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THE

PRINCIPLES OF BANKING,

ITS UTILITY AND ECONOMY;

WITH REMARKS ON THE

WORKING AND MANAGEMENT

OF THE

BANK OF ENGLAND.

BY

THOMSON HANKEY, ESQ., M.P.,

FORMERLY GOVERNOR OF THE BANK OF ENGLAND.

THIRD EDITION.

LONDON:

EFFINGHAM WILSON, ROYAL EXCHANGE.

1876.

TO THE

RIGHT HONORABLE E. CARDWELL, M.P.

MY DEAR CARDWELL,

I avail myself with great pleasure of your permission to dedicate to you a Second Edition of my book on Banking.

I know you agree with me in thinking that the Act of 1844, which divided the duties of the Bank of England into two departments, was one of the wisest measures of that great statesman, Sir Robert Peel, with whom you were for so many years on terms of intimate connection. As an application of the result of the investigations of a Committee of the House of Commons which sat for two sessions under the chairmanship of Lord Halifax, then Sir Charles Wood, it was suited to the occasion. It proposed no sensational change, but it carried out a principle—which I hope may never be departed from in any future legislation,—that it is a paramount duty of the State to secure the currency of the country on a stable and perfectly safe basis.

When the policy of the Act was reconsidered after its temporary suspension in 1847, I know that you and Lord Halifax cordially supported its continuance, and I believe that you never entertained a doubt of the soundness of the views of Sir Robert Peel on the subject.

The Act itself has now gone through many years of trial. It has still a few opponents amongst writers of some influence on public opinion, but I trust that the Legislature will not countenance any interference with the principles of a measure so fraught with benefit to the whole community.

Believe me, yours very faithfully,

THOMSON HANKEY.

59, PORTLAND PLACE;
May, 1873.

PREFACE.

I HAVE been asked to permit a second edition of a little book on Banking, published in 1867, now out of print. That book was an amplification of a Lecture which I delivered in 1858 to my constituents at Peterborough, prefacing it, as I did in 1867, with some remarks connected with the principles on which the Bank of England, as well as other Banking establishments in London, were generally conducted.

In complying with this request I naturally felt it my duty to read over what I had previously written, to see if there were any remarks which subsequent consideration induced me to think erroneous, or on which I had seen any reason to change my opinion. I have now done so, and I not only find that to the best of my knowledge the views I had expressed were correct, but, after a trial of nearly thirty years, I feel more firmly convinced than ever that the principles laid down for the regulation of the Bank of England in 1844 are perfectly sound, and that they have been proved to be of the greatest value as affecting the interests of all classes of the community. If any change is to be made, it will be, I firmly believe, in the direction of placing the whole issue of Bank Notes as a circulating medium (in part substitution for gold coinage) on the same footing as that of the Bank of England. I can see no reason whatever why the nation should not derive the same benefit from the permission to issue Bank Notes in any part of Great Britain as that which is now derived by the arrangement made with the Bank of England. The question of compensation to Issuing Banks is quite a minor consideration.

There is only one part of this subject on which I would desire to make a few special remarks, and they are called forth by an expression of opinion which has lately appeared in a letter to the 'Daily News,'* and been followed up by some further newspaper correspondence, to the effect that it was the duty of the Bank of England to keep some part of its Banking assets available to meet any sudden demand for gold for export whenever such a demand should arise. I say some part of the *Banking assets* of the Bank, for I do not suppose it was ever contemplated that any part of the capital of the Bank should be kept unemployed for such a purpose; indeed, this could not have been intended by the writer of that article,

* 'Daily News' of 23rd October, 1872.

for the able editor of the 'Economist,'* who supported in the strongest manner the same view, directly expresses an opinion that a part at least of the deposits of the London Bankers should be kept available to meet any such demand.

Now, I beg to assert that it would be quite inconsistent with any principle of sound Banking to adopt such a course. The deposits of the London Bankers in the Bank of England are kept as sacred as those of any other customer—neither *more* so nor *less* so. And I cannot understand how it can for a moment be contended that the deposits of the London Bankers should, when aggregated in the Bank of England, be treated in any different manner from that in which they would have been dealt with if they had remained in the tills of the respective Bankers by whom such deposits have been made; and it may be fairly assumed that a Banker does not generally keep a larger amount on his account at the Bank than he considers sufficient to repay the Bank for the business transactions involved.

I know that the editor of the 'Economist' disputes this, as on the 16th November, 1872, he contends that if the Bank of England makes use of its Bankers' balances in discounting bills, or in any other way of ordinary business, it is making use of money which

* 'Economist' of 16th November, 1872.

would otherwise in the tills of the Bankers have remained unemployed; but I do not believe this to be a correct view, and if it is true in any respect it can only apply to the surplus of balances below which the Bankers' balances at the Bank are never found to remain as a minimum, and whenever these balances are so found in excess the Bank knows that they cannot be made use of as ordinary deposits.

