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A

LETTER

TO THE

EDITOR OF THE TIMES,

ON THE

QUESTION

OF THE

BANK CHARTER,

SHEWING THE INCONSISTENCY OF SOME OF THE
ACCOUNTS LATELY FURNISHED BY THE
BANK TO THE COMMITTEE OF THE
HOUSE OF COMMONS.

A. VOGEL, PRINTER, 1, ST. GEORGE'S PLACE, CAMBERWELL.

1833.

THE following remarks have been thrown together with a view to their insertion in the columns of the Times, but the length to which they have extended, apart from any other consideration, has induced the writer to think that they would not find a place there;—still conceiving that they may serve to direct the public attention to some points in the question of the Renewal of the Bank Charter, which have not yet attracted it,—he deems no further apology necessary for the present attempt to give them circulation.

THE BANK CHARTER.

(*To the Editor of the Times.*)

SIR,

As the time is approaching when the renewal of the Bank Charter must be taken into consideration by Parliament, and as many attempts have been made by the friends of "things as they are," to mislead the public mind,* and to mystify this subject in every possible way, a short statement of the case, as between the Public and the Bank, may not be unacceptable to such of your readers as have not the leisure or inclination to investigate the question for themselves: a question, by the bye, which, when divested of the obscurities purposely thrown around it, is not so complicated or intricate, as might at first sight appear.

The principal relation in which the Bank stands to the Government, in virtue of which it is supposed to hold its Charter, and from which it derives its greatest source of profit, is in its character of issuer of the paper money of the state, and the two points which it chiefly concerns the public to determine, are, first, whether there be, or be not, a very considerable gain accruing from the supply of the paper circulation of the country, and if there be, whether the nation, to whom it naturally belongs,† should not enjoy this gain, ra-

* Particularly by an Article in the last Number of the Edin. Review.

† "Paper Money may be considered as a seignorage equal to its whole exchangeable value, but seignorage in all Countries, belongs to the state." *Proposals for an economical and secure currency by D. Ricardo, Esq., 1816*

ther than the Bank, which neither has nor pretends to have any claim upon the country, for gratuitous advantage; and secondly, whether the Bank, as at present constituted, is the fittest body to be entrusted with that control over the monetary system of the country, which the unrestricted power of issuing such circulation must necessarily bestow upon it.

And first: the Bank has been for a number of years in possession of all the advantages derivable from its peculiar connection with the government, and during all this period, it has anxiously concealed from its proprietors, and consequently from the public, no doubt for very sufficient reasons, all accounts of the sources from whence its profits are derived, as well as all general details of its proceedings. But when, at length, the Committee appointed by the House of Commons in May last, called for the production of these accounts, the Bank Directors found themselves in rather an awkward dilemma; on the one hand it behoved them to put forth such a statement as should satisfy their proprietary and the public, of the prosperous state of their affairs and the largeness of their rate of profit, and on the other hand and with a view to the inducing, upon easy terms, a renewal of their charter, it became necessary to shew that the least possible part of this profit was derivable from the advantages afforded by the business of the state, lest from the too apparent fruitfulness of these advantages, the state might be tempted to resume them. To effect this object, a little mystification was resorted to, and two different accounts have been furnished,* by one of which the whole net income or profits of the Bank, for

* See a copy of these accounts, at the end.

the year ending February 1832, and composed of items detailed in Appendix No. 15 of the report, is made to amount to £1,189,627, and by the other, (Appendix 23,) the portion of this income derived from the circulation of notes, the management of the debt, and every thing, in short, which had reference to its connection with the state, is reduced to the insignificant sum of £178,875. If this were the true state of the case, it might be unwise to take the management of our affairs out of the hands of the Bank, for the sake of effecting so paltry a saving, and it certainly would be very unreasonable to expect that establishment to pay, as a fine for the renewal of its charter, any such sum as £200,000 or £300,000 per ann. for the privilege of making only £178,875. But in order to shew that this account must be fallacious, if the other be true, and vice versa, it will be only necessary to analyse them.

