The Bank of England Charters The Cause of Our Social Distress

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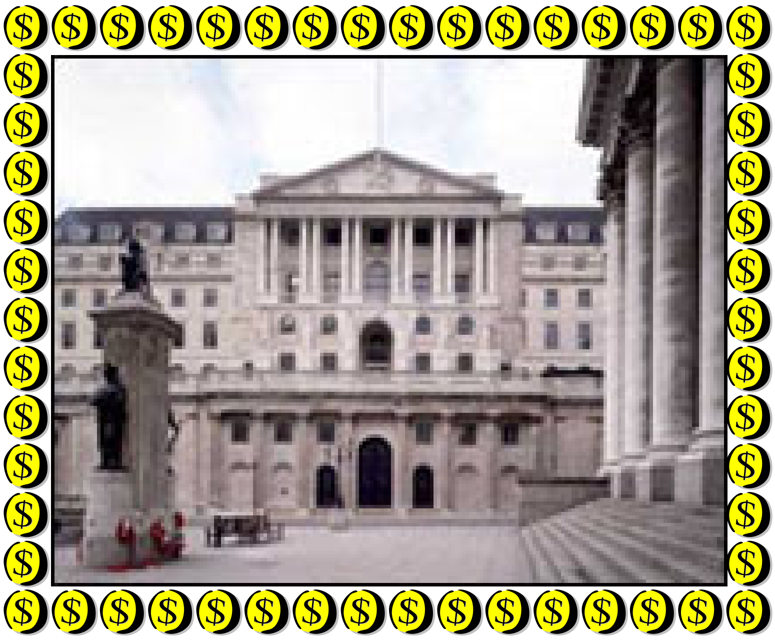

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PREFACE

A CAREFUL watch on the events of a quarter of a century has convinced me that the vicious social developments of the nineteenth century were abnormal and were due to an artificial, and therefore removable, cause. That the cause is deep, insidious and subtle goes without saying: had it been obvious it would have been easily discovered.

Nowhere have I seen a full text of ***Magna Charta***, which so illuminates the times of the Normans, save in a translation of a French History of England; the book came from Beckford's library and was in a fisherman's cottage. It is curious that in a translation of a Dutch work have I discovered the best historical account of the Bank of England. I refer to Bisschop's ***Rise of the London Money Market***. But for that work I must have apologized for the slenderness of the early history in this book. Bisschop's work makes an apology unnecessary; it is needless to multiply labour: where he leaves off the argument of this book commences.

In chapter iii, part I, Bisschop observes:--

"About this time [1780] the Bank [of England] adopted the unfortunate theory that the note circulation should be contracted simultaneously with an efflux of gold from the Bank, in order to bring about a reflux of the specie withdrawn, owing to the scarcity of circulating medium created by this action. The author of this idea was Mr. Bosanquet."

It is also noted:

"The theory, as amended [i.e., that the currency should vary with the foreign exchanges], found its way into the Bank Act of 1844."

Where the base of the circulation is a mixed one or uncertain, the above result must be a necessary consequence. The object of this book is to bring forcibly home to the popular mind that the monetary circulation of this country is not based on its standard of value, as is generally supposed, but is—as a consequence of statute—based upon the Bank of England note, a large portion of which is based on fiduciary security and not on bullion.

When the above is the condition, there must exist a sensitive state of the Money Market, a keen competition of commercial capitals for profit, and a consequent depression of wages to a minimum requirement.

That the remedy can be effected almost by a stroke of the pen is the one great hope. The hopes that the efforts and immense developments of the past two centuries would effect the alleviation of the general mass of mankind have been disappointed. The condition of those un-endowed with capital is almost one of helotage after two centuries of marvelous invention in labour-saving appliances. It is very evident Society is shaking at its foundations with anger and despair, which if unrelieved must be followed by irretrievable disaster. But as Dessaix remarked at Marengo, "though the battle is most certainly lost there is still time to win another." There is still perhaps sufficient time to put our house in order before the day of Wrath.

That the energies of this country are being confined to within a third of immediate possibilities by faulty statutory arrangements I am firmly convinced. If the error of the Bank Charter were amended, relief would be immediate, the poverty of a class would disappear in an incredibly short space of time, and I have sufficient faith in the verve of a really prosperous Society to doubt the possible existence of a really poor person. The old-time scourges of War, Pestilence and Famine might intervene to delay the process and, judging from history, probably will. Man's Evil Fate will not let him easily escape.

Where Bisschop leaves off, the argument of this book begins. Bisschop does not appear to refer to the controversy that arose in the " thirties " of the last century among the London Bankers, when the dangers of a mixed basis to the circulation began to be seriously apprehended. Peel was supposed by his Act to have based the circulation on the standard of value. I have the advantage of some communications from Mr. Ichabod Wright, an eminent Nottingham banker at that period and better known as the translator of Dante, in which he points out that by not distinguishing the fiduciary portion of the Bank of England note issue from that against gold actually deposited Peel stultified the very object of his Act: the basis of the circulation remaining as uncertain under the Act of 1844 as previously.

The public is fortunately much more conversant with the subject of the Foreign Exchanges and Currency than formerly; but there is still a giant ignorance. This book is a very small stone to throw at so huge a Goliath, but, failing others, it is going to be thrown.

THE AUTHOR.

CHAPTER I
THE EIGHTEENTH CENTURY

THE following chapters are intended to give an historical sketch of the financial system of this country from the reign of William III. It is purposed to show that the advantages that we may have enjoyed under it have accrued in spite of the financial system then instituted, owing to the private energy and tenacity of purpose of the people that the social distresses and vicious developments in our civilization during the past two centuries are abnormal and due to an artificial, and therefore removable, cause; that this cause is due to statutory enactments, to the past action of Ministers of State, and can only be removed in a peaceable manner by Ministers of State.

Previous to William III's reign the destitution of any class in the community was practically unknown. There were destitute individuals doubtless; but there was not a destitute class. Since that reign destitution has been the common lot of a large portion of the lower orders: at the same time enterprise and agriculture have experienced lengthy periods of difficulty and depression of a character unknown before except during the willful depreciation of the coinage by Royal Ministers and in those notorious instances when Charles I borrowed from the merchants' treasure at the Tower and when Charles II closed the Exchequer.

The Government of that questioned usurpation of William III did not at first enjoy the confidence of any considerable class, although supported by a powerful aristocratic junta; consequently it was soon in considerable financial straits. Primarily to obtain financial support, and secondarily to secure the support of moneyed men who would embark their fortune in the same " bottom " with the new Government, the Administration of that day perpetrated a "job." At the instance of a Scotsman named Paterson the Government granted a Charter in exchange for a loan of money, whereby the management of the monetary circulation of the realm was handed over to a company of moneyed men, who became known as the Corporation of the Bank of England.