The supposition that any part of Bankers' balances is kept in reserve to meet a demand, whether sudden or continuous, for gold, is utterly without foundation. I most unhesitatingly assert that it is no part of the duty of a London Banker to keep any part of his ordinary reserve for the special purpose of meeting a demand for gold for export; and as it was most clearly laid down by Sir Robert Peel in 1844 that it was the duty of the Bank of England to conduct its Banking business on the same principles as those adopted by any other Banking establishment in England, so I do not understand how, in this particular, it can be expected to adopt a different course.

The reserve of every Bank of Deposit must at all times be kept up to an amount sufficient to meet, according to the experience of the Bank, the ordinary calls for which it may be required. It is not the custom for any Bank in London to inquire of any customer when he is likely to withdraw any part of his deposit; but it is well known to every Banker that if any customer places an unusually large sum on his deposit account, such addition to the ordinary balance could not be relied upon for use as a common Banking asset, and no Banker with any degree of prudence would invest it in any ordinary security, or even lend it from day to day to any broker who was at all likely to be unable to repay it instantaneously *without having recourse* (*as is, however, not unfrequently the case*) *to the Bank of England.* Such is precisely the course adopted at the Bank of England with regard to the balances of the London Bankers. If they are abnormally in excess of their usual amount of deposits it is well known at the Bank that such excess cannot be dealt with as an ordinary deposit, and cannot be made use of to discount bills in the ordinary way, or be lent out, or invested in any sort of security, otherwise than as part of the total deposits. And this rule applies equally to any large amount of deposit by any private customer not a Banker. If any such customer were to deposit one, two, or three millions on his Banking account, no question would be asked as to the time when such extra deposit would be withdrawn; and even supposing the customer were to inform the Bank that on any particular day this balance would be required for the shipment of gold, the only effect would be that the Bank would know beforehand that on that particular day, *cœteris paribus*, a certain large diminution might occur in the amount of its reserve. And if the Bank really believed that such a diminution of its reserve would take place, it would be prepared to meet it by charging a higher rate of interest on all loans,—if circumstances so required it,—or, in ordinary Banking language, it would raise the rate of discount, and this rise would continue to go on and increase, if the reserve still diminished, until the higher rate of interest had affected the foreign exchanges, when goods would be very shortly shipped for export, and thus gold be brought to this country in repayment.

It is well known that the Bank of England is neither an exporter nor an importer of gold in any shape on its own account. The only way in which gold can be obtained for export is, by those who have first possessed themselves of Bank Notes exchanging them in the Issue Department for gold; and although the operation of the system of the Clearing-house does virtually, and almost entirely, prevent any actual use of Bank Notes in these operations, yet the principle is exactly the same, and is in no way affected by this merely economical arrangement of London Banking. The exact amount of Bank Notes representing the sum required in gold must be cancelled; and as there would then be a scarcity of notes for ordinary purposes, a greater demand would take place for what were left, and they could not be got except at a higher rate of interest, unless the amount of reserve was sufficiently large to admit of its being diminished with advantage, or at least without disadvantage, to the general Banking business of the Bank of England.

I again assert that it is no part of the duty of the Bank of England to make any special* provision for providing gold for export. The only duty of the Directors of the Bank of England as Bankers is to take care to maintain their reserve at a sufficient amount to meet the wants of their Banking customers, knowing quite well that the gold question can take care of itself. If five, ten, or twenty millions of gold were required for export from this country, the amount would be provided for in the same manner by foreign merchants who are dealers in bullion and exchange operations as all other goods—corn, tea, or any other articles — are, in the ordinary way of commerce in this country.

I will only make one more remark, and that refers solely to myself on the arrangement of this book,—my explanation of the way in which the business of the Bank of England is conducted in the various departments was, as I have already stated, made in the form of a Lecture in 1858. I

* The business of dealing in gold, either as an import or an export, is a trading not a banking business.

have adhered to the same form, merely requesting my readers to observe that I consider the date of the Lecture as 1873, instead of 1858. I adopt this course to avoid the necessity of either re-writing all I had written in that Lecture, or making such numerous alterations in the way of notes as would be necessary to suit the various changes which have taken place in the relative amounts as well as in the manipulating or clerical part of the business of the Bank of England since the year 1858.

Since the foregoing Preface was written there has been a debate in the House of Commons on the subject of the Bank Acts of 1844 and 1845, on the motion of Mr. Anderson, Member for Glasgow, who asserted (if the report in the 'Times' is correct) that under the present extended state of commerce "*gold was too narrow a basis for the conduct of our business;*" and attributing to the Bank Acts the numerous changes in the rate of discount since the year 1844, he applied for a Royal Commission to consider and devise a remedy for the evils complained of.

Sir John Lubbock, whilst approving generally of the Bank Acts, wished for a Committee, in order, as far as I can make out, to bring down to the present time the various statistics on the subject obtained by former Committees; while Mr. W. Fowler considered that "the Act of 1844 had fulfilled the requirements of commerce, for it took care that the note was properly secured," and he agreed with Sir John Lubbock in not thinking any change necessary to prevent the extreme fluctuations in the rate of discount; but he nevertheless desired a Committee, or Commission, to consider whether it would not be better to appoint by statute some authorities who might suspend the Act of 1844 under cases of great emergency, rather than leave it in the power of a Minister of the Crown to adopt that course on his own responsibility.

