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LETTER

TO

The Right Honourable Lord Althorp,

CHANCELLOR OF THE EXCHEQUER,

ſc., ſc., ſc.,

ON THE

SETTLEMENT OF THE CHARTER

OF THE

BANK OF ENGLAND,

AND REGARDING THE

ESTABLISHMENT OF BANKS GENERALLY.

BY DONALD BAIN, Esq., ACCOUNTANT,
EDINBURGH.

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THE RIGHT HONOURABLE

THE CHANCELLOR OF EXCHEQUER,

§c. §c. §c.

BANK QUESTION.

7, Howard-Street, London, June 3, 1833.

“MY LORD,

As I have taken the liberty of writing to your Lordship upon this question before, and I have pleasure in observing that you concur with me in several essential points, I trust you will permit me to state briefly, but respectfully, my reasons for dissenting from you on some others.

1st. As to the duration of the Charter.

If the law to be proposed is bad, *ten hours* would be too long for it to last, instead of ten years. If good, it should not any longer be subject to *interruption*. It may be, and indisputably is right, to retain the power of *modification*.

2nd. No Banking Company of more than six partners, to issue notes payable on demand, within 65 miles of London.

My Lord, NO BANK of SIX PARTNERS, nor perhaps under sixty partners, should be allowed to issue notes upon the new footing, *anywhere*. I know your Lordship *means* that no note shall be issued within this circle by such Companies;

but it should be rendered *impossible in any quarter*. All Banks issuing notes should be public Banks.

3rd. Bank of England notes to be a legal tender, except at the Bank.

This is a tremendous privilege: make it thus—That, in case of emergency, the King and Council shall have the power, on cause shewn, and in proper circumstances, *to make them a legal tender*. The currency of the Bank will be taken willingly, while it shall seem to deserve it. It would be downright tyranny to compel it.

4th. Bills not having more than three months to run, not to be subject to the Usury Laws.

I will not pretend to enter into this delicate question. The law against usury being so long part of our law, and having entered into and regulated all calculations so long (besides being certainly useful), perhaps it had better remain as it is. But, if modified, I think the circumstances should be reversed. *Long Securities*, are not only generally considered more doubtful than short, but they are *disadvantageous*; for they *lock up* the money lent. Yet they may be very fair and necessary subjects of loan; very useful to the individual, and through him, to the community. Therefore, it appears to me, that *these*, and *not short securities*, should be thrown open; or what will happen? *All securities will be rendered short*, when money is wanted; and the operations of the Usurer will not only be uncontrolled, but eternally recurring.

5th. An account of the Bank's operations to be handed weekly to the Chancellor of Exchequer.

This will occasion a terrible trouble; and what will be the criterion of the correctness of the principles of action exhibited? I cannot conceive it.

My Lord, I have proposed that ALL BANKS shall find security to the public for the extent of issue *which it shall be considered proper to allow*; and that, *within that limit*, they may do as they please, without exposing their business, or troubling any one.

6th. Country Banks to find security to the extent of one-half of their issues.

I completely approve of this. It was one of the points I pressed most earnestly; but I submit, *that as I proposed*, it should extend to ALL BANKS, and *especially* to the Bank of England.

First, Because the immense extent of transactions of that Bank, render it more liable to imposition than any other.

Second, Because, in case of any accident, it would spread the widest ruin.

Third, If its currency is to be made *a legal tender in any case*, it should above all other currency, have the stamp of undoubted security.

Fourth, Because Government will speedily, through the means of the security for Stock-Banks, stand as much bound to act impartially at least, if not kindly to them, in proportion to their extent, as to the Bank of England.

Fifth, Because that Bank being exempted from the payment of Stamp duties in the usual manner, upon issues, and this upon principles involving trouble to Government, and having a large income from the business of Government, will be as much

beholden to the Government and the Country, as the Government and the Country will be to the Bank.

These exhaust, I think, all your Lordship's propositions; except that the provisions of the licences to Country Bankers, are intended to be such, as to discourage them from issuing their own currency.

My Lord, The principal profit of Banks, arises, from being able to add CREDIT TO CAPITAL; that is, to issue *their securities* to a certain extent, in exchange for others, which they consider good. Take away *this*, and their profits as BANKS must cease. They become mere lenders of currency; and, I suspect, must seek their profits through a *higher interest*, under the now intended sanction of the Legislature, which will lead to a total change in the management of the business of the country.