The assets of the Bank in February 1832, by a rate of interest upon which it derives its profits, are stated in Appendix 13 to consist of the following items;—

Bank Notes outstanding - -	£18,051,710
Money of the state deposited - -	3,198,730
Private deposits - - -	5,738,430
Capital lent to Government - - -	14,553,000
Balance of surplus, or savings called "rest." - - -	2,637,760
	<hr/>
	£44,179,630
	<hr/> <hr/>

Now if upon the two first items, or even upon a larger estimated amount, as per Appendix 23, before referred to, the Bank only allows that it makes

£178,875, it must make the balance between this sum and its whole profit of £1,189,627, or £1,010,752, by a rate of interest upon the three last items, and as against the first of these three, the Bank, according to its practise, ought to keep one third of bullion, upon which of course, it would make no interest, the account of items remaining for *profitable* investment, would stand as follows;—

Private deposits	£5,738,430	
Deduct $\frac{1}{3}$ for bullion	1,912,810	
Remaining - - -	3,825,620	
Surplus, or “rest”	2,637,760	
	<u>6,463,380</u>	estimated to be em- ployed at 4 p. cent
Cap ^l lent to Governm ^t	14,553,000	fixed at 3 p.ct.
Profit on Bullion, Commission, Rent, &c.	-	71,859
Estimated net profit from circulation of Notes, and Government business, as p. App. 23		178,875
		<u>955,771</u>
Less balance of expenses, (after deducting those charged on account of circulation and Government business)	- - -	109,549
		<u>846,222</u>
	Leaving a deficiency of	<u>343,405</u>
between that sum and the real statement of profits, or - - - - -		<u><u>1,189,627</u></u>

So that this estimated account of profit from the circulation of notes and government business, of £178,875 must be wrong by nearly £300,000, and to shew in

* It will be seen, upon reference to the Accounts, that the interest gained by the Bank, upon its various investments, does not average much more than $3\frac{3}{4}$ per cent. and it is to be observed that even this is a high rate of interest for the Bank to make on the private deposits, since if the market rate were so high, the private depositors would know better what to do with their Money, than to leave so large an Amount unemployd at the Bank.

what the errors consist, it will be only necessary to refer to the account itself, in which it will be seen, first, that the Bank charges for £8,000,000 of bullion retained against £24,000,000 of circulation and deposits, whereas it actually retained, in the last year, an average of £6,000,000 against its whole liabilities of £28,000,000, and should not consequently charge for more than £5,000,000 against the £24,000,000: secondly, that all the lowest rated investments are credited to this account, and consequently that the average rate of interest allowed, does not exceed $2\frac{3}{8}$ per cent. and yet that this same account is modestly charged 1 per cent. upon the capital lent to government at 3 per cent., as if the said loan were a loss of 1 per cent., instead of an absolute gain of $\frac{1}{8}$: and further, that a charge is made of £40,000 as the average of forgeries per ann. for the last ten years, whereas, if we except Fauntleroy's forgery, the like of which has not occurred in the history of the Bank charter, nor will probably occur again, the said average does not exceed £4000 per ann. Now if all these items be restored to the account of profit made by Government business, it will stand pretty nearly as under.

Profit allowed by the Bank	-	-	£178,875
$3\frac{3}{8}$ per cent. average rate of interest upon			
£3,000,000 bullion, wrongly charged			112,500
1 per cent. on capital lent to government, do.			147,000
Over-charge on account of forgeries	-		30,000
			<hr/>
			£468,375
			<hr/> <hr/>

which may be considered to be clearly established, to be the least sum which the Bank makes by its connection with Government, according to its own published accounts, independently of all other adventitious ad-

vantages.* It does not surely need to be argued that this profit and these advantages are the property of the public, and might, with every propriety, be saved to the state. That this saving might be effected by the establishment of a National Bank, was the proposition of the late Mr. RICARDO; he, indeed, estimated the saving at £700,000† per annum, which would be probably nearer the truth, as the expences might, no doubt, be greatly reduced, and as a National Bank would not require to keep so large a proportionate stock of bullion. But if such a plan were deemed inexpedient, and the Bank were to be considered in other respects fit to be entrusted with the control of the circulation of the country, still the *indirect* advantages which she derives from her connection with the state, apart from the direct profit under consideration, ought to enable her to relinquish such profit, or an equivalent for it, to the nation;—for, that the Bank has enjoyed immense advantages, will be manifest to all, by a reference to the account published in Appendix No. 29, in which it will be seen that she has returned to her proprietors, in bonuses and increased dividends, no less than £17,318,070, a sum exceeding her subscribed capital by nearly one third, and that she continues to this moment to pay a dividend equal to 10 per cent. upon the said capital; the present dividend of 8 per cent. being upon a capital to which 25 per cent. has been added, and which forms a part of the £17,000,000 above mentioned.

The second point for determination remains to be

* It is to be observed that in these accounts, no scrutiny is made into the alleged expences of the Bank, which are conducted upon a most extravagant scale.

