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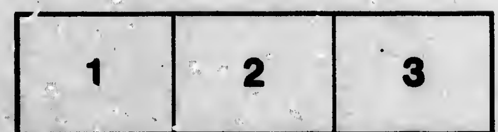

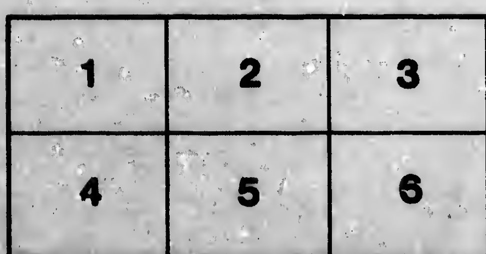

THE BANK CHARTER ACT

AND

THE LATE PANIC:

A PAPER

READ BEFORE THE ECONOMIC SECTION OF THE NATIONAL SOCIAL SCIENCE ASSOCIATION, AT MANCHESTER, OCTOBER 5TH, 1866.

WITH NOTES ADDED.

By JOHN MILLS.

LONDON: SIMPKIN, MARSHALL, & CO.
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1866.

ON THE BANK CHARTER ACT AND THE LATE PANIC.

A COMMERCIAL Panic, when it has once happily subsided, furnishes occasion for a great deal of morbid anatomy. It is natural that its origin, its successive phases and events, and its gradual disappearance, should be intently reviewed by all who think on such subjects; and it is perhaps equally natural that those who hold pre-conceived views on the much-vexed currency problem should find in that process a full and final corroboration of their opinions. Certain it is that the opponents of the Bank Charter Act of 1844 believe they do find such corroboration; and they are, consequently, with renewed vigour, pressing their theories on the attention of Government and of the nation.

The facts they point to are indeed serious and significant. A condition of universal embarrassment and exigency, involving weak firms in ruin and strong ones in suspicion; money at a famine rate of ten per cent for three months; currency urgently competed for, but hard to be obtained; the Bank Act itself suspended for the third time in an existence of twenty-two years;—and all this concurrently with plethora of capital, and freedom from disturbance, in a country twenty miles from our shores! Facts serious enough to form the counts of as terrible an indictment as could possibly be brought against any law to whose operation they could be distinctly traced.

Can these things be traced to the operation of the Bank Act of 1844? Without at present replying to this query by a direct negative, I remark that fearful panics occurred before the Act was passed; that the numerous critics of that Act, though abundantly successful in their too easy task of proving the inconvenience of great fluctuations in the price of loans, and the severity with which the rigid separation of the note reserve acts when Panic has almost exhausted the reserve of the Banking department,—always become vague and mutually destructive, when they enter the field of causation; and, finally, that, as Panics have both preceded and followed the Bank Act, and have not yet been successfully traced to its operation, it is reasonable to look for a principle of deeper and wider scope, as the efficient cause of these deplorable events.

To me it seems that the great law of action and reaction overrides any existing or possible Parliamentary decree. So long as men are deficient in self-control—lacking caution in prosperous, and courage in critical times, it is scarcely likely that we can avoid occasional accesses of depression and fear. Least of all is it likely for Anglo-Saxon nations. An irrepressible energy makes Englishmen invest not only their money, but their brain and muscle in every quarter of the globe; and to this force of character may be traced their tendency to push trading speculations to their utmost limit, straining, and sometimes *over*straining the resources of legitimate credit, and running reserves to a dangerous degree of tenuity. Though this force may sometimes be moderated by painful experience, there is always a latent abundance of it, waiting for the first temptation. And the late American war was exactly the kind of occasion to call it forth. Much capital was diverted suddenly from channels of regular trade, temporarily closed, into others of a speculative, but highly promising character. Enormous gains were the result. For the time being there was a demoralising inversion of economic law. Habitually cautious traders slowly lost money; bold speculators rapidly made it. The inevitable mischief followed. In accordance with the adage, "Easy come, easy go," rapid gains soon showed their usual precariousness. New money in new hands, found, through the machinery created by the Companies Act of 1862, a timely and congenial outlet, and, as might be expected, carried much old money with it. The revelations now being daily made show that undertakings were entered into on a scale vastly beyond our realised and disengaged means, followed, of course, by an inordinate creation of credit.*

The termination of the American war in 1864, and consequent collapse of prices, found us with these excessive commitments on our hands; and the country then fell under the shadow of coming events. The sound state of many branches of trade, however, masked the evil for a time; though shrewd observers already felt that the superstructure of credit was much too broad for its base. The subsequent speculations in Iron warrants and Grand Trunk shares, and the failures which followed, sufficed to create that atmosphere of suspicion which alone was wanting to bring about the events of last May. To the Panic that ensued I shall shortly refer further. At present, it is enough to say, that such causes were efficient to produce such a result, whether the Bank of England had been in two departments or one, and whether, in fact, the Act of 1844 had existed or not.

