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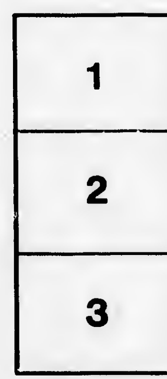
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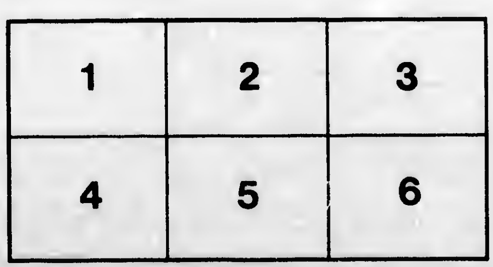
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BANK OF ENGLAND

AND

THE ACT OF 1844

Reprinted from the "Canadian Monthly and National Review," for March, 1873

by Sir Francis Hincks

OTTAWA:
PRINTED BY I. B. TAYLOR, 29, 31 & 33 RIDEAU STREET.
1873.

Presented by Hon Sir F. Hincks
18 August 1882

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PREFACE.

The following remarks suggested by the perusal of a pamphlet entitled "The Bank of England: a statement of its Constitution and "of the principles and results of the Act of 1844, with suggestions "for amendments rendered necessary by altered circumstances," are submitted with great diffidence, by one who labours under the disadvantage of not being resident in the United Kingdom, and who has had very limited opportunities of obtaining statistical information on the interesting subject which he has ventured to treat. His firm conviction is that the fearful collapses that have occurred in England, and which have been erroneously attributed to the Bank Act of 1844, have been owing chiefly to the inadequate reserves of bullion or Bank of England notes held by the Banks of Discount and Deposit in the United Kingdom to meet their liabilities payable on demand. Bankers are always strongly tempted to keep their cash reserves at a minimum, and in England it has become habitual, not only with Bankers but with Merchants, to rely on the Bank of England. It may be difficult or perhaps impossible to change that system, and it therefore seems indispensable that the bullion reserve of the Bank of Issue should be so strengthened that it would be enabled, without violating the principle of the Act of 1844, to assist the Banking department in times of stringency, and when the rate of discount should have reached 8 per cent. Under proper restrictions such temporary loans on Government securities might be sanctioned by law, and this would be the most simple and satisfactory mode of solving the difficulty which, under existing circumstances, seems likely to occur periodically and at not very long intervals.

THE BANK OF ENGLAND

AND

THE ACT OF 1844.

It is now nearly 30 years since Parliament, on the recommendation of the late Sir Robert Peel, defined the principles on which a national currency could safely be established. The measure was an imperfect one, inasmuch as it permitted the continued issue of Bank notes by English Private and Joint Stock Banks, and by Scotch and Irish Banks,* though under such restrictions as have prevented the redundant issues of former years.

The Scotch issues have been recently made the subject of discussion owing to some important utterances of the Chancellor of the Exchequer (Mr. Lowe). A memorial was addressed to him by the Glasgow Chamber of Commerce, praying for the repeal of the Bank Act of 1845 which confers a monopoly in Scotland on certain Banks which were in existence at the period of its enactment. Mr. Lowe availed himself of the opportunity to declare his adherence to the principle of the Bank Act of 1844 in the following words: "It is generally "recognized that the issue of bank notes is the creation of money "and that the creation of money is the business of the State, not of "any trading association; hence it follows that the issue of such "notes by private banks is rather an anomaly which we may tolerate, "than a right which we ought to extend. A mixed currency com-"posed partly of the precious metals and partly of paper cannot be "in a sound condition unless it complies with the three following "conditions, first the paper must be convertible into gold on demand, "second, sufficient security must be held by the issuers to secure the "payment of the notes, third, mixed currency must be at all times "exactly of the same amount and consequently of the same value as "a purely metallic currency would be." These remarks of Mr. Lowe

* Separate Acts for Ireland and Scotland were passed in 1845.