At the present time it is well known that a " managed currency " is a very dangerous system. It may be managed very well, it is generally through design or ignorance managed very badly. This system was first impeached by Bolingbroke, who, writing fifty years after that political event, said "We, who came after them [William's supporters] and have long tasted the bitter fruits of the corruption they planted, were far from taking such alarm at our distress and our dangers as they deserved." Although the statutory constitution of the Bank of England was often suspected as the hidden cause of the distressed state of the Nation, there does not appear to have been any adequate explanation till a few bankers, among whom Jones Loyd—afterwards Lord Overstone—is best remembered, called in question the conduct of the Bank under Horsley Palmer in 1836. The national distresses were at that time very evident even to the more obtuse and optimistic: it was easy to see that the failure of enterprise, the depression in wages and the constant unemployment were due to the recurring financial crises. Jones Loyd demonstrated that such crises were not due to some initial error in the credit system nor was the distress the fault of the people themselves, but sprang from the statutory constitution of the Bank of England, which was by its Charter compelled to fulfil incompatible functions. It is only just to say that Sir Robert Peel tried to grapple with the question; but after experience obliged Mr. Gladstone to admit that the attempt was a failure.

The chief, perhaps the sole, evil of the original Charter of the Bank of England was the clause forbidding any association of more than six persons to issue any note within sixty miles of London. This clause had the effect of preventing associations of bankers uniting to form an establishment for the safe custody of their bullion reserves, which is a necessity of extended commerce and foreign trade. The Bank of England was thereby enabled to secure to itself any financial business it thought fit to have; but as big monopolists often ignore small transactions, the body of London private bankers were enabled to grow up under its shadow to carry on the smaller financial transactions of private persons. But this clause in its Charter also had this other effect—it made the Bank of England solely responsible for maintaining an adequate ultimate reserve of bullion. As the Bank of England was a trading establishment it could not remain passive, and it was through the recurring necessity for strengthening this bullion reserve that the Bank had to take those severe actions on credit, by raising its rate or refusing accommodation, which occasioned the subsequent periods of financial crisis and consequent national distress.

Perhaps there is this to be said for the original Charter—it saved us from the endless imbecilities of Governments. By its own Act our Government had cut off from itself any further power of managing the currency without ruining its great creditor, the Bank of England. This power the Government of France retained, with the result of the ruin of the Scotsman Law's system of finance in that country, which entailed those financial difficulties that, after fifty years, culminated in the throes of the great French Revolution.

Secured thus far, the private bankers came to deposit their spare balances with the Bank of England. Having thereby gained the support of their formidable competitor—in fact having got the Bank thus far in their power—they were enabled to develop that wonderful credit system of ours, which has been the real cause of our financial predominance and the means of calling the resources of the country into action. Continental Governments, by arrogating to themselves the full powers of managing their internal monetary circulation, obliged their peoples to ignore the facilities of private issuers of credit money. In England the Government had tied its hands in this matter, the Bank of England ignored the lesser businesses, and people became accustomed naturally to the financial facilities offered by their neighbours the private bankers. The private bankers grew by popular support from obscure men to a position of great importance and influence by the end of the eighteenth century. True, the imbecilities of the Royal Government and the governors of the Bank of England often occasioned long periods of distress and much individual ruin; but when this condition of affairs began to affect the now influential bankers, whose prosperity after all depended on the solvency of their customers, the situation became too serious not to force some concession from the Government before popular despair drove on to violent revolution.

The new difficulties experienced by trade and agriculture soon led to those strange and till then unknown gluts of idle ***money capital***. This money capital in turn as its amount grew unmanageable fed those bursts of frenzied speculation of which the famous South Sea Bubble is an early instance, followed by other periods of depression, calm, glut, speculation, panic, in regular succession. The years 1782-84 saw a great crash of financial houses, and while inquiry, largely led by Sir John Sinclair, was considering the statutory constitution of the Bank of England with suspicion, as the primary cause of the disaster, occurred the crash of 1793 on the opening of the War with France.

The failure of an equitable distribution of profits to labour and enterprising capital, a failure which must ever attend a vicious financial system, occasioned during this century through its consequent recurring agricultural depressions the rapid disappearance of the lesser country gentry and freeholders, the representatives of the old Norman knights and English freemen. The same condition also must occasion a struggle for survival of commercial capital, and this increasing commercial competition soon set ingenuity to work to devise machinery for cheaper instead of more excellent production. The fecundity of invention that characterized the past two centuries may be attributed to this struggle for a livelihood—an advantage, though, gained by the enslavement of the individual to a vicious environment: in fact this result is one of the greatest tributes to human effort and human endurance; but the struggle has caused innumerable private tragedies. Thus artisans and the working classes, men, women and children, could find no other work and were crowded into factories, round which grew slums and cities. True, this gave great wealth to the lucky employer, who would precipitately retire from the neighbourhood of the masses he had exploited to a distant county, where, purchasing the estate of a ruined aristocrat, he would pose henceforward as a county magnate. The shock of the French Revolutionary Wars, by creating a necessity for real public virtue of which Nelson and the Admirals are so great and true a British type, checked somewhat this process.

The taxation at the close of James II's reign, taking Sir John Sinclair's figures, was under two millions sterling, out of which a very efficient navy and an army of 20,000 men were maintained, while the poor rates were £160,000, i.e., one-twelfth of the revenue. Ten years later the taxation was four millions and the poor rate one million, or one-fourth of the revenue. This pressure never slackened till the "forties" of the last century, when it was awful. This tells its own tale of something rotten in the State.

CHAPTER II
THE PERIOD OF THE GREAT WAR

THE last chapter, dealing with our financial history since William III's accession, left the country in no happy plight. One gleam of sunshine came with the accession to power of the Earl of Chatham, the avowed enemy of " the cannibals of Change Alley," and the one really great leader we have ever had under our political party ***regime.*** After his tragic seizure in the House of Lords whilst attacking our treatment of the American colonies, and subsequent death, the predictions of Bolingbroke, Swift and others were clearly seen to be fulfilled: and a great cry arose for financial and Parliamentary reform, which was cut short by the outbreak of the French Revolutionary War in 1793.

On the invasion of Holland by the French, it was discovered that the Bank of Amsterdam had been indulging in the invariable sin of nations and had been lending to the State from the bottom of its hoard: its bullion warrants had in part a backing of credit securities only. At once the international bankers shifted their operations from Amsterdam, which had been the centre for settling the world's exchanges for two centuries, to London, which has since occupied that international position. The one-eyed man among the blind is King, and our system, however faulty, was not subject to the caprices of Governments as in other countries. The statutory limitations were known and certain, and the phalanx of the private bankers saved the country and afforded machinery for calling all its energies into action. To its private bankers the country owes a debt of gratitude which it has yet to recognize.