In reply to these somewhat conflicting suggestions, the Chancellor of the Exchequer desired time to consider what course he would adopt, promising to give his opinion after Easter.

To undertake by any process of legislation to define under what circumstances the Act of 1844 should be suspended is, in my opinion, a very grave matter. The knowledge that there is a statutory power for such an object would induce and confirm a belief already too prevalent that if the commercial world acts imprudently by an excess of speculation, there are means by which the naturally injurious consequences may be averted; and that when all the resources of loanable money have been exhausted, a system of credit can be introduced which will supply the place of that capital by which all prudent commerce should be regulated. Moreover, I cannot conceive anything more likely to encourage rash and imprudent speculation. All commercial and financial panics are caused by an excessive use of a system of credit, so valuable to commerce when carefully and prudently used; and any statutory enactment which encourages a belief that, under any circumstances, credit is equal to capital, is, in my opinion, a retrograde step, and most injurious to the best interests and prosperity of the whole community.

A suspension of any Act of Parliament forming part of the law of the country is doubtless a serious matter, and ought not to be resorted to except under the most weighty circumstances. The very gravity of the case should induce great caution in attempting to lay down rules beforehand as to the condition of affairs which would justify such a measure.

The suspension of the Habeas Corpus Act has always been held to be a very grave matter. It has, however, never been seriously proposed to abolish that Act because it was found expedient occasionally to suspend it, or to define by statute what cause would warrant its suspension. So with the Bank Act of 1844.

I hope that the House of Commons will pause before they sanction any attempt to define by statute whether, under any future circumstances, that Act might be temporarily suspended.

T. H.

May, 1873.

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BANKING

IN CONNECTION WITH

THE CURRENCY AND THE BANK OF ENGLAND.

I HAVE frequently been requested to reprint a Lecture on Banking which I delivered some years since to my constituents at Peterborough. There are so few works giving any popular illustration of the business carried on at the Bank of England, that it is on this account, I believe, rather than from its possessing any intrinsic merit, which has obtained for the Lecture more notoriety than it deserves. The few general principles enunciated belong more to questions of Political Economy than to Banking, and even these are borrowed principally from McCulloch, and are of little more value than is due to anything proceeding from such an authority. I can hardly object, however, to having the Lecture reprinted, and

I do so with the less reluctance, because it affords me an opportunity of offering some prefatory remarks, which may not, I believe, be considered inopportune at the present moment, when the discussion of the state of our monetary affairs in connection with the Bank of England and with the currency is attracting a considerable amount of public interest. I hope to be able to show that the blame which has been attributed to the Bank of England is mainly owing to the fact that the Bank has been expected to perform duties inconsistent with those sound principles on which all Banking Institutions should be conducted in this country.

In order to understand the action of the Bank of England correctly, it must always be borne in mind that, since the Act of 1844, the Directors have had no control over that part of the currency which consists of Bank Notes; that is, they have had nothing whatever to do with the amount at any time in circulation in the country. The only function of the Bank in this respect is to give notes for sovereigns when the latter exceed five in number, or for bar gold, and to give or return sovereigns for every Bank Note presented for payment.

Gold uncoined—that is, in the shape of bars—is received by the Bank and notes given in exchange at the rate of £3 17s. 9d. per ounce of 22 parts out of 24 of pure gold. In consequence of this operation, which it is, by law, compelled to make, the Bank is commonly said to *buy* gold at £3 17s. 9d. per ounce. But, in truth, there is little in the transaction which resembles an ordinary *purchase*. The Bank Note given in exchange for such gold is more in the character of a receipt than a payment for a purchase. The Bank, as I have already stated, is obliged by law to give Bank Notes for *all* the gold brought to it for that purpose, and, to give gold coin, *i. e.* sovereigns, for Bank Notes whenever presented for payment. The transaction is carried on in this way:—

An importer or holder of, say, 1,000 ounces of gold desires to convert it into coin: he can do so by sending it to the Mint, where the operation will be effected free of charge, the Mint delivering him sovereigns at the rate of £3 17s. 10½d. for every ounce of gold when it has been properly assayed, and this coined money is given him at that rate for every ounce of standard (*i.e.* of 22 carats fineness); but, as the operation is a troublesome one to an importer, and must cost something in sending to and from the Mint, besides being attended with some loss of interest during the period of coinage, the usual and, I may say, the invariable course is for the importer to send his gold to the Bank of England, which is compelled by law to buy it at £3 17s. 9d. per ounce; and this difference in price of 1½d. per ounce is readily paid, and is a great accommodation to the importer, who gets his gold coin without delay and without further expense.