have led to a discussion of the Scotch Bank Act, and it must be admitted that the London Economist is correct in its objection that the effect of that Act is "to take gold from the Bank of England "where it is wanted and to send it to the Scotch banks where it is "not wanted," and again "The compulsory reserve of the Scotch and "Irish banks is, nationally speaking, a reserve at an *unexposed* point. "It places gold where no one can think of seeking or asking for it." Now there are two modes of meeting the well founded objections made by the "Economist" to the existing system. One may be dismissed, not so much on its merits as on its impracticability in the present state of public opinion in Scotland and Ireland. Mr. Lowe, when he declared that the Scotch and Irish issues were "an anomaly, which we may tolerate," indicated pretty plainly that he was not prepared to take the bull by the horns and suppress Bank issues in Scotland and Ireland, giving the Banks enjoying the existing monopoly a reasonable compensation for their loss. The second remedy, and which would be found effective, would be to make Bank of England notes a legal tender in Scotland and Ireland, but to require the Bank of England not to establish Branches in those parts of the United Kingdom. The Banks might be permitted to hold the amount issued in excess of their authorized circulation in gold or in Bank of England notes, and as those notes could only be obtained in exchange for gold, the practical effect would be that the gold now held by the Scotch and Irish banks, and which amounts to several millions, would be sent to where it is really wanted, that is, the Bank of England, and the gold reserve of that Bank would be materially increased.

It is to be regretted that the opportunity was not taken when the Act of 1844 was passed to establish a Government Bank of Issue in name, as was done in reality. Had that change been made, the public would have understood more clearly than they ever appear to have done that, at three different periods, viz:—October, 1847, November, 1857, and May, 1866, the principal English Bank of Discount and Deposit was unable to meet its liabilities "and was only saved from stopping payment by the intervention of the Government."* That intervention no doubt was justifiable under the circumstances, but it affords no proof whatever that the Act of 1844 was a failure. It never entered the imagination of Sir Robert Peel or of Lord Overstone that it would be possible to secure, by an Act of Parliament, the prudent

* "N's" Essay.

management of a Bank of Discount and Deposit. Their intention was to secure the convertibility into gold of bank notes which had been made a legal tender by Act of Parliament. Now so far from their having failed in their object, the gold in the Bank of Issue was, at each of the periods referred to, so ample, that the Government was able to authorize it to make loans to the Bank of Discount and Deposit, which, under similar circumstances. it would probably have made, had it been nominally as it was in reality, the issuer of the notes. On the American Continent the Government of the United States and the Government of Canada are issuers of notes which, like those of the Bank of England, are legal tenders. Owing to a very erroneous financial policy, the former are at present irredeemable, but they are nevertheless held by the National Banks of the Union as their reserves. The Canadian Dominion notes are redeemable in gold, and are issued on much the same principle as those of the Bank of England. Now if any Bank in the City of New York or in the City of Montreal were to find itself unable to meet the demands of its depositors or noteholders, and was compelled to apply for aid to the Government of the United States or the Government of the Canadian Dominion, its case would be precisely analagous to that of the Bank of England at the different periods to which reference has been made. The Act of 1844 has, on the whole, worked so admirably, that it is only after periods of monetary collapse or of unusual stringency, causing a high rate of interest, that efforts are made by its opponents to influence public opinion to demand its repeal. Notwithstanding the want of success which has hitherto attended those efforts, a writer of high and acknowledged reputation, whose well known signature "N" should command both attention and respect, has given it as his opinion, in an essay offering "suggestions "for amendments in the Act rendered necessary by altered circum- "stances," that "the reunion of the functions of Banking and Issue "as they existed prior to the passing of the Act is a change which "will happen sooner or later." He adds "a new generation is grow- "ing up to whom the currency controversies of thirty years ago are "matters of history or tradition, who will beyond doubt be guided "by results only.".

It is for the supporters of the Act of 1844 to grapple with the arguments adduced to prove that "the results" of that Act have been injurious to the public. It may be admitted that the essay under consideration contains valuable suggestions for the management of the Discount and Deposit department of the Bank of England, but it fails to establish the necessity of entrusting to that department the duty of issuing the notes which constitute a large portion of the national currency. The term "national currency" is here used to designate that mixed currency of gold coin and Bank of England notes redeemable in gold, fluctuating in amount precisely as gold would do, and like gold a legal tender in England to any amount. Such a currency may properly be described as money. It measures the value not only of all commodities, but of the various forms of credit, such as ordinary Bank notes, cheques, bills of exchange and promissory notes, some or all of which are termed currency by scientific writers. It is not contemplated to discuss here the question so long controverted, whether Bankers' notes payable on demand should be suppressed. That the credit system has great influence on prices cannot be denied, though it is contended by some eminent writers that the expansion of credit which precedes a collapse, is the consequence and not the cause of over speculation. Interference with credit in the form of bills of exchange, promissory notes and cheques, is neither possible nor advisable, and the particular form of credit which has been the subject of so much controversy is a very small part of the whole volume of currency in the United Kingdom. The London *Economist* cites the transactions of Lubbock's Bank, amounting to £19,000,000 and shews that £18,395,000 consisted of cheques and bills, £79,000 of country notes and £526,000 of bank notes and gold; and likewise the payment of a million by the great firm of Morrison, Dillon & Co., of which £966,146 was in cheques, and bills, £22,743 in bank notes, £9,627 in gold and £1,484 in silver. It seems probable that the limitation of the circulation of ordinary Bankers' notes effected by the Acts of 1844 and 1845, has caused a considerable expansion of credit in the form of cheques, so that little public inconvenience has resulted from it, although the permission to certain Banks to issue notes while others are prohibited, is an anomaly which is rather to be deplored.

