself of the precious metals as the most convenient mode of realising or concealing his property—against such panic banks have no security *on any system.*" The bank or banks which hold the reserve may last a little longer than the others; but if apprehension pass a certain bound, they must perish too. The use of credit is, that it enables debtors to use a certain part of the money their creditors have lent them. If all those creditors demand all that money at once, they cannot have it, for that which their debtors have used, is for the time employed, and not to be obtained. With the advantages of credit we must take the disadvantages too; but to lessen them as much as we can, we must keep a great store of ready money always available, and advance out of it very freely in periods of panic, and in times of incipient alarm.

The management of the Money Market is the more difficult, because, as has been said, periods of internal panic and external demand for bullion commonly occur together. The foreign drain empties the Bank till, and that emptiness, and the resulting rise in the rate of discount, tend to frighten the market. The holders of the reserve have, therefore, to treat two opposite maladies at once—one requiring stringent remedies, and especially a rapid rise in the rate of interest; and the other an alleviative treatment with large and ready loans.

Before we had much specific experience, it was not easy to prescribe for this compound disease; but now we know how to deal with it. We must look first to the foreign drain, and raise the rate of interest as high as may be necessary. Unless you can stop the foreign export, you cannot allay the domestic alarm. The Bank will get poorer and poorer, and its poverty will protract or renew the apprehension. And at the rate of interest so raised, the holders—one or more—of the final Bank reserve must lend freely. Very large loans at very high rates are the best remedy for the worst malady of the Money Market when a foreign drain is added to a domestic drain. Any notion that money is not to be had, or that it may not be had at any price, only raises alarm to panic, and enhances panic to madness. But though the rule is clear, the greatest delicacy, the finest and best skilled judgment, are needed to deal at once with such great and contrary evils.

And great as is the delicacy of such a problem in all countries, it is far greater in England now than it was or is elsewhere. The strain thrown by a panic on the final Bank reserve is proportional to the magnitude of a country's commerce, and to the number and size of the dependent banks—banks, that is, holding no cash reserve—that are grouped around the central bank or banks. And in both respects our system causes a stupendous strain. The magnitude of our commerce, and the number and magnitude of the banks which depend on the Bank of England, are undeniable. There are very many more persons under great liabilities than there are, or ever were, anywhere else. At the commencement of every panic, all persons under such liabilities try to supply themselves with the means of meeting those liabilities while they can. This causes a great demand for new loans. And so far from being able to meet it, the bankers who do not keep an extra reserve at that time borrow largely, or do not renew large loans—very likely do both.

London bankers, other than the Bank of England, effect this in several ways. First, they have probably discounted bills to a large amount for the bill brokers, and if these bills are paid, they decline discounting any others to replace them. The directors of the London and Westminster Bank had, in the panic of 1857, discounted millions of such bills, and they justly said that if those bills were paid they would have an amount of cash far more than sufficient for any demand.[1] But how were those bills to be paid? Some one else must lend the money to pay them. The mercantile community could not on a sudden bear to lose so large a sum of borrowed money; they have been used to rely on it, and they could not carry on their business without it. Least of all could they bear it at the beginning of a panic, when everybody wants more money than usual. Speaking broadly, those bills can only be paid by the discount of other bills. When the bills (suppose) of a Manchester warehouseman which he gave to the manufacturer become due, he cannot, as a rule, pay for them at once in cash; he has bought on credit, and he has sold on credit. He is but a middleman. To pay his own bill to the maker of the goods, he must discount the bills he has received from the shopkeepers to whom he has sold the goods; but if there is a sudden cessation in the means of discount, he will not be able to discount them. All our mercantile community must obtain new loans to pay old debts. If some one else did not pour into the market the money which the banks like the London and Westminster Bank take out of it, the bills held by the London and Westminster Bank could not be paid.

Who, then, is to pour in the new money? Certainly not the bill brokers. They have been used to re-discount with such banks as the London and Westminster millions of bills, and if they see that they are not likely to be able to re-discount those bills, they instantly protect themselves and do not discount them. Their business does not allow them to keep much cash unemployed. They give interest for all the money deposited with them—an interest often nearly approaching the interest they can charge; as they can only keep a small reserve a panic tells on them more quickly than on anyone else. They stop their discounts, or much diminish their discounts, immediately. There is no new money to be had from them, and the only place at which they can have it is the Bank of England.

There is even a simpler case: the banker who is uncertain of his credit, and wants to increase his cash, may have money on deposit at the bill brokers'. If he wants to replenish his reserve, he may ask for it, suppose, just when the alarm is beginning. But if a great number of persons do this very suddenly, the bill brokers will not at once be able to pay without borrowing. They have excellent bills in their case, but these will not be due for some days; and the demand from the more or less alarmed bankers is for payment at once and to-day. Accordingly the bill broker takes refuge at the Bank of England—the only place where at such a moment new money is to be had.

The case is just the same if the banker wants to sell Consols, or to call in money lent on Consols. These he reckons as part of his reserve. And in ordinary times nothing can be better. According to the saying, you "can sell Consols on a Sunday". In a time of no alarm, or in any alarm affecting that particular banker only, he can rely on such reserve without misgiving. But not so in a general panic. Then, if he wants to sell £500,000 worth of Consols, he will not find £500,000 of fresh money ready to come into the market. All ordinary bankers are wanting to sell, or thinking they may have to sell. The only resource is the Bank of England. In a great panic, Consols cannot be sold unless the Bank of England will advance to the buyer, and no buyer can obtain advances on Consols at such a time unless the Bank of England will lend to him.

The case is worst if the alarm is not confined to the great towns, but is diffused through the country. As a rule country bankers only keep so much barren cash as is necessary for their common business. All the rest they leave at the bill brokers', or at the interest-giving banks, or invest in Consols and such securities. But in a panic they come to London and want this money. And it is only from the Bank of England that they can get it, for all the rest of London want their money for themselves.

If we remember that the liabilities of Lombard Street payable on demand are far larger than those of any like market, and that the liabilities of the country are greater still, we can conceive the magnitude of the pressure on the Bank of England when both

Lombard Street and the country suddenly and at once come upon it for aid. No other bank was ever exposed to a demand so formidable, for none ever before kept the banking reserve for such a nation as the English.

The mode in which the Bank of England meets this great responsibility is very curious. It unquestionably does make enormous advances in every panic—

	£	£
In 1847 the loans on "private securities" increased from	18,963,000	to 20,409,000
In 1857 the loans on "private securities" increased from	20,404,000	to 31,350,000
In 1866 the loans on "private securities" increased from	18,507,000	to 33,447,000

But, on the other hand, as we have seen, though the Bank, more or less, does its duty, it does not distinctly acknowledge that it is its duty. We are apt to be solemnly told that the Banking Department of the Bank of England is only a bank like other banks—that it has no peculiar duty in times of panic—that it then is to look to itself alone, as other banks look. And there is this excuse for the Bank. Hitherto questions of banking have been so little discussed in comparison with questions of currency, that the duty of the Bank in time of panic has been put on a wrong ground.

It is imagined that because bank-notes are a legal tender, the Bank has some peculiar duty to help other people. But bank-notes are only a legal tender at the Issue Department, not at the Banking Department, and the accidental combination of the two departments in the same building gives the Banking Department no aid in meeting a panic. If the Issue Department were at Somerset House, and if it issued Government notes there, the position of the Banking Department under the present law would be exactly what it is now. No doubt, formerly the Bank of England could issue what it pleased, but that historical reminiscence makes it no stronger now that it can no longer so issue. We must deal with what is, not with what was.

And a still worse argument is also used. It is said that because the Bank of England keeps the "State account" and is the Government banker, it is a sort of "public institution," and ought to help everybody. But the custody of the taxes which have been collected and which wait to be expended is a duty quite apart from panics. The Government money may chance to be much or little when the panic comes. There is no relation or connection between the two. And the State, in getting the Bank to keep what money it may chance to have, or in borrowing of it what money it may chance to want, does not hire it to stop a panic or much help it if it tries.

The real reason has not been distinctly seen. As has been already said—but on account of its importance and perhaps its novelty it is worth saying again—whatever bank or banks keep the ultimate banking reserve of the country must lend that reserve most freely in time of apprehension, for that is one of the characteristic uses of the bank reserve, and the mode in which it attains one of the main ends for which it is kept. Whether rightly or wrongly, at present and in fact the Bank of England keeps our ultimate bank reserve, and therefore they must use it in this manner.

And though the Bank of England certainly does make great advances in time of panic, yet as it does not do so on any distinct principle it naturally does it hesitatingly, reluctantly, and with misgiving. In 1847, even in 1866—the latest panic, and the one in which on the whole the Bank acted the best—there was nevertheless an instant when it was believed the Bank would not advance on Consols, or at least hesitated to advance on them. The moment this was reported in the City and telegraphed to the country, it made the panic indefinitely worse. In fact, to make large advances in this faltering way is to incur the evil of making them without obtaining the advantage. What is wanted and what is necessary to stop a panic is to diffuse the impression that, though money may be dear, still money is to be had. If people could be really convinced that they could have money if they wait a day or two, and that utter ruin is not coming, most likely they would cease to run in such a mad way for money. Either shut the Bank at once, and say it will not lend more than it commonly lends, or lend freely, boldly and so that the public may feel you mean to go on lending. To lend a great deal, and yet not give the public confidence that you will lend sufficiently and effectually, is the worst of all policies; but it is the policy now pursued.

In truth, the Bank does not lend from the motives which should make a bank lend. The holders of the Bank reserve ought to lend at once and most freely in an incipient panic, because they fear destruction in the panic. They ought not to do it to serve others; they ought to do it to serve themselves. They ought to know that this bold policy is the only safe one, and for that reason they ought to choose it. But the Bank directors are not afraid. Even at the last moment they say that “whatever happens to the community they can preserve themselves”. Both in 1847 and 1857 (I believe also in 1866, though there is no printed evidence of it) the Bank directors contended that the Banking Department was quite safe though its reserve was nearly all gone, and that it could strengthen itself by selling securities and by refusing to discount. But this is a complete dream. The Bank of England could not sell “securities,” for in an extreme panic there is no one else to buy securities. The Bank cannot stay still and wait till its bills are paid, and so fill its coffers, for unless it discounts equivalent bills, the bills which it has already discounted will not be paid. When the reserve in the ultimate bank or banks—those keeping the reserve—runs low, it cannot be augmented by the same means that other and dependent banks commonly adopt to maintain their reserve, for the dependent banks trust that at such moments the ultimate banks will be discounting more than usual and lending more than usual. But ultimate banks have no similar rear-guard to rely upon.

I shall have failed in my purpose if I have not proved that the system of entrusting all our reserve to a single board, like that of the Bank directors, is very anomalous; that it is very dangerous; that its bad consequences, though much felt, have not been fully seen; that they have been obscured by traditional arguments and hidden in the dust of ancient controversies.

But it will be said—What would be better? What other system could there be? We are so accustomed to a system of banking, dependent for its cardinal function on a single bank, that we can hardly conceive of any other. But the natural system—that which would have sprung up if Government had let banking alone—is that of many banks of equal or not altogether unequal size. In all other trades competition brings the traders to a rough approximate equality. In cotton spinning, no single firm far and permanently outstrips the others. There is no tendency to a monarchy in the cotton world; nor, where banking has been left free, is there any tendency to a monarchy in banking either. In Manchester, in Liverpool, and all through England, we have a great number of banks, each with a business more or less good, but we have no single bank with any sort of predominance; nor is there any such bank in Scotland. In the new world of joint stock banks outside the Bank of England, we see much the same phenomenon. One or more get for a time a better business than the others, but no single bank permanently obtains an unquestioned predominance. None of them gets so much before the others that the others voluntarily place their reserves in its keeping. A republic with many competitors of a size or sizes suitable to the business, is the constitution of every trade if left to itself, and of banking as much as any other. A monarchy in any trade is a sign of some anomalous advantage, and of some intervention from without.

I shall be at once asked—Do you propose a revolution? Do you propose to abandon the one-reserve system, and create anew a many-reserve system? My plain answer is that I do not propose it. I know it would be childish. Credit in business is like loyalty in Government. You must take what you can find of it, and work with it if possible. A theorist may easily map out a scheme of Government in which Queen Victoria could be dispensed with. He may make a theory that, since we admit and we know that the House of Commons is the real sovereign, any other sovereign is superfluous; but for practical purposes, it is not even worth while to examine these arguments. Queen Victoria is loyally obeyed—without doubt, and without reasoning—by millions of human beings. If those millions began to argue, it would not be easy to persuade them to obey Queen Victoria, or anything else. Effectual arguments to convince the people who need convincing are wanting. Just so, an immense system of credit, founded on the Bank of England as its pivot and its basis, now exists. The English people, and foreigners too, trust it implicitly. Every banker knows that if he has to *prove* that he is worthy of credit, however good may be his arguments, in fact his credit is gone: but what we have requires no proof. The whole rests on an instinctive confidence generated by use and years. Nothing would persuade the English people to abolish the Bank of England; and if some calamity swept it away, generations must elapse before at all the same trust would be placed in any other equivalent. A many-reserve system, if some miracle should put it down in Lombard Street, would seem monstrous there. Nobody would understand it, or confide in it. Credit is a power which may grow, but cannot be constructed. Those who live under a great and firm system of credit must consider that if they break up that one they will never see another, for it will take years upon years to make a successor to it.

On this account, I do not suggest that we should return to a natural or many-reserve system of banking. I should only incur useless ridicule if I did suggest it. Nor can I propose that we should adopt the simple and straightforward expedient by which the French have extricated themselves from the same difficulty. In France all banking rests on the Bank of France, even more than in England all rests on the Bank of England. The Bank of France keeps the final banking reserve, and it keeps the currency reserve too. But the State does not trust such a function to a board of merchants, named by shareholders. The nation itself—the executive

Government—names the governor and deputy-governor of the Bank of France. These officers have, indeed, beside them a council of *régents,* or directors, named by the shareholders. But they need not attend to that council unless they think fit; they are appointed to watch over the national interest, and, in so doing, they may disregard the murmurs of the *régents* if they like. And in theory, there is much to be said for this plan. The keeping the single banking reserve being a national function, it is at least plausible to argue that Government should choose the functionaries. No doubt such a political intervention is contrary to the sound economical doctrine that "banking is a trade, and only a trade". But Government forgot that doctrine when, by privileges and monopolies, it made a single bank predominant over all others, and established the one-reserve system. As that system exists, a logical Frenchman consistently enough argues that the State should watch and manage it. But no such plan would answer in England. We have not been trained to care for logical sequence in our institutions, or rather we have been trained not to care for it. And the practical result for which we do care would in this case be bad. The governor of the Bank would be a high Parliamentary official, perhaps in the Cabinet, and would change as chance majorities and the strength of parties decide. A trade peculiarly requiring consistency and special attainment would be managed by a shifting and untrained ruler. In fact, the whole plan would seem to an Englishman of business palpably absurd; he would not consider it, he would not think it worth considering. That it works fairly well in France, and that there are specious arguments of theory for it, would not be sufficient to his mind.

All such changes being out of the question, I can propose only three remedies.

First. There should be a clear understanding between the Bank and the public that, since the Bank holds our ultimate banking reserve, they will recognise and act on the obligations which this implies;—that they will replenish it in times of foreign demand as fully, and lend it in times of internal panic as freely and readily, as plain principles of banking require.

This looks very different from the French plan, but it is not so different in reality. In England we can often effect, by the indirect compulsion of opinion, what other countries must effect by the direct compulsion of Government. We can do so in this case. The Bank directors now fear public opinion exceedingly; probably no kind of persons are so sensitive to newspaper criticism. And this is very natural. Our statesmen, it is true, are much more blamed, but they have generally served a long apprenticeship to sharp criticism. If they still care for it (and some do after years of experience much more than the world thinks), they care less for it than at first, and have come to regard it as an unavoidable and incessant irritant, of which they shall never be rid. But a Bank director undergoes no similar training and hardening. His functions at the Bank fill a very small part of his time; all the rest of his life (unless he be in Parliament) is spent in retired and mercantile industry. He is not subjected to keen and public criticism, and is not taught to bear it. Especially when once in his life he becomes, by rotation, governor, he is most anxious that the two years of office shall "go off well". He is apt to be irritated even by objections to the principles on which he acts, and cannot bear with equanimity censure which is pointed and personal. At present I am not sure if this sensitiveness is beneficial. As the exact position of the Bank of England in the Money Market is indistinctly seen, there is no standard to which a Bank governor can appeal. He is always in fear that "something may be said"; but not quite knowing on what side that "something" may be, his fear is but an indifferent guide to him. But if the cardinal doctrine were accepted, if it were acknowledged that the Bank is charged with the custody of our sole banking reserve, and is bound to deal with it according to admitted principles, then a governor of the Bank could look to those principles. He would know which way criticism was coming. If he was guided by the code, he would have a plain defence. And then we may be sure that old men of business would not deviate from the code. At present the Board of Directors are a sort of *semi*-trustees for the nation. I would have them real trustees, and with a good trust deed.

Secondly. The government of the Bank should be improved in a manner to be explained. We should diminish the "amateur" element; we should augment the trained banking element; and we should ensure more constancy in the administration.

Thirdly. As these two suggestions are designed to make the Bank as strong as possible, we should look at the rest of our banking system, and try to reduce the demands on the Bank as much as we can. The central machinery being inevitably frail, we should carefully and as much as possible diminish the strain upon it.

But to explain these proposals, and to gain a full understanding of many arguments that have been used, we must look more in detail at the component parts of Lombard Street, and at the curious set of causes which have made it assume its present singular structure.

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Chapter III.

HOW LOMBARD STREET CAME TO EXIST, AND WHY IT ASSUMED ITS PRESENT FORM.

I.

In the last century, a favourite subject of literary ingenuity was "conjectural history," as it was then called. Upon grounds of probability a fictitious sketch was made of the possible origin of things existing. If this kind of speculation were now applied to banking, the natural and first idea would be that large systems of deposit banking grew up in the early world, just as they grow up now in any large English colony. As soon as any such community becomes rich enough to have much money, and compact enough to be able to lodge its money in single banks, it at once begins so to do. English colonists do not like the risk of keeping their money, and they wish to make an interest on it. They carry from home the idea and the habit of banking, and they take to it as soon as they can in their new world. Conjectural history would be inclined to say that all banking began thus: but such history is rarely of any value. The basis of it is false. It assumes that what works most easily when established is that which it would be the most easy to establish, and that what seems simplest when familiar would be most easily appreciated by the mind though unfamiliar. But exactly the contrary is true. Many things which seem simple and which work well when firmly established, are very hard to establish among new people, and not very easy to explain to them. Deposit banking is of this sort. Its essence is that a very large number of persons agree to trust a very few persons, or some one person. Banking would not be a profitable trade if bankers were not a small number, and depositors in comparison an immense number. But to get a great number of persons to do exactly the same thing is always very difficult, and nothing but a very palpable necessity will make them on a sudden begin to do it. And there is no such palpable necessity in banking. If you take a country town in France, even now, you will not find any such system of banking as ours. Chequebooks are unknown, and money kept on running account by bankers is rare. People store their money in a *caisse* at their houses. Steady savings, which are waiting for investment, and which are sure not to be soon wanted, may be lodged with bankers; but the common floating cash of the community is kept by the community themselves at home. They prefer to keep it so, and it would not answer a banker's purpose to make expensive arrangements for keeping it otherwise. If a "branch," such as the National Provincial Bank opens in an English country town, were opened in a corresponding French one, it would not pay its expenses. You could not get any sufficient number of Frenchmen to agree to put their money there. And so it is in all countries not of British descent, though in various degrees. Deposit banking is a very difficult thing to begin, because people do not like to let their money out of their sight—especially do not like to let it out of sight without security—still more, cannot all at once agree on any single person to whom they are content to trust it unseen and unsecured. Hypothetical history, which explains the past by what is simplest and commonest in the present, is in banking, as in most things, quite untrue.

The real history is very different. New wants are mostly supplied by adaptation, not by creation or foundation. Something having been created to satisfy an extreme want, it is used to satisfy less pressing wants, or to supply additional conveniences. On this account, political government—the oldest institution in the world—has been the hardest worked. At the beginning of history, we find it doing everything which society wants done, and forbidding everything which society does *not* wish done. In trade, at present, the first commerce in a new place is a general shop, which, beginning with articles of real necessity, comes shortly to supply the oddest accumulation of petty comforts. And the history of banking has been the same. The first banks were not founded for our system of deposit banking, or for anything like it. They were founded for much more pressing reasons, and having been founded, they, or copies from them, were applied to our modern uses.

The earliest banks of Italy, where the name began, were finance companies. The Bank of St. George, at Genoa, and other banks founded in imitation of it, were at first only companies to make loans to, and float loans for, the Governments of the cities in which they were formed. The want of money is an urgent want of Governments at most periods, and seldom more urgent than it was in the tumultuous Italian republics of the Middle Ages. After these banks had been long established, they began to do what we call banking business; but at first they never thought of it. The great banks of the North of Europe had their origin in a want still more curious. The notion of its being a prime business of a bank to give good coin has passed out of men's memories; but wherever it is felt, there is no want of business more keen and urgent. Adam Smith describes it so admirably that it would be stupid not to quote his words: "The currency of a great State, such as France or England, generally consists almost entirely of its own coin. Should this currency, therefore, be at any time worn, clipt, or otherwise degraded below its standard value, the State by a reformation of its coin can effectually re-establish its currency. But the currency of a small State, such as Genoa or Hamburg, can seldom consist altogether in its own coin, but must be made up, in a great measure, of the coins of all the neighbouring States with which its inhabitants have a continual intercourse. Such a State, therefore, by reforming its coin, will not always be able to reform its currency. If foreign bills of exchange are paid in this currency, the uncertain value of any sum, of what is in its own nature so uncertain, must render the exchange always very much against such a State, its currency being, in all foreign States, necessarily valued even below what it is worth.

"In order to remedy the inconvenience to which this disadvantageous exchange must have subjected their merchants, such small States, when they began to attend to the interest of trade, have frequently enacted, that foreign bills of exchange of a certain value should be paid, not in common currency, but by an order upon, or by a transfer in, the books of a certain bank, established upon the credit and under the protection of the State, this bank being always obliged to pay, in good and true money, exactly according to the standard of the State.

"The Banks of Venice, Genoa, Amsterdam, Hamburg, and Nuremberg seem to have been all originally established with this view, though some of them may have afterwards been made subservient to other purposes. The money of such banks, being better than the common currency of the country, necessarily bore an agio, which was greater or smaller, according as the currency was supposed to be more or less degraded below the standard of the State. The agio of the Bank of Hamburg, for example, which is said to be commonly about 14 per cent., is the supposed difference between the good standard money of the State, and the clipt, worn, and diminished currency poured into it from all the neighbouring States.

"Before 1609 the great quantity of clipt and worn foreign coin, which the extensive trade of Amsterdam brought from all parts of Europe, reduced the value of its currency about 9 per cent. below that of good money fresh from the mint. Such money no sooner appeared than it was melted down or carried away, as it always is in such circumstances. The merchants, with plenty of currency, could not always find a sufficient quantity of good money to pay their bills of exchange; and the value of those bills, in spite of several regulations which were made to prevent it, became in a great measure uncertain.

"In order to remedy these inconveniences, a bank was established in 1609 under the guarantee of the City. This bank received both foreign coin, and the light and worn coin of the country at its real intrinsic value in the good standard money of the country, deducting only so much as was necessary for defraying the expense of coinage, and the other necessary expense of management. For the value which remained, after this small deduction was made, it gave a credit in its books. This credit was called bank money, which, as it represented money exactly according to the standard of the mint, was always of the same real value, and intrinsically worth more than current money. It was at the same time enacted, that all bills drawn upon or negotiated at Amsterdam of the value of six hundred guilders and upwards should be paid in bank money, which at once took away all uncertainty in the value of those bills. Every merchant, in consequence of this regulation, was obliged to keep an account with the bank in order to pay his foreign bills of exchange, which necessarily occasioned a certain demand for bank money."[1]

Again, a most important function of early banks is one which the present banks retain, though it is subsidiary to their main use; viz. the function of remitting money. A man brings money to the bank to meet a payment which he desires to make at a great distance, and the bank, having a connection with other banks, sends it where it is wanted. As soon as bills of exchange are given upon a large scale, this remittance is a very pressing requirement. Such bills must be made payable at a place convenient to the seller of the goods in payment of which they are given, perhaps at the great town where his warehouse is. But this may be very far from the retail shop of the buyer who bought those goods to sell them again in the country. For these, and a multitude of purposes, the instant and regular remittance of money is an early necessity of growing trade; and that remittance it was a first object of early banks to accomplish.

These are all uses other than those of deposit banking which banks supplied that afterwards became in our English sense deposit banks. By supplying these uses, they gained the credit that afterwards enabled them to gain a living as deposit banks. Being trusted for one purpose, they came to be trusted for a purpose quite different, ultimately far more important, though at first less keenly pressing. But these wants only affect a few persons, and therefore bring the bank under the notice of a few only. The real introductory function which deposit banks at first perform is much more popular, and it is only when they can perform this more popular kind of business that deposit banking ever spreads quickly and extensively. This function is the supply of the paper circulation to the country, and it will be observed that I am not about to overstep my limits and discuss this as a question of currency. In what form the best paper currency can be supplied to a country is a question of economical theory with which I do not meddle here. I am only narrating unquestionable history, not dealing with an argument where every step is disputed. And part of this certain history is that the best way to diffuse banking in a community is to allow the banker to issue bank-notes of small amount that can supersede the metal currency. This amounts to a subsidy to each banker to enable him to keep open a bank till depositors choose to come to it. The country where deposit banking is most diffused is Scotland, and there the original profits were entirely derived from the circulation. The note issue is now a most trifling part of the liabilities of the Scotch banks, but it was once their mainstay and source of profit. A curious book, lately published, has enabled us to follow the course of this in detail. The Bank of Dundee, now amalgamated with the Royal Bank of Scotland, was founded in 1763, and had become before its amalgamation, eight or nine years since, a bank of considerable deposits. But for twenty-five years from its foundation it had no deposits at all. It subsisted mostly on its note issue, and a little on its remittance business. Only in 1792, after nearly thirty years, it began to gain deposits, but from that time they augmented very rapidly.[1] The banking history of England has been the same, though we have no country bank accounts in detail which go back so far. But probably up to 1830 in England, or thereabouts, the main profit of banks was derived from the circulation, and for many years after that the deposits were treated as very minor matters, and the whole of so-called banking discussion turned on questions of circulation. We are still living in the *débris* of that controversy, for, as I have so often said, people can hardly think of the structure of Lombard Street, except with reference to the paper currency and to the Act of 1844, which regulates it now. The French are still in the same epoch of the subject. Their great *enquête* of 1865 is almost wholly taken up with currency matters, and mere banking is treated as subordinate. And the accounts of the Bank of France show why. The last weekly statement before the German War showed that the circulation of the Bank of France was as much as £59,244,000, and that the private deposits were only £17,127,000. Now the private deposits are about the same, and the circulation is £112,000,000.[1] So difficult is it in even a great country like France for the deposit system of banking to take root, and establish itself with the strength and vigour that it has in England.

The experience of Germany is the same. The accounts preceding the war in North Germany showed the circulation of the issuing banks to be £39,875,000, and the deposits to be £6,472,000, while the corresponding figures at the present moment are—circulation, £60,000,000, and deposits £8,000,000.[2] It would be idle to multiply instances.

The reason why the use of bank paper commonly precedes the habit of making deposits in banks is very plain. It is a far easier habit to establish. In the issue of notes the banker, the person to be most benefited, can do something. He can pay away his own "promises" in loans, in wages, or in payment of debts. But in the getting of deposits he is passive. His issues depend on himself; his deposits on the favour of others. And to the public the change is far easier too. To collect a great mass of deposits with the same banker, a great number of persons must agree to do something. But to establish a note circulation, a large number of persons need only *do nothing.* They receive the banker's notes in the common course of their business, and they have only *not* to take those notes to the banker for payment. If the public refrain from taking trouble, a paper circulation is immediately in existence. A paper circulation is begun by the banker, and requires no effort on the part of the public; on the contrary, it needs an effort of the public to be rid of notes once issued; but deposit banking cannot be begun by the banker, and requires a spontaneous and consistent effort in the community. And therefore paper issue is the natural prelude to deposit banking.

The way in which the issue of notes by a banker prepares the way for the deposit of money with him is very plain. When a private person begins to possess a great heap of bank notes, it will soon strike him that he is trusting the banker very much, and that in return he is getting nothing. He runs the risk of loss and robbery just as if he were hoarding coin. He would run no more risk by the failure of the bank if he made a deposit there, and he would be free from the risk of keeping the cash. No doubt it takes time before even this simple reasoning is understood by uneducated minds. So strong is the wish of most people to *see* their money that they for some time continue to hoard bank-notes: for a long period a few do so. But in the end common sense conquers. The circulation of bank-notes decreases and the deposit of money with the banker increases. The credit of the banker having been efficiently advertised by the note, and accepted by the public, he lives on the credit so gained years after the note issue itself has ceased to be very important to him.

The efficiency of this introduction is proportional to the diffusion of the right of note issue. A single monopolist issuer, like the Bank of France, works its way with difficulty through a country, and advertises banking very slowly. Even now the Bank of France, which, I believe, by law ought to have a branch in each Department, has only branches in sixty out of eighty-six.[1] On the other hand, the Swiss banks, where there is always one or more to every Canton, diffuse banking rapidly. We have seen that the liabilities of the Bank of France stand thus:—

Notes	£112,000,000
Deposits	15,000,000

But the aggregate Swiss banks, on the contrary, stand:—

Notes	£761,000
Deposits	4,709,000[2]

2 These are the amounts at December 31, 1865. See "Grundzuge der National-Oekonomie," von Max Wirth, Dritter Band, p. 491. The Swiss banks of issue had on December 30, 1905, notes in circulation to the amount of £9,790,000, and their deposits of all kinds then amounted to £19,800,000.

The reason is that a central bank, which is governed in the capital and descends on a country district, has much fewer modes of lending money safely than a bank of which the partners belong to that district, and know the men and things in it. A note issue is mainly begun by loans: there are then no deposits to be paid. But the mass of loans in a rural district are of small amount; the bills to be discounted are trifling; the persons borrowing are of small means and only local repute; the value of any property they wish to pledge depends on local changes and local circumstances. A banker who lives in the district, who has always lived there, whose whole mind is a history of the district and its changes, is easily able to lend money safely there. But a manager deputed by a single central establishment does so with difficulty. The worst people will come to him and ask for loans. His ignorance is a mark for all the shrewd and crafty people thereabouts. He will have endless difficulties in establishing the circulation of the distant bank, because he has not the local knowledge which alone can teach him how to issue that circulation with safety.

A system of note issues is therefore the best introduction to a large system of deposit banking. As yet, historically, it is the only introduction: no nation as yet has arrived at a great system of deposit banking without going first through the preliminary stage of note issue, and of such note issues the quickest and most efficient in this way is one made by individuals resident in the district, and conversant with it.

And this explains why deposit banking is so rare. Such a note issue as has been described is possible only in a country exempt from invasion, and free from revolution. During an invasion note-issuing banks must stop payment; a run is nearly inevitable at such a time, and in a revolution too. In such great and close civil dangers a nation is always demoralised; every one looks to himself, and every one likes to possess himself of the precious metals. These are sure to be valuable, invasion or no invasion, revolution or no revolution. But the goodness of bank-notes depends on the solvency of the banker, and that solvency may be impaired if the invasion is not repelled or the revolution resisted.

Hardly any continental country has been till now exempt for long periods *both* from invasion and revolution. In Holland and Germany—two countries where note issue and deposit banking would seem as natural as in England and Scotland—there was never any security from foreign war. A profound apprehension of external invasion penetrated their whole habits, and men of business would have thought it insane not to contemplate a contingency so frequent in their history, and perhaps witnessed by themselves.

France indeed, before 1789, was an exception. For many years under the old *régime* she was exempt from serious invasion or attempted revolution. Her Government was fixed, as was then thought, and powerful; it could resist any external enemy, and the *prestige* on which it rested seemed too firm to fear any enemy from within. But then it was not an honest Government, and it had shown its dishonesty in this particular matter of note issue. The regent in Law's time had given a monopoly of note issue to a bad bank, and had paid off the debts of the nation in worthless paper. The Government had created a machinery of ruin, and had thriven on it. Among so apprehensive a race as the French the result was fatal. For many years no attempt at note issue or deposit banking was possible in France. So late as the foundation of the *Caisse d'Escompte,* in Turgot's time, the remembrance of Law's failure was distinctly felt, and impeded the commencement of better attempts.

This therefore is the reason why Lombard Street exists; that is, why England is a very great Money Market, and other European countries but small ones in comparison. In England and Scotland a diffused system of note issues started banks all over the country; in these banks the savings of the country have been lodged, and by these they have been sent to London. No similar system arose elsewhere, and in consequence London is full of money, and all continental cities are empty as compared with it.

II.

The monarchical form of Lombard Street is due also to the note issue. The origin of the Bank of England has been told by Macaulay, and it is never wise for an ordinary writer to tell again what he has told so much better. Nor is it necessary, for his writings are in every one's hands. Still I must remind my readers of the curious story.

Of all institutions in the world the Bank of England is now probably the most remote from party politics and from "financing". But in its origin it was not only a finance company, but a Whig finance company. It was founded by a Whig Government because it was in desperate want of money, and supported by the "City" because the "City" was Whig. Very briefly, the story was this. The Government of Charles II. (under the Cabal Ministry) had brought the credit of the English State to the lowest possible point. It had perpetrated one of those monstrous frauds which are likewise gross blunders. The goldsmiths, who then carried on upon a trifling scale what we should now call banking, used to deposit their reserve of treasure in the "Exchequer," with the sanction and under the care of the Government. In many European countries the credit of the State had been so much better than any other credit, that it had been used to strengthen the beginnings of banking. The credit of the State had been so used in England: though there had lately been a civil war and several revolutions, the honesty of the English Government was trusted implicitly. But Charles II. showed that it was trusted undeservedly. He shut up the "Exchequer," would pay no one, and so the "goldsmiths" were ruined.

The credit of the Stuart Government never recovered from this monstrous robbery, and the Government created by the Revolution of 1688 could hardly expect to be more trusted with money than its predecessor. A Government created by a revolution hardly ever is. There is a taint of violence which capitalists dread instinctively, and there is always a rational apprehension that the Government which one revolution thought fit to set up another revolution may think fit to pull down. In 1694 the credit of William III.'s Government was so low in London that it was impossible for it to borrow any large sum; and the evil was the greater, because in consequence of the French war the financial straits of the Government were extreme. At last a scheme was hit upon which would relieve their necessities. "The plan," says Macaulay, "was that twelve hundred thousand pounds should be raised at what was then considered as the moderate rate of 8 per cent. In order to induce capitalists to advance the money promptly on terms so favourable to the public, the subscribers were to be incorporated by the name of the Governor and Company of the Bank of England." They were so incorporated, and the £1,200,000 was obtained.

On many succeeding occasions, their credit was of essential use to the Government. Without their aid, our National Debt could not have been borrowed; and if we had not been able to raise that money we should have been conquered by France and compelled to take back James II. And for many years afterwards the existence of that debt was a main reason why the industrial classes never would think of recalling the Pretender, or of upsetting the revolution settlement. The "fund-holder" is always considered in the books of that time as opposed to his "legitimate" sovereign, because it was to be feared that this sovereign would repudiate the debt which was raised by those who dethroned him, and which was spent in resisting him and his allies. For a long time the Bank of England was the focus of London Liberalism, and in that capacity rendered to the State inestimable services. In return for these substantial benefits the Bank of England received from the Government, either at first or afterwards, three most important privileges.

First. The Bank of England had the exclusive possession of the Government balances. In its first period, as I have shown, the Bank gave credit to the Government, but afterwards it derived credit from the Government. There is a natural tendency in men to follow the example of the Government under which they live. The Government is the largest, most important, and most conspicuous entity with which the mass of any people are acquainted; its range of knowledge must always be infinitely greater than the average of their knowledge, and therefore, unless there is a conspicuous warning to the contrary, most men are inclined to think their Government right, and when they can, to do what it does. Especially in money matters a man might fairly reason—"If the Government is right in trusting the Bank of England with the great balance of the nation, I cannot be wrong in trusting it with my little balance".

Secondly. The Bank of England had, till lately, the monopoly of limited liability in England. The common law of England knows nothing of any such principle. It is only possible by Royal Charter or Statute Law. And by neither of these was any *real* bank (I do not count absurd schemes such as Chamberlayne's Land Bank) permitted with limited liability in England till within these few years. Indeed, a good many people thought it was right for the Bank of England, but not right for any other bank. I remember hearing the conversation of a distinguished merchant in the City of London, who well represented the ideas then most current. He was declaiming against banks of limited liability, and some one asked—"Why, what do you say, then, to the Bank of England, where you keep your own account?" "Oh!" he replied, "that is an exceptional case." And no doubt it was an exception of the greatest value to the Bank of England, because it induced many quiet and careful merchants to be directors of the Bank, who certainly would not have joined any bank where *all* their fortunes were liable, and where the liability was not limited.

Thirdly. The Bank of England had the privilege of being the sole *joint stock company* permitted to issue bank-notes in England. Private London bankers did indeed issue notes down to the middle of the last century, but no joint stock company could do so. The explanatory clause of the Act of 1742 sounds most curiously to our modern ears. "And to prevent any doubt that may arise concerning the privilege or power given to the said governor and company"—that is, the Bank of England—"of exclusive banking; and also in regard to creating any other bank or banks by Parliament, or restraining other persons from banking during the continuance of the said privilege granted to the governor and company of the Bank of England, as before recited;—it is hereby further enacted and declared by the authority aforesaid, that it is the true intent and meaning of the said Act that no other bank shall be created, established, or allowed by Parliament, and that it shall not be lawful for any body politic or corporate whatsoever created or to be created, or for any other persons whatsoever united or to be united in covenants or partnership exceeding the number of six persons in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills or notes payable on demand or at any less time than six months from the borrowing thereof during the continuance of such said privilege to the said governor and company, who are hereby declared to be and remain a corporation with the privilege of exclusive banking, as before recited." To our modern ears these words seem to mean more than they did. The term banking was then applied only to the issue of notes and the taking up of money on bills on demand. Our present system of deposit banking, in which no bills or promissory notes are issued, was not then known on a great scale, and was not called banking. But its effect was very important. It in time gave the Bank of England the monopoly of the note issue of the Metropolis. It had at that time no branches, and so did not compete for the country circulation. But in the Metropolis, where it did compete, it was completely victorious. No company but the Bank of England could issue notes, and unincorporated individuals gradually gave way, and ceased to do so. Up to 1844 London private bankers *might* have issued notes if they pleased, but almost a hundred years ago they were forced out of the field. The Bank of England has so long had a practical monopoly of the circulation, that it is commonly believed always to have had a legal monopoly.

And the practical effect of the clause went further: it was believed to make the Bank of England the only joint stock company that could receive deposits, as well as the only company that could issue notes. The gift of "exclusive banking" to the Bank of England was read in its most natural modern sense: it was thought to prohibit any other banking company from carrying on our present system of banking. After joint stock banking was permitted in the country, people began to inquire why it should not exist in the Metropolis too? And then it was seen that the words I have quoted only forbid the issue of negotiable instruments, and not the receiving of money when no such instrument is given. Upon this construction, the London and Westminster Bank and all our older joint stock banks were founded. But till they began, the Bank of England had among companies not only the exclusive privilege of note issue, but that of deposit banking too. It was in every sense the only *banking* company in London.

With so many advantages over all competitors, it is quite natural that the Bank of England should have far outstripped them all. Inevitably it became *the* bank in London; all the other bankers grouped themselves round it, and lodged their reserve with it. Thus our *one*-reserve system of banking was not deliberately founded upon definite reasons; it was the gradual consequence of many singular events, and of an accumulation of legal privileges on a single bank which has now been altered, and which no one would now defend.

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Chapter IV.

THE POSITION OF THE CHANCELLOR OF THE EXCHEQUER IN THE MONEY MARKET.

Nothing can be truer in theory than the economical principle that banking is a trade and only a trade, and nothing can be more surely established by a larger experience than that a Government which interferes with any trade injures that trade. The best thing undeniably that a Government can do with the Money Market is to let it take care of itself.

But a Government can only carry out this principle universally if it observe one condition: it must keep its own money. The Government is necessarily at times possessed of large sums in cash. It is by far the richest corporation in the country; its annual revenue payable in money far surpasses that of any other body or person. And if it begins to deposit this immense income as it accrues at any bank, at once it becomes interested in the welfare of that bank. It cannot pay the interest on its debt if that bank cannot produce the public deposits when that interest becomes due; it cannot pay its salaries, and defray its miscellaneous expenses, if that bank fail at any time. A modern Government is like a very rich man with very great debts which he cannot well pay; its credit is necessary to its prosperity, almost to its existence, and if its banker fail when one of its debts becomes due its difficulty is intense.

Another banker, it will be said, may take up the Government account. He may advance, as is so often done in other bank failures, what the Government needs for the moment in order to secure the Government account in future. But the imperfection of this remedy is that it fails in the very worst case. In a panic, and at a general collapse of credit, no such banker will probably be found. The old banker who possesses the Government deposit cannot repay it, and no banker not having that deposit will, at a bad crisis, be able to find the £5,000,000 or £6,000,000 which the quarter day of a Goverment such as ours requires. If a Finance Minister, having entrusted his money to a bank, begins to act strictly, and say he will in all cases let the Money Market take care of itself, the reply is that in *one* case the Money Market, will take care of *him* too, and he will be insolvent.

In the infancy of banking it is probably much better that a Government should as a rule keep its own money. If there are not banks in which it can place secure reliance, it should not seem to rely upon them. Still less should it give peculiar favour to any one, and by entrusting it with the Government account secure to it a mischievous supremacy above all other banks. The skill of a financier in such an age is to equalise the receipt of taxation, and the outgoing of expenditure; it should be a principal care with him to make sure that more should not be locked up at a particular moment in the Government coffers than is usually locked up there. If the amount of dead capital so buried in the Treasury does not at any time much exceed the common average, the evil so caused is inconsiderable: it is only the loss of interest on a certain sum of money, which would not be much of a burden on the whole nation; the additional taxation it would cause would be inconsiderable. Such an evil is nothing in comparison with that of losing the money necessary for inevitable expense by entrusting it to a bad bank, or that of recovering this money by identifying the national credit with the bad bank and so propping it up and perpetuating it. So long as the security of the Money Market is not entirely to be relied on, the Government of a country had much better leave it to itself and keep its own money. If the banks are bad, they will certainly continue bad and will probably become worse if the Government sustains and encourages them. The cardinal maxim is, that any aid to a present bad bank is the surest mode of preventing the establishment of a future good bank.

When the trade of banking began to be better understood, when the banking system was thoroughly secure, the Government might begin to lend gradually; especially to lend the unusually large sums which even under the most equable system of finance will at times accumulate in the public exchequer.

Under a natural system of banking it would have every facility. Where there were many banks keeping their own reserve, and each most anxious to keep a sufficient reserve, because its own life and credit depended on it, the risk of the Government in keeping a banker would be reduced to a minimum. It would have the choice of many bankers, and would not be restricted to any one.

Its course would be very simple, and be analogous to that of other public bodies in the country. The Metropolitan Board of Works, which collects a great revenue in London, has an account at the London and Westminster Bank, for which that bank makes a deposit of Consols as a security.[1] The Chancellor of the Exchequer would have no difficulty in getting such security either. If, as is likely, his account would be thought to be larger than any single bank ought to be entrusted with, the public deposits might be divided between several. Each would give security, and the whole public money would be safe. If at any time the floating money in the hands of Government were exceptionally large, he might require augmented security to be lodged, and he might obtain an interest. He would be a lender of such magnitude and so much influence, that he might command his own terms. He might get his account kept safe if any one could.

If, on the other hand, the Chancellor of the Exchequer were a borrower, as at times he is, he would have every facility in obtaining what he wanted. The credit of the English Government is so good that he could borrow better than any one else in the world. He would have greater facility, indeed, than now, for, except with the leave of Parliament, the Chancellor of the Exchequer cannot borrow by our present laws in the open market. He can only borrow from the Bank of England on what are called “deficiency bills”.[2] In a natural system, he would borrow of any one out of many competing banks, selecting the one that would lend cheapest; but under our present artificial system, he is confined to a single bank, which can fix its own charge.

If contrary to expectation a collapse occurred, the Government might withdraw, as the American Government actually has withdrawn, its balance from the bankers. It might give its aid, lend Exchequer bills, or otherwise pledge its credit for the moment, but when the exigency was passed it might let the offending banks suffer. There would be a penalty for their misconduct. New and better banks, who might take warning from that misconduct, would arise. As in all natural trades, what is old and rotten would perish, what is new and good would replace it. And till the new banks had proved, by good conduct, their fitness for State confidence, the State need not give it. The Government could use its favour as a bounty on prudence, and the withdrawal of that favour as a punishment for culpable folly.

Under a good system of banking, a great collapse, except from rebellion or invasion, would probably not happen. A large number of banks, each feeling that its credit was at stake in keeping a good reserve, probably would keep one; if any one did not, it would be criticised constantly, and would soon lose its standing, and in the end disappear. And such banks would meet an incipient panic freely and generously; they would advance out of their reserve boldly and largely, for each individual bank would fear suspicion, and know that at such periods it must "show strength," if at such times it wishes to be thought to have strength. Such a system reduces to a minimum the risk that is caused by the deposit. If the national money can safely be deposited in banks in any way, this is the way to make it safe.

But this system is nearly the opposite to that which the law and circumstances have created for us in England. The English Government, far from keeping cash from the Money Market till the position of that market was reasonably secure, at a very early moment, and while credit of all kinds was most insecure, for its own interests entered into the Money Market. In order to effect loans better, it gave the custody and profit of its own money (along with other privileges) to a single bank, and therefore practically and in fact it is identified with the Bank to this hour. It cannot let the Money Market take care of itself because it has deposited much money in that market, and it cannot pay its way if it loses that money.

Nor would any English statesman propose to "wind up" the Bank of England. A theorist might put such a suggestion on paper, but no responsible Government would think of it. At the worst crisis and in the worst misconduct of the Bank, no such plea has been thought of: in 1825, when its till was empty, in 1837, when it had to ask aid from the Bank of France, no such idea was suggested. By irresistible tradition the English Government was obliged to deposit its money in the Money Market and to deposit with this particular Bank.

And this system has plain and grave evils.

1st. Because being created by State aid, it is more likely than a natural system to require State help.

2ndly. Because, being a *one*-reserve system, it reduces the spare cash of the Money Market to a smaller amount than any other system, and so makes that market more delicate. There being a less hoard to meet liabilities, any error in the management of that reserve has a proportionately greater effect.

3rdly. Because our *one* reserve is, by the necessity of its nature, given over to *one* board of directors, and we are therefore dependent on the wisdom of that one only, and cannot, as in most trades, strike an average of the wisdom and the folly, the discretion and the indiscretion, of many competitors.

Lastly. Because that board of directors is, like every other board, pressed on by its shareholders to make a high dividend, and therefore to keep a small reserve, whereas the public interest imperatively requires that they shall keep a large one.

These four evils were inseparable from the system, but there is besides an additional and accidental evil. The English Government not only created this singular system, but it proceeded to impair it, and demoralise all the public opinion respecting it. For more than a century after its creation (notwithstanding occasional errors) the Bank of England, in the main, acted with judgment and with caution. Its business was but small as we should now reckon, but for the most part it conducted that business with prudence and discretion. In 1696 it had been involved in the most serious difficulties, and had been obliged to refuse to pay some of its notes. For a long period it was in wholesome dread of public opinion, and the necessity of retaining public confidence made it cautious. But the English Government removed that necessity. In 1797 Mr. Pitt feared that he might not be able to obtain sufficient specie for foreign payments, in consequence of the low state of the Bank reserve, and he therefore *required* the Bank not to pay in cash. He removed the preservative apprehension which is the best security of all banks.

For this reason the period under which the Bank of England did not pay gold for its notes—the period from 1797 to 1819—is always called the period of the Bank *restriction.* As the Bank during that period did not perform, and was not compelled by law to perform, its contract of paying its notes in cash, it might apparently have been well called the period of Bank license. But the word "restriction" was quite right, and was the only proper word as a description of the policy of 1797. Mr. Pitt did not say that the Bank of England need not pay its notes in specie; he "restricted" them from doing so; he said that they must not.

In consequence, from 1797 to 1844 (when a new era begins) there never was a proper caution on the part of the Bank directors. At heart they considered that the Bank of England had a kind of charmed life, and that it was above the ordinary banking anxiety to pay its way. And this feeling was very natural. A bank of issue, which need not pay its notes in cash, *has* a charmed life; it can lend what it wishes, and issue what it likes, with no fear of harm to itself, and with no substantial check but its own inclination. For nearly a quarter of a century, the Bank of England *was* such a bank, for all that time it *could* not be in any danger. And naturally the public mind was demoralised also. Since 1797 the public have always expected the Government to help the Bank if necessary. I cannot fully discuss the suspensions of the Act of 1844, in 1847, 1857, and 1866; but indisputably one of their effects is to make people think that Government will always help the Bank if the Bank is in extremity. And this is the sort of anticipation which tends to justify itself, and to cause what it expects.

On the whole, therefore, the position of the Chancellor of the Exchequer in our Money Market is that of one who deposits largely in it, who created it, and who demoralised it. He cannot, therefore, banish it from his thoughts, or decline responsibility for it. He must arrange his finances so as not to intensify panics, but to mitigate them. He must aid the Bank of England in the discharge of its duties; he must not impede or prevent it.

His aid may be most efficient. He is, on finance, the natural exponent of the public opinion of England. And it is by that opinion that we wish the Bank of England to be guided. Under a natural system of banking we should have relied on self-interest, but the State prevented that; we now rely on opinion instead; the public approval is a reward, its disapproval a severe penalty, on the Bank directors; and of these it is most important that the Finance Minister should be a sound and felicitous exponent.

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Chapter V.

The MODE IN WHICH THE VALUE OF MONEY IS SETTLED IN LOMBARD STREET.

Many persons believe that the Bank of England has some peculiar power of fixing the value of money. They see that the Bank of England varies its minimum rate of discount from time to time, and that, more or less, all other banks follow its lead, and charge much as it charges; and they are puzzled why this should be. "Money," as economists teach, "is a commodity, and only a commodity;" why then, it is asked, is its value fixed in so odd a way, and not the way in which the value of all other commodities is fixed?

There is at bottom, however, no difficulty in the matter. The value of money is settled, like that of all other commodities, by supply and demand, and only the form is essentially different. In other commodities all the large dealers fix their own price; they try to underbid one another, and that keeps down the price; they try to get as much as they can out of the buyer, and that keeps up the price. Between the two what Adam Smith calls the higgling of the market settles it. And this is the most simple and natural mode of doing business, but it is not the only mode. If circumstances make it convenient, another may be adopted. A single large holder—especially if he be by far the greatest holder—may fix his price, and other dealers may say whether or not they will undersell him, or whether or not they will ask more than he does. A very considerable holder of an article may, for a time, vitally affect its value if he lay down the minimum price which he will take, and obstinately adhere to it. This is the way in which the value of money in Lombard Street is settled. The Bank of England used to be a predominant, and is still a most important, dealer in money. It lays down the least price at which alone it will dispose of its stock,[1] and this, for the most part, enables other dealers to obtain that price, or something near it.

The reason is obvious. At all ordinary moments there is not money enough in Lombard Street to discount all the bills in Lombard Street without taking some money from the Bank of England. As soon as the Bank rate is fixed, a great many persons who have bills to discount try how much cheaper than the Bank they can get these bills discounted. But they seldom can get them discounted very much cheaper, for if they did every one would leave the Bank, and the outer market would have more bills than it could bear.

In practice, when the Bank finds this process beginning, and sees that its business is much diminishing, it lowers the rate so as to secure a reasonable portion of the business to itself, and to keep a fair part of its deposits employed. At Dutch auctions an upset or *maximum* price used to be fixed by the seller, and he came down in his bidding till he found a buyer. The value of money is fixed in Lombard Street in much the same way, only that the upset price is not that of all sellers, but that of one very important seller, some part of whose supply is essential.

The notion that the Bank of England has a control over the Money Market, and can fix the rate of discount as it likes, has survived from the old days before 1844, when the Bank could issue as many notes as it liked. But even then the notion was a mistake. A bank with a monopoly of note issue has great sudden power in the Money Market, but no permanent power: it can affect the rate of discount at any particular moment, but it cannot affect the average rate. And the reason is, that any momentary fall in money, caused by the caprice of such a bank, of itself tends to create an immediate and equal *rise,* so that upon an average the value is not altered.

What happens is this. If a bank with a monopoly of note issue suddenly lends (suppose) £2,000,000 more than usual, it causes a proportionate increase of trade and increase of prices. The persons to whom that £2,000,000 was lent do not borrow it to lock it up; they borrow it, in the language of the market, to "operate with"—that is, they try to buy with it; and that new attempt to buy—that new demand—raises prices. And this rise of prices has three consequences. First. It makes everybody else want to borrow money. Money is not so efficient in buying as it was, and therefore operators require more money for the same dealings. If railway stock is 10 per cent. dearer this year than last, a speculator who borrows money to enable him to deal must borrow 10 per cent. more this year than last, and in consequence there is an augmented demand for loans. Secondly. This is an *effectual* demand, for the increased price of railway stock enables those who wish it to borrow more upon it. The common practice is to lend a certain portion of the market value of such securities, and, if that value increases, the amount of the usual loan to be obtained on them increases too. In this way, therefore, any artificial reduction in the value of money causes a new augmentation of the demand for money, and thus restores that value to its natural level. In all business this is well known by experience: a stimulated market soon becomes a tight market, for so sanguine are enterprising men that as soon as they get any unusual ease they always fancy that the relaxation is greater than it is, and speculate till they want more than they can obtain.

In these two ways sudden loans by an issuer of notes, though they may temporarily lower the value of money, do not lower it permanently, because they generate their own counteraction. And this they do whether the notes issued are convertible into coin or not. During the period of Bank restriction, from 1797 to 1819, the Bank of England could not absolutely control the Money Market, any more than it could after 1819, when it was compelled to pay its notes in coin. But in the case of convertible notes there is a *third* effect, which works in the same direction, and works more quickly. A rise of prices, confined to one country, tends to increase imports, because other countries can obtain more for their goods if they send them there; and it discourages exports, because a merchant who would have gained a profit before the rise by buying here to sell again will not gain so much, if any, profit after that rise. By this augmentation of imports the indebtedness of this country is augmented, and by this diminution of exports the proportion of that indebtedness which is paid in the usual way is decreased also. In consequence, there is a larger balance to be paid in bullion; the store in the bank or banks keeping the reserve is diminished, and the rate of interest must be raised by them to stay the efflux. And the tightness so produced is often greater than, and always equal to, the preceding unnatural laxity.

There is therefore no ground for believing, as is so common, that the value of money is settled by different causes than those which affect the value of other commodities, or that the Bank of England has any despotism in that matter. It has the power of a large holder of money, and no more. Even formerly, when its monetary powers were greater and its rivals weaker, it had no absolute control. It was simply a large corporate dealer, making bids and much influencing—though in no sense compelling—other dealers thereby.

But though the value of money is not settled in an exceptional way, there is nevertheless a peculiarity about it, as there is about many articles. It is a commodity subject to great fluctuations of value, and those fluctuations are easily produced by a slight excess or a slight deficiency of quantity. Up to a certain point money is a necessity. If a merchant has acceptances to meet to-morrow, money he must and will find to-day at some price or other. And it is this urgent need of the whole body of merchants which runs up the value of money so wildly and to such a height in a great panic. On the other hand, money easily becomes a “drug,” as the phrase is, and there is soon too much of it. The number of accepted securities is limited, and cannot be rapidly increased; if the amount of money seeking these accepted securities is more than can be lent on them, the value of money soon goes down. You may often hear in the market that bills are not to be had,—meaning good bills of course,—and when you hear this you may be sure that the value of money is very low.

If money were all held by the owners of it, or by banks which did not pay an interest for it, the value of money might not fall so fast. Money would, in the market phrase, be “well held”. The possessors would be under no necessity to employ it all; they might employ part at a high rate rather than all at a low rate. But in Lombard Street money is very largely held by those who *do* pay an interest for it, and such persons must employ it all, or almost all, for they have much to pay out with one hand, and unless they receive much with the other they will be ruined. Such persons do not so much care what is the rate of interest at which they employ their money: they can reduce the interest they pay in proportion to that which they can make. The vital point to them is to employ it at *some* rate. If you hold (as in Lombard Street some persons do) millions of other people’s money at interest, arithmetic teaches that you will soon be ruined if you make nothing of it, even if the interest you pay is not high.

The fluctuations in the value of money are therefore greater than those in the value of most other commodities. At times there is an excessive pressure to borrow it, and at times an excessive pressure to lend it, and so the price is forced up and down.

These considerations enable us to estimate the responsibility which is thrown on the Bank of England by our system, and by every system on the bank or banks who by it keep the reserve of bullion or of legal tender exchangeable for bullion. These banks can in no degree control the permanent value of money, but they can completely control its momentary value. They cannot change the average value, but they can determine the deviations from the average. If the dominant banks manage ill, the rate of interest will at one time be excessively high, and at another time excessively low: there will be first a pernicious excitement, and next a fatal collapse. But if they manage well, the rate of interest will not deviate so much from the average rate; it will neither ascend so high nor descend so low. As far as anything can be steady the value of money will then be steady, and probably in consequence trade will be steady too—at least a principal cause of periodical disturbance will have been withdrawn from it.

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Chapter VI.

WHY LOMBARD STREET IS OFTEN VERY DULL, AND SOMETIMES EXTREMELY EXCITED.

Any sudden event which creates a great demand for actual cash may cause, and will tend to cause, a panic in a country where cash is much economised, and where debts payable on demand are large. In such a country an immense credit rests on a small cash reserve, and an unexpected and large diminution of that reserve may easily break up and shatter very much, if not the whole, of that credit. Such accidental events are of the most various nature: a bad harvest, an apprehension of foreign invasion, the sudden failure of a great firm which everybody trusted, and many other similar events, have all caused a sudden demand for cash. And some writers have endeavoured to classify panics according to the nature of the particular accidents producing them. But little, however, is, I believe, to be gained by such classifications. There is little difference in the effect of one accident and another upon our credit system. We must be prepared for all of them, and we must prepare for all of them in the same way—by keeping a large cash reserve.

But it is of great importance to point out that our industrial organisation is liable not only to irregular external accidents, but likewise to regular internal changes; that these changes make our credit system much more delicate at some times than at others; and that it is the recurrence of these periodical seasons of delicacy which has given rise to the notion that panics come according to a fixed rule—that every ten years or so we must have one of them.

Most persons who begin to think of the subject are puzzled on the threshold. They hear much of "good times" and "bad times" meaning by "good" times in which nearly every one is very well off, and by "bad" times in which nearly every one is comparatively ill off. And at first it is natural to ask why should everybody, or almost everybody, be well off together? Why should there be any great tides of industry, with large diffused profit by way of flow, and large diffused want of profit, or loss, by way of ebb? The main answer is hardly given distinctly in our common books of political economy. These books do not tell you what is the fund out of which large general profits are paid in good times, nor do they explain why that fund is not available for the same purpose in bad times.

Our current political economy does not sufficiently take account of *time* as an element in trade operations; but as soon as the division of labour has once established itself in a community, two principles at once begin to be important, of which time is the very essence. These are—

First. That as goods are produced to be exchanged, it is good that they should be exchanged as quickly as possible.

Secondly. That as every producer is mainly occupied in producing what others want, and not what he wants himself, it is desirable that he should always be able to find, without effort, without delay, and without uncertainty, others who want what he can produce.

In themselves these principles are self-evident. Everyone will admit it to be expedient that all goods wanting to be sold should be sold as soon as they are ready; that every man who wants to work should find employment as soon as he is ready for it. Obviously also, as soon as the "division of labour" is really established, there is a difficulty about both of these principles. A produces what he thinks B wants, but it may be a mistake, and B may not want it. A may be able and willing to produce what B wants, but he may not be able to find B—he may not know of his existence.

The general truth of these principles is obvious, but what is not obvious is the extreme greatness of their effects. Taken together, they make the whole difference between times of brisk trade and great prosperity, and times of stagnant trade and great adversity, so far as that prosperity and that adversity are real and not illusory. If they are satisfied, every one knows whom to work for, and what to make, and he can get immediately in exchange what he wants himself. There is no idle labour and no sluggish capital in the whole community, and, in consequence, all which can be produced is produced, the effectiveness of human industry is augmented, and both kinds of producers—both capitalists and labourers—are much richer than usual, because the amount to be divided between them is also much greater than usual.