Bitter in peace, the utter rottenness of our statutory system in face of a real national crisis was again quickly proved. The Bank of England, to save itself by the only method possible under its Charter, made such an action on credit that, according to Chambers, seventy-one banks closed at once out of a total of under two hundred. Scotland, owing to her banking system being independent of ours, escaped fairly well; but Ireland, whose system had been arbitrarily modeled on our own, and being also heavily indebted to us, was after a short period of prosperity reduced to a state of barter. It is therefore not at all surprising that in the resulting depression the Revenue utterly failed to meet the War expenses and after three years the National Debt increased to an alarming extent. A second financial crash came about in 1796, in which the Old Lady of Threadneedle Street herself stopped payment. Thus again the whole energies of the country were brought to a complete standstill by the financial system at the very moment when they were most required. Then followed the strangest experience that ever befell any country. Driven to bay, Pitt made a leap into the unknown and issued that Order in Council which became next year embodied in the famous Bank Restriction Act. The extraordinary revival that followed, the titanic exertions over a lengthy period that this country was enabled to make, the heroic courage in the face of tremendous odds that the power to make those efforts gave rise to, were then and are still a matter of marvel. The plan is certainly not one to be copied; in fact, the financial system remained the same in principle as formerly—namely, a managed currency; but it allowed discretion in its management. The results are a necessary study to understand the problem before us now and show how completely the prosperity or adversity of a country depends upon its chief Minister.

The rule of the Bank Restriction Act is briefly summed up:—the Bank was ***forbidden*** to cash its notes.

By the above rule the Bank of England notes became merely first-class trade bills circulating as currency: abroad they would fluctuate in price with other sound trade bills, but they could not perform the functions of a bullion warrant. The Governors, therefore, not being under the necessity of managing the circulation with reference to their supply of bullion, left the bullion to look after itself and discounted, according to Adam Smith's commonsense nostrum, any trade bill for a genuine transaction issued by a well-to-do merchant. The supply of bullion in the Bank's coffers was left to the free action of the public; though, since the Bank from the commencement offered to buy gold at £5 per oz., bullion bore a premium, this premium was invariable for the first ten years of the War. The result was a larger and perfectly adequate supply of bullion in the Bank's coffers during the stress of war, and freedom in the action of credit on the exchanges. In the previous years when the Bank was taking violent action on outside credit in order to bring in bullion, the action failed in its object.

At the Peace of Amiens the Bank varied from this rule and began to contract its discounts in an endeavour to increase its stock of bullion in order to prepare for a return of cash payments: a panic followed which was only allayed by the outbreak of war and the Bank's return to its previous policy. Under this policy it is observed that not only was gold easily obtainable at the price fixed by the Bank, but actually the idle stock of it deposited in the Bank's coffers was at least double that of the highest of the preceding and immediately subsequent periods, when the Bank, by refusing to discount, hoped to turn the foreign exchanges to bring bullion in; a policy that invariably ended in driving the gold out of the Bank faster.

The subsequent period referred to occurred after the death of Pitt and occupies the last eight or nine years of the War. It is hard to say what occasioned it, as deficient harvests added to the difficulties alleged to have been due to the Bank's management of the circulation; but after 1806 gold began to command a varying premium, which in 1809 rose to about 30 per cent. The economists who afterwards formed the Bullion Committee were very ready with their explanation, declaring the circulation " redundant," a favourite term with these pseudo-scientists. But the circulation being one of credit, accepted without compulsion, we know now that under this condition it can never be excessive or beyond the needs of the community.[1] There is one blessing the successive Bank Charters conferred on this country—they prevented the Government deluging the country with its own issues, which (with the imbecility and the inherent low cunning of such bodies, the offspring of ignorance) it might otherwise have been safely trusted to attempt. In fact Mr. Tooke showed, in his careful *History of Prices*, that so far from the circulation increasing in amount at this period, the Bank was, by refusing to discount, decreasing its issues and destroying outside credits.

We know the following facts:—During this period the Government was unfairly using its power of overdrawing at the Bank, which reduced that institution's power of discounting trade paper; and, whereas trade paper runs out, the Government overdraft was never repaid and the Bank's resources were permanently depleted. The Government's drafts were also for large sums in gold for export. Lord King's demand to his tenants to pay their rent in gold created the impression that other wealthy men would make a similar demand upon their debtors. The drain of gold from the Bank was largely sent into the country and not out of it. We are, therefore, led to the conclusion that the Bank's action on credit, in order to bring in gold, was itself the cause of the premium. The same conclusion Mr. Tooke demonstrates more carefully by his figures, showing that every period when action was taken by the Bank to increase its store of bullion occasioned general distress and a scramble for gold. When the opposite policy was followed, and the foreign exchanges were left to be corrected by the action of the public, the most severe demands for foreign payments were met without confusion. By the Act of 1844 the condemned policy is fastened on us to act automatically on the circulation.

We are led to the conclusion, by a survey of the financial experiences under the Bank Restriction Act, that the internal circulation of the realm does not depend on the state of the foreign exchanges and it should not be arbitrarily restrained thereto, as it is by the statutory enactment of 1844: that the foreign exchanges will affect the supply of bullion in reserve, and that this supply will affect that safety-valve of commerce, the interest for market money, which will rise by natural action to replenish the hoard. But a rise in the rate of interest, if natural and not brought about by the arbitrary action of a privileged central institution, does not necessarily diminish the circulation. In fact it is a commonsense conclusion that a foreign indebtedness to be cleared; demands increased and not decreased exertions.

The success of Pitt's Restriction Act surpassed all expectations, and the country reached under it a high-water mark of hope, energy, courage and prosperity. There seemed no end to our national resources, as indeed there would not be if we were properly led and our State affairs properly administered. Yet after 1807, under the same Act, we observe a change of management bring about stringency and decline, and the closing years of the War were gloomy and distressed.

Hereafter we shall enter on a still more gloomy period; when the former champion of Europe became the most flouted and despised; when on more than one occasion the country was driven by despair to the verge of revolution; when hopeless Ireland suffered two frightful famines in the midst of plenty—twenty shiploads of food a day being exported to England—in the last of which a million people died of starvation and there was even cannibalism. We shall find that time after time the financial system imposed by statute was suspected of being the cause by Parliament and impeached by a select body of men, of whom Lord Overstone is best remembered.

" It is now hoped by some people," wrote Cobbett in 1815, " that the restoration of the Pope, the Inquisition, the Jesuits and the Bourbons will so far brutalize the people of the Continent of Europe that we shall have no rivals in the arts of peace." That hope was doomed to disappointment, for during the next forty years the sufferings of our working classes exceeded the sufferings of the working classes of other countries and notably those of our defeated foe in

France; whilst numbers of the landed gentry and farmers were ruined by the long period of unrelieved depression.