It may be feared that notwithstanding the concurrence of opinion between the supporters of the Act of 1844 and those of its opponents, who, like "N," are in favour of securing the convertibility of bank notes into gold, there are wide differences between them as to the objects to be attained by the circulation of such notes. There can be no doubt that the principal objection to the extension of the Act of 1844 to Scotland and Ireland was founded on the inconvenience that the public would have sustained by the withdrawal of the accommodation which the local Banks had been enabled by their circulation to afford to their borrowing customers. It is hardly probable that the author of the essay under consideration contemplates the extension of the Scotch and Irish system to England. He would still permit the Bank of England to furnish the national currency, provided the two departments were reunited. The supporters of the Act of 1844 hold the opinion that a bank note currency is required for the convenience of the public, and that it may likewise be made profitable by economizing the use of gold. They maintain that the profit derived from it should accrue to the Nation. This was practically accomplished by the Act of 1844. The Bank of England notes are secured by a Government loan and by gold, and are not employed in the ordinary business of Banking as are the issues of other banks. If the Issue department had been transferred to the Royal Mint, the notes would have been secured in precisely the same way. It may fairly be contended that the nation gets the full benefit of the circulation, indirectly, but even, admitting the contrary, the Act was necessarily one of compromise. In considering the "results" of the Act of 1841, care should be taken not to make the Issue department responsible for any errors committed by the Bank Directors in their management of the Bank of Discount and Deposit. It is not alleged that the Issue department was ever in danger or difficulty, and it would be wholly impossible that it ever could be if the Government debt were represented by negotiable securities. Strong arguments might be adduced in support of the principle on which the Bank issues were regulated by the Act of 1844, and which is thus defined in the essay: "That to prevent mischief it is necessary that "the amount of paper money (bank notes) must at all times fluc- "tuate in precisely the same way as a circulation purely metallic "would fluctuate under the same circumstances." It may, however, be desirable for the sake of the present argument to admit that there is no absolute necessity that the amount of paper money should fluctuate in precisely the same way that a circulation purely metallic would fluctuate. In point of fact, so long as the convertibility of the bank note is secured by law, the inevitable result of a foreign demand for gold must be a reduction in the amount of notes in circulation. The term "circulation" is here applied to all notes which have been delivered from the Issue department. A considerable amount of this circulation is held by the Banking department, which, as is correctly stated in the essay under consideration—"Has come to discharge a "national function of the most important kind, namely, as custodians "and maintainers of the national bullion reserve or fund, and out of "this circumstance there is gradually arising a practical difficulty." It may be that the Bank of England has unwisely undertaken the discharge of a duty which in other countries is performed by the banking institutions generally. It is not necessary that the Bank of Deposit should be the custodian of the "national bullion reserve or fund;" indeed, that department rarely holds any bullion, and there is no reason why "Bank A" instead of maintaining £200,000 at its credit in the Bank of England should not hold the same amount in its own vaults in gold or in Bank of England notes. It may be instructive to point out the working elsewhere of a system not materially different from that in operation in England. There is, as already stated, a note circulation in Canada issued by the Dominion Government and secured by debentures of the Dominion, gold, and bank certificates of deposit. The amount held in debentures is fixed by law, on the same principle as that adopted in the Act of 1844, but the excess over that amount may be in gold or in bank certificates of deposit, provided 35 per cent. is held in gold. Canada is exposed like other countries "to a demand for bullion to meet an "adverse foreign exchange," and it might be imagined, by those who are accustomed to the English system, that it would be found convenient that there should be a single custodian of all the Banking reserves. Not only is this not the case, but the principal Banks hold a large portion of their reserves in gold. All properly conducted banks should hold, either in gold or in notes convertible into gold on demand, a sufficient reserve to meet the calls of depositors, and, where they are banks of Issue, to redeem their notes. The capital error in the English system is that the London Banks and Bill Brokers hold the reserves of the country Banks; that they probably treat these reserves as ordinary deposits, requiring only a proportionate reserve on their own part, and a great portion of that reserve, together with the reserves to meet their liabilities to their ordinary depositors, instead of being held for its legitimate object is deposited in the Bank of England. It must be obvious, considering that the bankers' deposits in the Bank of England represent the reserves both of the London and the country Banks, including a large portion of those of the Scotch and Irish Banks of Issue and Deposit, that the Bank should hold in gold or Bank of England notes very close on the full amount deposited by the London bankers. That it not only does not do this, but that it holds a very insufficient reserve, is proved by the fact that, in 1866, "the reserve of the Banking department in London "was little more than half a million, and unless the Act had been "suspended it would have been compelled to stop payment, as cheques "for several millions were drawn ready to be presented for payment."* This difficulty obviously arose from the insufficiency of the reserve held by the Banking department, but the system pursued is a most unsafe one. There are no doubt adequate reasons for the country banks keeping their reserves in London, but the very fact that they are obliged to do so renders it only the more necessary that the London banks should keep their reserves in their own possession. A strange proposition is made in the Essay under consideration, viz.: that the Government should pay the Bank 3 per cent per annum interest on all reserves held beyond a prescribed amount. It may be admitted that it is unreasonable that the Bank of England should hold the reserves of all the London Banks gratuitously, and it is clear that it is unsafe for them to loan such reserves to the public, but the proper remedy would seem to be for the banks to pay the Bank of England a fair commission for its trouble in taking charge of their money. It would be a simple matter of business, and any Bank objecting to the charge could keep its own money. Reference having been made to the Canadian Banks, it may be worth observing that, according to a recent monthly statement of 22 banks in the Provinces of Ontario and Quebec, the aggregate liabilities payable on demand, deposits requiring notice not being taken into account, were in round figures $60,000,000 or £12,000,000 sterling, of which $25,000,000 or £5,000,000 consisted of notes in circulation and $32,500,000 or £6,500,000 of deposits payable on demand, while they held in gold and notes $16,626,583, over £3,300,000 sterling, or more than 25 per cent. In addition to these cash reserves they held