Again, It is decidedly a great principle in political economy, *to leave the profits of industry to be spent, as nearly as possible, where they are produced*. Now the intended regulation *against the Country Banks*, and in favour of the Bank of England, will tend to draw the *whole* profits of issuing currency to London.

In your speech, your Lordship proposes that the Stamp duties on notes, shall form the *checks* on *issues*.

That is also one of the principles for which I most strenuously contend; because it is easy, and *self-operating*, like the *undoubted security*; and I trust your Lordship will never give up either.

But your proposed charge* is, I think, for country

* Seven shillings per 100*l.*; reduced if the notes shall remain issuable for three years, to 2*s.* 4*d.*; and if they continue out longer, to proportionably less.

paper *issuable* for three years, and sometimes really circulating (or what is the same, as the Bank is concerned, in the hands of the public) for thirty, decidedly too small. *I* proposed *this*:—that the Stamp duty should have some reference to the really valuable privilege.

Next, That it might be unnecessary to torment the people, destroying good notes, and the country providing unnecessary stamps; and, therefore, that the notes should be issuable as now, for three years (which much lightens the duties); *and that every Bank should, for its licence, pay a per centage on its actual issues yearly.* Let that per centage be only *one-eighth*, (or *half-a-crown* for *coining one hundred pounds*); and still the revenue would be considerable: and as many Banks may not be able to issue, in proper circumstances, all the currency which they see it right to provide for, this would do them justice, by charging only on their actual issues; at the same time it would show the Government, what each Bank was doing.

But there are other points *I* would strongly press upon your Lordship. They are these:—First, That all Banks *existing*, as well as *to exist*, should be placed as much as possible *on the same footing.* Next, the BANK OF ENGLAND is, we see, *liable to contend for its existence* on any terms; and really already establishes, or at least, strongly countenances my principle, of demanding that *all shall lodge securities, and these securities at a reduced interest.* *I* already explained to your Lordship, that for every 100*l.* deposited as security, the Bank can issue 200*l.* currency; upon which it receives from the country 8*l.* or 10*l.*, being eight

or ten per cent., on the capital actually deposited ; now, if it receives also five per cent. upon that, from Government, it really derives fifteen per cent. on capital, for interest alone, exclusive of all the other advantages of dealing in money ; a circumstance that may account for the wealth and number of Banks, but that certainly does anything but suggest yielding such advantages to that peculiar profession.

I will not trouble your Lordship farther ; but I have thought this due. I sincerely trust that if there is anything useful in what I have said, your Lordship will see and appreciate it ; and that if I have in anything misunderstood your Lordship, or been imperfectly informed as to what you have said, you will excuse it. But, in all events, I trust you will pause in the measure now proposed ; for the advantages you are about to confer on the Bank of England are enormous. They not only could not be paid for, by the arrangement proposed, but scarcely by any arrangement. They would be, some of them, as I have already hinted, tyrannical and illegal ; and, it is not saying more of the Bank, than your Lordship has said of the Government—they would be *dangerous*.

And do not, while such an opportunity is in your power, of reducing the burdens of the State, and the interest of the debt, *in a way that cannot be questioned*, (namely, through the deposits for Stock-Banks at *a low interest*)—do not omit that opportunity.

The bargain your Lordship has proposed, as to conducting the public business, is no doubt a great mitigation of the past ; but think of the value of the currency in which it is paid ? and the value of

the business to the Bank ? I believe the Exchequer costs only 70,000*l.*, and to manage these matters ought to be *its* business; and by specific drafts, the Bank would find it had no claim *to any compensation*. Then, it should transact the business for 70,000*l.*; and were a rival Bank permitted, *it* would grasp at the employment.

But that point may be considered settled, and it is comparatively trivial; I trust the others are not, and that your Lordship may do yourself an honour, and the country a service, by the proper adjustment of this whole matter, such as the country exceedingly wants, and I am sure your Lordship would have pleasure in conferring.