While looking at the Act in the lurid light of a Panic, it is needful to remember its aspects when viewed through a more cheerful medium. The Act operates every day, and is not to be judged *only* in the presence of exceptional events; and if it be found that some of its provisions incidentally exaggerate evils, in themselves extraordinary, it does not follow that the same provisions may not be beneficial in ordinary times. It is a mere truism to say that the sea-storm which creates a necessity to cut away a mast, is no argument against the use of masts; and the potion which may be a gentle sedative to fever, might seriously derange a healthy system.

It is further necessary, while dealing with phenomena of Panic, and drawing inferences from them, to apprehend

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* Parliamentary returns, just issued, show that the total of limited companies created in the United Kingdom since the passing of the Act in 1862 has been 5,589! Of these a large proportion have already been wound up, or are undergoing that process. (See *Times*, October 27th.) Of course the very fierceness of the ordeal, which has destroyed so many, has the more clearly proved the intrinsic strength of a few.

distinctly the principles which are assumed to justify the Act, and are certainly embodied in it:—the chief of which is, that, amidst the fluctuations of all other values, paper substitutes for coin should have secured to them the same *fixity of value* which coin itself possesses, and should fluctuate in quantity in the same ratio as coin would fluctuate, if that alone were used. It seems obvious that whatever virtue a metal currency may have, to correct its own deficiency or excess, should, if possible, be preserved to the paper which displaces it. The separation of the two departments, of issue and of banking, and the issue of notes only on the basis of bullion deposits, beyond fifteen millions based on Government securities, are, in fact, only means of making the bullion itself, as it were, circulate vicariously in the Bank note. I am aware that this arrangement is often denounced as mischievous; and it is referred to now, as the principle of the Act, only for the purpose of remarking that its value is not to be tested *solely* by the exceptional phenomena of a critical period.

The recent Panic has been variously defined. The most common mode of describing it—perhaps because the vaguest and safest—is to call it "a credit Panic;" which is really little more than to call it "a Panic," as these revulsions are all simply collapses of credit. A voluminous magazine writer on this subject considers the main evil to have been a want of currency; which is about as explicit as the jocular *diagnosis* that a man died "of want of breath." The Chancellor of the Exchequer has stated that the Panic arose from a want of capital. This no doubt is true, without being very precise; as there is unquestionably sufficient capital for all legitimate business, though not enough as a basis for the enormous credit commitments undertaken during the last three or four years. Perhaps the most exact definition would be, that this was *a Panic bearing upon credit instruments, and not upon currency.* That is to say, all the forms of mere trust were more or less *dis*credited, but there was no run to demand gold for Bank of England notes. As I have said, we had gone on for the last few years running up an enormous score of credit, far outstripping the current savings of the nation. Never was the apparatus of lending on such a magnificent scale before; and the capacity of borrowing soon showed itself equal to the occasion. But credit runs to paper, and, in its concrete documentary form, is bought up by Banks and other institutions, whose trade it is to buy and sell credit. It is thus accumulated in large masses, which, if once tainted with suspicion, become mere magazines of Panic. The manufacture of obligations, such as debentures, Lloyd's bonds, contractors' paper, finance paper, and bills arising out of some branches of trade in which great losses were known to have been made, proceeded more and more rapidly; and the institutions which absorbed them were forced to place their own credit on the market in proportionately greater quantities. It naturally followed that with the first event which startled the public mind into a mood of doubt, even these latter forms of credit became tainted; and those which were payable at call, or at short notice, were pressed for realisation. The rest is summed in a dismal date,—the 11th of May.