† This estimate of profit is made by Mr. R. on the presumption that a *National Bank* would be the *sole* issuer of paper currency for the *whole* country.

considered, namely, whether the Bank, by its conduct in the management of its affairs, has entitled itself to the confidence of the nation, and shewn itself worthy of the trust reposed in it, in submitting to its discretion the unlimited power of issuing notes, or in other words, of creating money, and in fact, controlling the whole monetary system of the country. That such a power, entrusted to a body of men, who are in their individual capacities, merchants and traders, however respectable, but whose concerns are liable to be affected by the measures pursued by the Bank, is likely to be used indiscreetly, if not to be absolutely abused, is a proposition which would, I think, present itself to every unprejudiced mind; and that such power might be more safely confided to Commissioners appointed by Government, who would be free from these influences, and who would be responsible to Parliament for their conduct, it would not, perhaps, be very difficult to demonstrate. To say that such Commissioners would be too much under the influence of Ministers, who might desire to make an unworthy use of this power, is an idle objection which might be refuted by the fact of their responsibility, and by the obligation which they might be placed under of constantly publishing their accounts. On the other hand, that the Bank Directors, so far from being above this influence, have been ever unceasingly subjected to it, is abundantly proved by the whole past history of their conduct.

The records of the Bank Report furnish sufficient evidence of this, and a reference to them will shew, not only how complete has been the subserviency of the Bank to the views and schemes of the Ministers of the day, but how totally ignorant it has proved itself to be of the true principles of banking, and how signally

unfit to preside over the commercial interests of a great nation. It will be seen by looking at the evidence of MR. WM. WARD, in the Bank report, page 143, that previous to the year 1819, the Bank had not discovered the necessity of having regard to the state of foreign exchanges, in the regulation of its issues,—that, up to the year 1827, a resolution existed upon the minutes of the Bank court, to the effect that there was *no foundation for this rule!* and that it is only since this time, that it has been ascertained that this is the *only safe rule* upon which to proceed in such regulation! The same Gentleman shews how constantly the Bank, either from ignorance, or subservience to ministerial influence, or both, has been in the habit of transgressing this rule; and to instance a memorable example, let us take a short review of the conduct of the Bank from the time of the resumption of cash payments in 1819, to that of the panic in 1825, and we shall soon see that to all the distress under which the commercial world then laboured, and from which it has, scarcely yet, recovered, that same conduct was mainly conducive.

It is well known that the Bank was averse to the return to cash payments, and such of the Directors as had seats in Parliament, strenuously opposed this measure in their places. It was, however, carried against them, and in 1819, and the following years, the Bank either was, or fancied it was, under the necessity of procuring a large supply of gold, to meet the engagement thus forced upon it. In effecting this operation, however, it shewed no moderation, but obtained a much greater quantity of the precious metals than the case demanded. Indeed by the following quotation from MR. WARD'S evi-

dence, page 143, it would almost appear that temper was evinced on this occasion, and that the interests of the whole nation were subjected at this time to the spleen of the Bank Directors.—MR. WARD says, “The Bank had been accused of rapacity, and of not meeting the resumption of cash payments from grounds of cupidity, which certainly was not a tenable accusation; but being so challenged and so much being said upon the subject, I think their feeling was, that they would, at least, go far enough in providing abundance of gold, that they would rather procure too much than too little, so that they might be able, at least, to assert it was not from interested motives that we have not complied with what Parliament requires; then, till they had accomplished that object, they did not look so minutely at the principle as might have been advisable.”*

Be this, however, as it may, the consequences were disastrous to the country, for the preparation for this unnecessary accumulation of treasure, occasioned such a ruinous depression of prices, that by 1822, wheat had fallen to 37s. per quarter. At this time, Ministers were so pressed by the complaints of the agriculturists, that they prevailed upon the Bank to undertake an increased issue of paper, which in 1825 amounted to 4,000,000. This increased issue had the effect of raising prices considerably, and a great degree of speculation ensued. About this time, the Bank, still being encumbered with a large amount of treasure, began to lend money on mortgage, a species of investment at variance with the sound principles of banking; they,

* Mr. Ward here alludes to a violation of the principle of the currency which the Bank then committed, and which he says, must always take place when gold is unnaturally drawn to the Bank for any particular purpose.