And there is a partnership in industries. No single large industry can be depressed without injury to other industries; still less can any great group of industries. Each industry when prosperous buys and consumes the produce probably of most (certainly of very many) other industries, and if industry A fail and is in difficulty, industries B, and C, and D, which used to sell to it, will not be able to sell that which they had produced in reliance on A's demand, and in future they will stand idle till industry A recovers, because in default of A there will be no one to buy the commodities which they create. Then as industry B buys of C, D, etc., the adversity of B tells on C, D, etc., and as these buy of E, F, etc., the effect is propagated through the whole alphabet. And in a certain sense it rebounds. Z feels the want caused by the diminished custom of A, B, and C, and so it does not earn so much; in consequence, it cannot lay out as much on the produce of A, B, and C, and so these do not earn as much either. In all this money is but an instrument. The same thing would happen equally well in a trade of barter, if a state of barter on a very large scale were not practically impossible, on account of the time and trouble which it would necessarily require. As has been explained, the fundamental cause is that under a system in which every one is dependent on the labour of every one else, the loss of one spreads and multiplies through all, and spreads and multiplies the faster the higher the previous perfection of the system of divided labour, and the more nice and effectual the mode of interchange. And the entire effect of a depression in any single large trade requires a considerable *time* before it can be produced. It has to be propagated, and to be returned through a variety of industries, before it is complete. Short depressions, in consequence, have scarcely any discernible consequences; they are over before we think of their effects. It is only in the case of continuous and considerable depressions that the cause is in action long enough to produce discernible effects.

The most common, and by far the most important, case where the depression in one trade causes depression in all others, is that of depressed agriculture. When the agriculture of the world is ill off, food is dear. And as the amount of absolute necessaries which a people consumes cannot be much diminished, the additional amount which has to be spent on them is so much subtracted from what used to be spent on other things. All the industries, A, B, C, D, up to Z, are somewhat affected by an augmentation in the price of corn, and the most affected are the large ones, which produce the objects in ordinary times most consumed by the working classes. The clothing trades feel the difference at once, and in this country the liquor trade (a great source of English revenue) feels it almost equally soon. Especially when for two or three years harvests have been bad, and corn has long been dear, every industry is impoverished, and almost every one, by becoming poorer, makes every other poorer too. All trades are slack from diminished custom, and the consequence is a vast stagnant capital, much idle labour, and a greatly retarded production.

It takes two or three years to produce this full calamity, and the recovery from it takes two or three years also. If corn should long be cheap, the labouring classes have much to spend on what they like besides. The producers of those things become prosperous, and have a greater purchasing power. They exercise it, and that creates in the class they deal with another purchasing power, and so all through society. The whole machine of industry is stimulated to its maximum of energy, just as before much of it was slackened almost to its minimum.

A great calamity to any great industry will tend to produce the same effect, but the fortunes of the industries on which the wages of labour are expended are much more important than those of all others, because they act much more quickly upon a larger mass of purchasers. On principle, if there was a perfect division of labour, every industry would have to be perfectly prosperous in order that any one might be so. So far, therefore, from its being at all natural that trade should develop constantly, steadily, and equably, it is plain, without going farther, from theory as well as from experience, that there are inevitably periods of rapid dilatation, and as inevitably periods of contraction and of stagnation.

Nor is this the only changeable element in modern industrial societies. Credit—the disposition of one man to trust another—is singularly varying. In England, after a great calamity, everybody is suspicious of everybody; as soon as that calamity is forgotten, everybody again confides in everybody. On the Continent there has been a stiff controversy as to whether credit should or should not be called "capital": in England, even the little attention once paid to abstract economics is now diverted, and no one cares in the least for refined questions of this kind: the material practical point is that, in M. Chevalier's language, credit is "additive," or additional—that is, in times when credit is good productive power is more efficient, and in times when credit is bad productive power is less efficient. And the state of credit is thus influential, because of the two principles which have just been explained. In a good state of credit, goods lie on hand a much less time than when credit is bad; sales are quicker;

intermediate dealers borrow easily to augment their trade, and so more and more goods are more quickly and more easily transmitted from the producer to the consumer.

These two variable causes are causes of real prosperity. They augment trade and production, and so are plainly beneficial, except where by mistake the wrong things are produced, or where also by mistake misplaced credit is given, and a man who cannot produce anything which is wanted gets the produce of other people's labour upon a false idea that he will produce it. But there is another variable cause which produces far more of apparent than of real prosperity and of which the effect is in actual life mostly confused with those of the others.

In our common speculations we do not enough remember that interest on money is a refined idea, and not a universal one. So far indeed is it from being universal, that the majority of saving persons in most countries would reject it. Most savings in most countries are held in hoarded specie. In Asia, in Africa, in South America, largely even in Europe, they are thus held, and it would frighten most of the owners to let them out of their keeping. An Englishman—a modern Englishman at least—assumes as a first principle that he ought to be able to "put his money into something safe that will yield 5 per cent.";1 but most saving persons in most countries are afraid to "put their money" into anything. Nothing is safe to their minds; indeed, in most countries, owing to a bad government and a backward industry, no investment, or hardly any, really is safe. In most countries most men are content to forgo interest; but in more advanced countries, at some times there are more savings seeking investment than there are known investments for; at other times there is no such superabundance. Lord Macaulay has graphically decribed one of the periods of excess. He says: "During the interval between the Restoration and the Revolution the riches of the nation had been rapidly increasing. Thousands of busy men found every Christmas that, after the expenses of the year's housekeeping had been defrayed out of the year's income, a surplus remained; and how that surplus was to be employed was a question of some difficulty. In our time, to invest such a surplus, at something more than 3 per cent., on the best security that has ever been known in the world, is the work of a few minutes. But in the seventeenth century, a lawyer, a physician, a retired merchant, who had saved some thousands, and who wished to place them safely and profitably, was often greatly embarrassed. Three generations earlier, a man who had accumulated wealth in a profession generally purchased real property, or lent his savings on mortgage. But the number of acres in the kingdom had remained the same; and the value of those acres, though it had greatly increased, had by no means increased so fast as the quantity of capital which was seeking for employment. Many too wished to put their money where they could find it at an hour's notice, and looked about for some species of property which could be more readily transferred than a house or a field. A capitalist might lend on bottomry or on personal security; but, if he did so, he ran a great risk of losing interest and principal. There were a few joint stock companies, among which the East India Company held the foremost place; but the demand for the stock of such companies was far greater than the supply. Indeed the cry for a new East India Company was chiefly raised by persons who had found difficulty in placing their savings at interest on good security. So great was that difficulty that the practice of hoarding was common. We are told that the father of Pope, the poet, who retired from business in the City about the time of the Revolution, carried to a retreat in the country a strong box containing near twenty thousand pounds, and took out from time to time what was required for household expenses; and it is highly probable that this was not a solitary case. At present the quantity of coin which is hoarded by private persons is so small, that it would, if brought forth, make no perceptible addition to the circulation. But, in the earlier part of the reign of William the Third, all the greatest writers on currency were of opinion that a very considerable mass of gold and silver was hidden in secret drawers and behind wainscots.

"The natural effect of this state of things was that a crowd of projectors, ingenious and absurd, honest and knavish, employed themselves in devising new schemes for the employment of redundant capital. It was about the year 1688 that the word stockjobber was first heard in London. In the short space of four years a crowd of companies, every one of which confidently held out to subscribers the hope of immense gains, sprang into existence—the Insurance Company, the Paper Company, the Lutestring Company, the Pearl Fishery Company, the Glass Bottle Company, the Alum Company, the Blythe Coal Company, the Swordblade Company. There was a Tapestry Company, which would soon furnish pretty hangings for all the parlours of the middle class, and for all the bed-chambers of the higher. There was a Copper Company, which proposed to explore the mines of England, and held out a hope that they would prove not less valuable than those of Potosi. There was a Diving Company, which undertook to bring up precious effects from shipwrecked vessels, and which announced that it had laid in a stock of wonderful machines resembling complete suits of armour. In front of the helmet was a huge glass eye like that of a Cyclops; and out of the crest went a pipe through which the air was to be admitted. The whole process was exhibited on the Thames. Fine gentlemen and fine ladies were invited to the show, were hospitably regaled, and were delighted by seeing the divers in their panoply descend into the river and return laden with old iron and ship's tackle. There was a Greenland Fishing Company which could not fail to drive the Dutch whalers and herring busses out of the Northern Ocean. There was a Tanning Company, which promised to furnish leather superior to the best that was brought from Turkey or Russia. There was a society which undertook the office of giving gentlemen a liberal education on low terms, and which assumed the sounding name of the Royal Academies Company. In a pompous advertisement it was announced that the directors of the Royal Academies Company had engaged the best masters in every branch of knowledge, and were about to issue twenty thousand tickets at twenty shillings each. There was to be a lottery—two thousand prizes were to be drawn; and the fortunate holders of the prizes were to be taught, at the charge of the Company, Latin, Greek, Hebrew, French, Spanish, conic sections, trigonometry, heraldry, japanning, fortification, book-keeping, and the art of playing the theorbo."

The panic was forgotten till Lord Macaulay revived the memory of it. But, in fact, in the South Sea Bubble, which has always been remembered, the form was the same, only a little more extravagant; the companies in that mania were for objects such as these: " 'Wrecks to be fished for on the Irish Coast—Insurance of Horses and other Cattle (two millions)—Insurance of Losses by Servants—To make Salt Water Fresh—For building of Hospitals for Bastard Children—For building of Ships against Pirates—For making of Oil from Sun-flower Seeds—For improving of Malt

Liquors—For recovery of Seamen's Wages—For extracting of Silver from Lead—For the transmuting of Quicksilver into a malleable and fine Metal—For making of Iron with Pit-coal—For importing a number of large Jack Asses from Spain—For trading in Human Hair—For fatting of Hogs—For a Wheel of Perpetual Motion.' But the most strange of all, perhaps, was 'For an Undertaking which shall in due time be revealed'. Each subscriber was to pay down two guineas, and hereafter to receive a share of one hundred, with a disclosure of the object; and so tempting was the offer, that 1,000 of these subscriptions were paid the same morning, with which the projector went off in the afternoon." In 1825 there were speculations in companies nearly as wild, and just before 1866 there were some of a like nature, though not equally extravagant. The fact is, that the owners of savings not finding, in adequate quantities, their usual kind of investments, rush into anything that promises speciously, and when they find that these specious investments can be disposed of at a high profit, they rush into them more and more. The first taste is for high interest, but that taste soon becomes secondary. There is a second appetite for large gains to be made by selling the principal which is to yield the interest. So long as such sales can be effected the mania continues; when it ceases to be possible to effect them, ruin begins.

So long as the savings remain in possession of their owners, these hazardous gamblings in speculative undertakings are almost the whole effect of an excess of accumulation over tested investment. Little effect is produced on the general trade of the country. The owners of the savings are too scattered and far from the market to change the majority of mercantile transactions. But when these savings come to be lodged in the hands of bankers, a much wider result is produced. Bankers are close to mercantile life; they are always ready to lend on good mercantile securities; they wish to lend on such securities a large part of the money entrusted to them. When, therefore, the money so entrusted is unusually large, and when it long continues so, the general trade of the country is, in the course of time, changed. Bankers are daily more and more ready to lend money to mercantile men; more is lent to such men; more bargains are made in consequence; commodities are more sought after; and, in consequence, prices rise more and more.

The rise of prices is quickest in an improving state of credit. Prices in general are mostly determined by wholesale transactions. The retail dealer adds a percentage to the wholesale prices, not, of course, always the same percentage, but still mostly the same. Given the wholesale price of most articles, you can commonly tell their retail price. Now wholesale transactions are commonly not cash transactions, but bill transactions. The duration of the bill varies with the custom of the trade; it may be two, three months, or six weeks, but there is always a bill. Times of good credit mean times in which the bills of many people are taken readily; times of bad credit, times when the bills of much fewer people are taken, and even of those suspiciously. In times of good credit there are a great number of strong purchasers, and in times of bad credit only a smaller number of weak ones; and therefore years of improving credit, if there be no disturbing cause, are years of rising price, and years of decaying credit years of falling price.

This is the meaning of the saying "John Bull can stand many things, but he cannot stand 2 per cent.": it means that the greatest effect of the three great causes is nearly peculiar to England; here, and here almost alone, the excess of savings over investments is deposited in banks; here, and here only, is it made use of so as to affect trade at large; here, and here only, are prices gravely affected. In these circumstances, a low rate of interest, long protracted, is equivalent to a total depreciation of the precious metals. In his book on the effect of the great gold discoveries, Professor Jevons showed, and so far as I know was the first to show, the necessity of eliminating these temporary changes of value in gold before you could judge properly of the permanent depreciation. He proved, that in the years preceding both 1847 and 1857 there was a general rise of prices; and in the years succeeding these years, a great fall. The same might be shown of the years before and after 1866, *mutatis mutandis.*

And at the present moment we have a still more remarkable example, which was thus analysed in the *Economist* of the 30th December, 1871, in an article which I venture to quote as a whole:—

"The Great Rise in the Price of Commodities.

"Most persons are aware that the trade of the country is in a state of great activity. All the usual tests indicate that—the state of the revenue, the banker's clearing-house figures, the returns of exports and imports are all plain, and all speak the same language. But few have, we think, considered one most remarkable feature of the present time, or have sufficiently examined its consequences. That feature is the great rise in the price of most of the leading articles of trade during the past year. We give at the foot of this paper a list of articles, comprising most first-rate articles of commerce, and it will be seen that the rise of price, though not universal and not uniform, is nevertheless very striking and very general. The most remarkable cases are:—

		January.			December.		
		£	*s.*	*d.*	£	*s.*	*d.*
Wool—South Down hogs	per pack	13	0	0	21	15	0
Cotton—Upland ordinary	per lb.	0	0	7¼	0	0	8⅜
No. 40 mule yarn, etc.	per lb.	0	1	1½	0	1	2½
Iron—Bars, British	per ton	7	2	6	8	17	6
Pig, No. 1 Clyde	per ton	2	13	3	3	16	0
Lead	per ton	18	7	6	19	2	6
Tin	per ton	137	0	0	157	0	0
Copper—Sheeting	per ton	75	10	0	95	0	0
Wheat (GAZETTE average)	per qr.	2	12	0	2	15	8

—and in other cases there is a tendency upwards in price much more often than there is a tendency downwards.

"This general rise of price must be due either to a diminution in the supply of the quoted articles, or to an increased demand for them. In some cases there has no doubt been a short supply. Thus in wool, the diminution in the home breed of sheep has had a great effect on the price:—

In 1869 the home stock of sheep was	29,538,000
In 1871 the home stock of sheep was	27,133,000
Diminution	2,405,000
Equal to 8·1 per cent.	

—and in the case of some other articles there may be a similar cause operating. But taking the whole mass of the supply of commodities in this country, as shown by the plain test of the *quantities* imported, it has not diminished, but augmented. The returns of the Board of Trade prove this in the most striking manner, and we give below a table of some of the important articles. The rise in prices must, therefore, be due to an increased demand, and the first question is, to what is that demand due?

"We believe it to be due to the combined operation of three causes—cheap money, cheap corn, and improved credit. As to the first indeed, it might be said at first sight that so general an increase must be due to a depreciation of the precious metals. Certainly in many controversies facts far less striking have been alleged as proving it. And indeed there plainly is a diminution in the *purchasing power* of money, though that diminution is not general and permanent, but local and temporary. The peculiarity of the precious metals is that their value depends for unusually long periods on the quantity of them which is in the market. In the long run, their value, like that of all others, is determined by the cost at which they can be brought to market. But for all temporary purposes, it is the supply in the market which governs the price, and that supply in this country is exceedingly variable. After a commercial crisis—1866 for example—two things happen: first, we call in the debts which are owing to us in foreign countries; and we require those debts to be paid to us, not in commodities, but in money. From this cause principally, and omitting minor causes, the bullion in the Bank of England, which was £13,156,000 in May, 1866, rose to £19,413,000 in January, 1867, being an increase of over £6,000,000. And then there comes also a second cause, tending in the same direction. During a depressed period the savings of the country increase considerably faster than the outlet for them. A person who has made savings does not know what to do with them. And this new unemployed saving means additional money. Till a saving is invested or employed it exists only in the form of money: a farmer who has sold his wheat and has £100 'to the good,' holds that £100 in money, or some equivalent for money, till he sees some advantageous use to be made of it. Probably he places it in a bank, and this enables it to do more work. If £3,000,000 of coin be deposited in a bank, and it need only keep £1,000,000 as a reserve, that sets £2,000,000 free, and is for the time equivalent to an increase of so much coin. As a principle it may be laid down that all new unemployed savings require *either an increased stock of the precious metals, or an increase in the efficiency of the banking expedients by which these metals are economised.* In other words, in a saving and uninvesting period of the national industry, we accumulate gold, and augment the efficiency of our gold. If therefore such a saving period follows close upon an occasion when foreign credits have been diminished and foreign debts called in, the augmentation in the effective quantity of gold in the country is extremely great. The old money called in from abroad and the new money representing the new saving co-operate with one another. And their natural tendency is to cause a general rise in price, and, what is the same thing, a diffused diminution in the purchasing power of money.

“Up to this point there is nothing special in the recent history of the Money Market. Similar events happened both after the panic of 1847, and after that of 1857. But there is another cause of the same kind, and acting in the same direction, which is peculiar to the present time; this cause is the amount of the foreign money, and especially of the money of foreign Governments, now in London. No Government probably ever had nearly as much at its command as the German Government now has. Speaking broadly, two things happened: during the war England was the best place of shelter for foreign money, and this made money more cheap here than it would otherwise have been; after the war England became the most convenient paying place, and the most convenient resting place for money, and this again has made money cheaper. The commercial causes, for which there are many precedents, have been aided by a political cause for the efficacy of which there is no precedent.

“But though plentiful money is necessary to high prices, and though it has a natural tendency to produce these prices, yet it is not of itself sufficient to produce them. In the cases we are dealing with, in order to lower prices there must not only be additional money, but a satisfactory mode of employing that additional money. This is obvious if we remember whence that augmented money is derived. It is derived from the savings of the people, and will only be invested in the manner which the holders for the time being consider suitable to such savings. It will not be used in mere expenditure; it would be contrary to the very nature of it so to use it. A new channel of demand is required to take off the new money, or that new money will not raise prices. It will lie idle in the banks, as we have often seen it. We should still see the frequent, the common phenomenon of dull trade and cheap money existing side by side.

“The demand in this case arose in the most effective of all ways. In 1867 and the first half of 1868 corn was dear, as the following figures show:—

Gazette Average Price of Wheat.			
		s.	*d.*
December,	1866	60	3
January,	1867	61	4
February	1867	60	10
March	1867	59	9
April	1867	61	6
May	1867	64	8
June	1867	65	4
July	1867	65	0
August	1867	67	8
September	1867	62	8
October,	1867	66	6
November	1867	69	5
December	1867	67	4
January,	1868	70	3
February	1868	73	0
March	1868	73	0
April	1868	73	3
May	1868	73	9
June	1868	67	11
July	1868	65	5

From that time it fell, and it was very cheap during the whole of 1869 and 1870. The effect of this cheapness is great in every department of industry. The working classes, having cheaper food, need to spend so much less on that food, and have more to spend on other things. In consequence, there is a gentle augmentation of demand through almost all departments of trade. And this almost always causes a great augmentation in what may be called the instrumental trades—that is, in the trades which deal in machines and instruments used in many branches of commerce, and in the materials for such. Take, for instance, the iron trade:—

	Tons.	Tons.
In the year 1869 we exported	2,568,000	
In the year 1870 we exported	2,716,000	
		5,284,000
In the year 1867 we exported	1,882,000	
In the year 1868 we exported	1,944,000	
		3,826,000
Increase		1,458,000

—that is to say, cheap corn operating throughout the world, created a new demand for many kinds of articles; the production of a large number of such articles being aided by iron in some one of its many forms, iron to that extent was exported. And the effect is cumulative. The manufacture of iron being stimulated, all persons concerned in that great manufacture are well off, have more to spend, and by spending it encourage other branches of manufacture, which again propagate the demand; they receive and so encourage industries in a third degree dependent and removed.

“It is quite true that corn has not been quite so cheap during the present year. But even if it had been dearer than it is, it would not all at once arrest the great trade which former cheapness had created. The ‘ball,’ if we may so say, ‘was set rolling’ in 1869 and 1870, and a great increase of demand was then created in certain trades and propagated through all trades. A continuance of very high prices would produce the reverse effect; it would slacken demand in certain trades, and the effect would be gradually diffused through all trades. But a slight rise such as that of this year has no perceptible effect.

“When the stimulus of cheap corn is added to that of cheap money, the full conditions of a great and diffused rise of prices are satisfied. This new employment supplies a mode in which money can be invested. Bills are drawn of greater number and greater magnitude, and through the agencies of banks and discount houses the savings of the country are invested in such bills. There is thus a new want and a new purchase-money to supply that want, and the consequence is the diffused and remarkable rise of price which the figures show to have occurred.

“The rise has also been aided by the revival of credit. This, as need not be at length explained, is a great aid to buying, and consequently a great aid to a rise of price. Since 1866, credit has been gradually, though very slowly, recovering, and it is probably as good as it is reasonable or proper that it should be. We are now trusting as many people as we ought to trust, and as yet there is no wild excess of misplaced confidence which would make us trust those whom we ought not to trust.”

The process thus explained is the common process. The surplus of loanable capital which lies in the hands of bankers is not employed by them in any original way; it is almost always lent to a trade already growing and already improving. The use of it develops that trade yet further, and this again augments and stimulates other trades. Capital may long lie idle in a stagnant condition of industry; the mercantile securities which experienced bankers know to be good do not augment, and they will not invent other securities, or take bad ones.

In most great periods of expanding industry, the three great causes—much loanable capital, good credit, and the increased profits derived from better-used labour and better-used capital—have acted simultaneously; and though either may act by itself, there is a permanent reason why mostly they will act together. They all tend to grow together, if you begin from a period of depression. In such periods credit is bad, and industry unemployed; very generally provisions are high in price, and their dearness was one of the causes which made the times bad. Whether there was or was not too much loanable capital when that period begins, there soon comes to be too much. Quiet people continue to save part of their incomes in bad times as well as in good; indeed, of the two, people of slightly-varying and fixed incomes have better means of saving in bad times because prices are lower. Quiescent trade affords no new securities in which the new saving can be invested, and therefore there comes soon to be an excess of loanable capital. In a year or two after a crisis credit usually improves, as the remembrance of the disasters which at the crisis impaired credit is becoming fainter and fainter. Provisions get back to their usual price, or some great industry makes, from some temporary cause, a quick step forward. At these moments, therefore, the three agencies which, as has been explained, greatly develop trade, combine to develop it simultaneously.

The certain result is a bound of national prosperity; the country leaps forward as if by magic. But only a part of that prosperity has a solid reason. As far as prosperity is based on a greater quantity of production, and that of the right articles—as far as it is based on the increased rapidity with which commodities of every kind reach those who want them—its basis is good. Human industry is more efficient, and therefore there is more to be divided among mankind. But in so far as that prosperity is based on a general rise of prices, it is only imaginary. A general rise of prices is a rise only in name; whatever any one gains on the article which he has to sell he loses on the articles which he has to buy, and so he is just where he was. The only real effects of a general rise of prices are these: first, it straitens people of fixed incomes, who suffer as purchasers, but who have no gain to correspond; and secondly, it gives an extra profit to fixed capital created before the rise happened. Here the sellers gain, but without any equivalent loss as buyers. Thirdly, this gain on fixed capital is greatest in what may be called the industrial "implements," such as coal and iron. These are wanted in all industries, and in any general increase of prices they are sure to rise much more than other things. Everybody wants them; the supply of them cannot be rapidly augmented, and therefore their price rises very quickly. But to the country as a whole, the general rise of prices is no benefit at all; it is simply a change of nomenclature for an identical relative value in the same commodities. Nevertheless, most people are happier for it; they think they are getting richer, though they are not. And as the rise does not happen on all articles at the same moment, but is propagated gradually through society, those to whom it first comes gain really; and as at first every one believes that he will gain when his own article is rising, a buoyant cheerfulness overflows the mercantile world.

This prosperity is precarious as far as it is real, and transitory in so far as it is fictitious. The augmented production, which is the reason of the real prosperity, depends on the full working of the whole industrial organisation—of all capitalists and labourers;—that prosperity was caused by that full working, and will cease with it. But that full working is liable to be destroyed by the occurrence of any great misfortune to any considerable industry. This would cause misfortune to the industries dependent on that one, and, as has been explained, all through society and *back again.* But every such industry is liable to grave fluctuations, and the most important—the provision industries—to the gravest and the suddenest. They are dependent on the casualties of the seasons. A single bad harvest diffused over the world, a succession of two or three bad harvests, even in England only, will raise the price of corn exceedingly, and will keep it high. And a great and protracted rise in the price of corn will at once destroy all the real part of the unusual prosperity of previous good times. It will change the full working of the industrial machine into an imperfect working; it will make the produce of that machine less than usual instead of more than usual;

instead of there being more than the average of general dividend to be distributed between the producers, there will immediately be less than the average.

And in so far as the apparent prosperity is caused by an unusual plentifulness of loanable capital and a consequent rise in prices, that prosperity is not only liable to reaction, but *certain* to be exposed to reaction. The same causes which generate this prosperity will, after they have been acting a little longer, generate an equivalent adversity. The process is this: the plentifulness of loanable capital causes a rise of prices; that rise of prices makes it necessary to have more loanable capital to carry on the same trade. One hundred thousand pounds will not buy as much when prices are high as it will when prices are low, it will not be so effectual for carrying on business; more money is necessary in dear times than in cheap times to produce the same changes in the same commodities. Even supposing trade to have remained stationary, a greater capital would be required to carry it on after such a rise of prices as has been described than was necessary before that rise. But in this case the trade will *not* have remained stationary; it will have increased—certainly to some extent, probably to a great extent. The "loanable capital," the lending of which caused the rise of prices, was lent to enable it to augment. The loanable capital lay idle in the banks till some trade started into prosperity, and then was lent in order to develop that trade; that trade caused other secondary developments; those secondary developments enabled more loanable capital to be lent; and that lending caused a tertiary development of trade; and so on through society.

In consequence, a long-continued low rate of interest is almost always followed by a rapid rise in that rate. Till the available trade is found it lies idle, and can scarcely be lent at all; some of it is not lent. But the moment the available trade is discovered—the moment that prices have risen—the demand for loanable capital becomes keen. For the most part, men of business must carry on their regular trade; if it cannot be carried on without borrowing 10 per cent. more capital, 10 per cent. more capital they must borrow. Very often they have incurred obligations which must be met; and if that is so the rate of interest which they pay is comparatively indifferent. What is necessary to meet their acceptances they will borrow, pay for it what they may; they had better pay any price than permit those acceptances to be dishonoured. And in less extreme cases men of business have a fixed capital, which cannot lie idle except at a great loss; a set of labourers which must be, if possible, kept together; a steady connection of customers, which they would very unwillingly lose. To keep all these, they borrow; and in a period of high prices many merchants are peculiarly anxious to borrow, because the augmentation of the price of the article in which they deal makes them really see, or imagine that they see, peculiar opportunities of profit. An immense new borrowing soon follows upon the new and great trade, and the rate of interest rises at once, and generally rises rapidly.

This is the surer to happen that Lombard Street is, as has been shown before, a very delicate market. A large amount of money is held there by bankers and by bill brokers at interest: this they must employ, or they will be ruined. It is better for them to reduce the rate they charge, and compensate themselves by reducing the rate they pay, rather than to keep up the rate of charge, if by so doing they cannot employ all their money. It is vital to them to employ all the money on which they pay interest. A little excess therefore forces down the rate of interest very much. But if that low rate of interest should cause, or should aid in causing, a great growth of trade, the rise is sure to be quick, and is apt to be violent. The figures of trade are reckoned by hundreds of millions, where those of loanable capital count only by millions. A great increase in the borrowing demands of English commerce almost always changes an excess of loanable capital above the demand to a greater deficiency below the demand. That deficiency causes adversity, or apparent adversity, in trade, just as and in the same manner that the previous excess caused prosperity, or apparent prosperity. It causes a fall of price that runs through society; that fall causes a decline of activity, and a diminution of profits—a painful contraction instead of the previous pleasant expansion.

The change is generally quicker because some check to credit happens at an early stage of it. The mercantile community will have been unusually fortunate if during the period of rising prices it has not made great mistakes. Such a period naturally excites the sanguine and the ardent; they fancy that the prosperity they see will last always, that it is only the beginning of a greater prosperity. They altogether over-estimate the demand for the article they deal in, or the work they do. They all in their degree—and the ablest and the cleverest the most—work much more than they should, and trade far above their means. Every great crisis reveals the excessive speculations of many houses which no one before suspected, and which commonly indeed had not begun or had not carried very far those speculations, till they were tempted by the daily rise of price and the surrounding fever.

The case is worse, because at most periods of great commercial excitement there is some mixture of the older and simpler kind of investing mania. Though the money of saving persons is in the hands of banks, and though, by offering interest, banks retain the command of much of it, yet they do not retain the command of the whole, or anything near the whole; all of it can be used, and much of it is used, by its owners. They speculate with it in bubble companies and in worthless shares, just as they did in the time of the South Sea mania, when there were no banks, and as they would again in England supposing that banks ceased to exist. The mania of 1825 and the mania of 1866 were striking examples of this; in their case to a great extent, as in most similar modern periods to a less extent, the delirium of ancient gambling co-operated with the milder madness of modern over-trading. At the very beginning of adversity, the counters in the gambling mania, the shares in the companies created to feed the mania, are discovered to be worthless; down they all go, and with them much of credit.

The good times too of high prices almost always engender much fraud. All people are most credulous when they are most happy; and when much money has just been made, when some people are really making it, when most people think they are making it, there is a happy opportunity for ingenious mendacity. Almost everything will be believed for a little while, and long before discovery the worst and most adroit deceivers are geographically or legally beyond the reach of punishment. But the harm they have done diffuses harm, for it weakens credit still further.

When we understand that Lombard Street is subject to severe alternations of opposite causes, we should cease to be surprised at its seeming cycles. We should cease too to be surprised at the sudden panics. During the period of reaction and adversity, just even at the last instant of prosperity, the whole structure is delicate. The peculiar essence of our banking system is an unprecedented trust between man and man; and when that trust is much weakened by hidden causes, a small accident may greatly hurt it, and a great accident for a moment may almost destroy it.

Now too that we comprehend the inevitable vicissitudes of Lombard Street, we can also thoroughly comprehend the cardinal importance of always retaining a great banking reserve. Whether the times of adversity are well met or ill met depends far more on this than on any other single circumstance. If the reserve be large, its magnitude sustains credit; and if it be small its diminution stimulates the gravest apprehensions. And the better we comprehend the importance of the banking reserve, the higher we shall estimate the responsibility of those who keep it.

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CHAPTER VII.

A MORE EXACT ACCOUNT OF THE MODE IN WHICH THE BANK OF ENGLAND HAS DISCHARGED ITS DUTY OF RETAINING A GOOD BANK RESERVE, AND OF ADMINISTERING IT EFFECTUALLY.

The preceding chapters have in some degree enabled us to appreciate the importance of the duties which the Bank of England is bound to discharge as to its banking reserve.

If we ask how the Bank of England has discharged this great responsibility, we shall be struck by three things: *first,* as has been said before, the Bank has never by any corporate act or authorised utterance acknowledged the duty, and some of its directors deny it; *second* (what is even more remarkable), no resolution of Parliament, no report of any committee of Parliament (as far as I know), no remembered speech of a responsible statesman, has assigned or enforced that duty on the Bank; *third* (what is more remarkable still), the distinct teaching of our highest authorities has often been that no public duty of any kind is imposed on the Banking Department of the Bank; that, for banking purposes, it is only a joint stock bank like any other bank; that its managers should look only to the interest of the proprietors and their dividend; that they are to manage as the London and Westminster Bank or the Union Bank manages.

At first it seems exceedingly strange that so important a responsibility should be unimposed, unacknowledged and denied; but the explanation is this. We are living amid the vestiges of old controversies, and we speak their language, though we are dealing with different thoughts and different facts. For more than fifty years—from 1793 down to 1844—there was a keen controversy as to the public duties of the Bank. It was said to be the "manager" of the paper currency, and on that account many expected much good from it; others said it did great harm; others again that it could do neither good nor harm. But for the whole period there was an incessant and fierce discussion. That discussion was terminated by the Act of 1844. By that Act the currency manages itself; the entire working is automatic. The Bank of England plainly does not manage—cannot even be said to manage—the currency any more. And naturally, but rashly, the only reason upon which a public responsibility used to be assigned to the Bank having now clearly come to an end, it was inferred by many that the Bank had no responsibility.

The complete uncertainty as to the degree of responsibility acknowledged by the Bank of England is best illustrated by what has been said by the Bank directors themselves as to the panic of 1866. The panic of that year, it will be remembered, happened, contrary to precedent, in the spring, and at the next meeting of the Court of Bank proprietors—the September meeting—there was a very remarkable discussion, which

I give at length below,1 and of which all that is most material was thus described in the *Economist:*—

"The Great Importance Of The Late Meeting Of The Proprietors Of The Bank Of England.

"The late meeting of the proprietors of the Bank of England has a very unusual importance. There can be no effectual inquiry now into the history of the late crisis. A Parliamentary committee next year would, unless something strange occur in the interval, be a great waste of time. Men of business have keen sensations but short memories, and they will care no more next February for the events of last May than they now care for the events of October, 1864. A *pro forma* inquiry, on which no real mind is spent, and which every one knows will lead to nothing, is far worse than no inquiry at all. Under these circumstances the official statements of the Governor of the Bank are the only authentic expositions we shall have of the policy of the Bank directors, whether as respects the past or the future. And when we examine the proceedings with care, we shall find that they contain matter of the gravest import.

"This meeting may be considered to admit and recognise the fact that the Bank of England keeps the sole banking reserve of the country. We do not now mix up this matter with the country circulation, or the question whether there should be many issuers of notes or only one. We speak not of the currency reserve, but of the banking reserve—the reserve held against deposits, and not the reserve held against notes. We have often insisted in these columns that the Bank of England does keep the sole real reserve—the sole considerable unoccupied mass of cash in the country; but there has been no universal agreement about it. Great authorities have been unwilling to admit it. They have not, indeed, formally and explicitly contended against it. If they had, they must have pointed out some other great store of unused cash besides that at the Bank, and they could not find such store. But they have attempted distinctions; have said that the doctrine that the Bank of England keeps the sole banking reserve of the country was 'not a good way of putting it,' was exaggerated and was calculated to mislead.

"But the late meeting is a complete admission that such is the fact. The Governor of the Bank said:—

" 'A great strain has within the last few months been put upon the resources of this house, and of the whole banking community of London; and I think I am entitled to say that not only this house, but the entire banking body, acquitted themselves most honourably and creditably throughout that very trying period. Banking is a very peculiar business, and it depends so much upon credit that the least blast of suspicion is sufficient to sweep away, as it were, the harvest of a whole year. But the manner in which the banking establishments generally in London met the demands made upon them during the greater portion of the past half-year affords a most satisfactory proof of the soundness of the principles on which their business is conducted. This house exerted itself to the utmost—and exerted itself most successfully—to meet the crisis. We did not flinch from our post. When the storm came upon us, on the morning on which it became known that the house of Overend & Co. had failed, we were in as sound and healthy a position as any banking establishment could hold, and on that day and throughout the succeeding week we made advances which would hardly be credited. I do not believe that any one would have thought of predicting, even at the shortest period beforehand, the greatness of those advances. It was not unnatural that in this state of things a certain degree of alarm should have taken possession of the public mind, and that those who required accommodation from the Bank should have gone to the Chancellor of the Exchequer and requested the Government to empower us to issue notes beyond the statutory amount, if we should think that such a measure was desirable. But we had to act before we could receive any such power, and before the Chancellor of the Exchequer was perhaps out of his bed we had advanced one-half of our reserves, which were certainly thus reduced to an amount which we could not witness without regret. But we would not flinch from the duty which we conceived was imposed upon us of supporting the banking community, and I am not aware that any legitimate application made for assistance to this house was refused. Every gentleman who came here with adequate security was liberally dealt with; and if accommodation could not be afforded to the full extent which was demanded, no one who offered proper security failed to obtain relief from this house.'

"Now this is distinctly saying that the other banks of the country need not keep any such banking reserve—any such sum of actual cash—of real sovereigns and bank-notes, as will help them through a sudden panic. It acknowledges a 'duty' on the part of the Bank of England to 'support the banking community,' to make the reserve of the Bank of England do for them as well as for itself.

"In our judgment this language is most just, and the Governor of the Bank could scarcely have done a greater public service than by using language so businesslike and so distinct. Let us know precisely who is to keep the banking reserve. If the joint stock banks and the private banks and the country banks are to keep their share, let us determine on that; Mr. Gladstone appeared not long since to say in Parliament that it ought to be so. But at any rate there should be no doubt whose duty it is. Upon grounds which we have often stated, we believe that the anomaly of one bank keeping the sole banking reserve is so fixed in our system that we cannot change it if we would. The great evil to be feared was an indistinct conception of the fact, and that is now avoided.

"The importance of these declarations by the Bank is greater, because after the panic of 1857 the Bank did not hold exactly the same language. A person who loves concise expressions said lately 'that Overends broke the Bank in 1866 because it went, and in 1857 because it was not let go'. We need not too precisely examine such language; the element of truth in it is very plain—the great advances made to Overends were a principal event in the panic of 1857; the bill brokers were then very much what the bankers were lately—they were the borrowers who wanted sudden and incalculable advances. But the bill brokers were told not to expect the like again. But Alderman Salomons, on the part of the London bankers, said: 'he wished to take that opportunity of stating that he believed nothing could be more satisfactory to the managers and shareholders of joint stock banks than the testimony which the Governor of the Bank of England had that day borne to the sound and honourable manner in which their business was conducted. It was manifestly desirable that the joint stock banks and the banking interest generally should work in harmony with the Bank of England; and he sincerely thanked the Governor of the Bank for the kindly manner in which he had alluded to the mode in which the joint stock banks had met the late monetary crisis.' The Bank of England agrees to give other banks the requisite assistance in case of need, and the other banks agree to ask for it.

"Secondly. The Bank agrees, in fact, if not in name, to make unlimited advances on proper security to any one who applies for it. On the present occasion £45,000,000 was so advanced in three months. And the Bank do not say to the mercantile community, or to the bankers: 'Do not come to us again. We helped you once. But do not look upon it as a precedent. We will not help you again.' On the contrary, the evident and intended implication is that under like circumstances the Bank would act again as it has now acted."

This article was much disliked by many of the Bank directors, and especially by some whose opinion is of great authority. They thought that the *Economist* drew "rash deductions" from a speech which was in itself "open to some objection"—which was, like all such speeches, defective in theoretical precision, and which was at best only the expression of an opinion by the Governor of that day, which had not been authorised by the Court of Directors, which could not bind the Bank. However, the article had at least this use, that it brought out the facts. All the directors would have felt a difficulty in commenting upon, or limiting, or in differing from, a speech of a Governor from the chair. But there was no difficulty or delicacy in attacking the *Economist.* Accordingly Mr. Hankey, one of the most experienced Bank directors, not long after, took occasion to observe:—

"The *Economist* newspaper has put forth what in my opinion is the most mischievous doctrine ever broached in the monetary or banking world in this country, *viz.,* that it is the proper function of the Bank of England to keep money available at all times to supply the demands of bankers who have rendered their own assets unavailable. Until such a doctrine is repudiated by the banking interest, the difficulty of pursuing any sound principle of banking in London will be always very great. But I do not believe that such a doctrine as that bankers are justified in relying on the Bank of England to assist them in time of need is generally held by the bankers in London.

"I consider it to be the undoubted duty of the Bank of England to hold its banking deposits (reserving generally about one-third in cash) in the most available securities; and in the event of a sudden pressure in the Money Market, by whatever circumstance it may be caused, to bear its full share of a drain on its resources. I am ready to admit, however, that a general opinion has long prevailed that the Bank of England ought to be prepared to do much more than this, though I confess my surprise at finding an advocate for such an opinion in the *Economist.*[1] If it were practicable for the Bank to retain money unemployed to meet such an emergency, it would be a very unwise thing to do so. But I contend that it is quite impracticable, and, if it were possible, it would be most inexpedient; and I can only express my regret that the Bank, from a desire to do everything in its power to afford general assistance in times of banking or commercial distress, should ever have acted in a way to encourage such an opinion. The more the conduct of the affairs of the Bank is made to assimilate to the conduct of every other well-managed bank in the United Kingdom, the better for the Bank, and the better for the community at large."

I am scarcely a judge, but I do not think Mr. Hankey replies to the *Economist* very conclusively.

First. He should have observed that the question is not as to what ought to be, but as to what is. The *Economist* did not say that the system of a single bank reserve was a good system, but that it was the system which existed, and which must be worked, as you could not change it.

Secondly. Mr. Hankey should have shown "some other store of unused cash" except the reserve in the Banking Department of the Bank of England out of which advances in the time of panic could be made. These advances are necessary, and must be made by some one. The "reserves" of London bankers are not such store; they are *used* cash, not unused; they are part of the bank deposits, and lent as such.

Thirdly. Mr. Hankey should have observed that we know by the published figures that the joint stock banks of London do not keep one-third, or anything like one-third, of their liabilities in "cash"—even meaning by "cash" a deposit at the Bank of England. One-third of the deposits in joint stock banks, not to speak of the private banks, would be £30,000,000; and the private deposits of the Bank of England are £18,000,000. According to his own statement, there is a conspicuous contrast. The joint stock banks, and the private banks, no doubt, too, keep one sort of reserve, and the Bank of England a different kind of reserve altogether. Mr. Hankey says that the two ought to be managed on the same principle; but if so, he should have said whether he would assimilate the practice of the Bank of England to that of the other banks, or that of the other banks to the practice of the Bank of England.

Fourthly. Mr. Hankey should have observed that, as has been explained, in most panics, the principal use of a "banking reserve" is not to advance to bankers; the largest amount is almost always advanced to the mercantile public and to bill brokers. But the point is, that by our system all extra pressure is thrown upon the Bank of England. In the worst part of the crisis of 1866, £50,000 "fresh money" could not be borrowed even on the best security—even on Consols—except at the Bank of England. There was no other lender to new borrowers.

But my object now is not to revive a past controversy, but to show in what an unsatisfactory and uncertain condition that controversy has left a most important subject. Mr. Hankey's is the last explanation we have had of the policy of the Bank. He is a very experienced and attentive director, and I think expresses, more or less, the opinions of other directors. And what do we find? Setting aside and saying nothing about the remarkable speech of the Governor in 1866, which at least (according to the interpretation of the *Economist*) was clear and excellent, Mr. Hankey leaves us in doubt altogether as to what will be the policy of the Bank of England in the next panic, and as to what amount of aid the public may then expect from it. His words are too vague. No one can tell what a "fair share" means; still less can we tell what other people at some future time will say it means. Theory suggests, and experience proves, that in a panic the holders of the ultimate bank reserve (whether one bank or many) should lend to all that bring good securities quickly, freely and readily. By that policy they allay a panic; by every other policy they intensify it. The public have a right to know whether the Bank of England—the holders of our ultimate bank reserve—acknowledge this duty, and are ready to perform it. But this is now very uncertain.

If we refer to history, and examine what in fact has been the conduct of the Bank directors, we find that they have acted exactly as persons of their type, character, and position might have been expected to act. They are a board of plain, sensible, prosperous English merchants; and they have both done and left undone what such a board might have been expected to do and not to do. Nobody could expect great attainments in economic science from such a board; laborious study is for the most part foreign to the habits of English merchants. Nor could we expect original views on banking, for banking is a special trade, and English merchants, as a body, have had no experience in it. A "board" can scarcely ever make improvements, for the policy of a board is determined by the opinions of the most numerous class of its members—its average members—and these are never prepared for sudden improvements. A board of upright and sensible merchants will always act according to what it considers "safe" principles—that is, according to the *received* maxims of the mercantile world then and there—and in this manner the directors of the Bank of England have acted nearly uniformly.

Their strength and their weakness were curiously exemplified at the time when they had the most power. After the suspension of cash payments in 1797, the directors of the Bank of England could issue what notes they liked. There was no check; these notes could not come back upon the Bank for payment; there was a great temptation to extravagant issue, and no present penalty upon it. But the directors of the Bank withstood the temptation; they did not issue their inconvertible notes extravagantly. And the proof is, that for more than ten years after the suspension of cash payments the Bank paper was undepreciated, and circulated at no discount in comparison with gold. Though the Bank directors of that day at last fell into errors, yet on the whole they acted with singular judgment and moderation. But when, in 1810, they came to be examined as to their reasons, they gave answers that have become almost classical by their nonsense. Mr. Pearse, the Governor of the Bank, said;—

"In considering this subject, with reference to the manner in which bank-notes are issued, resulting from the applications made for discounts to supply the necessary want of bank-notes, by which their issue in amount is so controlled that it can never amount to an excess, I cannot see how the amount of bank-notes issued can operate upon the price of bullion, or the state of the exchanges; and therefore I am individually of opinion that the price of bullion, or the state of the exchanges, can never be a reason for lessening the amount of bank-notes to be issued, always understanding the control which I have already described.

"Is the Governor of the Bank of the same opinion which has now been expressed by the Deputy-Governor?

"Mr. Whitmore—I am so much of the same opinion, that I never think it necessary to advert to the price of gold, or the state of the exchange, on the days on which we make our advances.

"Do you advert to these two circumstances with a view to regulate the general amount of your advances?—I do not advert to it with a view to our general advances, conceiving it not to bear upon the question."

And Mr. Harman, another Bank director, expressed his opinion in these terms: "I must very materially alter my opinions before I can suppose that the exchanges will be influenced by any modifications of our paper currency."

Very few persons perhaps could have managed to commit so many blunders in so few words.

But it is no disgrace at all to the Bank directors of that day to have committed these blunders. They spoke according to the best mercantile opinion of England. The city of London and the House of Commons both approved of what they said; those who dissented were said to be abstract thinkers and unpractical men. The Bank directors adopted the ordinary opinions, and pursued the usual practice of their time. It was this "routine" that caused their moderation. They believed that so long as they issued "notes" only at 5 per cent., and only on the discount of good bills, those notes could not be depreciated. And as the number of "good" bills—bills which sound merchants know to be good—does not rapidly increase, and as the market rate of interest was often less than 5 per cent., these checks on over-issue were very effective. They failed in time, and the theory upon which they were defended was nonsense; but for a time their operation was powerful and excellent.

Unluckily, in the management of the matter before us—the management of the Bank reserve—the directors of the Bank of England were neither acquainted with right principles, nor were they protected by a judicious routine. They could not be expected themselves to discover such principles. The abstract thinking of the world is never to be expected from persons in high places; the administration of first-rate current transactions is a most engrossing business, and those charged with them are usually but little inclined to think on points of theory, even when such thinking most nearly concerns those transactions. No doubt when men's own fortunes are at stake, the instinct of the trader does somehow anticipate the conclusions of the closet. But a board has no instincts when it is not getting an income for its members, and when it is only discharging a duty of office. During the suspension of cash payments—a suspension which lasted twenty-two years—all traditions as to a cash reserve had died away. After 1819 the Bank directors had to discharge the duty of keeping a banking reserve, and (as the law then stood) a currency reserve also, without the guidance either of keen interests, or good principles, or wise traditions.

Under such circumstances, the Bank directors inevitably made mistakes of the gravest magnitude. The first time of trial came in 1825. In that year the Bank directors allowed their stock of bullion to fall in the most alarming manner:—

	£
On Dec. 24, 1824, the coin and bullion in the Bank was	10,721,000
On Dec. 25, 1825, it was reduced to	1,260,000

—and the consequence was a panic so tremendous that its results are well remembered after nearly fifty years. In the next period of extreme trial—in 1837-9—the Bank was compelled to draw for £2,000,000 on the Bank of France; and even after that aid the directors permitted their bullion, which was still the currency reserve as well as the banking reserve, to be reduced to £2,404,000: a great alarm pervaded society, and generated an eager controversy, out of which ultimately emerged the Act of 1844. The next trial came in 1847, and then the Bank permitted its banking reserve (which the law had now distinctly separated) to fall to £1,176,000; and so intense was the alarm, that the executive Government issued a letter of licence, permitting the Bank, if necessary, to break the new law, and, if necessary, to borrow from the currency reserve, which was full, in aid of the banking reserve, which was empty. Till 1857 there was an unusual calm in the Money Market, but in the autumn of that year the Bank directors let the banking reserve, which even in October was far too small, fall thus:—

	£
Oct. 10	4,024,000
Oct. 17	3,217,000
Oct. 24	3,485,000
Oct. 31	2,258,000
Nov. 6	2,155,000
Nov. 13	957,000

And then a letter of licence like that of 1847 was not only issued, but used. The Ministry of the day authorised the Bank to borrow from the currency reserve in aid of the banking reserve, and the Bank of England did so borrow several hundred thousand pounds till the end of the month of November. A more miserable catalogue than that of the failures of the Bank of England to keep a good banking reserve in all the seasons of trouble between 1825 and 1857 is scarcely to be found in history.

But since 1857 there has been a great improvement. By painful events and incessant discussions, men of business have now been trained to see that a large banking reserve is necessary, and to understand that, in the curious constitution of the English banking world, the Bank of England is the only body which could effectually keep it. They have never acknowledged the duty; some of them, as we have seen, deny the duty; still they have to a considerable extent begun to perform the duty. The Bank directors, being experienced and able men of business, comprehended this like other men of business. Since 1857 they have always kept, I do not say a sufficient banking reserve, but a fair and creditable banking reserve, and one altogether different from any which they kept before. At one period the Bank directors even went farther: they made a distinct step in advance of the public intelligence; they adopted a particular mode of raising the rate of interest, which is far more efficient than any other mode. Mr. Goschen observes, in his book on the Exchanges:—

"Between the rates in London and Paris, the expense of sending gold to and fro having been reduced to a minimum between the two cities, the difference can never be very great; but it must not be forgotten that—the interest being taken at a percentage calculated per annum, and the probable profit having, when an operation in three-month bills is contemplated, to be divided by four, whereas the percentage of expense has to be wholly borne by the one transaction—a very slight expense becomes a great impediment. If the cost is only ½ per cent., there must be a profit of 2 per cent. in the rate of interest, or ½ per cent. on three months, before any advantage commences; and thus, supposing the Paris capitalists calculate that they may send their gold over to England for ½ per cent. expense, and chance their being so favoured by the exchanges as to be able to draw it back without any cost at all, there must nevertheless be an excess of more than 2 per cent. in the London rate of interest over that in Paris, before the operation of sending gold over from France, merely for the sake of the higher interest, will pay."

Accordingly, Mr. Goschen recommended that the Bank of England should, as a rule, raise their rate by steps of 1 per cent. at a time when the object of the rise was to affect the "foreign exchanges". And the Bank of England, from 1860 onward, have acted upon that principle.[1] Before that time they used to raise their rate almost always by steps of ½ per cent., and there was nothing in the general state of mercantile opinion to compel them to change their policy. The change was, on the contrary, most unpopular. On this occasion, and, as far as I know, on this occasion alone, the Bank of England made an excellent alteration of their policy, which was not exacted by contemporary opinion, and which was in advance of it.

The beneficial results of the improved policy of the Bank were palpable and speedy. We were enabled by it to sustain the great drain of silver from Europe to India to pay for Indian cotton in the years between 1862-1865. In the autumn of 1864 there was especial danger; but, by a rapid and able use of their new policy, the Bank of England maintained an adequate reserve, and preserved the country from calamities which, if we had looked only to precedent, would have seemed inevitable. All the causes which produced the panic of 1857 were in action in 1864—the drain of silver in 1864 and the preceding year was beyond comparison greater than in 1857, and the years before it—and yet in 1864 there was no panic. The Bank of England was almost immediately rewarded for its adoption of right principles by finding that those principles, at a severe crisis, preserved public credit.

In 1866 undoubtedly a panic occurred, but I do not think that the Bank of England can be blamed for it. They had in their till an exceedingly good reserve according to the estimate of that time—a sufficient reserve, in all probability, to have coped with the crises of 1847 and 1857. The suspension of Overend & Gurney—the most trusted private firm in England—caused an alarm, in suddenness and magnitude, without example. What was the effect of the Act of 1844 on the panic of 1866 is a question on which opinion will be long divided; but I think it will be generally agreed that, acting under the provisions of that law, the directors of the Bank of England had in their Banking Department in that year a fairly large reserve—quite as large a reserve as any one expected them to keep—to meet unexpected and painful contingencies.

From 1866 to 1870 there was almost an unbroken calm on the Money Market. The Bank of England had no difficulties to cope with; there was no opportunity for much discretion. The Money Market took care of itself. But in 1870 the Bank of France suspended specie payments, and from that time a new era begins.1 The demands on this market for bullion have been greater, and have been more incessant, than they ever were before, for this is now the only bullion market. This has made it necessary for the Bank of England to hold a much larger banking reserve than was ever before required, and to be much more watchful than in former times lest that banking reserve should on a sudden be dangerously diminished. The forces are greater and quicker than they used to be, and a firmer protection and a surer solicitude are necessary. But I do not think the Bank of England is sufficiently aware of this. All the governing body of the Bank certainly are not aware of it. The same eminent director to whom I have before referred, Mr. Hankey, published in *The Times* an elaborate letter, saying again that one-third of the liabilities were, even in these altered times, a sufficient reserve for the Banking Department of the Bank of England, and that it was no part of the business of the Bank to keep a supply of "bullion for exportation," which was exactly the most mischievous doctrine that could be maintained when the Banking Department of the Bank of England had become the only great repository in Europe where gold could at once be obtained, and when, therefore, a far greater store of bullion ought to be kept than at any former period.

And besides this defect of the present time, there are some chronic faults in the policy of the Bank of England, which arise, as will be presently explained, from grave defects in its form of government.

Firstly. There is almost always some hesitation when a Governor begins to reign. He is the Prime Minister of the Bank Cabinet; and when so important a functionary changes, naturally much else changes too. If the Governor be weak, this kind of vacillation and hesitation continues throughout his term of office. The usual defect then is, that the Bank of England does not raise the rate of interest sufficiently quickly. It does raise it; in the end it takes the alarm, but it does not take the alarm sufficiently soon. A cautious man, in a new office, does not like strong measures. Bank Governors are generally cautious men; they are taken from a most cautious class; in consequence they are very apt to temporise and delay. But almost always the delay in creating a stringency only makes a greater stringency inevitable. The effect of a timid policy has been to let the gold out of the Bank, and that gold *must* be recovered. It would really have been far easier to have maintained the reserve by timely measures than to have replenished it by delayed measures; but new Governors rarely see this.

Secondly. Those defects are apt, in part, or as a whole, to be continued throughout the reign of a weak Governor. The objection to a decided policy, and the indisposition to a timely action, which are excusable in one whose influence is beginning, and whose reign is new, is continued through the whole reign of one to whom those defects are natural, and who exhibits those defects in all his affairs.

Thirdly. This defect is enhanced, because, as has so often been said, there is now no adequate rule recognised in the management of the banking reserve. Mr. Weguelin, the last Bank Governor who has been examined, said that it was sufficient for the Bank to keep from one-fourth to one-third of its banking liabilities as a reserve. But no one now would ever be content if the banking reserve were near to one-fourth of its liabilities. Mr. Hankey, as I have shown, considers "about a third" as the proportion of reserve to liability at which the Bank should aim; but he does not say whether he regards a third as the minimum below which the reserve in the Banking Department should never be, or as a fair average, about which the reserve may fluctuate, sometimes being greater, or at others less.

In a future chapter I shall endeavour to show that one-third of its banking liabilities is at present by no means an adequate reserve for the Banking Department—that it is not even a proper minimum, far less a fair average; and I shall allege what seem to me good reasons for thinking that, unless the Bank aim by a different method at a higher standard, its own position may hereafter be perilous, and the public may be exposed to disaster.

II.

But, as has been explained, the Bank of England is bound, according to our system, not only to keep a good reserve against a time of panic, but to use that reserve effectually when that time of panic comes. The keepers of the banking reserve, whether one or many, are obliged then to use that reserve for their own safety. If they permit all other forms of credit to perish, their own will perish immediately, and in consequence.

As to the Bank of England, however, this is denied. It is alleged that the Bank of England can keep aloof in a panic; that it can, if it will, let other banks and trades fail; that, if it chooses, it can stand alone, and survive intact while all else perishes around it. On various occasions, most influential persons, both in the government of the Bank and out of it, have said that such was their opinion. And we must at once see whether this opinion is true or false, for it is absurd to attempt to estimate the conduct of the Bank of England during panics before we know what the precise position of the Bank in a panic really is.

The holders of this opinion in its most extreme form say that in a panic the Bank of England can stay its hand at any time; that, though it has advanced much, it may refuse to advance more; that, though the reserve may have been reduced by such advances, it may refuse to lessen it still further; that it can refuse to make any further discounts; that the bills which it has discounted will become due; that it can refill its reserve by the payment of those bills; that it can sell stock or other securities, and so replenish its reserve still further. But in this form the notion scarcely merits serious refutation. If the Bank reserve has once become low, there are, in a panic, no means of raising it again. Money parted with at such a time is very hard to get back; those who have taken it will not let it go—not, at least, unless they are sure of getting other money in its place. And at such instant the recovery of money is as hard for the Bank of England as for anyone else, probably even harder. The difficulty is this: if the Bank decline to discount, the holders of the bills previously discounted cannot pay. As has been shown, trade in England is largely carried on with borrowed money. If you propose greatly to reduce that amount, you will cause many failures unless you can pour in from elsewhere some equivalent amount of new money. But in a panic there is no new money to be had; everybody who has it clings to it, and will not part with it. Especially what has been advanced to merchants cannot easily be recovered; they are under immense liabilities, and they will not give back a penny which they imagine that even possibly they may need to discharge those liabilities. And bankers are in even greater terror. In a panic they will not discount a host of new bills; they are engrossed with their own liabilities and those of their own customers, and do not care for those of others. The notion that the Bank of England can stop discounting in a panic, and so obtain fresh money, is a delusion. It can stop discounting, of course, at pleasure. But if it does, it will get in no new money; its bill case will daily be more and more packed with bills "returned unpaid".

The sale of stock, too, by the Bank of England in the middle of a panic is impossible. The Bank at such a time is the only lender on stock, and it is only by loans from a bank that large purchases, at such a moment, can be made. Unless the Bank of England lend, no stock will be bought. There is not in the country any large sum of unused ready money ready to buy it. The only unused sum is the reserve in the Banking Department of the Bank of England: if, therefore, in a panic that Department itself were to attempt to sell stock, the failure would be ridiculous. It would hardly be able to sell any at all. Probably it would not sell fifty pounds' worth. The idea that the Bank can, during a panic, replenish its reserve in this or in any other manner when that reserve has once been allowed to become empty, or nearly empty, is too absurd to be steadily maintained, though I fear that it is not yet wholly abandoned.

The second and more reasonable conception of the independence of the Bank of England is, however, this: It may be said, and it is said, that if the Bank of England stop at the beginning of a panic, if it refuse to advance a shilling more than usual, if it begin the battle with a good banking reserve, and do not diminish it by extra loans, the Bank of England is sure to be safe. But this form of the opinion, though more reasonable and moderate, is not, therefore, more true. The panic of 1866 is the best instance to test it. As every one knows, that panic began quite suddenly, on the fall of "Over-ends". Just before, the Bank had £5,812,000 in its reserve; in fact, it advanced £13,000,000 of new money in the next few days, and its reserve went down to nothing, and the Government had to help. But if the Bank had not made these advances, could it have kept its reserve?

Certainly it could not. It could not have retained its own deposits. A large part of these are the deposits of bankers, and they would not consent to help the Bank of England in a policy of isolation. They would not agree to suspend payments themselves, and permit the Bank of England to survive, and get all their business. They would withdraw their deposits from the Bank; they would not assist it to stand erect amid their ruin. But even if this were not so, even if the banks were willing to keep their deposits at the Bank while it was not lending, they would soon find that they could not do it. They are only able to keep those deposits at the Bank by the aid of the clearing-house system, and if a panic were to pass a certain height, that system, which rests on confidence, would be destroyed by terror.

The common course of business is this. A. B. having to receive £50,000 from C. D. takes C. D.'s cheque on a banker crossed, as it is called, and, therefore, only payable to another banker. He pays that cheque to his own credit with his own banker, who presents it to the banker on whom it is drawn, and if good it is an item between them in the general clearing or settlement of the afternoon. But this is evidently a very refined machinery, which a panic will be apt to destroy. At the first stage A. B. may say to his debtor C. D., "I cannot take your cheque, I must have bank-notes". If it is a debt on securities, he will be very apt to say this. The usual practice—credit being good—is for the creditor to take the debtor's cheque, and to give up the securities. But if the "securities" really secure him in a time of difficulty, he will not like to give them up, and take a bit of paper—a mere cheque, which may be paid or not paid. He will say to his debtor, "I can only give you your securities if you will give me bank-notes". And if he does say so, the debtor must go to his bank, and draw out the £50,000 if he has it. But if this were done on a large scale, the bank's "cash in house" would soon be gone; as the Clearing House was gradually superseded it would have to trench on its deposit at the Bank of England; and then the bankers would have to pay so much over the counter that they would be unable to keep much money at the Bank, even if they wished. They would soon be obliged to draw out every shilling.