But amidst this chaos of collapsing paper, one steadfast exception alone was found. One class of issue, known to be secured, not by the mere prudence and self-control of its issuers—not even by the possession of assets of *ultimately* adequate value, but by the actual deposit of gold, pledged to the instant redemption of this particular issue—never lost prestige for a moment; and the only difficulty, by universal admission, was to obtain a sufficiency of it, though within a day or two the amount was run up from twenty-one millions to twenty-six millions. Now, on ordinary principles of reasoning, one would have supposed that in proportion as we reprobated the reckless imprudence which had extended the issues of credit, till not only those issues, but intrinsically sound securities, were tainted by the infection of Panic, we should have appreciated the conditions of issue which placed this one instrument quite beyond the reach of such infection. The documents just now enumerated, including good bills, were mere *instruments of credit,* more or less removed from the inflexibly limited basis of value, and therefore, in the supreme moment of fear, were universally discredited. The Bank note was *not an instrument of credit,* being kept by the law in constant contact with its substratum of gold, and was fitted by this fact alone, to fill up, to a considerable extent, the suddenly created void.

Yet, singularly enough, the measure we are now hearing constantly proposed is, that this one exceptional issue should be reduced, at a stroke, to a mere instrument of credit like the rest, by cutting away its special substratum, and leaving its redemption to the management of a fluctuating court of directors. In the centre of the flooded lowlands is a mound of *terra firma*, where the perplexed traveller may stand dryshod. No sooner have the waters receded than we are asked to reduce this mound to the common level, and then wait till the next flood for the result. "Repeal the Act; recombine the two departments of banking and issue; have only one reserve, available for all the liabilities of the Bank;" these are the demands we hear from various quarters. The very qualities shown by the note under its present secured conditions, are quoted as reasons for placing it under totally different conditions. "Look," it is said, "how the Bank of England note preserved its currency unchallenged in the very crisis of the Panic! The same occurred in 1847 and 1857. Then let us abrogate the limits upon its issue, that the Bank may be at liberty to supply our wants at its discretion." This means, if it mean anything—"The Bank note, *not* being a credit instrument, but carrying intrinsic value with it, may be relied on in an emergency; then let us make it a credit instrument, and destroy its intrinsic value, that we may have no more emergencies!" Surely a *reductio ad absurdum!* Whatever conclusion we may arrive at as to the desirable course when Panic has once supervened, and the acute disease of the public mind demands an instant alterative, it will, after recent experience, scarcely be questioned that the Bank note, *endowed with the prestige it has acquired from its ordinary conditional issue*, comes admirably fitted for administration, *even in quantities which involve the temporary suspension of the condition.**

* Note A.

It may be, indeed, and is contended, that the Bank note would lose none of this quality, even if based upon a reserve common to all the liabilities of the Bank. If this idea be founded upon a superstitious notion of the certainty of the Bank of England's maintaining always an adequate reserve, the facts of the Panic are again pertinent. On the 30th May the banking reserve was reduced to £850,000, and even on the 11th May, when the reserve was much larger, it was in the power of one or two of its customers to issue cheques which would have exhausted the reserve at once.* Is the inability or failure of the Bank to maintain an adequate reserve in *one* department, to be quoted as a reason for entrusting to it the maintenance of an adequate reserve for *both?* If, on the occasion just mentioned, the seven or eight millions of bullion, usually in the issue department, had been included within the Bank's general reserve, and if, from any of the sinister incidents which are rife at such periods, the feeling of panic had been perpetuated and deepened (and it is to be remembered that this feeling has shown greater tenacity during the last five months than on former similar occasions), a very moderate onset of the Bank's depositors would have brought us within sight of a Currency Panic, superadded to the Credit Panic, and possibly to a suspension of cash payments. We should have missed the steadying and sanatory effect of a large body of currency, habitually associated in the public mind with the actual intrinsic value of a special reserve of gold. Nor is this a supposition only. In 1839 the virtue of a single reserve was put to a crucial test; and the bullion being brought down to £2,400,000, the Bank was only saved from collapse by the timely help of the Bank of France.

So much for the facts of the crisis. But it may be truly said that every actual Panic discounts and dissipates a much greater possible Panic. The vicious forces which develop into these revulsions have a tendency to gather volume and vigour from every attempt to make things pleasant by giving a fictitious cheapness to capital. Now, whatever other virtue the

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* NOTE B.