Every note presented at the Bank of England for payment must be immediately paid in gold coin; but as it was known that the wants of the community in this country were such as to require, for the ordinary trade, from 17 to 20 million pounds of Bank of England Notes to be always in circulation, the Bank was permitted to make use, at first of 14, and afterwards of 15, million pounds of its own notes by investing them in securities, so as to make interest, which interest the Bank was to retain for its own use; and this enabled it to pay, and the nation had a claim to exact a payment, for such a privilege—this payment now amounting to nearly £200,000 a year—the profit which the nation derives from the issue of Bank of England Notes. Beyond this sum of 15 million pounds, the Bank is prohibited from issuing a single Bank Note without having an equivalent sum in gold in its vaults, and it is compelled to publish weekly an account of all the gold so held.

The objects and provisions of the Act of 1844 are thus described by Mr. Torrens in his work upon the principles and practical operation of the Act:—

"The objects of the Complementary Act of 1844 were to secure the convertibility of the Bank Note, to impart to the circulation a greater degree of steadiness than that which it possessed under the former law, and to cause our mixed circulation of coin and Bank Notes to expand and contract, as it would have expanded and contracted under similar circumstances had it consisted exclusively of coin. In order to effect these objects, the Act provided that the Bank of England should be divided into two separate departments, the one exclusively confined to the issue, circulation, and payment of notes, and the other to the ordinary business of a Bank of deposit and discount; that the amount of notes payable to bearer on demand, uttered by the issue department of the Bank of England, unrepresented by bullion in deposit, should be limited to £14,000,000; that the amount of such notes uttered by the Provincial Banks throughout England and Wales should be limited to £8,000,000; and that the excess of the Bank Note circulation, over and above these fixed amounts, should be issued against coin and bullion held in deposit.

"These provisions of the Act of 1844 were framed in conformity with the following principles:—1st. That the amount of a strictly convertible currency, which it is practicable to maintain, is determined not by legislative enactments or by Banking regulations, but by the natural law of equilibrium, by which the precious metals are distributed throughout the commercial countries of the world. 2nd. That when from any temporary cause the amount of a mixed currency of coin and convertible notes exceeds the amount determined by the law of equilibrium, the level is restored by the return of a portion of the note circulation upon the issuers in exchange for specie. 3rd. That when from any temporary cause the amount of a mixed currency of coin and convertible paper falls short of the amount determined by the law of equilibrium, the ordinary level is restored by an influx of the precious metals. From these principles it follows, as a necessary corollary, that when that portion of the note circulation which may be issued upon securities is fixed below the amount to which, under the law of equilibrium, the currency must conform, that portion of the Bank Note circulation will not be returned upon the issuers in exchange for treasure; and that, except in cases of drain from domestic panic, there will always be retained in the coffers of the issuing body a reserve of gold equal to the difference between the fixed amount of the circulation unrepresented by bullion, and the actual amount determined by the law of equilibrium.

"Such being the principles upon which the Act was founded, it became incumbent upon those who were concerned in framing it to ascertain, by a careful reference to past experience, the minimum amount below which, in recent times, the circulation of the Bank of England had never been reduced.

"Now, it appears by the report of the Select Committee upon Banks of Issue (1840, App. 12), that in December, 1839, the notes of the Bank of England were reduced to £15,532,000. But this return included the Bank Post Bills, amounting to about £800,000, which are not included in the returns upon which the Act is founded. Therefore, making the proper reduction of this amount, the Bank Notes in circulation in December, 1839 (Bank Post Bills not included), must have been £14,732,000. To this amount, however, must be added the amount of notes, which, had the separation of functions then existed, the Banking department would have been obliged to keep in its till to meet the demands of its depositors. This amount, we know, has been reduced on a recent occasion to £2,000,000. Therefore, putting the two sums together, we shall have—

"Bank Notes in circulation, December, 1839 . .	£14,732,000
Amount of Notes required as Banking reserve . .	2,000,000
Total notes which would have been out of the issue department in December, 1839	£16,732,000.

"Upon these grounds the framers of the Act assumed that, under a separation of functions, the minimum amount below which the notes out of the issue department could not be reduced under the action of the foreign exchanges, was £16,732,000; that if £14,000,000 were permitted, under the provisions of the Act, to be issued without a corresponding reserve of bullion, the minimum amount which would be required to be issued against bullion held in deposit would be £2,732,000; and that as the reserve of bullion could not, under such circumstances, be ever reduced below £2,732,000, the convertibility of the circulation would be secured.

"The correctness of these views has been fully borne out by experience. Theory has been verified by fact. In so far as regards the perfect convertibility of the circulation, the anticipations of the framers of the Act have been realised. From the period at which its provisions came into operation up to the present time the reserve of bullion in the issue department of the Bank has never been reduced below £8,000,000."

A perusal of the above will, I believe, remove many erroneous impressions respecting the fixed amount of securities held in the issue department of the Bank as having any reference to either the capital or the amount of the debt due by the Government.