* "N's." Essay.

in the hands of foreign agents nearly ten millions of dollars, or £2,000,000 sterling, and as Bank Exchange can be speedily converted into gold, this branch of the bank assets may fairly be considered a cash reserve. In the national banks of the United States, reserves are held in legal tenders to an amount rather over than under 25 per cent. of the liabilities payable on demand, including the bank notes issued, which amounted in 1866 to about $300,000,000 or £60,000,000 sterling.* These notes are not only redeemable in Government legal tender notes, but are further secured by deposits of United States securities to the extent of $322,000,000. It is to be regretted that so little information can be obtained as to the liabilities of English Bankers, with the exception of the bank issues. These are a very insignificant portion of the aggregate cash liabilities. In round figures the English, Scotch and Irish private and joint stock banks issue rather less than £20,000,000, and the Bank of England about £37,000,000. It seems objectionable to deduct the notes held by the Banking department from the circulation. It is obviously impossible to ascertain the amount of notes really in *bonâ fide* circulation, but surely the bank notes held by the London and Westminster, and other joint stock and private banks as cash reserves are no more in circulation than the notes held by the Banking department of the Bank of England. This is a very important consideration, because the great argument of the opponents of the Act of 1844, has been that the Issue department has held at the periods of monetary collapse a large amount of gold which should have been available for the Banking department when the note reserves of the latter had been exhausted. There is certainly no evidence that a very large amount of Bank of England notes was not held by the London joint stock and private banks at the very time of the suspension of the Act, and it may further be observed that unless such notes were actually held, the reserves of those banks must have been very inadequate. The notes in circulation including those held by the Banking department may be estimated at about fifty-five millions, and this portion of the liabilities is adequately secured by the reserves of bullion in the Bank of England, and in the Irish and Scotch banks. The deposits in the United Kingdom were estimated

* Report of Comptroller of Currency for October, 1866. Late aggregate reports not within reach, but in January, 1873, the New York City Banks had less circulation than in 1866.