Bank Act may possess; whether or not it succeed in performing the functions claimed for it by its framers, of ensuring the convertibility of the note, or of acting beneficially on the foreign exchanges, it can scarcely be doubted that its tendency is to prevent the Bank Directors from falling into the error just referred to. Precluding them from yielding to the temptation to pamper the cravings of an inordinate credit by issuing paper at will, it compels them to take timely and stringent measures for the protection of their banking reserve. And, though an advancing rate of interest may often be irritating to legitimate traders, and may sometimes, by creating alarm, even precipitate a revulsion which existing elements had already rendered inevitable, yet *in the degree in which it has denied to hollow credit the aliment of cheap capital, and accelerated the explosion of bubble speculations, it has been a real gain to the general community.*

Most true it is that the Bank Act does not—I believe no Parliamentary enactment can—save us from the occasional occurrence of Panic. The abuse of credit is one of those subtle and yet sweeping evils which must bring with them their own Nemesis and their own cure. A gentleman who has preceded me—Mr. Hill—has admitted, in a work of great ability on the "Principles of Currency," that "It is to this misapplication of credit, and to this taint of unsoundness therein, that the fearful evil of commercial convulsion is, for the most part (as I think) distinctly traceable."* It may well be, however, as I have shown, that when this abnormal or diseased state of the public mind has supervened, the ordinary appliances of regulative law may become as inappropriate as they are appropriate to normal conditions, and that something of their stringency may be properly relaxed. And I have not been able to see the force of the reasoning which adduces this occasional relaxation as a fundamental objection to the Act. Englishmen, it is true, have a commendable regard for the supremacy and steadfastness of law as law. But, after all, the laws are made for the people, and not the people for the laws. *Salus populi* is superior to

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* Note C.

any item of the code. And when, at critical periods, the tone of the public mind, to which a particular law was adapted, is wholly changed, that law may well be modified for the moment, to suit the altered conditions of the case. Arbitrary change is undoubtedly to be deprecated; but when a change sufficiently wide and pervasive has *first* taken place in the people—as when the commercial sanity on which a just credit is based, is thoroughly shaken—it may be needful, and is surely permissible—that a temporary change in a law may follow. The Bank Act is not the only statute to which such treatment is occasionally applied. The very charter of English personal liberty is sometimes suspended, for what are considered sufficient temporary reasons; but I have never yet heard the need for such suspensions urged as a fatal flaw in the Act of *Habeas Corpus.**

In the case of the Bank Act, however, it has been forcibly argued by Mr. John Stuart Mill, that this authorised departure from the letter of the Act in times of crisis is in reality a more effectual carrying out of its spirit. He says: "The opportune relief thus afforded to credit, during the excessive contraction which succeeds to an undue expansion, is consistent with the principle of the new system; for an extraordinary contraction of credit, and fall of prices, inevitably draw gold into the country, and the principle of the system is that the bank-note currency shall be permitted, and even compelled, to enlarge itself, in all cases in which a metallic currency would do the same. But, what the principle of the law would encourage, its provisions in this instance preclude, by not suffering the increased issues to take place until the gold has actually arrived; which is never until the worst part of the crisis is past, and almost all the losses and failures attendant on it are consummated." †

In ordinary times the demand for currency, indicated by a rise in the rate of interest, acts slowly, being retarded by serious *impedimenta* in cost of transit and loss of interest; and Mr.

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* Note D.

† "Principles of Political Economy." Book III., chap. 24, § 4.

Göschen has shown that a change of fully two per cent is required to effect the turn in the tide.* In times of Panic, however, even this proves insufficient, as we lately found to our great cost—the fears of foreigners having acted as an additional deterrent from the transmission of our much-needed supplies. The result shows, however, that the natural law, though in momentary abeyance, was still to prove effective; and, it was therefore—on the principle laid down by Mr Mill—legitimate, though not legal, that this retarded operation of the Act itself should be anticipated by an immediate expansion of issues. If then the wisdom of Parliament, after due enquiry into the subject, either by a Committee of the House or by a Royal Commission, should determine that the Act shall be amended by the introduction of a "Crisis clause," giving to the Queen in Council power to authorise a temporary further issue of notes against Government securities—so far from that procedure being inconsistent with the principle of the Act, it would be, in truth, an adaptation of it to the varying circumstances of the commercial interest, and a timely reinforcement of its remedial tendency, in the presence of very rapid opposing forces. And in support of that view I claim the authority of our most distinguished living Economist.†

But no mere change of this moderate extent will commend itself to some who, amidst the perturbations and wide-spread ruin from which England has suffered during these dark summer months, have watched the serene immunity from such evils which France has been enjoying; and who, assuming that close neighbourhood implies as close a parity of conditions, can find no scapegoat on which to visit this striking difference, but our peculiar financial legislation. The cellars of the Bank of France have been choked with specie, and its rate of interest has ranged at four, five, and six per cent less than our own; and this for so long a period that it has seemed as if British commerce were condemned to the fate of Tantalus, unable to quench its thirst from a full stream floating past its very lips. But surely the

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* "The Theory of the Foreign Exchanges." By G. J. Göschen, M.P., p. 143.