CHAPTER III
THE FORTY YEARS' PEACE

IN 1815 commenced the long period of peace, the experiences of which rather proved that war was a blessing and peace a curse than otherwise. It appears to be forgotten by writers on the agricultural depression commencing some thirty-five years since that this period from 1815 to 1854 was one of continued agricultural and commercial depression, with a degradation of the working classes unknown before or since. Readers of Kingsley, Carlyle and Cobbett will know a shadow of the bitter facts. The years 1815-1816 saw eighty-nine Bank failures and each succeeding year saw a succession of others. Manufacturers, landowners and farmers were ruined in all directions; at times and in places the poor rates rose to twenty shillings in the pound. The poor rates, which with a liberal distribution amounted to less than £160,000 in a population of five or six millions in the later Stuart period, had risen at this time in a population that had about trebled to about eight million pounds—an increase of thirty-fold doled out in the meanest manner. Royal Commission after Royal Commission pointed to one cause—the financial system. One writer remarks that the grand cause of confusion was the new and ticklish position of "the grandam of so many years of villainy—to wit, the Old Lady of Threadneedle Street." In 1819 came the Bill for the resumption of cash payments; its clauses regulating the Mint were most excellent; but as regards the regulation of the Bank of England, it was most disastrous. Indeed, since the whole of the capital of the Bank of England of eleven millions was locked up in an advance to Government and twenty-five millions more held in Exchequer Bills—which, as Huskisson pleaded, should have been repaid as a vitally necessary prelude to that Act—the Bank could only resort to an extreme action on the general credit in order to get in its small notes. Had the Government funded its debt to the Bank, as should have happened, the Bank would have had this thirty-six millions at its own disposal for purchasing its small notes and no attack on the general credit would have been required. In three years the Bank reduced its advances from twenty-three millions to seven millions.

Cobbett wrote from America about Peel's Bill of 1819 that " before it could be carried into complete execution a million persons at least must die of hunger." This prophecy was fulfilled. The results in England were intensified in Ireland, Scotland escaping as before from having no similar institution as the Banks of England and Ireland; in 1823 the Bill was suspended for seven years to avoid the most dire results. Then followed two years of prosperity and extended foreign ventures; which obliged the Bank as a trading establishment to strengthen its position by an action on credit; thus came the far-famed crash of 1825, when the whole banking business of the country closed for twenty-four hours until relieved by a lucky accident. A few years of ease, but of terrible stagnation, followed till 1833: then ensued a succession of periodic crashes at short intervals that continued till well into the " forties," when the condition of the country was deplorable. In 1844 Sir Robert Peel again tried his hand at mending the situation.

It is interesting to note that during this later period, when it was truly a case of the Devil taking the hindmost, the most herculean efforts were made by enterprise to quicken the pace. This time also saw the beginning of the railway era. When the case is properly understood the bravery of Waterloo will be seen not to surpass the long continued, tenacious, titanic exertions of British enterprise to make the best of a vicious situation. The " Industrial Revolution," as it is called, that crowded our industries into factories is doubtless the spawn of the illicit connection of Government with the old harlot of Threadneedle Street. But despairing efforts also bred innumerable inventions.

In the meantime several eminent Bankers had noticed that every crash was preceded by the Bank of England's action on credit in order to strengthen its position. It was seen that the duty of turning the exchanges to bring in bullion rested with the Bank of England alone. The sufferings of the people were not the result of positive fault or mismanagement; but at intervals a natural consequence of the vicious constitution of the Bank of England Charter. That the constitution was artificial and that the energies and trade of the whole country could be paralysed without any reference to the state of the circulation was discovered by a Radical shopkeeper. This man brought about a political crisis by raising the cry " To stop the Duke, go for gold." This lesson was not lost in the Chancelleries of Europe.

We are indebted to Jones Loyd, afterwards Lord Overstone, for bringing strongly forward the point that the double interests of the Bank—as the proper institution for regulating the currency and at the same time conducting a banking business, which its Charters had enjoined—were incompatible.[2] It is unfortunate that Jones Loyd had a theory that the circulation of the realm should conform to the state of the foreign exchanges. The Bank's attempt to conform to this theory after 1838 was the cause of all the disasters that ensued till the Bank Charter Act of 1844; the country was reduced to a deplorable condition. Mr. Hardcastle in his *Banks and Bankers* (1841) has some very clear criticisms on this point; indeed, all the previous crises had arisen from this very policy. *Under natural conditions the market rate of interest will vary with the state of the foreign exchanges;* but this result should be left to the free action of the market. Jones Loyd pointed out that the evils all arose from the uncertain basis of the circulation, and he advocated that this should be certain and based only on the standard of value; he enunciated his " Golden Rule " of notes for gold and gold for notes, no fiduciary issue to be mixed up with these warrants against bullion in bond. Had this advice been followed the conditions would have been natural and all would have gone well.

Peel passed his Bank Act in 1844. His speech on its introduction dwelt on its supreme importance to the humblest member of the community. He separated the banking business of the Bank from the Issue Department and certainly thereby immensely simplified the question. Unfortunately Peel sought also a surreptitious profit to the Government: he avoided paying off the debt to the Bank and gave further powers for adding to a fiduciary issue. This portion of the issue has a precisely similar face and no one can tell what portion is truly based on gold. The basis of the currency is therefore as uncertain under Peel's Act as previously and the circulation is bound to vary automatically with the foreign exchanges. We can therefore never have a full currency except when the exchanges are at par and as the exchanges never are at par, as there is in addition nowadays a permanent balance of payments due to London, the energies of this country can never have full play. A result was the crash in 1846—an Irish famine resulting from the potato crop loss, which under the system turning the exchanges against Ireland sent all her saleable food away—then prolonged depression and two more suspensions of Peel's Act in 1857 and 1866.

In 1854 came the blessings of war again, followed by twenty years of ease, not to say prosperity, which were only intermittently interfered with by the crises in 1857 and 1866.

In 1819 Mr. Attwood, a prominent member of the Commons, fully predicted the disasters which would follow the Minister's policy. Unfortunately he and the Birmingham school were discredited through formulating a demand for a double standard—a ruinous expedient. As Peel declared, it does not much matter what is the standard of value as long as there is only one, and there are many commercial conveniences in a rich country adopting gold as that one standard. In fact, the question to be settled does not refer to the standard at all, but whether the circulation shall be left free to regulate itself or be subject to statutory control to accord with a theory. Amid innumerable prattling about the blessings of free exchange, the most important trade of all, Money, the solvent of all others, is put under statutory limits.

Much of the inquiry in these early periods seems to have been greatly confused by a too close consideration of the state of the seasons and the harvest. There was a great tendency to attribute the state of things entirely to the state of the harvest. A failure of the harvest is a loss, but to a mercantile country it is reparable. What did happen is that the failure in the harvest, being generally unforeseen until the last moment, occasioned a sudden demand for food from abroad. These purchases turned the exchanges unexpectedly against us, and the Bank, taken by surprise, had to act arbitrarily on the circulation. On other occasions an expected unfavourable turn of the foreign exchanges against us would often be checked by an unexpected easing of the demand for imported supply owing to a prolific harvest. This caused many profound men to give undue importance to the seasons as explanatory of the economic situation—Mr. Tooke, whose *History of Prices* is such an invaluable help, is among these—and of course all the little worshippers of the obvious cackled chorus.