then undertook to purchase an annuity of Government, by which they finally locked up about £10,000,000 more of their capital, another investment not strictly justifiable in their circumstances. Not content with this, in the beginning of 1824, they engaged with Ministers to furnish an indefinite sum of money to pay off the dissentients from a proposed reduction of the 4 per cent. annuities to $3\frac{1}{2}$ per cents. Before, however, this payment came into operation, the exchanges had taken an unfavorable turn, and by November in this year, a considerable drain of gold from the Bank had taken place. It now became the duty of the Bank, according to the principles which it has since discovered to be true, and upon which, it even then professed to act, to contract its issues; had it done so, however, it would soon have checked speculation, prices would have fallen, the golden dreams of the Minister would have disappeared, and the holders of 4 per cent. stock would have spurned at the idea of any reduction of their interest. The Bank, therefore, disregarded these warnings, and instead of preparing for the storm, spread its canvass to the breeze and sailed before the wind. It increased its issues,—every thing wore a smiling aspect,—the King, in his speech from the throne, in February, 1825, spoke of the thriving condition of all the great interests of the nation, and the Minister in his place in Parliament, stepped out of his way to vaunt the prosperity of the country. Some few reflecting minds saw through the flimsy veil, and foretold the impending ruin, but the unthinking majority were deluded. The exchanges continued to fall, the demand for gold went on, until in the autumn of this year the Bank had been drained of nearly ten millions of specie; this was a state of things no longer to be trifled with,—

the Bank, at length took alarm, and suddenly began to contract its issues;—the scene changed as if by magic, and the whole scheme of prosperity vanished in an instant.

The “Panic” ensued, and the Bank, with *one* million of gold in its coffers, was driven to the desperate expedient of issuing more notes, to save the sinking credit of the state.* That this was finally accomplished, was more owing to the returning confidence of the public, and to the good fortune of the Bank, aided by the most strenuous exertions of both, than to the previous prudence or good management of either.

Taking these statements, therefore, to be correct, and a reference to the published evidence and tables will show that they cannot be refuted, it will not be difficult to ascribe to their true causes, the ruinous fluctuations to which the credit and prosperity of the commercial world has been, of late years, subjected.

If such then, have been the probable advantages which the Bank has derived from its connection with the state, and such the disastrous consequences which have ensued to the public from the mismanagement of its affairs, it is not surely too much to expect that the Government shall hesitate to renew the charter of this Company, or at least that it shall take care to secure to the public, not only a proper indemnification for the advantages it foregoes, but also a sufficient security† for the better administration of so important a concern as the currency of the country.

I am, SIR,

Your obedient Servant,

W. R.

* Exchequer bills had fallen to 90s. discount in a few days.—Ward p 141.

† One of the greatest safeguards would be the publicity of the Accounts.

[Copy from Bank Report.]

APPENDIX, No. 15.

An account of the profits of the Bank of England, for the year ending 29th February, 1832, stating the description of the securities held by the Bank, and the sources from which the said profits have accrued.

Interest on Commercial Bills - - - -	£130,695
Do. Exchequer Bills - - - -	204,109
Annuity for 45 years, (dead weight account) -	451,415
Interest on capital received from Government -	446,502
Allowance received for Management of the Public Debt - - - - -	251,896
Interest on Loans on Mortgages - - - -	60,684
Do. Stock in the Public Funds - - - -	15,075
Do. Private Loans - - - - -	56,941
Profit on Bullion, Commission, Rent, &c. &c. -	71,859
	<u>£1,689,176</u>

Note.—From this Account are to be deducted the whole expenses, £499,549; leaving £1,189,627, as the whole net profits.

[Copy from Bank Report.]

APPENDIX, No. 23.

An estimated Account of Profit derived by the Bank, from circulation of Promissory Notes, and from Government Business.

Circulation - - -	£20,000,000
Government deposits	4,000,000

£24,000,000 of which 2-3rds are estimated to be invested in securities & 1-3d in bullion.

Securities	£16,000,000 ; viz.—	
9,000,000 Exchequer Bills	at 2 $\frac{1}{4}$ per cent.	£202,500
800,000 Stock - - -	at 3 „	24,000
1,000,000 Advances for circulation on discount	at 3 „	30,000
500,000 Country discount	at 3 $\frac{1}{2}$ „	17,500
4,700,000 - - -	at 4 $\frac{1}{8}$ „	193,875
		<u>467,875</u>
<u>16,000,000</u>		

Deduct—

Expense of circulation - - - -	106,000
Expense of Government Deposits - -	10,000
Stamp Duty on circulation - - - -	70,000
1 p. ct. on capital (held by government at 3 p. ct.)	147,000
	<u>333,000</u>
	134,875