† Note E.

very extent of this anomaly might have suggested that it arose from other causes than those to which it was assigned. France was scarcely likely to be punished for English recklessness in the creation of credit. It is a fact that the country which more than any other prides itself on its *dash* in war, is timid and cautious almost to a fault in speculative enterprise; and while England was a while ago in full career, concocting companies for every conceivable purpose, home and foreign, France watched the process with a shrug of quiet amazement, which might be easily construed into a parody of the well-known exclamation of the French officer who watched the Balaklava charge. "Magnificent indeed; but not legitimate trading!" While France was running over with spare capital, it was we who, from our rapidly dwindling margin, undertook to light her towns, irrigate her fields, and build a new wing for her great Southern port! And yet, when all our loose cash has been got rid of, and, looking across the channel, we see comfortable Jacques Bonhomme with his hands reposing in well-furnished pockets, we in turn are amazed, and straightway fall foul of poor Sir Robert Peel's Bank Act for the creation of such a provoking contrast!

It is to be remembered, too, that simultaneously with the monetary crisis in England came the certainty of war in Germany and Italy, from which countries capital fled to Paris as to its only refuge. So far, therefore, from the contrast being a strange thing, it would have been marvellous indeed if a prosperous and peaceful empire such as France, bordering upon three great countries—one in the throes of a monetary, and two others of a political revolution—had not been teeming with floating capital. Under these circumstances, I trust it is not unreasonable to suggest that the Bank Act should be acquitted of this particular misdemeanour. But this may the more readily be claimed, because the alternative to such a verdict involves the enemies of the Act in a dilemma, from which they must desire to escape. That Act is not solely condemned for causing an inordinately *high* rate of interest; it is at least as often alleged against it that it is the occasion of a dangerously *low* rate, by causing an accumulation of loanable capital, which is a temptation to speculative investment. But if the circumstances to which I have referred are not to be admitted as efficient causes of the marked contrast between our own position and that of France, how is it that France has fallen into this—scarcely the least dangerous—extreme of financial plethora, without any Bank Act to lay the blame upon?

It is also often alleged that the enforced dormancy of the seven or eight millions of bullion kept by the Bank of England as the basis of its note issues, is a great waste of resources. But this too is a double-edged argument.* For how comes it that France, without a Bank Act, is subjected to the enormous loss involved in a reserve of twenty-eight millions, which she cannot, or at least does not, employ in reproductive enterprise?

I have thus endeavoured to deal with the most salient features of the late Panic, as they seem to bear upon the vexed question of our Banking legislation. My object has been to prove—

1. That causes were at work, efficient to produce a crisis, without the complicity of the Act.

2. That the Act was effectual in limiting the Panic to its bearing upon purely credit instruments, and in protecting our national paper currency from the infection of discredit.

3. That the suspension of the Act under abnormal circumstances, not only involves no impeachment of its principle as it ordinarily operates, but is, in fact, an adaptation of that principle to exceptional conditions.

4. That causes were at work, efficient to produce in France a contrasted state of abundance and confidence, quite independent of any difference between her financial legislation and that of England.

I now leave the whole subject to the calm and judicial appreciation of the Section.†

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* Note F. † Note G.

Note A.

As the testimony of an enlightened foreign observer who cannot be supposed to have any but a scientific interest in our financial legislation, I quote the following striking passage from a speech delivered by M. Leonce de Lavergne, at the Société d'Economie Politique, seance du 5 Fevrier, 1858, as reported in the *Journal des Economistes* of that date: "C'est précisément parce qu'en temps ordinaire les émissions de la Banque d'Angleterre sont contenues par la loi, que les billets jouissent d'une si grand faveur, quand tout autre papier est déprécié; il suffit alors d'ouvrir le canal à ce réservoir de crédit, amassé par une sage prùdence. Si la mémoire de Sir Robert Peel avait besoin d'une consécration nouvelle, elle l'aurait reçue des deux expériences de 1847 et de 1857." A remark that applies with equal force to our experience in 1866.

Note B.