I have the honour to be,

My Lord,

Your Lordship's

Very faithful, humble servant,

D. BAIN."

His Lordship had proposed regulating some of the movements in this measure, by periodical returns from the Banks, of their assets and debts. Now, leaving out of the question the policy of expecting Banks to swear like the just man, "though to *their hurt* they swear;" or the propriety of making this exclusive profession a sort of perpetual care of the State—though the *principles on which it shall proceed* ought to be decidedly cared for by the State; and holding it possible that Chancellors of Exchequer, are to be men of such industry, as to assume, in addition to all their other burdens, this additional duty of inspecting returns of the proceedings of all the Banks in the Kingdom, three or four times a year; and further

to be able to decide upon the propriety of those proceedings, the following observation occurs, and was added—"As to Bank assets."

"Banks that have *failed*, have *always* had *large nominal assets*, but in securities of no value; accounts of *these*, therefore, would give no sound information or security."

Such was this letter. It was written in haste, for I believed that the Bank would see all the immense advantages offered to them, and would grasp at them accordingly—and they have done so; and I give it as it was written;—first, because I think it is still nearly sufficiently clear; but, principally, that if anything shall be done against the public interest, the public may see how far it has been done against the light.

And that it may be judged how far the Individual presuming to address them, and before them the Head of the Exchequer, is entitled to speak upon such subjects, it is necessary to state, that he has been regularly educated to the business of banking as it is practised in Scotland, and has, for upwards of sixteen years since, had opportunities of seeing the affairs of Banks, under every circumstance. He is therefore perfectly acquainted with the matters of which he speaks.

I received an acknowledgment of the above communication in the course of the same evening, but giving no intimation of his Lordship's opinion or intentions. Now it appears to me, that this is not only one of the most important subjects that can for long come before the country, but that, if

settled as is proposed, it will be equally *disastrous* and *discreditable*. It will again put into the hands of the Bank of England, as a permanent measure, and in time of peace, all that power by which it is supposed to have so materially injured the interests of the country, by deranging its circulation, during the war. It will do more; for it will do everything *that can be done indirectly* (and that is much), to exclude any other Bank that might check the operations of the Bank of England; and it will compel them and every man, whatever he might think of the proceedings or solvency of the Bank, to take its currency in payment notwithstanding, (though not perhaps at any of its offices), and then, upon cause shewn, the doors may be closed.

Doubtless this is an extreme case; perhaps it is not proper to be supposed; but if it is *possible* (and it is *very possible*), then in considering the matter at this stage, it is necessary to suppose it. The following are the reasons:—

First. It is clear that both the Directors of the Bank, and (I add it with great respect) the Chancellor of Exchequer, err in terms at least, if not in fact and principle, in speaking of the *par of exchange* as the circumstance that is to inform the Bank Directors and the Chancellor, *when the currency redounds*, and is to be restricted.

The par of exchange (as has been distinctly explained by Mr. Rothschild—had that been necessary) has nothing to do with *the currency* of the country, but with *its mercantile debts*; consequently, if when the exchange turns against the country, from having contracted debts, the Bank Directors should consider it proper to restrict their

issues (as they avow they would), they would be exactly refusing their currency when indispensable; and when rendered indispensable by the fact of its existence having allowed gold and silver to leave the country as unnecessary; and the result would be, that parties holding property or securities, to whatever amount, must either sacrifice *them*, or their existence as solvent citizens; and the Bank of England would be considered as acting *prudently*, in refusing that very currency, which from its undertaking, it ought to have been *bound to furnish*.

If, by refusing discounts to men obviously engaged in contracting foreign debts, the Bank should repress the contraction of such debts, it might claim the right to refuse the means of paying them. But this, which involves the question of the freedom of commerce, is more a matter for the Government than the Bank; and I do not merely think, but I distinctly say, that if the Bank contracts to furnish gold and silver for the whole kingdom, under an unchecked commercial intercourse, with countries where industry, and consequently commodities, are cheaper than here, and who are greedy of gold and silver, it will find it has undertaken a very *expensive business*, to say the least.

The evidence "that the balance of trade" is what the Directors are really speaking of, when they speak of the "par of exchange," is shewn from their own lips—for what is their method of "correcting" this par of exchange, as they term it, and bringing it again in favour of the country? It is this—They *privately send bullion to the Continent*; that is to say, *they pay the debt*; and this is the only way

of correcting the evil. But there is no need to do this *privately* ; for *they have nothing to do with the circumstances that have led to it*, whatever they may suppose to the contrary, unless they inordinately supported speculators in foreign products; and *then* the result does not follow, *from the extent of the circulation they have issued, but from the nature of that business in which it has been applied*; that is to say, from its being applied in business calculated to bring a *balance against this country*.