From 1827 to 1830 the Bank authorities followed the policy of allowing the public to correct the exchanges. It is curious to remark that on one occasion during this period, when Russia drew a million in gold to prosecute her Turkish war, not the least disturbance occurred and gold quickly returned. In 1846, when a similar amount was required to purchase corn to supply a deficient harvest, the new Bank Charter of 1844 automatically acting in the exchanges brought on the crash of 1847, the suspension of the Bank Act alone relieving the situation. In November, 1839, the stock of bullion was reduced £2,545,000, of which two and a half millions was borrowed of the Bank of France, and this resulted when the Bank had brought the country to the direst extremity in its efforts to increase its stock by crushing outside credit. In fact, the Bank was a mighty "wrecker" in those days. In 1819 the country was in similar straits through a similar action on credit, yet there was no question of risk of convertibility, for the Bank's coffers were stored with uncalled-for bullion bars. The accident that saved the country—and indeed the Bank itself—in 1825 was not a fresh supply of gold, but the sudden declaration that the Bank would support its customers by an issue of small paper: this promise alone was sufficient to restore confidence, although the support was never actually demanded. It is not possible for the Bank as a business establishment, to sustain the general credit which its statutory position entails and which can only be achieved by methods that, at the present time, probably constrain the energies of the nation to within a third of its immediate possibilities. At the period under discussion the Bank was only able to maintain a show of convertibility by her statutory position enabling her, in the words of Jones Loyd, " to save herself under any circumstances by the destruction of all around her."

It is curious that the system survived, since it is certain the various Ministries and the Bank Directors, if ignorant, were honestly anxious to amend it. The confusion of voices, however, was considerable, and the professors of that pseudo-science, political economy, beat their tomtoms incessantly. It is curious, again, that 152 persons drew in 1819 a yearly income of nine millions from investments in Consols (Doubleday); and there was a strong presumption that the system was, or was supposed to be, profitable to these few unknown financiers of Change Alley. Certainly a prosperous time of high profits would have brought about a fall in the price of simple Three per Cents.

CHAPTER IV
AN EXPERIENCE OF PEACE

THE last chapter dealt with the financial incidents from Waterloo to the Crimean War. Before proceeding further let us make some reflections on the ugly symptoms that by this time were becoming decidedly manifest in our society. These symptoms, unique at the time, had begun to develop early in the eighteenth century, shortly after our baneful financial system had been established, and in Lancashire and the manufacturing districts were confirmed by the end of it. The Industrial Revolution, as it has been termed, culminated rapidly after the War. For forty years throughout the Midland districts the squirearchy and their tenants, embodied often for months as yeomanry cavalry, suppressed revolution: their manful attitude throughout so long a period alone prevented a violent social overturn. Wellington in London and Napier in the Midlands seconded them in some periods of greater stress. Had the English landowner, like the French a generation previous, followed the pleasures of a Court or of travel instead of attending to his country duties, his fate would have been similar.

The rapid increase of population was a special feature of these times and raised difficult problems for Governments. Their credit was saved by the demoniacal theory of Malthus, whose plausible explanation threw the fault on the people themselves. Reckless perhaps the poorer classes were but it was the Government, through its financial system, which bred their desperate recklessness. Any system such as ours will ensure a tense competition of capital for profit, which bears on the wages of labour: thus the labourer, debarred the fulness of life through lack of pocket money, is reduced to helotage.

The " true law " of population is that Nature only causes an increased productiveness when a species is in danger, and in the ratio of that danger. Hence, while all rich aristocracies decrease, poor communities increase. The pressure on the species in our case was not destructive, as in the case of war, pestilence or famine; but arose from some artificial, baneful system bred in peace lowering the vitality and increasing the generative power; a curious feature seen specially in consumptives:—as the country maxim has it, " send the lean bull to the cow." So terrible were the results of factory life at this time Society took alarm, and that wing of the old Tory Party known as the Young Englanders carried the Factory Acts in the teeth of the opposition of the urban middle classes.

A curious, and hitherto entirely unique, feature of this period was the enormous amount of loanable money capital in London, huge gluts of which occurred after every crisis, and for which foreign investment appeared the only opening. It is not an exaggeration to say that during this period of forty years one thousand million pounds of English capital was sent abroad for investment, and the actual amount, which may be approximately estimated by the excess of exports over imports, is probably even larger. It may sound paradoxical—the inquiring mind may refer to Goschen's *Foreign Exchanges* for confirmation—but this excess of exports would act on the monetary exchanges in the same way as an excess of imports, or as if the country had bought more goods than it could immediately pay for. The results were always referred to at the time as due to " general overtrading," a supposed condition which, without wasting present time on argument, can be damned as one of the many fallacious conclusions of the pseudo-science.

When this feature of foreign investment during those times is observed in connection with the pressure of taxation, the amount of the National Debt, the disappointment of purely home enterprise and the undoubted sufferings of the people, it should give rise to curious reflections. Our foreign investments are generally quoted as a certain proof of our prosperous condition: this is another view which will require very much qualifying. When this investment is the result of the emigration of wealthy colonists, their surplus prosperity may be taken as the cause; but our emigrants were generally poor and going to seek their fortunes, whilst the capital they used belonged to home residents.

Huskisson in his speech in Parliament in 1829 on the condition of the country gives the real explanation—ignored by official optimism—of the above position of affairs. This capital was not so much actual wealth as a power of demand over the means of production; its glut was not the result of prosperity, but the fear that enterprise, especially home enterprise, would give no profit; its presence bred a parasitic loan mongering class and a period of wild foreign speculation; its investment would, whilst the money was spending, undoubtedly give a spurt to our manufactures; but since this was not the result of genuine mutual foreign trade, it would be followed by depression when this capital was spent. In the meantime our urban populations and interests would be stimulated beyond our real national needs; our rural interests would be neglected and depressed; the foreigner, enriched by our capital, would be in an advantageous position to compete successfully against us in neutral markets.

" Look," Huskisson declared, " at the condition of the population which raises the produce of the soil, and compare it with those who minister to the gratifications of wealth. Contrast the hourly dealings for millions at that great mart of money, the Stock Exchange, and compare it with the stinted transactions of our country markets . . . swelling still further the already overgrown fortunes of some, but bringing ruin and misery upon the others, and diverting the thoughts and aspirations of all who come within its vortex to pursuits which, were they multiplied even an hundred fold, could never add one peppercorn to our national resources."

These words, though spoken over eighty years ago, appear still strangely applicable.