In justice to the Bank of England, it should be stated that the dangerously low amount of its reserve, mentioned in the text, was not produced by any improvidence in the conduct of its ordinary business, but by a sudden and severe strain, caused by the claims of other establishments, its customers, for temporary accommodation in loans or discounts. The statement made on behalf of the Bank is unquestionably true, that on this and similar occasions it could have protected itself, and met all its own liabilities, if the attention of the Court had been directed to that object alone. It was from the obligations springing out of its quasi-public, or national character, that the danger arose. But if the Bank has this inconvenient position and responsibility at present, what would be the result of its assuming in addition a direct responsibility for the national currency? Its public character and correlative obligations would be greatly increased, and the danger would be enhanced in proportion.

There is no doubt that the fact of the Bank of England's being the custodian of the disengaged balances of other financial establishments, has so concentrated public attention on the fluctuations of its reserve, as to weaken the healthy sense of a duty on the part of other institutions and firms, to maintain adequate reserves of their own. The general tendency to use up resources to the closest possible point, for the sake of a maximum profit, has more to do with our liability to Panic, than any Act of the legislature; and the growth of a healthy feeling in this matter would do more to eliminate the poison of distrust from our mercantile system, than any of the financial nostrums that are propounded. Whether, as has been proposed by Mr. J. B. Smith, in a seasonable pamphlet just issued from the press, Parliament should or could interfere to compel the keeping of adequate banking reserves, is to my mind more than questionable. But what Parliament can and should do, at any rate, is to secure our money-currency from the possibility of being compromised by the precarious condition of a discretionary reserve. The integrity of the measure of value concerns the protection of property, and is therefore a simple matter of *police*, that is, of government; a principle which bears equally upon an unadulterated coinage, and the paper issues which are its representatives.

Curious schemes are being every day propounded, for supplying the temporary deficiencies of currency, when the rate of interest is rising, by the emission of extra notes, upon some other basis than that of gold; the last and most striking proposal of this kind which has come under my notice, being a paper currency that shall at once be legal tender, inconvertible, stamped with a Government guarantee, and based upon pig iron! But, supposing this or any similar scheme for securing *a steady market for the sale of credit* were practicable, what would be its bearing upon the question of Reserves? It would act as a direct discouragement to any precautions of that kind, and as a certain premium upon financial improvidence. Who would sacrifice the profit arising from the employment of his last cash pound, if it were made certain that currency would be always obtainable at an easy rate? The man who, in the great mercantile race, would weight himself with a reserve which gave him no advantage over those who scorn such an encumbrance, so far from proving his prudence, might bring himself under suspicion of insanity.

NOTE C.

"The Principles of Currency. Means of Ensuring Uniformity of Value and Adequacy of Supply." By Edwin Hill. P. 35.

In this work, as well as in his paper, read before the Section, Mr. Hill proposes the issue of an auxiliary currency, in the form of "transferable interest-bearing bills resembling Exchequer bills," to be made legal tender "if need be." Now, assuming that these interest-bearing bills could be made to circulate on even terms with gold and with demand notes based on gold, it is not quite clear how the "unsound credit," of which Mr. Hill complains, is to be remedied by his flying to its rescue with cheap capital, whenever it has tended to make capital dear, as it is its nature to do.

Mr. Hill sees no difference in principle between a temporary extension of issues to replace credit destroyed by Panic, and an extended issue to prevent a rise in the Bank rate in ordinary times. I have tried to show that there is such a difference. To vary a simile already used; an artificial stimulant that would be fuel to fever at an early stage of disease, may save the patient in the stage of cold collapse.

Assuming that the efficiency of the currency as the measure of Values in Exchange depends upon the steadfastness of its own price in a totally different capacity—that of loanable capital,—Mr. Hill provides a Procrustean apparatus for the latter, which will be hailed with acclamation by all dealers in credit, good, bad, and indifferent. He holds his brief in the nominal interest of commodities, but his pleading is really in the cause of credit.

Instead of permanently adjusting the Standard, he would merely feed speculation, to the ultimate and certain defeat of his good intentions. Omnivorous borrowers would soon absorb his supplementary currency, and then ask for *more*. In the meantime, what will the provident owners of loanable capital say to this interference with the market value of *their* commodity?

Note D.

Since writing this passage I have found, in singular coincidence with its train of reasoning and its special illustration, the following passage in M. Wolowski's great work, "La Question des Banques;" and I am glad to strengthen my position by a confirmatory word from an economist of European reputation.