The profit derived by the Bank from the issue of Bank Notes, I have stated in my Lecture to be about £100,000 per annum; but it is somewhat less, whilst, as I have already shown, the Government receives double the amount made by the Bank. The Bank profit is derived from the interest on the investment of 15 million pounds at 3 per cent. per annum, after deducting the expense of manufacturing, issuing, and exchanging its notes—issued not only in London, but at its nine branches in the country.

I have already stated that the Bank is bound at all times to pay all its notes, when presented, in gold. It has frequently been asked how this could be effected when 15 million pounds of such notes are not represented by gold in hand, but have been invested in securities. The mode is very simple. Supposing that all the notes outstanding beyond 15 millions were presented for payment, the gold in the Bank reserved for that purpose would effect this operation; but, before the amount could be reduced to 15 millions—indeed long before—the Bank would commence to realise its 15 millions of securities. £4,000,000 consist of securities perfectly saleable at all times; the remainder, viz. £11,000,000, has been lent to the Government. If there should be any need of that money, the Chancellor of the Exchequer would not have the smallest difficulty in turning the Bank debt into 3 per cent. stock, which would be put into the names of the Governor and Company of the

Bank of England, who would sell it as required, receiving for all such sales *their own notes, which, not being required to be re-issued for the purposes of circulation, would be completely cancelled,* and so, when all the securities were realised, and all the outstanding notes paid off, this part of the function of the Bank of England would be terminated; and thus, be it observed, all its Bank Note liabilities would have been discharged without any disturbance of its other business, or without having touched a shilling of the capital.

The great object of the Act of 1844 was to secure at all times, and under every possible contingency, the conversion of every Bank Note into gold when presented for payment. This object has been completely successful, and the Directors, as I have already stated, have no voice whatever in the matter. It requires no management, except the general superintendence of a large establishment where those employed have to discharge very responsible duties in dealing daily with large sums in Bank Notes and in gold. The effect of the Act has undoubtedly been to secure the possession in this country of a much larger amount of gold than in all probability the Directors would have thought it necessary to hold, with reference merely to the interests of their shareholders. This large stock of gold bearing no interest, and retained merely as a security for the integrity of the Bank Note, has been alleged to be an evil; but even if it were, in one way of looking at the question, an evil, it is a very slight one when compared with the enormous benefit secured to the community, that Bank of England Notes and sovereigns shall at all times and under all circumstances be maintained at a perfect equality of value.

So far, I think the Act of 1844 has been perfectly successful.

The remainder of the Bank Note circulation in this country consists of notes issued by various Joint-Stock and Private Banking Companies in England, Scotland, and Ireland. The mode adopted by Sir Robert Peel, in 1845, for securing the convertibility of these issues was based on a different principle. A limit was put on the amount which each Bank might issue after 1845, and no new Bank of Issue could be subsequently opened; and this was considered by him sufficient for the purpose. Certain arrangements were sanctioned by which Bank of England paper could be substituted for other Bank Notes, and it was thought probable that these would induce the relinquishment of much of the country Bank circulation during the period to which the Act of Sir Robert Peel was limited, when it was contemplated to make fresh arrangements by which in all probability the country Bank Note circulation throughout the kingdom would have been extinguished.

The amounts of limit of country Bank Note circulation under the Acts of 1844 and 1845 were—for England and Wales	£8,689,937
Ditto for Scotland	3,063,000
Ditto for Ireland	6,354,494
	£18,107,431

The amount of Bank Notes in the kingdom as authorised, independent of that of the Bank of England, was, on the 30th June, 1866	£16,360,140
The amount actually in circulation was	£14,687,546

The whole of this latter amount has been issued without any security for its redemption, and the Government derives no benefit therefrom excepting the stamp duties on the notes, which amount to about £55,000 per annum. It is true that the country note paper has never been made a legal tender, but it is also true that it is practically impossible for an ordinary tradesman in the country to refuse to take such Bank Notes as are generally current in the locality. It may very fairly be asked why, if it is considered expedient to allow other Banks to issue such an amount of

Bank paper without giving any security for its payment in gold, the Bank of England should be placed under more stringent regulations. But, in truth, the *issue of Bank Notes* and *Sovereigns* should be made under the same authority, and equally under Government superintendence. If the Bank of England should be continued, as at present, to be the agent for the Government in this matter, and if it can be clearly shown, as I believe it can, that such an arrangement is highly advantageous to the country in an economical point of view, it appears to be only right and wise for Parliament to place the whole Bank Note circulation of the country on the like uniform, clear, and intelligible footing.

It has been stated in various quarters, and very many newspapers have over and over again repeated the statement, that no system of currency can be efficient of which the amount is limited, without regard to the increase of wealth and prosperity and the consequent augmentation of trade in the country.