The diminished use of the Clearing House, in consequence of the panic, would intensify that panic. By far the greater part of the bargains of the country in moneyed securities is settled on the Stock Exchange twice a month, and the number of securities then given up for mere cheques, and the number of cheques then passing at the Clearing House, are enormous. If that system were to collapse, the number of failures would be incalculable, and each failure would add to the discredit that caused the collapse.

The non-banking customers of the Bank of England would be discredited as well as other people; their cheques would not be taken any more than those of others; they would have to draw out bank-notes, and the Bank reserve would not be enough for a tithe of such payments.

The matter would come shortly to this: a great number of brokers and dealers are under obligation to pay immense sums, and in common times they obtain these sums by the transfer of certain securities. If, as we said just now, No. 1 has borrowed £50,000 of No. 2 on Exchequer bills, he, for the most part, cannot pay No. 2 till he has sold or pledged those bills to some one else. But till he has the bills he cannot pledge or sell them; and if No. 2 will not give them up till he gets his money, No. 1 will be ruined, because he cannot pay it. And if No. 2 has No. 3 to pay, as is very likely, he may be ruined because of No. 1's default, and No. 4 only on account of No. 3's default; and so on without end. On settling day, without the Clearing House, there would be a mass of failures, and a bundle of securities. The effect of these failures would be a general run on all bankers, and on the Bank of England particularly.

It may indeed be said that the money thus taken from the Banking Department of the Bank of England would return there immediately; that the public who borrowed it would not know where else to deposit; that it would be taken out in the morning, and put back in the evening. But, in the first place, this argument assumes that the

Banking Department would have enough money to pay the demands on it; and this is a mistake: the Banking Department would not have a hundredth part of the necessary funds. And in the second, a great panic which deranged the Clearing House would soon be diffused all through the country. The money therefore taken from the Bank of England could not be soon returned to the Bank; it would not come back on the evening of the day on which it was taken out, or for many days; it would be distributed through the length and breadth of the country, whereever there were bankers, wherever there was trade, wherever there were liabilities, wherever there was terror.

And even in London, so immense a panic would soon impair the credit of the Banking Department of the Bank of England. That department has no great *prestige.* It was only created in 1844, and it has failed three times since. The world would imagine that what has happened before will happen again; and when they have got money, they will not deposit it at an establishment which may not be able to repay it. This did not happen in former panics, because the case we are considering never arose. The Bank was helping the public, and, more or less confidently, it was believed that the Government would help the Bank. But if the policy be relinquished which formerly assuaged alarm, that alarm will be protracted and enhanced, till it touch the Banking Department of the Bank itself.

I do not imagine that it would touch the Issue Department. I think that the public would be quite satisfied if they obtained bank-notes. Generally nothing is gained by holding the notes of a bank instead of depositing them at a bank. But in the Bank of England there is a great difference: their notes are *legal tender.* Whoever holds them can always pay his debts, and, except for foreign payments, he could want no more. The rush would be for bank-notes; those that could be obtained would be carried north, south, east, and west, and, as there would not be enough for all the country, the Banking Department would soon pay away all it had.

Nothing, therefore, can be more certain than that the Bank of England has in this respect no peculiar privilege; that it is simply in the position of a Bank keeping the banking reserve of the country; that it must in time of panic do what all other similar banks must do; that in time of panic it must advance freely and vigorously to the public out of the reserve.

And with the Bank of England, as with other banks in the same case, these advances, if they are to be made at all, should be made so as, if possible, to obtain the object for which they are made. The end is to stay the panic; and the advances should, if possible, stay the panic. And for this purpose there are two rules.

First. That these loans should only be made at a very high rate of interest. This will operate as a heavy fine on unreasonable timidity, and will prevent the greatest number of applications by persons who do not require it. The rate should be raised early in the panic, so that the fine may be paid early; that no one may borrow out of idle precaution without paying well for it; that the banking reserve may be protected as far as possible.

Secondly. That at this rate these advances should be made on all good banking securities, and as largely as the public ask for them. The reason is plain. The object is to stay alarm, and nothing, therefore, should be done to cause alarm. But the way to cause alarm is to refuse some one who has good security to offer. The news of this will spread in an instant through all the Money Market at a moment of terror; no one can say exactly who carries it, but in half an hour it will be carried on all sides, and will intensify the terror everywhere. No advances indeed need be made by which the Bank will ultimately lose. The amount of bad business in commercial countries is an infinitesimally small fraction of the whole business. That in a panic the bank, or banks, holding the ultimate reserve should refuse bad bills or bad securities will not make the panic really worse; the "unsound" people are a feeble minority, and they are afraid even to look frightened for fear their unsoundness may be detected. The great majority, the majority to be protected, are the "sound" people, the people who have good security to offer. If it is known that the Bank of England is freely advancing on what in ordinary times is reckoned a good security—on what is then commonly pledged and easily convertible—the alarm of the solvent merchants and bankers will be stayed. But if securities, really good and usually convertible, are refused by the Bank, the alarm will not abate, the other loans made will fail in obtaining their end, and the panic will become worse and worse.

It may be said that the reserve in the Banking Department will not be enough for all such loans. If that be so, the Banking Department must fail. But lending is, nevertheless, its best expedient. This is the method of making its money go the farthest, and of enabling it to get through the panic if anything will so enable it. Making no loans, as we have seen, will ruin it; making large loans and stopping, as we have also seen, will ruin it. The only safe plan for the Bank is the brave plan, to lend in a panic on every kind of current security, or every sort on which money is ordinarily and usually lent. This policy may not save the Bank; but if it do not, nothing will save it.

If we examine the manner in which the Bank of England has fulfilled these duties, we shall find, as we found before, that the true principle has never been grasped; that the policy has been inconsistent; that, though the policy has much improved, there still remain important particulars in which it might be better than it is.

The first panic of which it is necessary here to speak is that of 1825: I hardly think we should derive much instruction from those of 1793 and 1797; the world has changed too much since; and during the long period of inconvertible currency from 1797 to 1819, the problems to be solved were altogether different from our present ones. In the panic of 1825, the Bank of England at first acted as unwisely as it was possible to act. By every means it tried to restrict its advances. The reserve being very small, it endeavoured to protect that reserve by lending as little as possible. The result was a period of frantic and almost inconceivable violence; scarcely anyone knew whom to trust; credit was almost suspended; the country was, as Mr. Huskisson expressed it, within twenty-four hours of a state of barter. Applications for assistance were made to the Government; but though it was well known that the Government refused to act, there was not, as far as I know, until lately any authentic narrative of the real facts. In the "Correspondence" of the Duke of Wellington, of all places in the world, there is a full account of them. The Duke was then on a mission at St. Petersburg, and Sir R. Peel wrote to him a letter of which the following is a part:—

"We have been placed in a very unpleasant predicament on the other question—the issue of Exchequer bills by Government. The feeling of the City, of many of our friends, of some of the Opposition, was decidedly in favour of the issue of Exchequer bills to relieve the merchants and manufacturers.

"It was said in favour of the issue, that the same measure had been tried and succeeded in 1793 and 1811. Our friends whispered about that we were acting quite in a different manner from that in which Mr. Pitt did act, and would have acted had he been alive.

"We felt satisfied that, however plausible were the reasons urged in favour of the issue of Exchequer bills, yet that the measure was a dangerous one, and ought to be resisted by the Government.

"There are thirty millions of Exchequer bills outstanding. The purchases lately made by the Bank can hardly maintain them at par. If there were a new issue to such an amount as that contemplated—*viz.,* five millions—there would be a great danger that the whole mass of Exchequer bills would be at a discount, and would be paid into the revenue. If the new Exchequer bills were to be issued at a different rate of interest from the outstanding ones—say bearing an interest of five per cent.—the old ones would be immediately at a great discount unless the interest were raised. If the interest were raised, the charge on the revenue would be of course proportionate to the increase of rate of interest. We found that the Bank had the power to lend money on deposit of goods. As our issue of Exchequer bills would have been useless unless the Bank cashed them, as therefore the intervention of the Bank was in any event absolutely necessary, and as its intervention would be chiefly useful by the effect which it would have in increasing the circulating medium, we advised the Bank to take the whole affair into their own hands at once, to issue their notes on the security of goods, instead of issuing them on Exchequer bills, such bills being themselves issued on that security.

"They reluctantly consented, and rescued us from a very embarrassing predicament."

The success of the bank of England on this occasion was owing to its complete adoption of right principles. The Bank adopted these principles very late; but when it adopted them it adopted them completely. According to the official statement which I quoted before, "we," that is, the Bank directors, "lent money by every possible means, and in modes which we had never adopted before; we took in stock on security, we purchased Exchequer bills, we made advances on Exchequer bills, we not only discounted outright, but we made advances on deposits of bills of exchange to an immense amount—in short, by every possible means consistent with the safety of the Bank." And for the complete and courageous adoption of this policy at the last moment the directors of the Bank of England at that time deserve great praise, for the subject was then less understood even than it is now; but the directors of the Bank deserve also severe censure, for previously choosing a contrary policy; for being reluctant to adopt the new one; and for at last adopting it only at the request of, and upon a joint responsibility with, the executive Government.

After 1825 there was not again a real panic in the Money Market till 1847. Both of the crises of 1837 and 1839 were severe, but neither terminated in a panic: both were arrested before the alarm reached its final intensity; in neither, therefore, could the policy of the Bank at the last stage of fear be tested.

In the three panics since 1844—in 1847, 1857, and 1866—the policy of the Bank has been more or less affected by the Act of 1844, and I cannot therefore discuss it fully within the limits which I have prescribed for myself. I can only state two things: First, that the directors of the Bank above all things maintain that they have not been in the earlier stage of panic prevented by the Act of 1844 from making any advances which they would otherwise have then made. Secondly, that in the last stage of panic, the Act of 1844 has been already suspended, rightly or wrongly, on these occasions; that no similar occasion has ever yet occurred in which it has not been suspended; and that, rightly or wrongly, the world confidently expects and relies that in all similar cases it will be suspended again. Whatever theory may prescribe, the logic of facts seems peremptory so far. And these principles taken together amount to saying that, by the doctrine of the directors, the Bank of England ought, as far as they can, to manage a panic with the Act of 1844, pretty much as they would manage one without it—in the early stage of the panic because then they are not fettered, and in the latter because then the fetter has been removed.

We can therefore estimate the policy of the Bank of England in the three panics which have happened since the Act of 1844, without inquiring into the effect of the Act itself. It is certain that in all of these panics the Bank has made very large advances indeed. It is certain, too, that in all of them the Bank has been quicker than it was in 1825; that in all of them it has less hesitated to use its banking reserve in making the advances which it is one principal object of maintaining that reserve to make, and to make at once. But there is still a considerable evil. No one knows on what kind of securities the Bank of England will at such periods make the advances which it is necessary to make.

As we have seen, principle requires that such advances, if made at all for the purpose of curing panic, should be made in the manner most likely to cure that panic. And for this purpose, they should be made on everything which in common times is good “banking security”. The evil is that, owing to terror, what is commonly good security has ceased to be so; and the true policy is so to use the banking reserve that if possible the temporary evil may be stayed, and the common course of business be restored. And this can only be effected by advancing on all good banking securities.

Unfortunately, the Bank of England do not take this course. The Discount Office is open for the discount of good bills, and makes immense advances accordingly. The Bank also advances on Consols and India securities, though there was, in the crisis of 1866, believed to be for a moment a hesitation in so doing. But these are only a small part of the securities on which money in ordinary times can be readily obtained, and by which its repayment is fully secured. Railway debenture stock is as good a security as a commercial bill, and many people, of whom I own I am one, think it safer than India stock; on the whole, a great railway is, I think, less liable to unforeseen accidents than the strange Empire of India. But I doubt if the Bank of England in a panic would advance on railway debenture stock; at any rate no one has any authorised reason for saying that it would. And there are many other such securities.

The *amount* of the advance is the main consideration for the Bank of England, and not the nature of the security on which the advance is made, always assuming the security to be good. An idea prevails (as I believe) at the Bank of England that they ought not to advance during a panic on any kind of security on which they do not commonly advance. But if bankers for the most part do advance on such security in common times, and if that security is indisputably good, the ordinary practice of the Bank of England is immaterial. In ordinary times the Bank is only one of many lenders, whereas in a panic it is the sole lender; and we want, as far as we can, to bring back the unusual state of a time of panic to the common state of ordinary times.

In common opinion there is always great uncertainty as to the conduct of the Bank: the Bank has never laid down any clear and sound policy on the subject. As we have seen, some of its directors (like Mr. Hankey) advocate an erroneous policy. The public is never sure what policy will be adopted at the most important moment: it is not sure what amount of advance will be made, or on what security it will be made. The best palliative to a panic is a confidence in the adequate amount of the Bank reserve, and in the efficient use of that reserve. And until we have on this point a clear understanding with the Bank of England, both our liability to crises and our terror at crises will always be greater than they would otherwise be.

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Chapter VIII.

THE GOVERNMENT OF THE BANK OF ENGLAND.

The Bank of England is governed by a board of directors, a Governor, and a Deputy-Governor; and the mode in which these are chosen, and the time for which they hold office, affect the whole of its business. The board of directors is in fact self-electing. In theory a certain portion go out annually, remain out for a year, and are subject to re-election by the proprietors. But in fact they are nearly always, and always if the other directors wish it, re-elected after a year. Such has been the unbroken practice of many years, and it would be hardly possible now to break it. When a vacancy occurs by death or resignation, the whole board chooses the new member, and they do it, as I am told, with great care. For a peculiar reason, it is important that the directors should be young when they begin; and accordingly the board run over the names of the most attentive and promising young men in the old-established firms of London, and select the one who, they think, will be most suitable for a Bank director. There is a considerable ambition to fill the office. The status which is given by it, both to the individual who fills it and to the firm of merchants to which he belongs, is considerable. There is surprisingly little favour shown in the selection; there is a great wish on the part of the Bank directors for the time being to provide, to the best of their ability, for the future good government of the Bank. Very few selections in the world are made with nearly equal purity. There is a sincere desire to do the best for the Bank, and to appoint a well-conducted young man who has begun to attend to business, and who seems likely to be fairly sensible and fairly efficient twenty years later.

The age is a primary matter. The offices of Governor and Deputy-Governor are given in rotation. The Deputy-Governor always succeeds the Governor, and usually the oldest director who has not been in office becomes Deputy-Governor. Sometimes, from personal reasons such as ill-health or special temporary occupation, the time at which a director becomes Deputy-Governor may be a little deferred, and, in some few cases, merchants in the greatest business have been permitted to decline entirely. But for all general purposes, the rule may be taken as absolute. Save in rare cases, a director must serve his time as Governor and Deputy-Governor nearly when his turn comes, and he will not be asked to serve much before his turn. It is usually about twenty years from the time of a man's first election that he arrives, as it is called, at the chair. And as the offices of Governor and Deputy-Governor are very important, a man who fills them should be still in the vigour of life. Accordingly, Bank directors, when first chosen by the board, are always young men.

At first this has rather a singular effect; a stranger hardly knows what to make of it. Many years since, I remember seeing a very fresh and nice-looking young gentleman, and being struck with astonishment at being told that he was a director of the Bank of England. I had always imagined such directors to be men of tried sagacity and long experience, and I was amazed that a cheerful young man should be one of them. I believe I thought it was a little dangerous. I thought such young men could not manage the Bank well. I feared they had the power to do mischief.

Further inquiry, however, soon convinced me that they had not the power. Naturally, young men have not much influence at a board where there are many older members. And in the Bank of England there is a special provision for depriving them of it if they get it. Some of the directors, as I have said, retire annually, but by courtesy it is always the young ones. Those who have passed the chair—that is, who have served the office of Governor—always remain. The young part of the board is the fluctuating part, and the old part is the permanent part; and therefore it is not surprising that the young part has little influence. The Bank directors may be blamed for many things, but they cannot be blamed for the changeableness and excitability of a neocracy.

Indeed, still better to prevent it, the elder members of the board—that is, those who have passed the chair—form a standing committee of indefinite powers, which is called the Committee of Treasury. I say "indefinite powers," for I am not aware that any precise description has ever been given of them, and I doubt if they can be precisely described. They are sometimes said to exercise a particular control over the relations and negotiations between the Bank and the Government. But I confess that I believe that this varies very much with the character of the Governor for the time being. A strong Governor does much mainly upon his own responsibility, and a weak Governor does little. Still the influence of the Committee of Treasury is always considerable, though not always the same. They form a cabinet of mature, declining, and old men, just close to the executive; and for good or evil such a cabinet must have much power.

By old usage, the directors of the Bank of England cannot be themselves by trade bankers. This is a relic of old times. Every bank was supposed to be necessarily, more or less, in opposition to every other bank—banks in the same place to be especially in opposition. In consequence, in London, no banker has a chance of being a Bank director, or would ever think of attempting to be one. I am here speaking of bankers in the English sense, and in the sense that would surprise a foreigner. One of the Rothschilds is on the Bank direction, and a foreigner would be apt to think that they were bankers if anyone was. But this only illustrates the essential difference between our English notions of banking and the continental. Ours have attained a much fuller development than theirs. Messrs. Rothschild are immense capitalists, having, doubtless, much borrowed money in their hands. But they do not take £100 payable on demand, and pay it back in cheques of £5 each, and that is our English banking. The borrowed money which they have is in large sums, borrowed for terms more or less long. English bankers deal with an aggregate of small sums, all of which are repayable on short notice, or on demand. And the way the two employ their money is different also. A foreigner thinks "an exchange business"—that is, the buying and selling bills on foreign countries—a main part of banking. As I have explained, remittance is one of the subsidiary conveniences which early banks subserve before deposit banking begins. But the mass of English country bankers only give bills on places in England or on London, and in London the principal remittance business has escaped out of the hands of the bankers. Most of them would not know how to carry through a great "exchange operation," or to "bring home the returns". They would as soon think of turning silk merchants. The exchange trade is carried on by a small and special body of foreign bill brokers, of whom Messrs. Rothschild are the greatest. One of that firm may, therefore, well be on the Bank direction, notwithstanding the rule forbidding bankers to be there, for he and his family are not English bankers, either by the terms on which they borrow money, or the mode in which they employ it. But as to bankers in the English sense of the word, the rule is rigid and absolute. Not only no private banker is a director of the Bank of England, but no director of any joint stock bank would be allowed to become such. The two situations would be taken to be incompatible.

The mass of the Bank directors are merchants of experience, employing a considerable capital in trades in which they have been brought up, and with which they are well acquainted. Many of them have information as to the present course of trade, and as to the character and wealth of merchants, which is most valuable, or rather is all but invaluable, to the Bank. Many of them, too, are quiet, serious men, who, by habit and nature, watch with some kind of care every kind of business in which they are engaged, and give an anxious opinion on it. Most of them have a good deal of leisure; for the life of a man of business who employs only his own capital, and employs it nearly always in the same way, is by no means fully employed. Hardly any capital is enough to employ the principal partner's time, and, if such a man is very busy, it is a sign of something wrong. Either he is working at detail, which subordinates would do better, and which he had better leave alone, or he is engaged in too many speculations, is incurring more liabilities than his capital will bear, and so may be ruined. In consequence, every commercial city abounds in men who have great business ability and experience, who are not fully occupied, who wish to be occupied, and who are very glad to become directors of public companies in order to be occupied. The direction of the Bank of England has, for many generations, been composed of such men.

Such a government for a joint stock company is very good if its essential nature be attended to, and very bad if that nature be not attended to. That government is composed of men with a high average of general good sense, with an excellent knowledge of business in general, but without any special knowledge of the particular business in which they are engaged. Ordinarily, in joint stock banks and companies this deficiency is cured by the selection of a manager of the company, who has been specially trained to that particular trade, and who engages to devote all his experience and all his ability to the affairs of the company. The directors, and often a select committee of them more especially, consult with the manager, and, after hearing what he has to say, decide on the affairs of the company. There is in all ordinary joint stock companies a fixed executive specially skilled, and a somewhat varying council not specially skilled. The fixed manager ensures continuity and experience in the management, and a good board of directors ensures general wisdom.

But in the Bank of England there is no fixed executive. The Governor and Deputy-Governor, who form that executive, change every two years. I believe, indeed, that such was not the original intention of the founders. In the old days of few and great privileged companies, the chairman, though periodically elected, was practically permanent so long as his policy was popular. He was the head of the Ministry, and ordinarily did not change unless the Opposition came in. But this idea has no present relation to the constitution of the Bank of England. At present, the Governor and Deputy-Governor almost always change at the end of two years; the case of any longer occupation of the chair is so very rare, that it need not be taken account of. And the Governor and Deputy-Governor of the Bank cannot well be shadows. They are expected to be constantly present; to see all applicants for advances out of the ordinary routine; to carry on the almost continuous correspondence between the Bank and its largest customer—the Government; to bring all necessary matters before the board of directors or the Committee of Treasury,—in a word, to do very much of what falls to the lot of the manager in most companies. Under this shifting chief executive, there are indeed very valuable heads of departments. The head of the Discount Department is especially required to be a man of ability and experience. But these officers are essentially subordinate; no one of them is like the general manager of an ordinary bank—the head of all action. The perpetually present executive—the Governor and Deputy-Governor—make it impossible that any subordinate should have that position. A really able and active-minded Governor, being required to sit all day in the Bank, in fact does, and can hardly help doing, its principal business.

In theory, nothing can be worse than this government for a bank—a shifting executive; a board of directors chosen too young for it to be known whether they are able; a committee of management, in which seniority is the necessary qualification, and old age the common result; and no trained bankers anywhere.

Even if the Bank of England were an ordinary bank, such a constitution would be insufficient; but its inadequacy is greater, and the consequences of that inadequacy far worse, because of its greater functions. The Bank of England has to keep the sole banking reserve of the country; has to keep it through all changes of the Money Market, and all turns of the exchanges; has to decide on the instant in a panic what sort of advances should be made, to what amounts, and for what dates;—and yet it has a constitution plainly defective. So far from the government of the Bank of England being better than that of any other bank—as it ought to be, considering that its functions are much harder and graver—anyone would be laughed at who proposed it as a model for the government of a new bank; and that government, if it were so proposed, would on all hands be called old-fashioned and curious.

As was natural, the effects—good and evil—of its constitution are to be seen in every part of the Bank's history. On one vital point the Bank's management has been excellent. It has done perhaps less "bad business," certainly less very bad business, than any bank of the same size and the same age. In all its history I do not know that its name has ever been connected with a single large and discreditable bad debt. There has never been a suspicion that it was "worked" for the benefit of any one man, or any combination of men. The great respectability of the directors, and the steady attention many of them have always given the business of the Bank, have kept it entirely free from anything dishonourable and discreditable. Steady merchants collected in council are an admirable judge of bills and securities. They always know the questionable standing of dangerous persons; they are quick to note the smallest signs of corrupt transactions; and no sophistry will persuade the best of them out of their good instincts. You could not have made the directors of the Bank of England do the sort of business which “Overends” at last did, except by a moral miracle—except by changing their nature. And the fatal career of the Bank of the United States would, under their management, have been equally impossible. Of the ultimate solvency of the Bank of England, or of the eventual safety of its vast capital, even at the worst periods of its history, there has not been the least doubt.

But nevertheless, as we have seen, the policy of the Bank has frequently been deplorable, and at such times the defects of its government have aggravated if not caused its calamities.

In truth, the executive of the Bank of England is now much such as the executive of a public department of the Foreign Office or the Home Office would be in which there was no responsible permanent head. In these departments of Government, the actual chief changes nearly, though not quite, as often as the Governor of the Bank of England. The Parliamentary Under-Secretary—the Deputy-Governor, so to speak, of that office—changes nearly as often. And if the administration solely, or in its details, depended on these two, it would stop. New men could not carry it on with vigour and efficiency; indeed they could not carry it on at all. But, in fact, they are assisted by a permanent Under-Secretary, who manages all the routine business, who is the depositary of the secrets of the office, who embodies its traditions, who is the *hyphen* between changing administrations. In consequence of this assistance, the continuous business of the department is, for the most part, managed sufficiently well, notwithstanding frequent changes in the heads of administration. And it is only by such assistance that such business could be so managed. The present administration of the Bank is an attempt to manage a great, a growing, and a permanently continuous business without an adequate permanent element, and a competent connecting link.

In answer, it may be said that the duties which press on the Governor and Deputy-Governor of the Bank are not so great or so urgent as those which press upon the heads of official departments. And perhaps, in point of mere labour, the Governor of the Bank has the advantage. Banking never ought to be an exceedingly laborious trade. There must be a great want of system and a great deficiency in skilled assistance if extreme labour is thrown upon the chief. But in importance, the functions of the head of the Bank rank as high as those of any department. The cash reserve of the country is as precious a deposit as any set of men can have the care of. And the difficulty of dealing with a panic (as the administration of the Bank is forced to deal with it) is perhaps a more formidable instant difficulty than presses upon any single Minister. At any rate, it comes more suddenly, and must be dealt with more immediately, than most comparable difficulties; and the judgment, the nerve, and the vigour needful to deal with it are plainly rare and great.

The natural remedy would be to appoint a permanent Governor of the Bank. Nor, as I have said, can there be much doubt that such was the intention of its founders. All the old companies which have their beginning in the seventeenth century had the same constitution, and those of them which have lingered down to our time retain it. The Hudson’s Bay Company, the South Sea Company, the East India Company, were all founded with a sort of sovereign executive, intended to be permanent, and intended to be efficient. This is, indeed, the most natural mode of forming a company in the minds of those to whom companies are new. Such persons will have always seen business transacted a good deal despotically; they will have learnt the value of prompt decision and of consistent policy; they will have often seen that business is best managed when those who are conducting it could scarcely justify the course they are pursuing by distinct argument which others could understand. All "City" people make their money by investments, for which there are often good argumentative reasons; but they would hardly ever be able, if required before a Parliamentary committee, to state those reasons. They have become used to act on them without distinctly analysing them, and, in a monarchical way, with continued success only as a test of their goodness. Naturally such persons, when proceeding to form a company, make it upon the model of that which they have been used to see successful. They provide for the executive first and above all things. How much this was in the minds of the founders of the Bank of England may be judged of by the name which they gave it. Its corporate name is the "*Governor* and Company of the Bank of England". So important did the founders think the executive that they mentioned it distinctly, and mentioned it first.

And not only is this constitution of a company the most natural in the early days when companies were new, it is also that which experience has shown to be the most efficient now that companies have long been tried. Great railway companies are managed upon no other. Scarcely any instance of great success in a railway can be mentioned in which the chairman has not been an active and judicious man of business, constantly attending to the affairs of the company. A thousand instances of railway disaster can be easily found in which the chairman was only a nominal head—a nobleman, or something of that sort—chosen for show. "Railway chairmanship" has become a profession, so much is efficiency valued in it, and so indispensable has ability been found to be. The plan of appointing a permanent "chairman" at the Bank of England is strongly supported by much modern experience.

Nevertheless, I hesitate as to its expediency; at any rate, there are other plans, which, for several reasons, should, I think, first be tried in preference.

First. This plan would be exceedingly unpopular. A permanent Governor of the Bank of England would be one of the greatest men in England. He would be a little "monarch" in the City; he would be far greater than the "Lord Mayor". He would be the personal embodiment of the Bank of England; he would be constantly clothed with an almost indefinite *prestige.* Everybody in business would bow down before him and try to stand well with him, for he might in a panic be able to save almost anyone he liked, and to ruin almost anyone he liked. A day might come when his favour might mean prosperity, and his distrust might mean ruin. A position with so much real power and so much apparent dignity would be intensely coveted. Practical men would be apt to say that it was better than the Prime Ministership, for it would last much longer, and would have a greater jurisdiction over that which practical men would most value—over *money.* At all events, such a Governor, if he understood his business, might make the fortunes of fifty men where the Prime Minister can make that of one. Scarcely anything could be more unpopular in the City than the appointment of a little king to reign over them.

Secondly. I do not believe that we should always get the best man for the post; often I fear that we should not even get a tolerable man. There are many cases in which the offer of too high a pay would prevent our obtaining the man we wish for, and this is one of them. A very high pay of *prestige* is almost always very dangerous. It causes the post to be desired by vain men, by lazy men, by men of rank; and when that post is one of real and technical business, and when, therefore, it requires much previous training, much continuous labour, and much patient and quick judgment, all such men are dangerous. But they are sure to covet all posts of splendid dignity, and can only be kept out of them with the greatest difficulty. Probably, in every Cabinet there are still some members (in the days of the old close boroughs there were many) whose posts have come to them not from personal ability or inherent merit, but from their rank, their wealth, or even their imposing exterior. The highest political offices are, indeed, kept clear of such people, for in them serious and important duties must constantly be performed in the face of the world. A Prime Minister, or a Chancellor of the Exchequer, or a Secretary of State must explain his policy and defend his actions in Parliament, and the discriminating tact of a critical assembly—abounding in experience, and guided by tradition—will soon discover what he is. But the Governor of the Bank would only perform quiet functions, which look like routine, though they are not, in which there is no immediate risk of success or failure; which years hence may indeed issue in a crop of bad debts, but which any grave persons may make at the time to look fair and plausible. A large bank is exactly the place where a vain and shallow person in authority, if he be a man of gravity and method, as such men often are, may do infinite evil in no long time, and before he is detected. If he is lucky enough to begin at a time of expansion in trade, he is nearly sure not to be found out till the time of contraction has arrived, and then very large figures will be required to reckon the evil he has done.

And thirdly. I fear that the possession of such patronage would ruin any set of persons in whose gift it was. The election of the Chairman must be placed either in the court of proprietors or that of the directors. If the proprietors choose, there will be something like the evils of an American presidential election. Bank stock will be bought in order to confer the qualification of voting at the election of the "chief of the City". The Chairman, when elected, may well find that his most active supporters are large borrowers of the Bank, and he may well be puzzled to decide between his duty to the Bank and his gratitude to those who chose him. Probably, if he be a cautious man of average ability, he will combine both evils; he will not lend so much money as he is asked for, and so will offend his own supporters; but will lend some which will be lost, and so the profits of the Bank will be reduced. A large body of Bank proprietors would make but a bad elective body for an office of great *prestige;* they would not commonly choose a good person, and the person they did choose would be bound by promises that would make him less good.

The court of directors would choose better; a small body of men of business would not easily be persuaded to choose an extremely unfit man. But they would not often choose an extremely good man. The really best man would probably not be so rich as the majority of the directors, nor of so much standing, and not unnaturally they would much dislike to elevate to the headship of the City one who was much less in the estimation of the City than themselves. And they would be canvassed in every way and on every side to appoint a man of mercantile dignity or mercantile influence. Many people of the greatest *prestige* and rank in the City would covet so great a dignity, if not for themselves, at least for some friend, or some relative, and so the directors would be set upon from every side.

An election so liable to be disturbed by powerful vitiating causes would rarely end in a good choice. The best candidate would almost never be chosen; often, I fear, one would be chosen altogether unfit for a post so important. And the excitement of so keen an election would altogether disturb the quiet of the Bank. The good and efficient working of a board of Bank directors depends on its internal harmony, and that harmony would be broken for ever by the excitement, the sayings, and the acts of a great election. The board of directors would almost certainly be demoralised by having to choose a sovereign, and there is no certainty, nor any great likelihood, indeed, that they would choose a good one.

In France the difficulty of finding a good body to choose the Governor of the Bank has been met characteristically. The Bank of France keeps the money of the State, and the State appoints its Governor. The French have generally a logical reason to give for all they do, though perhaps the results of their actions are not always so good as the reasons for them. The Governor of the Bank of France has not always, I am told, been a very competent person; the Sub-Governor, whom the State also appoints, is, as we might expect, usually better. But for our English purposes it would be useless to inquire minutely into this. No English statesman would consent to be responsible for the choice of the Governor of the Bank of England. After every panic, the Opposition would say in Parliament that the calamity had been "grievously aggravated," if not wholly caused, by the "gross misconduct" of the Governor appointed by the Ministry. Or, possibly, offices may have changed occupants and the Ministry in power at the panic would be the opponents of the Ministry which at a former time appointed the Governor. In that case they would be apt to feel, and to intimate, a "grave regret" at the course which the nominee of their adversaries had "thought it desirable to pursue". They would not much mind hurting his feelings, and if he resigned they would have themselves a valuable piece of patronage to confer on one of their own friends. No result could be worse than that the conduct of the Bank and the management should be made a matter of party politics, and men of all parties would agree in this, even if they agreed in almost nothing else.

I am therefore afraid that we must abandon the plan of improving the government of the Bank of England by the appointment of a permanent Governor, because we should not be sure of choosing a good Governor, and should indeed run a great risk, for the most part, of choosing a bad one.

I think, however, that much of the advantage, with little of the risk, might be secured by a humbler scheme. In English political offices, as was observed before, the evil of a changing head is made possible by the permanence of a dignified subordinate. Though the Parliamentary Secretary of State and the Parliamentary Under-Secretary go in and out with each administration, another Under-Secretary remains through all such changes, and is on that account called "permanent". Now this system seems to me in its principle perfectly applicable to the administration of the Bank of England.

For the reasons which have just been given, a permanent ruler of the Bank of England cannot be appointed; for other reasons, which were just before given, *some* most influential permanent functionary is essential in the proper conduct of the business of the Bank; and, *mutatis mutandis,* these are the very difficulties, and the very advantages, which have led us to frame our principal offices of State in the present fashion.

Such a Deputy-Governor would not be at all a "king" in the City. There would be no mischievous *prestige* about the office; there would be no attraction in it for a vain man; and there would be nothing to make it an object of a violent canvass or of unscrupulous electioneering. The office would be essentially subordinate in its character, just like the permanent secretary in a political office. The pay should be high, for good ability is wanted—but no pay would attract the most dangerous class of people. The very influential, but not very wise, City dignitary who would be so very dangerous is usually very opulent; he would hardly have such influence if he were not opulent: what he wants is not money, but "position". A Governorship of the Bank of England he would take almost without salary; perhaps he would even pay to get it: but a minor office of essential subordination would not attract him at all. We may augment the pay enough to get a good man, without fearing that by such pay we may tempt—as by social privilege we should tempt—exactly the sort of man we do not want.

Undoubtedly such a permanent official should be a trained banker. There is a cardinal difference between banking and other kinds of commerce; you can afford to run much less risk in banking than in commerce; and you must take much greater precautions. In common business, the trader can add to the cost price of goods he sells a large mercantile profit, say 10 to 15 per cent.; but the banker has to be content with the interest of money, which in England is not so much as 5 per cent. upon the average. The business of a banker therefore cannot bear so many bad debts as that of a merchant, and he must be much more cautious to whom he gives credit. Real money is a commodity much more coveted than common goods: for one deceit which is attempted on a manufacturer or a merchant, twenty and more are attempted on a banker. And besides, a banker, dealing with the money of others, and money payable on demand, must be always, as it were, looking behind him and seeing that he has reserve enough in store if payment should be asked for, which a merchant dealing mostly with his own capital need not think of. Adventure is the life of commerce, but caution, I had almost said timidity, is the life of banking; and I cannot imagine that the long series of great errors made by the Bank of England in the management of its reserve till after 1857, would have been possible if the merchants in the Bank court had not erroneously taken the same view of the Bank's business that they must properly take of their own mercantile business. The Bank directors have almost always been too cheerful as to the Bank's business, and too little disposed to take alarm. What we want to introduce into the Bank court is a wise *apprehensiveness,* and this every trained banker is taught by the habits of his trade, and the atmosphere of his life.

The permanent Governor ought to give his whole time to the business of the Bank. He ought to be forbidden to engage in any other concern. All the present directors, including the Governor and Deputy-Governor, are engaged in their own business, and it is very possible, indeed it must perpetually have happened, that their own business as merchants most occupied the minds of most of them just when it was most important that the business of the Bank should occupy them. It is at a panic and just before a panic that the business of the Bank is most exacting and most engrossing. But just at that time the business of most merchants must be unusually occupying and may be exceedingly critical. By the present constitution of the Bank, the attention of its sole rulers is most apt to be diverted from the Bank's affairs just when those affairs require that attention the most. And the only remedy is the appointment of a permanent and influential man, who will have no business save that of the Bank, and who therefore presumably will attend most to it at the critical instant when attention is most required. His mind, at any rate, will in a panic be free from pecuniary anxiety, whereas many, if not all, of the present directors must be incessantly thinking of their own affairs and unable to banish them from their minds.

The permanent Deputy-Governor must be a director and a man of fair position. He must not have to say "Sir" to the Governor. There is no fair argument between an inferior who has to exhibit respect and a superior who has to receive respect. The superior can always, and does mostly, refute the bad arguments of his inferior; but the inferior rarely ventures to try to refute the bad arguments of his superior. And he still more rarely states his case effectually; he pauses, hesitates, does not use the best word or the most apt illustration, perhaps he uses a faulty illustration or a wrong word, and so fails because the superior immediately exposes him. Important business can only be sufficiently discussed by persons who can say very much what they like very much as they like to one another. The thought of the speaker should come out as it was in his mind, and not be hidden in respectful expressions or enfeebled by affected doubt. What is wanted at the Bank is not a new clerk to the directors—they have excellent clerks of great experience now—but a permanent equal to the directors, who shall be able to discuss on equal terms with them the business of the Bank, and have this advantage over them in discussion, that he has no other business than that of the Bank to think of.

The formal duties of such a permanent officer could only be defined by some one conversant with the business of the Bank, and could scarcely be intelligibly discussed before the public. Nor are the precise duties of the least importance. Such an officer, if sound, able, and industrious, would soon rule the affairs of the Bank. He would be acquainted better than anyone else, both with the traditions of the past and with the facts of the present; he would have a great experience; he would have seen many anxious times; he would always be on the watch for their recurrence. And he would have a peculiar power of guidance at such moments from the nature of the men with whom he has most to deal. Most Governors of the Bank of England are cautious merchants, not profoundly skilled in banking, but most anxious that their period of office should be prosperous and that they should themselves escape censure. If a "safe" course is pressed upon them they are likely to take that course. Now it would almost always be "safe" to follow the advice of the great standing "authority"; it would always be most "unsafe" not to follow it. If the changing Governor act on the advice of the permanent Deputy-Governor, most of the blame in case of mischance would fall on the latter; it would be said that a shifting officer like the Governor might very likely not know what should be done, but that the permanent official was put there to know it and paid to know it. But if, on the other hand, the changing Governor should disregard the advice of his permanent colleague, and the consequence should be bad, he would be blamed exceedingly. It would be said that, "being without experience, he had taken upon him to overrule men who had much experience; that when the constitution of the Bank had provided them with skilled counsel, he had taken on himself to act of his own head, and to disregard that counsel:" and so on *ad infinitum.* And there could be no sort of conversation more injurious to a man in the City; the world there would say, rightly or wrongly, "We must never be too severe on errors of judgment; we are all making them every day; if responsible persons do their best we can expect no more. But this case is different: the Governor acted on a wrong system; he took upon himself an unnecessary responsibility:" and so a Governor who incurred disaster by disregarding his skilled counsellor would be thought a fool in the City for ever. In consequence, the one skilled counsellor would in fact rule the Bank.

I believe that the appointment of the new permanent and skilled authority at the Bank is the greatest reform which can be made there, and that which is most wanted. I believe that such a person would give to the decisions of the Bank that foresight, that quickness, and that consistency in which those decisions are undeniably now deficient. As far as I can judge, this change in the constitution of the Bank is by far the most necessary, and is perhaps more important even than all other changes. But nevertheless we should reform the other points which we have seen to be defective.

First. The London bankers should not be altogether excluded from the court of directors. The old idea, as I have explained, was that the London bankers were the competitors of the Bank of England, and would hurt it if they could. But now the London bankers have another relation to the Bank which did not then exist, and was not then imagined. Among private people they are the principal depositors in the Bank; they are therefore particularly interested in its stability; they are especially interested in the maintenance of a good banking reserve, for their own credit and the safety of their large deposits depend on it. And they can bring to the court of directors an experience of banking itself, got outside the Bank of England, which none of the present directors possess, for they have learned all they know of banking at the Bank itself. There was also an old notion that the secrets of the Bank would be divulged if they were imparted to bankers. But probably bankers are better trained to silence and secrecy than most people. And there is only a thin partition now between the bankers and the secrets of the Bank. Only lately a firm failed of which one partner was a director of the London and Westminster Bank, and another a director of the Bank of England. Who can define or class the confidential communications of such persons under such circumstances?

As I observed before, the line drawn at present against bankers is very technical and exclusively English. According to continental ideas, Messrs. Rothschild are bankers, if anyone is a banker. But the house of Rothschild is represented on the Bank direction. And it is most desirable that it should be represented, for members of that firm can give if they choose confidential information of great value to the Bank. But, nevertheless, the objection which is urged against English bankers is at least equally applicable to these foreign bankers. They have, or may have, at certain periods an interest opposite to the policy of the Bank. As the greatest exchange dealers they may wish to export gold just when the Bank of England is raising its rate of interest to prevent anyone from exporting gold. The vote of a great exchange dealer might be objected to for plausible reasons of contrary interest, if any such reasons were worth regarding. But in fact the particular interest of single directors is not to be regarded; almost all directors who bring special information labour under a suspicion of interest; they can only have acquired that information in present business, and such business may very possibly be affected for good or evil by the policy of the Bank. But you must not on this account seal up the Bank hermetically against living information; you must make a fair body of directors upon the whole, and trust that the bias of some individual interests will disappear and be lost in the whole. And if this is to be the guiding principle, it is not consistent to exclude English bankers from the court.

Objection is often also taken to the constitution of the Committee of Treasury. That body is composed of the Governor and Deputy-Governor and all the directors who have held those offices; but as those offices in the main pass in rotation, this mode of election very much comes to an election by seniority, and there are obvious objections to giving, not only a preponderance to age, but a monopoly to age. In some cases, indeed, this monopoly I believe has already been infringed. When directors have on account of the magnitude of their transactions, and the consequent engrossing nature of their business, declined to fill the chair, in some cases they have been asked to be members of the Committee of Treasury notwithstanding. And it would certainly upon principle seem wiser to choose a committee which for some purposes approximates to a committee of management by competence rather than by seniority.

An objection is also taken to the large number of Bank directors. There are twenty-four directors, a Governor and a Deputy-Governor, making a total court of twenty-six persons, which is obviously too large for the real discussion of any difficult business. And the case is worse because the court only meets once a week, and only sits a very short time. It has been said, with exaggeration, but not without a basis of truth, that if the Bank directors were to sit for four hours, there would be "a panic solely from that". "The Court," says Mr. Tooke, "meets at half-past eleven or twelve; and, if the sitting be prolonged beyond half-past one, the Stock Exchange and the Money Market become excited, under the idea that a change of importance is under discussion; and persons congregate about the doors of the Bank parlour to obtain the earliest intimation of the decision." And he proceeds to conjecture that the knowledge of the impatience without must cause haste, if not impatience, within. That the decisions of such a court should be of incalculable importance is plainly very strange.

There should be no delicacy as to altering the constitution of the Bank of England. The existing constitution was framed in times that have passed away, and was intended to be used for purposes very different from the present. The founders may have considered that it would lend money to the Government, that it would keep the money of the Government, that it would issue notes payable to bearer, but that it would keep the "banking reserve" of a great nation no one in the seventeenth century imagined. And when the use to which we are putting an old thing is a new use, in common sense we should think whether the old thing is quite fit for the use to which we are setting it. “Putting new wine into old bottles” is safe only when you watch the condition of the bottle, and adapt its structure most carefully.

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Chapter IX.

THE JOINT STOCK BANKS.

The joint stock banks of this country are a most remarkable success. Generally speaking the career of joint stock companies in this country has been chequered. Adam Smith, many years since, threw out many pregnant hints on the difficulty of such undertakings—hints which even after so many years will well repay perusal. But joint stock banking has been an exception to this rule. Four years ago I threw together the facts on the subject and the reasons for them; and I venture to quote the article, because subsequent experience suggests, I think, little to be added to it.

"The main classes of joint stock companies which have answered are three: 1st. Those in which the capital is used not to work the business but to *guarantee* the business. Thus a banker's business—his proper business—does not begin while he is using his own money: it commences when he begins to use the capital of others. An insurance office in the long run needs no capital; the premiums which are received ought to exceed the claims which accrue. In both cases, the capital is wanted to assure the public and to induce it to trust the concern. 2ndly. Those companies have answered which have an exclusive privilege which they have used with judgment, or which possibly was so very profitable as to enable them to thrive with little judgment. 3rdly. Those which have undertaken a business both large and simple—employing more money than most individuals or private firms have at command, and yet such that, in Adam Smith's words, 'the operations are capable of being reduced to a routine, or such an uniformity of method as admits of no variation'.

"As a rule, the most profitable of these companies are banks. Indeed, *all* the favouring conditions just mentioned concur in many banks. An old-established bank has a '*prestige,*' which amounts to a 'privileged opportunity'; though no exclusive right is given to it by law, a peculiar power is given to it by opinion. The business of banking ought to be simple; if it is *hard* it is *wrong.* The only securities which a banker, using money that he may be asked at short notice to repay, ought to touch, are those which are easily saleable and easily intelligible. If there is a difficulty or a doubt, the security should be declined. No business can of course be quite reduced to fixed rules. There must be occasional cases which no preconceived theory can define. But banking comes as near to fixed rules certainly as any existing business, perhaps as any possible business. The business of an old-established bank has the full advantage of being a simple business, and in part the advantage of being a monopoly business. Competition with it is only open in the sense in which competition with 'the London Tavern' is open; anyone that has to do with either will pay dear for it.

"But the main source of the profitableness of established banking is the smallness of the requisite capital. Being only wanted as a "moral influence," it need not be more than is necessary to secure that influence. Although, therefore, a banker deals only with the most sure securities, and with those which yield the least interest, he can nevertheless gain and divide a very large profit upon his own capital, because the money in his hands is so much larger than that capital.

“Experience, as shown by plain figures, confirms these conclusions. We print at the end of this article the respective profits of 110 banks in England, and Scotland, and Ireland, being all in those countries of which we have sufficient information—the Bank of England excepted. There are no doubt others, but they are not quoted even on local Stock Exchange lists, and in most cases publish no reports. The result of these banks, as regards the dividends they pay, is—

	No. of Companies.	Capital.
Above 20 per cent.	15	£5,302,767
Between 15 and 20 per cent.	20	5,439,439
Between 10 and 15 per cent.	36	14,056,950
Between 5 and 10 per cent.	36	14,182,379
Under 5 per cent.	3	1,350,000
	110	40,331,535

—that is to say, about 25 per cent. of the capital employed in these banks pays over 15 per cent., and 62½ per cent. of the capital pays more than 10 per cent.[1] So striking a result is not to be shown in any other joint stock trade.

“The period to which these accounts refer was certainly not a particularly profitable one—on the contrary, it has been specially unprofitable. The rate of interest has been very low, and the amount of good security in the market small. Many banks—to some extent most banks—probably had in their books painful reminiscences of 1866. The fever of excitement which passed over the nation was strongest in the classes to whom banks lent most, and consequently the losses of even the most careful banks (save of those in rural and sheltered situations) were probably greater than usual. But even tried by this very unfavourable test banking is a trade profitable far beyond the average of trades.

“There is no attempt in these banks on the whole and as a rule to divide too much—on the contrary, they have accumulated about £13,000,000, or nearly one-third of their capital, principally out of undivided profits. The directors of some of them have been anxious to put away as much as possible and to divide as little as possible.[1]

“The reason is plain: out of the banks which pay more than 20 per cent., all but one were old-established banks, and all those paying between 15 and 20 per cent. were old banks too. The ‘privileged opportunity’ of which we spoke is singularly conspicuous in such figures; it enables banks to pay much, which without it would *not* have paid much. The amount of the profit is clearly proportional to the value of the ‘privileged opportunity’. All the banks which pay above 20 per cent., save one, are banks more than twenty-five years old; all those which pay between 15 and 20 are so too. A new bank could not make these profits, or even by its competition much reduce these profits; in attempting to do so, it would simply ruin itself. Not possessing the accumulated credit of years, it would have to wind up before it attained that credit.

"The value of the opportunity too is proportioned to what has to be paid for it. Some old banks have to pay interest for all their money; some have much for which they pay nothing. Those who give much to their customers have of course less left for their shareholders. Thus Scotland, where there is always a daily interest, has no bank in the lists paying over 15 per cent. The profits of Scotch banks run thus:—

	Capital.	Dividend.
Bank of Scotland	£1,500,000	12
British Linen Company	1,000,000	13
Caledonian	125,000	10
Clydesdale	900,000	10
Commercial Bank of Scotland	1,000,000	13
National Bank of Scotland	1,000,000	12
North of Scotland	280,000	10
Union Bank of Scotland	1,000,000	10
City of Glasgow	870,000	8
Royal Bank	2,000,000	8
	£9,675,000[1]	

1 In 1905, upon a paid-up capital of £9,316,000, the Scotch banks distributed dividends to the amount of £1,371,000. The rates of distribution ranged from 20 per cent. to 4 per cent., the latter rate being paid by a comparatively new and relatively very unimportant bank.

Good profits enough, but not at all like the profits of the London and Westminster, or the other most lucrative banks of the South.

"The Bank of England, it is true, does not seem to pay so much as other English banks in this way of reckoning. It makes an immense profit, but then its capital is immense too. In fact, the Bank of England suffers under two difficulties. Being much older than the other joint stock banks, it belongs to a less profitable era. When it was founded, banks looked rather to the profit on their own capital, and to the gains of note issue, than to the use of deposits. The first relations with the State were more like those of a finance company than of a bank, as we now think of banking. If the Bank had not made loans to the Government, which we should now think dubious, the Bank would not have existed, for the Government would never have permitted it. Not only is the capital of the Bank of England relatively greater, but the means of making profit in the Bank of England are relatively less also. By custom and understanding the Bank of England keep a much greater reserve in unprofitable cash than other banks; if they do not keep it, either our whole system must be changed or we should break up in utter bankruptcy. The earning faculty of the Bank of England is in proportion less than that of other banks, and also the sum on which it has to pay dividend is altogether greater than theirs.

"It is interesting to compare the facts of joint stock banking with the fears of it which were felt. In 1832 Lord Overstone observed: 'I think that joint stock banks are deficient in everything requisite for the conduct of the banking business except extended responsibility; the banking business requires peculiarly persons attentive to all its details, constantly, daily, and hourly watchful of every transaction, much more than mercantile or trading business. It also requires immediate prompt decisions upon circumstances when they arise, in many cases a decision that does not admit of delay for consultation; it also requires a discretion to be exercised with reference to the special circumstances of each case. Joint stock banks being of course obliged to act through agents, and not by a principal, and therefore under the restraint of general rules, cannot be guided by so nice a reference to degrees of difference in the character of responsibility of parties; nor can they undertake to regulate the assistance to be granted to concerns under temporary embarrassment by so accurate a reference to the circumstances, favourable or unfavourable, of each case.'

"But in this very respect, joint stock banks have probably improved the business of banking. The old private banks in former times used to lend much to private individuals; the banker, as Lord Overstone on another occasion explained, could have no security, but he formed his judgment of the discretion, the sense, and the solvency of those to whom he lent. And when London was by comparison a small city, and when by comparison every one stuck to his proper business, this practice might have been safe. But now that London is enormous and that no one can watch any one, such a trade would be disastrous; at present, it would hardly be safe in a country town. The joint stock banks were quite unfit for the business Lord Overstone meant, but then that business is quite unfit for the present time."

This success of joint stock banking is very contrary to the general expectation at its origin. Not only private bankers, such as Lord Overstone then was, but a great number of thinking persons feared that the joint stock banks would fast ruin themselves, and then cause a collapse and panic in the country. The whole of English commercial literature between 1830 and 1840 is filled with that idea. Nor did it cease in 1840. So late as 1845, Sir R. Peel thought the foundation of joint stock banks so dangerous that he subjected it to grave and exceptional difficulty. Under the Act of 1845, which he proposed, no such companies could be founded except with shares of £100 with £50 paid up on each; which effectually checked the progress of such banks, for few new ones were established for many years, or till that Act had been repealed. But in this, as in many other cases, perhaps Sir R. Peel will be found to have been clear-sighted rather than far-sighted. He was afraid of certain joint stock banks which he saw rising around him; but the effect of his legislation was to give to these very banks, if not a monopoly, at any rate an exemption from new rivals. No one now founds or can found a new private bank, and Sir R. Peel by law prevented new joint stock banks from being established. Though he was exceedingly distrustful of the joint stock banks founded between 1826 and 1845, yet in fact he was their especial patron, and he more than any other man encouraged and protected them.

But in this wonderful success there are two dubious points, two considerations of different kinds which forbid us to say that in other countries, even in countries with the capacity of co-operation, joint stock banks would succeed as well as we have seen that they succeed in England. 1st. These great banks have not had to keep so large a reserve against their liabilities as it was natural that they should, being of first-rate magnitude, keep. They were, at first, of course, very small in comparison with what they are now. They found a number of private bankers grouped round the Bank of

England, and they added themselves to the group. Not only did they keep their reserve from the beginning at the Bank of England, but they did not keep so much reserve as they would have kept if there had been no Bank of England. For a long time this was hardly noticed. For many years questions of the "currency," particularly questions as to the Act of 1844, engrossed the attention of all who were occupied with these subjects. Even those who were most anxious to speak evil of joint stock banks did not mention this particular evil. The first time, as far as I know, that it was commented on in any important document, was in an official letter written in 1857 by Mr. Weguelin, who was then Governor of the Bank, to Sir George Lewis, who was then Chancellor of the Exchequer. The Governor and the Directors of the Bank of England had been asked by Sir George Lewis severally to give their opinions on the Act of 1844, and all their replies were published. In his, Mr. Weguelin says:—

"If the amount of the reserve kept by the Bank of England be contrasted with the reserve kept by the joint stock banks, a new and hitherto little considered source of danger to the credit of the country will present itself. The joint stock banks of London, judging by their published accounts, have deposits to the amount of £30,000,000. Their capital is not more than £3,000,000, and they have on an average £31,000,000, invested in one way or another, leaving only £2,000,000 as a reserve against all this mass of liabilities."

But these remarkable words were little observed in the discussions of that time. The air was obscured by other matters. But in this work I have said so much on the subject that I need say little now. The joint stock banks now keep a main part of their reserve on deposit with the bill brokers, or in good and convertible interest-bearing securities. From these they obtain a large income, and that income swells their profits. If they had to keep a much larger part than now of that reserve in barren cash, their dividends would be reduced, and their present success would become less conspicuous.

The second misgiving, which many calm observers more and more feel as to our largest joint stock banks, fastens itself on their government. Is that government sufficient to lend well and keep safe so many millions? They are governed, as every one knows, by a board of directors, assisted by a general manager, and there are in London unrivalled materials for composing good boards of directors. There are very many men of good means, of great sagacity, and great experience in business, who are obliged to be in the City every day, and to remain there during the day, but who have very much time on their hands. A merchant employing solely or principally his own capital has often a great deal of leisure. He is obliged to be on the market, and to hear what is doing. Every day he has some business to transact, but his transactions can be but few. His capital can bear only a limited number of purchases; if he bought as much as would fill his time from day to day he would soon be ruined, for he could not pay for it. Accordingly, many excellent men of business are quite ready to become members of boards of directors, and to attend to the business of companies, a good deal for the employment's sake. To have an interesting occupation which brings dignity and power with it pleases them very much. As the aggregation of commerce in great cities grows, the number of such men augments. A *council* of grave, careful, and experienced men can, without difficulty, be collected for a great bank in London, such as never could have been collected before, and such as cannot now be collected elsewhere.

There are facilities, too, for engaging a good banker to be a manager such as there never were before in the world. The number of such persons is much on the increase. Any careful person who is experienced in figures, and has real sound sense, may easily make himself a good banker. The modes in which money can be safely lent by a banker are not many, and a clear-headed, quiet, industrious person may soon learn all that is necessary about them. Our intricate law of real property is an impediment in country banking, for it requires some special study even to comprehend the elements of a law which is full of technical words, and which can only be explained by narrating its history. But the banking of great cities is little concerned with loans on landed property. And all the rest of the knowledge requisite for a banker can easily be obtained by any one who has the sort of mind which takes to it. No doubt there is a vast *routine* of work to be learned, and the manager of a large bank must have a great facility in transacting business rapidly. But a great number of persons are now bred from their earliest manhood in the very midst of that routine; they learn it as they would learn a language, and come to be no more able to unlearn it than they could unlearn a language. And the able ones among them acquire an almost magical rapidity in effecting the business connected with that routine. A very good manager and very good board of directors can, without unreasonable difficulty, be provided for a bank at present in London.

It will be asked, What more can be required? I reply, a great deal. All that the best board of directors can really accomplish is to form a good decision on the points which the manager presents to them, and perhaps on a few others which one or two zealous members of their body may select for discussion. A meeting of fifteen or eighteen persons is wholly unequal to the transaction of more business than this; it will be fortunate, and it must be well guided, if it should be found to be equal to so much. The discussion even of simple practical points by such a number of persons is a somewhat tedious affair. Many of them will wish to speak on every decision of moment, and some of them—some of the best of them perhaps—will only speak with difficulty and slowly. Very generally, several points will be started at once, unless the discussion is strictly watched by a rigid chairman; and even on a single point the arguments will often raise grave questions which cannot be answered, and suggest many more issues than can be advantageously decided by the meeting. The time required by many persons for discussing many questions would alone prevent an assembly of many persons from overlooking a large and complicated business.

Nor is this the only difficulty. Not only would a real supervision of a large business by a board of directors require much more time than the board would consent to occupy in meeting, it would also require much more time and much more thought than the individual directors would consent to give. These directors are only employing on the business of the bank the vacant moments of their time, and the spare energies of their minds. They cannot give the bank more; the rest is required for the safe conduct of their own affairs, and if they diverted it from these affairs they would be ruined: A few of them may have little other business, or they may have other partners in the business, on whose industry they can rely, and whose judgment they can trust; one or two may have retired from business. But for the most part, directors of a company cannot attend principally and anxiously to the affairs of a company without so far neglecting their own business as to run great risk of ruin; and if they are ruined, their trust-worthiness ceases, and they are no longer permitted by custom to be directors.

Nor, even if it were possible really to supervise a business by the effectual and constant inspection of fifteen or sixteen rich and capable persons, would even the largest business easily bear the expense of such a supervision. I say rich, because the members of a board governing a large bank must be men of standing and note besides, or they would discredit the bank; they need not be rich in the sense of being worth millions, but they must be known to possess a fair amount of capital and be seen to be transacting a fair quantity of business. But the labour of such persons, I do not say their spare powers, but their principal energies, fetches a high price. Business is really a profession often requiring for its practice quite as much knowledge, and quite as much skill, as law and medicine; and requiring also the possession of money. A thorough man of business, employing a fair capital in a trade which he thoroughly comprehends, not only earns a profit on that capital, but really makes of his professional skill a large income. He has a revenue from talent as well as from money; and to induce sixteen or eighteen persons to abandon such a position and such an income in order to devote their entire attention to the affairs of a joint stock company, a salary must be given too large for the bank to pay or for any one to wish to propose.

And an effectual supervision by the whole board being impossible, there is a great risk that the whole business may fall to the general manager. Many unhappy cases have proved this to be very dangerous. Even when the business of joint stock banks was far less, and when the deposits entrusted to them were very much smaller, a manager sometimes committed frauds which were dangerous, and still oftener made mistakes that were ruinous. Actual crime will always be rare; but, as an uninspected manager of a great bank has the control of untold millions, sometimes we must expect to see it: the magnitude of the temptation will occasionally prevail over the feebleness of human nature. But error is far more formidable than fraud: the mistakes of a sanguine manager are far more to be dreaded than the theft of a dishonest manager. Easy misconception is far more common than long-sighted deceit. And the losses to which an adventurous and plausible manager, in complete good faith, would readily commit a bank, are beyond comparison greater than any which a fraudulent manager would be able to conceal, even with the utmost ingenuity. If the losses by mistake in banking and the losses by fraud were put side by side, those by mistake would be incomparably the greater. There is no more unsafe government for a bank than that of an eager and active manager, subject only to the supervision of a numerous board of directors, even though that board be excellent, for the manager may easily glide into dangerous and insecure transactions, nor can the board effectually check him.

The remedy is this: a certain number of the directors, either those who have more spare time than others, or those who are more ready to sell a large part of their time to the bank, must be formed into a real working committee, which must meet constantly, must investigate every large transaction, must be acquainted with the means and standing of every large borrower, and must be in such incessant communication with the manager that it will be impossible for him to engage in hazardous enterprises of dangerous magnitude without their knowing it and having an opportunity of forbidding it. In almost all cases they would forbid it; all committees are cautious, and a committee of careful men of business, picked from a large city, will usually err on the side of caution if it err at all. The daily attention of a small but competent minor council, to whom most of the powers of the directors are delegated, and who, like a Cabinet, guide the deliberations of the board at its meetings, is the only adequate security of a large bank from the rash engagements of a despotic and active general manager. Fraud, in the face of such a committee, would probably never be attempted, and even now it is a rare and minor evil.