about seven years ago as being on an average £400,000,000,† and those in the City of London about £90,000,000. In 1855, six joint stock banks in London had in deposit £29,000,000, and the Scotch deposits were estimated at £40,000,000. In 1857, Mr. Gilbart gives London joint stock bank deposits at £43,100,000, and is not sure whether those in the private banks were more or less. In the last edition of McCulloch's Commercial Dictionary (1869) the deposits in Great Britain are estimated at £300,000,000, and those in Scotland alone at £50,000,000.‡ These amounts include deposits on call and those subject to notice, which is, ordinarily, 10 days. If these figures are anything like correct at the present time, then the Bank of England deposits are about 5 per cent. of the aggregate deposits of the United Kingdom, and yet it is admitted by "N." that "in the event "of a demand for bullion to meet an adverse foreign exchange, or "an internal drain for harvest or other purposes, resort is always "had to the Bank of England; and resort is had there because "all the London Bankers keep large accounts with the Bank of "England, upon which they operate daily for the purposes of their "business." This is clearly the weak point in the English Banking system, and is in marked contrast to the Banking system in America. If the aggregate deposits are anything approaching to those we have quoted, it must be obvious to every practical banker that the reserves are wholly inadequate, and that a demand for bullion consequent on an adverse state of the exchanges must produce the most disastrous consequences. It is necessary to remark here that the term "reserves" has a different signification in England from what it has in America. In the United States and in Canada the reserves of a bank are understood to be gold, or its equivalent, viz., legal tender notes. If extended beyond these actual cash reserves, to amounts in the hands of banks or agents out of the Dominion, that is in London or the United States, it has been already shewn that such reserves are at all times available at the shortest notice. Now, what is the meaning of "reserves" in England? An eminent authority, Mr. Gilbart, discusses in his "Practical Treatise on Banking," the very subject under consideration. He says: "From the accounts published

† Bank of England, by author of People's Blue Book, 1866.

‡ This is no doubt Mr. McCulloch's own estimate in the earlier editions, and therefore too low for the present year.

"by some of the London Joint Stock Banks it would appear that "the 'cash in hand' is equal to about one-eighth or one-tenth of "their liability. Even this we conjecture is a higher proportion than "that which is generally kept by London bankers, especially by "those who settle their accounts with each other at the clearing "house." Again: "The banks of Lancashire usually keep the whole of "their reserves in *Bills of Exchange.* Their objection to Government "securities is founded, first, upon the low rate of interest which they "yield, and secondly, the possibility of loss from fluctuations in price." Mr. Gilbart gives, as his own opinion, that a London banker "never "considers as a part of his *reserve* the bills he has discounted for "his customers," but he adds "the practice is now more general of "lodging money at call with the large money dealers, and it is in "this way that the London bankers make provision for any sudden "demand." It is clear that the bankers of the United Kingdom do not hold in bullion or Bank of England notes, reserves at all in proportion to what are held by the bankers in America. It may be admitted that they do not require to do so, because Government securities and Bills of Exchange at short date are much more readily converted into cash in England than the commercial paper in which the American banks invest their funds. Judging, however, from experience, the banks in the United Kingdom ought to keep much larger cash reserves than they do at present. Assuming the correctness of "N's," statement, that in times of stringency the Bank of England has to meet the demands consequent on an adverse foreign exchange or an internal drain, the London bankers ought to keep in deposit in the Bank of England not less than ten and probably fifteen millions more than they do, and this amount should be held by the Bank chiefly in gold or bank notes, so as to be available when required. To form an idea of the state of things existing in England, it might be supposed that the Bankers of Ontario and Quebec having their head offices at other places than Montreal, should keep accounts with Montreal banks, handing over to them their reserves, that the Montreal banks should keep their reserves in deposit with the Bank of Montreal, which bank would be expected to meet all the demands of the depositors and note holders in the two Provinces. Such a system would be considered most unsound by every Canadian banker. In a recent work entitled "Papers on