"How absurd," writes the *Daily News*, "to expect that the same amount of circulating medium can discharge the required duties when the exports and imports of the country amount to £200,000,000 as when they only amounted to £50,000,000!" No one is prepared to deny that large daily transactions in commerce are calculated in all probability to require a larger amount of money in circulation than smaller transactions. I say, in all probability,—for it is not necessarily true. Banking expedients in all civilised countries, and especially in our own, have increased so enormously during the last 20 or 30 years that it is difficult to say how much they may not supply the place of actual cash or Bank Notes. But, admitting that more ready money was required in 1865 than in 1845, the supply of currency in this country—*i. e.* gold and Bank Notes, forming together the only legal tender—is only limited by the amount of gold to be found in the whole world, for we can always obtain what gold we may require by simply giving our commodities in exchange. It is merely a question of time. But what has the Government or the Bank of England to do with the supply of ready money? Ready money has never, as far as I am aware, in any country in the world, been supplied by the Government; it has always been provided by the individuals who wanted it. All that our Government has ever undertaken to do is to stamp any quantity of gold brought to the Mint into gold coin, thus indicating its weight and purity. There is no limit to the quantity of gold which may be coined, beyond the limit of the power of individuals to obtain it; and, in like manner, there is no limit to the quantity of Bank

Notes which can be obtained at the Bank of England, although the Directors are bound to retain all the gold brought in beyond the stipulated £15,000,000; so that it is an absolute fact that *there is no limit placed by law in this country* on the amount of gold and Bank of England Notes which may be used in circulation, excepting that all the notes beyond £15,000,000 must be represented by an equal amount of gold.

Such is the existing system in the United Kingdom with respect to currency, and I cannot believe that the Legislature will interfere with the present arrangements regarding Bank of England Notes, unless it be for the purpose of requiring that all notes issued shall be represented by an equal amount of gold in store. I do not, however, see the necessity for such a change, nor do I apprehend that it is likely to be made.

Having now disposed of the question of currency, and the issue of Bank of England Notes, I will proceed with the other duties of the Bank. The next in order is that of the management of the National Debt. But on this part of the subject I think I have said enough in my Lecture and its supplement, to which I have added such notes as will show what further changes have occurred since the former was written in 1858.

The third question is that of the management of the Banking business by the Bank, and this is a subject of great importance. I admit that it is one in which the monetary and commercial world in this country takes the greatest interest;—but let me here briefly remark, before entering further upon it, that the Act of 1844 never touched the question of management in the most remote manner, beyond requiring that a weekly statement of assets and liabilities should be published; and this requirement, not imposed on other Banks, was only justifiable on the ground that, as long as the Bank of England continued to be the Bank of Deposit for all Government moneys, it was desirable that the public should have constant means of knowing the general character of its proceedings. Sir Robert Peel stated in 1844* that as the Bank was to be free from all responsibility respecting the currency, it

* *Extract from Speeches of* SIR ROBERT PEEL, *in the House of Commons, 6th and 20th May,* 1844, *on the Renewal of the Bank Charter:*—" With respect to the Banking business of the Bank, I propose that it should be governed on precisely the same principles as would regulate any other body dealing with Bank of England Notes. . . . .

" It is said the Bank of England will not have the means which it has heretofore had of supporting public credit, and of affording assistance to the mercantile world in times of commercial difficulty. Now, in the first place, the means of supporting credit are not means exclusively possessed by Banks. All who are possessed of unemployed capital, whether Bankers or not, and who can gain an adequate return by the advance of capital, are enabled to should be left perfectly unfettered by any legislative enactments as to its ordinary Banking business, trusting as he did that its affairs would be so managed as to continue to command the confidence of the Government and the country.

Since 1844, the business of the Bank of England has been conducted entirely at the discretion of the Directors. They have had at their command—

1. The capital, and accumulated and undivided profits, amounting together to . . .	£17,553,000
2. The deposits, public and private, amounting on an average in 1865 to about . . .	21,000,000
	£38,553,000

afford, and do afford, that aid which it is supposed by some that Banks alone are enabled to afford. In the second place, it may be a question whether there be any permanent advantage in the maintenance of private or public credit, unless the means of obtaining it are derived from the *bonâ fide* advance of capital, and not from a temporary increase of Promissory Notes issued for a special purpose. Some apprehend that the proposed restrictions upon issue will diminish the power of the Bank to act with energy at the period of monetary crisis and commercial alarm and derangement; but the object of the measure is to prevent (so far as legislation can prevent) the recurrence of those evils from which we suffered in 1825, 1836, and 1839. It is better to prevent the paroxysm than to excite it, and trust to desperate remedies for the means of recovery."

With this aggregate sum of about thirty-eight and a half million pounds the Directors of the Bank have had to deal. The first clearly admitted duty of every Deposit Banker is always to retain, at his command in cash, a certain amount of his deposits. When this reserve has been kept at about one-third of the total, and the remainder of the deposits invested in what are ordinarily called good Banking Securities,—such as Bills of Exchange, Loans for short periods on good securities, Government Stocks, &c.,—no Banker need apprehend difficulty. With regard to the investment of the capital, no part of this is required to be kept in reserve; all may be invested in interest-bearing securities, which should be of undoubted character, but not necessarily of the same readily convertible nature as that part which is held liable to recall of deposits. The object of the large capital is mainly of service as a perfect security to depositors, especially to the public, who have a direct interest in the safe custody of all public money. In other respects,—that is, with a view only to profit,—the large capital is undesirable, as the profits have to be divided amongst a much larger number of proprietors. Say that the Bank were in any one year to make a profit of £1,400,000; this would, when divided amongst proprietors of 14 million pounds of capital, give an interest of 10 per cent.