"Oui, des circonstances graves ont décidé, a deux reprises, le gouvernement à suspendre l'effet de *l'act* de 1844 pour un temps fort court et à des conditions sévèrement déterminées. Mais ne pourrait-on dire avec Mc.Culloch qu'on ne détruit pas les lois parceque l'on se trouve contraint, d'en suspendre l'exercise au milieu d'un péril extrême, *ne quid detrimenti respublica capiat?* Des circonstances extérieures, une panique inconsidérée, des bouleversements politiques et commerciaux avaient amené un état de choses dont l'act de 1844 n'etait nullement responsable; il a été suspendu, mais sous la pression de dangers analogues, on a vu suspendre aussi la loi la plus chère aux Anglais, le vrai fondement de la liberté de ce grand pays, l'act *habeas corpus!* Du moment où la position anomale cesse, la loi rentre en vigueur: *l'habeas corpus* n'est ni moins efficace, ni moins respecté, bien que plus d'une fois on ait éte forcé de le suspendre, durant les périodes de danger public."—*La Question des Banques. Cap.* 30, *p.* 354.

Note E.

Commenting upon this claim, one of the speakers in the debate conjectured that I might have read Mr. Mill's view from an early edition of his work, as there was good reason for believing that he had entirely changed his opinions on the subject. It so happens that the passage was read from the very latest edition, that of last year; but after so public a challenge of my right to argue from it, I should not have relied upon that circumstance alone, but would have taken care to have the point authoritatively decided by an appeal to Mr. Mill himself, if that gentleman had now been in England. The whole tendency of this paper being to show that the experience of the present year goes to confirm the quoted opinion of Mr. Mill, I shall probably be considered to be justified in standing by his *litera scripta*, in preference to any floating report as to a change in his views.

Note F.

I have done more than justice to this argument by styling it "double-edged." It has, in truth, but one edge, and that is dangerously directed against its users. I cannot be supposed to believe there is any waste of resources in the case, having already said that the bullion in the issue department "circulates vicariously in the Bank note." Those who speak of "waste" in this matter really express a wish to use at one time the *thing* and its *representative.* But there is something in the Scotch proverb, that "ye canna baith hae your cake an' eat it." Supposing this bullion liberated from the detainer of the Bank Act, the Bank might or might not keep it in its coffers as a voluntary reserve. If it did so, the alleged "waste" would remain as before; while if it could force the whole into ciculation in addition to the notes, no longer representative, the result would be simply such an action upon prices, and upon the foreign exchanges, as would soon leave us in the same position as formerly, with the scarcely desirable difference, that our solid guarantee for convertibility would have vanished, and a less imaginary "waste" would loom frightfully before us.

Note G.

The confidence here expressed was scarcely justified by the discussion which subsequently took place in the Section. There was much impassioned denunciation of the Bank Act, but little attempt either to establish the indictment by calm exposition, or to answer the arguments advanced in the defence. One speaker "deemed the Act to be an unmitigated evil," but had no better substitute to propose than the "free trade in banking"—

meaning thereby, "free trade in issuing paper money"—which the late Mr. Tooke so effectively exposed. Another speaker, of high standing in the religious and political world, stated that "all the other laws put together had not had such an effect upon the happiness of the people as the Bank Act had had. More hearts had been broken and more misery occasioned by that Act than by all the rest of commercial legislation;" and yet he confessed, in express terms, his total inability to suggest any remedy whatever! One would have supposed that the amount of reflection needed to establish such decided views as to the evils involved in the peccant law, would have necessarily suggested some opposite good, were it only the negative good of an instant repeal; but even this he did not demand. His only approach to any positive suggestion was that we "wanted a domestic circulation;" but, in the absence of further definition, it is clearly impossible to assess the value of this idea, which therefore possesses a vague immunity from criticism. As it is said to be "wanted," however, we may infer that it is to be something different from the present secured issues of the Bank of England. Let us hope that this "domestic currency" may be less the subject of doubt *after* its emission than it is before.

Perhaps the most curious argument of all—one which seemed to strike the audience as having much appositeness and force—was that of another speaker, who demanded how it was that while the rates of interest in the discount market had fluctuated between the extreme rates of two and ten per cent, the rate upon mortgages of real property had remained steady at from four to five per cent? No attempt was made to show *how* this disparity results from the operation of the Bank Act; but there was the usual suggestion of "something wrong." Now, assuming that the Bank Act has anything to do with the matter—as the two contrasted facts both exist under its reign, it might be considered quite as just for that much-abused law to take credit for the one, as to take blame for the other. A little consideration however (and the question is one of real interest), may perhaps show us that there are effective reasons for both facts, and for their coincidence, quite independent of legislative interference with the money market.