Banking and Finance," by a Bank manager, 1871, it is stated, "If "we take the leading London banks we find in two cases capital "and reserves between one-seventh and one-eighth of their liabilities, "one with capital and reserves equal to one-ninth of its liabilities, "and another with capital and reserves equal to one-eleventh of its "liabilities." He adds, on Mr. Gilbart's authority, that the rule should be to have capital and reserves equal to one-third of the liabilities. It will seem extraordinary to a Canadian banker that capital and reserves should be treated together as an offset to liabilities payable on demand. The real cause of all the English panics has been the insufficiency of the reserves, and the reliance placed on a single bank to sustain the national credit. It is asserted by "N." in the essay under consideration, that "the Banking department—and therefore "everything affecting the credit of cheques if not of bank notes— "has been constantly held in peril by the tardy or unwise action of "the Bank Court," but, if this be true, what bearing, it may be asked, has such action on the Issue department, the functions of which have been "automatically confined to the exchange of gold "for notes, and *vice versa*?" It is stated in the essay that Mr. Tooke ventured to predict that under the operation of the Act of 1844, "the Banking department might be compelled in self-defence to "refuse all advances, and so create intense alarm and distress." The prediction no doubt has been realized, but the remedy which has been successfully applied, viz.:—a permission to the Issue department to lend its aid to the Banking department, is one which is indefensible in principle. Before considering whether a remedy can be found for an admitted defect in the management of the Banking department, it may be desirable to dispose of the bank note question. Had the bank notes been issued directly by a Government department it would hardly be contended that a Bank of Discount and Deposit would have a right to expect assistance from the Government. The Banking department of the Bank of England should be as well able to meet its liabilities as any joint stock or private bank. The fact that it has on several occasions required assistance only proves that the system is defective, but Sir Robert Peel never imagined that "there "would be no occasion of extreme panic or inflation" nor can the "currency school" be held responsible for the management of the Bank of Discount and Deposit. Sir Robert Peel did undertake to secure the convertibility of the Bank of England notes, and to guard against undue expansion of the circulation. It is alleged in the essay, that the Act of 1844 "protects the note holder at the expense "of the depositors, or, which is the same thing, sacrifices the cheque "to the bank note." This is true, but the Act is founded on strict justice. The note is a legal tender everywhere but at the bank counter. The depositor has no claim whatever for protection any more than any other person who gives credit. No one need take cheques, and in point of fact great caution is habitually observed in taking them. The mode by which the fluctuation of bank notes is regulated, has not really been productive of public inconvenience or loss. If it be admitted, for argument's sake, that there have been times when the gold reserve was larger than necessary, it was precisely at such times that no inconvenience was felt by the public, because money was abundant and the rate of interest low. The inconvenience was felt precisely at the times when the gold reserve was not more than ought in prudence to have been kept to meet a possible demand for gold in exchange for notes. The author of the essay would doubtless have protected the depositors at the expense of the note holders. If reference were made to the occurrences of 1797, it would probably be found that prior to the suspension of payment by the Bank of England, a large amount of deposits was withdrawn in gold, while the holders of bank notes had to bear the loss consequent on their depreciation. Although the opponents of the Bank Act of 1844, have not ceased to ridicule the principle of securing the fluctuation of the paper currency in the same way as if it were purely metallic, it is clear that the issuer of a convertible paper currency must expect to have to redeem a considerable portion of it whenever there is either an adverse foreign exchange, or an internal drain. Such demands the Bank of Issue, under the Act of 1844, has always been able to meet; but under the operation of the erroneous system, which has been already pointed out, the Banking department has been repeatedly in danger of suspension. How can it be expected that one institution can be prepared to meet the demands of depositors in all the country banks of England and Wales, Scotland and Ireland, and also in all the joint stock and private banks in the City of London, amounting probably in the aggregate to some £400,000,000, exclusive of the large Savings Bank deposits, for which, in case of emergency, the Bank of England would have to provide? Before entering on the consideration of improvements in the management of the Banking department of the Bank of England, it may be convenient to submit the Bank return, cited in the Essay under consideration, and which is that of 23rd June, 1869, at which time the Bank rate of interest was 3½ per cent.

ISSUE DEPARTMENT.

	£		£
Notes issued...........	33,412,150	Government debt......	11,015,100
		Other securities........	3,984,900
		Gold coin and bullion	18,412,150
	£33,412,150		£33,412,150

BANKING DEPARTMENT.

Proprietors' capital ..	14,553,000	Government securities	14,239,874
Rest	3,147,807	Other securities.........	16,465,014
Public deposits, including Exchequer, Savings' Banks, Commissioners of National Debt, and Dividend accounts...	7,498,189	Notes......................	10,731,710
Other deposits..........	16,972,956	Gold and silver coin...	1,183,810
Seven day and other bills.....................	448,456		
	£42,620,408		£42,620,408

THE OLD FORM.

The above accounts would, if made out in the old form as used before 1844, present the following result :—

Liabilities.	£	*Assets.*	£
Circulation (including bank post bills)......	23,128,896	Securities..............	31,151,888
Public deposits.........	7,498,189	Coin and bullion......	19,595,960
Private deposits........	16,972,956		
	£47,600,041		£50,747,848

The balance of assets above liabilities being £3,147,807, as stated in the above account under the head "Rest." It seems desirable to adopt a form more in accordance with that generally adopted in Bank Statements on the Continent of North America, and which will present more clearly the actual position of the two Departments of the Bank of England;—

