

POSSIBLE BRITISH BANK ACT SUSPENSION

Why and How It Was Done in Sixty-six—Has Been Suspended Only Thrice

A London cable message on Friday, July 31st, said:—
“The opinion is general that the bank act will be suspended, and it is argued that when the gold once gets out of the hands of the bank there is nothing to prevent it being sent abroad.”

Another dispatch said:—“A deputation of the leading bankers called on Premier Asquith this evening for the purpose of requesting him to suspend the bank act, according to a local agency. The Premier promised to consult the Chancellor of the Exchequer, and to consider the request fully.”

Later, on July 31st, it was announced that the conference consisting of the Premier, the Chancellor of the Exchequer and representatives of the Bank of England and other great Banks, decided that the situation did not at that time justify any emergency action to increase the supply of legal tender. If, however, future events necessitated it the treasury would take immediate action.

What Suspension Means.

The Bank of England's fiduciary issue was originally £14,000,000, but it has since been increased to £18,450,000. Beyond that amount it cannot go except by means of the suspension of the bank act.

The suspension of the bank act in England is an extraordinary measure for serious times. Only on three occasions since 1844, (the year the present bank act was enacted), has it been done. The reason for the suspension of the act is to allow the bank to extend its discounts and advance beyond the limit fixed by law. The discount rate naturally is high,—in 1866, for instance, 10 per cent. The British government announced on August 5th that the suspension of the act is unnecessary, “at least for the present.”

What Government Wrote in 1866.

The best way perhaps to define clearly what such a suspension means is to quote in full the letter written by the British government to the Bank of England authorities at the time the Act last was suspended. This *The Monetary Times* is able to do. The communication was dated May 11th, 1866, and was as follows:—

To the Governor and Deputy-Governor of the Bank of England.

Gentlemen.—We have the honor to acknowledge the receipt of your letter of this day to the Chancellor of the Exchequer, in which you state the course of action at the Bank of England, under the circumstances of sudden anxiety, which have arisen since the stoppage of Messrs. Overend, Gurney & Co. (Limited) yesterday.

We learn with regret that the bank reserve, which stood so recently as last night at a sum of about five millions and three quarters, has been reduced in a single day by the liberal answer of the bank to the demands of commerce during the hours of business and by its great anxiety to avert disaster, to little more than half of that amount, or a sum (actual for London and estimated for the branches) not greatly exceeding three millions.

The accounts and representations which have reached Her Majesty's Government during the day exhibit the state of things in the city as one of extraordinary distress and apprehension. Indeed, deputations composed of persons of the greatest weight and influence, and representing alike the private and joint stock banks of London, have presented themselves in Downing street and urged with unanimity and with earnestness the necessity of some intervention on the part of the state to allay the anxiety which prevails, and which appears to have amounted, through great part of the day, to absolute panic.

There are some important points in which the present crisis differs from those of 1847 and 1857. Those periods were periods of mercantile distress, but the vital consideration of banking credit does not appear to have been involved in them, as it is in the present crisis.

Again, the course of affairs was comparatively slow and measured; whereas the shock has in this instance arrived with an intense rapidity, and the opportunity for deliberation is narrowed in proportion. Lastly, the reserve of the Bank of England has suffered a diminution without precedent relatively to the time in which it has been brought about, and in view especially of this circumstance Her Majesty's Government cannot doubt that it is their duty to adopt without delay the measures which seem to them best calculated to compose the public mind, and to arrest the calamities which may threaten trade and industry. If, then, the directors of the Bank of England, proceeding upon the prudent rules of action by which their administration is usually governed, shall find that in order to meet the wants of legitimate commerce, it be requisite to extend their discounts and advances upon approved securities, so as to require issues of notes beyond the limits fixed by law, Her Majesty's Government recommend that this necessity should be met immediately upon its occurrence, and in that event they will not fail to make application to Parliament for its sanction.

No such discount or advance, however, should be granted at a rate of interest of less than ten per cent., and Her Majesty's Government reserve it to themselves to recommend if they should see fit the imposition of a higher rate. After deduction by the Bank of whatever it may consider to be a fair charge for its risk expense, and trouble, the profits of these advances will accrue to the public.

We have the honor to be, Gentlemen, your obedient servants,

(Signed) RUSSELL.

(Signed) W. B. GLADSTONE.

Downing Street, May 11th, 1866.

In 1825, there was a panic, attributed to speculation in foreign mining companies. The Bank of England then issued £1 notes, a denomination which had been forgotten, and which, by the way, cable messages hint may be issued again to take the place of sovereigns in these troublous times.

In 1836 there was a crisis which was one of the immediate cause of the restriction of country note issues by the Bank Act of 1844. Again in 1847 speculation in railway companies precipitated a crisis which necessitated the suspension of part of the Act of 1844. Ten years later a totally unexpected crisis took the mercantile world by surprise, and resulted in a second suspension of the Act.

Panic of Sixty-Six.

The next, and probably the worst panic, that of 1866, is usually associated with speculative company promotion following upon the passing of the Companies Acts in 1862, and was precipitated by fluctuations in the price of cotton due to the American Civil War. It was especially notable for the failure of Overend, Gurney and Company, the bill brokers, with liabilities of over ten million pounds. For the third and last time the Act of 1844 had to be suspended, and such was the gravity of the situation that the bank rate remained for three months at 10 per cent.

The last of the series of crises occurred in 1875, and is generally ascribed to the reaction following the abnormally high prices of 1872 and 1873, and to the great amount of accommodation bills in existence.

Several Other Crises.

The City of Glasgow Bank failure in 1878 caused some anxiety in London, but did not produce an actual crisis, and the suspension of Baring's, in 1890, might have easily caused a panic, but for the promptitude with which the Bank of England and the leading joint stock banks joined in guaranteeing the engagements of the defaulting firm.

Both in 1857 and 1866, the bank was required to maintain its rate of discount at 10 per cent., so long as it should use the government's permission given to it to issue notes in excess of the statutory limit. As this rate tended to drive away business from the bank as soon as the rate in the general market fell, this condition insured as rapid a return to the legal limit of the issue as was practicable.

EUROPEAN BANK RATES AND WAR

The following are the bank rates prevailing in Europe, so far as can be gathered from crippled cable lines:—

Bank of	Per cent.
England	6
Germany	6
France	6
Holland	6
Austria	8
Belgium	7
Sweden	5½
Italy	5
Russia	6
Switzerland	5½
Denmark	7
Norway	6½
Spain	4½
Portugal	5½

These are all very high rates. The Bank of England has had a 10 per cent. rate only twice since 1844. The highest rates on record of some of these banks are as follows:—

		During the year.	
Bank.	Year.	Lowest rate %.	Highest rate %.
France	1863	3½	7
France	1864	4½	8
Germany	1866	4	9
Netherlands	1858	3	7
Belgium	1870	2½	6
Belgium	1873	3½	7

The Bank of England and Bank of France rates were reduced respectively from 10 to 6 and from 8 to 6 on August 6th.