Unquestionably the great economic law of the relation between demand and supply is at work in regulating the price of both the classes of loans in question. But that is a law whose action is constantly being modified by special conditions; and it happens that between these two cases the differential elements are numerous and extreme. The main regulating forces may, however, be summed under four heads, the first being the normal law, the three others being modifying conditions:

1. Relation between demand and supply.
2. Nature of security offered.
3. Degree of permanence of loan.
4. Nature of the field of competition.

Mortgages and discount-loans are upon a common footing in this, and this alone, that they both draw upon the capital disengaged at any given period. Looked at on the side of variations in demand, they diverge instantly and widely. Land is a fixed quantity, and tenements and hereditaments increase only in a steady and calculable ratio; and being all actual values, their alienation by way of pledge is kept at a minimum by natural reluctance. Bills of exchange, on the contrary, are forms of credit only, and are liable to enormous fluctuations of quantity and quality; and the prices for which they sell are inevitably proportioned to the range of those fluctuations.

So much for general market conditions. Let us now look at specific transactions, and the motives which act efficiently in them. I may suppose myself to have £5,000, available and intended for loan purposes. I am offered, on the one hand, mortgages on land, say at 4½ per cent; and on the other hand, bills of exchange, say at 7 per cent,—loanable capital being scarce at the time, and credit beginning to be doubted. Several considerations at once present themselves. I am offered here for my money a pledge of its full equivalent, at market price, in the least fluctuating of all commodities, land; in addition to this, the unlimited personal liability of the borrower, backed by his known possession of an asset in the marginal value of the land; further, a medium rate of interest during the term of the loan; and, finally, the *certainty* of the continuance of these advantages for a considerable period, with the *probability* of their continuance for years. On the other hand I have the option of receiving several pieces of paper, bearing upon them written pledges of the credit of two, three, or four persons or firms, of varied degrees of reputation—but I have no actual property placed in my hands, or specially hypothecated to me. With these I receive beforehand interest for three months at a comparatively high rate. But high rates of interest suggest the possibility of a mercantile revulsion which, in the interval before the maturity of my claim, *may* jeopardise the chances of my being repaid. It is true, if the danger should increase, I may sell the bill, but must then do it at a loss in the rate of interest; and the bill would carry with it my liability after all. In any case it is only a credit instrument, and the best credit is not so good as land. But suppose the rate of interest should fall, as it rapidly may. Then my money comes back to me in a short period, deteriorated in its quality of loan capital, and I must lend it at a rate which, when averaged with that of the previous three months, places me in no better a position, as regards profit, than I should have held, with a better security in the form of land. Practical men know the influence of this matter of *term* or duration upon the price of bills. When the Bank rate of discount is over five per cent, six months' bills can be sold at a better price than three months', because the chances of a lowering range of rates are increased: when the rate is below five per cent, the long bills are at a disadvantage, owing to the chances of investing, within their term, at a higher rate. So, a mortgage rate over a term of years may prove as good to an investor—quite apart from the question of risk—as the profits realised in discounts over the same period. The mean average of the latter for the last eight years has been only 4¼ per cent. All these considerations must weigh in my choice of a channel for the investment of my loan-fund of £5,000.

Other important reasons, however, for the comparative steadiness of mortgage-interest, are incidental to the field of competition. A large proportion of the total of loanable capital is lent by trustees, who are tied down by deeds and wills to that kind of investment; and to this extent, therefore, the borrowers on mortgage are independent of the competition of the sellers of bills. There are thousands of monied persons, also, living in country districts, who, without any preliminary process of reflection, lend upon mortgage because, practically, the alternative of the discount market does not exist for them. They are never confronted with a bill, and would not understand it if they were. The capital of this class is, therefore, added to the great guarantee fund for the steady price of mortgage loans.

The truth is, that the price of the one class of loans rests solidly on the land and the leisurely wealth of a broad realm; the price of the other class wavers on the narrow edge of a restless banking reserve. But were it not so; were the two on equal terms in the field of competition, mere credit would never command the same equable price as the stable values of real property.

The difference, therefore, is in the nature of things, and in no way impeaches a law, which secures to the values, in these and all other contracts, the standard of *a national currency based upon permanent fact, rather than upon fluctuating credit.*

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