Proprietors' capital	£14,553,000	Government debt	£11,015,100
Rest	3,147,807	Other securities	3,984,900
Notes payable on demand	22,680,440	Government securities	14,239,874
Seven day and other bills	448,456	Other securities	16,465,014
Public deposits	7,498,189	Gold in Issue Dept.	18,412,150
Other deposits	16,972,956	Gold and Silver coin in Banking Department	1,183,810
	£65,300,848		£65,300,848

In considering these statements, it should be borne in mind that of the £18,412,150 held by the Issue department, £10,731,710 is really held on behalf of the Banking department, leaving £7,680,440 as the amount of gold held at a time of great ease in the money market against a circulation of £22,680,440. What reserve, it may be asked, would the opponents of the "currency school" deem adequate? Would they deem it prudent, at a time of comparative ease, to reduce the gold and increase the securities? Whatever their views may be, it is certain that no complaints are ever made, except at the precise time when the gold has been reduced to an amount not more than adequate for the protection of the note holders, but when the Bank of Discount and Deposit would like to borrow gold, to which it has no claim whatever, to meet its own liabilities. The item which specially deserves consideration is that designated "Other Deposits," and which amounted to £16,972,956. There is nothing to indicate how much of this consists of the deposits of London Bankers, and yet in the absence of information on this head it is quite impossible to form any correct idea of the sufficiency of the reserve. It has already been pointed ou that these deposits are the aggregate reserves of all the Country Banks in the United Kingdom, and of those of all the London Banks. In Gilbarts' "Practical Treatise on Banking" he classifies the private deposits, at a time when they amounted to £8,644,000, as follows:—

	£
Railways	30,000
London Bankers	963,000
East India Company	636,000
Bank of Ireland, Royal Bank of Scotland	175,000
Other deposits	5,631,000
Deposits at branches	1,209,000
	£8,644,000