But if the capital were reduced from 14 to 4 million pounds, except as to the investment of that part of its capital, (£10,000,000,) the Bank would make the same profit, say .	£1,400,000
Deducting, then, 4 per cent. interest on 10 million pounds of investment at 4 per cent. (capital returned to proprietors) .	400,000
Leaving	£1,000,000

to be then divided amongst proprietors of 4 million of stock, or about 25 per cent. per annum, instead of 10. But it should not on this account be assumed that such a change—viz. such a reduction of the capital of the Bank—would be expedient or profitable to the proprietors. The Bank of England is known, and has long been known, to possess the largest capital of any Bank in the world. The prestige it has always enjoyed is very great. No Government has ever questioned its security for public deposits of all kinds. The stock has become a favourite investment for public, private, and trust funds; and it is very questionable whether it would enjoy the same reputation with a greatly diminished capital. The shareholders do not complain, and there certainly can be no reason why any one else should desire a change.

But it would be an error to conclude that the capital of the Bank is not so invested as to be of use to the trading community. The amounts lent to Corporations for local improvements, to Railways on their debentures, and in various other ways, all tend to relieve the Money Market from a certain number of applicants, and thus more capital is left free for other commercial requirements.

The Bank has always been in a position to meet all the legitimate claims upon it from its own depositors, and all these depositors could be paid off and the Bank wound-up and brought to a conclusion within a very few months, without its being required to touch one farthing of the capital, which would thus remain for division amongst its proprietors.

It may, however, very reasonably be asked, Why, if the affairs could have been always so safely and simply managed, has it been necessary on several occasions since 1844 to resort to other means than its own resources to meet the demands made upon it? This certainly requires an explanation, and I will endeavour to give it. As a general answer, I might say that it is because the Bank has been expected to do that which is inconsistent with the ordinary working of a Deposit Bank; but I will try and show more fully how this is.

The Bank has been for a long series of years expected to discount Bills and to make temporary advances at almost any time that the public have demanded them, and to persons entirely beyond their own ordinary Banking customers, and to such an extent as to lead many people to suppose that there is, practically, no limit to the amount which in case of emergency the Bank may be willing to lend, and that its large resources will enable it to meet such extraordinary demands, retaining the power of checking them by raising and continuing to raise the price, or, in common parlance, raising the rate of discount—hence arises the too common belief that the Bank of England governs the rate of interest, a belief which is perfectly erroneous as a general rule. Whenever an unusual demand is made on the Bank for discount, it is almost universally a proof that the Bank is discounting at a rate somewhat below that charged by other Bankers and capitalists. If the Bank were not at that moment to raise its rate, it would be advancing money below the market rate; and whilst this rate was going on increasing elsewhere, the demands on the Bank would continue to increase until all its available resources were gone. So long as the Bank will continue to lend below the market rate, so long it must naturally attract every borrower in the country; but it has been said, What is the use of this large capital if it be not possible to make it available at such moments? I have already stated what I consider to be the use of the capital of the Bank; but admitting that it were prudent to make this capital serviceable to relieve moments of monetary pressure, I contend that it could not be so made merely on an emergency. Either a certain portion of the capital must be set apart for use on these extraordinary occasions, or it must be taken out of its normal investments at certain moments, and converted into cash, to be used for such particular purpose. It is of great importance in transacting the business of discounting Bills of Exchange, that the credit and character of all persons whose names generally appear in such documents should be well known; and how can this knowledge be attained except by having their names constantly brought under the notice of the Bank? It is most essential to the good management and successful conduct of a business of this nature, that it should be carried on regularly and constantly, and, to as great a degree as possible, uniformly. This can only be done with safety by the experience of those who are constantly attending to it, and the business would be greatly interfered with if, as I said before, it were carried on spasmodically, or at uncertain intervals. Again, when the pressure was over, if the money no longer required in that kind of investment were returned to its former investments, it would be always a losing business, as far as the realisation and re-investment of that part of the capital. Once more, a large amount of money can never be permanently and constantly employed in discounting Bills of Exchange, unless the Bank is ready to alter its price or rate in accordance with the fluctuations of the market,—to raise it *at all times* to the highest, or to lower it *at all times* to the lowest, point at which other capitalists may consider it worth while to invest their money in Bills of Exchange. This would necessitate a constant, frequently a daily, variation in the rate, to which some may not object, but I doubt whether such action would be generally approved.

Many persons say they do not desire to see these constant variations, and that they would be to a considerable extent avoided if the Bank were not so impatient at any and every increase of its reserve. They do not, in short, so much object to raising as to lowering the rate. If the Bank were to allow its reserve to accumulate, the time they say would soon arrive when the demand for its use would return. I cannot believe that any such system would answer; it would be against all principles of sound Banking for the Bank to leave its deposits unemployed, because it imagined it could name some arbitrary date at which they might safely be invested in good Banking securities.