Some such committees are vaguely known to exist in most, if not all, our large joint stock banks. But their real constitution is not known. No customer and no shareholder knows the names of the managing committee, perhaps, in any of these large banks. And this is a grave error. A large depositor ought to be able to ascertain who really are the persons that dispose of his money; and still more a large shareholder ought not to rest till he knows who it is that makes engagements on his behalf, and who it is that may ruin him if they choose. The committee ought to be composed of quiet men of business, who can be ascertained by inquiry to be of high character and well-judging mind. And if the public and the shareholder knew that there was such a committee, they would have sufficient reasons for the confidence which now is given without such reasons.

A certain number of directors attending daily by rotation is, it should be said, no substitute for a permanent committee. It has no sufficient responsibility. A changing body cannot have any responsibility. The transactions which were agreed to by one set of directors present on the Monday might be exactly those which would be much disapproved by directors present on the Wednesday. It is essential to the decisions of most business, and not least of the banking business, that they should be made constantly by the same persons; the chain of transactions must pass through the same minds. A large business may be managed tolerably by a quiet group of second-rate men if those men be always the same; but it cannot be managed at all by a fluctuating body, even of the very cleverest men. You might as well attempt to guide the affairs of the nation by means of a Cabinet similarly changing.

Our great joint stock banks are imprudent in so carefully concealing the details of their government, and in secluding those details from the risk of discussion. The answer, no doubt, will be, “Let well alone; as you have admitted, there hardly ever before was so great a success as these banks of ours; what more do you or can you want?” I can only say that I want further to confirm this great success and to make it secure for the future. At present there is at least the possibility of a great reaction. Supposing that, owing to defects in its government, one even of the greater London joint stock banks failed, there would be an instant suspicion of the whole system. One *terra incognita* being seen to be faulty, every other *terra incognita* would be suspected. If the real government of these banks had for years been known, and if the subsisting banks had been known not to be ruled by the bad mode of government which had ruined the bank that had fallen, then the ruin of that bank would not be hurtful. The other banks would be seen to be exempt from the cause which had destroyed it. But at present the ruin of one of these great banks would greatly impair the credit of all. Scarcely any one knows the precise government of any one; in no case has that government been described on authority; and the fall of one by grave misgovernment would be taken to show that the others might as easily be misgoverned also. And a tardy disclosure even of an admirable constitution would not much help the surviving banks: as it was extracted by necessity, it would be received with suspicion. A sceptical world would say, “Of course they say they are all perfect now; it would not do for them to say anything else”.

And not only the depositors and the shareholders of these large banks have a grave interest in their good government, but the public also. We have seen that our banking reserve is, as compared with our liabilities, singularly small; we have seen that the rise of these great banks has lessened the proportion of that reserve to those liabilities; we have seen that the greatest strain on the banking reserve is a “panic”. Now, no cause is more capable of producing a panic, perhaps none is so capable, as the failure of a first-rate joint stock bank in London. Such an event would have something like the effect of the failure of Overend, Gurney, & Co.; scarcely any other event would have an equal effect. And therefore, under the existing constitution of our banking system, the government of these great banks is of primary importance to us all.

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Chapter X.

THE PRIVATE BANKS.

Perhaps some readers of the last part of the last chapter have been inclined to say that I must be a latent enemy to joint stock banking. At any rate, I have pointed out what I think grave defects in it. But I fear that a reader of this chapter may, on like grounds, suppose that I am an enemy to private banking. And I can only hope that the two impressions may counteract one another, and may show that I do not intend to be unfair.

I can imagine nothing better in theory or more successful in practice than private banks as they were in the beginning. A man of known wealth, known integrity, and known ability is largely entrusted with the money of his neighbours. The confidence is strictly personal. His neighbours know him, and trust him because they know him. They see daily his manner of life, and judge from it that their confidence is deserved. In rural districts, and in former times, it was difficult for a man to ruin himself except at the place in which he lived; for the most part he spent his money there, and speculated there if he speculated at all. Those who lived there also would soon see if he was acting in a manner to shake their confidence. Even in large cities, as cities then were, it was possible for most persons to ascertain with fair certainty the real position of conspicuous persons, and to learn all that was material in fixing their credit. Accordingly the bankers who for a long series of years passed successfully this strict and continual investigation, became very wealthy and very powerful.

The name "London Banker" had especially a charmed value. He was supposed to represent, and often did represent, a certain union of pecuniary sagacity and educated refinement which was scarcely to be found in any other part of society. In a time when the trading classes were much ruder than they now are, many private bankers possessed a variety of knowledge and a delicacy of attainment which would even now be very rare. Such a position is indeed singularly favourable. The calling is hereditary; the credit of the bank descends from father to son: this inherited wealth soon brings inherited refinement. Banking is a watchful, but not a laborious trade. A banker, even in large business, can feel pretty sure that all his transactions are sound, and yet have much spare mind. A certain part of his time, and a considerable part of his thoughts, he can readily devote to other pursuits. And a London banker can also have the most intellectual society in the world if he chooses it. There has probably very rarely ever been so happy a position as that of a London private banker; and never perhaps a happier.

It is painful to have to doubt of the continuance of such a class, and yet, I fear, we must doubt of it. The evidence of figures is against it. In 1810 there were forty private banks in Lombard Street admitted to the Clearing House: there now are only thirteen.[1] Though the business of banking has increased so much since 1810, this species of banks is fewer in number than it was then. Nor is this the worst. The race is not renewed. There are not many recognised impossibilities in business, but everybody admits “that you cannot found a new private bank”. No such has been founded in London, or, as far as I know, in the country, for many years. The old ones merge or die, and so the number is lessened; but no new ones begin so as to increase that number again.

The truth is that the circumstances which originally favoured the establishment of private banks have now almost passed away. The world has become so large and complicated that it is not easy to ascertain who is rich and who is poor. No doubt there are some enormously wealthy men in England whose means everybody has heard of, and has no doubt of. But these are not the men to incur the vast liabilities of private banking. If they were bred in it they might stay in it; but they would never begin it for themselves. And if they did, I expect people would begin to doubt even of their wealth. It would be said, “What does A B go into banking for? he cannot be as rich as we thought”. A millionaire commonly shrinks from liability, and the essence of great banking is great liability. No doubt there are many “second-rate” rich men, as we now count riches, who would be quite ready to add to their income the profit of a private bank if only they could manage it. But unluckily they cannot manage it. Their wealth is not sufficiently familiar to the world; they cannot obtain the necessary confidence. No new private bank is founded in England because men of first-rate wealth will not found one, and men not of absolutely first-rate wealth cannot.

In the present day, also, private banking is exposed to a competition against which in its origin it had not to struggle. Owing to the changes of which I have before spoken, joint stock banking has begun to compete with it. In old times this was impossible; the Bank of England had a monopoly in banking of the principle of association. But now large joint stock banks of deposit are among the most conspicuous banks in Lombard Street. They have a large paid-up capital and intelligible published accounts; they use these as an incessant advertisement, in a manner in which no individual can use his own wealth. By their increasing progress they effectually prevent the foundation of any new private bank.

The amount of the present business of private banks is perfectly unknown. Their balance sheets are effective secrets—rigidly guarded.[1] But none of them, except a few of the largest, are believed at all to gain business. The common repute of Lombard Street might be wrong in a particular case, but upon the general doctrine it is almost sure to be right. There are a few well-known exceptions, but according to universal belief the deposits of most private bankers in London tend rather to diminish than to increase.

As to the smaller banks, this naturally would be so. A large bank always tends to become larger, and a small one tends to become smaller. People naturally choose for their banker the banker who has most present credit, and the one who has most money in hand is the one who possesses such credit. This is what is meant by saying that a long-established and rich bank has a “privileged opportunity”; it is in a better position to do its business than any one else is; it has a great advantage over old competitors and an overwhelming superiority over new-comers. New people coming into Lombard Street judge by results; they give to those who have; they take their money to the biggest bank because it is the biggest. I confess I cannot, looking far forward into the future, expect that the smaller private banks will maintain their ground.1 Their old connections will not leave them; there will be no fatal ruin, no sudden mortality. But the tide will gently ebb, and the course of business will be carried elsewhere.

Sooner or later, appearances indicate, and principle suggests, that the business of Lombard Street will be divided between the joint stock banks and a few large private banks. And then we have to ask ourselves the question, Can those large private banks be permanent? I am sure I should be very sorry to say that they certainly cannot, but at the same time I cannot be blind to the grave difficulties which they must surmount.

In the first place, an hereditary business of great magnitude is dangerous. The management of such a business needs more than common industry and more than common ability. But there is no security at all that these will be regularly continued in each generation. The case of Overend, Gurney, & Co., the model instance of all evil in business, is a most alarming example of this evil. No cleverer men of business probably (cleverer I mean for the purposes of their particular calling) could well be found than the founders and first managers of that house. But in a very few years the rule in it passed to a generation whose folly surpassed the usual limit of imaginable incapacity. In a short time they substituted ruin for prosperity, and changed opulence into insolvency. Such great folly is happily rare; and the business of a bank is not nearly as difficult as the business of a discount company. Still much folly is common, and the business of a great bank requires a great deal of ability, and an even rarer degree of trained and sober judgment. That which happened so marvellously in the green tree may happen also in the dry. A great private bank might easily become very rotten by a change from discretion to foolishness in those who conduct it.

We have had as yet in London, happily, no example of this; indeed, we have hardly as yet had the opportunity. Till now private banks have been small; small as we now reckon banks. For their exigencies a moderate degree of ability and an anxious caution will suffice. But if the size of the banks is augmented and greater ability is required, the constant difficulty of an hereditary government will begin to be felt. “The father had great brains and created the business: but the son had less brains and lost or lessened it.” This is the history of all great monarchies, and it may be the history of great private banks. The peculiarity in the case of Overend, Gurney, & Co.—at least, one peculiarity—is that the evil was soon discovered. The richest partners had least concern in the management; and when they found that incredible losses were ruining them, they stopped the concern and turned it into a company. But they had done nothing; if at least they had prevented further losses, the firm might have been in existence and in the highest credit now. It was the publicity of their losses which ruined them. But if they had continued to be a private partnership they need not have disclosed those losses: they might have written them off quietly out of the immense profits they could have accumulated. They had some ten millions of other people’s money in their hands which no one thought of disturbing. The perturbation through the country which their failure caused in the end shows how diffused and how unimpaired their popular reputation was. No one in the rural districts (as I know by experience) would ever believe a word against them, say what you might. The catastrophe came because at the change the partners in the old private firm—the Gurney family especially—had guaranteed the new company against the previous losses: those losses turned out to be much greater than was expected. To pay what was necessary the “Gurneys” had to sell their estates, and their visible ruin destroyed the credit of the concern. But if their had been no such guarantee, and no sale of estates—if the great losses had slept a quiet sleep in a hidden ledger—no one would have been alarmed, and the credit and the business of “Overends” might have existed till now, and their name still continued to be one of our first names. The difficulty of propagating a good management by inheritance for generations is greatest in private banks and discount firms because of their essential secrecy.

The danger may indeed be surmounted by the continual infusion of new and able partners. The deterioration of the old blood may be compensated by the excellent quality of the fresh blood. But to this again there is an objection, of little value perhaps in seeming, but of much real influence in practice. The infusion of new partners requires from the old partners a considerable sacrifice of income; the old must give up that which the new receive, and the old will not like this. The effectual remedy is so painful that I fear it often may be postponed too long.

I cannot, therefore, expect with certainty the continuance of our system of private banking. I am sure that the days of small banks will before many years come to an end, and that the difficulties of large private banks are very important. In the meantime it is very important that large private banks should be well managed. And the present state of banking makes this peculiarly difficult. The detail of the business is augmenting with an overwhelming rapidity. More cheques are drawn year by year; not only more absolutely, but more by each person, and more in proportion to his income. The payments in and payments out of a common account are very much more numerous than they formerly were. And this causes an enormous growth of detail. And besides, bankers have of late begun almost a new business. They now not only keep people’s money, but also collect their incomes for them. Many persons live entirely on the income of shares, or debentures, or foreign bonds, which is paid in coupons, and these are handed in for the bank to collect. Often enough the debenture, or the certificate, or the bond is in the custody of the banker, and he is expected to see when the coupon is due, and to cut it off and transmit it for payment. And the detail of all this is incredible, and it needs a special machinery to cope with it.

A large joint stock bank, if well worked, has that machinery. It has at the head of the executive a general manager who was tried in the detail of banking, who is devoted to it, and who is content to live almost wholly in it. He thinks of little else, and ought to think of little else. One of his first duties is to form a hierarchy of inferior officers, whose respective duties are defined, and to see that they can perform and do perform those duties. But a private bank of the type usual in London has no such officer. It is managed by the partners: now these are generally rich men, are seldom able to grapple with great business of detail, and are not disposed to spend their whole lives and devote their entire minds to it if they were able. A person with the accumulated wealth, the education, and the social place of a great London banker would be a fool so to devote himself. He would sacrifice a suitable and a pleasant life for an unpleasant and an unsuitable life. But still the detail must be well done; and some one must be specially chosen to watch it and to preside over it, or it will not be well done. Until now, or until lately, this difficulty has not been fully felt. The detail of the business of a small private bank was moderate enough to be superintended effectually by the partners. But, as has been said, the detail of banking—the proportion of detail to the size of the bank—is everywhere increasing. The size of the private banks will have to augment if private banks are not to cease; and therefore the necessity of a good organisation for detail is urgent. If the bank grows, and simultaneously the detail grows in proportion to the bank, a frightful confusion is near unless care be taken.

The only organisation which I can imagine to be effectual is that which exists in the antagonistic establishments. The great private banks will have, I believe, to appoint in some form or other, and under some name or other, some species of general manager who will watch, contrive, and arrange the detail for them. The precise shape of the organisation is immaterial; each bank may have its own shape, but the *man* must be there. The true business of the private partners in such a bank is much that of the directors in a joint stock bank. They should form a permanent committee to consult with their general manager, to watch him, and to attend to large loans and points of principle. They should not themselves be responsible for detail; if they do, there will be two evils at once: the detail will be done badly, and the minds of those who ought to decide principal things will be distracted from those principal things. There will be a continual worry in the bank, and in a worry bad loans are apt to be made and money is apt to be lost.

A subsidiary advantage of this organisation is that it would render the transition from private banking to joint stock banking easier, if that transition should be necessary. The one might merge in the other as convenience suggested and as events required. There is nothing intrusive in discussing this subject. The organisation of the private is just like that of the joint stock banks; all the public are interested that it should be good. The want of a good organisation may cause the failure of one or more of these banks; and such failure of such banks may intensify a panic, even if it should not cause one.

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Chapter XI.

THE BILL BROKERS.

Under every system of banking, whether that in which the reserve is kept in many banks, or one in which it is kept in a single bank only, there will always be a class of persons who examine more carefully than busy bankers can the nature of different securities; and who, by attending only to one class, come to be particularly well acquainted with that class. And as these specially qualified dealers can for the most part lend much more than their own capital, they will always be ready to borrow largely from bankers and others, and to deposit the securities which they know to be good as a pledge for the loan. They act thus as intermediaries between the borrowing public and the less qualified capitalist; knowing better than the ordinary capitalist which loans are better and which are worse, they borrow from him, and gain a profit by charging to the public more than they pay to him.

Many stock brokers transact such business upon a great scale. They lend large sums on foreign bonds or railway shares or other such securities, and borrow those sums from bankers, depositing the securities with the bankers, and generally, though not always, giving their guarantee. But by far the greatest of these intermediate dealers are the bill brokers. Mercantile bills are an exceedingly difficult kind of security to understand. The relative credit of different merchants is a great "tradition"; it is a large mass of most valuable knowledge which has never been described in books and is probably incapable of being so described. The subject matter of it, too, is shifting and changing daily; an accurate representation of the trustworthiness of houses at the beginning of a year might easily be a most fatal representation at the end of it. In all years there are great changes; some houses rise a good deal and some fall. And in some particular years the changes are immense; in years like 1871 many active men make so much money that at the end of the year they are worthy of altogether greater credit than anyone would have dreamed of giving to them at the beginning. On the other hand, in years like 1866 a contagious ruin destroys the trustworthiness of very many firms and persons, and often, especially, of many who stood highest immediately before. Such years alter altogether an important part of the mercantile world: the final question of bill brokers, "which bills will be paid and which will not? which bills are second-rate and which are first-rate?" would be answered very differently at the beginning of the year and at the end. No one can be a good bill broker who has not learnt the great mercantile tradition of what is called "the standing of parties," and who does not watch personally and incessantly the inevitable changes which from hour to hour impair the truth of that tradition. The "credit" of a person—that is, the reliance which may be placed on his pecuniary fidelity—is a different thing from his property. No doubt, other things being equal, a rich man is more likely to pay than a poor man. But on the other hand, there are many men not of much wealth who are trusted in the market, "as a matter of business," for sums much exceeding the wealth of those who are many times richer. A firm or a person who have been long known to "meet their engagements" inspire a degree of confidence not dependent on the quantity of his or their property. Persons who buy to sell again soon are often liable for amounts altogether much greater than their own capital; and the power of obtaining those sums depends upon their "respectability," their "standing," and their "credit," as the technical terms express it, and more simply upon the *opinion* which those who deal with them have formed of them. The principal mode in which money is raised by traders is by "bills of exchange"; the estimated certainty of their paying those bills on the day they fall due is the measure of their credit; and those who estimate that liability best, the only persons indeed who can estimate it exceedingly well, are the bill brokers. And these dealers, taking advantage of their peculiar knowledge, borrow immense sums from bankers and others; they generally deposit the bills as a security; and they generally give their own guarantee of the goodness of the bill: but neither of such practices indeed is essential, though both are the ordinary rule. When Overends failed, as I have said before, they had borrowed in this way very largely. There are others now in the trade who have borrowed quite as much.

As is usually the case, this kind of business has grown up only gradually. In the year 1810 there was no such business precisely answering to what we now call bill broking in London. Mr. Richardson, the principal "bill broker" of the time, as the term was then understood, thus described his business to the "Bullion Committee":—

"What is the nature of the agency for country banks?—It is twofold: in the first place, to procure money for country bankers on bills when they have occasion to borrow on discount, which is not often the case; and, in the next place, to lend the money for the country bankers on bills on discount. The sums of money which I lend for country bankers on discount are fifty times more than the sums borrowed for country bankers.

"Do you send London bills into the country for discount?—Yes.

"Do you receive bills from the country upon London in return, at a date, to be discounted?—Yes, to a very considerable amount, from particular parts of the country.

"Are not both sets of bills by this means under discount?—No, the bills received from one part of the country are sent down to another part for discount.

"And they are not discounted in London?—No. In some parts of the country there is but little circulation of bills drawn upon London, as in Norfolk, Suffolk, Essex, Sussex, etc.; but there is there a considerable circulation in country bank-notes, principally optional notes. In Lancashire there is little or no circulation of country bank-notes; but there is a great circulation of bills drawn upon London at two or three months' date. I receive bills to a considerable amount from Lancashire in particular, and remit them to Norfolk, Suffolk, etc., where the bankers have large lodgments, and much surplus money to advance on bills for discount."

Mr. Richardson was only a broker who found money for bills and bills for money. He is further asked:—

"Do you guarantee the bills you discount, and what is your charge per cent.?—No, we do not guarantee them; our charge is one-eighth per cent. brokerage upon the bill discounted—but we make no charge to the lender of the money.

"Do you consider that brokerage as a compensation for the skill which you exercise in selecting the bills which you thus get discounted?—Yes, for selecting of the bills, writing letters, and other trouble.

"Does the party who furnishes the money give you any kind of compensation?—None at all.

"Does he not consider you as his agent, and in some degree responsible for the safety of the bills which you give him?—Not at all.

"Does he not prefer you on the score of his judging that you will give him good intelligence upon that subject?—Yes, he relies upon us.

"Do you then exercise a discretion as to the probable safety of the bills?—Yes; if a bill comes to us which we conceive not to be safe, we return it.

"Do you not then conceive yourselves to depend in a great measure for the quantity of business which you can perform on the favour of the party lending the money?—Yes, very much so. If we manage our business well, we retain our friends; if we do not, we lose them."

It was natural enough that the owners of the money should not pay, though the owner of the bill did, for in almost all ages the borrower has been a seeker more or less anxious; he has always been ready to pay for those who will find him the money he is in search of. But the possessor of money has rarely been willing to pay anything; he has usually and rightly believed that the borrower would discover him soon.

Notwithstanding other changes, the distribution of the customers of the bill brokers in different parts of the country still remains much as Mr. Richardson described it sixty years ago. For the most part, agricultural counties do not employ as much money as they save; manufacturing counties, on the other hand, can employ much more than they save; and therefore the money of Norfolk or of Somersetshire is deposited with the London bill brokers, who use it to discount the bills of Lancashire and Yorkshire.

The old practice of bill broking, which Mr. Richardson describes, also still exists. There are many brokers to be seen about Lombard Street with bills which they wish to discount but which they do not guarantee. They have sometimes discounted these bills with their own capital, and if they can re-discount them at a slightly lower rate they gain a difference which at first seems but trifling, but with which they are quite content, because this system of lending first and borrowing again immediately enables them to turn their capital very frequently, and on a few thousand pounds of capital to discount hundreds of thousands of bills; as the transactions are so many, they can be content with a smaller profit on each. In other cases, these non-guaranteeing brokers are only agents who are seeking money for bills which they have undertaken to get discounted. But in either case, as far as the banker or other ultimate capitalist is concerned, the transaction is essentially that which Mr. Richardson describes. The loan by such banker is a re-discount of the bill; that banker cannot obtain repayment of that loan, except by the payment of the bill at maturity. He has no claim upon the agent who brought him the bill. Bill broking, in this which we may call its archaic form, is simply one of the modes in which bankers obtain bills which are acceptable to them and which they re-discount. No reference is made in it to the credit of the bill broker; the bills being discounted "without recourse" to him are as good if taken from a pauper as if taken from a millionaire. The lender exercises his own judgment on the goodness of the bill.

But in modern bill broking the credit of the bill broker is a vital element. The lender considers that the bill broker—no matter whether an individual, a company, or a firm—has considerable wealth, and he takes the "bills," relying that the broker would not venture that wealth by guaranteeing them unless he thought them good. The lender thinks, too, that the bill broker being daily conversant with bills and bills only, knows probably all about bills: he lends partly in reliance on the wealth of the broker and partly in reliance on his skill. He does not exercise much judgment of his own on the bills deposited with him: he often does not watch them very closely. Probably not one-thousandth part of the creditors on security of Overend, Gurney, & Co. had ever expected to have to rely on that security, or had ever given much real attention to it. Sometimes, indeed, the confidence in the bill brokers goes farther. A considerable number of persons lend to them, not only without much looking at the security but even without taking any security. This is the exact reverse of the practice which Mr. Richardson described in 1810: then the lender relied wholly on the goodness of the bill; now, in these particular cases, he relies solely on the bill broker, and does not take a bill in any shape. Nothing can be more natural or more inevitable than this change. It was certain that the bill broker, being supposed to understand bills well, would be asked by the lenders to evince his reliance on the bills he offered by giving a guarantee for them. It was also most natural that the bill brokers, having by the constant practice of this lucrative trade obtained high standing and acquired great wealth, should become, more or less, bankers too, and should receive money on deposit without giving any security for it.

But the effects of the change have been very remarkable. In the practice as Mr. Richardson described it, there is no peculiarity very likely to affect the Money Market. The bill broker brought bills to the banker, just as others brought them; nothing at all could be said as to it except that the bank must not discount bad bills, must not discount too many bills, and must keep a good reserve. But the modern practice introduces more complex considerations. In the trade of bill broking, as it now exists, there is one great difficulty: the bill broker has to pay interest for all the money which he receives. How this arose we have just seen. The present lender to the bill broker at first always used to discount a bill, which is as much as saying that he was always a lender at interest. When he came to take the guarantee of the broker, and only to look at the bills as a collateral security, naturally he did not forgo his interest: still less did he forgo it when he ceased to take security at all. The bill broker has, in one shape or other, to pay interest on every sixpence left with him, and that constant habit of giving interest has this grave consequence—the bill broker cannot afford to keep much money unemployed. He has become a banker owing large sums which he may be called on to repay, but he cannot hold as much as an ordinary banker, or nearly as much, of such sums in cash, because the loss of interest would ruin him. Competition reduces the rate which the bill broker can charge, and raises the rate which the bill broker must give, so that he has to live on a difference exceedingly narrow. And if he constantly kept a large hoard of barren money he would soon be found in the "Gazette".

The difficulty is aggravated by the terms upon which a great part of the money at the bill brokers' is deposited with them. Very much of it is repayable at demand, or at very short notice. The demands on a broker in periods of alarm may consequently be very great, and in practice they often are so. In times of panic there is always a very heavy call, if not a run upon them; and as in consequence of the essential nature of their business, they cannot constantly keep a large unemployed reserve of their own in actual cash, they are obliged to ask help of some one who possesses that cash. By the conditions of his trade, the bill broker is forced to belong to a class of "dependent money dealers," as we may term them, that is, of dealers who do not keep their own reserve, and must therefore at every crisis of great difficulty revert to others.

In a natural state of banking, that in which all the principal banks kept their own reserve, this demand of the bill brokers and other dependent dealers would be one of the principal calls on that reserve. At every period of incipient panic the holders of it would perceive that it was of great importance to themselves to support these dependent dealers. If the panic destroyed those dealers it would grow by what it fed upon (as is its nature), and might probably destroy also the bankers, the holders of the reserve. The public terror at such times is indiscriminate. When one house of good credit has perished, other houses of equal credit though of different nature are in danger of perishing. The many holders of the banking reserve would under the natural system of banking be obliged to advance out of that reserve to uphold bill brokers and similar dealers. It would be essential to their own preservation not to let such dealers fail, and the protection of such dealers would therefore be reckoned among the necessary purposes for which they retained that reserve.

Nor probably would the demands on the bill brokers in such a system of banking be exceedingly formidable. Considerable sums would no doubt be drawn from them, but there would be no special reason why money should be demanded from them more than from any other money dealers. They would share the panic with the bankers who kept the reserve, but they would not feel it more than the bankers. In each crisis the set of the storm would be determined by the cause which had excited it, but there would not be anything in the nature of bill broking to attract the advance of the alarm peculiarly to them. They would not be more likely to suffer than other persons; the only difference would be that when they did suffer, having no adequate reserve of their own, they would be obliged to ask the aid of others.

But under a *one*-reserve system of banking, the position of the bill brokers is much more singular and much more precarious. In fact, in Lombard Street, the principal depositors of the bill brokers are the bankers, whether of London, or of provincial England, or of Scotland, or Ireland. Such deposits are, in fact, a portion of the reserve of these bankers; they make an essential part of the sums which they have provided and laid by against a panic. Accordingly, in every panic these sums are sure to be called in from the bill brokers; they were wanted to be used by their owners in time of panic, and in time of panic they ask for them. "Perhaps it may be interesting," said Alderman Salomons, speaking on behalf of the London and Westminster Bank, after the panic of 1857, to the committee, "to know that, on November 11, we held discounted bills for brokers to the amount of £5,623,000. Out of these bills £2,800,000 matured between November 11 and December 4; £2,000,000 more between December 11 and December 31; consequently we were prepared merely by the maturing of our bills of exchange for any demand that might come upon us." This is not indeed a direct withdrawal of money on deposit, but its principal effect is identical. At the beginning of the time the London and Westminster Bank had lent £5,000,000 more to the bill brokers than they had at the end of it; and that £5,000,000 the bank had added to its reserve against a time of difficulty.

The intensity of the demand on the bill brokers is aggravated therefore by our peculiar system of banking. Just at the moment when, by the nature of their business, they have to resort to the reserves of bankers for necessary support, the bankers remove from them large sums in order to strengthen those reserves. A great additional strain is thrown upon them just at the moment when they are least able to bear it; and it is thrown by those who under a natural system of banking would not aggravate the pressure on the bill brokers, but relieve it.

And the profits of bill broking are proportionably raised. The reserves of the bankers so deposited with the bill broker form a most profitable part of his business; they are on the whole of very large amount, and at all times, except those of panic, may well be depended upon. The bankers are pretty sure to keep them there, just because they must keep a reserve, and they consider it one of the best places in which to keep it. Under a more natural system, no part of the banking reserve would ever be lodged at the brokers'. Bankers would deposit with the brokers only their extra money, the money which they considered they could safely lend, and which they would not require during a panic. In the eye of the banker, money at the brokers' would then be one of the investments of cash, it would not be a part of such cash. The deposits of bill brokers and the profits of bill broking are increased by our present system, just in proportion as the dangers of bill brokers during a panic are increased by it.

The strain, too, on our banking reserve which is caused by the demands of the bill brokers, is also more dangerous than it would be under a natural system, because that reserve is in itself less. The system of keeping the entire ultimate reserve at a single bank, undoubtedly diminishes the amount of reserve which is kept. And exactly on that very account the danger of any particular demand on that reserve is augmented, because the magnitude of the fund upon which that demand falls is diminished. So that our one-reserve system of banking combines two evils: first, it makes the demand of the brokers upon the final reserve greater, because under it so many bankers remove so much money from the brokers; and under it also the final reserve is reduced to its minimum point, and the entire system of credit is made more delicate, and more sensitive.

The peculiarity, indeed, of the effects of the one reserve is even greater in this respect. Under the natural system, the bill brokers would be in no respect the rivals of the bankers which kept the ultimate reserve. They would be rather the agents for these bankers in lending upon certain securities which they did not themselves like, or on which they did not feel competent to lend safely. The bankers who in time of panic had to help them would in ordinary times derive much advantage from them. But under our present system all this is reversed. The Bank of England never deposits any money with the bill brokers; in ordinary times it never derives any advantage from them. On the other hand, as the Bank carries on itself a large discount business, as it considers that it is itself competent to lend on all kinds of bills, the bill brokers are its most formidable rivals. As they constantly give high rates for money it is necessary that they should undersell the Bank, and in ordinary times they do undersell it. But as the Bank of England alone keeps the final banking reserve, the bill brokers of necessity have to resort to that final reserve; so that at every panic, and by the essential constitution of the Money Market, the Bank of England has to help, has to maintain in existence, the dealers, who never in return help the Bank at any time, but who are in ordinary times its closest competitors and its keenest rivals.

It might be expected that such a state of things would cause much discontent at the Bank of England, and in matter of fact there has been much discussion about it, and much objection taken to it. After the panic of 1857, this was so especially. During that panic, the Bank of England advanced to the bill brokers more than £9,000,000, though their advances to bankers, whether London or country, were only £8,000,000; and, not unnaturally, the Bank thought it unreasonable that so large an inroad upon their resources should be made by their rivals. In consequence, in 1858 they made a rule that they would only advance to the bill brokers at certain seasons of the year, when the public money is particularly large at the Bank, and that at other times any application for an advance should be considered exceptional, and dealt with accordingly. And the object of that regulation was officially stated to be “to make them keep their own reserve, and not to be dependent on the Bank of England”. As might be supposed, this rule was exceedingly unpopular with the brokers, and the greatest of them, Overend, Gurney, & Co., resolved on a strange policy in the hope of abolishing it. They thought they could frighten the Bank of England, and could show that if they were dependent on it, it was also dependent on them. They accordingly accumulated a large deposit at the Bank to the amount of £3,000,000, and then withdrew it all at once. But this policy had no effect, except that of exciting a distrust of “Overends”: the credit of the Bank of England was not diminished; Overends had to return the money in a few days, and had the dissatisfaction of feeling that they had in vain attempted to assail the solid basis of every one’s credit, and that every one disliked them for doing so. But though this ill-conceived attempt failed as it deserved, the rule itself could not be maintained. The Bank does, in fact, at every period of pressure, advance to the bill brokers; the case may be considered “exceptional,” but the advance is always made if the security offered is really good. However much the Bank may dislike to aid their rivals, yet they must aid them; at a crisis they feel that they would only be aggravating incipient demand, and be augmenting the probable pressure on themselves, if they refused to do so.

I shall be asked if this anomaly is inevitable, and I am afraid that for practical purposes we must consider it to be so. It may be lessened; the bill brokers may, and should, discourage as much as they can the deposit of money with them on demand, and encourage the deposit of it at distant fixed dates or long notice. This will diminish the anomaly, but it will not cure it. Practically, bill brokers cannot refuse to receive money at call. In every market a dealer must conduct his business according to the custom of the market, or he will not be able to conduct it at all. All the bill brokers can do is to offer better rates for more permanent money, and this (though possibly not so much as might be wished) they do at present. In its essence, this anomaly is, I believe, an inevitable part of the system of banking which history has given us, and which we have only to make the best of, since we cannot alter it.

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Chapter XII.

THE PRINCIPLES WHICH SHOULD REGULATE THE AMOUNT OF THE BANKING RESERVE TO BE KEPT BY THE BANK OF ENGLAND.

There is a very common notion that the amount of the reserve which the Bank of England ought to keep can be determined at once from the face of their weekly balance sheet. It is imagined that you have only to take the liabilities of the Banking Department, and that a third or some other fixed proportion will in all cases be the amount of reserve which the Bank should keep against those liabilities. But to this there are several objections, some arising from the general nature of the banking trade, and others from the special position of the Bank of England.

That the amount of the liabilities of a bank is a principal element in determining the proper amount of its reserve is plainly true; but that it is the only element by which that amount is determined is plainly false. The intrinsic nature of these liabilities must be considered, as well as their numerical quantity. For example, no one would say that the same amount of reserve ought to be kept against acceptances which cannot be paid except at a certain day and against deposits at call, which may be demanded at any moment. If a bank groups these liabilities together in the balance sheet, you cannot tell the amount of reserve it ought to keep. The necessary information is not given you.

Nor can you certainly determine the amount of reserve necessary to be kept against deposits unless you know something as to the nature of these deposits. If out of £3,000,000 of money, one depositor has £1,000,000 to his credit, and may draw it out when he pleases, a much larger reserve will be necessary against that liability of £1,000,000 than against the remaining £2,000,000. The *intensity* of the liability, so to say, is much greater; and therefore the provision in store must be much greater also. On the other hand, supposing that this single depositor is one of calculable habits—suppose that it is a public body, the time of whose demands is known, and the time of whose receipts is known also—this single liability requires a less reserve than that of an equal amount of ordinary liabilities. The danger that it will be called for is much less; and therefore the security taken against it may be much less too. Unless the quality of the liabilities is considered as well as their quantity, the due provision for their payment cannot be determined.

These are general truths as to all banks, and they have a very particular application to the Bank of England. The first application is favourable to the Bank; for it shows the danger of one of the principal liabilities to be much smaller than it seems. The largest account at the Bank of England is that of the English Government; and probably there has never been any account of which it was so easy in time of peace to calculate the course. All the material facts relative to the English revenue, and the English expenditure, are exceedingly well known; and the amount of the coming payments to and from this account are always, except in war times, to be calculated with wonderful accuracy. In war, no doubt, this is all reversed; the account of a Government at war is probably the most uncertain of all accounts, especially of a Government of a scattered empire, like the English, whose places of outlay in time of war are so many and so distant and the amount of whose payments is therefore so incalculable. Ordinarily, however, there is no account of which the course can be so easily predicted; and therefore no account which needs in ordinary times so little reserve. The principal payments, when they are made, are also of the most satisfactory kind to a banker; they are, to a great extent, made to another account at his bank. These largest ordinary payments of the Government are the dividends on the debt, and these are mostly made to bankers who act as agents for the creditors of the nation. The payment of the dividends for the Government is, therefore, in great part a transfer from the account of the Government to the accounts of the various bankers. A certain amount no doubt goes almost at once to the nonbanking classes; to those who keep coin and notes in house, and have no account at any bank. But even this amount is calculable, for it is always nearly the same. And the entire operation is, to those who can watch it, singularly invariable time after time.

But it is important to observe, that the published accounts of the Bank give no such information to the public as will enable them to make their own calculations. The account of which we have been speaking is the yearly account of the English Government—what we may call the Budget account, that of revenue and expenditure. And the laws of this are, as we have shown, already known. But under the head "Public Deposits" in the accounts of the Bank, are contained also other accounts, and particularly that of the Secretary for India in Council, the laws of which must be different and are quite unknown. The Secretary for India is a large lender on its account. If anyone proposed to give such power to the Chancellor of the Exchequer, there would be great fear and outcry. But so much depends on habit and tradition, that the India Office on one side of Downing Street can do without remark, and with universal assent, what it would be thought "unsound" and extravagant to propose that the other side should do. The present India Office inherits this independence from the old Board of the Company, which, being mercantile and business-like, used to lend its own money on the Stock Exchange as it pleased; the Council of India, its successor, retains the power. Nothing can be better than that it should be allowed to do as it likes; but the mixing up the account of a body which has such a power, and which draws money from India, with that of the Home Government clearly prevents the general public from being able to draw inferences as to the course of the combined account from its knowledge of home finance only. The account of "public deposits" in the Bank return includes other accounts too, as the Savings Bank balance, the Chancery Funds account, and others; and in consequence, till lately the public had but little knowledge of the real changes of the account of our Government, properly so called. But Mr. Lowe has lately given us a weekly account, and from this, and not from the Bank account, we are able to form a judgment. This account and the return of the Bank of England, it is true, unhappily appear on different days; but except for that accident our knowledge would be perfect; and as it is, for almost all purposes what we know is reasonably sufficient. We can now calculate the course of the Government account nearly as well as it is possible to calculate it.

So far, as we have said, an analysis of the return of the Bank of England is very favourable to the Bank. So great a reserve need not usually be kept against the Government account as if it were a common account. We know the laws of its changes peculiarly well: we can tell when its principal changes will happen with great accuracy; and we know that at such changes most of what is paid away by the Government is only paid to other depositors at the Bank, and that it will really stay at the Bank, though under another name. If we look to the private deposits of the Bank of England, at first sight we may think that the result is the same. By far the most important of these are the "Bankers' deposits"; and, for the most part, these deposits as a whole are likely to vary very little. Each banker, we will suppose, keeps as little as he can, but in all domestic transactions payment from one is really payment to the other. All the most important transactions in the country are settled by cheques; these cheques are paid in to the Clearing House, and the balances resulting from them are settled by transfers from the account of one banker to another at the Bank of England. Payments out of the bankers' balances, therefore, correspond with payments in. As a whole, the deposit of the bankers' balances at the Bank of England would at first sight seem to be a deposit singularly stable.

Indeed, they would seem, so to say, to be better than stable. They augment when everything else tends to diminish. At a panic, when all other deposits are likely to be taken away, the bankers' deposits augment; in fact they did so in 1866, though we do not know the particulars; and it is natural that they should so increase. At such moments all bankers are extremely anxious, and they try to strengthen themselves by every means in their power; they try to have as much money as it is possible at command; they augment their reserve as much as they can, and they place that reserve at the Bank of England. A deposit which is not likely to vary in ordinary times, and which is likely to augment in times of danger, seems, in some sort, the model of a deposit. It might seem not only that a large proportion of it might be lent, but that the whole of it might be so. But a further analysis will, as I believe, show that this conclusion is entirely false; that the bankers' deposits are a singularly treacherous form of liability; that the utmost caution ought to be used in dealing with them; that, as a rule, a less proportion of them ought to be lent than of ordinary deposits.

The easiest mode of explaining anything is, usually, to exemplify it by a single actual case. And in this subject, fortunately, there is a most conspicuous case near at hand. The German Government has lately taken large sums in bullion from this country, in part from the Bank of England, and in part not, according as it chose. It was in the main well advised, and considerate in its action; and did not take nearly as much from the Bank as it might, or as would have been dangerous. Still it took large sums from the Bank; and it might easily have taken more. How then did the German Government obtain this vast power over the Bank? The answer is, that it obtained it by means of the bankers' balances, and that it did so in two ways.

First, the German Government had a large balance of its own lying at a particular joint stock bank. That bank lent this balance, at its own discretion, to bill brokers or others, and it formed a single item in the general funds of the London market. There was nothing special about it, except that it belonged to a foreign Government, and that its owner was always likely to call it in, and sometimes did so. As long as it stayed unlent in the London joint stock bank, it increased the balances of that bank at the Bank of England; but so soon as it was lent, say, to a bill broker, it increased the bill broker's balance; and as soon as it was employed by the bill broker in the discount of bills, the owners of those bills paid it to their credit at their separate banks, and it augmented the balances of those bankers at the Bank of England. Of course if it were employed in the discount of bills belonging to foreigners, the money might be taken abroad, and by similar operations it might also be transferred to the English provinces or to Scotland. But, as a rule, such money when deposited in London, for a considerable time remains in London; and so long as it does so, it swells the aggregate balances of the body of bankers at the Bank of England. It is now in the balance of one bank, now of another, but it is always dispersed about those balances somewhere. The evident consequence is that this part of the banker's balances is at the mercy of the German Government when it chooses to apply for it. Supposing, then, the sum to be three or four millions—and I believe that on more than one occasion in the last year or two it has been quite as much, if not more—that sum might at once be withdrawn from the Bank of England. In this case the Bank of England is in the position of a banker who is liable for a large amount to a single customer, but with this addition, that it is liable for an *unknown* amount. The German Government, as is well known, keeps its account (and a very valuable one it must be) at the London joint stock bank;[1] but the Bank of England has no access to the account of the German Government at that bank; they cannot tell how much German money is lying to the credit there. Nor can the Bank of England infer much from the balance of the London joint stock bank in their Bank, for the German money was probably paid in various sums to that bank, and lent out again in other various sums. It might to some extent augment that bank's balance at the Bank of England, or it might not, but it certainly would not be so much added to that balance; an inspection of that bank's balance would not enable the Bank of England to determine even in the vaguest manner what the entire sum was for which it might be asked at any moment. Nor would the inspection of the bankers' balances as a whole lead to any certain and sure conclusions. Something might be inferred from them, but not anything certain. Those balances are no doubt in a state of constant fluctuation; and very possibly during the time that the German money was coming in some other might be going out. Any sudden increase in the bankers' balances would be a probable indication of new foreign money, but new foreign money might come in without causing an increase, since some other and contemporaneous cause might effect a counteracting decrease.

This is the first, and the plainest way in which the German Government could take, and did take, money from this country; and in which it might have broken the Bank of England if it had liked. The German Government had money here and took it away, which is very easy to understand. But the Government also possessed a far greater power, of a somewhat more complex kind. It was the owner of many debts from England. A large part of the "indemnity" was paid by France to Germany in bills on England, and the German Government, as those bills became due, acquired an unprecedented command over the market. As each bill arrived at maturity, the German Government could, if it chose, take the proceeds abroad; and it could do so in bullion, as for coinage purposes it wanted bullion. This would at first naturally cause a reduction in the bankers' balances; at least that would be its tendency. Supposing the German Government to hold bill A, a good bill, the banker at whose bank bill A was payable would have to pay it; and that would reduce *his* balance; and as the sum so paid would go to Germany, it would not appear to the credit of any other banker: the aggregate of the bankers' balances would thus be reduced. But this reduction would not be permanent. A banker who has to pay £100,000 cannot afford to reduce his balance at the Bank of England £100,000; suppose that his liabilities are £2,000,000, and that as a rule he finds it necessary to keep at the Bank one-tenth of these liabilities, or £200,000, the payment of £100,000, would reduce his reserve to £100,000; but his liabilities would be still £1,900,000, and therefore to keep up his tenth he would have £90,000 to find. His process for finding it is this: he calls in, say, a loan to the bill brokers; and if no equal additional money is contemporaneously carried to these brokers (which in the case of a large withdrawal of foreign money is not probable), they must reduce their business and discount less. But the effect of this is to throw additional business on the Bank of England. They hold the ultimate reserve of the country, and they must discount out of it if no one else will: if they declined to do so there would be panic and collapse. As soon, therefore, as the withdrawal of the German money reduces the bankers' balances, there is a new demand on the Bank for fresh discounts to make up those balances. The drain on the Bank is twofold: first, the banking reserve is reduced by exportation of the German money, which reduces the means of the Bank of England; and then out of those reduced means the Bank of England has to make greater advances.

The same result may be arrived at more easily. Supposing any foreign Government or person to have any sort of securities which he can pledge in the market, that operation gives it, or him, a credit on some banker, and enables it, or him, to take money from the banking reserve at the Bank of England, and from the bankers' balances; and to replace the bankers' balances at their inevitable minimum, the Bank of England must lend. Every sudden demand on the country causes, in proportion to its magnitude, this peculiar effect. And this is the reason why the Bank of England ought, I think, to deal most cautiously and delicately with their banking deposits. They are the symbol of an indefinite liability: by means of them, as we see, an amount of money so great that it is impossible to assign a limit to it might be abstracted from the Bank of England. As the Bank of England lends money to keep up the bankers' balances at their usual amount, and as by means of that usual amount whatever sum foreigners can get credit for may be taken from us, it is not possible to assign a superior limit (to use the scientific word) to the demands which by means of the bankers' balances may be made upon the Bank of England.

The result comes round to the simple point, on which this book is a commentary: the Bank of England, by the effect of a long history, holds the ultimate cash reserve of the country; whatever cash the country has to pay comes out of that reserve, and therefore the Bank of England has to pay it. And it is as the bankers' bank that the Bank of England has to pay it, for it is by being so that it becomes the keeper of the final cash reserve.

Some persons have been so much impressed with such considerations as these, that they have contended that the Bank of England ought never to lend the "bankers' balances" at all; that they ought to keep them intact, and as an unused deposit. I am not sure, indeed, that I have seen that extreme form of the opinion in print, but I have often heard it in Lombard Street from persons very influential and very qualified to judge; even in print I have seen close approximations to it. But I am satisfied that the laying down such a "hard and fast" rule would be very dangerous; in very important and very changeable business rigid rules are apt to be often dangerous. In a panic, as has been said, the bankers' balances greatly augment. It is true the Bank of England has to lend the money by which they are filled. The banker calls in his money from the bill broker, ceases to re-discount for that broker, or borrows on securities, or sells securities; and in one or other of these ways he causes a new demand for money which can only at such times be met from the Bank of England. Every one else is in want too. But without inquiring into the origin of the increase at panics, the amount of the bankers' deposits in fact increases very rapidly; an immense amount of unused money is at such moments often poured by them into the Bank of England. And nothing can more surely aggravate the panic than to forbid the Bank of England to lend that money. Just when money is most scarce you happen to have an unusually large fund of this particular species of money, and you should lend it as fast as you can at such moments, for it is ready lending which cures panics, and non-lending or niggardly lending which aggravates them.

At other times, particularly at the quarterly payment of the dividends, an absolute rule which laid down that the bankers' balances were never to be lent, would be productive of great inconvenience. A large sum is just then paid from the Government balance to the bankers' balances, and if you permitted the Bank to lend it while it was still in the hands of the Government, but forbade them to lend it when it came into the hands of the bankers, a great tilt upwards in the value of money would be the consequence, for a most important amount of it would suddenly have become ineffective.

But the idea that the bankers' balances ought never to be lent is only a natural aggravation of the truth that these balances ought to be used with extreme caution; that as they entail a liability peculiarly great and singularly difficult to foresee, they ought never to be used like a common deposit.

It follows from what has been said that there are always possible and very heavy demands on the Bank of England which are not shown in the account of the Banking Department at all: these demands may be greatest when the liabilities shown by that account are smallest, and lowest when those liabilities are largest. If, for example, the German Government brings bills or other good securities to this market, obtains money with them, and removes that money from the market in bullion, that money may, if the German Government choose, be taken wholly from the Bank of England. If the wants of the German Government be urgent, and if the amount of gold "arrivals"—that is, the gold coming here from the mining countries—be but small, that gold will be taken from the Bank of England, for there is no other large store in the country. The German Government is only a conspicuous example of a foreign power which happens lately to have had an unusual command of good securities, and an unusually continuous wish to use them in England. Any foreign State hereafter which wants cash will be likely to come here for it; so long as the Bank of France should continue not to pay in specie,[1] a foreign State which wants it must of necessity come to London for it. And no indication of the likelihood or unlikelihood of that want can be found in the books of the Bank of England.

What is almost a revolution in the policy of the Bank of England necessarily follows: no certain or fixed proportion of its liabilities can in the present times be laid down as that which the Bank ought to keep in reserve. The old notion that one-third, or any other such fraction, is in all cases enough, must be abandoned. The probable demands upon the Bank are so various in amount, and so little disclosed by the figures of the account, that no simple and easy calculation is a sufficient guide. A definite proportion of the liabilities might often be too small for the reserve, and sometimes too great. The forces of the enemy being variable, those of the defence cannot always be the same.

I admit that this conclusion is very inconvenient. In past times it has been a great aid to the Bank and to the public to be able to decide on the proper policy of the Bank from a mere inspection of its account. In that way the Bank knew easily what to do and the public knew easily what to foresee. But, unhappily, the rule which is most simple is not always the rule which is most to be relied upon. The practical difficulties of life often cannot be met by very simple rules; those dangers being complex and many, the rules for encountering them cannot well be single or simple. A uniform remedy for many diseases often ends by killing the patient.

Another simple rule often laid down for the management of the Bank of England must now be abandoned also. It has been said that the Bank of England should look to the market rate, and make its own rate conform to that. This rule was, indeed, always erroneous. The first duty of the Bank of England was to protect the ultimate cash of the country, and to raise the rate of interest so as to protect it. But this rule was never so erroneous as now, because the number of sudden demands upon that reserve was never formerly so great. The market rate of Lombard Street is not influenced by those demands. That rate is determined by the amount of deposits in the hands of bill brokers and bankers, and the amount of good bills and acceptable securities offered at the moment. The probable efflux of bullion from the Bank scarcely affects it at all; even the real efflux affects it but little; if the open market did not believe that the Bank rate would be altered in consequence of such effluxes the market rate would not rise. If the Bank choose to let its bullion go unheeded, and is seen to be going so to choose, the value of money in Lombard Street will remain unaltered. The more numerous the demands on the Bank for bullion, and the more variable their magnitude, the more dangerous is the rule that the Bank rate of discount should conform to the market rate. In former quiet times the influence, or the partial influence, of that rule has often produced grave disasters. In the present difficult times an adherence to it is a *recipe* for making a large number of panics.

A more distinct view of abstract principle must be taken before we can fix on the amount of the reserve which the Bank of England ought to keep. Why should a bank keep any reserve? Because it may be called on to pay certain liabilities at once and in a moment. Why does any bank publish an account? In order to satisfy the public that it possesses cash—or available securities—enough to meet its liabilities. The object of publishing the account of the Banking Department of the Bank of England is to let the nation see how the national reserve of cash stands, to assure the public that there is enough and more than enough to meet not only all probable calls, but all calls of which there can be a chance of reasonable apprehension. And there is no doubt that the publication of the Bank account gives more stability to the Money Market than any other kind of precaution would give. Some persons, indeed, feared that the opposite results would happen; they feared that the constant publication of the incessant changes in the reserve would terrify and harass the public mind. An old banker once told me: "Sir, I was on Lord Althorp's committee which decided on the publication of the Bank account, and I voted against it. I thought it would frighten people. But I am bound to own that the committee was right and I was wrong, for that publication has given the Money Market a greater sense of security than anything else which has happened in my time." The diffusion of confidence through Lombard Street and the world is the object of the publication of the Bank accounts and of the Bank reserve.

But that object is not attained if the amount of the reserve when so published is not enough to tranquillise people. A panic is sure to be caused if that reserve is, from whatever cause, exceedingly low. At every moment there is a certain minimum, which I will call the "apprehension minimum," below which the reserve cannot fall without great risk of diffused fear; and by this I do not mean absolute panic, but only a vague fright and timorousness which spreads itself instantly, and as if by magic, over the public mind. Such seasons of incipient alarm are exceedingly dangerous, because they beget the calamities they dread. What is most feared at such moments of susceptibility is the destruction of credit; and if any grave failure or bad event happens at such moments, the public fancy seizes on it, there is a general run, and credit is suspended. The Bank reserve then never ought to be diminished below the "apprehension point". And this is as much as to say, that it never ought very closely to approach that point; since, if it gets very near, some accident may easily bring it down to that point and cause the evil that is feared.

There is no "royal road" to the amount of the "apprehension minimum": no abstract argument, and no mathematical computation will teach it to us. And we cannot expect that they should. Credit is an opinion generated by circumstances and varying with those circumstances. The state of credit at any particular time is a matter of fact only to be ascertained like other matters of fact; it can only be known by trial and inquiry. And in the same way, nothing but experience can tell us what amount of "reserve" will create a diffused confidence; on such a subject there is no way of arriving at a just conclusion except by incessantly watching the public mind, and seeing at each juncture how it is affected.

Of course in such a matter the cardinal rule to be observed is, that errors of excess are innocuous, but errors of defect are destructive. Too much reserve only means a small loss of profit, but too small a reserve may mean "ruin". Credit may be at once shaken, and if some terrifying accident happen to supervene, there may be a run on the Banking Department that may be too much for it, as in 1857 and 1866, and may make it unable to pay its way without assistance—as it was in those years.

And the observance of this maxim is the more necessary because the "apprehension minimum" is not always the same. On the contrary, in times when the public has recently seen the Bank of England exposed to remarkable demands, it is likely to expect that such demands may come again. Conspicuous and recent events educate it, so to speak; it expects that much will be demanded when much has of late often been demanded, and that little will be so, when in general but little has been so. A bank like the Bank of England must always, therefore, be on the watch for a rise, if I may so express it, in the apprehension minimum; it must provide an adequate fund not only to allay the misgivings of to-day, but also to allay what may be the still greater misgivings of to-morrow. And the only practical mode of obtaining this object is to keep the actual reserve always in advance of the *minimum* "apprehension" reserve.

And this involves something much more. As the actual reserve is never to be less, and is always, if possible, to exceed by a reasonable amount the minimum "apprehension" reserve, it must when the Bank is quiet and taking no precautions very considerably exceed that minimum. All the precautions of the Bank take time to operate. The principal precaution is a rise in the rate of discount, and such a rise certainly does attract money from the Continent and from all the world much faster than could have been anticipated. But it does not act instantaneously; even the right rate, the ultimately attractive rate, requires an interval for its action, and before the money can come here. And the right rate is often not discovered for some time. It requires several "moves," as the phrase goes, several augmentations of the rate of discount by the Bank, before the really effectual rate is reached, and in the meantime bullion is ebbing away and the "reserve" is diminishing. Unless, therefore, in times when the Bank is taking no precautions the actual reserve exceed the "apprehension minimum" by at least the amount which may be taken away in the inevitable interval, and before the available precautions begin to operate, the rule prescribed will be infringed, and the actual reserve will be less that the "apprehension" *minimum.* In time the precautions taken may attract gold and raise the reserve to the needful amount, but in the interim the evils may happen against which the rule was devised, diffused apprehension may arise, and then any unlucky accident may cause many calamities.

I may be asked, "What does all this reasoning in practice come to? At the present moment how much reserve do you say the Bank of England should keep? state your recommendation clearly" (I know it will be said) "if you wish to have it attended to." And I will answer the question plainly, though in so doing there is a great risk that the principles I advocate may be in some degree injured through some mistake I may make in applying them.

I should say that at the present time the mind of the monetary world would become feverish and fearful if the reserve in the Banking Department of the Bank of England went below £10,000,000. Estimated by the idea of old times, by the idea even of ten years ago, that sum, I know, sounds extremely large. My own nerves were educated to smaller figures, because I was trained in times when the demands on us were less, when neither was so much reserve wanted nor did the public expect so much. But I judge from such observations as I can make of the present state of men's minds, that in fact, and whether justifiably or not, the important and intelligent part of the public which watches the Bank reserve becomes anxious and dissatisfied if that reserve falls below £10,000,000. That sum, therefore, I call the “apprehension minimum” for the present times. Circumstances may change and may make it less or more, but, according to the most careful estimate I can make, that is what I should call it now.[1]

It will be said that this estimate is arbitrary and these figures are conjectures. I reply that I only submit them for the judgment of others. The main question is one of fact—Does not the public mind begin to be anxious and timorous just where I have placed the apprehension point? and the deductions from that are comparatively simple questions of mixed fact and reasoning. The final appeal in such cases necessarily is to those who are conversant with and who closely watch the facts.

I shall perhaps be told also that a body like the Court of the Directors of the Bank of England cannot act on estimates like these: that such a body must have a plain rule and keep to it. I say in reply, that if the correct framing of such estimates is necessary for the good guidance of the Bank, we must make a governing body which can correctly frame such estimates. We must not suffer from a dangerous policy because we have inherited an imperfect form of administration. I have before explained in what manner the government of the Bank of England should, I consider, be strengthened, and that government so strengthened, would, I believe, be altogether competent to a wise policy.

Then I should say, putting the foregoing reasoning into figures, that the Bank ought never to keep less than £11,000,000 or £11,500,000, since experience shows that a million, or a million and a half, may be taken from us at any time. I should regard this as the practical minimum at which, roughly of course, the Bank should aim, and which it should try never to be below. And in order not to be below £11,500,000, the Bank must begin to take precautions when the reserve is between £14,000,000 and £15,000,000; for experience shows that between £2,000,000 and £3,000,000 may, probably enough, be withdrawn from the Bank store before the right rate of interest is found which will attract money from abroad, and before that rate has had time to attract it. When the reserve is between £14,000,000 and £15,000,000, and when it begins to be diminished by foreign demand, the Bank of England should, I think, begin to act, and to raise the rate of interest.

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Chapter XIII.

CONCLUSION.

I know it will be said that in this work I have pointed out a deep malady, and only suggested a superficial remedy. I have tediously insisted that the natural system of banking is that of many banks keeping their own cash reserve, with the penalty of failure before them if they neglect it. I have shown that our system is that of a single bank keeping the whole reserve under no effectual penalty of failure. And yet I propose to retain that system, and only attempt to mend and palliate it.

I can only reply that I propose to retain this system because I am quite sure that it is of no manner of use proposing to alter it. A system of credit which has slowly grown up as years went on, which has suited itself to the course of business, which has forced itself on the habits of men, will not be altered because theorists disapprove of it, or because books are written against it. You might as well, or better, try to alter the English monarchy and substitute a republic, as to alter the present constitution of the English Money Market, founded on the Bank of England, and substitute for it a system in which each bank shall keep its own reserve. There is no force to be found adequate to so vast a reconstruction and so vast a destruction, and therefore it is useless proposing them.

No one who has not long considered the subject can have a notion now much this dependence on the Bank of England is fixed in our national habits. I have given so many illustrations in this book that I fear I must have exhausted my reader's patience, but I will risk giving another. I suppose almost every one thinks that our system of savings banks is sound and good. Almost every one would be surprised to hear that there is any possible objection to it. Yet see what it amounts to. By the last return the savings banks—the old and the Post Office together—contain about £60,000,000 of deposits, and against this they hold in the funds securities of the best kind. But they hold no cash whatever.[1] They have of course the petty cash about the various branches necessary for daily work. But of cash in ultimate reserve—cash in reserve against a panic—the savings banks have not a sixpence. These banks depend on being able in a panic to realise their securities. But it has been shown over and over again that in a panic such securities can only be realised by the help of the Bank of England—that it is only the Bank with the ultimate cash reserve which has at such moments any new money, or any power to lend and act. If in a general panic there were a run on the savings banks, those banks could not sell £100,000 of Consols without the help of the Bank of England; not holding themselves a cash reserve for times of panic, they are entirely dependent on the one Bank which does hold that reserve.

This is only a single additional instance beyond the innumerable ones given, which shows how deeply our system of banking is fixed in our ways of thinking. The Government keeps the money of the poor upon it, and the nation fully approves of their doing so. No one hears a syllable of objection. And every practical man—every man who knows the scene of action—will agree that our system of banking, based on a single reserve in the Bank of England, cannot be altered, or a system of many banks, each keeping its own reserve, be substituted for it. Nothing but a revolution would effect it, and there is nothing to cause a revolution.

This being so, there is nothing for it but to make the best of our banking system, and to work it in the best way that it is capable of. We can only use palliatives, and the point is to get the best palliative we can. I have endeavoured to show why it seems to me that the palliatives which I have suggested are the best that are at our disposal.

I have explained why the French plan will not suit our English world. The direct appointment of the Governor and Deputy-Governor of the Bank of England by the executive Government would not lessen our evils or help our difficulties. I fear it would rather make both worse. But possibly it may be suggested that I ought to explain why the American system, or some modification, would not or might not be suitable to us. The American law says that each national bank shall have a fixed proportion of cash to its liabilities (there are two classes of banks, and two different proportions; but that is not to the present purpose), and it ascertains by inspectors, who inspect at their own times, whether the required amount of cash is in the bank or not. It may be asked, could nothing like this be attempted in England? could not it, or some modification, help us out of our difficulties? As far as the American banking system is one of many reserves, I have said why I think it is of no use considering whether we should adopt it or not. We cannot adopt it if we would. The one-reserve system is fixed upon us. The only practical imitation of the American system would be to enact that the Banking Department of the Bank of England should always keep a fixed proportion—say one-third of its liabilities—in reserve. But, as we have seen before, a fixed proportion of the liabilities, even when that proportion is voluntarily chosen by the directors, and not imposed by law, is not the proper standard for a bank reserve. Liabilities may be imminent or distant, and a fixed rule which imposes the same reserve for both will sometimes err by excess, and sometimes by defect. It will waste profits by over-provision against ordinary danger, and yet it may not always save the bank; for this provision is often likely enough to be insufficient against rare and unusual dangers. But bad as is this system when voluntarily chosen, it becomes far worse when legally and compulsorily imposed. In a sensitive state of the English Money Market the near approach to the legal limit of reserve would be a sure incentive to panic; if one-third were fixed by law, the moment the banks were close to one-third, alarm would begin, and would run like magic. And the fear would be worse because it would not be unfounded—at least, not wholly. If you say that the Bank shall always hold one-third of its liabilities as a reserve, you say in fact that this one-third shall always be useless, for out of it the Bank cannot make advances, cannot give extra help, cannot do what we have seen the holders of the ultimate reserve ought to do and must do. There is no help for us in the American system; its very essence and principle are faulty.