Huskisson had expressed his intention of raising his old demand for clearing off the Government debt to the Bank on the renewal of its Charter in 1833: the conclusion of this present treatise calls for this same policy as a necessary prelude. Huskisson's tragic death prevented his design. It is curious how the evil fates appear to fight for an evil principle: whenever this question appeared ripe for settlement, when the attention even of the vulgar was directed towards it, some war would intervene, a Ministry would fall, a Parliament expire or a statesman with the requisite knowledge would die. The attention of the public would then be diverted either by excitement or by the plausible promises of political quackery.

In 1847 came the Irish famine; the potato went rotten within a day's journey of the greatest market in the world and in the age of steam. During that period, as we have already noted on a previous occasion, an average of twenty shiploads of food a day was *exported* from Ireland—a fact only possible to a condition that rendered all national necessities subservient to financial considerations falsely based. Thousands who had helped to produce that food died of starvation. The attitude of the Government of the day in face of it remains a scandal for ever.

The abolition of the Corn Laws is another great event. Peel, who sprang from the manufacturing interest, granted them at the close of the War to secure the support of the landed interest to his financial policy; that policy threatened a fall of prices and his worthy old father implored him to abandon it. The Corn Laws never were of any benefit to the agricultural classes and covered them with odium; because in the presence of poverty taxation of food is criminal. Almost the whole subsequent period was one of agricultural depression. Just as was the cause of the Anti-Corn Law League, it is doubtful if ever it would have been successful except for the Manchester manufacturers, who perceived the necessity to take off the tax on corn in order to secure their profits by preventing the need for a rise in the wages of their operatives. The agitation and the partial relief attending the repeal of the Corn Laws diverted attention from Peel's recent Bank Charter Bill.

But the great fact remains that, at this period, statesmen, bankers and thinking men were convinced that the seat of the evil lay in the constitution of the Bank of England, and this Peel was supposed to have amended by his Bank Act of 1844. For a generation after it was political ruin for any one to raise a doubt as to the efficacy of that Act. It is curious how, in political circles, there is generally some " Confederate " *claque* determined that no one shall be listened to but their own idol. So doleful, however, were the experiences of peace during the ten years following the Act that the Crimean War was hailed as a necessity for creating the more manly virtues.

CHAPTER V
A PERIOD OF EASE, 1854 TO 1878

This period is still remembered by agriculturists of that generation as the time of their greatest prosperity: apart from the cotton famine, caused by the American Civil War, it was equally so to urban interests. It was a time when, as Mr. Gladstone expressed it, " the revenue advanced by leaps and bounds." Coming, as it did, between two lengthened periods of depression, an explanation is required. In any discussion on this question we must from this period always bear well in mind the possible influence of our immense foreign investments on the monetary exchanges.

The banking system of this country is a natural development, perfected by experience and trial amid the blundering legislation and interference of ignorant Governments. It is the most efficient monetary agency the world has ever seen: it has been the chief aid to our commercial predominance it promises a liberty and a prosperity to the individual in even the humblest walks of life undreamt of by the hunger-bitten philosophies of the age, as soon as Government ceases borrowing in any form from the bottom of the hoard. This marvelous agency has been hampered and warped because, by statutory interference, the basis of the currency has always been a mixed one. By statutory influence the Bank of England note is, and has been since its institution, the basis of our currency: against this uncertain basis Lord Overstone protested in 1836: with over eighteen millions of its issue supported on a fiduciary basis, its base is as uncertain now. While this is the case the currency can only be full—i.e., the energies of the country can only be called into full action—when the exchanges are at par. The exchanges never are and never can be at par, and this, taken in connection with our foreign investments noticed above, has very evil results under our present system, which are felt throughout the world.

Of course there are other and plausible explanations to account for this period. Free Trade is a favourite explanation with some; though how you can expect to secure the blessings of free exchange when the currency is founded by statute on a mixed basis surpasses comprehension. The Californian gold finds in 1849 are received with acclamation by others: this explanation, however, involves the acceptance of a lot of queer propositions—the Quantitative Theory and all the narrow premises of the economists.

Here pause and let us clear our minds of prejudice. The propositions of the economists are denied. Gold or silver is not *Money* but is merely merchandise: the Quantitative Theory is an error which, as the *Statist* observes in an issue of June, 1912, is continually coming to life among the vulgar and has to be slain again: Society did not spring from, a social unit could not indeed exist in, a state of barter: the monkey ancestor theory is not accepted, and indeed this gross and laughable superstition is more than doubted in this quarter. Most of the plausible explanations given to account for present social phenomena, when probed, are found to involve some such premises.

The great value in small bulk, the uselessness, the imperishability of gold make it the best standard measure of value obtainable: the accumulated stock of centuries above ground prevents a temporary excess or diminution in its cost of production affecting the *value* of the whole, so that of all forms of merchandise its value is the most invariable. When, however, the basis of the currency is mixed, statutory gold coin is accorded a fictitious position, hence troubles: judging from fragments of disjointed utterances of a suffering blind public the trouble appears to have been general through the centuries.

During the forty years preceding 1854, which had been marked by such terrible financial difficulties, an average excess of probably thirty or forty millions of capital had annually been exported. After 1873 the annual remittances in respect of interest thereon, called *tribute* payments, exceeded re-investment of English capital abroad, and by the end of the century this excess exceeded 150 millions annually. The period now under review marks the turning of the tides, when tribute payments and re-investment abroad tended to balance each other. It must be remembered also that France is a commercially wealthy country, and her currency system at this time, before its subsequent change, strengthened the silver exchanges. This prevented the exchanges of these generally weak countries, commercially speaking, from varying with their relative indebtedness to London, as was the case in the period subsequent to 1873. Foreign exchange dealers should regulate their dealings with reference to their command over the floating bullion and the bullion reserve; if this is deficient their paper will fall to a discount. An excess of purchasing abroad will create a demand on our bullion to restore the balance. To check this demand rates for *market money* should advance. However, the evil of the mixed base of our

currency throws the sole responsibility for turning the exchanges on the house from which the notes emanate, viz. the Bank of England.
The above condition of excess, and its consequent effect on the international monetary exchange, occurs when that excess is due to money capital exported for investment or is due to *tribute* payments. In the one case the foreigner has a demand on our circulation, and in the other he discounts his paper to obtain such a power of demand. On getting this power the cheapest way to settle his debt would be to draw gold from the Bank for that purpose; and on the Bank rests the sole responsibility for preventing an excessive drain.

Between open gold money markets, or in cases where the foreign money market is strong enough in methods or position to maintain a par of exchanges, the exchanges will only vary between bullion points. But in countries where convertibility is not maintained, where the relative state of credit between ourselves and such indebted countries does not affect the sterling exchange, the *price* of the indebted countries' currency will vary with the relative indebtedness. The consequent fall in the price in the indebted countries' currency in our markets means a fall in the price of their produce in our markets. Admittedly this is all contrary to the theory; but it accords with the facts—Goschen also notices it—the only explanation being an artificial cause of confusion in the Market of the Creditor!! Creditor!!! Creditor!!!