At the present time the aggregate is more than double that amount, but there is nothing in the statement to indicate what proportion of the amount is held on account of the London Bankers. This information would be very useful. The regular periodical publication by all Banks of Issue and Deposit in Canada of the amount of their notes in circulation, of their deposits separated into those on call and on notice, of their reserves in gold and in legal tender Dominion notes, and in the hands of their foreign agents, and likewise of their paid up capital, is found a most valuable check on the managers of those Institutions. In England the public look only to the state of the Bank of England, and it is therefore the more important that the returns furnished by that Institution should give as full information as possible. It would be a vast improvement in the return, if the amount of "Other deposits" were divided into "Private deposits" and "deposits of Bankers and Bill brokers." If the latter were inadequate, public opinion, through the press, would be brought to bear on the joint stock and private banks, so that adequate reserves would be maintained in London, which is the point where an unusual demand is certain to be made. It would be desirable likewise, though of comparatively less importance, that the public deposits should be divided into those held on account of the Savings Banks, and those at the credit of other Government departments. The aggregate amount of the deposits and seven day notes is in round figures twenty-five millions against which there is a reserve of gold and silver coin and notes of nearly twelve millions. This seems at first sight an adequate reserve, but it may be doubted whether under the present system it is safe for the Banking department to hold a smaller reserve than the full amount of the Bankers' deposits *plus* a reasonable reserve against the public deposits, and that portion of the other deposits which does not consist of Bankers' reserves. It is suggested by the author of the essay that the Government should pay to the Bank of England its Book debt of £11,015,100 in order to enable the Bank to invest largely in foreign securities, which it is suggested would be available during periods of stringency for settling debts due to foreigners. The first objection to this proposal is that the sum in question can no longer be considered the capital of the Bank. Under an arrangement entered into between the Government and the Bank of England the particular amount of £11,015,100 was to be held against the Bank note circulation. So long as that circulation exceeds the amount of the Government debt the Bank can have no claim whatever to payment. It has deliberately surrendered its claim to obtain capital from its circulation, and it would be unadvisable to abandon the right of the public secured by the Act of 1844. But the suggestion made in the essay could be carried into effect without the least difficulty. The Banking department held in June 1869 in Government securities £14,239,874, and 6 or 8 millions might be sold and the proceeds invested at greater profit "in the purchase of the best "kinds of foreign bonds with a view to using them in certain states "of the exchanges." It may, however, be objected, secondly to this proposition, that foreign securities would not be as readily converted into gold as those which have been hitherto held by the Bank. It must be borne in mind that when the exchanges are unfavorable, payment must be made to the foreigner in gold. The cost of movement is comparatively trifling, and it is simply a question whether in a case of emergency the Bank could obtain gold more advantageously by selling American securities in New York than by selling English securities in London. This is a matter for the consideration of the Directors, and it would be presumptuous to offer them advice. It is sufficient to point out that if it is desirable for the Bank to hold "the "best kinds of foreign bonds," there is nothing to prevent them from transferring a portion of the Government securities held by the Banking department to foreign securities. The truth is, that at the very time when it would be convenient for the Bank to realise its Government securities, it is deterred from doing so owing to the fall in price, consequent on the stringency of the market. There is a plan w[illegible] would meet the difficulty and prevent the necessity of [illegible]lating the Act of 1844. There has been an absurd prejudice [illegible]nd against the one pound note circulation. There can be no d[illegible] hat previous to 1825 the English country banks had issued small notes to an extent that rendered their suppression expedient, if not absolutely necessary. Had the issue department of the Bank of England been at that time established on its present footing, it is highly improbable that it would have been included in the Act suppressing the small notes, indeed there was an effort to make an exception in its favor, but public opinion was at the time against giving any peculiar privileges to the Bank of England beyond what it already possessed. The objection as to the danger of forgery is untenable. By strict attention to the engraving, and the paper, the risk would be trifling. It is of course impossible to guard completely against fraud, but on the American Continent the objection has never had any influence in preventing issues of much smaller notes than would be used in England. It is a matter of serious complaint that the gold coin is so much depreciated by attrition. One pound notes are circulated in Scotland and Ireland by local banks, and yet the Bank of England is not permitted to issue them. It is stated in the essay that " the gold coin in circulation in the United Kingdom " is probably more than one hundred and thirty millions sterling." If so it would be a very moderate estimate to calculate on a circulation of £1 notes to the extent of twenty-five millions. This would be an immense addition to the gold reserve of the Bank of Issue, and it would be quite legitimate to authorize that bank to exchange gold or notes for government securities when the Bank rate of interest was not less than 8 per cent, paying the Government a rate of interest rather less than the bank rate. This would be a much more satisfactory arrangement than the periodical suspension of an Act of Parliament. The issue of one pound notes though unobjectionable in principle, and the most economical mode of accomplishing the object in view, is not the only mode. If public opinion in England should be adverse to such an issue, another remedy not so economical may be found. At present the issue department of the Bank of England holds gold for all its notes in excess of fifteen millions. Let Parliament fix the amount to be issued on securities at ten instead of fifteen millions, thus adding five millions to the bullion reserves, and in amending the Act of 1844 provide that whenever the bank rate of interest is 8 per cent, the issue department may advance to the extent of five millions on government securities. If the Bank of Discount were entitled to this assistance it is hardly probable that there would be so much hoarding of money in times of stringency as there has been during the periods of collapse, when it was found expedient to sanction a violation of the law. This arrangement would involve a charge on the nation of under £200,000 a year, a very inconsiderable amount in comparison with the importance of the object to be gained. The suggestion in N's essay of adopting rules for regulating the bank rate of interest is no doubt worthy of consideration and would be quite in harmony with the proposition for affording relief to the banking department in times of stringency. Its object is to regulate the minimum rate of discount at the bank by a fixed standard, instead of by the authority of the Directors of the Bank of England. It is suggested that when the bullion reserve should be 15 millions the rate should be 5 per cent., and that the rate should fall half per cent. for every rise of one million in the total bullion until it reached $3\frac{1}{2}$, below which it should not fall whatever elevation the bullion should attain. The practical effect of this would be that the Bank of England would not compete with the bankers and bill brokers when the rate of interest was less than $3\frac{1}{2}$ per cent. On the other hand the rate should rise half per cent. for every fall of half a million in the bullion below 15 millions until it fell to 13 millions, when the bank rate would be 7 per cent., but if the bullion continued to decrease there should be a rise of 1 per cent. for every half million below 13 millions. There seem to be two objections to the proposed rule, which no doubt is sound in principle. The first is that if there were a fixed rule for establishing the rate of interest, it would be in the power of "rings" of capitalists to combine to raise or depress the rate, and thus to regulate at their pleasure the markets for securities of all kinds, and for every description of merchandize. But secondly, if the foregoing objection could be removed, it seems clear that the standard should not be the bullion reserve in the Bank of Issue, but the cash reserve whether in bullion or notes in the Banking department. If the Directors of the Bank were to adopt as a rule for their own guidance the suggestion of N, it would probably work well in practice. Their reserve has as a rule been inadequate, considering that they have undertaken, to use the language of N., "to discharge a national function of the most important kind, namely, as custodians and maintainers of the national "bullion reserve or fund."

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