We must therefore, I think, have recourse to feeble and humble palliatives such as I have suggested. With good sense, good judgment, and good care, I have no doubt that they may be enough. But I have written in vain if I require to say now that the problem is delicate, that the solution is varying and difficult, and that the result is inestimable to us all.

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APPENDIX.

NOTE A.

Liabilities And Cash Reserve Of The Chief Banking Systems.

The following is a comparison of the liabilities to the public, and of the cash reserve, of the banking systems of the United Kingdom, France, Germany, and the United States. For the United Kingdom the figures are the most defective, as they only include the deposits of the Bank of England, and of the London joint stock banks, and the banking reserve of the Bank of England, which is the only cash available against these liabilities, is also the only cash reserve against the similar liabilities of the London private banks, the provincial English banks, and the Scotch and Irish banks. In the case of England, therefore, the method of comparison exhibits a larger proportion of cash to liabilities that what really exists.

(1) English Banking.

Liabilities.	£
Deposits of Bank of England, less estimated joint stock bank balances, at 31st December, 1872	29,000,000
Deposits of London joint stock banks at 31st December, 1872 (see *Economist,* 8th February, 1873)	91,000,000
Total liabilities	120,000,000
Reserve of Cash.	£
Banking Reserve in Bank of England	13,500,000

Making proportion of cash reserve to liabilities to the public about 11·2 per cent.

(2) Bank of France (February, 1873).

Liabilities.	£
Circulation	110,000,000
Deposits	15,000,000
Total liabilities	125,000,000
Reserve of Cash.	£
Coin and bullion in hand	32,000,000

Making proportion of cash reserve to liabilities to the public about 25 per cent.

(3) BANKS OF GERMANY (JANUARY, 1873).

Liabilities.	£
Circulation	63,000,000
Deposits	8,000,000
Acceptances and endorsements	17,000,000
Total liabilities	88,000,000
Reserve of Cash.	£
Cash in hand	41,000,000

Making proportion of cash reserve to liabilities to the public about 47 per cent.

(4) NATIONAL BANKS OF UNITED STATES (3rd OCTOBER, 1872).

Liabilities.	£
Circulation	67,000,000
Deposits	145,000,000
Total liabilities	212,000,000
Reserve of Cash.	£
Coin and legal tenders in hand	26,000,000

Making proportion of cash reserve to liabilities to the public about 12·3 per cent.

SUMMARY.

	Liabilities to the public.	Cash held.	Proportion of cash to liabilities per cent.
	£	£	
Bank of England and London joint stock banks}	120,000,000	13,500,000	11·2
Banks of France	125,000,000	32,000,000	25·0
Banks of Germany	88,000,000	41,000,000	47·0
National banks of United States}	212,000,000	26,000,000	12·3

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NOTE B.

Extract From Evidence Given By Mr. Alderman Salomons Before House Of Commons Select Committee In 1858.

1146.*Chairman.*] The effect upon yourselves of the pressure in November was, I presume, to induce you to increase your reserve in your own hands, and also to increase your deposits with the Bank of England?—Yes, that was so; but I wish to tell the Committee that that was done almost entirely by allowing the bills of exchange which we held to mature, and not by raising any money, or curtailing our accommodation to our customers. Perhaps it may be interesting to the Committee to know that on the 11th of November we held discounted bills for brokers to the amount of £5,623,000. Out of those bills, £2,800,000 matured between the 11th of November and the 4th of December, and £2,000,000 more between the 4th of December and the 31st. So that about £5,000,000 of bills matured between the 11th of November and the 31st of December; consequently we were prepared, merely by the maturing of our bills of exchange, for any demands that might possibly come upon us.

1147. I understand you to say that you did not withdraw your usual accommodation from your own customers, but that you ceased to have in deposit with the bill brokers so large a sum of money as you had before?—Not exactly that; the bills which we had discounted were allowed to mature, and we discounted less: we kept a large reserve of cash.

1148. That is to say you withdrew from the commercial world a part of that accommodation which you had previously given, and at the same time you increased your deposits with the Bank of England?—Yes, our deposits with the Bank of England were increased. We did not otherwise withdraw accommodation.

1149. Mr. *Weguelin.*] Had you any money at call with the bill brokers?—A small amount; perhaps about £500,000 or less, which we did not call in.

1150.*Chairman.*] What I understand you to say is, that the effect of the commercial pressure upon you was to induce you upon the whole to withdraw from commerce an amount of accommodation which in other times you had given, and at the same time to increase your deposits with the Bank of England?—So far only as ceasing to discount with strangers, persons not having current accounts with us.

1151. Or to give the same amount to the bill broker?—For a while, instead of discounting for brokers and strangers, we allowed our bills to mature, and remained quiescent with a view to enable us to meet any demand that might be made on ourselves.

1152. Except what you felt bound to your own customers to continue to give, you ceased to make advances?—Quite so; perhaps I might say at the same time, that besides a large balance which we kept at the Bank of England, which of course was as available as in our own tills, we increased our notes in our tills at the head office and at all the branches.

1153. I suppose at that time large sales of public securities were made by the London joint stock banks, which securities were purchased by the public?—It is understood that some joint stock and other banks sold, but I believe it is quite certain that the public purchased largely, because they always purchase when the funds fall.

1154. Are you prepared to give the Committee any opinion of your own as to the effect, one way or the other, which the system of the joint stock banks may have produced with regard to aggravating or diminishing the commercial pressure in the autumn of last year?—I should state, generally, that the joint stock banks, as well as all other banks in London, by collecting money from those who had it to spare, must of necessity have assisted, and could not do otherwise than assist commerce, both then and at all other times.

1155. You say that your discounts, either at your own counter or through the bill brokers, are ordinarily very large, but that at the time of severest pressure you contracted them so far as you thought was just to your own immediate customers?—Yes; but the capital was still there, because it was at the Bank of England, and it was capable of being used for short periods; if we did not want it, others might have used it.

1156. Mr. *Weguelin.*] In fact, it was used by the Bank of England?—Undoubtedly; I should suppose so; there is no question about it.

1157. You, of course, felt quite certain that your deposits in the Bank of England might be had upon demand?—We had no doubt about it.

1158. You did not take into consideration the effect of the law of 1844, which might have placed the Banking Department of the Bank of England in such a position as not to be able to meet the demands of its depositors?—I must say that that never gave us the smallest concern.

1159. You therefore considered that, if the time should arrive, the Government would interfere with some measure as they had previously done to enable the Bank to meet the demands upon it?—We should always have thought that if the Bank of England had stopped payment, all the machinery of Government would have stopped with it, and we never could have believed that so formidable a calamity would have arisen if the Government could have prevented it.

1160.*Chairman.*] The notion of the convertibility of the note being in danger never crossed your mind?—Never for a moment; nothing of the kind.

1161. Mr. *Weguelin.*] I refer not to the convertibility of the note, but to the state of the Banking Department of the Bank of England?—If we had thought that there was any doubt whatever about it, we should have taken the bank-notes and put them in our own strong chest. We could never for a moment believe an event of that kind as likely to happen.

1162. Therefore you think that the measure taken by the Government, of issuing a letter authorising the Bank of England to increase their issues of notes upon securities, was what was generally expected by the commercial world, and what in future the commercial world would look to in such a conjunction of circumstances?—We looked for some measure of that nature. That, no doubt, was the most obvious one. We had great doubts whether it would come when it did, until the very last moment.

1163. Have you ever contemplated the possibility of the Bank refusing to advance, under circumstances similar to those which existed in November 1857, upon good banking securities?—Of course I have, and it is a very difficult question to answer as to what its effect might be; but the notion appears to me to be so thoroughly ingrained in the minds of the commercial world, that whenever you have good security it ought to be convertible at the Bank in some shape or way, that I have very great doubt indeed whether the Bank can ever take a position to refuse to assist persons who have good commercial securities to offer.

1164. Mr. *Cayley*.] When you say that you have come to some fresh arrangement with regard to your allowance of interest upon deposits, do you speak of yourselves as the London and Westminster Bank, or of some of the other banks in combination with yourselves?—I think all the banks have come to an understanding that it is not desirable, either for their proprietors or for the public, to follow closely at all times the alterations of the Bank. I believe it is understood amongst them all that they do not intend following that course in future.

1165. Is that from a feeling that it is rather dangerous under particular circumstances?—I cannot admit as to its being dangerous, but there can be no doubt of this, that there is a notion in the public mind which we ought not to contend against, that when you offer a high rate of interest for money, you rather do it because you want the person's money, than because you are obeying the market rate; and I think it is desirable that we should show that if persons wish to employ their money, and want an excessive rate, they may take it away and employ it themselves.

1166. You think that there is now a general understanding amongst the banks which you have mentioned, to act upon a different principle from that on which they acted during last October and November?—I think I may say that I know that to be the case.

1167. Was not it the fact that this system of giving so high a rate of interest upon money at call commenced very much with the establishment of some banks during the last year or two, which, instead of demanding ten days' or a month's notice, were willing to allow interest upon only three days' notice; did not that system begin about two years ago?—I do not think it began with the new banks; I think it began with one of the older banks; I know that, as regards my own bank, we were forced into it; I forgot to say that, with regard to ourselves in taking money on deposit, the parties must leave the money a month, or they lose interest. We do not take money from any depositor at interest unless upon the understanding and condition that it remains a month with us; he may withdraw it within the month, but then he forfeits interest; it will not carry interest unless it is with us a month, and then it is removable on demand without notice.

1168. Is it or is it not a fact that some of the banks pay interest upon their current accounts?—Yes, I think most of the new banks do so; and the Union Bank of London does it.

1169. At a smaller rate than upon their deposits, I presume?—I think at a smaller rate, but I believe it is a fixed rate on the minimum balance for some period, either six months or one month, I do not exactly know the period. I think I ought to add (and I believe it is the case with all the banks) that the London and Westminster Bank, from the day of its first institution until the present day, has never re-discounted a bill. No bill has ever left our bank unless it has been for payment.

1170. Is not that generally the case with the London joint stock banks?—I believe it is the case.

1171. Mr. *Weguelin.*] But you sometimes lend money upon bills deposited with you by bill brokers?—Yes.

1172. And you occasionally call in that money and re-deliver those securities?—Yes; but that we do to a very small extent.

1173. Is not that equivalent to a re-discount of bills?—No; the discount of a bill and the lending money on bills are very different things. When we discount a bill, that bill becomes our property; it is in our control, and we keep it and lock it up until it falls due; but when brokers come to us and want to borrow, say £50,000 on a deposit of bills, and we let them have the money and afterwards return those bills to them and we get back our money, surely that is not a re-discount.

1174. When you want to employ your money for a short period, do you not frequently take bills of long date, and advance upon them?—But that is not a re-discount on our part. Very often brokers in borrowing money send in bills of long date, and afterwards we call in that loan; but that is no more a re-discount than lending money upon consols and calling in that money again. It is not an advance of ours; we do not seek it; they come to us and borrow our money, and give us a security; when we want our money we call for that money, and return their security. Surely that is not a re-discount.

1175. Mr. *Hankey.*] Is there not this clear distinction between returning a bill on which you have made an advance and discounting a bill, that if you have discounted a bill your liability continues upon the bill until that bill has come to maturity?—Yes.

1176. In the other case you have no further liability whatever?—Certainly.

1177. Should you not consider that a very important distinction?—I think it is an important distinction. Take this case: suppose a party comes to us and borrows

£50,000, and we lend it him, and when the loan becomes due we take our money back again. Surely that is not a discount on our part.

1178. Is there not this distinction, that if you re-discount you may go on pledging the liability of your bank to an almost unlimited amount, whereas in the other case you only get back that money which you have lent?—Undoubtedly.

1179. Mr. *Cayley.*] The late Chancellor of the Exchequer stated before the adjournment, in a speech in the House of Commons, that during the Monday, Tuesday, Wednesday, and Thursday of the panic, the Bank was almost, if not entirely, the only body that discounted commercial bills; how can you reconcile that with what you have said, that you gave as much accommodation as usual to your customers?—I am not responsible for what the Chancellor of the Exchequer said; I am responsible for what I am now stating as to the course of our bank, that our advances to our customers on the 31st of December were nearly £500,000 higher than they were on the 31st of October. With regard to our not discounting for other parties, it was in consequence of the discredit which prevailed that it was necessary we should hold a portion of our deposits in order that they should be available in case persons called for them; a certain number of persons did so; in the month of November we had a reduction of our deposits, and if we had gone on discounting for brokers we should have had to go into the market ourselves to raise money on our Government securities, but we avoided that by not discounting, and leaving our money at the Bank of England.

1180. Then you did not discount as much as usual for your customers during that period?—Yes, we did, and more.

1181. But not to strangers?—Not to strangers; I make a distinction between our transactions with our customers, who of course expect us to give accommodation, and discounts for brokers, which is entirely voluntary, depending upon our having money to employ.

1182. How would it have been if the letter had not issued at the last moment?—That is a question which I can hardly answer.

1183. What do you mean by that general expression of yours?—It is impossible to predicate what may happen in time of panic and alarm. A great alarm prevailed certainly amongst the commercial world, and it could never have been alleviated, except by some extraordinary means of relief. We might probably have been in the state in which Hamburg was, where they have no bank-notes in circulation.

1184. Mr. *Spooner.*] What did you mean by the expression, “the last moment”? You said that the letter came out at the last moment; the last moment of what?—It was late in the day; it was a day of great distress. For two days there was a great deal of anxiety, and everybody expected that there would be some relief; and it was when expectation, I suppose, was highly excited that the letter came, and it gave relief.

1185. Cannot you tell us what your opinion would have been if that last moment had happened to have elapsed, and the letter had not come?—It is very difficult to say; it is too much to say that it could not have been got over. There can be no doubt whatever that what created the difficulty existed out of London, and not in it; and therefore it is much more difficult for me to give an opinion. I believe that the banking interest, both private and joint stock, was in a perfectly sound condition, and able to bear any strain which might have been brought upon it in London.

1186. Mr. *Hankey.*] Can you give the Committee any idea as to what proportion of deposits you consider generally desirable to keep in reserve?—You must be very much guided by circumstances. In times of alarm when there are failures, of course all bankers strengthen their reserves; our reserve then is larger. In times of ordinary business we find, both as regards our deposits at interest as well as those which are not at interest, that there is a constant circulation; that the receipts of money very nearly meet the payments.

1187. You probably keep at all times a certain amount of your deposits totally unemployed; in reserve?—Yes.

1188. In a normal state of commercial affairs, is there any fixed proportion, or can you give the Committee any idea of what you would consider about a fair and desirable proportion which should be so kept unemployed?—I think the best idea which I can give upon that subject is to give our annual statement, or balance sheet, for the 31st of December.

1189. Does that show what amount of unemployed money you had on that day?—Yes. I will put in a statement, which perhaps will be the best means of meeting the question, showing the cash in hand on the 30th of June and the 31st of December in every year, as shown by our published accounts, together with our money at call and our Government securities; that will be perhaps the best and most convenient way of giving the information you desire to have. (*See Table on next page.*)

1190. Do you consider that when your deposits are materially on the increase it is necessary to keep a larger amount of money in reserve than you would keep at other times?—I may say that, as a general rule, our reserve would always bear some proportion to our deposits.

1191. Do you employ your money in the discounting of bills for other persons than your own customers?—Discount brokers.

1192. Only to discount brokers?—Yes.

1193. Not to strangers who are in the habit of bringing you in bills; commercial houses?—I should say generally not. We have one or two houses for whom we discount who have not accounts with us as bankers, but generally we do not discount except for our customers or for bill brokers.

1194. Do you consider that any advantage can arise to the

Total Lodgments with London and Westminster Bank; also Amount of Cash in Hand, Moneys with Bill Brokers at Call, and Government Securities held by the Bank.

Date.	Deposits.	Cash in hand.	Money at Call.	Government Securities.	Total.
	£	£	£	£	£
31 December 1845	3,590,014	563,072	628,500	1,039,745	2,231,317
31 December 1846	3,280,864	634,575	423,060	938,717	1,996,352
31 December 1847	2,733,753	721,325	350,108	791,899	1,863,332
30 June 1848	3,170,118	588,871	159,724	1,295,047	2,043,642
31 December 1848	3,089,659	645,468	176,824	1,189,213	2,011,505
30 June 1849	3,392,857	552,642	246,494	964,800	1,763,936
31 December 1849	3,680,623	686,761	263,577	973,691	1,224,029
30 June 1850	3,821,022	654,649	258,177	972,055	1,884,881
31 December 1850	3,969,648	566,039	334,982	1,089,794	1,990,815
30 June 1851	4,414,179	691,719	424,195	1,054,018	2,169,932
31 December 1851	4,677,298	653,946	378,337	1,054,018	2,080,301
30 June 1852	5,245,135	861,778	206,687	1,054,018	2,122,483
31 December 1852	5,581,706	855,057	397,087	1,119,477	2,371,621
30 June 1853	6,219,817	904,252	499,467	1,218,852	2,622,571
31 December 1853	6,259,540	791,699	677,392	1,468,902	2,937,993
30 June 1854	6,892,470	827,397	917,557	1,457,415	3,202,369
31 December 1854	7,177,244	694,309	486,400	1,451,074	2,631,783
30 June 1855	8,166,553	722,243	483,890	1,754,074	2,960,207
31 December 1855	8,744,095	847,856	451,575	1,949,074	3,248,505
30 June 1856	11,170,010	906,876	601,800	1,980,489	3,489,165
31 December 1856	11,438,461	1,119,591	432,000	2,922,625	4,474,216
30 June 1857	13,913,058	967,078	687,730	3,353,179	5,007,987
31 December 1857	13,889,021	2,226,441	1,115,883	3,582,797	6,925,121

public by the Bank of England advancing to a greater extent than can be considered strictly prudent on the soundest principle of banking, under the idea of their affording aid to the commercial world?—As I said before, as long as there are good bills in circulation, that is, bills about which there would be no doubt of their being paid at maturity, there should be some means by which those bills could be discounted.

1195. And do you think that it is part of the functions of the Bank of England to discount a bill for anybody, merely because the party holding the bill wishes to convert it into cash?—As I said before, the Bank of England will have great difficulty in getting rid of that inconvenient idea which there is in the mind of the public, that the Bank of England is something more than an ordinary joint stock bank. I think it must depend very much upon circumstances whether you can or cannot refuse the discount of good bills which are offered to you.

NOTE C.

Statement Of Circulation And Deposits Of The Bank Of Dundee At Intervals Of Ten Years Between 1764 And 1864.

Year.	Circulation.	Deposits.[1]
	£	£
1764	30,395	—
1774	27,670	—
1784	56,342	—
1794	50,254	48,809
1804	54,096	157,821
1814	46,627	445,066
1824	29,675	343,948
1834	26,467	563,202
1844	27,504	535,253
1854	40,774	705,222
1864	41,118	684,898

1The Bank did not begin to receive deposits until 1792, in which year they amounted to £35,944.

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NOTE D.

Meeting Of The Proprietors Of The Bank Of England. 13th September, 1866.

(*From* "*Economist,*" 22nd *September,* 1866.)

A General Court of the Bank of England was held at the Bank at twelve o'clock on the 13th instant, for the purpose of declaring a dividend for the past half-year.

Mr. Launcelot Holland, the Governor of the Bank, who presided upon the occasion, addressed the proprietors as follows: This is one of the quarterly general courts appointed by our charter, and it is also one of our half-yearly general courts, held under our bye-laws, for the purpose of declaring a dividend. From a statement which I hold in my hand it appears that the net profits of the Bank for the half-year ending on the 31st of August last amounted to £970,014 17s. 10d., making the amount of the rest on that day £3,981,783 18s. 11d.; and after providing for a dividend at the rate of £6 10s. per cent., the rest will stand at £3,035,838 18s. 11d. The court of directors, therefore, propose that a half-yearly dividend of interest and profits, to the amount of £6 10s. per cent., without deduction on account of income tax, shall be made on the 10th of October next. That is the proposal I have now to lay before the general court; but as important events have occurred since we last met, I think it right I should briefly advert to them upon this occasion. A great strain has within the last few months been put upon the resources of this house, and of the whole banking community of London; and I think I am entitled to say that not only this house but the entire banking body acquitted themselves most honourably and creditably throughout that very trying period. Banking is a very peculiar business, and it depends so much upon credit that the least blast of suspicion is sufficient to sweep away, as it were, the harvest of a whole year. But the manner in which the banking establishments generally of London met the demands made upon them during the greater portion of the past half-year affords a most satisfactory proof of the soundness of the principles on which their business is conducted. This house exerted itself to the utmost—and exerted itself most successfully—to meet the crisis. We did not flinch from our post. When the storm came upon us, on the morning on which it became known that the house of Overend & Co. had failed, we were in as sound and healthy a position as any banking establishment could hold; and on that day and throughout the succeeding week we made advances which would hardly be credited. I do not believe that any one would have thought of predicting, even at the shortest period beforehand, the greatness of those advances. It was not unnatural that in this state of things a certain degree of alarm should have taken possession of the public mind, and that those who required accommodation from the Bank should have gone to the Chancellor of the Exchequer and requested the Government to empower us to issue notes beyond the statutory amount, if we should think that such a measure was desirable. But we had to act before we could receive any such power, and before the Chancellor of the Exchequer was perhaps out of his bed we had advanced one-half of our reserves, which were certainly thus reduced to an amount which we could not witness without regret. But we could not flinch from the duty which we conceived was imposed upon us of supporting the banking community, and I am not aware that any legitimate application for assistance made to this house was refused. Every gentleman who came here with adequate security was liberally dealt with, and, if accommodation could not be afforded to the full extent which was demanded, no one who offered proper security failed to obtain relief from this house. I have perhaps gone a little more into details than is customary upon these occasions, but the times have been unusually interesting, and I thought it desirable to say this much in justification of the course adopted by this house of running its balances down to a point which some gentlemen may consider dangerous. Looking back, however, upon recent events, I cannot take any blame to this court for not having been prepared for such a tornado as that which burst upon us on the 11th of May; and I hope the court of proprietors will feel that their directors acted properly upon that occasion, and that they did their best to meet a very extraordinary state of circumstances. I have now only to move that a dividend be declared at the rate of £6 10s. per cent. for the past half-year.

Mr. Hyam said that before the question was put he wished to offer a few observations to the court. He believed that the statement of accounts which had just been laid before them was perfectly satisfactory. He also thought that the directors had done their best to assist the commercial classes throughout the late monetary crisis; but it appeared to him at the same time that they were in fault in not having applied at an earlier period to the Chancellor of the Exchequer for a suspension of the Bank Act. It was well known that the demand on the Bank was materially lessened in the earlier part of the day, in consequence of a rumour which had been extensively circulated that permission to overstep the limits laid down in the Act had been granted. That concession, however, had only been made after the most urgent representations had been addressed to the Chancellor of the Exchequer at a late hour in the night, and if it had then been refused he felt persuaded that the state of affairs would have been much worse on the Saturday than it had been on the Friday. The fact was that the Act of 1844 was totally unsuited to the present requirements of the country, which since that period had tripled or quadrupled its commerce; and he was sorry to know that the measure seemed to meet with the approval of many of their directors. Anyone who read the speeches made in the course of the discussion on Mr. Watkins' motion must see that the subject called for further inquiry; and he trusted that the demand for that inquiry would yet be conceded.

Mr. Jones said he entirely dissented from the views with respect to the Bank Act entertained by the hon. proprietor who had just addressed the court. In his opinion the main cause of the recent monetary crisis was that, while we had bought £275,000,000 worth of foreign produce in the year 1865, the value of our exports had only been £165,000,000, so that we had a balance against us to the amount of £110,000,000. He believed that the Bank acted wisely in resisting every attempt to increase the paper currency, and he felt convinced that the working classes would be the people least likely to benefit by the rise in prices which would take place under such a change.

Mr. Moxon said he should be glad to know what was the amount of bad debts made by the Bank during the past half-year. It was stated very confidently out of doors that during that period the directors had between £3,000,000 and £4,000,000 of bills returned to them.

The Governor of the Bank—May I ask what is your authority for that statement? We are rather amused at hearing it, and we have never been able to trace any rumour of the kind to an authentic source.

Mr. Moxon continued—Whether the bad debts were large or small, he thought it was desirable that they should all know what was their actual amount. They had been told at their last meeting that the Bank held a great many railway debentures; and he should like to know whether any of those debentures came from railway companies that had since been unable to meet their obligations. He understood that a portion of their property was locked up in advances made on account of the Thames Embankment, and in other ways which did not leave the money available for general banking and commercial purposes; and if that were so, he should express his disapproval of such a policy. There was another important point to which he wished to advert. He was anxious to know what was the aggregate balance of the joint stock banks in the Bank of England. He feared that some time or other the joint stock banks would be in a position to command perhaps the stoppage of the Bank of England. If that were not so, the sooner the public were fully informed upon the point the better. But if ten or twelve joint stock banks had large balances in the Bank of England, and if the Bank balances were to run very low, people would naturally begin to suspect that the joint stock banks had more power over the Bank of England than they ought to have. He wished further to ask whether the directors had of late taken into consideration the expediency of paying interest on deposits. He believed that under their present mode of carrying on their business they were forgoing large profits which they might receive with advantage to themselves and to the public; and he would recommend that they should undertake the custody of securities after the system adopted by the Bank of France. In conclusion, he proposed to move three resolutions, for the purpose of providing, first, that a list of all the proprietors of Bank stock should be printed, with a separate entry of the names of all those persons not entitled to vote from the smallness of their stock or from the shortness of time during which they held it; secondly, that a copy of the charter of the Bank, with the rules, orders, and bye-laws passed for the good government of their corporation, should be printed for the use of the shareholders; and thirdly, that auditors should be appointed to make detailed audits of their accounts.

Mr. Gerstenberg recommended that the directors should take some step for the purpose of preventing the spread of such erroneous notions as that which lately prevailed on the Continent, that the Bank was about to suspend specie payments.

Mr. W. Botly said he wished to see the directors taking into their consideration the expediency of allowing interest on deposits.

Mr. Alderman Salomons said he wished to take that opportunity of stating that he believed nothing could be more satisfactory to the managers and shareholders of joint stock banks than the testimony which the Governor of the Bank of England had that day borne to the sound and honourable manner in which their business was conducted. It was manifestly desirable that the joint stock banks and the banking interest generally should work in harmony with the Bank of England; and he sincerely thanked the Governor of the Bank for the kindly manner in which he had alluded to the mode in which the joint stock banks had met the late monetary crisis.

The Governor of the Bank said—Before putting the question for the declaration of a dividend, I wish to refer to one or two points that have been raised by the gentlemen who have addressed the court on this occasion. The most prominent topic brought under our notice is the expediency of allowing interest on deposits; and upon that point I must say that I believe a more dangerous innovation could not be made in the practice of the Bank of England. The downfall of Overend & Gurney, and of many other houses, must be traced to the policy which they adopted of paying interest on deposits at call, while they were themselves tempted to invest the money so received in speculations in Ireland or in America, or at the bottom of the sea, where it was not available when a moment of pressure arrived.

Mr. Botly said he did not mean deposits on call.

The Governor of the Bank of England continued—That is only a matter of detail; the main question is whether we ought to pay interest on deposits, and of such policy I must express my entire disapproval. Mr. Moxon has referred to the amount of our debts, but, as I stated when I took the liberty of interrupting him, we could never trace the origin of any rumour which prevailed upon that subject. As far as it can be said to have ever existed, it had its origin most probably in the vast amount advanced by the Bank. It must, however, be remembered that we did not make our advances without ample security, and the best proof of that is the marvellously small amount of bad debts which we contracted. It has never been a feature of the Bank to state what was the precise amount of those debts; but I believe that if I were to mention it upon the present occasion, it would be found to be so inconsiderable that I should hardly obtain credence for the announcement I should have to make. I am convinced that our present dividend has been as honestly and as hardly earned as any that we have ever realised; but it has been obtained by means of great vigilance and great anxiety on the part of each and all of your directors; and I will add that I believe you would only diminish their sense of responsibility, and introduce confusion into the management of your business, if you were to transfer to auditors the making up of your accounts. If your directors deserve your confidence they are surely capable of performing that duty, and if they do not deserve it you ought not to continue them in their present office. With regard to the supposed lock-up of our capital, I must observe that, with £14,000,000 on our hands, we must necessarily invest it in a variety of securities; but there is no ground for imagining that our money is locked up and is not available for the purpose of making commercial advances. We advanced in the space of three months the sum of £45,000,000; and what more than that do you want? It has been recommended that we should take charge of securities: but we have found it necessary to refuse all securities except those of our customers; and I believe the custody of securities is becoming a growing evil. With regard to railway debentures, I do not believe we have one of a doubtful character. We have no debentures except those of first-class railway companies and companies which we know are acting within their

Parliamentary limits. Having alluded to those subjects, I will now put the motion for the declaration of the dividend.

The motion was accordingly put and unanimously adopted.

The chairman then announced that that resolution should be confirmed by ballot on Tuesday next, inasmuch as the Bank could not, under the provisions of its Act of Parliament, declare otherwise than in that form a dividend higher than that which it had distributed during the preceding half-year.

The three resolutions proposed by Mr. Moxon were then read; but they were not put to the meeting, inasmuch as they found no seconders.

Mr. Alderman Salomons said that their Governor had observed that he thought the payment of interest on deposits was objectionable; and every one must see that such a practice ought not to be adopted by the Bank of England. But he took it for granted that the Governor did not mean that his statement should apply to joint stock banks which he had himself told them had conducted their business so creditably and so successfully.

The Governor of the Bank said that what he stated was that such a system would be dangerous for the Bank of England, and dangerous if carried into effect in the way contemplated by Mr. Moxon.

Mr. P. N. Laurie said he understood the Governor of the Bank to say that it would be dangerous to take deposits on call, and in that opinion he concurred.

Mr. Alderman Salomons said that he, too, was of the same opinion.

On the motion of Mr. Alderman Salomons, seconded by Mr. Botly, a vote of thanks was passed to the Governor and the directors for their able and successful management of the Bank during the past half-year, and the proceedings then terminated.

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THE METAPHYSICAL BASIS OF TOLERATION.

(1874.)

One of the most marked peculiarities of recent times in England is the increased liberty in the expression of opinion. Things are now said constantly and without remark, which even ten years ago would have caused a hubbub, and have drawn upon those who said them much obloquy. But already I think there are signs of a reaction. In many quarters of orthodox opinion I observe a disposition to say, “Surely this is going too far; really we cannot allow such things to be said”. And what is more curious, some writers, whose pens are just set at liberty, and who would, not at all long ago, have been turned out of society for the things that they say, are setting themselves to explain the “weakness” of liberty, and to extol the advantages of persecution. As it appears to me that the new practice of this country is a great improvement on its old one, and as I conceive that the doctrine of toleration rests on what may be called a metaphysical basis, I wish shortly to describe what that basis is.

I should say that, except where it is explained to the contrary, I use the word “toleration” to mean toleration by law. Toleration by society of matters not subject to legal penalty is a kindred subject on which, if I have room, I will add a few words, but in the main I propose to deal with the simpler subject,—toleration by law. And by toleration, too, I mean, when it is not otherwise said, toleration in the public expression of opinions. Toleration of acts and practices is another allied subject on which I can, in a paper like this, but barely hope to indicate what seems to me to be the truth. And I should add, that I deal only with the discussion of impersonal doctrines. The law of libel, which deals with accusations of living persons, is a topic requiring consideration by itself.

Meaning this by “toleration,” I do not think we ought to be surprised at a reaction against it. What was said long ago of slavery seems to be equally true of persecution,—it “exists by the law of nature”. It is so congenial to human nature, that it has arisen everywhere in past times, as history shows; that the cessation of it is a matter of recent times in England; that even now, taking the world as a whole, the practice and the theory of it are in a triumphant majority. Most men have always much preferred persecution, and do so still; and it is therefore only natural that it should continually reappear in discussion and argument.

One mode in which it tempts human nature is very obvious. Persons of strong opinions wish, above all things, to propagate those opinions. They find close at hand what seems an immense engine for that propagation; they find the *State,* which has often in history interfered for and against opinions,—which has had a great and undeniable influence in helping some and hindering others,—and in their eagerness they can hardly understand why they should not make use of this great engine to crush the errors which they hate, and to replace them with the tenets they approve. So long as there are earnest believers in the world, they will always wish to punish opinions, even if their judgment tells them it is unwise, and their conscience that it is wrong. They may not gratify their inclination, but the inclination will not be the less real.

Since the time of Carlyle, "earnestness" has been a favourite virtue in literature, and it is customary to treat this wish to twist other people's belief into ours as if it were a part of the love of truth. And in the highest minds so it may be. But the mass of mankind have, as I hold, no such fine motive. Independently of truth or falsehood, the spectacle of a different belief from ours is disagreeable to us, in the same way that the spectacle of a different form of dress and manners is disagreeable. A set of schoolboys will persecute a new boy with a new sort of jacket; they will hardly let him have a new-shaped penknife. Grown-up people are just as bad, except when culture has softened them. A mob will hoot a foreigner who looks very unlike themselves. Much of the feeling of "earnest believers" is, I believe, altogether the same. They wish others to think as they do, not only because they wish to diffuse doctrinal truth, but also and much more because they cannot bear to hear the words of a creed different from their own. At any rate, without further analysing the origin of the persecuting impulse, its deep root in human nature, and its great power over most men, are evident.

But this natural impulse was not the only motive—perhaps was not the principal one—of historical persecutions. The main one, or a main one, was a most ancient political idea which once ruled the world, and of which deep vestiges are still to be traced on many sides. The most ancient conception of a State is that of a "religious partnership," in which any member may by his acts bring down the wrath of the gods on the other members, and, so to speak, on the whole company. This danger was, in the conception of the time, at once unlimited and inherited; in any generation, partners A, C, D, etc., might suffer loss of life, or health, or goods—the whole association even might perish, because in a past generation the ancestors of Z had somehow offended the gods. Thus the historian of Athens tells us that after a particular act of sacrilege—a breach of the local privileges of sanctuary—the perpetrators were compelled "to retire into banishment"; and that those who had died before the date he is speaking of were "disinterred and cast beyond the borders". "Yet," he adds, "their exile continuing, as it did, only for a time, was not held sufficient to expiate the impiety for which they have been condemned. The Alkmæonids, one of the most powerful families in Attica, long continued to be looked upon as a tainted race, and in cases of public calamity were liable to be singled out as having by their sacrilege drawn down the judgment of the gods upon their countrymen."1 And as false opinions about the gods have almost always been thought to be peculiarly odious to them, the misbeliever, the "miscreant," has been almost always thought to be likely not only to impair hereafter the salvation of himself and others in a future world, but also to bring on his neighbours and his nation grievous calamities immediately in this. He has been persecuted to stop political danger more than to arrest intellectual error.

But it will be said: Put history aside, and come to things now. Why should not those who are convinced that certain doctrines are errors, that they are most dangerous, that they may ruin man's welfare here and his salvation hereafter, use the power of the State to extirpate those errors? Experience seems to show that the power of the State can be put forth in that way effectually. Why, then, should it not be put forth? If I had room, I should like for a moment to criticise the word "effectually". I should say that the State, in the cases where it is most wanted, is not of the use which is thought. I admit that it extirpates error, but I doubt if it creates belief—at least, if it does so in cases where the persecuted error is suitable to the place and time. In such cases, I think the effect has often been to eradicate a heresy among the few, at the cost of creating a scepticism among the many; to kill the error no doubt, but also to ruin the general belief. And this is the cardinal point, for the propagation of the "truth" is the end of persecution; all else is only a means. But I have not space to discuss this, and will come to the main point.

I say that the State power should not be used to arrest discussion, because the State power may be used equally for truth or error, for Mohammedanism or Christianity, for belief or no-belief, but in discussion truth has an advantage. Arguments always tell for truth as such, and against error as such; if you let the human mind alone, it has a preference for good argument over bad; it oftener takes truth than not. But if you do not let it alone, you give truth no advantage at all; you substitute a game of force, where all doctrines are equal, for a game of logic, where the truer have the better chance.

The process by which truth wins in discussion is this,—certain strong and eager minds embrace original opinions, seldom all wrong, never quite true, but of a mixed sort, part truth, part error. These they inculcate on all occasions, and on every side, and gradually bring the cooler sort of men to a hearing of them. These cooler people serve as quasi-judges, while the more eager ones are a sort of advocates; a Court of Inquisition is sitting perpetually, investigating, informally and silently, but not ineffectually, what, on all great subjects of human interest, is truth and error. There is no sort of infallibility about the court; often it makes great mistakes, most of its decisions are incomplete in thought and imperfect in expression. Still, on the whole, the force of evidence keeps it right. The truth has the best of the proof, and therefore wins most of the judgments. The process is slow, far more tedious than the worst Chancery suit. Time in it is reckoned not by days, but by years, or rather by centuries. Yet, on the whole, it creeps along, if you do not stop it. But all is arrested, if persecution begins—if you have a *coup d'état,* and let loose soldiers on the court; for it is perfect chance which litigant turns them in, or what creed they are used to compel men to believe.

This argument, however, assumes two things. In the first place, it presupposes that we are speaking of a state of society in which discussion is possible. And such societies are not very common. Uncivilised man is not capable of discussion: savages have been justly described as having "the intellect of children with the passions and strength of men".[1] Before anything like speculative argument can be used with them, their intellect must be strengthened and their passions restrained. There was, as it seems to me, a long preliminary period before human nature, as we now see it, existed, and while it was being formed. During that preliminary period, persecution, like slavery, played a most considerable part. Nations mostly became nations by having a common religion. It was a necessary condition of the passage from a loose aggregate of savages to a united polity, that they should believe in the same gods and worship these gods in the same way. What was necessary was, that they should for a long period—for centuries, perhaps—lead the same life and conform to the same usages. They believed that the "gods of their fathers" had commanded these usages. Early law is hardly to be separated from religious ritual: it is more like the tradition of a Church than the enactments of a statute-book. It is a thing essentially immemorial and sacred. It is not conceived of as capable either of addition or diminution; it is a body of holy customs which no one is allowed either to break or to impugn. The use of these is to aid in creating a common national character, which in aftertimes may be tame enough to bear discussion, and which may suggest common axioms upon which discussion can be founded. Till that common character has been formed, discussion is impossible; it cannot be used to find out truth, for it cannot exist; it is not that we have to forgo its efficacy on purpose, we have not the choice of it, for its prerequisites cannot be found. The case of civil liberty is, as I conceive, much the same. Early ages need a coercive despotism more than they need anything else. The age of debate comes later. An omnipotent power to enforce the sacred law is that which is then most required. A constitutional opposition would be born before its time. It would be dragging the wheel before the horses were harnessed. The strongest advocates both of liberty and toleration may consistently hold that there were unhappy ages before either became possible, and when attempts at either would have been pernicious.

The case is analogous to that of education. Every parent wisely teaches his child his own creed, and till the child has attained a certain age, it is better that he should not hear too much of any other. His mind will in the end be better able to weigh arguments, because it does not begin to weigh them so early. He will hardly comprehend any creed unless he has been taught some creed. But the restrictions of childhood must be relaxed in youth, and abandoned in manhood. One object of education is to train us for discussion, and as that training gradually approaches to completeness, we should gradually begin to enter into and to take part in discussion. The restrictions that are useful at nine years old are pernicious at nineteen.

This analogy would have seemed to me obvious, but there are many most able persons who turn the matter just the other way. They regard the discipline of education as a precedent for persecution. They say, "I would no sooner let the nation at large read that bad book than I would let my children read it". They refuse to admit that the age of the children makes any difference. At heart they think that they are wiser than the mass of mankind, just as they are wiser than their children, and would regulate the studies of both unhesitatingly. But experience shows that no man is on all points so wise as the mass of men are after a good discussion, and that if the ideas of the very wisest were by miracle to be fixed on the race, the certain result would be to stereotype monstrous error. If we fixed the belief of Bacon, we should believe that the earth went round the sun; if we fixed that of Newton, we should believe "that the Argonautic expedition was a real event, and occurred bc 937; that Hercules was a real person, and delivered Theseus, another real person, bc 936; that in the year 1036 Ceres, a woman of Sicily, in seeking her daughter who was stolen, came into Attica, and there taught the Greeks to sow corn". And the worst is, that the minds of most would-be persecutors are themselves unfixed: their opinions are in a perpetual flux; they would persecute all others for tenets which yesterday they had not heard of and which they will not believe to-morrow.

But it will be said, the theory of Toleration is not so easy as that of education. We know by a certain fact when a young man is grown up and can bear discussion. We judge by his age, as to which every one is agreed. But we cannot tell by any similar patent fact when a State is mature enough to bear discussion. There may be two opinions about it. And I quite agree that the matter of fact is more difficult to discover in one case than in the other; still it is a matter of fact which the rulers of the State must decide upon their responsibility, and as best they can. And the highest sort of rulers will decide it like the English in India—with no reference to their own belief. For years the English prohibited the preaching of Christianity in India, though it was their own religion, because they thought that it could not be tranquilly listened to. They now permit it, because they find that the population can bear the discussion. Of course, most Governments are wholly unequal to so high a morality and so severe a self-command. The Governments of most countries are composed of persons who wish everybody to believe as they do, merely because they do. Some here and there, from a higher motive, so eagerly wish to propagate their opinions, that they are unequal to consider the problem of toleration impartially. They persecute till the persecuted become strong enough to make them desist. But the delicacy of a rule and the unwillingness of Governments to adopt it, do not prove that it is not the best and the right one. There are already in inevitable jurisprudence many lines of vital importance just as difficult to draw. The line between sanity and insanity has necessarily to be drawn, and it is as nice as anything can be. The competency of people to bear discussion is not intrinsically more difficult than their competency to manage their own affairs, though perhaps a Government is less likely to be impartial and more likely to be biassed in questions of discussion than in pecuniary ones.

Secondly, the doctrine that rulers are to permit discussion, assumes not only, as we have seen, that discussion is possible, but also that discussion will not destroy the Government. No Government is bound to permit a controversy which will annihilate itself. It is a trustee for many duties, and if possible, it must retain the power to perform those duties. The controversies which may ruin it are very different in different countries. The Government of the day must determine in each case what those questions are. If the Roman Emperors who persecuted Christianity really did so because they imagined that Christianity would destroy the Roman Empire, I think they are to be blamed not for their misconception of duty, but for their mistake of fact. The existence of Christianity was not really more inconsistent with the existence of the Empire in the time of Diocletian than in that of Constantine; but if Diocletian thought that it was inconsistent, it was his duty to preserve the Empire.

It will be asked, “What do you mean by preserving a society? All societies are in a state of incipient change; the best of them are often the most changing; what is meant, then, by saying you will ‘preserve’ any? You admit that you cannot keep them unaltered, what then do you propose to do?” I answer that, in this respect, the life of societies is like the life of the individuals composing them. You cannot interfere so as to keep a man’s body unaltered; you can interfere so as to keep him alive. What changes in such cases will be fatal, is a question of fact. The Government must determine what will, so to say, “break up the whole thing” and what will not. No doubt it may decide wrong. In France, the country of experiments, General Cavaignac said, “A Government which allows its principle to be discussed, is a lost

Government," and therefore he persecuted on behalf of the Republic, thinking it was essential to society. Louis Napoleon similarly persecuted on behalf of the Second Empire; M. Thiers on behalf of the Republic again; the Duc de Broglie now persecutes on behalf of the existing nondescript. All these may be mistakes, or some of them, or none. Here, as before, the practical difficulties in the application of a rule do not disprove its being the true and the only one.

It will be objected that this principle is applicable only to truths which are gained by discussion. "We admit," such objectors say, "that where discussion is the best or the only means of proving truth, it is unadvisable to prohibit that discussion, but there are other means besides discussion of arriving at truth, which are sometimes better than discussion even where discussion is applicable, and sometimes go beyond it and attain regions in which it is inapplicable; and where those more efficient means are applicable, it may be wise to prohibit discussion, for in these instances discussion may confuse the human mind and impede it in the use of those higher means. The case is analogous to that of the eyes. For the most part it is a sound rule to tell persons who want to see things, that they must necessarily use *both* their eyes, and rely on them. But there are cases in which that rule is wrong. If a man wants to see things too distant for the eyes, as the satellites of Jupiter and the ring of Saturn, you must tell him, on the contrary, to shut one eye and look through a telescope with the other. The ordinary mode of using the common instruments may, in exceptional cases, interfere with the right use of the supplementary instruments." And I quite admit that there are such exceptional cases and such additional means; but I say that their existence introduces no new difficulty into the subject, and that it is no reason for prohibiting discussion except in the cases in which we have seen already that it was advisable to prohibit it.

Putting the matter in the most favourable way for these objectors, and making all possible concessions to them, I believe the exceptions which they contend for must come at last to three.

First, there are certain necessary propositions which the human mind *will* think, must think, and cannot help thinking. For example, we must believe that things which are equal to the same thing are equal to each other,—that a thing cannot *both* be and not be,—that it must *either* be or not be. These truths are not gained by discussion; on the contrary, discussion presupposes at least some of them, for you cannot argue without first principles any more than you can use a lever without a fulcrum. The prerequisites of reasoning must somehow be recognised by the human mind before we begin to reason. So much is obvious, but then it is obvious also that in such cases attempts at discussion cannot do any harm. If the human mind has in it certain first principles which it cannot help seeing, and which it accepts of itself, there is no harm in arguing against those first principles. You may contend as long as you like, that things which are equal to the same thing are *not* equal to each other, or that a thing *can* both exist and not exist at the same time, but you will not convince any one. If you could convince any one you would do him irreparable harm, for you would hurt the basis of his mind and destroy the use of his reason. But happily you cannot convince him. That which the human mind cannot help thinking it cannot help thinking, and discussion can no more remove the primary perceptions than it can produce them. The multiplication table will remain the multiplication table, neither more nor less, however much we may argue either for it or against it.

But, though the denial of the real necessary perceptions of the human mind cannot possibly do any harm, the denial of alleged necessary perceptions is often essential to the discovery of truth. The human mind, as experience shows, is apt to manufacture sham self-evidences. The most obvious case is, that men perpetually "do sums" wrong. If we dwell long enough and intently enough on the truths of arithmetic they are in each case self-evident; but, if we are too quick, or let our minds get dull, we may make any number of mistakes. A certain deliberation and a certain intensity are both essential to correctness in the matter. Fictitious necessities of thought will be imposed on us without end unless we are careful. The greatest minds are not exempt from the risk of such mistakes even in matters most familiar to them. On the contrary, the history of science is full of cases in which the ablest men and the most experienced assumed that it was impossible to think things which are in matter of fact true, and which it has since been found possible to think quite easily. The mode in which these sham self-evidences are distinguished from the real ones is by setting as many minds as possible to try as often as possible whether they can help thinking the thing or not. But such trials will never exist without discussion. So far, therefore, the existence of self-evidences in the human mind is not a reason for discouraging discussion, but a reason for encouraging it.

Next, it is certainly true that many conclusions which are by no means self-evident and which are gradually obtained, nevertheless, are not the result of discussion. For example, the opinion of a man as to the characters of his friends and acquaintances is not the result of distinct argument, but the aggregate of distinct impressions: it is not the result of an investigation consciously pursued, but the effect of a multiplicity of facts involuntarily presented; it is a definite thing and has a most definite influence on the mind, but its origin is indefinite and not to be traced; it is like a great fund raised in very small subscriptions and of which the subscribers' names are lost. But here again, though these opinions too were not gained by discussion, their existence is a reason for promoting discussion, not for preventing it. Every-day experience shows that these opinions as to character are often mistaken in the last degree. Human character is a most complex thing, and the impressions which different people form of it are as various as the impressions which the inhabitants of an impassable mountain have of its shape and size. Each observer has an aggregate idea derived from certain actions and certain sayings, but the real man has always or almost always said a thousand sayings of a kind quite different and in a connection quite different; he has done a vast variety of actions among "other men" and "other minds"; a mobile person will often seem hardly the same if you meet him in very different societies. And how, except by discussion, is the true character of such a person to be decided? Each observer must bring his contingent to the list of *data;* those data must be arranged and made use of. The certain and positive facts as to which every one is agreed must have their due weight; they must be combined and compared with the various impressions as to which no two people exactly coincide. A rough summary must be made of the whole. In no other way is it possible to arrive at the truth of the matter. Without discussion each mind is dependent on its own partial observation. A great man is one image—one thing, so to speak—to his valet, another to his son, another to his wife, another to his greatest friend. None of these must be stereotyped; all must be compared. To prohibit discussion is to prohibit the corrective process.

Lastly, I hold that there are first principles or first perceptions which are neither the result of constant though forgotten trials like those last spoken of, nor common to all the race like the first. The most obvious seem to me to be the principles of taste. The primary perceptions of beauty vary much in different persons, and for different persons at different times, but no one can say that they are not most real and most influential parts of human nature. There is hardly a thing made by human hands which is not affected more or less by the conception of beauty felt by the maker; and there is hardly a human life which would not have been different if the idea of beauty in the mind of the man who lived it had been different.

But certainly it would not answer to exclude subjects of taste from discussion, and to allow one school of taste-teachers to reign alone, and to prohibit the teaching of all rival schools. The effect would be to fix on all ages the particular ideas of one age on a matter which is beyond most others obscure and difficult to reduce to a satisfactory theory. The human mind evidently differs at various times immensely in its conclusions upon it, and there is nothing to show that the era of the persecutor is wiser than any other era, or that his opinion is better than any one else's.

The case of these variable first principles is much like that of the "personal equation," as it is called in the theory of observations. Some observers, it is found, habitually see a given phenomenon, say the star coming to the meridian, a little sooner than most others; some later; no two persons exactly coincide. The first thing done when a new man comes into an observatory for practical work is to determine whether he sees quick or slow; and this is called the "personal equation". But, according to the theory of persecution, the national astronomer in each country would set up his own mind as the standard; in one country he would be a quick man, and would not let the slow people contest what he said; in another he would be a slow man, and would not tolerate the quick people, or let men speak their minds; and so the astronomical observations—the astronomical *creeds* if I may say so—of different countries would radically differ. But as toleration and discussion are allowed, no such absurd result follows. The observations of different minds are compared with those of others, and truth is assumed to lie in the mean between the errors of the quick people and the errors of the slow ones.

No such accurate result can be expected in more complex matters. The phenomena of astronomical observation relate only to very simple events, and to a very simple fact about these events. But perceptions of beauty have an infinite complexity: they are all subtle aggregates of countless details, and about each of these details probably every mind in some degree differs from every other one. But in a rough way the same sort of agreement is possible. Discussion is only an organised mode by which various minds compare their conclusions with those of various others. Bold and strong minds describe graphic and definite impressions: at first sight these impressions seem wholly different. Writers of the last century thought classical architecture altogether superior to Gothic; many writers now put it just the other way, and maintain a mediæval cathedral to be a thing altogether superior in kind and nature to anything classical. For years the world thought Claude's landscapes perfect. Then came Mr. Ruskin, and by his ability and eloquence he has made a whole generation depreciate them, and think Turner's altogether superior. The extrication of truth by such discussions is very slow; it is often retarded; it is often thrown back; it often seems to pause for ages. But upon the whole it makes progress, and the principle of that progress is this: Each mind which is true to itself, and which draws its own impressions carefully, and which compares those impressions with the impressions of others, arrives at certain conclusions, which as far as that mind is concerned are ultimate, and are its highest conclusions. These it sets down as expressively as it can on paper, or communicates by word of mouth, and these again form data which other minds can contrast with their own. In this incessant comparison eccentric minds fall off on every side; some like Milton, some Wordsworth, some can see nothing in Dryden, some find Racine intolerably dull, some think Shakespeare barbarous, others consider the contents of the Iliad "battles and schoolboy stuff". With history it is the same; some despise one great epoch, some another. Each epoch has its violent partisans, who will listen to nothing else, and who think every other epoch in comparison mean and wretched. These violent minds are always faulty and sometimes absurd, but they are almost always useful to mankind. They compel men to hear neglected truth. They uniformly exaggerate their gospel; but it generally *is* a gospel. Carlyle said many years since of the old Poor-law in England: "It being admitted then that outdoor relief should at once cease, what means did great Nature take to make it cease? She created various men who thought the cessation of outdoor relief the one thing needful." In the same way, it being desirable that the taste of men should be improved on some point, Nature's instrument on that point is some man of genius, of attractive voice and limited mind, who declaims and insists, not only that the special improvement is a good thing in itself, but the best of all things, and the root of all other good things. Most useful, too, are others less apparent; shrinking, sensitive, testing minds, of whom often the world knows nothing, but each of whom is in the circle just near him an authority on taste, and communicates by personal influence the opinions he has formed. The human mind of a certain maturity, if left alone, prefers real beauty to sham beauty, and prefers it the sooner if original men suggest new charms, and quiet men criticise and judge of them.

But an æsthetical persecution would derange all this, for generally the compulsive power would be in the hands of the believers in some tradition. The State represents "the rough force of society," and is little likely to be amenable to new charms or new ideas; and therefore the first victim of the persecution would be the original man who was proposing that which in the end would most improve mankind; and the next would be the testing and discerning critic who was examining these ideas and separating the chaff from the wheat in them. Neither would conform to the old tradition. The inventor would be too eager; the critic too scrupulous; and so a heavy code of ancient errors would be chained upon mankind. Nor would the case be at all the better if by some freak of events the propounder of the new doctrine were to gain full control, and were to prohibit all he did not like. He would try, and try in vain, to make the inert mass of men accept or care for his new theory, and his particular enemy would be the careful critic who went with him a little way and then refused to go any further. If you allow persecution, the partisans of the new sort of beauty will, if they can, attack those of the old sort; and the partisans of the old sort will attack those of the new sort; while both will turn on the quiet and discriminating person who is trying to select what is good from each. Some chance taste will be fixed for ages.

But it will be said, "Who ever heard of such nonsense as an æsthetical persecution? Everybody knows such matters of taste must be left to take care of themselves; as far as they are concerned, nobody wants to persecute or prohibit." But I have spoken of matters of taste because it is sometimes best to speak in parables. The case of morals and religion, in which people have always persecuted and still wish to persecute, is the very same. If there are (as I myself think there are) ultimate truths of morals and religion which more or less vary for each mind, some sort of standard and some kind of agreement can only be arrived at about it in the very same way. The same comparison of one mind with another is necessary; the same discussion; the same use of criticising minds; the same use of original ones. The mode of arriving at truth is the same, and also the mode of stopping it.

We now see the reason why, as I said before, religious persecution often extirpates new doctrines, but commonly fails to maintain the belief in old tenets. You can prevent whole classes of men from hearing of the religion which is congenial to them, but you cannot make men believe a religion which is uncongenial. You can prevent the natural admirers of Gothic architecture from hearing anything of it, or from seeing it; but you cannot make them admire classical architecture. You may prevent the admirers of Claude from seeing his pictures, or from praising them; but you cannot make them admirers of Turner. Just so, you may by persecution prevent minds prone to be Protestant from being Protestant; but you will not make men real Catholics: you may prevent naturally Catholic minds from being Catholic; but you will not make them genuine Protestants. You will not make those believe your religion who are predisposed by nature in favour of a different kind of religion; you will make of them, instead, more or less conscious sceptics. Being denied the sort of religion of which the roots are in their minds and which they could believe, they will for ever be conscious of an indefinite want. They will constantly feel after something which they are never able to attain; they will never be able to settle upon anything; they will feel an instinctive repulsion from everything; they will be sceptics at heart, because they were denied the creed for which their heart craves; they will live as indifferentists, because they were withheld by force from the only creed to which they would not be indifferent. Persecution in intellectual countries produces a superficial conformity, but also underneath an intense, incessant, implacable doubt.

Upon examination, therefore, the admission that certain truths are not gained by discussion introduces no new element into the subject. The discussion of such truths is as necessary as of all other truths. The only limitations are that men's minds shall in the particular society be mature enough to bear the discussion, and that the discussion shall not destroy the society.

I acknowledge these two limitations to the doctrine that discussion should be free, but I do not admit another which is often urged. It is said that those who write against toleration should not be tolerated; that discussion should not aid the enemies of discussion. But why not? If there is a strong Government and a people fit for discussion, why should not the cause be heard? We must not assume that the liberty of discussion has no case of exception. We have just seen that there are, in fact, several such. In each instance, let the people decide whether the particular discussion shall go on or not. Very likely, in some cases, they may decide wrong; but it is better that they should so decide, than that we should venture to anticipate all experience, and to make sure that they cannot possibly be right.

It is plain, too, that the argument here applied to the toleration of opinion has no application to that of actions. The human mind in the cases supposed, learns by freely hearing all arguments, but in no case does it learn by trying freely all practices. Society, as we now have it, cannot exist at all unless certain acts are prohibited. It goes on much better because many other acts are prohibited also. The Government must take the responsibility of saying what actions it will allow; that is its first business, and the allowance of all would be the end of civilisation. But it must, under the conditions specified, hear all opinions, for the tranquil discussion of all more than anything else promotes the progressive knowledge of truth, which is the mainspring of civilisation.

Nor does the argument that the law should not impose a penalty on the expression of any opinion equally prove that society should not in many cases apply a penalty to that expression. Society can deal much more severely than the law with many kinds of acts, because it need be far less strict in the evidence it requires. It can take cognisance of matters of common repute and of things of which every one is sure, but which nobody can prove. Particularly, it can fairly well compare the character of the doctrine with the character of the agent, which law can do but imperfectly, if at all. And it is certain that opinions are evidence of the character of those who hold them—not conclusive evidence, but still presumptive. Experience shows that every opinion is compatible with what every one would admit to be a life fairly approvable, a life far higher than that of the mass of men. Great scepticism and great belief have both been found in characters whom both sceptics and believers must admire. Still, on the whole, there is a certain kinship between belief and character; those who disagree with a man’s fundamental creed will generally disapprove of his habitual character. If, therefore, society sees a man maintaining opinions which by experience it has been led to connect with actions such as it discountenances, it is justified in provisionally discountenancing the man who holds those opinions. Such a man should be put to the proof to show by his life that the opinions which he holds are not connected with really pernicious actions, as society thinks they are. If he is visibly leading a high life, society should discountenance him no longer; it is then clear that he did not lead a bad life, and the idea that he did or might lead such a life was the only reason for so doing. A doubt was suggested, but it also has been removed. This habit of suspicion does not, on the whole, impair free discussion; perhaps even it improves it. It keeps out the worst disputants, men of really bad character, whose opinions are the results of that character, and who refrain from publishing them, because they fear what society may say. If the law could similarily distinguish between good disputants and bad, it might usefully impose penalties on the bad. But, of course, this is impossible. Law cannot distinguish between the niceties of character; it must punish the publication of an opinion, if it punishes at all, no matter whether the publisher is a good man or whether he is a bad one. In such a matter, society is a discriminating agent: the law is but a blind one.

To most people I may seem to be slaying the slain, and proving what no one doubts. People, it will be said, no longer wish to persecute. But I say, they *do* wish to persecute. In fact, from their writings, and still better from their conversation, it is easy to see that very many believers would persecute sceptics, and that very many sceptics would persecute believers. Society may be wiser; but most earnest believers and most earnest unbelievers are not at all wiser.

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MONSIEUR GUIZOT

(1874.)

The announcement of the death of M. Guizot will take the minds of many back to the cold February evenings in 1848, when London, long used to political calm, was convulsed by a new excitement, when we heard cried in rapid succession, "Resignation of Guizot," "Flight of Louis Philippe," "Proclamation of the Republic," and when the present chapter of European politics began. M. Guizot lived to see many events and many changes, but none which restored him to pre-eminence, or which made him once more a European personage. His name was never cried in the London streets again. M. Guizot was in most respects exactly the opposite of the common English notion of a Frenchman. There floats in this country an idea that a Frenchman is a light, changeable, sceptical being, who is fond of amusement, who is taken with childish shows, who always wants some new thing, who is incapable of fixed belief on any subject, and on religion especially. But Guizot was, on the contrary, a man of fixed and intense belief in religion, who was wholly devoted to serious study, who probably cared as little for the frivolous side of life as any human being who ever lived, who was stiff in manner and sedate in politics to a fault. A Puritan born in France by mistake, is the description which will most nearly describe him to an ordinary Englishman; for he had all the solidity, the solemnity, and the energy of Puritanism, as well as some of its shortcomings. And it is very natural that such should be his character, for he came of a Huguenot family, who really were French Puritans. The French national character is much more various than it is supposed to be according to common English ideas, and the stern variety which M. Guizot represents is one of the most remarkable.