During the last thirty years the power of demand over many of these wrecked exchanges gives a power of demand over the rare produce of the East; and as this advantage can only be obtained by creating a power of purchase in London, immense supplies are sold into England from the Continent, America and elsewhere to obtain this power of purchase: the fall in prices is only limited by the advantage to be gained in obtaining the rarer produce artificially cheapened by the fictitious situation created by the terms of the Bank Charter. A sort of three-cornered duel is set up, and of course the effect on the profits of home enterprise is disastrous. *Per contra*, a premium on English currency in the indebted market increases the *price* of English goods in such market: from this the export trade, of Manchester goods to the East especially, has suffered considerably. Often the effect is direct; for instance, in 1894, when English currency was at a premium of 300 in Buenos Ayres, Argentine wheat was sold in England at 18*s*. per quarter. The *value* of that eighteen shillings (English) to the Argentine farmer was fifty-four shillings of his computation.

The Creditor Market, London, has the master hand, and if any fictitious situation is created by statutory arrangement, that condition will affect the international exchange of the whole world.

In 1857 occurred another crisis which was met by a suspension of the Act of 1844. After it the Governor of the Bank of England stated that the market must not again expect to be supported by the Bank. In 1866, however, another crisis had to be met in a precisely similar fashion, and it had to be admitted that, under the existing statutory conditions, this was the only method. That the Bank of England should be solely responsible for the maintenance of the whole bullion reserve was, remarked one Governor, as vicious a principle as could be imagined; but except by a revision of the statute, and until the Government deals with its debt to the Bank in the same fashion as a private person would have to do, no other method is possible. This, however, was the last serious crisis we have experienced, and a futile effort to revise the statute made by a private member in 1868, and quashed by the Ministry, was the last attempt to amend the system. The comparative prosperity that ruled from 1854 till 1878, from causes before mentioned, lulled popular apprehension. After that year a fresh phase in our experience of our system began, which will be dealt with hereafter; but let the illusion be dispelled that this subject is merely a banker's question—it much more nearly concerns the common people: the poorer these be the more important the question. Bankers and people of property can preserve their personal comfort even in unprosperous periods; but any change to be effective must have the willing concurrence of the bankers.

Some comment may arise as to the sudden change from depression to prosperity that occurred in 1854 on the occasion of the outbreak of the Crimean War. The war was not, as war can never be, the cause of prosperity; but undoubtedly the immense war expenditure abroad gave a sudden turn to our foreign monetary exchanges which immediately eased the situation with regard to prices, and after circumstances fairly well maintained that condition as the average one for twenty years. The prosperity of these few years lulled people into the idea that the economic question, so disastrous previously, was set at rest.

CHAPTER VI
AFTER 1874

THE year 1874 commenced a new phase in the history of the nineteenth century. Its Golden Age was over; by 1878 the prosperity of manufacture and trade was suffering serious decline. The exact nature of the change was confused by the seasons. From 1874 to 1882 occurred a long run of abnormally cold and wet seasons: in the heavy arable districts the farmers were almost ruined *en masse*; remissions of rent were large and wholesale; large areas were left abandoned and derelict within sight of large cities; nearly all landowners, who had not rents of urban sites to rely on, were reduced to great straits, if not ruined. North of the Humber matters were better, and indeed the rainfalls in this and the hill countries of the North were below the average; but in the Midlands and East Anglia the ruin was almost wholesale: flocks and herds were decimated with fluke livers, termed rot, and the land lost its natural fertility. From 1882 to 1886 the seasons, though drier, were cold and unprolific; it was not till the hot season of 1887 that the soil began to regain its natural fertility. There had been no previous record of such disastrous seasons continued over so long a period. The year 1886 was the last of them, for up to 1908, a very wet season, the harvests were cheaply got or the produce bountiful and the seasons brilliant.

After this year 1886 it was clearly perceived that the real question was one of *prices*; the wet seasons could have been recovered from, but the falling prices prevented recouping of past losses.[3] Commerce and manufacture were in little better plight. Early in the " eighties " the Duke of Argyll, a champion of Free Trade, was complaining that some undiscovered cause was checking international trade: the ruin of agriculture had destroyed the prosperity of the home trade.

Sauerbeck's Tables of Prices in the *Times* give a sure barometrical record of the prosperity of the community. The lowest point for agriculturists was in the later " nineties," but this loss was mitigated by the excellence of the seasons; during this period large areas that had been long untenanted again, found occupiers. The wind is tempered to the shorn lamb, it is said, and during this sad period the countryside did at least escape the attentions of that pestilential being, the Urban Reformer of Rural Interests, the man who with no experience of the land can yet inform every one how it should be managed; the " Inspector," now looming large as a public nuisance, was still in his infancy; the mandarin, resident in London, was still submissive.

An explanation much given was the alleged greater efficiency in production in other countries, alias foreign competition. This was the generally ascribed cause as long as the imports were chiefly of agricultural produce; when manufacturing interests began to feel this competition there was less preaching at the agriculturist.

Some explanation has been given as to the cause of the lowered prices of imports, which was, the real difficulty. Mill truly observes that a country can pay its dues or obtain commodities in exchange cheapest by the export of manufactured articles in preference to food products and raw materials. As large sums of English capital had been invested in the erection of other works abroad, foreign countries began to have a surplus of manufacture above their requirements, and the severity of this foreign competition began to pass from agricultural produce to manufactured articles. Then arose the yell for Tariff Reform.

Another alleged cause was the scarcity of gold, the scramble for gold. This was our old friend the Quantitative Theory coming to life again. That many countries had great difficulties in maintaining their gold reserves was correct; but since the production of gold has passed all expectations, and the one open gold market, the Creditor Market of London, has carried on its increasing transactions without increase in its hoard, we have heard less of this. We must bear in mind the methods pursued by other countries to prevent a drain on their bullion reserves. Tariffs against English goods originated in Germany, followed by the United States, not in the first instance to protect their industries, but to protect their bullion reserve. The tendency to a drain of bullion incident on extending foreign purchases was checked by the prior payment of cash to import the commodity. The ease to the internal circulations that resulted, and the consequent prosperity, encouraged that policy to one of unabashed *Protection*. A tariff is a very old device for strengthening a bullion reserve. All this difficulty, however, argues a restriction in the Creditor Market of London. We could not keep a free gold market if the *tributes* due to London were payable to Berlin instead. The abandonment of the silver standard in many countries and the various methods pursued to prevent a depreciation of foreign currencies in the Creditor Market of London accounts for the easier state and the increasing prosperity and expansion of trade at home since the commencement of the present century. The discussion on the Gold Question might have led to results, if the Bimetallic agitation of the early "nineties" had not discredited all discussion on the currency.