Second. What the Directors of the Bank of England, and following them the Government, mean, by a "par of exchange," is a *par of currency* ; that is, an equality between the circulation of this country, *with reference to what it has to do*, and the circulation of the neighbouring countries, with the same reference. If money is more *abundant here* than in France, there will be a temptation to send a part to France; and this certainly *turns the exchange, but not against this country, but against France*, by making her the debtor; still the money goes out, because it is wanted and will be paid for. But to prevent money so flowing out, it is not a *restriction of the circulation that is wanted*, as the Government and the Bank assume, *but use for money at home*; and the Bank of England, by restraining its issues to the home trader, is punishing him for the speculations and the profits of the dealer in foreign investments, and this to no purpose. The Bank is proposing to cure, what no operation *upon the circulation* can cure, and nothing but proper commercial regulations. Yet upon these erroneous principles, it would at once be allowing the gold and silver in the currency to escape, and at the same time refusing

the substitute, exactly when, by the escape of the principals, the substitute had become the only resort. In short, the system proposed would be returning *deliberately* and *irreversibly* to the system we have so long condemned, and in appearance determined to abjure for ever; of giving an *irresponsible*, and certainly only partially informed Body, the power of either annulling all that the sacrifices of the last ten years have established, by again excessively supplying the market with currency; or by making the Bank, in itself and its branches, the *sole deposits of currency*, giving it the power of still farther screwing up the value of circulation, by in every direction rendering it inaccessible, at the pleasure of, it may be, ignorant and petulant agents; certainly of agents without either the interest or the responsibility proper in the circumstances.

Our ancestors looked at the state of the exchanges; they looked anxiously and minutely; but they did so, not that they might correct the exchange itself, by any "action" (as it is now termed) "upon the currency," but to correct *what the state of the exchange indicated*; that is to say, the balance of trade against the country; and they did this by commercial regulations. The physician, in like manner, constantly watches the pulse of the human body; but he does so, not that he may correct the pulse by any operation upon itself, but that he may remove the disorders it indicates. While there is such dealing with other countries, as brings the balance against this, money will go out, for it is the universal medium; and this dealing may be proper or improper, but restricting the internal circulation of the country, or rather absolutely refusing all circulation, to per-

sons having nothing to do with the external dealing, is certainly not the way to cure it. It is true that rendering money scarce or inaccessible here, will not only prevent its farther going out, but compel to seeking it abroad; but this will only *aggravate* the state of the exchange, till goods shall be sold to bring the balance on trade again in favour of the country. But this is an effect springing from *trade*, and *not* from the state of the currency; and, in the meantime, the restrictions of its issues on the part of the Bank of England, though proper and indispensable as far as its own interests are concerned, would be directly in breach of contract under the new system; for by that system, the Bank undertakes to furnish **CURRENCY FOR THE COUNTRY**; and, therefore ought not, on an emergency, to send *others* to seek currency, but go herself: that is to say, she should *sustain her issues*, and herself pay the premium for the gold and silver necessary to meet them. Acting otherwise, she would be like a Contractor for water, who having pocketed the rates, should allow the water to be misapplied, and then put the city on short allowance or on *no* allowance, desiring the people to find water where they could.

If the Bank of England is to supply the whole circulation of the kingdom, that is a bargain; but she thenceforth renounces all discretion that shall lead to the cramping of the Community. Money must not exceed a fair value, and particularly, it must not be wholly wanting. But, first, the Bank of England should not agree to supply the entire circulation; second, if she should be so improvident as to agree to this, she should not be allowed. The question is

not one of unlimited supply ; for naturally it would involve no more than supplying the means of conducting foreign purchases. But these, we have seen, may occasionally be very great ; and if to these is added an internal panic, the Bank is gone, were its gold and silver far beyond what they *ought to be*, for ordinary purposes, and to effect ordinary profit.