Indeed, in the special peculiarity which coloured his political life, he was a most characteristic Frenchman. He represented their excessive propensity to political fear. As we all know, a principal obstacle to good government in France is a deficiency in political courage. At the present moment a very considerable part of the nation are inclined to return to the Empire—not that they are attached to the Empire, not that they do not see its defects, not that they are not ashamed of its end, but because they are so impressed by the difficulties of making any other strong government that their heart fails them. They want something which will save them from the *Commune,* and they are disposed to run back to what saved them from the Commune before, without any sufficient inquiry whether a better safeguard cannot be found, or whether this one will be effectual. The excess of their apprehension dims their eyes and distorts their judgment. Guizot had no partiality for the Empire, or for anything like the Empire, but nevertheless his whole political life rested on a similar feeling and aimed at a similar end. He, too, was frightened at revolutionary excess; his father perished in the first revolution. He was born in 1787, and consequently began his intellectual life about 1800, just when the reaction against the revolution was the strongest, when its evil was most exaggerated, and when its good was most depreciated. A strong, serious, unoriginal mind—and such was M. Guizot's—which receives such penetrating impressions early in life, generally holds them on, in one shape or another, till the end. And so it was in this case. Guizot was devoted through life to what he called the "Conservative" policy; he was always endeavouring to avert revolution; he was incessantly in dread of tumult; he saw attack and commotion everywhere. But he had no notion what was the real counterforce in France to the revolutionary force. We now know from experience that that force, though it calls itself the force of numbers, can be controlled by appealing to numbers; that the peasant proprietors, who are the majority in France, hate nothing so much and fear nothing so much; that they think revolution may take from them their property, their speck of land, their "all"; and, therefore, they will resist revolution at any time and on any pretence, and will support any power which they think can prevail against it. But Guizot did not perceive this great force. His great *recipe* for preventing revolution was not by extending the suffrage, but by restricting it. He did not see that the masses in France, having property of their own, were only too likely to be timid about property. His scheme was to resist revolution by keeping the suffrage so high that it included only a few in the towns, that it scarcely included any of the masses in the country. He proposed to found the throne of constitutional liberty on a select *bourgeoisie*—few in number, moderate in disposition, easily conciliated by their interests. The revolution of 1848 might have been avoided if he had been willing a little to extend the suffrage, but he would not extend it. The proposals then made for so doing seem now trivial and unimportant, but Guizot sincerely believed that they would ruin the country; sooner than grant them he incurred a revolution. He was so perturbed by the excessive dread of revolution that he could not see what was the true power with which to oppose it—that he threw away a mighty power—that he relied solely on a weak one—that he caused the calamity he was always fearing.

It is this great misfortune which will always colour any retrospect of M. Guizot's career, and render it a melancholy one. In many minor ways he accomplished much good. As a minister of public instruction he did much—much, perhaps, which no other man at that time could have done—for education in France. When ambassador in England he did much to prevent a war which was then imminent, and which M. Thiers would have hurried on; through his whole career, by a lofty scrupulosity, he did much to raise the low level of morality in French public life. As an orator he had great triumphs at the tribune, though his eloquence is too little business-like and too academical for our English taste. But notwithstanding these triumphs and these services, his political career must ever be held to be a complete failure, for he failed in the work of his life—in the aim he had specially chosen as his own. His mission—he would have accepted the word—was to avert revolution, and he caused revolution. Nor is the failure one which was slight in its effects, or which history can forget. On the contrary, every page of present French politics bears witness to its importance. No French Republic and no French Monarchy can now have nearly as much strength or nearly as much chance of living as the Monarchy of July which Guizot destroyed.

Of his literary productions, this is not the place to speak. Nothing can be more unlike ordinary Parisian literature than they are. That literature generally reminds its readers of the old saying, "that the French would be the best cooks in Europe if they had got any butcher's meat". Of French cookery nothing can be more libellous; but of much French literature it would be quite true to say that the writers would be the first in

Europe if they only knew anything about their subject. The power of expression has been cultivated to an extreme perfection, but unfortunately the writers have neglected the further task of finding anything true and important to say. But M. Guizot's works are the reverse of all this. A work of more solid erudition than the *History of French Civilisation* was never written by a German professor, and few Germans have ever written anything so accurately matured, and so perfectly mastered. In this respect he contrasts admirably with his great rival. There used to be a story—a just story in the main, we believe—of a critic who betted that he would find five errors in any five pages of Thiers' great history of the Revolution. Even his warmest admirers indeed have never contended that M. Thiers had a scrupulous love of truth, was a careful collector of evidence, or a fine judge of it when collected. But M. Guizot was all three. The labour expended on his books must have been very great, and much more than it would be now, for he has himself helped his successors—certainly to arrive at his own conclusions with greater ease, and perhaps also to arrive at improved conclusions.

From our peculiar view, as an economic statesman M. Guizot has, we are sorry to say, no title to respect. He and his fellow-ministers under Louis Philippe left it to the Empire to improve the material condition of the French people. He did little to promote railways, and he objected to the English treaty of 1860 because it was an approach to Free Trade, because it would enable "the English manufacturers, after an English commercial crisis, to export their goods to France and to swamp the French manufacturers". The real principles of Free Trade had never penetrated into his mind, any more than into the minds of Louis Philippe's other ministers; and partly on that account France now looks back to the time of the Empire as to the "golden age" of wealth and industry, and not to the time of the free monarchy.

We are sorry to have to write so much of blame of one whose character all Europe respected, and some of whose virtues were so valuable to France. But it is one perhaps painful consequence of prolonged old age that a man's character at death is estimated with perfect partiality. Those who most hated him and those who most loved him are mostly passed away or superseded in the scene of affairs. And if, as in M. Guizot's case, the good which he did was mostly one of temporary moral impression, and the evil which he caused one of lasting political result, there will be always more blame than praise to say. The impalpable virtues can hardly be described and are mostly forgotten, but the indelible consequences of the political errors are fixed on the face of the world; they cannot be overlooked, and they must be spoken of.

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PROFESSOR CAIRNES.

(1875.)

We cannot attempt at this moment to give anything like a full estimate of Mr. Cairnes's character, either as a political economist or a political writer. The first few days after the death of one so eminent and so peculiar, are never favourable to such a task; and the difficulty is always greater when, as in this case, he wrote much on topics on which public opinion is still divided. We can only attempt a few descriptive words.

The characteristic of Mr. Cairnes's mind was a tenacious grasp of abstract principle. He applied to the subjects of his life exactly the sort of mind with which a great judge applies the principles of law to the facts before him; and he applied it under more difficult circumstances, for, in the principles of positive law, a judge can absolutely be guided by previous precedent, whereas a thinker in the moral sciences has to make his principles, as well as to apply them—"to find," at least often, "the dream as well as the interpretation". This quality is not common in any age, but it is particularly uncommon now. The habit of popular writing—a habit which is apt to grow on all who deal with political and moral subjects, for it is only by being in some degree popular that you will be read or can be influential—has a contrary influence. It generates a habit of leaving out difficulties, of saying that which is easy rather than that which is true, that which is clear rather than that which is exact. There are a great many parts of political and economical truth which are in their nature very complex, just as many parts of science are so, and, in these cases, extreme easiness of comprehension in a writer is a quality to be suspected; for probably it arises from his leaving out a part—frequently the most difficult part—of the subject. Mr. Cairnes never does this; he takes his readers through the subject, just as it seems to him to be. He did not make it artificially easy, or attempt to please them by lessening its intricacies. And he showed himself even more careless of popularity in another way. The curiosity on such subjects is now far greater than the capacity for gratifying it; severe and abstract reasoning is necessary before they can be mastered, and there are many who dislike severe and abstract reasoning. Accordingly, something else is often put forward, as if it would do as well. "Figures" are used instead of reasoning. But, as Mr. Cairnes always contended, the figures of an instance do not of themselves prove anything beyond that instance. They are most valuable in illustrating a distinct argument, but that argument must accompany them. But, as the argument is often more difficult than the illustration, it is apt not to be used, and "political economy" is in danger of dissolving into "statistics," which is much as if anecdotes of animals were substituted for the science of biology.

The constant rigour with which Mr. Cairnes withstood these temptations has given his writings a very peculiar character. There is a Euclidian precision about them which fits them for a tonic for the mind, and which makes much other writing seem but "soft stuff" after we have been reading them;—at any rate, you feel that you have seen, in all likelihood, the worst of the subject. You have been in company with one who did not spare himself anything, and who despised readers that wished to be spared anything. Reading his works is like living on high ground; the "thin air of abstract truth" which they give you, braces the mind just as fine material air does the body.

The wonder that this incessant intellectual vigour was displayed for years by a wasting invalid, hardly able to move, and often in the most intense pain, has long been familiar to his friends, and has now been published to the world. Much as those who read his writings valued his life, they felt almost forbidden to grieve when they heard of his death; for it seemed selfish to wish that their instruction should be purchased at the cost of such pain as his. Why a mind like his should have been created, and then the power to use it at all fully withheld, is one of the mysteries of which in this world we have no solution.

By far the most remarkable of Mr. Cairnes's writings, in our judgment, are his *Logic of Political Economy* and his essays on some of the *Unsettled Questions,* recently published. In the first he defines better, as we think, than any previous writer, the exact sort of science which political economy is, the kind of reasoning which it uses, and the nature of the relation which it, as an abstract science, bears to the concrete world. Those who know how many different opinions have been held on this, and how difficult a part of the subject it is as a rule, prize, we think, most highly what Mr. Cairnes has said on it. In his recent essays on *Unsettled Questions* in political economy, Mr. Cairnes takes up the hardest parts of the subject and discusses them with a consistent power—it might almost be said with an enjoyment—which is scarcely given to any one who now remains to us. As the questions with which he deals are "unsettled," it would be premature to assume the truth of his conclusions; but this may be said, that all who hereafter write on these problems, not only ought to study what he has said, but also to reply to it, if they do not agree with it, a process which—if we may speak from some experience—they will not find at all easy.

We do not mean that Mr. Cairnes has conclusively solved these problems; there are several on which our opinions are not his. And all will agree that the recluse life which his health compelled him to lead, deprived him of information, and especially of a sort of easy familiarity with the course of business, which the greatest ability could not wholly make up for. But under such circumstances the wonder is, not that what he did was sometimes imperfect, but that he was able to do anything.

We have spoken of Mr. Cairnes principally as an economist, partly because that is more especially our own province, but partly also because we think that was the capacity in which his powers were best fitted to work, and by which he will be most remembered. But his other writings have much and characteristic merit, though this is not the time to attempt an estimate of them. In the presence of great difficulties, silence is "better than many words"; and there are few greater difficulties than that a mind so strong and pure should have been so thrust aside from life and subjected to so much pain.

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THE PUBLIC WORSHIP REGULATION BILL.[1]

(1874.)

If the "Public Worship Regulation Bill" dealt only with subjects theological or religious, we should not interfere in the discussion; but it deals also with political questions on which we do not think it right to be silent, especially as many whom we much respect have, we think, selected a policy of which the effect will be the reverse of what they expect, and the success of which they may hereafter much regret.

All changes in England should be made slowly and after long discussion. Public opinion should be permitted to ripen upon them. And the reason is, that all the important English institutions are the relics of a long past; that they have undergone many transformations; that, like old houses which have been altered many times, they are full both of conveniences and inconveniences which at first sight would not be imagined. Very often a rash alterer would pull down the very part which makes them habitable, to cure a minor evil or improve a defective outline.

The English Church is one of those among our institutions which, if it is to be preserved at all, should be touched most anxiously. It is one of our oldest institutions. Every part of it has a history, which few of us thoroughly understand, but which we all know to be long and important. In its political relations it has been altered many times, and each time under circumstances of considerable complexity. The last settlement was made more than two hundred years ago, when men's minds were in a very different state from what they are now: when Newton had not written, when Locke had not thought, when physical science, as we now have it, did not exist, when modern philosophy, for England at least, had not begun. The railways, the telegraphs, the very common-sense of these times, would have been unintelligible in the year 1660; they would have been still more unintelligible in the reign of Queen Elizabeth. To attempt to enforce on us now a settlement made in times so different, is a grave undertaking; it ought only to be made after the most ample discussion, and when every competent person has had time to consider the effect.

We have as yet felt little inconvenience from our old law, because we have dealt with it in a truly English manner. Always refusing to change it explicitly, always saying that we would never so change it, we were changing it silently all the while. Year by year this practice was omitted, or this habit insensibly changed. Each generation differed from its fathers; and though they might in part utter the same words, they did not mean the same things; their intellectual life was different. Incessant changes in science, in literature, in art, and in politics—in all that forms thinking minds—have made it impossible that really and in fact we should think the same things in 1874 as our ancestors in 1674 or 1774. Just as in legal theory Queen Victoria has pretty much the same prerogative as Queen Elizabeth, so too in legal theory the English Church may be identical with that of two hundred years ago; but the Church is not a legal theory, it is "a congregation of faithful men";1 and no one of these is in a state of mind identical, or nearly identical, with those of two hundred years ago.

Many Continental statesmen would be much puzzled at this insensible alteration; they would have a difficulty in imagining a law which was a law in theory but not a law in practice, which no one would alter in word and no one enforce in reality. But the English are very practised in this sort of arrangement—they have a kind of genius for the compensation of errors. For many years we had probably the worst and most bloody penal law in Europe; it is awful to read the old statutes which fix death as the penalty for minor acts altogether undeserving of it. But these statutes did not work nearly so much evil as might have been expected. There was besides a complex system of indictments which let off very many culprits upon trifling flaws, and there was also an absurd system of incessant remissions and pardons; the worst evils of an excessively bad law were exceedingly mitigated by a very bad mode of applying it. Speaking roughly, and subject to minor criticism, the history has been the same in the Church; in it, too, an imperfect law has been remedied by an imperfect mode of procedure. The Church has been allowed to change in this and that because it has been exceedingly difficult to interfere with it. The legal penalty against change has been distant, costly, and uncertain; and therefore it has not been applied. Change has been possible because the punishment of change was difficult. But the essence of the "Public Worship Regulation Bill" is to make that punishment easy. "If the Rubric says so," say its supporters, "the Rubric ought to be enforced." This is as if Sir Samuel Romilly had attacked, not our bad penal code, but our bad penal procedure. If, by the historical growth of approximate equivalents, *A* mitigates *B,* you will deteriorate, not improve the world, if you change *A* without changing *B,* though both may be evils.

The analogy, indeed, very imperfectly expresses the truth. In the recent history of the Church, the English have conspicuously shown another of their predominant peculiarities—indifference to abstract truth. When a quarter of a century ago English lawyers in the Court of Privy Council were first required to decide theological questions, they did so in a way which astonished theologians. They declined to supply any abstract proposition. If the enacted formularies contained such and such words, no clergyman of the Church could, according to them, contradict those words, but they allowed the clergy to say anything else. We cannot use theological terms here; but suppose, by an economical analogy, the formulary had said that "Free Trade was beneficial to mankind," the lawyers would have decided that no clergyman could say that Free Trade was not beneficial; but they would have allowed him to say that "Commercial liberty was inexpressibly disastrous to mankind," because as lawyers they would not undertake to say that "Free Trade" and "commercial liberty" meant the same thing, or that in an abstract subject the two phrases might not in some way and to some minds seem consistent. In mere description this kind of decision may not seem very sensible, and it is utterly contrary to any which a theologian would ever have adopted; but in practice it preserved the Church Establishment. It was first applied in the Gorham case, and retained the Evangelical clergy in the Church; then, in the *Essays and Reviews* case, it retained the Broad Church; and lastly, in Mr. Bennett's case, it retained the High Church. If the Establishment was to be maintained, it was necessary that all these parties should be kept side by side within it, and by this system of interpretation they were thus kept.

Unfortunately, the courts of law have not been able to apply the same sort of judicial decision to the practical directions for the public worship of the Church which they applied to her theoretical teachings. There is inevitably something more distinct and clear about acts which are required to be done at a given time and place, than in statements of abstract doctrine. When the courts have been appealed to, it has not been possible to apply to ritual the same comprehensiveness which has had such excellent political effects in the case of doctrine. But, nevertheless, there is exactly the same necessity for it. Almost every party in the Church is harassed by some of her rules, just as it is hampered by some of her words. The Broad Church dislikes the Athanasian creed, and avoids the use of it. The Low Church and the High Church are in vital and necessary opposition as to the mode of conducting the Sacramental services. In every characteristic Church every party thinks probably something is done which the strict Rubric would forbid, or something omitted which it would prescribe. Until now this difficulty has not been very acutely felt. As we have explained, the imperfection of the law was cured by the imperfection of the procedure. No doubt the Rubrics were framed in other days; no doubt they took no notice of the wants of the present day; no doubt a strict adherence to them would expel from the Church very many whose doctrines had been decided to be consistent with hers. And then, to enforce the observance of the Rubric was difficult, costly, and dubious, and so the natural evil did not happen. The wants of various minds were variously met by various deviations from the law, which in theory were liable to penalties, but which in practice were unpunished.

The scope of the "Public Worship Regulation Bill" is to destroy this variety. It is a new Act of Uniformity as far as "public worship" is concerned. A short and simple process—which has been so often stated that we need not here describe it—is prescribed which will enable objectors to enforce any Rubric, and which no doubt will cause them to be so enforced. The proposers of the bill have not enough considered the applicability of this primary assumption: no Church can have only a single form of public worship unless it has also a single creed. An apparent uniformity may be maintained in specified details; but in spirit, in feeling, in its deepest consequences on those who habitually hear and see, the effect will be different. A service conducted by a Broad Churchman, explained in his sermon, and commented upon in his manner, will be very unlike what it would be if that service is conducted by a *bonâ fide* dogmatic believer. No mere Act of Uniformity can prevent this. Still less can it efface the inevitable difference between a Sacramental service in the hands of a High Church clergyman and in those of a Low Church one. The two belong to separate and unlike species. The one believes that the service contains a supernatural act, the other that it is an edifying rite; the one regards it as an invisible miracle, the other as a conspicuous exhortation. Make what laws you like, how can the two perform these services with the same tone of mind, the same kind of thought, the same effect on the congregation? You may dress two men up in the same clothes, but they will be two men for all that. If once you permit two or more faiths in a Church, you in truth permit two or more Rituals. The various feelings and the various creeds will somehow find a means of bringing themselves into contact with the minds with which they wish to be in contact. You have "swallowed the camel" when you permitted the creed, and it is useless to "strain at the gnat" and forbid the expression of it.

This is to be especially borne in mind by those who think that there is a party in the Church that desires to introduce Romanism, and who approve of this bill because they think it will counteract that party. The essence of Romanism is not in its ceremonies, but in its doctrines. As was explained to the House of Commons on Wednesday, nothing could be simpler than the mode in which Mr. Newman used to conduct his services at Oxford; and yet he then held “Roman” doctrine, and penetrated half the young men about him with a deep faith in the highest sacramental principle. Unless you reverse the decision in the Bennett case, a doctrine which no common person will distinguish from Romanism will continue to be, and must be, taught in the Church of England. We do not believe it will lose in strength by being denied this or that form of Ritual. It will attract in any case the minds to whom it is congenial, and it will rather gain than lose in *éclat* by seeming to be persecuted.

We shall be told that this argument proves too much; for that it proves that this bill will do nothing at all, and that therefore at least it will do no harm. But it will, we think, do great harm—at least, if it be good to keep the Establishment, and if it does harm to weaken it. The real danger of the Establishment is from within, not from without. The manner in which its sections have been retained within its limits has in part developed, and as time goes on is still developing more largely, a great evil. Specially the Low Church, specially the Broad Church, and specially the High Church, have all been kept in her communion because the judges refused to draw certain logical inferences from her formularies; as lawyers they declined to draw them. But intellectual young men who are thinking of becoming clergymen, do not like this reasoning. They say: “The courts of law may not like to draw these inferences, but I must. I have spent my youth in a mental training which has prepared me to draw them, and which compels me to do so. Educated as I have been, I cannot take half an argument and leave it; I must work it out to the end. That end seems to me inconsistent with this or that of the formularies of the Church. Others say it is not, but I am not sure that it is not; at any rate, I do not like to risk the happiness of my life upon its being consistent. If in after-years my investigation should run counter to a vast collection of assertions framed by various men, in various ages, of various minds, what will be my fate? I must either sacrifice the profession by which I live, or the creed in which I believe. The lawyers probably might not turn me out indeed; but my conscience was not made by lawyers—I shall have to turn myself out.” This is the sort of thought which more and more prevents intellectual young men from taking orders, and we are beginning to see the effect. The moral excellence and the practical piety of the clergy are as good as ever; but they want individuality of thought and originality of mind. They have too universal a conformity to commonplace opinion. They are not only conscientious, but indecisive; more and more they belong to the most puzzling class to argue with, for more and more they “candidly confess” that they must admit your premises, but, on “account of the obscurity of the subject,” must decline to draw the inevitable inference. Already this intellectual poorness is beginning to be felt; and if it should augment, it will destroy the Establishment. She will not have in her ranks arguers who can maintain her position either against those who believe more or against those who believe less. Scepticism sends trained and logical minds to the intellectual conflict; Romanism does so also; but the Established Church refuses them—refuses them silently and indirectly, but still effectually. The Public Worship Bill will, we conceive, augment this difficulty almost at the very point at which its being augmented will be most calamitous. Many young men who are acutely conscious of the restraints of the Establishment in speculation, are attracted by its freedom in practice. “I may be cramped in metaphysics,” they think at heart, “but I shall be free in action.” But this bill will be a measure—for aught young men can tell, the first of a series—which will limit the freedom of their lives, and cramp them on the side of practice as they already are on the side of thought. The most malevolent enemy of the Established Church could deal her no acuter wound.

Upon the whole, we can conceive nothing clearer than that this bill should not pass this year. We are certain that members of Parliament have not considered the necessary arguments, and that the nation has not done so either.

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THE DEPRECIATION OF SILVER.

PREFACE.

I venture to bring together these articles on the recent Depreciation of Silver, and on the recent Exchanges with India, though I am well aware how incomplete a view they give of the complex subjects to which they relate, and how disagreeable to read a collection of such papers almost necessarily is. If I could, I would have rewritten the whole of them in a more systematic form. But I have no time or strength at my disposal for such a task, and I am obliged, therefore, to use this substitute. To elucidate some parts of the chain of reasoning, I have added the evidence which I gave on one or two points before Mr. Goschen’s Committee on the Depreciation of Silver, last spring. But even so, there is much I should wish to say in addition, both in exposition and in defence of the opinions which I hold.

So far as the short experience which we have had goes, I think it confirms the view taken in these articles.

First, I consider that the rise in the price of silver from 47d. last summer to 55¼d. now, shows the preceding great fall from 54⅞d. last February to be only a momentary accident in a new and weak market, and not the permanent effect of lasting causes.

Secondly, it has been proved that the demand for the countries which use silver as a currency is stimulated by its cheapness here and in America, and that this has carried off the late supply. China has taken the lead in so doing, mainly because she has had a better and readier means of export; but sooner or later, all other silver-moneyed countries will do so, according to their magnitude and opportunities.

And these are the two main propositions which I wish to establish.

If these are proved, the practical conclusion follows that it would be absurd to make any permanent changes in our Indian currency or taxation, while all the facts upon which such changes would be founded are changing so much and so rapidly. And though this conclusion does not need support, it is supported by our uncertainty as to the effect of the increased Home charges of our Indian Government—sometimes, for shortness, called the Indian “tribute”—which, in a way which I have tried to explain, complicates the whole subject.

The fertility of the new silver mines in America is not very elaborately examined in these articles, for even yet there are no sure data for us. But everything tends to show that the yield of these mines is likely to be far less than what was once thought, and the difficulty of obtaining exact data is an additional reason for being very slow to make any changes founded on an hypothesis as to the future price of silver. As yet no one can prove that the permanent value of silver—whether in relation to gold or in relation to commodities at large—will change so much as to render any alterations necessary.

[The Preface, as above written, was sent to the printers about the beginning of March. It is believed that Mr. Bagehot at one time contemplated making additions to it, but no memoranda have been left explanatory of his last intentions.

Economist Office,April, 1877.]

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I.

THE LOW VALUE OF SILVER, AND ITS EFFECT ON INDIA.

When the great gold discoveries were made in Australia and California, most people expected that there would be a more or less rapid fall in the value of gold, as compared with silver. But, as a matter of fact, the effect has been the reverse. The value of silver as compared with gold was 59¾d. per oz., or as 1 to 15·7, in 1849; it now is 54¾d., or as 1 to 17·1. Not only what the best judges expected has not happened, but the very contrary of it has happened.

And this has not been the result of any collateral cause; it is the direct consequence of the gold discoveries themselves. The effect of these discoveries has been a great improvement in the currencies of the world, which, without them, would not have been possible. The countries of great commerce and large transactions require a more valuable medium of exchange, bulk for bulk, than countries of petty trade and minor transactions. The labour of paying £1,000,000 in sovereigns is only a tenth of that of paying it in rupees, and therefore where millions have to be paid sovereigns are a ten times better currency than rupees. Gold is much the best currency for rich nations of large trade; though silver does well enough, and is in some respects most suitable, for poor nations of little trade. But thirty years ago it would not have been possible for the nations of great commerce to have adopted this best currency. There would not have been gold enough obtainable. The supply from the mines was then barely sufficient to maintain the existing gold currencies; it would have been entirely insufficient for establishing new currencies on a large scale. No one then would ever have dreamed of proposing it. But, as we all know, Germany has just now tried the experiment on a great scale. She is buying gold, and selling off her silver. And in consequence silver is cheaper than it has ever been before.

Probably, if there were gold enough for all the world, it would be best that there should be only a single standard of value thoughout the world, and that one—gold. But this is impossible. Some have doubted whether there is gold enough even for the nations which now intend to use it; and there certainly is not enough for all the world. Happily, the East has always been a country which had much silver, and for whose purposes silver was quite sufficient. The transactions of the East are small in comparison with those of the West, and therefore a bulky paying medium is not so inconvenient there as it would be here. Since economical history has been written silver has been always sent from Europe to China, India, and the richer parts of the East, and never more so than in our own time. The payments of England in silver to India during the cotton famine were probably the greatest cash payments ever made in so short a time by one country to another. There is therefore in the end a certain market for the silver displaced from Europe; it will ultimately go, as the rest has gone, to the East, where it is the ancient and the best-attainable paying medium.

But for the moment there is a difficulty in disposing of silver. There is no new sudden demand for it in the East. The case is not like that of the cotton famine. Then we had incurred a large debt to India, and we had to pay it in the only currency which she would take. We had to find an immense quantity of silver on a sudden, and France—owing to the peculiar operation of her double standard—found it for us. But now there is no such debt; the present problem is not to find the silver, but to find the use for the silver. And this is a slower process.

Sooner or later, however, the ordinary laws that govern foreign exchanges will do it for us. The consequence of the low value of silver is that the rate of exchange is now 1s. 9¼d. per rupee (or less), the lowest, or almost the lowest, ever known. And this operates as a direct discouragement to ship goods to India. These goods are paid for in rupees, and when the merchant wants to bring home those rupees to England he finds that they do not go so far as they used to do. He has to pay much more for every £1,000 bill on England, and this extra cost destroys or diminishes his profit.

Secondly, the same state of the exchanges is a direct premium on sending goods from India to England. £1000 received for those goods here will go farther in buying bills on India than it used to do; in plain English, it will lay down more rupees at Calcutta in the same time than formerly, and this increase is so much extra profit. By this combination, therefore, exports from India increasing on one hand, and imports into India diminishing on the other hand, before long a large void will be created, which this silver, set free from Germany, will have to fill. The process will take time, but the effect is inevitable. The tendency of this great import of silver into India will be of course to raise prices, but the degree in which it will have that effect will depend on the degree in which it is counteracted by the causes which have intercepted its effect before—the hoarding habits of the people; the use of silver in ornaments (the ornaments being a sort of reserve fund to be sold in difficulty); the greater extension of silver in rude districts, where barter is still much used; and the general increase of trade, which rising prices always tend to quicken and develop.

When this rise of prices has taken place, the encouragement to exports from and discouragement of imports into India will manifestly cease. The value of the rupee at Calcutta, as against bills on England, may remain as it is now; but the diminution of that value as compared with former times will be compensated by the greater number of rupees which the English exporter to India obtains for the goods which he sells there. The value of the £1000 in London in purchasing bills payable on India in rupees may be as unusually great as now, if we compare it with the past, but there will be a corresponding difficulty in obtaining the £1000 in London. The merchant in India will have to pay more for the goods which he sends to London, and in the end this loss will be equal to the other gain.

If new silver should still continue to come into the market the same process must go on. The first step must be incessantly repeated. The value of the rupee must fall as against sterling money; instead of being 1s. 9d., it may fall to 1s. 6d. And then, *mutatis mutandis,* what we have just described as happening will happen again.

The effect, therefore, of the fall in the value of silver on the trade of India will be temporary only, but its effect on the financial position of the Indian Government will continue as long as the fall lasts. The Indian revenue is received in silver, and, therefore, the less far silver goes in buying, the poorer will the Indian Government be. And this is of more instant importance to the Indian Government than almost any other, because its foreign payments exceed those of most Governments, and those payments are made in gold. It has to pay interest in gold on a very large debt in England, to pay home salaries, maintain home depôts, and buy English goods and stores all in gold; and the less valuable silver is in comparison with gold, the less effectual for these necessary purposes will the Indian revenue be.

On one species of its debt the Indian Government will, indeed, not lose. The interest upon rupee paper is payable in rupees in Calcutta, and therefore the diminution in the value of the rupee is a loss to the creditor who receives, and not to the Government which pays.

How long the fall in the value of silver will continue no one can say. In the last resort, and taking great intervals of time into the reckoning, the relative value of gold and silver will be determined by their cost of production; but in the case of articles so durable, and so liable to be affected by political events like changes in coinage, it is difficult to say how long an average must be taken in order to exhibit distinctly this final result.

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II.

THE REMEDIES FOR THE FALL IN SILVER.

The fall in the value of silver, of which we spoke weeks since, and which has attracted so much attention, proceeds from three causes. First, the actual increase of the production of silver, especially in America, the extent of which is very considerable, as will be seen by the figures we give below; secondly, the amount of silver which has been set free by the German coinage operations, and has been sold here and elsewhere; and, lastly, the perturbed state of men's minds, which is consequent on these events. So large an increase of the supply makes dealers fear a still larger further increase, and therefore they do not wish to buy, and do not care to hold. When markets are in this temper speculations are for the fall, and not for the rise, and therefore there is just now a disposition to "bear" silver and to force its price down. Over and above the proper effect of the causes in operation, there is an additional effect consequent on apprehensive opinion.

The evils of the fall thus caused are two, and both of great importance. First, our English exporters to India and the East find their profits diminished or changed into a loss. They are paid in silver, which is the currency of those countries, but when they bring that silver home and turn it into gold, which is our currency, they find it is not worth nearly so much as it used to be, and this diminution is so much loss to them. In the presence of stagnant and unprofitable trade, such a sudden change for the worse is not easily borne, and its effect, as is usual in such cases, will be propagated through other trades. Secondly, the Indian revenue is received in silver, and the Indian Government, which has to send some £15,000,000 home annually, for interest on its debt and other purposes, finds, in the same way, that the drafts from England on India, by which the remittance is effected, will not go as far as they used to do.

In the end, as we before showed, this fall in silver will work its own cure. Every country is bound to take any quantity of its own money in payment for debts due to it. As has been just explained, imports *into* India are no longer profitable; and by the converse operation of the same causes, exports *from* India have become more profitable than usual. The silver price of Indian commodities in India has not as yet risen much, though silver has fallen here as compared with gold, and there is, therefore, more profit than there was in exporting them. They can be bought with the same sum in silver, and that silver can be obtained more easily. The balance of trade will thus be, as the old writers used to count, constantly very favourable to India; silver will be necessarily sent thither, and the prices there will rise. As far as commerce is concerned, at a certain time everything will be as it was before the fall began. The imports into India will be as profitable as before, because the silver prices in India will have risen as much as silver has fallen in relation to gold, and the exports from India for the same reason, turned the other way, will not be more profitable than usual. The equation of trade, as theoretical writers term it, will be as before. And if the Indian Government were like most Governments, its position also would not be altered. As its taxes were paid in a medium of less value as compared with commodities, it must raise its taxes by an equivalent amount. But, unhappily, the position of the Indian Government is peculiar. The best portion of its revenue is derived from rent, and not from taxation, and that rent is fixed for stated periods—usually thirty years—in advance. On the £21,000,000 which the Indian Government thus receives there will be a loss, which it will have to make good by some financial expedient; and, as we well know, financial expedients are not so easy in India as they are in England. Still, such is the natural effect of these economical causes, and such the ultimate cure for the evils which are due to them.

As usual, however, other cures are suggested which, it is said, will be less painful and quicker—one is that the Indian Government should demonetise silver, as the Germans have been doing, and adopt a gold standard. But in this case the remedy would be worse than the disease. We all know what the Germans have had to do, and how painful its effect upon us has been. They have had to buy gold to substitute for that silver, and the result has been an unusual disturbance of the London market, with sometimes very high rates of discount; nor is the operation yet complete. But the effect of a similar operation in India upon us would be altogether greater and more disturbing, because the Indian silver currency is so very much greater than the German. To get gold enough to supply the place of all this silver the Indian Government would have to buy constantly all the supplies from the gold mines for years, and so straiten incalculably the growing money markets of the world. And then what is the Indian Government to do with the silver? The sales of the German Government have greatly helped to send the price down already; the Indian sales would be on a much greater scale, and would come upon the market just when the supplies from the new American mines were arriving also. So much silver could scarcely be sold at all; the best result to the Indian Government from this expedient would be far worse than anything which it is enduring now by letting things take their course—besides the disturbance to the London and other money markets.

Secondly, it is suggested that the German Government should not sell any more silver, and so not reduce the price. But we may be sure that the German Government will be guided, as in such a case it ought to be, by a regard to its own interest. When it thinks it best to sell it will sell. Like any other holder of silver, it loses much interest by keeping very large sums; and looking to the possible magnitude of the American supply, it will probably not wish to incur for certain that great present loss at the risk also of a still further loss by depreciation. We cannot control the German Government; it will act for its own interest, and it is best that it should.

Thirdly, it is said that our Government should cease to draw bills on India. And our Government is quite right in doing so at the present moment. There is, as we said before, at present in our judgment an apprehensive opinion which exaggerates the effect of the real causes at work—and also, as we are inclined to believe, speculation acting on and aggravating that opinion. In such a state of the market the Indian Government is quite right in doing as little as it can, and it would do ill to hurry to incur a loss which may be saved. But sooner or later it must bring the necessary sums home from India, and must bear whatever loss accompanies its so doing.

Fourthly, it is suggested by M. Cernuschi, the eminent French economist, that England, which was the first country to adopt the single gold standard, should take the initiative in abandoning it; that it should give up the present silver-token currency, and instead, "coin pounds sterling of silver in pieces of four shillings, and, concurrently with gold, put them into circulation". But the English Government and nation will not easily be persuaded to abandon the monetary policy which they invented, and which on the whole has been so successful, just when all other nations are adopting it. The loss of profit on our present gold circulation, the cost of selling it and substituting a silver currency, are in themselves very considerable objections. It would take a very much greater evil than we, or than India, now feel from the present depreciation of silver, to outweigh them. The moment, too, would seem to the practical English sense most ill-chosen to choose to coin silver as a concurrent medium with gold, and therefore necessarily in a fixed relation with gold, just when silver is falling in value, and when we are not sure what its relation to gold will be. Monsieur Cernuschi speaks of the "universality of the 15½". "Since 1803," he says, "the silver franc has weighed 15½ francs of gold, and the silver marc now weighs 15½ marcs of gold," and he would have us coin on this assumption, and in this proportion. But the actual question is whether, in the face of the new and cheap supplies now brought from the American mines, this proportion can be maintained. Even if the best theoretical arguments could be urged for this proposal, it would for many years seem a paradox to our straightforward English minds, and they would be very slow to decide on adopting it.

But we think the theoretical argument is the other way, that it is in favour of our present English coinage, and not of M. Cernuschi's proposed substitute. We differ from him on a fundamental point of principle. He says that "the cost of production does not determine the value of gold and silver. That value is determined by two elements—the employment and the quantity." But we say, on the other hand, that the value of gold and silver is determined by their cost of production, just like that of all other things; that in their case—as in all other cases—what is more cheaply produced than usual will be more plentifully produced than usual, and that the purchasing power in consequence will be no doubt less. Being durable articles, gold and silver are articles stable in general, though not always, in value, as compared with other things, and a change in their cost of production does not so soon affect their value as a corresponding change in the cost of other commodities affects theirs. But the delay does not impair the principle; in the end, its effects will come.

The same causes which regulate the value of gold and silver as respects other things determine, as we believe, their value relatively to each other, and, therefore, as the circumstances of production of both are constantly changing, it is contrary to principle to make, or attempt to make by law, a fixed equation between them. So far, therefore, from M. Cernuschi's proposal being recommended by abstract argument, we think such argument forbids it, as well as its unlikely look, which, for a long time, will have as much or more effect on most English minds than any argument.

Lastly, M. Cernuschi recommends that Germany and Holland, which are in the course of demonetising their silver, though at very different stages, should carefully consider before they go any further. And we do not feel able to say what effect this present fall in the price of silver should have on their present plans. All changes in currency are delicate things, and we quite admit—indeed, we have often before maintained—that this is a particularly delicate one.

But these are considerations for foreign Governments only. For our own Government and that of British India, we believe that there is no other policy possible except to leave the ordinary economical causes to operate—to suffer the present evil, and to await the ultimate cure.

Estimate of Silver Product of the United States (converting the Dollars into Sterling at 4s. each).

From 1849 to 1858, £10,000 per annum	100,000
1859	20,000
1860	30,000
1861	400,000
1862	900,000
1863	1,700,000
1864	2,200,000
1865	2,250,000
1866	2,000,000
1867	2,700,000
1868	2,400,000
1869	2,400,000
1870	3,200,000
1871	4,600,000
1872	5,750,000
1873	7,150,000
1874 (about)	7,000,000

The above figures are taken from the Reports of the United States Director of the Mint.

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III.

FURTHER SUGGESTIONS ON THE FALL IN SILVER.

The grave difficulties which the Indian Government finds in consequence of the fall in silver, and the much graver ones which it has to apprehend if that fall goes further and further, have naturally led to various suggestions, two of which are important enough to deserve notice. First, it has been suggested that the Indian Government should compel the ryots to pay the land revenue in gold at a fixed rate of exchange, say, 10 rupees to the sovereign, and it has been thought we shall so obtain most of the advantages of the demonetisation of silver without any of the disadvantages. But this we believe to be a mistake. The measure, in the first place, would augment the depreciation of silver as compared with gold. Silver is at present the medium in which the land revenue is paid; if it is excluded from that class of payments and gold substituted, the rejected metal will fall and the adopted one rise in comparative value. The ryot who has silver ready to pay his land-tax, finding that silver useless, must exchange it for gold, and an incessant series of such transactions would augment the depreciation which is complained of.

Secondly, the ryot would complain, and justly, of breach of contract. The Government agreed with him to take so much silver for so many years, but now, in effect, it says it must have so much more silver. Suppose the silver rupee were only equal to 1s. 8d. in gold, and you make him find gold at 2s. a rupee; this is equal to an addition of one-sixth to his taxation, and this will be a great hardship. If, indeed, the prices which the ryot gets for his commodities in silver had risen, he would be benefited as much as he lost, but as yet this is not so. The effect upon the relation of silver to gold has been much quicker than that upon the silver prices of miscellaneous commodities, and it would be a severe tyranny and real breach of faith, to increase the stated land-tax upon the ryot when his means of paying that tax had not been augmented.

Thirdly, the Indian creditors of the Government, who are paid in silver, would say that their contract ought to be put on the same footing as the ryot's contract; that as he is to pay in gold, at a fixed rate, so ought they to be paid. And their case will be stronger, because, as we have seen, the depreciation of silver will be increased by this action of the Government; and, therefore, its creditors may justly claim not to suffer by that which is, in part, at least, the act of their own debtor.

Fourthly, the officials of the Indian Government will at once say that they ought to be paid in gold too, at a fixed rate. And there would be a real claim to it as far as the English officials are concerned, for they are in much the same position as the Government; they have to make large remittances to England for the investments of their savings, and often for the maintenance of their families. The prospect of making these savings has very much induced them to go to India, and, therefore, it would be unfair by any act of Government materially to lessen their power of making them.

Other objections might be urged, but these are, we think, enough to show that the plan cannot be adopted.

The second scheme is even less plausible; indeed, we notice it rather because it has been spoken of in the market than for any merit it has. It is that the English Government should abstain from drawing on India, and should negotiate a loan in London. But this would only augment the evil, for the interest on the new loan would have to be paid in gold, and would be so much more if the gold was to be bought by the Indian Government in depreciated silver.

In so far as the evil is real there is, as we before showed, nothing to be done, except to endure the evil for the present, and to have confidence that the slow action of economical causes will in the end cure it. How far the present apprehensions are well grounded, and in what proportion on the contrary exaggerated, it would be as yet very premature to give an opinion.

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IV.

THE EFFECTS OF THE RESUMPTION OF SPECIE PAYMENTS IN FRANCE ON THE PRICE OF SILVER.

The increased supply of silver from the American mines, the amount of it thrown on the market by the coinage operations of Germany, and the consequent fall in its value as compared with gold, have all been much discussed; but there is another event which will have a great effect on the matter, and which must sooner or later happen, that has not received at all equal attention, *viz.,* the resumption of specie payments by the Bank of France. The result of this, unless a change in the French coinage law is made, will be, we think, considerably to raise the price of silver as compared with gold, just as the result of the other causes which have been mentioned has been considerably to lower it.

Our older readers, and those of our younger ones who have followed the history of the London money market, will remember the exchange in 1860 of £2,000,000 of silver by the Bank of France for £2,000,000 of gold with the Bank of England, and the interest which it excited. We then explained what had happened, and the reason for it:—

"Why, then, do the Bank of France desire this arrangement? According to their own views, it was from no uneasiness as to their position. Notwithstanding the diminution in their reserve of bullion, they believe that they need feel no anxiety. By their last return their liabilities were:—

Notes in circulation	£30,296,520
Deposits, etc.	15,176,102
Total	£45,472,622

and their reserve was more than £17,000,000, and they consider that this is amply sufficient.

"The difficulty of the Bank of France, it is said, is not the amount of bullion they hold, but the nature of that bullion. In their seventeen millions, the proportions are in round numbers:—

Gold	£4,000,000
Silver	13,000,000
Total	£17,000,000

And under the French currency laws this is not satisfactory. The Bank of France, for very sufficient reasons, prefer discharging their liabilities in gold instead of in silver. If they were to pay a noteholder £1000 in silver, he could immediately sell the silver in the market for gold, and gain a substantial premium by the transaction. Accordingly the managers of the Bank of France apprehend that if they began to discharge their liabilities in silver, there would be a run upon them immediately for the sake of this premium. 'If every noteholder knew that he could obtain an appreciable percentage on his note by getting it changed, depend on it,' they say, 'he will get it changed. The same causes which have drained the rest of France of silver (except for the smallest purposes, and of insufficient quantities even for those purposes) would begin to act upon us also; in a short time we should be drained of the whole of our thirteen millions of silver.' And this, they say, is the reason for their proposing this anomalous arrangement to the directors of the Bank of England.

"One remark must occur to every one when he hears this reasoning. It is the remark that no bank ever ought to be in this position. There must be some fault somewhere; there must either be bad management or bad legislation; there must be some peculiar error, or there could hardly be so peculiar a perplexity. For what is the allegation? The Bank of France say, 'We have a large reserve, but it is not the kind of reserve we want. It is in the wrong metal; it is not gold, but silver.' The alternative is irresistible that either the directors of the Bank have themselves made an error in hoarding a reserve in the wrong metal, or that circumstances beyond their power have forced upon them a hoard which they find they cannot use. They have a useless reserve, they themselves tell us; either, therefore, they have voluntarily selected it—in which case they are to blame; or it has, by an unfortunate necessity, been forced upon them—in which case they are not to blame.

"Nor is this the only remark which must immediately be made. There is another very obvious but very important one. This useless reserve is a misfortune, not to the Bank of France only, not to the French only, but to us also, to Europe, and to the whole monetary world. We have thirteen millions sterling thus locked away in a great banking establishment, which does not dare to use any part of that sum, for fear it may be deprived of all of it; and we have all been sufferers in consequence. The French demand for gold has been disturbing us for several weeks.

"In truth the entire difficulty is caused by the French currency laws. There has been a question whether there is a double standard of value in France, and we will not, therefore, use the phrase, but there is indisputably a *double paying medium.* Both gold and silver circulate in France; both are legal tenders to any amount; and there is a fixed relation between them. A certain quantity of silver by law will pay a debt of 1000 francs, and a certain quantity of gold will pay it also. One effect of this twofold currency has been often pointed out. The metal which is relatively depreciated will come into exclusive use; people will pay their debts in the least valuable metal, not in the most valuable; in the medium which they can obtain *most* easily, not in the medium which they obtain *less* easily. But we have now to remark a different effect. *Some* of the holders of the more valuable metal may be in a difficulty. If they are bound to pay either the less or the more valuable metal to their creditors, and they have not the former, they must use the latter. In consequence, in a country where two metals are a paying medium, those bankers who store up either metal for the necessary purposes of their business run a great risk. If it increases in value, there may be a run upon them, not because their credit is impaired, but because the metal they have chosen is desired."[1]

And the same cause will act on the Bank of France as soon as it resumes specie payments. The Bank of France holds now over £70,000,000 in the precious metals, and it is known that gold preponderates largely. Roughly, it is said that the proportions are—

Gold	£50,000,000
Silver	20,000,000
Total	£70,000,000

And here, just as in 1860, the principal component in the reserve is the comparatively *ap*preciated metal. The metals have, indeed, changed places; in 1860 the metal which had augmented in value was silver; now the metal which has increased in value is gold. But the position of the Bank of France is for the purpose now in hand identical. It now holds an enormous amount of gold, which it would be dangerous to pay away; just as in 1860 it held a much smaller, though still considerable, amount of silver, to pay away which would have been equally dangerous.

The basis of the difficulty is that the French Mint coins the two metals thus—

One kilogramme weight of gold	3,100 francs.
One kilogramme weight of silver	200 francs.

—or in the proportion of 15½. But this is not the real proportion of the market value. 15½ is equivalent to about 60¼d. for an ounce of silver, whereas the market price is now 54¼d. The law having fixed an equation, bankers will always be in difficulty when the facts with which they must deal do not correspond to that equation.

Of course, as long as the Bank of France suspends specie payments it does not feel this difficulty. If we may be permitted to say so, it is on a lower level altogether. It is not perplexed by the possibility of having to pay in the appreciated metal, for it does not, except in minor sums and when it chooses, pay in any metal. But as soon as the Bank of France performs its legal obligations, the problem which the defective currency system of France sets before it must be solved. There is, indeed, one obvious mode of solving it. There is something very singular in a difficulty which is caused by holding a commodity which has enhanced in value. The obvious remedy is to sell it in the market, and to obtain the advantage of that value. If the Bank of France could sell its gold for silver at the present price, it would get a large profit; it would have done a capital bullion transaction on a magnificent scale, and the shareholders would be large gainers in consequence. In 1860 the Emperor Napoleon, to whom the accounts of the Bank of France were then constantly submitted, would not permit this natural remedy to be tried, and, therefore, the Bank of France had to forgo the profit, and to change away the dearer metal with the Bank of England. But now there can be no choice; the sums to be dealt with are so large that no such palliative by exchange can be thought of. If cash payments are to be resumed in France, large sales of gold for silver must precede and accompany the resumption.

And the effect of such sales will, of course, be to raise the price of silver as compared with gold. The circumstances of the Bank of France will make the possession of much silver constantly essential to it, and the effect of this new large demand will be a rise of price.

The only alternative is the demonetisation of silver, and if this could be effected, it would give France a currency much better than the present one, according to our notions. The *bi*-metallic system is, we think, condemned by the very discussion in which we are engaged, for the perplexities which that system entails on the Bank of France are the evils of which we are seeking the remedy. But it may be doubted whether France is now prepared to abandon this system. It would be a very costly operation. The amount of five-franc pieces hoarded in France is probably very large, and if they are to be demonetised, gold must be substituted for them, which, as the example of Germany shows us, is no easy thing to do. Moreover, till 1880, France is bound by a monetary convention with Italy, Switzerland, and Belgium, and can only change as they like. Even after 1880, France would not like to abandon the "Latin Union," as it is called, which is economically convenient—which is her creation, for it is an adoption of the money she desired, and in which she takes a political pride. Probably, if silver is demonetised at all, it will be so at once, not only in France, but in all those other States, which will be difficult to arrange, and costly to effect. And it will not have the united support of theoretical opinion, for many Continental—and especially French—economists adhere to the two-metal plan. And even strong opponents of that plan (like ourselves) may well doubt whether this is the time to abandon it. The Governments who do so undertake, in fact, to substitute gold for silver, and just now they have unusual difficulty in getting the gold, and in disposing of the silver. Germany is just making the substitution, and it is obviously an operation in which many great nations should not engage contemporaneously. An interval ought rather to be left after the completion of the operation by one before another begins.

It is true that the demonetisation will be facilitated by the clauses in the agreement of the Latin Union, which limit the number of silver pieces less than five-francs to be coined by each State in the union, and which limit the amount for which such subordinate pieces are legal tender. These pieces might, therefore, still be left to circulate as token-money. But, nevertheless, the change, especially in so many States at once, would be a heavy task to accomplish, and not one which it would be easy to get undertaken. And failing this, there is no remedy, except the sale of gold for silver by the Bank of France, of which we have spoken, so soon as a return to specie payments is determined on.

It may, indeed, be suggested that the Bank of France need not return to specie payments at all. But we do not believe that those who have managed her affairs so admirably during the last few years will even consider that alternative. As bankers who have promised to pay on demand, they must wish to maintain their credit by so paying. And Paris can never again be the exchange centre for Europe which it used to be, and which many concurring circumstances render it convenient for it to be, while bills on Paris are paid in a purely local medium like the paper of the Bank of France, and not in the precious metals, which are the money of all the world.

Sooner or later, therefore, we have no doubt that the Bank of France will resume specie payments, and then, unless the fundamental basis of the French currency law shall have been first changed, there will be a very material rise in the value of silver as compared with gold.

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V.

THE EFFECT OF A DEPRECIATION OF SILVER ON OUR FOREIGN, AND ESPECIALLY ON OUR EASTERN TRADE.

That the depreciation of silver as compared with gold, which has already begun, and of which we cannot yet predict the final amount, is unfavourable to the Indian Government, is plain. That Government receives a revenue in silver which it cannot easily augment, and it has to find annually, for the interest on its debt and for home expenses, a large sum of gold in London. Whatever lessens the value of silver as compared with gold is therefore very disadvantageous to it. And whatever does so is also detrimental to the holders of Indian or other securities of which the interest is paid in silver. But it is only States or persons in this position—that is, those in receipt of a more or less fixed sum in silver—who will permanently be affected by it. After the depreciation of silver has attained its limit trade will be exactly where it is now, and though during the process there will be much unsatisfactory uncertainty in the trades with the countries whose prices are in silver, and though in some parts our trade will probably suffer, yet other parts will as probably be benefited; and therefore this change, though like all changes in the value of a currency, a troublesome burthen, is, nevertheless, not an evil of the first magnitude, or at all likely to produce the disastrous effects, on English commerce especially, which we sometimes see expected from it.

We must remember that silver is still practically the main currency of a very large part of the world. The whole of the East uses it, not indeed to the entire exclusion of gold, but still much more than gold. It suits the minuteness of the payments which in Oriental countries, and in all countries in which there is no credit, of necessity make up almost the whole of the daily transactions which carry on common life, and for which the smallest gold coin that can be safely and economically used is very many times too great. Over the vast area of the backward pale of the world an incalculable quantity of silver is now scattered, doing the work of daily life, and doing it almost to the exclusion of all other currencies. And we must remember, too, that with this currency, as with all others, the efficiency depends on the value. The more things a rupee exchanges for, the fewer rupees will be necessary to do the work of India. A change of 10 per cent. in the purchasing power of silver would make 10 per cent. more silver necessary in each of these countries; and though we do not know what 10 per cent. would amount to, because we really cannot tell even approximately the quantity of silver circulating in those countries, yet we see that it must amount to something very large, for that present circulation must be reckoned by hundreds of millions. To make a permanent change even of small amount in the purchasing power of silver throughout the world is a most costly matter, requiring much time. No commodity is of so stable a value as a great deal of money diffused over many countries, because as soon as you diminish that value even a little, you augment the quantity required indefinitely. In this case, far more than in any other, an addition to the supply of itself generates an addition to the demand.

And a depreciation of such money is necessarily diffused with more or less rapidity through the various nations who use it. A local congestion, so to speak, is impossible. The laws which distribute the precious metals over the world will gradually lessen the value in all of them, if it is greatly and suddenly lowered in any one. There is a steady tendency to take such a commodity from the country where its purchasing power is small to those in which its purchasing power is great, and in that way this power settles in all countries at its level.

Such a change in the value of a metallic money will even generate a new trade between countries which had none before. The discovery of gold in Australia and California gave those countries a buying power which created a great direct commerce with them; the nations from whom they bought obtained a buying power too; so on with those from whom they bought; and so an unprecedented accession to the previous trade of the world.

It would be absurd to expect any results of similar or approaching magnitude from the new silver mines in America, even were their magnitude and fertility many times greater than even the most sanguine computers make them. But the same cardinal principles will govern this smaller case which we have seen govern the greater. The silver prices of all articles must gradually and slowly be raised all through the silver countries; and the rise will be effected the most quickly in those countries which have most share in the commerce of the world, and which export and import most. Take the case of India at this time. The depreciation of silver in London is an encouragement to English capitalists to buy commodities—jute, cotton, indigo, or whatever it may be—in India. Such commodities are sold in rupees, that is, in silver, in the Calcutta market. Now, an English capitalist must first buy his rupees—for this is the real result of the more complex exchange transactions—before he can obtain these commodities. The cheaper, therefore, he can buy such rupees the better his operation. Supposing an order to buy at a given hour in the Calcutta market to yield neither profit nor loss when rupees were at 2s., it might yield a good profit if the rupee fell to 1s. 8d., because then the gold of the English capitalist would go so much farther in the purchase of them.

The very contrary arises in the case of English exports to India. The English exporter of these is paid in rupees at Calcutta or Bombay, and these rupees, when he brings them home to London, are worth (say) a sixth less than they used to be; and, therefore, he has a steady and certain motive not to export as much as he used to do. And the sure result of these two changes, of the encouragement of exports from India and of the discouragement of imports into India, is a flow of silver from hence thither, which must ultimately raise the general standard of prices there.

It may be objected that this rise of prices will be an evil to India—will throw it out of the world's market; that Indian cotton, for example, which has thus risen in price, will not be able to compete with American cotton, of which the price will be unaltered. But this objection is fallacious; all which the rise of prices will effect will be to withdraw the exceptional encouragement which, as we have just explained, the present state of things gives to the export of Indian cotton. When silver has settled to its new level of value all trade, whether of export to, or import from India, will go on as it did when it was at its old value. Take the case of the English importer from India, silver having fallen (say) 15 per cent. In its relation to gold, he will get 15 per cent. more rupees than he used to do for his gold, but when he goes into the Calcutta market, he will find that these rupees will only purchase an equal percentage less; his gold will be neither more nor less efficient than at first, and therefore he will neither be encouraged to buy nor discouraged from buying. Conversely, the English exporter to India will not be able to get as much for the rupees for which he sells his goods, when he brings those rupees home here; but on the other hand, he will have, to a corresponding extent, more rupees, and therefore the final outcome of his trade will not be altered.

No doubt it is true that during the process of depreciation our general export trade to some countries will be under a disadvantage. We shall export to them silver instead of goods; but on the other hand, certain other branches of our foreign trade will be augmented. The silver which we send to India we shall have sent to us from America, and we shall have to pay for it. And we shall doubtless pay for it in the same way that we pay America for the rest of the commodities which she sends us. Our present direct trade with America stands thus:—

Export from America to England (1874)	£73,897,000
Export from England to America (1874)	32,238,000
Balance in favour of America	£41,659,000

And against this balance America draws drafts to pay for what she buys in India, in China, or in France, and all over the world. The trade is what is called a triangular trade, because the debt due to one nation is paid for, not by the nation which owes it, but by some other nation or nations which are in debt to that nation. The more, therefore, we augment our American trade, the more we shall have to export in goods, not indeed wholly, or probably principally, to America itself, but to other countries to which she is in debt. And as America always buys more in the East than she sells there, curiously enough one of the trades which will most likely be thus stimulated is the trade with the East, which from the first operation of the new cause—by the substitution of silver for goods in our direct trade—has been discouraged and depressed.

The same fact may be put in another way. The United States have acquired by the extraordinary productiveness of their new mines of silver an augmented purchasing power in the markets of the world. The increase of power they use in buying the commodities which they wish for in the East and throughout the world. But partly owing to her protective system, and partly in consequence of natural causes, America has no direct communication with the countries which produce those goods; she therefore sends the silver to England, and England acts for her as a produce-broker on a vast scale—both sends on the silver to the countries which want it, and pays, indirectly, for what she buys to the countries she buys from. That we are able so to pay is one of the many instances in which, in trade, most is given to those who already have most. Our export trade is so much greater and so much more easily augmented than that of any other country, because we are able to settle any debt in commodities far better than any other nation. If the United States buy of nation B, B is more likely to want something of England than of any one else, or if, instead, B buys of C, C is so likely, and so on through the alphabet, till at last you come to England. Our predominant international trade gives us, in a business such as this, an assured pre-eminence.

This is one compensation for any evil to our present export trade, which may be caused by a change in the value of silver; and another is that a part of our import trade will, as we have seen, be benefited by the same cause; which must either cause—according to circumstances—increased profits to our traders, or diminished prices to our consumers; and either way, be a gain.

In thus writing, we have been content to assume that the American production of new silver will be on the largest scale which has ever been alleged, because we wanted to show how large the area of silver-using countries is; how slow, in consequence, will be the process of depreciation; how much of benefit, as well as of loss, there is to our trade while the process is going on; and how much commerce will return to its antecedent state when the change has run its course, and the depreciation has terminated.

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VI.

THE EXTREME FALL IN SILVER, AND THE HASTY REMEDIES PROPOSED.

The report of Mr. Goschen's Committee on the depreciation of silver has been laid on the table, and will doubtless appear immediately. And it is understood to contain a most full analysis of all the causes which have combined to produce this perplexing event. But in the meantime the fall of the rupee to 1s. 6½d. at the last bidding for Council bills, and of silver to 47d. per oz., have naturally caused the suggestion in various quarters of various hasty remedies, which can be discussed before we get the report, because by the terms of their reference the Committee were debarred from considering remedies, and told to confine themselves to causes.

The main evils of this depreciation are two. First, and most important, that the Government of India receives the whole of its revenue in silver—partly in land-rents fixed for considerable periods, and partly in taxes which it is difficult to increase, and that this Government has also of necessity to find in London a very large amount in gold annually; so that they lose a sum which, taking the rupee at 1s. 8d., Sir William Muir, the Indian Finance Minister, estimated to be of most serious magnitude, and which, now that the rupee has fallen to 1s. 6½d., will be considerably more. So grave a misfortune has seldom happened to any Government so suddenly and so completely from causes out of its control. Secondly, all private persons, such as the holders of rupee paper, who have to receive fixed sums in silver, lose, as is usual when a currency becomes depreciated. Debtors gain and creditors lose in this instance, as in all similar ones. The great peculiarity of the case is the position of the Indian Government, which has so great a burden so rapidly thrown upon it, and is so little able by additional taxation with equal rapidity to find means to bear it.

The remedies suggested are, first, that the Government of India should demonetise silver and substitute gold. But those who make this proposal cannot have considered what in practice it would involve. A Government which abolishes an old money must find a new one. It could not say, "Our law up to the present time has made the silver rupee legal tender, but we now change that, and make a gold coin legal tender, which gold coin you, our subjects, must find for yourselves". If the Indian Government did so, the losses to its subjects would be enormous. Every holder of the old coinage who wanted to pay a debt would have to sell silver, which is so rapidly going down, and buy gold, which in comparison is rapidly rising, and the loss would be severe. The only way in which such an operation can be effected, is that which the German Government has lately adopted. That Government bought and found the gold which was to form the new currency, and in so far as the operation is complete, has exchanged it for the old one. But no one could now propose this to the Indian Government as a means of relieving itself from financial difficulty, for the cost which it would entail would be enormous. Even with all their resources, they would have great difficulty in getting the immense sum required in gold, and they would hardly be able to sell the silver at any price. The present position of the Indian Exchequer is not good, but it is beyond comparison better than it would be if this expedient were tried.

Secondly, it is suggested that we should adopt a double standard for India both of gold and silver. But this does not meet the difficulty. The effect of a double standard is, at every change in the relative value of the two metals, to fill the country with the metal which is falling. France, in this way, was during the cotton famine cleared of a large part of her silver, and gold was substituted for it. Bullion dealers sent the gold to buy the silver, and made a profit of the transaction. The “bad money” always drives out the “good”; and the Indian Exchequer would gain nothing. The essence of the “double standard” is to create two legal tenders, and give the debtor the choice of paying in which he likes. The Indian ryot would, of course, pay in silver, just as now, and the land revenue would be as much impaired for the purposes for which it is wanted, by the depreciation of silver as it is at present.