A remedy was vigorously promulgated at the beginning of this century, known as " Tariff Reform." It has fortunately not yet succeeded as a policy. Had a tariff been raised on imports into the Creditor Country, it would have alleviated the strain on all the bullion reserves: this alleviation would have been pronounced a cure; certain sections of our society would have experienced ease, especially commercial capitalists; but as the root of the disease would have still existed social evils would have gone on accumulating in the more helpless sections until the condition of things might have been beyond all possible recovery. This argument, an argument very difficult to answer on the platform, was, however, never put forward by the promoters of that policy.

As far back as the "eighties" it was perceived that the low price of the silver exchanges was hurting the producer in the gold countries. The most notable example of an attempt to correct this occurred in the United States. In 1889 was passed Sherman's Silver Purchase Bill. That Act entailed a compulsory monthly purchase of silver at a fixed price by the U.S. Government to the extent of one million pounds value. Such a large artificial demand at a fixed price did for a time correct the silver exchanges. This had a marked effect, especially in England. Trade brisked up; English goods became cheaper in silver markets by the rise in the silver exchanges and induced larger purchases, whilst at the same time granting a better price to the English manufacturer; imports into England rose in price in accordance with the rise in silver bills. Wheat touching 40s. per quarter, English empty farms were taken by farmers until there was scarcely a farm unlet, the mines of Cornwall re-opened, furnaces were put in blast, collieries worked full time; with greater gross profits thus accruing the rewards for energy and labour increased.

Naturally such an artificial action could not long be maintained. The American Treasury became crowded with silver: the American circulation did not need the increase the bonds on these purchases demanded, which came back to deplete the Treasury of gold; the annual supply of silver grew and exceeded this extra artificial demand. Fears were entertained that the United States Treasury would be forced to sell at reduced prices and on this assumption the Government of India closed its Mint.

In 1893 the United States Government stopped further purchases and adopted fresh methods. Having failed to correct, except temporarily and partially, the silver exchanges, that Government maintained its gold reserve, first, by a protective tariff; secondly, by an action on the internal circulation. This latter course at once provoked a bank panic and utter stagnation of trade in that country, which was maintained throughout the year 1894.

The United States Treasury not only failed to draw to itself gold that was to render its own advances convertible; but the crisis drove gold coin out of the market and it became hoarded by individuals as at least an imperishable form of wealth, whereas perishable wealth was an encumbrance if no means existed of selling it to the consumer. The troubles of labour out of employment and labour underpaid became so intense that violent revolution threatened in that country.

In this state of affairs the United States Government took another course to replenish the bullion reserve and raised a loan in London. This loan was effected in the early part of 1895, and, as the avowed object was to replenish the bullion in the Treasury, a withdrawal from London was apprehended. No such result happened—the claim over English credit thus obtained was sold in the States for its hoarded gold and the credits were used to purchase English goods, a demand which affected our West Riding manufacturers very favourably at the time.

As long as the bullion in the United States Treasury was being restored in this manner the former stringency on credit was relieved, and trade expanded in consequence. But the gold when obtained could not, in the state of that country's indebtedness to London, stop in the reserve unless a premium was charged for its withdrawal: thus it was soon demanded for export to London, whither it was sent by the million in 1895.

A second loan was raised in 1896 in New York, and the same result would probably have followed if private endeavour had not come to the rescue. The New York bankers became alarmed at the possible further erratic courses of the politicians at Washington and associated to keep their own reserves independent of the Treasury at Washington, the bonds on which had been formerly used as the currency reserve. This action is perhaps the greatest change effected in the history of currency questions. It is about equivalent to what would occur here if the Clearing House bankers, alarmed at some Government policy, withdrew their balances from the Bank of England and kept their bullion accounts direct with the Clearing House.

The fact that the U.S. Government carried on banking operations is bad in itself, but after the Great Napoleonic Wars there was a universal impression that the English financial system was the root of her greatness and every country has more or less copied it. It appears that it has been the universal idea that some part of the issue of the privileged note need have no bullion basis. Hence all the trouble ! In spite of the fact that the Associated Banks of New York are hampered by certain statutory conditions, so asinine that they could only emanate from an Assembly of the Wise, the new conditions are nearly natural and have immensely strengthened the position of the New York money market; in fact at this very period she drew thirteen millions from London in spite of the frantic efforts of the Old Threadneedle Street Lady to retain it. Although one cannot boast of a very minute inquiry into the present currency condition of the United States, one has a shrewd suspicion that the prosperity that has accrued since, both to the States and to Canada, is largely due to this Association of New York bankers.

The whole matter was the subject of considerable discussion in banking circles in London; but the outbreak of the Boer War banished all hope of bringing the question into practical politics. It was not until 1907 that it appears to have come prominently forward again. Some agitation seems to have been afoot to make the bankers keep increased and statutory reserves of bullion. The proposal bears a family resemblance to the asinine conditions attaching in the States, mentioned above. Fortunately Sir Edward Holden, Chairman of the London City and Midland Bank, came to the rescue and pointed out the absurdity of the proposition; the Clearing House was being asked to accumulate funds at the expense of its customers and to deposit them at the Bank, strengthening the position of a powerful competitor. Sir Edward also pressed most strongly for the repayment of the Government debt to the Bank; that action alone would give the increased strength to the reserve required.

The whole burden of this treatise is very much bound up in Sir Edward Holden's policy. The social distresses of this country are and have been due to its having a mixed base to its currency: so long as the Government does not pay off its debt to the Bank there is little hope of arriving at a certain foundation to the currency and basing our circulation solely on its standard of value. If the Clearing House attempted to do so, it could only effect it by courses that would close the doors of the Bank of England, and bankers most properly avoid to the last extremity all new or revolutionary courses. If the Clearing House were to withdraw its balances in gold from the Bank of England, the Bank of England could not cash up until the Government repaid its debt.

Our social problems are the result of our monetary laws and must get worse and worse; social reforms (*sic*) and social reformers are only so many Mrs. Partingtons with their mops, and not all the Mrs. Partingtons in the universe can keep back the Atlantic of despair and distress that must arise until this riddle of the Sphinx is answered.

Appendices

1 Government alone by forcing payment in its own issues can create excess and this policy soon destroys credits. About 1891 the Government by paying its dockyard and service men in silver created an excess in this subsidiary coinage, which glutted the banks. The Revenue refuses payment of taxes in this form. The writer heard a Cabinet Minister at that time boast that over a million of profit had accrued to the Revenue in one year by this bit of sharp practice.

2 Jones Loyd's justification in 1839 of the Bank of England's previous policy confused the popular mind and gave the impression that he had gone back on his previous opinion; but careful consideration shows that he justified the policy of the Bank only in its capacity of a trading corporation.

3 In 1886 Live Stock fell to an abnormally low price. This revived trouble in Ireland, for it may be almost generalized that the Irish Question is the price of *store* stock: if this is good there is no Irish Question.

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