Therefore, if the Bank of England should be induced to think of supplying the whole currency, should the country think of allowing the experiment ? Would she not be safer in allowing every individual Bank to have a collateral interest and responsibility ? The natural body is preserved because it is sensitive all over, and the slightest touch of an extremity gives warning to the whole frame ; and the body politic should have its vigour as universally distributed. The whole Banks of the country, *being properly constituted*, should be on terms of proper friendship and confidence ; for this is following out the principle of their origin. A number of citizens placing their surplus capital *in medio*, form a Bank, and equalise the currency of their district ; and the whole Banks in the Kingdom, occasionally communicating, would equalise the currency of the Kingdom. Let the Bank of England hold all the rank her situation at the chief seat of business gives her ; but let every other Bank in the kingdom, be as independent as the Bank of England ; have exactly the same laws and the same privileges ; and be to the district what the Bank of England is to hers. This is providing many streams of circulation instead of one great torrent ; and would afford the

most healthful, as well as the most certain supply ; and these *must* be the principles of this measure.

Even the minor details of the plan of the Government, seem to require consideration.

For example :—It is proposed to pay off a large portion of the debt to the Bank. Now, first, that debt is bearing *a low interest*, while many other debts are bearing the highest. Second, until we have seen what is the extent of the issues and other responsibilities which the Bank contemplates, it cannot be known whether this is not relinquishing a security to the public, which the Government ought not only to have held, but to have desired extended. Third, it is relinquishing it needlessly ; for the Bank can only again invest the amount in the Funds. And, fourthly, it would thus be relinquishing it to the injury of the State ; for by the Bank's being obliged to purchase into the Funds, it would enhance the value of these securities ; and consequently, injuriously increase the final debt of the State.

The reduction of the capital of the Bank appears to be considered proper in some quarters ; and were a reduction of the business and responsibilities contemplated at the same time, it might be so. But unless this is both intended and *provided for*, the reduction of capital is improper ; and if the reduction of capital is to be accompanied, as appears intended, with an increase of responsibilities in every direction, the arrangement seems to be, not only without principle, but against every principle.

The proposal to discourage COUNTRY BANKS, seems equally against principle. First, it trenches

on the freedom of industry; which should always be encouraged, so far as compatible with the general interests.

Second, It tends to repress the healthy distribution of the profits of industry over the country generally, and particularly over the districts in which they arise.

But lastly, and most particularly, it seems to lead to the idea of trusting the **WHOLE FORTUNES** of the **COUNTRY** in **ONE BANK!** and that Bank without any regulated security; its progress in industry, to the wisdom of the managers of *one* Institution. Now, wise men not only *spread their risks, but avoid*, to every prudent extent, *the narrowing of their resources*. They trust "here a little, and there a little;" and they take care to be so circumstanced as to all their dependencies, as that the failure of no one of them can materially disappoint them. I know no other principle for regulating the policy of the Country.

The demanding of security for the operations of Banks, is an improvement on past principles, which hitherto have been *inexplicably* imperfect, notwithstanding their frightful consequences, and the extreme facility of cure. But even this principle is not *carried out*, for it seems intended that the Bank of England shall be excepted; and above all others, as I have stated, *it* should be rendered safe.

The check on the issues of Banks in general, by the issue of stamps, is also good in principle: but it seems doubtful if it also is not to be mutilated, in fact rendered nugatory. To make it effectual, the stamps should be all issued previous to, and as necessary parts of the note; and no more should

be issued, than will bear currency to the amount intended and guaranteed; and this was *my* understanding of Lord Althorp's intention, but others say the whole is to be trusted to *returns*; and returns *I* consider good for nothing. In other respects, I see nothing in the plan that can be approved to any extent.

Finally, this measure is one of a series of measures, which it is of the utmost importance to have settled correctly; and which, if so settled, would make the country equally prosperous and happy; but which appear to be not only settling imperfectly now, but in that settlement *removing for ever* the opportunity of doing good which they unquestionably hold out.

The present Government has two merits, as these measures are concerned. First, it consents to entertain them and to grapple with them: and next, it is not rash, nor intolerant of advice. These may not be great virtues generally speaking; but they are of great value in men in power. If the country shall be of my opinion, they will demand a pause in the present instance; and consider well, before allowing their Representatives to ratify what Government and the Bank of England have proposed to do.

If I shall find that such is the wish of the public, I will, in one week hence, propose to the Merchants of London, a plan for the settlement of this matter, including the following principles:—

First. Security to the public, in the original stability of Banking Establishments, and by rendering it impossible that this stability should be injuriously undermined.

Second. Freedom of action to the Banks, without the chance of inferring deterioration of the currency ; and justice to *all* Banks.

Third. The healthy diffusion of capital over the Country, and the retention of its returns there.