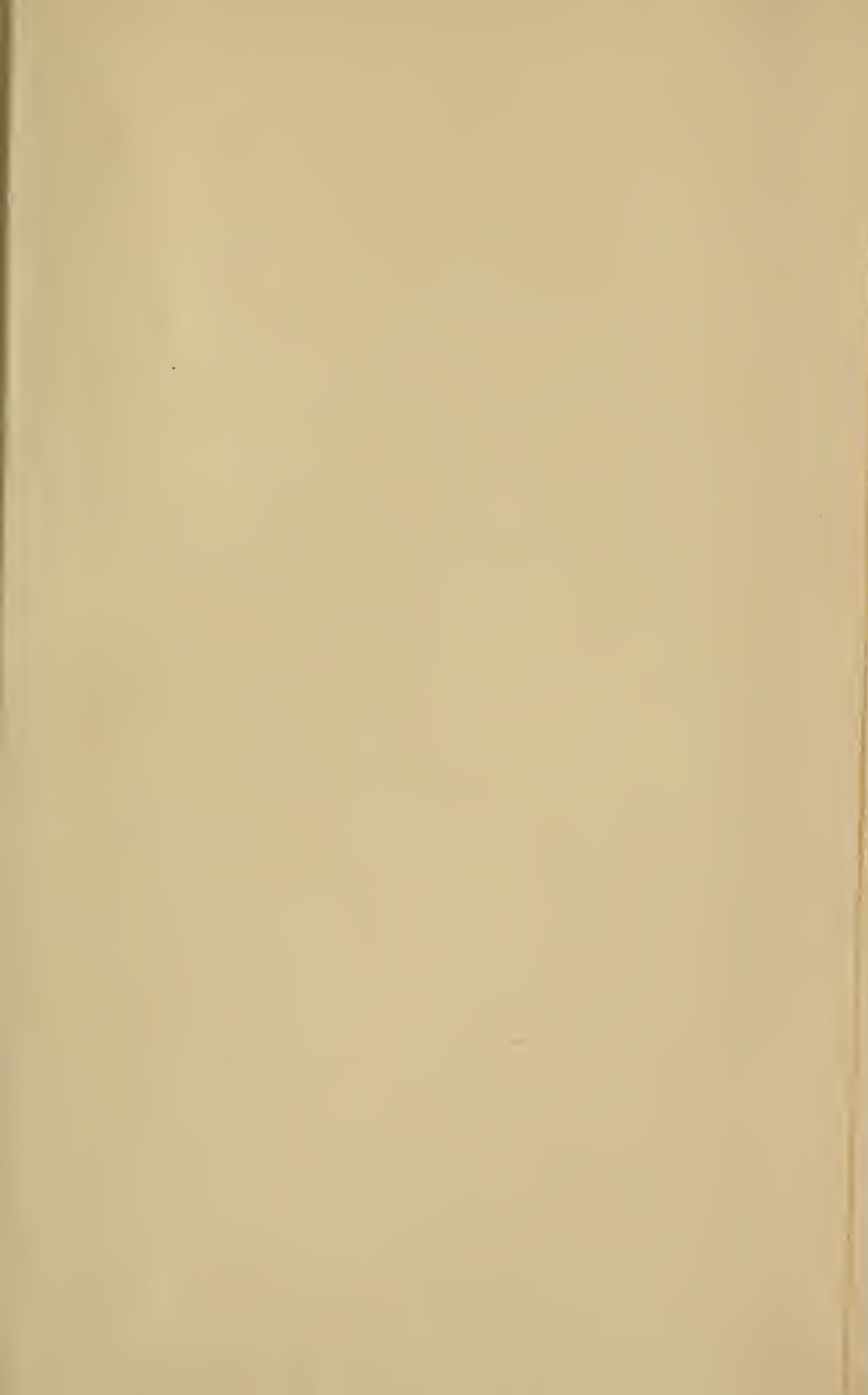
THE PUBLIC DEBT.

Amount received from government for management of the Public Debt for the year ending 5th April, 1832, including Life Annuities	251,000
Management of Life Annuities proposed to be transferred - - - - -	3,000
	<u>248,000</u>

Deduct—

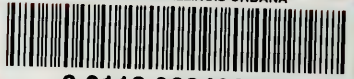
Expenses for management of the National Debt	164,000
Average of forgeries per ann. during the last ten years - - - - -	40,000
	<u>204,000</u>
	44,000

Estimated profit £178,875





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