Thirdly, it is suggested that the Indian Government should cease to coin rupees, and that, in consequence, though the value of uncoined silver fell, that of the coin would not fall—its supply being restricted. But the effect of such a measure would be to reduce the price of silver far below even its present low amount, because it would stop the greatest natural demand for it, by stopping additions to the silver currency of India. And then the difference in value between the rupee as a coin and the same quantity of the uncoined silver, would be much greater than it would be possible to maintain. Good rupees would be a profitable article of manufacture, and would be imported largely from abroad and illicitly manufactured in India. Many Governments have tried a similar expedient, and have, in the end, always been beaten, and obliged to keep the price of their legal tender-coin near to the cost at which it can be produced. But in no case would the failure be so great as in that of India, because in none has the experiment ever been tried on a coin so important, and of so vast a circulation as the rupee.

The effect also would be that the difficulty of disposing of silver in London, and the consequent lowness of the price, would become worse and worse. The natural cure for the depreciation of silver is that it should be diffused over the globe, and especially over the immense area in the East, and elsewhere, which has a silver currency. If silver is depreciated 2 per cent. in all countries where it is the sole or main currency, 2 per cent. more silver must be required, and as the amount of silver in circulation in such countries is enormous, 2 per cent. upon it would be a very great demand, and take out of this market a very large quantity of silver. As we have shown on a former occasion,[1] the laws of trade will infallibly create this demand, though this action is necessarily slow. But the effect of not coining the rupee, in so far as it is successful, would be to suspend them altogether, as far as India is concerned, because it is only by arresting the reduction in the exchange value of the rupee that this step can help the Indian Government, and that reduction is the means by which, as we showed, the new course of trade is created, and the increased quantity of rupees required to do the work of Indian currency after that reduction constitutes the new demand for silver and the new use of it.

The example of the States called the "Latin Union"—that is, of France, Italy, Belgium, Switzerland, and Greece—is appealed to as a precedent for this policy, since they have limited their coinage of silver, as we have often explained. But their circumstances are very different from those of India. In France, which is so much the greatest, and also in Italy, inconvertible paper is really the ruling currency; it is that which settles prices, and everything has to conform to that. And even so the expedient is only regarded as a momentary one; it is acknowledged that the Latin Union must soon either return to the double standard, and coin silver without limit, or must demonetise silver altogether. And if we did not coin rupees, the fall in the price of silver which it would cause would probably determine them to decide on its demonetisation, whereas it is still possible that they may return to the double standard, which would raise the price of silver more than anything else.

This possible effect on the Latin Union is, however, but a minor reason for not thinking of this, or any similar plan. The main reason is that the fall in silver will be greatly lessened if we allow the ordinary action of trade to spread it through the world, so that the depreciation may be everywhere alike, and affect prices everywhere where silver is the currency; and that all plans which impede that action tend to keep the silver in this market, to enhance its depreciation here, and to prevent its diffusion, which is the only cure.

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VII.

THE REPORT OF THE COMMITTEE ON THE DEPRECIATION OF SILVER.

The Report of the Commons Committee on the depreciation of silver is a very able document. It appears to have been drawn up by the chairman, Mr. Goschen, and accepted, with comparatively minor amendments, by the Committee,—and it has the clearness, the precision, and the great information—no matter at what labour acquired—for which Mr. Goschen's writings on such subjects are remarkable. The Committee was excluded, by the terms of its appointment, from investigating remedies *eo nomine,* but by describing precisely the events which have happened, and analysing, as far as is possible, the causes of each of those events, they have enormously facilitated the discussion of future policy. In all cases an accurate diagnosis of a disease must come before a discussion of remedies, and in a very complex case like this such a preliminary is especially needful, or else we may find that we have been trying to cure disease A with medicine fit only for disease B, and so have made things no better, or worse.

The most striking cause of the depreciation of silver, and that which the Committee treat of first, is the productiveness of the new mines in America. And looked at in this relation, the most remarkable thing about it is its rapidity. In former analogous cases the effect has been much slower. Adam Smith was of opinion that prices in England did not even *begin* to be sensibly affected by the American mines till 1570, though the first shipments of specie were made in 1502, and though the mines of Potosi—the most productive of all—were discovered in 1542. And even then the depreciation was slight, and continued to increase only at a slow rate for many years. When gold was discovered in our own time so extensively in California and in Australia, most persons thought it would at once affect general prices. But it did not. Even yet there is a controversy on the subject, and though we believe that, especially since Mr. Jevons' investigations, there can be little doubt that a rise in gold prices has happened to some extent, we should not like to state its extent precisely, and should fear to exaggerate it.

But now, the American mines were not much heard of in this country till last autumn, and the Committee tell us that the effect on the price of silver has been this:—

	d.	d.
1875 Yearly average	56⅞	
1876 Fluctuations in January between	56⅛	and 54⅞
1876 Fluctuations in February between	54⅞	and 53
1876 Fluctuations in March between	54⅛	and 52½
1876 Fluctuations in April between	54	and 53½
1876 Fluctuations in May between	54	and 52
1876 Fluctuations in June between	52	and 50

and as we write it is 48d., showing a reduction of 16 per cent. from the average of 1875.

But we must observe that in this contrast we are not comparing the same things. This table is a comparison of the price of silver with that of gold only; when we spoke of the previous discoveries we spoke of the general prices of commodities. But there is no evidence whatever that general prices in any country where prices are measured in silver have risen in any such ratio; indeed, as we have understood, careful inquiry seems to show that they have not sensibly risen at all. General prices have obeyed in this case the same law as in former cases; they are being acted on very slowly. Indeed, it is evident that they must be so; if they had risen 20 per cent. over the whole of the countries using silver as their principal currency, or over any very large part of them, 20 per cent. more on the silver currency used would have been wanted to circulate commodities at those prices, which, as there are few "economising expedients" in such countries, would have been a very large amount indeed. But no such new silver exists. The Committee say: "It is, however, an important and remarkable fact, to which it may be convenient to call attention at once, that though the increased production of silver in the United States is a fact beyond question, no actual increase in the imports of silver from the United States to Great Britain has taken place since the year 1873, when the average price of silver was still 59¼d. per oz. Indeed, the amount of the imports into Great Britain from the United States for the year 1875, *viz.,* £3,092,000, is the smallest since the year 1869. In the same way, though the new currency laws of Germany affected a vast silver coinage, the sales of silver actually made up to the 26th of April in the present year do not appear to have exceeded £6,000,000 distributed over several years."

Except a small amount of silver which goes from San Francisco to China direct, all the silver which leaves America comes here, and therefore it is plain that no such additional silver as would be required by very greatly raised prices over the large areas of the East anywhere exists. General prices there have not risen in any such ratio as 20 per cent.; what has alone so varied is the relation of silver to gold in the London market, and in the markets guided by it.

But even this variation is most curious. Nothing like it happened when gold was discovered in Australia and California. It did not fall then in relation to silver at all as silver has now fallen in relation to it. The course of prices then was this:—

	Per oz.—d.
In 1848 the average price of silver was	59½
1849 the average price of silver was	59¾
1850 the average price of silver was	601/16
1851 the average price of silver was	61
1852 the average price of silver was	60½
1853 the average price of silver was	61½
1854 the average price of silver was	61½
1855 the average price of silver was	615/16
1856 the average price of silver was	615/16

—which is certainly wonderfully little in comparison with what we now see, though the discoveries of gold then were every way as remarkable—indeed, more remarkable—than those of silver now. The difference is certainly not from any excessively quick supply now. As the Committee shows, in 1875 the silver sent from America was less than in previous years, and for the first six months of 1876 the figures have been these:—

Import of Silver from United States.	
1874 (First six months)	£2,046,925
1875 (First six months)	1,293,258
1876 (First six months)	1,293,851

—so that, in fact, notwithstanding the great fall of silver in this market, owing in great part to the apprehension caused by the new mines, we have had from them no extra supply as yet at all.

The explanation is that the report of this new discovery came on a market where prices were previously falling, and which was most perturbed and sensitive. The Committee tell us that:—

	d.	d.
Between 1862 and 1866 the yearly average price was between	62	and 61
Between 1867 and 1872 the yearly average price was between	61	and 60
In 1873 the yearly average was	59¼	
In 1874 the yearly average was	585/16	
In 1875 the yearly average was	56⅛	

—showing a considerable fall. And they analyse the causes which were in action, weakening the temper of men’s minds, and preparing them easily to allow of a still greater fall.

The first of these is the introduction of a gold currency into Germany in place of a silver one, of which the report gives a very clear and consecutive account. This cause, as our readers know, has been one peculiarly perturbing, because it has been incalculable as well as powerful. Dealers in silver have never for several years known either what quantity of it the German Government was anxious to dispose of, or what price it would take for that quantity. Nothing depresses the tone of a market like uncertainty, and this subterranean political agency, if we may so describe it, has now for a considerable period been a cause of uncertainty, in incessant action, and of the first magnitude. And its action still continues, for the amount of the thaler silver currency, which will have to be demonetised, is most uncertain, the estimates of it differing by many millions; and, therefore, we do not in the least know either what the German Government have in hand, or what they have to sell, or when they will have to sell it. The silver market is, consequently, affected exactly as the Liverpool cotton market would be if there was an immense unknown quantity to arrive. Such a market always, as the phrase is, lives from hand-to-mouth, sells as soon as it can, and the prices in it fall to an extent and with a rapidity which an observer, acquainted only with the visible supply or the visible demand, would not be able at all to account for.

The second cause is the policy of the Latin Union to which we have so often drawn the attention of our readers. The States comprising it—France, Belgium, Italy, Switzerland (and now Greece)—in 1873 adhered strictly to the principle of the double standard of gold and silver,—that is, they allowed any one to bring to the Mint any quantity of either metal, and they coined it for him. In consequence, at every change they were always coining the metal of lesser value, and that metal, when coined, was used to buy and take away the metal of higher value. In this way, during the cotton famine France was half-emptied of silver which was wanted for export to the East, and was filled with gold which was not so wanted. If these States had continued to adhere to this principle, the great effect on the general silver market produced by the German operations would have been much diminished and rendered scarcely observable. As soon as silver began to fall it would have gone to France and been used there to buy gold which had risen. Thus silver would have been taken from the general market, and gold would have been brought to it, till the former level of comparative values, or something like it, had been reached. But France and the rest of the Latin Union could not endure this. Partly from political, and partly from economical motives, they would not take the "cast off" German silver. They limited the amount of the silver which they would coin, and thus the silver market was at the same moment perturbed by two extra-commercial causes: one set of countries sold off silver as they had never before done, and so increased the supply; and another refused to take it in a way in which they had never before done, and thus diminished the demand.

Thirdly, there has been another cause, also not commercial, though of a very different kind, which has tended to diminish the demand for silver. This is the increase in the amount which the Home Government draws for upon India, as to which the Committee tell us: "The yearly amount payable by India for the disbursements of the Home Government has risen since the Indian Mutiny from £5,000,000 to £15,000,000, a difference of which the magnitude will be appreciated when it is remembered that it is considerably more than half of the total amount of silver annually produced.

"That the full effect of this substitution has only been recently felt, as that effect was retarded by the construction of the Indian railways, which involved an expenditure in India of money raised in England, counterbalancing therefore an equal amount of expenditure in England of money raised in India.

"That the amount of the disbursements which has just been stated appears to represent the present normal expenditure of the Home Government, and that, therefore, unless by some marked change of policy, no diminution of that amount can be looked for."

The effect of this increase of the *tribute,* for such economically it is, which India pays to England is peculiar, because the ordinary relation of the two countries commercially has been peculiar. Generally the existence of such a tribute makes no difference in the amount of the precious metals transmitted from one country to the other. Mr. Mill explains this very clearly. “Commerce,” he says, “being supposed to be in a state of equilibrium when the obligatory remittances begin, the first remittance is necessarily made in money. This lowers prices in the remitting country, and raises them in the receiving. The natural effect is that more commodities are exported than before, and fewer imported; and that, on the score of commerce alone, a balance of money will be constantly due from the receiving to the paying country. When the debt thus annually due to the tributary country becomes equal to the annual tribute or other regular payment due from it, no further transmission of money takes place; the equilibrium of exports and imports will no longer exist, but that of payments will; the exchange will be at par, the two debts will be set off against one another, and the tribute or remittance will be virtually paid in goods.”

But in the case of this increase of the tribute from India to England, the primary supposition of Mr. Mill does not hold. The exchanges were not before in what he calls “equilibrium”—that is, one which did not admit of a transmission either way of the precious metals. There was a constant export of silver from England to India—a sum of money constantly paid by the dominant to the dependent country. And in such case the effect of an increase of the sum due from the dependency almost always at first is, and perhaps may permanently continue to be, a diminution of the cash which the superior country has to transmit. This is one effectual mode of rectifying the balance; it is the simplest, it is always the first taken. And it has been so here. From a most careful and valuable examination in the Committee’s report, it appears that—

Between 1868-9 and 1871-2, the annual average export of silver to India from England was	£10,000,000
Between 1872-3 and 1875-6	4,100,000
Diminution	£5,900,000

But on the other hand, the increase in the “tribute money,” as we call it, or the Government drafts, is:—

Between 1872-3 and 1875-6, the average of Government bills on India was	£12,600,000
Between 1868-9 and 1871-2	7,400,000
Increase	£5,200,000

And the diminution in the demand for silver thus caused has been weighing on the silver market, making it constantly sensitive, and tending more and more to reduce the price.

These, with some minor ones on which we cannot dwell, are the causes why the silver discoveries now have produced so much more sudden an effect on the bullion market, that is, on the relative value of silver to gold, than the gold discoveries did on the relation of gold to silver five-and-twenty years ago. And surprising as that difference is, they are fully sufficient to account for it.

As to the discoveries themselves, the Committee speak with much caution. They very properly abstained from calling evidence from persons connected with the mines, as otherwise their report might have been made a "puffing machine," to raise the price of the shares in particular companies. They rely on the official documents which the American Government issued, the contents of which we have, we believe, laid before our readers from time to time.

They estimate the total yield of the United States:—

Average annual yield from 1864 to 1867	£2,300,000
Yield in 1872	5,750,000
Yield in 1874	6,400,000
Yield in 1875 (perhaps)	6,400,000
Yield in 1876 (perhaps)	9,000,000

These figures are not very large, and would come to very little when distributed over all the countries of the world which use silver as their standard of value, and in comparison with gold the effect is less, because the yield of gold from the new mines is itself very large. "Mr. Whitehill, the State Mineralogist" for the State of Nevada, the Committee tells us, "states that 'during the past two years (1873 and 1874) this mine has yielded bullion to the value of $5,000,000, the principal of it since last June. The yield for September was $562,000, and for October $610,000. The daily yield of the ore is about 400 tons; about 44 per cent. of the value of the bullion is gold.' "

If in the end the supply of gold from these mines is increased on a sudden nearly equally with that of silver, the ultimate effects will not be at all like that which the recent state of prices has shown.

Now, from full information, we see the nature of the evil from which we are suffering. We are not suffering from a depreciation of silver as against commodities in the countries where silver is the standard value, for there is no supply sufficient to produce such a depreciation, nor time if there had been such a supply to diffuse it, and there is no such depreciation in fact. We are not suffering from a depreciation of silver as against gold caused by a sudden excess in the supply of silver, for the new supplies of silver have been only moderate, and none of them have come here. We are not suffering from a depreciation of silver as against gold caused by a diminution in the cost of production of silver, for there has been no time, or anything approaching to time, to say what the ultimate cost of production will be. No doubt certain mines of singular fertility have been discovered, but it is not silver produced in the best mine which determines the price of silver, as a whole, any more than it is the corn grown on the best land which determines the price of corn as a whole; that which does determine it is the cost of production in the worst mine which can maintain itself in working. The producer in the least favourable circumstances always fixes the price; those in better circumstances take that price, and get an extra profit. And what that mine will be in the case of silver we cannot as yet tell; the experience of years alone can determine it. All that we can now safely say is that, judging from all past similar events, it will not be any of the new mines now discovered, or any of fertility approaching to theirs, but some other far down in the scale, some one which has been in some degree better than some others till now, and therefore will be able to maintain itself when those others are obliged to desist from working.

What we are suffering from is the apprehension of increased production of silver suddenly supervening on a market previously perturbed, upon which one Government had forced an extra supply, from which a union of other Governments had refused to take, as usual, any supply, and in which another Government, by an increase of the tribute it requires from a silver-importing country, has temporarily, if not permanently, lessened the demand.

This explanation of the real malady at once disposes of a crowd of unreal remedies. No competent person can propose a demonetisation of silver in India, and a substitution of gold for it, just at a moment when the price of silver has been thrust down by so strong an apprehension caused by such peculiar circumstances. It would be to require the Indian Government to buy the largest amount of gold ever bought in the dearest market for gold, and to dispose of the largest amount of silver in the cheapest market for silver, which ever existed. The present financial position of the Indian Government is no doubt impaired by this sudden depreciation of the metal in which it receives its revenue; but the remedy for a minor deficit would bring in, in lieu of it, a deficit of the first magnitude; it would be nothing else but financial ruin.

Again, no one would propose to arrest coining silver in the East as a remedy for such a state of things, for this would only disorder the silver market still further. It would add a new political difficulty to those previous political difficulties which have caused so much disturbance, and so make the existing confusion far worse than before. Nor can it be maintained that the Indian Government should now require the ryot, whose rent has been formerly fixed in silver, to pay either in gold itself, or in so much more silver as would purchase the same quantity of gold as that fixed rent would have purchased when the settlement was made. If silver in India had become depreciated as against commodities in general, it might have been possible to say to the ryot, "You are selling your commodities for more silver, and therefore it is not unfair to ask you to pay us—the Government—a proportionate amount more". Even then the ryot would have been probably discontented; he would have said, "If prices had gone down, the Government would never have let me off, and it is not fair that they should take the benefit of good times when they leave me the misfortune of hard times". Still, in this case, if the depreciation of silver had been against commodities in general, it would have been perhaps substantially, though not intelligibly, equitable to adopt such a policy. But now that there is no such depreciation of silver as compared with commodities, such a scheme is not feasible. The ryot in India does not sell his produce a bit dearer than he did a year ago; his income, as yet, is just what it was, and it must be so till a vast amount of silver has gone to India to raise the prices of daily life. Clearly, therefore, he must not be additionally taxed because the silver market is apprehensive, and because certain Governments (the Indian Government being one of them) have perturbed it.

The real remedy, as we have shown several times, is to leave the great natural forces of trade to operate unrestricted. The true remedy for an enfeebled market is an access of demand, and in this case the laws of commerce, if not suspended or crippled by State interference, will produce that demand. The necessary effect of a depreciation of silver as against gold is to give a bounty on exports from India and the other silver-using countries to England. An English merchant can now buy many more rupees than he formerly could with the same number of sovereigns, and therefore he can import from India, though prices at Calcutta are not at a level at which it would have paid him to operate if he had not had that novel facility in getting rupees. Similarly, shippers to India cannot afford to sell at the same price in rupees which they could have formerly, for they will lose in bringing those rupees home. And the combined effect of this bounty on exports from India, and of this fine on imports into India, must sooner or later be an unfavourable balance of trade, and a consequent flow of silver to the East. A new demand of great magnitude will eventually relieve the silver market, if we only leave it alone.

It has been objected that as yet this process has not begun. But in this complexly organised world, it is never safe to reason that a force, even of great magnitude, does not exist because its effect may be impeded. No doubt, as the first table we print at the end of this article shows, the exports from India to this country have in many instances not increased, though in some they have; but then table No. 2 shows why. The prices of those articles in England have gone down, and, therefore, though there might be a gain in comparison with last year on the exchange, there might be a loss as compared with last year on the whole transaction. As to the diminution of profitableness of shipments *to* India from hence, there is, unhappily, no doubt. Every trade circular dealing with the East records—every Chamber of Commerce in cities interested in the East resounds with complaints—that it is so. Sooner or later this must cause a large diminution in that branch—a diminution, no doubt, universally to be much regretted, but nevertheless an evil necessary to be endured, because it is part of the appropriate remedy at the present time. We have spoken of India because that is the silver-using country which comes most easily to an Englishman's mouth; but the same thing is true of China, of the whole East, and of every other part of the world. To them all, there must ere long be an export of silver. In a time when the speculative part of the business world were eager and animated, this would have happened long ere this; but even the present indisposition to begin new things, and the recent ruin of so many of those who were most disposed to do so, cannot long delay it.

At what price silver will settle down, nothing but experience can determine; but the two cardinal points in the matter are—first, that that price will be determined by the cost in the *least* good mine which pays to keep at work; secondly, that the extra demand for silver to countries where it is the standard money will require a very large sum, if the value of silver as against commodities is to be depreciated in all of them, because the efficiency of a metal as money depends on it. By whatever percentage you depreciate it, you make it necessary by that very percentage, *cæteris paribus,* to have more of it. And as the quantity of silver now circulating is immense, even a small percentage on it comes to a good sum, so that ultimately mines of far inferior grade to those now so much talked of will continue to be worked, will settle the value of silver, regulate its price, and in all likelihood prevent any such depreciation of it as the peculiar perturbations of the present moment have led many to apprehend.

Table of Principal Articles Imported into the United Kingdom from British India.

		First Half-Year			
		1876.	1875.	Increase.	Decrease.
Wheat	cwts.	1,166,000	119,000	1,047,000	—
Cotton	cwts.	1,152,000	1,617,000	—	465,000
Hemp	cwts.	29,000	57,000	—	28,000
Hides, dry	cwts.	187,000	218,000	—	31,000
Seed, flax, and linseed	cwts.	603,000	205,000	398,000	—
Silk, raw	lbs.	89,000	244,000	—	155,000
Sugar, unrefined	cwts.	47,000	205,000	—	158,000
Tea	lbs.	9,903,000	10,708,000	—	805,000
Wool, sheep, and lambs	lbs.	13,117,000	10,194,000	2,923,000	—

Average Prices of Imports from British India.

		First Half-Year									
		1876.			1875.			Increase.		Decrease.	
		£	s.	d.	£	s.	d.	s.	d.	s.	d.
Wheat	per cwt.	0	10	0	0	9	5	0	7	—	
Cotton	per cwt.	2	9	6	2	15	0	—		5	6
Hemp	per cwt.	0	19	5	1	1	9	—		2	4
Hides, dry	per cwt.	3	15	0	3	19	9	—		4	9
Seed, flax and linseed	per qr.	2	9	3	2	14	3	—		5	0
Tea	per lb.	0	1	8⅜	0	1	9⅛	—		0	0¾
Wool	per lb.	0	0	9¾	0	0	10¼	—		0	0½

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VIII.

THE PROPOSAL OF THE BENGAL CHAMBER OF COMMERCE TO SUSPEND THE COINAGE OF SILVER IN INDIA.

The Chamber of Commerce of Bengal have resolved "that it is expedient for the Government to suspend clause 19 of Act 23 of 1870, which makes it obligatory on the Indian Mint to receive all silver tendered for coinage"; as also "section 1 of clause 11 of Act 3 of 1871, which makes it obligatory on the Currency Department to issue notes against silver bullion sent in, and that during such suspension it be unlawful to import coined rupees". The weight of the authority of that Chamber has, therefore, been given to the proposal to suspend the coinage of silver, and thus to maintain the value of the rupee by diminishing the numbers of it in circulation, although the silver out of which it is made is falling in value.

The effect of this plan would be, as is obvious, to hold out the greatest stimulus to private coinage which has ever been given in the world. The basis of the whole proceeding is that the silver as a metal is likely to fall much and rapidly in value, in consequence of the new mines in America. But if this is so, the Americans will not lose the Indian market if they can help it. If the Government will not coin these rupees they will do it for themselves, and no law will be able to keep what they coin out of India.

We have also proved that this plan would have the necessary effect of suspending the natural cure for the present evil. The silver market is now disorganised, not by a great supply, but by an excessive apprehension. And the proper cure for such a market (and it is often a rapid one) is a brisk demand. Now the nature of the present fall in the exchange value of the rupee is, as has been at length explained, to give a bounty on exports from India, to give a discouragement to imports into India, and thus to create a balance of trade favourable to India, and a flow of silver thither. As there is no excess of supply in the silver market, the demand thus created will greatly sustain its value.

But there are other objections than these to the plan which, as they arise from its bad effect on Indian trade, should have prevented the Bengal Chamber of Commerce from recommending it. A metallic currency, of which the quantity is artificially regulated, of which whoever likes cannot get as much coined as he wishes, is as much a currency of fictitious value as a currency of inconvertible paper—and a nation which takes it is exposed to the same evil. A rupee "limited"—that is to say, a rupee of which the numbers could not by law be augmented—would do in India much what the greenback has done in America. It would be an appreciated artificial currency, instead of a depreciated artificial one, but it would be an obstacle to commerce, and would tend to isolate the country exactly in the same way.

In dealing with America now, as we need not explain, there are two problems for the English exporter; he has to consider for how many greenbacks he can sell his article, and then how much "sterling exchange" he can buy with those greenbacks. In dealing with a country which has a metallic currency there is always a limit to the fluctuations of exchange. The premium on bills can never rise beyond "the specie point"—the point at which it will pay to export gold or silver, as the case may be. But in the case of a fictitious currency, there is no such final point, for that currency cannot be exported. The premium on bills may rise to any height, as the depreciated paper is more and more multiplied. Upon an average, any extra high paper-price for his article obtained in America by the English merchant will be compensated by an equal loss on turning the paper into sterling. When other things rise in paper-price, the paper-price of gold as a rule will rise too, and with it the price of bills on London payable in gold. But though this is the general tendency, and a perfectly sure tendency on the average, it is only so sure on the average; it may fail in a particular case, and very often does. During the Civil War, and at other times when gold has been an article of great speculation, the fluctuations in the premium on it have been very violent. And there were no corresponding fluctuations in commodities because there was no similar speculation in them. At other times there might be speculation in commodities not shared by gold or bills. And thus the whole trade is confused. The profit is uncertain, because it depends in the long run on the counterbalancing effect of two bargains, and very often the two do not counterbalance.

All persons engaged in the American trade are most anxious to get rid of this impediment, but the effect of the scheme of the Bengal Chamber would be to introduce into the Indian trade a similar impediment—only, so to speak, with the other side turned up. Prices in India would fall, not rise, in consequence of the non-coinage of the rupee. We must remember that the currency of a stationary country requires constant renewal, and that of a progressive country requires constant increase; and therefore, if you keep the quantity fixed, prices are sure to fall. And as the rupee cannot be imported, there is no check on this fall. Smuggling rupees apart—the decline will continue so long as the fixity in quantity of the rupee is maintained, and it will be quicker or slower in proportion as the increase of the country is so.

No doubt the price of bills on England will in the long run fall too, like that of other things. There will be less money as a rule coming to England, because English imports into India have sold for less. But there will be no reliance on this being so in any particular case. The trade will be in confusion. As long as silver can pass as money between the two countries, there is a limit to fluctuation in exchange; but the moment you limit the coinage of the rupee, you prevent that passage. Silver, if the Bengal Chamber have their way, will be quoted with incessant fluctuations in Calcutta, just as gold is in New York, and its price and that of bills payable in it will be as much liable to the influence of speculation.

Though, on the whole, this appreciation of the coin-rupee would probably be better than the depreciation of the greenback, its first effects would be more painful. The fall in prices would make people think that they were getting poorer; whereas, in the opposite case, the rise makes them imagine they are getting richer. And the "contraction," as Americans call it, would raise the rate of interest. There would be less money to lend, just as in the case of depreciation there is more money to lend—again a painful effect instead of a pleasant. Both are temporary; the change of prices makes the desire of persons to borrow less in the one case or more in the other, and that change likewise makes their power of borrowing less or greater, because the value of securities decreases or increases. Still, for the time, the first effect of an appreciation is not pleasant, and neither the Indian nor any other mercantile community which has been exposed to it has ever liked it.

And then, what is to be the end? Either the depreciation of silver depends on passing causes, and then this appreciation is needless—it would be better not to disturb the ordinary course of trade; or, on the other hand, the depreciation of silver is more or less to be permanent, and then this appreciation of the rupee is mischievous. It will cause a motion of prices in the wrong direction to the natural one. It will cause prices to fall just when, from the legitimate effect of circumstances, they should rise. And this wrong movement will have to be corrected; this artificial rise will have to be undone; and so, in addition to the inevitable fall of the value of the rupee *with* that of silver, there will be a needless fall of the rupee *to* that of silver.

An idea seems indistinctly to float in many minds that in this way an opportunity will be obtained for introducing gold. But how will it be gained? The difficulty of introducing gold in place of silver is that you must demonetise silver, and give gold in place of it. But the silver is so great in amount that the Indian Government could hardly get gold to replace it, and could never afford the cost of the change. No doubt there would be fewer rupees in circulation the longer the coinage was suspended; but then each of these rupees would be of higher value as coin than as silver, and when it came after the demonetisation to be sold as silver there would be so much extra loss.

It is asked, too, why should not we do in India as the Latin Union do in Europe; why should we not assume their "expectant attitude"? But the cases are not similar. In India, silver is practically the only legal tender; in France and Italy, it is one of three, and in the rest of the Latin Union, one of two. The main currency in the first two countries, which are by far the greater and richer part of the Latin Union, is inconvertible paper, which is now really the standard, and not metal at all. And in the other countries gold circulates as well as silver, so that practically silver is only a subordinate currency in the Latin Union, taking it as a whole, and therefore the limitation of its quantity does not cause prices to fall, for prices are not measured in it. The scale is so much smaller too, that false coining has not yet operated, any more than it does in our own token coinage. And the whole position is different. The Latin Union was a group of double-standard countries largely using gold, and the question for them is whether they will give up their gold and become silver countries exclusively—which would happen if they were to abandon the limitation of coinage while silver is as cheap as now—or whether they will demonetise silver and use gold as a standard only. This would be troublesome and costly, but still it could be done. But India has no problem to consider; she is irrevocably committed to a sole silver currency, and therefore a similar attitude would in her case, besides being mischievous, have no meaning.

The true remedy, as we have often shown, is not to impede silver's going to India, but to permit the laws of trade to diffuse silver through India and through the world. This will cause an immense demand for silver, for the countries where it is the only currency are still vast and numerous.

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IX.

THE DEBATE ON THE INDIAN BUDGET.

The whole interest of the debate on the Indian Budget centred in the discussion on the value of silver. Independently of this, the finances of India were in a fairly good position—as compared with that of most Governments in the world, a very good one. It is true that if you include the amount expended on reproductive works, there is a deficit of about two millions last year, and that there always is a large one. But then few other Governments make any similar expenditure, and treat it in the Budget as the Indian Government does, and for many purposes this way of spending money must be separated from others. It is at least *meant* to be an investment, which no other kind of Government expenditure is, and you have to discuss in relation to it commercial questions of profit and loss, with which in the accounts of Governments you have ordinarily nothing to do. With these we need not now meddle; those who at this moment care most for the matter, care for it in relation to the depreciation of silver, and to nothing else.

Lord George Hamilton estimated the loss by exchange at £2,312,000 for the year 1876-7, but he did not expect a deficit as against the *ordinary* expenditure in consequence. On the contrary, he reckoned—

Revenue	£50,480,000
Ordinary expenditure	50,336,000
Surplus	£144,000

—a result which he said was very good, and which, no doubt, is so, if (which we do not now deny) the extraordinary expenditure is good and proper.

This loss on exchange arises, as the report of Mr. Goschen's Committee showed, in two ways; first, from the depreciation of silver; and next, from the increase of the Council drafts—of what may be called the tribute from India. As to the first, Lord George explained very clearly that the Government had no intention of touching now any of the remedies which have been proposed—either the suspension of silver coinage, or the introduction of a gold one, or an adjustment of the land revenue. And he assigned what seem to us to be excellent reasons for so doing, which we need not, however, give at length, as we have at various times placed them before our readers. He said, too, what is well known, but what it is nevertheless desirable to have confirmed by official authority, that the natural remedies were operating, that the price of Indian commodities measured in silver had not risen, and that in consequence a great encouragement had been given to the exports from India, which would cause a demand for silver here, and would relieve the market. And we may now expect that this process will go on more rapidly than before. One great cause of hesitation has been the fear that Government might "do something," something that might be anything, and which would derange the usual course of business. But now that the wise policy of the Government has been announced, there will no longer be any such fear of disturbance.

Mr. Goschen added on this point the weight of his authority—especially great, as having recently elaborately investigated the whole subject, as chairman of the late committee—to that of the Government. He showed at length that none of the plans which had been proposed were at present at all fit for adoption. And he said especially that he had seen statistics which seemed to show that prices had not risen in India, which all other information confirms. And even without statistics, common-sense would show that such is likely to have been the case. A great rise in the price of all commodities through a country using a metallic currency only requires a great increase in that currency to carry it on. But no such amounts of silver have gone to India, or anything like them, as the following figures show:—

Imports of Silver into India.

Net Imports (after deducting Exports).	
In 1866-67	£6,960,000
1867-68	5,590,000
1868-69	8,600,900
1869-70	7,320,000
1870-71	940,000
1871-72	6,515,000
1872-73	705,000
1873-74	2,450,000
1874-75	4,640,000
And in the year just concluded, *i.e.,* 1875-76	1,555,000

And therefore silver prices cannot have risen, for there has been no silver to raise them with. The indisposition to admit this arises from not understanding the distinction between the depreciation of silver, which we elsewhere explain,[1] as against gold in a market where it is not a money, and its depreciation as against commodities in a market where it *is* a money. When this distinction is clearly seen there is no longer any difficulty in this part of the subject.

As to the second element in the loss by exchange—the "tribute," as it may be called—the Government stand in a very different position. They are bound to do something here, for they have to bring home their money from India. But they are not bound to bring it home except in the way in which they lose the least—or rather, they *are* bound to bring it home in that way. There could be no objection at times to their lending money in India and borrowing it at home at the same moment, if the time did not appear favourable for bringing it home. And they can choose any mode of remittance they think best; it is merely a matter of business, like the remittance of any other money. And this Lord George Hamilton very well explained. Of course, however, the finance policy of the Government should be calculable, and the amounts for which it is going to draw on India should be made known some time in advance, as otherwise they will make business uncertain, and so diminish it.

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X.

THE DIFFERENT EFFECT ON TRADE OF A CHEAPENING OF THE PRECIOUS METALS, AND OF A DEPRECIATION OF INCONVERTIBLE PAPER.

We showed last week that neither the depreciation of an inconvertible paper, nor the appreciation of an artificially limited coin, produces as a rule any effect on trade. What an English exporter to America gains on the one hand, in the additional price for his goods, consequent on the depreciation of greenbacks, he loses on the other, by the additional price which he has to pay for gold, or a bill payable in gold, which he requires to bring that price to England. Greenbacks are of no use here, and their depreciation upon an average, though by no means always in every particular case, affects the prices equally of all things. It is a local depreciation, beginning in a particular country, affecting alike all the property and products of that country, but affecting nothing out of it.

But it is necessary to distinguish this most carefully from a depreciation of the precious metals caused by a large new supply. That new supply is a new exportable product, sent from the country of its origin through the world, and thus affects more or less, in proportion to its magnitude, the world's trade.

Suppose, for simplicity, that silver were the *only* precious metal in the world—that all nations used it as money, and that none of them used gold in that way at all—the process of depreciation by such new supplies as are expected from Nevada would be this: prices in Nevada and in the rest of the United States would rise; in consequence, imports into the United States would tend to increase, exports from them would tend to decrease, and so an unfavourable "balance of trade," as the phrase is, being created, silver would be exported; it would be the best way in which America could pay for her imports, and she would so pay for them. On the other hand, the country from which those imports came—suppose it was India—would receive that silver, and in proportion as it received more and more, its prices would be more and more raised. What happened, in consequence of the new silver, in the country of its origin, will again happen in the country of its first receipt. Imports into that country will be stimulated, exports from it checked, an unfavourable balance of trade created, and silver will be sent to the countries which it has to pay. Then, in their turn, these countries—the countries of second receipt, as we may call them—will undergo all the same changes. The depreciation of a depreciated paper is a stationary depreciation, fixed in the country which makes the paper; but that of a precious metal is a *travelling* depreciation, which passes slowly over the civilised world, altering trade everywhere, creating a new article of export, first from one country and then another, and in consequence, generating a new trade of export to pay for it in the country which receives it.

The *modus operandi* of this process is much affected in the usual state of the world by there being two precious metals used as money—gold and silver—and also by gold being in many ways the principal of the two; but though the detail is changed, the principle is the same. In a country which uses gold only as a standard currency, silver is a commodity having its price only in gold, just as silk or cotton; that price goes up and down in the same way, and is quoted in the same way. And London is the principal centre of the wholesale commerce, and especially of the new wholesale commerce, of the world. We buy more readily than any other nation, for we have much more money than any other of equal enterprise; and, therefore, all great business requiring new capital on a sudden comes here. Accordingly the new silver for the most part goes not straight to India and the East, where it is a money, but to England, where it is a common article, and we send it over the world and to the nations where it is a money. But this is only a change in the *route* of the depreciation. It interposes a sort of house of call, it does not change the essence of the matter.

No doubt the first effect has been to advertise and make far more obvious than it would otherwise have been the depreciation of silver. If silver had been our money, as gold is, we should scarcely have been as yet conscious of its being depreciated. A few millions more silver (from Germany or elsewhere) would have gone into the Bank, would have eased the money market, and have tended to raise prices. And we should have had to pay for that silver, just as we pay for the gold which *does* come. But this process would have been very gradual—probably, as yet, nearly unfelt. The ready demand for silver as a currency in England would have much maintained its value here. You could not have depreciated it much without increasing its quantity—both the quantity in the Bank and the quantity in out-of-door circulation—very largely. But as silver is not a money (except as a token), not a money regulating prices, not a money which more and more is wanted as the value falls more and more, there has been no new English demand of equal or comparable size. Some more silver may, in consequence of the cheapness, have been taken for the arts, but this is all. The actual supply from Germany and the apprehended supply from America have come to a market which other circumstances have made bare of demand. They generated no new demand, and in consequence there is a great fall in the value of silver in England. The travelling depreciation has come here, and has been intensified, as has been shown.

This sudden fall in the value of silver in England has caused a corresponding alteration in the exchange with the countries whose money is silver. As is well known, between two countries which use the same metal for money, there is a natural and fixed par of exchange. A certain weight of that metal of a certain fineness, in the currency of one of these countries, will always exchange for an equal weight of like quality in the currency of the other. But between two countries, one which employs gold and the other silver, there is no such natural par. The relation between the two currencies depends on the amount of the one metal which will exchange for a given amount of the other. When, as now, that amount much varies in England, there is an immediate change in the relation of the English gold currency to foreign silver currencies, because the amount of gold which it would take here to buy any given amount of silver, to export it and coin it into those silver currencies, varies.

And this is the process by which the depreciation travels on another step. Silver being cheaper here, more of it will be bought and sent to the countries where silver is money. But its value there against commodities will not fall as suddenly as it has here. We see that it would not, if silver had been the only metal used as money in the world. And the countries where it is used are, within their own boundaries, in the same position. The more silver falls in purchasing power, the more of it will be wanted to purchase commodities, and the demand for it, therefore, will increase incessantly where the supply is augmented. The silver prices of commodities will be slowly raised everywhere where silver is money, and a great deal of it will be required in the process, and the course of trade will be changed. The silver countries must find exports to pay for this new article, silver, which is coming in upon them.

We must, therefore, carefully distinguish two things which are often confounded in discussing this subject. First, we must see that a depreciation of a metal used as money, whether silver or gold, is utterly different in its effects from those of a depreciation of a currency of paper, for it creates an international trade, and that of paper a local one only.

Secondly, we must see that the depreciation of silver in London, where it is only a commodity, is a wholly different thing from its depreciation in countries where it is a money. The first, as we have seen, is very rapid, but the second is very slow indeed. And the second will counteract the effect of the first, as it is now daily doing, and will tend to raise the value of silver in London—in the *entrepôt*—where the market is so sensitive, by distributing it over vast regions where much more will be wanted if the value falls comparatively but a little.

Thirdly, we must observe that this process is not at all bad for the trade of England. No doubt the fall in the rate of exchange is a disadvantage to shippers to the countries where money is silver. But then another class of exporters will be benefited, for we import that silver, and have to pay for it. The loss, on the other hand, will be counterbalanced by a gain on the other.

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XI.

THE AMERICAN COMMISSION ON THE CURRENCY.

The last act of the Congress was to appoint a Commission, to consider and report on the currency question in its various present bearings, that is:—

“First, into the change which has taken place in the relative value of gold and silver; the causes thereof; whether permanent or otherwise; the effects thereof upon trade, commerce, finance, and productive interests of the country, and upon the standard of value in this and foreign countries;

“Second, into the policy of the restoration of the double standard in this country, and if restored, what the legal relation between the two coins, silver and gold, should be;

“Third, into the policy of continuing legal-tender notes concurrently with the metallic standards, and the effects thereof upon the labour, industries, and wealth of the country; and,

“Fourth, into the best means of providing for facilitating the resumption of specie payments.”

And this Commission will, no doubt, be of use to European economists in collecting information as to many American matters connected with the currency, upon which it is now very difficult to find a trustworthy authority. But as far as respects the practical questions to be determined in the United States, “half would have been more than the whole”; it would—at least, if we may judge at this distance—have been much better to have restricted the Commission to fewer points, than to empower them, as has been practically done, to inquire into anything and everything as to American currency. In the heat of a Presidential contest, the Commission must be active-minded indeed if they can thoroughly work out all this.

The set of facts most wanting inquiry certainly is the new set—that relating to the change in the value of silver. The conditions of resumption—the mode in which a satisfactory paper currency should be maintained after resumption—are old matters, on which American statesmen can find no difficulty in obtaining information quite as good as this Commission will collect for them. But the present relative position of silver and gold is a perfectly new thing in the world, and America, as a principal producer of both, and as having to settle whether she will have a currency of both or either, ought certainly to investigate it as soon and as completely as possible.

The cardinal present novelty is that silver and gold are, in relation to one another, simply ordinary commodities. Until now they have not been so. A very great part of the world adhered to the bi-metallic system, which made both gold and silver legal tenders, and which established a fixed relation between them. In consequence, whenever the value of the two metals altered, these countries acted as equalising machines. They took the metal which fell; they sold the metal which rose; and thus the relative value of the two was kept at its old point. But now this curious mechanism is broken up. There is no great country now really acting on this system. The "Latin Union," it is true, adhere to the name, but they have abandoned the thing. As they do not allow silver to be coined except in limited quantities, they have no longer an equalising action; they no longer receive the depreciated or part with the appreciated metal, and, therefore, the two metals now exchange for one another, just as other commodities.

The gold-price of silver is now like the gold-price of tin—left practically, for the first time in history, without artificial regulation, and free from the manipulation of Governments. And it is into the consequences of this that the United States should now inquire, for they have nowhere been fully treated of.

The first effect is that to which M. Léon Say drew attention not long ago, in a speech of much ability—the *instability* of the value of the two metals. In former times, he justly said that the fluctuations in the relative value of the two metals were few and small, but now they are many and large. Particular causes, no doubt, aggravate that instability at this moment—especially the demonetisation of silver by Germany, and the supposed likelihood of great supplies from Nevada. But though the instability is aggravated by these causes, it is not created by them, and it will not cease with them. There is no inherent reason why the gold-price of silver should be uniform, any more than why the gold-price of platinum should be the same. The old notion of extreme steadiness is one generated by the practice of Governments, and which has ceased when the practice ceased, and will not revive till it revives.

The United States, therefore, which have a "money" to choose, must observe that they have three courses to choose from, and must see what are the consequences of each. First—they may choose the old bi-metallic, or double-standard plan. But if they do, they must make up their mind to be always changing their coinage. The natural value of the two metals now being, as we see, fluctuating, a nation which takes both will be incessantly changing from one to the other—it will always be taking the worse and giving the better. The existence of such a country, or set of countries, is an advantage to the world at large, because, as we have seen, it preserves a uniformity between the two metals, one or other of which is used by all civilised nations to count value. But the expense and inconvenience of a changing currency are great, and how far a nation would be wise to undergo them for the good of the world, we are not sure. She herself obtains no advantage; she sells gold for silver, or silver for gold, and the brokers get their commission; but this is all. And to a great borrowing nation like America, it would always be an objection that she would pay in the worse coin at the time of payment, whatever it might be. At the present moment, America would become a silver country, and the interest and principal on her obligations would be paid in silver. The evil, of course, would not be what the momentary circumstances of the market would now suggest. Silver would not be at 52d. per ounce if America was a country with a sole silver currency. So large a demand as her coin requirements would send the price up very rapidly—perhaps to its old amount. Still, as the debts of America are so large, the probable objection which a lender might make to the certainty of his having to accept the inferior mode of repayment is to her important; she would possibly have to borrow on terms somewhat less good.

Secondly—the United States might take the single gold standard like ourselves; and this is what, till very lately, every English economist would have advised them to do. The evils of this plan had not then been seen, but its good was very apparent. That all great commercial nations should have the same metal for money is, *per se,* a plain gain. The objection is that there may be some difficulty in getting the gold for so many, very rapidly. The total production of gold, according to the estimate laid before the Silver Committee, for recent years is:—

In 1872	£17,569,000
1873	21,946,000
1874	19,880,000
1875	20,353,000
Total	£79,748,000

or nearly £20,000,000 a year. And this is not at all a large amount to provide for the yearly uses of the world.

In the 18 years from 1858-75 the imports of gold into the United Kingdom were	£331,179,000
Exports from	251,413,000
Total absorption in 18 years	£79,766,000

or at the rate of £4,432,000 a year, being more than one-fifth of the whole. So that if Germany, America, and perhaps the Latin Union, were all to take to a gold currency, there would certainly not be too much gold. Probably the money markets of the world would be straitened by there not being sufficient.

The third and last course open to the United States is to make silver their sole standard. A few weeks ago this would have been generally deemed to be beyond the limits of consideration; at that time there was a panic, and it was imagined that the price of silver was going to fall lower and lower till it became worth hardly anything. But experience has now shown, as theory always suggested, that there would be a demand for silver for the East consequent on its cheapness—that this demand would grow with its cheapness—and then an almost indefinite quantity, if supplied, would in time be taken off the market. As the supply here is small, the price has risen rapidly, though it has for a moment been checked again by the financial operations of the Council of India in drawing for their tribute. The extreme panic as to the price of silver has, therefore, passed away, and we are able to consider calmly whether it would be wise for the United States to take it for a standard of value or not.

If they did, it is certain that the price of silver would for the moment rise, because so very large an extra quantity would at once be required; and it is very possible that this price might not again fall. The final regulator of the price of silver is the cost at which it can be produced in the least fertile mine that can maintain itself in working. At the present moment, there are new mines as to whose extent there are very various accounts, which may supersede some of the worst of those at work, and so lessen the maximum cost of the production of silver—the cost which fixes its price. But if so large a new demand for silver as that for supplying the United States with money were added to the existing demands, very possibly the extra fertility of these new mines might be exhausted before that demand was satisfied. These mines might come to be not so much better than the old mines as to throw any old mine out of work; and if so, the price of silver would remain what it formerly was. And if this happened, silver would be as good a standard of value as it has ever been.

There would, undoubtedly, be several difficulties in the adoption of a silver standard by the United States. First—Much of the interest of their debt is now payable in gold coin. This would not, however, cause much difficulty, if the price of silver were to rise, as we have suggested, to something like the old level. The United States might then either continue to receive their Customs' duties, as they now do, in gold only, and to pay their interest with such gold, or they might pay an equivalent in silver. The difficulty would be one of detail only, and might be met.

Secondly—what is more serious—The trade between the United States and the gold-using countries would be liable to be disturbed by every fluctuation in the value of gold and silver. And we are not yet in a position to say what the amount of this inconvenience would be, because the changes in the relative values of the two will in future probably be greater and more frequent than they used to be. As we have explained, the double-standard nations used to equalise the price for the rest of the world, and now it seems probable that they will do so no longer. An element of uncertainty would thus be introduced into the largest international operations of the United States, which might be very important, and which it is difficult to estimate beforehand. But in all likelihood this uncertainty would not be so great as that caused by the inconvertible and ever-fluctuating greenbacks which the United States have now borne very patiently for many years.

Thirdly—The United States will, by choosing silver for their money, undoubtedly suffer by using the less convenient metal for large transactions instead of the more convenient. Silver is bulky to carry, and cumbersome to count. But a good and secure system of paper money might easily be devised, which would reduce this disadvantage to minor proportions; though that system, like all systems of paper money, is liable to the objection that it may be at any moment departed from, and a bad paper money substituted for a good. No nation which is engaged in first-rate commerce should select a silver money, unless it believes that its circumstances, the character of its people, and the peculiarities of its Government enable it to manage a paper one.

The great reason for inquiring whether it would not be best for the United States to take silver as a money, and not gold, is that it is much more likely to be done. It is always a great advantage to have a strong private interest concurring with and enforcing a great national interest. And here the silver-producers are anxious to sell their silver, and fearful that they may not be able to do so. Whereas the gold-producers, on the other hand, feel sure of their market, and are careless what happens.

The fear is that the United States may go on for many years to come with inconvertible paper, as they have for many years past; the difficulties of resuming specie payment are very considerable, and when resumed it may not be kept to unless it is some one's interest that it should be so. But the silver-producers are clearly strong in Congress, wish to get their silver substituted for greenbacks, and would be watchful to see that owing to keeping too small a reserve or other mismanagement, greenbacks did not come back again, if they had once been got rid of. And these producers can put the argument in a way very attractive to American nationalism. They can say, "If you use silver you will raise its value, not only here, but throughout the civilised world. You will support an interest which needs supporting, and you will hurt no one, but make America richer by so doing." And all nations—especially nations which govern themselves—are apt to be much moved by such reasoning.

We hope, therefore, that the American Commission will not be distracted by the old phases of the currency question, and that they will give their attention to the new points presented by the present new relation between gold and silver, and the respective advantages and disadvantages of the courses they have to choose from. There is not one of them which has not much of both, and, in such case, only very deliberate study can show how to bring out the most good with the least evil.

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XII.

THE PERMANENT EFFECT OF AN INCREASE OF "COUNCIL BILLS" ON THE FLOW OF SILVER TO INDIA AND UPON THE INDIAN EXCHANGES.

The depreciation of silver and its effect on the Indian exchanges have been much discussed, and with the best result. The Indian Government, we are glad to say, have announced that they would adhere to right principles, notwithstanding the greatness and suddenness of the difficulty in which they are placed, and the number of wrong schemes obtruded upon them. But another fact, of which the practical effects are inextricably intermingled with those of this depreciation,—the recent great increase of the political payment of tribute which England derives from India,—has not been studied with equal care. It appears from the investigations of Mr. Goschen's Committee that the "Indian Council" bills, which represent that payment, have increased in the last ten years as follows:—

Year.	Bills of Exchange Drawn on India.
1865-66	£6,998,899
1866-67	5,613,746
1867-68	4,137,285
1868-69	3,705,741
1869-70	6,980,122
1870-71	8,443,509
1871-72	10,310,339
1872-73	13,939,095
1873-74	13,285,678
1874-75	10,841,615
1875-76	12,389,613

It appears also from the same authority that most of the effect which this great increase in the payment from India to England might be expected to have upon the exchanges, was delayed by a simultaneous increase in the payments made from England to India. Till quite recently we have been very largely investing capital in railways and other public works; the funds necessary for these were raised in London, and were sent out to India; and so compensated for the increase of the tribute. But now there is no longer any equal transmission of capital to India, and we, therefore, for the first time feel the effect of that increase.

The immediate result has naturally been to counteract the flow of silver to the East. When commerce is left to itself, the imports England takes from India are much greater than the imports which India takes from England, and a part of the balance has to be paid for in specie—the rest being settled in indirect ways, of which we need not speak now. But the increase in the "Council bills" provided a competing remittance with silver; if a merchant wanted to make a payment in Calcutta, he had the choice either to buy bills, or send out silver, and of course so much less silver was sent.

The effect was the greater because the Government of India must bring their money home from India, and, therefore, must sell their bills; whereas "silver," like any other commodity, may go to many markets, and may be held when its price falls. This is the reason of the saying, "the price of Council bills rules the price of silver—not the price of silver that of Council bills". It is the price which the more anxious seller must accept that for the moment predominates, and not that which the less anxious can wait for.

So far all is clear, and has been well discussed; but what has not been equally discussed is the question—Will this effect be permanent? How far will the increase of its political payments prevent India from obtaining silver, which is the material of its money? And if it ceases to have this effect, why does it do so?

It clearly cannot have this effect always, or a country like India might be prevented, by an increase in the tribute which she has to pay, from obtaining money altogether. Suppose a dependent country obtains all her supplies of bullion from the dominant country to which she belongs, and that the dominant country imposes an annual tribute equal to the amount of silver which she annually takes—if the consequence of the tribute be to prevent the export of bullion by an equal amount, the dependent country would cease to obtain money altogether, and prices in it would fall and fall indefinitely.

In fact, of course, this will not happen, because as soon as prices fall below a certain amount an encouragement is given to the export and a discouragement to the import trade, and so a new adverse balance of trade is created, which will take bullion to the dependent country. The effects of the imposition of a tribute on the industry of a dependent country are two: first, to drive away all cosmopolitan capital, which can carry on its business elsewhere. It takes for the use of the Government a certain portion of what used to be the profit of the capitalist, and if in any other country capital does not pay an equal tax, that large class of capitalists who now belong to all countries will go to some other, and will carry on their business there. And secondly, the residential capitalists, whom no motive will tempt away, must be content with a less rate of profit than they used to receive. Particular industries, for which the dependent country has special advantages, will to some extent be an exception, but, as a rule, the effect of the augmented tribute will be to lower prices, because as a rule, and for almost all commodities, it will fix profits on a lower range.

A country which has a tribute to pay of £15,000,000 annually must send abroad annually £15,000,000 worth of commodities more than she receives; the profits of her various industries must be less by that £15,000,000; prices must be lessened to effect this; and (supposing, as is the case with India, that this country does not produce the precious metals) prices will be thus lessened by a corresponding reduction in the import of those metals.

Thus, in the case of India, the effect of her augmented political payments will be to lower the level of prices, till her exports rise above her imports by an equal sum. Till that level is reached, silver will not be sent from England, but when it is reached silver will be sent at once. The effect of the augmentation, therefore, is not to lessen the export of silver from England to India permanently, but only to diminish it temporarily and till the course of commerce has adapted itself to the new circumstances. India will not, indeed, receive *quite* as much as before the increase of her tribute; she will have a somewhat smaller stock of silver to maintain, in order to carry on her trade, as prices are lower (which means that less silver does the same work), and, therefore, the annual supply requisite to maintain prices at that level will be less. But this is but a very minor effect, which is not of much practical account, and, except so far as its influence extends, the import of silver into India will eventually be as much, now that Council bills are £15,000,000, as it used to be when they were £5,000,000.

Some persons who have been much in contact with the recent phenomena of the silver market, but who have not considered the more permanent parts of the subject, will probably be surprised at this conclusion, but this is only one of very many instances in which a great familiarity with the momentary facts of a particular kind of business is a wrong, rather than a right guide, as to what the course of that business in the long run will be.

It will be seen that the case of India is a very peculiar one. Not only is she, politically, dependent on England, but she derives her silver from hence, too. The country which imposes the tribute, and thereby tends to take money, is also the country which supplies money. Ordinarily the imposition of a tribute on a subject-country is much simpler in its effects. The dominant and the subject countries are only connected by the usual trading relations; coin and bullion only pass to settle the balance of trade, and, in the long run, pass about equally both ways. In this case the effect on the flow of bullion is, on the face of it, only temporary. There being no continuous export of bullion from the dominant country to be arrested, the question whether it will or will not be arrested does not arise. The dominant country simply takes a portion of the produce of the industry of the dependent, and so far renders it less profitable. The range of prices in the dependent country must necessarily be lowered to effect this end, and for a time the supply of the precious metals to it will be diminished. But upon its permanent import of those metals the imposition of the tribute will have no effect. As soon as the proper range of prices is reached, the bullion trade will go on as usual. And so it is in the case of India also, though England’s being the country which supplies bullion as well as that which imposes the political payment, seems at first to make a difficulty. Substantially the effect of the new tribute will be the same in this case as in all others.

But though the increase of the Council bills will not, as we have thus shown, change the quantity of silver sent to the East, it may have lasting effects on the Indian exchanges, and next week we will examine whether it has or not.

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XIII.

THE EFFECT OF THE "COUNCIL BILLS" ON THE INDIAN EXCHANGES.

We proved last week that the effect of the augmentation of the political payment from India to England, shown by the recent increase of the bills drawn by the Indian Council upon India, will have no permanent effect whatever on the export of silver to India. The great influence which it has had in that respect will be transitory only. We have now to see whether the equally great effect which that increase has had on the Indian exchange will be equally temporary.

To simplify the subject, which is complex, let us first take the simple case of a dominant and a subject country, which have the same currency, whose trade exports usually balance each other, and neither of which produces the precious metals, or depends on the other for the supply of the precious metals. In this case, there being only one currency in the two countries, the quotations of exchange will be always made in their most intelligible form, that is, by the premium or discount on the bills which each country draws on the other. In this case, bills on the dominant country in the dependent, and bills on the dependent in the dominant, will, as a rule, be equally often at a premium. The trade exports from the ruler to the subject exactly equal those from the subject to the ruler; the bills generated by them will, therefore, be equal, and also the demand for means of remittance. There is no indebtedness between the countries to be settled, and so, on the average, everything will be even between them.

If this state of things is disturbed by the imposition of a tribute, the first effect is that bills in the dependency on its superior rise to a premium; that tribute has to be paid, and these bills are inquired for as the best means of payment. It becomes more difficult (as Indians would say) to "remit home," because there is more to be remitted, and no increase in the means of remittance. The premium will probably rise above the specie point, and coin or bullion will be temporarily sent to the dominant country in consequence. But it can only be so sent temporarily, for the dependency we are considering does not produce the precious metals. In time, therefore, some other means of payment must be found; the tribute must be paid not in gold or silver, but in other commodities. These commodities will begin to be exported as soon as that export becomes profitable; and that profit will consist of two elements—first, of the difference between the price of the commodities in the dominant country and the price in the dependency; and secondly, of the premium at which the merchant in the dependency can sell his bill. The imposition of the tribute will have caused both elements of profit. By producing an export of specie from the dependency, it will have lowered prices there; and by creating a demand for the means of remittance, it will have raised the price of the bills. There will, so to say, be a *bounty* on export caused by the state of the exchange, and the export will be made when the price-profit, *plus* that bounty, are together up to the rate which the capitalist wants. Before that the export will not take place, but after that it immediately will.

And this state of prices and of the exchange will, except other causes interfere with it, tend to be permanent. There is nothing in the relation of the dominant and inferior country to alter either. Till the whole tribute is paid both will, as a rule, continue in this condition, and if the tribute is an annual payment, every year the same causes will be at work, and the same consequences will happen. The profit on the sale of the bill will more or less help the price-profit, and cause the operation to be made earlier than it would if the price-profit only could be obtained.

The effect of this is to enable the dependency to "get off," so to speak, and pay its tribute with a less alteration in the level of its prices than would otherwise have been necessary. In so far as the payment of the tribute is aided by the state of the exchange, it is in fact aided by a *loan.* The seller of the bill gains funds from the money market, which return to that market when that bill is paid. As the transaction is a continual one, always being renewed, the final result is that the dependency pays a part of its annual tribute by a chronic floating debt, which the exporters of its commodities borrow, and from which it derives the benefit. And it will make no matter if the exports are shipped not directly to the dominant country, but to some third country, to which the dominant country owes money. In the latter case, the country which receives the exports from the dependency pays for them by a draft on the dominant country, and that draft is taken as a payment of the tribute. The dependency pays the debt of the ruling country, and this is quite as good as the direct export of value to it.

And no part of this will in the least be altered by the fact that the two countries, the dominant and the dependent, use different currencies, if these currencies are both of the same metal, whether gold or silver. The mode of expressing the exchange by the equation between the coins is only a complex way of expressing the premium and the discount on bills at the moment. Two calculations have in such a case necessarily to be made in buying and selling a bill; the currency of one country has to be turned into that of the other, and the premium or discount of the bill to be ascertained. And for convenience' sake, in the common mode of quoting the exchange, the two computations are put together, and their joint effect told. But there may be a real temporary difference, if the currencies are of different metals. If the metal of the currency in which the relative tribute is fixed falls in value, the tribute is lightened, and if it rises, the tribute is made heavier. And this will affect prices and the exchange, just as an increase or decrease of the tribute in any other way. But the principle of the argument is unaffected.