Fourth. Great relief to the Country in its corporate capacity, in the reduction of the interest of a very large portion of its debts ; and in rendering the capital of that debt incapable of farther unnatural increase.

Lastly. I would relieve all Ministers, present and future, of all responsibility whatever, in the details of these or any other individual mercantile concerns ; though no one is more satisfied, of the propriety of the Government and Parliament of the kingdom wielding a general and salutary controul.

London, June 6, 1833.

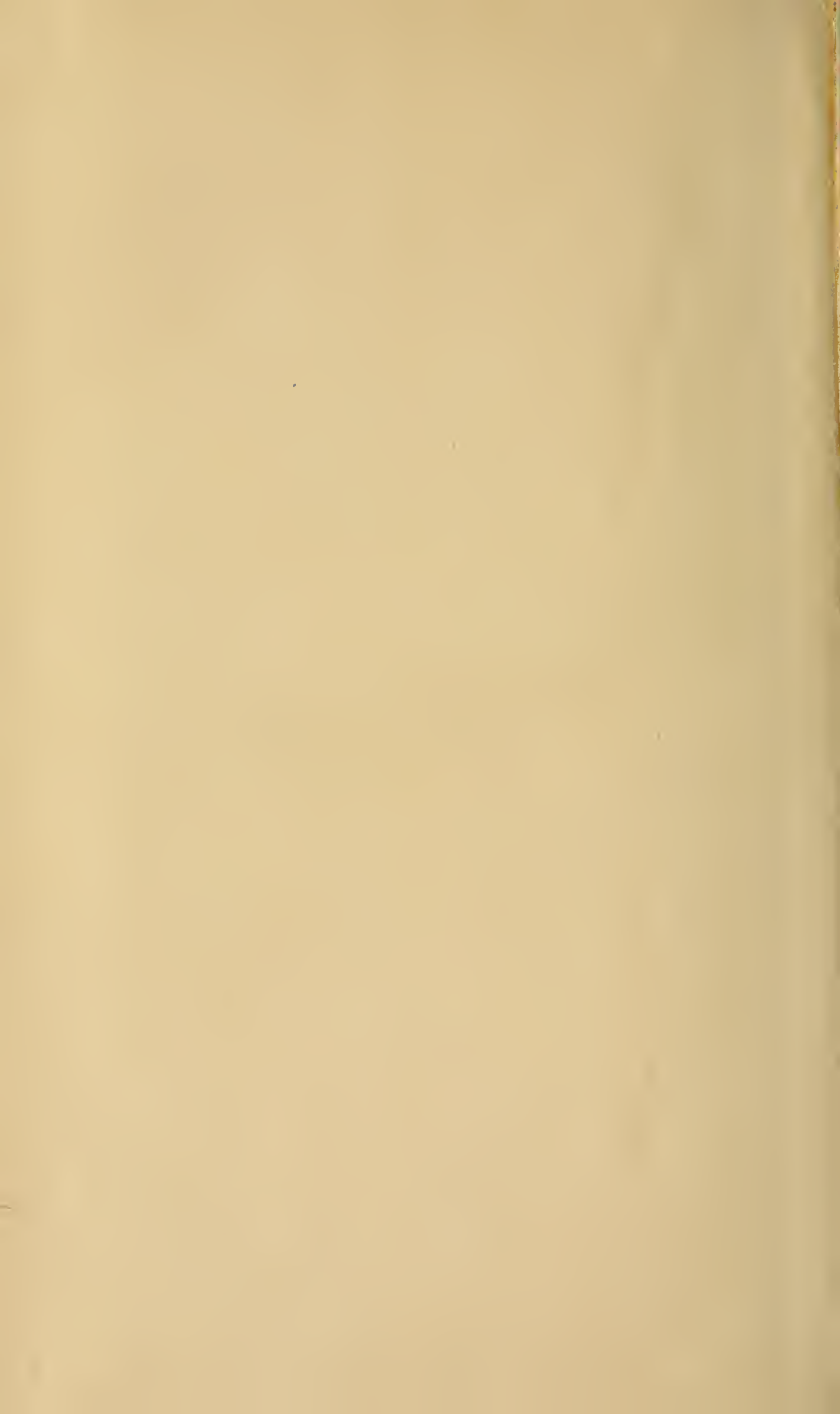
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