Nor is that principle really changed if the dependency, like India, receives its supplies of the precious metals, that is, of money, from the dominant country. In that case, before the tribute is enforced, the exports from the dependency to or on account of the dominant country will be greater than its imports from it. Bills in the dependency drawn on the dominant country will be in general at a discount, and those drawn in the dominant country at a premium. There will be a greater facility of remitting money from the inferior to the superior country than, *vice versâ,* from the superior to the inferior. And therefore, when the tribute is imposed, the new demand for remittance, so created in the inferior country, will have "some lee-way" to make up. Finding bills at a discount, it will have to go on till it makes them at a premium. It will have to stop the flow of specie to the dependency, and if this is not enough to reduce prices, it must go on till it turns the tide the other way, and sends bullion, contrary to its natural course, back from the dependent to the dominant country. But it cannot permanently have this effect because, as we have seen, the supplies of bullion will in the long run be the same after the imposition of the tribute as before it. The exchange will settle down so that the usual amount of bullion will pass. But subject to this, the consequences will be the same as before. Bills in the dependencies will not be so often or so much at a discount as they would otherwise have been, or bills in the dominant country so often or so much at a premium. And the exports from the dependency, which used to be depressed by that discount, will be less depressed, and the exports from the superior country, which used to be encouraged by that premium, will be less encouraged. But the final effect will be the same; the adjustment of prices and the adjustment of the average exchange taken together will be such as to cause the imports from the dependency to the dominant country to exceed, by the extent of the tribute, those from the dominant country to the dependency (specie included). The tribute will be paid in an excess of value consigned from the dependency to or on account of the dominant country above that consigned the contrary way. In so far as that result is attained by a change in the premium on bills, and not by a change of prices, the dependency is enabled, in this case as before, to pay its tribute by an exportation of fewer commodities than it would otherwise have to export. It obtains a loan to that extent from the money market, just in the same way and just with the same effect as before.

The last case we have been considering is that of India exactly, and it therefore appears that though the increase of the “Council bills” will have no permanent effect on the export of silver to the East, yet it will have a considerable effect on the value of the rupee as quoted for exchange, and that it will tend to make remittances from England to India easier, and from India to England less easy, as long as it continues.

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XIV.

THE MINUTE OF THE INDIAN GOVERNMENT ON THE DEPRECIATION OF SILVER.

The Minute in which the Government of India have replied to the petition of the Bengal Chamber of Commerce that they would suspend the coinage of silver for private persons is a very able document. It shows with admirable clearness that the effect of the plan proposed by the Chamber would be to give the rupee an artificial value, to lower prices, and to disorder trade. It observes that "it is essential to a sound system of currency that it be automatic. No man, or body of men, can ascertain whether, at any particular moment, the interests of the community, as a whole, require an increase or diminution of the currency; still less, how much increase or how much decrease is, at any moment, exactly needed. No Government which aspires to keep its currency in a sound condition would be justified in attempting that impossible task; or, in leaving the community, even for a short interval, without a fixed metallic standard of value. Under an 'open-coinage system,' these things regulate themselves without official interference."

And on this ground it declines to become the sole coiner of rupees in India, and says that the amount of the silver coinage must be left as before, to the action of the Indian people, who are the best judges of their own wants.

The Minute shows also by a careful review of all the circumstances, that there is, at any rate as yet, no reason for a change in the Indian currency, as no one can yet say what will be the value of silver, either as compared with gold or with commodities. As has been abundantly proved in this country, no action in the matter is at present required of the Government of India, and by far the preponderant probability is that no action will ever be required of it.

The newest, and to us the most interesting, part of the Minute is that which is devoted to explaining that, in the judgment of the Indian Government, it is not yet proved that there is any depreciation at all, certainly not a depreciation to the extent which is commonly believed: "The divergence now noticeable in the values of gold and silver does not necessarily prove a diminution in the value of silver. It may be equally well accounted for by a rise in the value of gold; and, in fact, it is probable that, since the commencement of this divergence in November, 1872, there has been an increase in the value of gold as well as a decrease in the value of silver. The actual values, measured in silver, of general commodities, whether in India or in England, afford, as yet, no evidence of any recent, sudden, or violent fall in the value of silver; and, if *a priori* considerations strongly indicate that silver must have fallen, such considerations also make it probable that gold must have risen in value. Appended to this resolution is a series of tables of prices in London and in India, the information contained in which points to two conclusions: First, that gold has risen in value since March, 1873, and especially since last December.[1] Secondly, that it is not shown that silver has fallen in value, *i.e.,* as compared with commodities in general, either in London or in India, during the same period. These conclusions are open to correction on a wider review of the economical causes which have been at work during the period; but they appear to indicate a rise in the value of gold as at least one of the causes which have disturbed the equilibrium of the two metals. The bearing of both conclusions upon the questions now before the Government of India is important."

As far as gold is concerned, the tables which are given by the Government are ostensibly those which we have often laid before our readers. It is undeniably true that the gold-prices of commodities are, as a rule, less in 1876 than they were in 1873. And in this sense it is true that gold has appreciated, as against commodities. But then it is equally true, and equally shown by the figures of the Minute, that the gold-prices of commodities were more in 1873 than they were in 1869 or 1870. And if we are to say that gold is *ap*preciated now as against 1873, we must, by parity of reasoning, say that it was *de*preciated in 1873 as against 1869. In fact, as all our readers are aware, 1873 was the culminating point of one of the rising periods of price, just as 1869 was the lowest point of the falling period. We wrote on the subject at the time—on the 4th January, 1873:—

"The main cause of these cycles in price and trade is, as we have often shown, the different amounts of loanable capital which are available at different times for the supply of trade. After great panics like 1847, 1857, and 1866, for a very long period enterprise is so slack and credit so bad, that there is no possibility of employing an increasing capital to advantage. Trade continues much as it was, whereas the savings of the country are accumulating constantly. Accordingly there is at such seasons a constant excess in the supply of loanable capital over good bills and other accredited securities; the rate of interest, which is the barometer of the relative supply of these articles, continues very low generally through a series of years. After a certain period some circumstance more or less powerful occurs to augment trade; and then the effect of that capital is felt. Enterprise revives as credit grows, and that capital is lent largely. Till some stimulating event happens, experience shows that such capital may lie almost idle, and that in consequence for years the rate of interest may continue long very low. Bankers—the principal holders of that capital—do not and cannot manufacture securities; they remain quiet and passive till securities of what they consider a substantial kind are offered to them. But when from some cause peculiar to itself trade does revive, bankers are only too eager to lend, and trade, so far from wanting the money which it requires, finds the accumulated capital of bankers lying ready and waiting to be used by it. The development of one trade, too, is never isolated. If any one great industry—say the iron trade—starts into sudden prosperity, the purchasing power of all persons connected with the iron trade is largely augmented, and all the dependent trades, and all the trades in which those concerned in the iron trade lay out their money increasingly, thrive in consequence. And these second and dependent trades quicken other third trades dependent on them, and so on through the industrial world. The first period of every industrial cycle is a period of immense new production, and of great prosperity running through and permeating all trades.

"This period is also one of very high price. The loanable capital—the deposits which have accumulated in the years of depression—are then poured into trade. These have the effect of new money. They are a new purchasing power, which augments all prices dealt in, and especially the prices of wholesale articles, which are those upon which enterprise most acts, and in which speculation is quickest and most constant. Experience shows, too, that the rise in prices so produced is a cardinal element in every investigation of the value of money. The effect of the Australian and Californian gold cannot, as Mr. Jevons was the first to show, be even tolerably investigated unless this periodical cause of elevation in price is first eliminated, and its effects separately set aside."

And in the same way now we must be careful not to confound this sort of appreciation of gold with that which would arise from a diminished production consequent on increased difficulty of attainment. This last would have a tendency to be permanent—at least, to last as long as the increased difficulty of attainment lasted; but the appreciation, which is part of the cycle of prices, is sure not to be permanent; it is only a passing incident in the mercantile world, and is sure to be followed by an equal depression.

It may be said that the present appreciation of gold is due to the new demand for it in Germany and elsewhere. But this demand tells two ways. What we are comparing is the high range of prices in 1873 as compared with the low one in 1876; and one of the effects of the German demand for gold in 1872 and 1873 was to make the rate of discount often much higher in Lombard Street than it would otherwise have been, and so to reduce the prices of all commodities which rise in the speculative times. If it had not been for the German demand for gold, the range of prices in 1873 would have been higher than it was. We cannot, therefore, attribute the fall in prices since 1873 to that demand, for it was then already producing a great effect—a greater, indeed, we think we could show if necessary, than it ever did afterwards.

The gold-price of silver has now been affected in the same way as the gold-price of other commodities for the first time, because it has been now for the first time a commodity in the same position as other commodities. Formerly, the existence of a "double standard" in various important countries took off from the market part of any sudden extra supply of gold or silver, replaced it by an equal supply of the other, and so equalised the price. But now that the "equilibrating apparatus" has been withdrawn, the price of silver in gold upon the London market will be affected by the causes which produce cycles of price, just like anything else. How far in this case it has been so affected it is difficult to say, because we have no experience. All commodities are not equally affected by these cycles; some are more so, some less, and we cannot say beforehand what will be the effect on any one. The causes which determine this are too many, and their proportions too unknown, for *a priori* reasoning.

But, as far as we can judge, we should not be disposed to attribute so much effect to this cause as the Indian Government would seem, from the prominence they have given to it, to be inclined to do. So long as silver is largely used as a currency by many countries, it is likely to be a commodity superior to the average of commodities in stable value. All currency commodities, so to speak, are so. Their efficiency in exchange diminishes with any decrease in their value, and a greater quantity of them is required. In no other kind of article does a fall in price generate so large an increase of demand, and therefore so much tend to be its own cure. We should therefore expect silver to be ordinarily much less affected by the causes making "cycles" of price than other commodities.

The figures contained in the table attached to the Minute confirm this view. They show that, taking the prices of each article in March, 1873, as 100, the price of the following articles in the London market was:—

PRICES IN LONDON OF CERTAIN COMMODITIES IN MARCH, 1873, COMPARED WITH APRIL, 1876.

	March, 1873.	April, 1876.
Beef, inferior	100	110·00
Coffee	100	95·37
Beef, prime small	100	104·76
Silver, bar	100	89·54
Copper, Chili bars	100	88·27
Flour, town made	100	86·17
Flour, New York	—	83·20
Wheat, American red spring, at N. Y.	—	90·06
Wool, South Down hogs	100	80·48
Saltpetre	100	80·18
Cotton, No. 40 mule twist	100	80·35
Wheat	100	81·90
Pepper	100	64·77
Sugar, foreign Muscovado	100	71·79
Cotton, middling uplands	100	68·92
Coals, Hetton Wallsend, London	100	63·43
Sugar, Mauritius	100	69·08
Straits tin	100	49·14
Scotch pig iron (warrants)	100	49·19

From this we see that silver has not, in matter of fact, changed as much during the time we are considering as many other articles. And upon the whole, the well-known causes tending for the moment to depreciate it—the extra supply from Germany, the want of demand from the "Latin Union," and the apprehension of the new mines—seem to us, as far as we can measure them, causes of a far greater probable effect than the cyclical causes, as far as they affect silver. The utmost we should be inclined to say is, that the cylical causes produced a weak market, and that the effect of the other causes was in some degree aggravated by this weakness. We believe the special causes affecting silver to be those to which its depreciation is principally owing, and that the causes acting on the value of all commodities only in a minor degree contributed to it.

We are not indeed sure that the Minute was meant to claim for the appreciation of gold more than this subsidiary effect; but the prominent place which is given to it might mislead unwary readers into thinking otherwise. As a whole, both in its conclusions and its reasonings, the “Minute” is most admirable. India is singularly fortunate in having rulers so well able to understand and to cope with a difficulty so peculiar and so little expected.

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XV.

A PROPOSED REMEDY FOR THE DEPRECIATION OF THE SILVER COINAGE OF INDIA.

It has been suggested that the coinage of rupees should be suspended in India; that their importation should be prohibited; that gold should be coined for any one who will take it to the mint at a fixed rate (say at 2s. the rupee); that both rupees and gold should be legal tender, which every one must accept, but that for the present, at least, no one should be able to demand gold. And in this way it is hoped that a gold standard would be introduced into India, without the Indian Government having to buy gold to exchange for silver, the cost of which would be more than it could afford.

But when examined, it will be seen that this is a plan not for introducing into India a gold standard, but a double standard of a peculiar sort. Though the coinage of rupees is suspended, they are still to be legal tender, and their value will therefore continually rise; they will be "monopoly coins," so to speak, circulating at a scarcity value, and they will so circulate concurrently with gold. And this is to be the perpetual currency of India, for the only motive for thinking of it is that silver is already about to fall greatly in value—its very adoption would for a very long time cause such a fall, because it would close the Indian market against silver—and therefore the cost of buying gold to exchange for the rupee currency of India will be, years hence, more insuperable than it is now.

But to this plan there are the gravest objections. First—a currency of "monopoly coins," circulating much above their cost-value, is sure to cause their forgery. This is as certain as that a high tariff will cause smuggling. If silver should fall enough to make this scheme worth thinking of, the gain by coining rupees in India, or importing them into India, would be very great, and we may depend upon it capital would go into the business. Some of the shrewdest people in the world—the American producers of silver—would have an interest in managing it, and we may be sure they would manage it. The case must not be confounded with that of a "token coinage" of silver such as we have in this country, because our silver coins are only legal tender for small sums, and therefore great masses of them are useless. But in the plan supposed, "monopoly coins," would be the main currency of India, and any quantity of them could be got rid of. India would seem to have most unusual facilities for the operation, for there are native States embedded in our territory where we hardly know what happens, and there is a rich monetary class of shroffs and bankers who would feel no effectual moral scruple against disposing of illicit rupees. The moral objection to such a currency as one of perpetual use is very great, for it is an incessant temptation to diffused fraud, and this evil would be fastened on India for ever.

Secondly—the confusion in trade it would cause would be extreme. Suppose it were now enacted that no more rupees should be coined, and that gold should be coined at 2s. the rupee, the export trade from India, now stimulated by the low exchange, would be stopped, for the exchange would gradually rise; nor for a time at least would the import trade into India find a corresponding gain, for a great uncertainty would be produced, in which no new business would be created, though old business would be stopped.

Thirdly—this would deprive India of the great advantage she will gain, if the present state of things continue, as the *entrepôt* through which silver is introduced into the East. This is always the effect of a lowered value of the currency-metals. The first persons who get them from the mines gain much; those who buy them from the mining people gain much too; and so on, till the depreciation is effected. In the case of India, the importation of silver will gradually raise silver prices; this will bring imports into India from other countries where they have not risen. For very many years England has, in this way, derived the greatest advantage from being the first country to which the Australian gold was sent, and from which it was diffused. The Indian Finance Minister is no doubt troubled by the fall of silver, because he has to buy gold in London, but India itself will probably be benefited by it, for it would give her an easy money market and an extending trade for exports and imports, which the suggested scheme would spoil.

Fourthly—the currency so introduced would be a very bad one. There would be one currency fit for foreign payments—the gold—and another not so fit. The “monopoly coins” would be unexportable, and so, when any one wanted to make a foreign payment, he would have to get gold, which, as a rule, would make gold at a premium. The effect would be just like that of a plan, often discussed formerly in England, *viz.,* making the notes issued on securities by the Bank of England (the £15,000,000) inconvertible—the rest remaining convertible. The “monopoly” rupees would be of limited number and artificial value, just like the security, or Government notes, we used to discuss, and their effect would be exactly what Lord Overstone predicted, in 1857, in his evidence on Bank Acts: “Our affairs would then go on very much in the way that a man would walk with one of his legs six inches shorter than the other. One set of notes would circulate at a depreciation compared with the other set of notes; hence great inconvenience and confusion would arise.

“4050. What would be the real effect of it?—The effect would be, that you would have paper money of two different characters in the country, not of equivalent value; not circulating indiscriminately each for all purposes, but some useful for one purpose and some useful for the other, and that there would be intolerable confusion. A man would have Government notes, and he would present them to another man in payment; that man would say, “I do not want Government notes; I want to make a remittance abroad; I cannot get bullion for those Government notes; I will not take them.”

“4051. Are they both to be a legal tender?—They would both be a legal tender as far as the Government is concerned, but the Government note would not be a legal tender between individuals.—Then what is that individual to do?—The other man says to him, “You must go and get me the other notes. Either you or I must pay a premium for them.”

"4052. What would be the harm of that?—The harm would be, enormous injustice and intolerable confusion."

In the plan now suggested—monopoly coins being compulsory tender—gold not being demandable—it would be settled which party should pay the "premium". Everybody would be obliged to take the purely domestic medium of exchange, and to buy with it the medium which is also of foreign use. But in other respects the evil would be exactly what Lord Overstone describes. There would be two currencies in the country with different values, and prices in one would, as far as the discrepancy went, be different from those in the other.

For a short time, and during a period of transition, we can quite imagine that this inconvenience might be endured. But the present plan is by its essence a permanent plan—a plan for making a currency for India for all time; and then an inherent effect of great magnitude such as this becomes a most grave objection. As Lord Overstone said of the old plan—"Then, you would have a certain proportion of the monetary system of the country circulating at a discount; I cannot conceive a greater state of monetary disorganisation than that".

No doubt, it is said, that the Indian Government may "regulate" the currency; that it may withdraw rupees from circulation; that it may add to the gold in circulation, and so equalise the value of rupees and gold. But to succeed in such an attempt, the Indian Government would want to know the amount of currency required for foreign payments, which is that which causes the difference between silver and gold; and this they never could know. And American experience of "gold sales" and greenback withdrawals is a great warning against giving any Government the power of arranging the currency. It is sure to injure the good repute if not the real good faith of the Government (for it necessarily creates pecuniary secrets of great value), and, nevertheless, it is not at all sure to attain its end, and to equalise, as is intended, the two kinds of currency.

For these reasons, we cannot think that the suggested plan for a new Indian currency would be a good one, even if it could be shown that silver was sure to be permanently excessively depreciated. And as the preponderating probability seems at present to be, that it will *not* be so depreciated, we are still more of opinion that it would be unwise to begin a policy on the face of it, and almost admittedly, so anomalous.

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XVI.

THE TRANSITION STATE OF THE SILVER MARKET.

The delicacy of the silver market at present is curiously illustrated by the course of the price of silver in the London Market this year. First, there was an immense fall, and now there has been an equivalent rise. The figures are—

	d.	d.
In 1876 the fluctuations in January were between	56⅛	and 54⅞
In 1876 the fluctuations in February were between	54⅞	and 53
In 1876 the fluctuations in March were between	54¼	and 52½
In 1876 the fluctuations in April were between	54	and 53½
In 1876 the fluctuations in May were between	54	and 52
In 1876 the fluctuations in June were between	52	and 50
In 1876 the fluctuations in July were between	51½	and 46¾
In 1876 the fluctuations in August were between	53¾	and 50
In 1876 the fluctuations in September were between	528/16	and 51⅛
In 1876 the fluctuations in October were between	53½	and 52
In 1876 the fluctuations in November were between	55	and 53⅛
Present price, 10th December, 56¼d.		

Such rapid changes of so great a magnitude could only happen in a very delicate market, where a little extra supply, or even only an apprehension of an extra supply, will at once send down prices, and where a slight extra demand, especially when it seems at all likely to be permanent, will at once send them up. The delicacy in this case has been due to the fact that the silver market is now in an entirely new state, and that until the conditions which regulate that state are discovered, all dealers are fearful of keeping any considerable amount on hand. They sell what comes as it comes, which sends down the price; and in consequence they have none to sell when there is a sudden demand for an extra quantity, and therefore the price rises.

In former times it was not necessary to keep a stock of silver, and there was no motive for it, for the “Latin Union,” being a collection of countries with a double standard, held an immense stock for all the world. If silver showed a tendency to rise in price, gold immediately was sent to purchase it in the country where it could be obtained at a fixed price in gold. And similarly, any stock of silver which accumulated here was carried off to the “Latin Union” as soon as it had the least tendency to depress the price. Much silver could not be kept in stock, and there was no motive for keeping any. But now this peculiar organisation has ceased to act, for the “Latin Union” has practically ceased to be a “double standard” league, because it does not coin, and therefore does not take new silver in indefinite amounts when required.

The silver market will therefore in future, like all other markets, have to secure its stability by keeping a "stock on hand". Dealers will hold for what they think a good price, which will usually prevent an extreme fall of price, and get rid of more or less of this accumulation when there is an unusual demand, which will commonly prevent an extreme rise. But a great number of causes as yet prevent the dealers from doing so. First, the uncertain quantity which the German Government may at any time sell hangs over the market; the effect of the increase of the "Council bills" on the Indian demand for silver has still to be fully tested in practice—indeed, it will require years so to test it; the American production is still an unknown quantity, though everything seems to show that it will be much less than it was thought to be; the "Latin Union" is still in an "expectant attitude," and may possibly resume its old policy. Till these causes have ceased to operate as powerfully as they now do, no important stock of silver will be kept, since the future is too uncertain to justify it, and until it is kept the price will probably fluctuate a good deal, though not as much as during the past year, when most of the influences that cause variation have been at a maximum, and most of those which cause stability at a minimum.

The rise in the price of silver which has just taken place is as local as the fall which preceded it. The great mass of prices in the countries using silver as a money are wholly unaffected by it. Indeed, such perturbations as a rise of 20 per cent., and then a fall to the old level, during a single year in the general prices of great countries, would have been economical phenomena such as the world has never seen, and such as would have caused a vast derangement of transactions.

The silver market must settle down into its normal condition before we shall know what will be the normal price of silver in relation to gold or to commodities. The disturbing forces with which we have had so long to deal must first pass away. And until they have so passed, it will be desirable that no Government shall involve itself in a currency change, depending on the mutual relations of silver and gold, which has not begun one already. Unless in case of vital necessity, such currency changes should be made at the time when the circumstances attendant on them can be best foreseen, and that is when the course of trade is most regular, and the chief markets in the matter most in their normal condition.

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XVII.

BI-METALLISM.

We have written much this year on the subject of silver, and on the evils of its depreciation, but we have hardly, we think, referred to the scheme which some persons think would set right everything—the scheme of universal "bi-metallism". But the truth is, that we regard that scheme as so entirely beyond the boundaries of practical finance that we did not think it worth discussing, and we only discuss it now because we continue to receive ingenious pamphlets, some of them written by men of business, which maintain that it is both practicable and advisable. We shall, therefore, state as shortly as possible our reasons for thinking that it is neither.

The plan is, that by means of an "international conference," or otherwise, all nations should agree to use both gold and silver as legal tender for all amounts, and to use them in the same proportions; which, it is said, would cure any evils which now arise from changes in the relative value of gold and silver, and in the cost of production of both or either of them.

But first, any such attempt would be such an alteration in the monetary system of most countries, that it would be difficult to get most of them to take it into consideration, and impossible to induce many of them to agree to it. Take our own case,—England has a currency now resting solely on the gold standard, which exactly suits her wants, which is known throughout the civilised world as hers, and which is most closely united to all her mercantile and banking habits. What motive, that an English Parliament could ever be got to understand, is there that would induce them to alter it? You cannot even begin an argument which would seem to have a sufficiently striking sound. Some time ago it was indeed said that the finances of our Indian Empire were thrown into confusion by the fall in the price of silver, and that, therefore, the English and the Indian currency should be assimilated, and both be on the "double standard" principle. But even in that case the English people would, rightly or wrongly, never have consented to change their currency; they would have told the Indian financiers to adjust their system of raising a revenue to the new circumstances. They would not have altered the sovereign for anything which might happen to the rupee.

And still less would the English people think of doing so when silver has risen in price, and when our Indian finance is no longer inconvenienced. They would say, with their usual untheoretical common-sense, "This event shows how dangerous it is to make great changes upon fine arguments in important matters. You—the advocates of bi-metallism—wanted us to make a most troublesome and difficult change to cure our evil, which has now for a time entirely, and perhaps for ever, cured itself. We certainly shall be cautious how we listen to you again."

Then it is said that under our present system the fall in silver throws exchanges into confusion, which, no doubt, alters the course of trade. But practical commerce soon adapts itself to such changes, and a nation which at present has a good currency, and one which suits it, would be very foolish to make a change merely to keep the exchanges from possible fluctuation. And as we have often shown before, the fluctuations in the Indian exchange, which have hampered our export trade to India, are not by any means wholly due to the change in the price of silver; they are partly owing to the increase in remittances from the East for interest of debt, and on other accounts; the effect of which was long suspended, but now is fully felt. And, as we have also often shown, though the trade *to* India is impeded by a fall of silver, our trade *from* India—our imports from thence—are stimulated. The same cause which tends to impair the one, tends equally and necessarily to add to the other. A change in the monetary system of any one country can rarely be effected, except to prevent some great evil; a change of the system of a very large number of countries could only be made to meet some superlative evil, and in this case neither exists.

Most advocates of "bi-metallism" now admit that unless all countries adopt it, and unless all countries keep to it, it is a very faulty system. It is not a currency of two metals, but an alternative currency, sometimes of one and sometimes of another. Countries with such an alternative currency always use the cheaper metal and sell the dearer metal. Creditors in it are always injured by being paid in the cheaper metal; debtors are always benefited by being enabled to pay in it. The currency of France was thus a few years ago changed from gold to silver, and would now have been changed back again to gold, if it had not refused to take the silver, and had not, in so doing, practically abandoned the bi-metallic system. And a system which requires that every one should agree to make it good, is certainly a system which is difficult to make good, and which is always liable to become bad.

And even if this system was at once, say, by "miracle," imposed on all the human race, it would be very imperfect. It forces an arbitrary equation, in which there is no naturalness, between gold and silver. But their natural relative price has varied exceedingly. The table, on page 337 published by Mr. Goschen's Committee, shows this clearly.

And the effect of the bi-metallic system, if universal, would be to fill the world with the cheaper metal only. That which could be brought to market most easily would come to market; that which could least easily be brought to market would not come. And there would, in consequence, be an incessant tendency to change of prices. No doubt that tendency would be impeded by the magnitude of the stock of the precious metals which now exists, and of which it would have to change the value. But still it would exist, and would be a constant evil.

Date.	Ratio.	Authority.
ad		
1526	11·30 {	Apparent relation of market value as deduced from the British Mint regulations, some absurd and unsuccessful experiments in coinage being disregarded.
1543	11·10 {	
1561	11·70 }	French Mint regulations.
1575	11·68 }	
1551	11·17 }	German Imperial Mint regulations.
1559	11·44 }	
1604	12·10 }	British Mint regulations; experiments disregarded.
1612	13·30 }	
1619	13·35 }	
1623	11·74	Upper German regulations.
1640	13·51 }	French Mint regulations.
1665	15·10 }	
1667	14·15 }	Upper German regulations.
1669	15·11 }	
1670	14·50	British regulations.
1679	15·00 }	French regulations.
1680	15·40 }	

1687-1700	14·97
1701-1720	15·21
1721-1740	15·08
1741-1790	14·74
1791-1800	15·42
1801-1810	15·61
1811-1820	15·51
1821-1830	15·80
1831-1840	15·67
1841-1850	15·83

Ratios calculated from the bi-weekly quotations of the Hamburg prices-current, giving the value of the gold ducats of Holland in silver thalers, down to 1771, and after that in fine silver bars. The nominal par of exchange during this period was 1 : 14·80, and the quotations show the variations of the market-rate in percentage above or below this. At par, six silver marks-banco were equivalent to one ducat, 6820/47 ducats containing one mark (weight) of fine gold, and 27¾ silver marks-banco, containing one mark (weight) of fine silver. Hence, 6 multiplied by 6820/47, divided by 27¾, equals 14·80, the par ratio.

But this and other characteristics, whether for good or evil, which may belong to universal bi-metallism are, in our judgment, scarcely worth considering; they seem to us fit only for theoretical books, because the plan is only a theory on paper, and will never be in practice tried.

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APPENDIX.

Evidence Before The Select Committee On Depreciation Of Silver. MONDAY, 8TH MAY, 1876.

MEMBERS PRESENT:

MR. BAXTER.	LORD GEORGE HAMILTON.
MR. CAVE.	MR. HERMON.
MR. CHRISTOPHER BECKETT DENISON.	MR. KIRKMAN HODGSON.
	MR. HUBBARD.
MR. FAWCETT.	MR. MASSEY.
MR. GOSCHEN.	SIR CHARLES MILLS.

Mr. Shaw.

The Right Hon. George Joachim Goschen, *In The Chair.* Mr. Walter Bagehot, *Called In And Examined.*

Chairman.

1361. You have been for many years, I believe, the Editor of the *Economist?*—Yes.

1362. I think you have given particular attention to this Silver question?—Yes.

1363. Have you considered the relation between the depreciation of silver and the Indian exchanges?—I have devoted a certain amount of attention to it, and it appears to me to be almost certain that the first immediate effect of the depreciation of silver will be to cause an unfavourable balance of trade with the East; and, in consequence, a great export of silver to the East.

1364. It has been alleged that the depression of the Indian trade has in part contributed already to the depreciation of silver?—I should hardly like to give an opinion on such a point without reading the evidence which has been given before this Committee, which I understand has on this head been contradictory; it appears to me that, to a great extent, the depression in the trade has been common both to exports and imports; and, therefore, would not affect the balance of trade, or, in consequence, the exportation of silver to the East.

1365. If the fall in the value of the crops exported from India to England had been compensated by a corresponding diminution in the exports from England to India, trade might be depressed, but the price of silver would remain unaffected?—Quite unaffected, as far as that goes.

1366. Do you share in the view that has been expressed that the drafts of the Council of India have contributed considerably to the depreciation of silver?—I should rather put it in this way, that the drafts in India represent an increase in the tribute, a beneficial tribute no doubt, which India pays to this country, and, of course, that being a payment which she has to make, alters the exchange, tends to make it unnecessary to remit silver from this country, and, therefore, diminishes the demand for silver.

1367. Do you believe that the fall in the price of silver has operated unfavourably, or is calculated to operate unfavourably, on Indian trade, either temporarily or permanently?—I should say that the effect of the depreciation of silver was to cause an increased export of goods from India to this country, a diminished export from this country to India, and, in that manner, to cause an unfavourable balance of trade.

1368. Could you explain that a little more fully to the Committee?—I think the increase of the export of goods from India to this country will arise in this way: a merchant in London, who is thinking of importing goods from the East, looks at the price current in Calcutta, and he sees the price quoted in rupees. The merchant in London is in possession of sovereigns in London, therefore he has two operations; first, he has to buy his rupees in India; next, with those rupees he has to buy the article which he saw in the price current. The question of profit and loss to him is compounded of the result of those two operations; if, therefore, he can buy his rupees in Calcutta on more favourable terms, he will find it to his interest to go into a speculation which would not otherwise be profitable. If he can get rupees at 1s. 8d. instead of 2s., and he can buy his goods in Calcutta with the same number of rupees, that is so much extra gain to him. Conversely, the English exporter of goods to the East will receive payment in rupees, and he will have to sell those rupees; and if he sells them for a less amount of sovereigns, he will suffer a loss, and that is a discouragement to exporting from this country to India. The result of these two operations, of the encouragement of exports from India to this country, and the discouragement of exports from hence to India, necessarily is an increase of the balance which this country has to pay to India, and consequently a flow of silver to the East.

1369. And is, so far, a counterbalancing element tending to raise the price of silver as compared with the other causes which have been mentioned, which might depress the price of silver?—Quite so; and I should say a cause of even greater magnitude than any which tend to depress it.

1370. It is a rectifying cause?—A rectifying cause, and a rectifying cause of the first magnitude, because what I have said extends not only to India, but to all countries which have a silver currency. Those countries are the great majority of the world; the circulation of silver in those countries is something enormous, and to all those countries you will have to send a certain amount, if the depreciation of silver continues. The quotations of prices in all those countries are made in silver. Traders with those countries have to go through the operation both ways, as to exports and imports, which I have described, in silver. As to all those countries, there will be a bounty on exporting from them, and a discouragement to importing into them, and in consequence to every one of those there will be a flow of silver.

1371. In order that the Committee may thoroughly possess themselves of those particular points, do I understand you correctly that the operation is as follows: a depreciation of silver in India and the depreciation of the Indian exchange have the following effect, that a London merchant desiring to speculate in Indian produce, will be able with his gold to buy a larger number of rupees; and that if the prices remain stationary in India, he will, having a larger number of rupees, be able to buy the exports of India at a cheaper rate himself, and therefore make a larger profit?—Yes, that is one side of the operation.

1372. And, on the other side, that the exporter of goods from this country to India will realise, if the prices have not risen (which is the same supposition), the same number of rupees in India, but in turning them into gold, he will find that the identical number of rupees will furnish him with a smaller amount of gold in return here for his outlay, and that therefore he will make a less profit?—Yes, that is exactly my meaning.

Mr. Fawcett.

1373. That opinion, though, is based on the supposition, that as the depreciation of silver continues the prices remain stationary, is it not? But very soon after the depreciation commences in those countries, where silver is a standard of currency, the rise in prices will be exactly proportioned to the depreciation of silver?—When it is, of course, the encouragement is withdrawn.

1374. After all, the depreciation of a metal which is chosen for the standard of currency is measured and is marked by the rise in prices; that is what depreciation of money means. If you say that money is depreciated 10 per cent., you mean that prices have risen 10 per cent.?—I do not quite understand the question you ask.

1375. If gold were depreciated in this country 10 per cent., it means that gold possesses 10 per cent. less purchasing value?—Yes.

1376. Or, in other words, prices had risen to that extent?—Yes.

1377. The same way in India, where silver, not gold, is the currency, if silver is depreciated to a certain extent, prices must rise to the same extent, therefore, your reasoning is based on an hypothesis which cannot take place in actual life?—No; I consider that it is based on the present facts. The purchasing power of gold over silver by the English merchants is at this moment increased; gold will buy a great deal more silver than it used to do; but the silver prices of articles in Calcutta have not been affected. Silver is not, as yet, depreciated in the East. It is only during the process of depreciation that my argument holds.

Chairman.

1378. When I asked you your opinion, I drew a distinction between a temporary effect and a permanent effect; the opinion you have stated, I understand you to mean, is the temporary and first effect?—Yes; as soon as the depreciation of silver, as respects the

Indian commodities, is equal to its depreciation as respects the gold of the English merchant, then the process which I have described is at an end.

Mr. Fawcett.

1379. What I understand is this, that for a time it may be shorter or longer, during which the depreciation of silver may take place without affecting general prices, you have indicated the prices which will exercise an influence to restore the value of silver to its former level of value?—The point I wish to make before the Committee is this, that all over the East the process I have described will go on, and that to depreciate silver 2 per cent. all over the East will require a vast amount of silver currency, because the region is so large. No doubt it will stop when the depreciation of 2 per cent., or whatever it may be, has been effected, but that will take a long time.

Chairman.

1380. The first operation is such as you have described; the next operation would probably be, would it not, that the prices of commodities in India would rise?—Yes.

1381. While silver had been depreciated?—Yes.

1382. Then in proportion as the price of silver rose you would require a larger amount of silver to do the work than had been used before?—Yes.

1383. That increasing need for silver to pay for the aggregate increase due to the rise in prices would be spread over a vast surface, in your opinion?—Yes, that is my meaning.

1384. Namely, over the countries with the silver valuation in the East generally?—Yes.

1385. The greater demand for silver during this process would tend to arrest the fall of silver, *pro tanto,* in your opinion?—That would be a main cause, supposing other causes which tend to depreciate silver to have the effect which is supposed.

1386. In the first instance prices might remain stationary for a short time; then the flow of silver would take place to the country, owing to the encouragement to export and the discouragement of import.—Yes.

1387. And when that was past, and prices rose to their level, so that there was neither that encouragement nor discouragement, the aggregate amount of silver needed for the commerce of those countries would have been increased?—Yes.

1388. After a rise of price all over the East, due to the depreciation of silver, more silver would be required for carrying on the general trade of those countries than before?—Yes; to a very great extent.

1389. Have you at all calculated the surface covered by what is called the silver valuation, as compared with that which is covered by the gold valuation?—It used to be said until a few years ago, that England and Portugal were the only countries where gold was the standard of value; and there were certain countries which had a double standard, but those were not very many; and all the rest were silver. Silver is the normal currency of the world, and from a natural cause, because silver is a much cheaper metal, and is suited to those small transactions which constitute the bulk of the dealings of mankind.

1390. Have you examined the statistics which are available to the public with regard to the aggregate amount of silver and gold in various countries?—I have examined them, but I regret to say that I do not think they are of such value as to be made the basis of sound reasoning in such investigations as this. It appears to me that you neither know with certainty the present stock of silver in the world, nor are you able to estimate the probable augmentation of it; nor do you know the effect which any given percentage, say 10 per cent. on the stock, would have upon its value. The last part is a matter which has not even been discussed, I think.

1391. You would question, after all the study you have given to the subject, both the accuracy and the real substantial value of figures that go into the aggregate amount of silver and gold in the world, and the proportions of the metals to each other?—I do not believe they are worth the paper on which they are written. I do not consider that any one knows anything about them, or has the means of knowing.

1392. To resume the point of the effect of the depreciation of silver on the Indian exchanges, which is one point referred to this Committee, can you treat that question as one of exports and imports between India and this country alone; I have heard a remark with regard to the effect upon other countries?—Of course it will be evident that if this country has to export silver to the East, it must buy that silver somewhere. That silver it will have to buy in America, and therefore a consequence of the new state of things will be that the English exporters of goods to some parts of the world will be benefited. I do not say the English exporters of goods to America, for probably we shall not pay America directly. The nature of the trade between America and this country is, that America sends us directly a great deal more than we send her, and America buys, in various parts of the world, coffee, and rice, and tea, and a variety of articles, and that the sellers of those articles draw upon England, and so the balance is struck; we shall have to pay America in some way for the silver, and we shall pay her by exporting to the countries from whom she buys some of those articles, and therefore, though it is perfectly true to say that the effect of the depreciation of silver may be unfavourable to the English exporter of goods to the East, yet it will be favourable to another class of English exporters, that is to say, those who pay America.

1393. You mean this, that as the silver is to be produced, and comes to Europe, or when it comes to Europe, it must be paid for by some means?—It comes here, and we must pay for it. We shall pay for it, not to America directly, in all probability, but by exporting goods to various parts of the world where America buys. She buys in

Brazil, in Cuba, and in the East, and in France, and all those countries draw drafts upon England, and ultimately the account is settled in commodities.

1394. If America draws more Eastern produce in consequence of producing more silver, and therefore having something to sell which it can turn into commodities abroad, then a certain amount of new purchasing power is given to those countries from which it draws its exports?—Yes.

1395. And that purchasing power they may again avail themselves of in purchasing from this country?—Yes; such are the dimensions of our trade, that ultimately they come to buy of us. We are the great settling-house of the world.

1396. Have you examined the effect of the depreciation of silver upon our trade up to this date?—I cannot say that I have made such an examination of it as I should like to lay before the Committee, especially as I understand that contradictory opinions have been expressed upon it, and I should rather rely on the general principle I have stated, because the facts of a particular year are far more difficult to discover than the general tendencies which operate over a long period of time.

1397. There are so many disturbing causes in any particular year?—Yes; and it is so difficult to get at the precise facts of any particular year. Statements may be made as to depression of particular trades. Well, what does depression mean? The traders will not come and show you their books; you ought to have a comparative statement of their profits in the period at which the depression is said to commence, and at the period of which you are talking. Now no such account is ever given in, and therefore you are dealing with a statement which you have no means of measuring or testing.

1398. Do I understand you rather to question the prolonged depression in the Indian trade?—I do not doubt that there is a great depression in the export trade from this country, and that that arises very largely from the causes of which I have been speaking. The depreciation of silver has necessarily caused discouragement to export to the East; the people who most call themselves the Eastern trade are the exporters to the East.

1399. Unless the manufacturers and producers in our manufacturing districts have got stocks of articles already manufactured for India which they are bound to sell?—No doubt they will have to sell them practically at reduced prices, because they will sell them in rupees, and when they bring these rupees home they will yield less in sterling money.

1400. Still if they are manufactured they would be likely to be exported?—Yes, and perhaps for other reasons. Some part of the export trade, I would not at all say it is true of the Eastern trade, but some amount of trade is carried on by drawing on consignees for the creation of bills, which bills are discounted in this country; and that trade, which is not of a very healthy description, will always go on, whatever the prices may be.

1401. Do I understand you to mean in very general terms that it is difficult to arrest any particular branch of manufacture and export the moment it becomes unprofitable?—Very difficult indeed. In the first place, an amount of fixed capital is sunk in it which has to be moved, and people have formed habits and connections; and such a general cause as I have been speaking of will not operate perhaps for a considerable period of time.

1402. The export trade from this country to another great consuming country might be prolonged sometimes without its being exactly evidence that that export was the result of sound trade and permanent causes?—Quite so, without its being at all a conclusive indication that it was such a trade as ought to be carried on, or such a trade as anybody would begin.

1403. Would the depreciation of silver have this effect, that it would prevent the extension of business or the initiation of new business while alarm was felt as to the uncertainty of returns through the fluctuations in silver, but it would not cause an immediate cessation and diminution of the trade?—Yes, it would have that effect, it would have a gradual tendency in that direction, a tendency to make the export trade to India cease.

1404. Turning to another subject, the evidence before the Committee, I think, has been generally to the effect that the depreciation of silver has been caused by the increased production or the impression produced by the increased production in America, by the demonetisation in Germany, and by the increase of the drafts of the Indian Council; do you agree in the existence of these causes?—I think that those causes are real, but I think a fourth ought to be added to them.

1405. What is that fourth cause?—A number of States which are grouped together in what is called the Latin Union have ceased to coin silver ever since the year 1874 in the same manner which they did before; as the Committee are aware, the Latin Union is a name for five States, France, Belgium, Italy, Switzerland, and Greece, which up to the year 1874 had what they called a double standard, that is to say, silver and gold were tenders for any amount for debts, and the coinage was framed on the relation of 15½ to 1. Up to that time it was open to anybody to go to the French, or any other mints, with silver or gold, as the case might be, and get it coined; the consequence of course was, that the moment metal became depreciated, the holders took it to those mints and had it coined; but in the year 1874 that process was arrested, because those Governments limited the amount of silver which they would coin, and if it had not been for that change of policy, all the silver which is now flooding the London market, and lowering the price, would have been long since in the mints of those countries; it would have released gold from them, and the combined effect of the two operations would have been, that the comparative value of gold and silver would have been very little altered, probably not at all.

1406. Without giving an opinion as to whether they did right or wrong in the steps they have taken, do I understand you to mean that their abstention from purchasing, whereas formerly they were buyers, must be added to the effect of the demonetisation in Germany?—The operation of the double standard caused a supply on speculation;

the moment any one of the two metals becomes depreciated there is a motive to any bullion-dealer to take the depreciated metal to the mint, leave it there, have it coined, and with that he can buy the appreciated metal and have a profit; in that way, in former times, the old silver currency of France was entirely taken away, and gold substituted for it, merely because gold was cheaper; in the same way now, if the Latin Union continued to coin as before, gold would have been taken away and silver taken back.

1407. Are you aware that the stock of silver in the Bank of France has increased of late years?—Yes, I am aware that it is now 20 millions or more.

1408. You contend that but for their cessation of coinage a larger figure than that would have accumulated?—Yes, and gold would have been taken away from them.

1409. To the same amount?—To an equivalent amount, not only of France, but the Latin Union generally.

1410. There has been once or twice before, has there not, in France, a change from silver to gold or from gold to silver?—Yes, we were enabled to pay India in silver for the cotton we wanted during the famine, by getting it from the French currency in this way.

1411. Was France at that time drained of a large portion of its silver currency?—A very large portion. It was the saying in France at that time, "The English have taken away the silver," meaning that we had sent it to India. It was quite true that it was bought up with gold.

1412. Did we pay a premium on silver at the time?—Gold was much depreciated as against the legal equation, just as silver is now against the legal equation, and therefore it was profitable to send gold to the mint.

1413. Had the Governments in the Latin Union not curtailed their coinage even before the year 1874?—1874 is the first year in which they made a treaty on this subject, I think.

1414. Can you state to the Committee any facts with regard to the legislation as to Holland?—It appears to me that the difficulty of Holland in this question is far greater than that of any other country, because they have, as England has, an Indian Empire, and they have the same currency in the Indian Empire as they have at home. They are much in the same position that we should be in if we had a rupee currency here, and we thought of demonetising rupees. It has been proposed to demonetise the Dutch dollar, which is the coinage both of Holland and of Java, and of other Dutch possessions, which circulates in the East to an enormous extent.

1415. The Dutch dollar has not yet been demonetised?—It has not, but proposals are constantly being made, and an experimental step was made last year towards its demonetisation.

1416. Was a Bill passed with regard to it?—Yes; but like many experimental measures, it was very complex; I should not like to explain its exact effect; I have had it explained to me in various ways; it was a small Act in itself, and only of importance as an indication of a policy which was to follow.

1417. Was it a temporary Act or a permanent Act?—Temporary.

1418. To cease when?—To cease very soon, I think, but I am not perfectly certain.

1419. As a matter of fact, when that Act ceases, will the Government of Holland have to make up its mind one way or the other again, and to take some measures?—Either to make a change, or leave things as they are; Holland demonetised gold years ago, and has only a silver currency.

1420. As a matter of fact, without expressing any speculative opinion, they have not yet established a gold valuation?—No, they have greater difficulties in going in that direction than any other country.

1421. I have seen it stated in some publications that Holland was one of those countries that adopted the gold valuation?—That is a complete error; many circumstances much impede them in so doing.

1422. Have they been buying silver or gold latterly to your knowledge?—I could not lay the details before the Committee.

Mr. Fawcett.

1423. The Latin Union, or the Latin Convention, continues in operation till 1880, does it not?—Till some date of that kind.

1424. Therefore its policy, which you think has been influential in assisting the depreciation of silver, will continue till the time when it ceases, when the Confederation breaks up?—Not necessarily; it has an annual meeting, by which it determines the amount of silver which it will coin; I should say that in 1874 they had made a cardinal alteration in their policy; the theory of the double standard is that any one should be able to bring his money to the mint and get it coined in any amount, but that was altered.

Chairman.

1425. What was the original policy of the Latin Union?—It was the policy of the double standard, as it is called, in which both gold and silver circulate, and are legal tenders for any amount, and in which the relation between them was that of 15½ to 1.

1426. What was the object of their combining?—It was, I suppose, partly a political movement on the part of the French Empire to gain an influence in those countries, and partly the natural wish of countries so intimately connected to have the same coinage, and they adopted the French coinage of that time, as being that of the predominant Power.

1427. The Latin Union was not formed with reference at all to the question as between silver and gold?—They simply adopted the French currency of that time.

1428. The policy to suspend the coinage is the common policy that has been adopted by them in the course of their union, but is not one of the principles of their union?—It is contrary to the fundamental principles of their union. They gave up the double standard the moment they allowed their metal to be limited. The cardinal principle was abandoned.

Mr. Fawcett.

1429. Did not they come to some agreement with reference to the coinage of silver, which agreement was to continue in operation till 1880; I think we have had evidence to that effect?—They met annually, and determined the amount of silver which they should coin.

1430. I think Mr. Giffen gave the evidence, but I fancy we have had evidence to this effect, that when they met in 1874, one of their agreements was that they should continue a certain policy with regard to the coinage until 1880, and that they should be bound by that agreement until that year?—They re-vote annually what the amount shall be, and it is open now to the annual meeting to change, and to go back to the double standard pure and simple. In 1874, the amount which they agreed to coin was £4,000,000. In 1875 it was raised to £6,000,000, and now it has gone back to £4,800,000 in 1876. It is divided between the countries.

1431. You say they cardinally changed their policy in 1874 with regard to the coinage of silver, and their policy with regard to the future of course is uncertain?—Very uncertain. It is a possibility, I do not say that it is a probability, that they might begin to coin silver in unlimited amounts, and that would take the silver off the market.

1432. On the other hand, it is possible that they may continue this policy, which you think has been influential in assisting the depreciation?—Yes; or they may go further, and demonetise the silver in France. That has been proposed, and that would throw an additional amount of silver on the market.

1433. Their policy one way or the other will have a considerable effect either in promoting the depreciation of silver, or in retarding its depreciation, and that policy with regard to the future is, in your opinion, obscure and uncertain?—Yes; it will be a force of the first magnitude.

1434. You would not like, at any rate, positively to predict in what direction that force, which you have described as one of the first magnitude, will operate?—I think there are very great difficulties in the way of demonetising silver in France, and it is certain, I believe, that the present rulers of France wish to preserve what they call an expectant attitude, and to continue the present state of things, only coining limited amounts, but whether they will be able so to continue I do not know.

1435. Do you think that one element in considering what the value of silver is, is this,—that the value of the precious metal, after all, is determined by the same considerations as the value of any other mineral, or any other commodity, and that consequently the cost of producing those metals, or the cost of raising them, must have an important bearing on their future value?—Undoubtedly.

1436. Therefore, if the cost of producing silver should greatly diminish, that must sooner or later, just in the same way as if the cost of producing any other article greatly diminished, have its effect upon its value?—That will of course have an effect upon the value, but it will be limited by several considerations; one is, that it is the cost of production under the most difficult circumstances which regulates the price, not the cost of production in those mines of splendid fertility which we hear of, but the cost of production in the least of the old mines which keeps itself at work.

1437. To draw an analogy, if you suddenly discovered in a country a great tract of fertile land, the immediate effect of that land being discovered, which would enable agricultural produce to be produced cheaper, would not necessarily be to lower the value of agricultural produce if the demand for it keep on increasing, so that it was necessary to keep the comparatively speaking unfertile land in cultivation, which before had been cultivated?—Quite so.

1438. But if, on the other hand, this fertile land should so add to agricultural produce that the more unproductive sources of supply which had been before worked should be given up, then the cost of producing that produce would diminish?—Yes.

1439. You think that would apply as an analogy to the value of the precious metals?—Yes; I think it would be the mine of the least fertility that should keep itself at work that would regulate the price.

1440. You have described to us very clearly what you think will be the effect on the trade of India, if the depreciation of silver continues, but have you considered what its effect on the revenue of India is?—I suppose that it will be unfavourable to the revenue of India, because the Indian Government are so unfortunate as not to be able to increase their taxation.

1441. And the peculiarly unfavourable effect it will produce is this, that one considerable portion of the land revenue of India is either permanently or for a considerable period fixed in pecuniary amount, which amount is estimated in silver?—Yes.

1442. Therefore, although from that circumstance inferences may come into operation to correct any bad effect which it may have on the trade of India, the loss which would arise to the revenue of India from that circumstance cannot be got over by any of the circumstances to which you have referred?—I do not think there is any connection between the trade of India and the revenue of India for this purpose in the peculiar circumstances of the Indian Government, because they do not seem to be able to apply additional taxation.

1443. But as to the loss on the revenue, even if they could apply additional taxation, which is a fixed pecuniary amount, either fixed permanently or for a considerable number of years, there is no way of meeting that?—No; that is a matter of agreement which cannot be altered.

Sir Charles Mills.

1444. You mentioned the demonetisation of silver by Germany as being one of the causes. I suppose you will supplement that by the cessation of the demand for fresh coinage?—Quite so.

1445. It includes not only the selling of the silver, but also the cessation of the demand for fresh silver?—Yes.

1446. You stated that you thought it was very difficult to form any opinion as to the amount of silver and gold there was in circulation in the world? I think you go further, do you not, and say it is very difficult to form even an opinion as to the amount of gold in circulation in England?—There are very various estimates by very competent persons. Of course, it is much more possible to get near that than the circulation of the world, but such estimates are more matters of scientific conjecture than anything else.

1447. We had some figures given us as to the amount of thalers in Germany, do you think that those are also very doubtful?—Very dubious indeed. I have a strong belief that the Government do not themselves know; their whole policy is perplexed by uncertainty as to that, as far as an external observer can judge.

Chairman.

1448. When you speak of the drafts of the Government of India, you consider that those drafts, I presume, are determined by the amount that they require; it is not an open question how much money they can raise, or how much they need not raise?—I suppose that the drafts are regulated by the necessities of the Indian Government at home. They have a certain interest to pay, certain salaries to discharge, and certain things to buy, which are absolute necessities, I suppose.

1449. You do not wish to convey the idea, when you stated, as other witnesses have stated, that the increase in the drafts of the Indian Council is one of the causes which have led to the depreciation of silver, that it was at all a cause which the Indian Government could have avoided?—I apprehend it is not optional at all.

Mr. Fawcett.

1450. The great part of the expenditure of India is quite within the control of the Home Government here. I will give one illustration; for instance, so much had to be remitted from India to England for the payment for the buildings at the India Office. It was perfectly optional with the Government here whether they erected buildings. I do not mean to say whether they were wise in erecting the buildings they have, but it was optional for them to spend more or less, or the exact amount which they did spend on those buildings. Therefore the expenditure is within their control, but having sanctioned a certain expenditure, of course the amount they have to withdraw is not within their control?—Yes, it is only in that sense optional. Having determined their expenditure by political considerations, the money must come.

END OF VOL. VI.

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[1] At the end of April, 1910.

[1] In his turn the small trader is now being displaced by the joint stock company.

[1] In 1905 merchant steamships with a total tonnage of 9,398,374 tons passed through the Canal, and of these 7,224,181 tons were British. Germany, however, came first with mail-steamers, which were returned at 1,013,645 tons, against 705,890 tons British. The total net tonnage of all ships using the Canal was 13,134,105 tons, out of which 8,356,940 were British.

[1] More recent instances of amazing indiscretion on the part of great firms have been afforded by the collapse of Messrs. Baring Brothers and Messrs. Murrieta & Co.

[1] Mr. Bagehot was dealing with the period prior to the resumption of specie payments by the United States in 1879. Since then there has been no fluctuation in the value of the “greenback”.

[1] This was the limit of issue against Government securities at the date of writing, but it has since been increased. By the Act of 1844 the Bank was authorised to issue £14,000,000 against securities, and it was further provided that if any other English note-issuing banks allow their powers of issue to lapse, the Bank might be authorised to increase its issue against securities to the amount of two-thirds of the lapsed issues. Since 1844 issues to the amount of over £6,915,000, have been suffered to lapse, and the Bank has been empowered by successive Orders in Council to augment its issue against securities to the extent of £4,450,000, the successive steps by which this increase has been effected being:—

BANK OF ENGLAND ISSUE AGAINST SECURITIES.

Authorised by Act of 1844	£14,000,000
Authorised by Order in Council December, 1855	475,000
Authorised by Order in Council June, 1861	175,000
Authorised by Order in Council February, 1866	350,000
Authorised by Order in Council April, 1881	750,000
Authorised by Order in Council September, 1887	450,000
Authorised by Order in Council February, 1890	250,000
Authorised by Order in Council January, 1894	350,000
Authorised by Order in Council March, 1900	975,000
Authorised by Order in Council August, 1902	400,000
Authorised by Order in Council August, 1903	275,000
	£18,450,000

The account of the Issue Department at the end of 1905 accordingly stood thus:—

Account for the week ending the 27th day of December, 1905.

ISSUE DEPARTMENT.

Notes issued	£45,648,245	Government debt	£11,015,100
		Other securities	7,434,900
		Gold coin and bullion	27,198,245
	£45,648,245		£45,648,245

[1] See note on page 24.

[1] Of late years a few of the more important London banks have begun to keep separate gold reserves. As yet, however, the aggregate amount held by them is comparatively small, so that practically the market is still dependent upon the reserve of the Bank of England.

[2] On December 27, 1905, the liabilities were:—

Public deposits	£7,817,000
Private deposits	44,221,000
Seven-day and other bills	99,000
	£52,137,000

And there was a cash reserve of £17,629,000

[1] A larger reserve has since been maintained. In quinquennial periods since 1870 the average has been:—

1871-5	£12,200,000
1876-80	14,722,000
1881-5	13,275,000
1886-90	13,015,000
1891-5	20,801,000
1896-1900	25,073,000
1901-5	24,375,000

[1] The Bank of France resumed specie payments on January 1, 1878, since when its notes have not suffered any depreciation, and there is now a third available stock of gold in Europe—that held by the Imperial Bank of Germany. Neither the stock at Paris nor that at Berlin, however, is so accessible as that held by the Bank of England, because the Bank of France can exercise an option to pay in silver, while the Bank of Germany at times makes a difficulty about paying in gold, not absolutely refusing, but putting obstacles in the way. A stock of about £72,000,000 in gold is now (end of 1905) held by the Bank of Russia, but that is so safeguarded as to be unavailable for international payments, as is also the stock of about £45,000,000 held by the Austro-Hungarian Bank.

[1] See note on page 30.

[1] In 1905 the Bank of England paid a dividend of 9 per cent., and the London and Westminster Bank a dividend of 13 per cent. At the end of 1905 the shares of the Bank of England were quoted at 293½, and those of the London and Westminster Bank at 58.

[2] In common with the other London joint stock banks, the London and Westminster Bank has considerably increased its reserve. On June 30, 1890, the proportion of its reserve to liabilities to the public, including its balance at the Bank of England, which is, in part at any rate, required to finance its Clearing House transactions, was 12·6 per cent., while on December 31, 1905, it stood at 13·4 per cent. At the latter date the Bank of England held a reserve of 33¾ per cent.

[1] The authorities are still at variance.

[1] See Note B in Appendix, page 204.

[1] Smith's *Wealth of Nations,* Book IV. chap. iii. "Digression concerning Banks of Deposit," etc.

[1] See Note C in Appendix, page 212.

[1] At the end of 1905 the private deposits were £28,626,000, and the circulation £182,635,000.

[2] On December 30, 1905, the Imperial Bank of Germany held deposits to the amount of £31,540,000, and its note circulation stood at £82,834,000.

[1] The Bank of France has now (end of 1905) 127 branches and 295 subsidiary bureaus in 75 Departments, the total number of offices being 423.

[1] The functions of the old Metropolitan Board of Works are now vested in the London County Council, which has continued the arrangement with the bank for the deposit of security, and similar arrangements have been entered into by certain other banks who keep the accounts of other local authorities.

[2] It may be noted that Parliament has for the time being endowed the Chancellor of the Exchequer with large powers of borrowing by Treasury bills. And as these are tendered for not only by home, but also by foreign capitalists, his field of borrowing is very extensive, and he gets the full advantage of the competition of lenders. Still the fact remains that, except with the special leave of Parliament, the Chancellor of the Exchequer cannot borrow except from the Bank of England on "deficiency bills". And as regards the fixing of rates by the Bank, while in the case of Ways and Means advances the rate of interest to be charged is a matter of negotiation between the Treasury and the Bank, the rate to be paid for Deficiency advances is under existing arrangements fixed at ½ per cent. above one-half of the Bank rate at the time.

[1] In this respect the practice of the Bank of England has undergone a change. In transactions with its own customers its published rate is not now its minimum rate. To those who keep their sole, or at all events their principal, account with it, it will discount at or about market rates.

[1] Something safe that will yield 3 to 4 per cent. would better represent the ideal now.

[1] See Note D, in Appendix, p. 212.

[1] Vide *Economist,* of 22nd September, 1866.

[1] Occasionally the Bank now moves by steps of ½ per cent.; but the rule that may be said to be broadly observed is that while in lowering the rate it may be expedient to move by steps of ½ per cent., in raising it the advance should be by steps of 1 per cent.

[1] The Bank of France resumed specie payments on 1st January, 1878, and there are now three bullion markets in Europe—those of London, Paris and Berlin. There is also the New York market. See note on page 30.

[1] The profits of all the joint stock banks of the United Kingdom that publish profit and loss accounts amounted for the year 1905 to about £10,400,000, and of these profits about £9,100,000 were distributed in dividends. On an aggregate capital of £62,200,000 the average dividend was 14·7 per cent. The dividends of the English joint stock banks, exclusive of the Bank of England, averaged 15·2 per cent. of the paid-up capital, those of the Scotch banks 14·7 per cent., and those of the Irish banks 11·6 per cent.

[1] At the end of 1905 the accumulated reserves of all the joint stock banks of the United Kingdom (exclusive of the Bank of England) amounted to about £46,000,000, their paid-up capital being £65,000,000.

[1] The number is now reduced to one. Of the thirteen referred to by Mr. Bagehot, eleven have been absorbed by, or converted into, joint stock banks, and one has been extinguished.

[1] In accordance with an understanding arrived at between themselves in 1891, nearly all the more important private banks now publish their accounts.

[1] They have not done so. Many of the more important have constituted themselves joint stock companies, and a considerable number of the less important have been absorbed by joint stock banks.

[1] The German Government, it is understood, still keeps an account with the London joint stock bank, but its main account is with the Imperial Bank of Germany.

[1] The Bank of France resumed specie payments on Jan. 1, 1878.

[1] The "apprehension minimum" must now be placed at a much higher figure. The Bank's own liabilities have increased and the demands to which it is exposed have also become greater. Of late years the reserve has never been suffered to fall lower than from £18,000,000 to £19,000,000, and it has seldom been so low. It may be said, therefore, that the Bank is now expected to take precautions before the reserve gets below £20,000,000.

[1] The deposits in the savings banks have now (end of 1905) increased to upwards of £206,000,000, but the fact remains that practically no cash is held against them.

[1] Grote's *History of Greece,* part ii., chap. x.

[1] Sir John Lubbock's *Prehistoric Times,* p. 465.

[1] [This paper originally appeared in the *Economist* on the occasion of the adoption by the Government of the late Mr. Russell Gurney's Public Worship Regulation Bill. It is here included as a telling practical illustration of the teaching of the essay on "The Metaphysical Basis of Toleration," pp. 219-237.—Editor.]

[1] No. XIX. of the Articles.

[1] See *Economist,* 24th November, 1860, pp. 1301-2.

[1] 8th July, 1876.

[1] See Chapter X.

[1]*i.e.,* December, 1875.