It ought never to be forgotten that for the Bank to remain quiet (as it is called) may be, at particular times, quite as great an interference with the ordinary action of the Money Market, as to make any extraordinary move in its rate of discount.

One other course might be suggested, and that would be to keep a certain sum unemployed on all ordinary occasions, and only to make use of it on extraordinary emergencies. Thus, keeping say one-third of ordinary deposits as a reserve, there would still be this additional sum to make use of in times of panic, *or to prevent panics;* but if the accounts were published, it would, of course, be known that this extraordinary reserve was in hand, and there would be no apparently urgent necessity for raising the rate of interest even though the ordinary reserve of one-third were materially diminished. But who is to be the judge of the moment when this additional reserve should be brought out or made use of, and what test would there be of its being lent at the full market rate of interest, when the Bank had continued its rate for some time at too low a figure, as proved by the unusual demand for ready money? This demand might for several days, and even weeks, have been in excess of the supply, and yet the Bank had not raised the price at which it was parting with that very ready money which was so much wanted. Under no possible circumstances can it be a safe proceeding for the Bank to continue to lend money below the market rate.

But whatever change were made in the mode of investment of its capital, the evil would still exist of allowing, or giving the public any reasonable ground for supposing, that the Bank of England has any power to prevent monetary difficulties if the Banking and mercantile community will allow their own ready money to be exhausted, and then depend on the Bank to supply their deficiency. The mercantile and Banking community must be undeceived in the idea that promises to pay at a future date can be converted into an immediate payment without a supply of ready money adequate for that purpose, and must learn that the Bank of England cannot by any expedient be made to supply that ready money beyond what, under the ordinary good management of a Deposit Bank, it can retain in reserve, and that when all that reserve is gone, borrowers must wait until the demands are met through the ordinary channels of supply.

Unfortunately, this has not been the doctrine generally entertained in London with regard to the Bank of England. It has been expected to do, as I have already said, that which is really impracticable—*find ready money when the demand has exhausted its supply;* and it has been the desire to meet this unreasonable demand, whenever it has occurred, to an undue extent, which has obliged the recourse, on three separate occasions, to measures which would never have been necessary had the public really attended to the safe and prudent management of their own business.

I am no advocate for any legislative enactments to try and make the trading community more prudent. I should be sorry to see any interference to prevent persons overtrading or speculating. Let every one invest his own money as he pleases; let every one trade on what capital he pleases,—borrow money at what rate and on what security he pleases; *but* the trading community must be taught at some time or other that no such establishment as the Bank of England can provide ready money beyond a certain clearly-established limit, and that limit is the money left in their hands by their depositors.

A relative of mine, C. Poulett Thomson, many years since, used to say to me that nothing was easier to conduct than the business of a Banker, *if he would only learn the difference between a Mortgage and a Bill of Exchange.* This saying may appear absurd, but I believe it is full of wisdom. It may be supposed that anybody accustomed to such matters must know the difference between a Mortgage and a Bill of Exchange, but the confusion easily arises, and I am convinced that if any one were critically to examine into the origin of a very large part of what are ordinarily called Bills of Exchange, they would find them to be nothing more than Mortgages; they may be promises to pay; so, such a document is, indeed, provided and given with every Mortgage of land, but there is no ordinary provision incident to the document which will secure that on the date of the Bill becoming due, there will be assets forthcoming to meet it. An ordinary Bill of Exchange has such a provision or security: it is based on the transfer of capital, in some shape or other, in a manner which contemplates that at a fixed date such capital will have passed into the required hands, and that means will be provided to meet it. Even all ordinary Banking Bills are founded on such a supposition. It is a transfer of capital to be met by special provision at a particular day. Now, a Bill of Exchange, which I call for this mere explanation a Mortgage, is based on no such expectation. For example :—

1st January, 1866.

Six months after date pay to the order of ——— £5,000, value received as per contracts.

A. B.

To the Railway Company.

This Bill, drawn by a Railway Contractor, will become due on the 1st July, 1866. The Railway Company will have no cash in hand to pay the Bill, unless it is able, as it intends, to raise the money on its debentures; that is, borrow from some capitalist to enable it to meet this engagement.

Sunderland, 1st January, 1866.

Six months after date pay to the order of ——— £3,500, value received in ship.

C. D.

To

Shipowners.

The acceptors, Shipowners, intend to provide means for paying this Bill by mortgaging the ship.

1st January, 1866.

Six months after date pay to the order of ——— £2,000, value received as per contract.

E. F.

To

Builders,

Pimlico.

This Bill of £2,000 is intended to be paid by borrowing the money from some Insurance Company on this and other blocks of houses now under construction.

Liverpool, 1st January, 1866.

Three months after date pay to the order of ——— £2,000, value in cotton, ex Victoria and Jupiter.

G. H.

To

Brokers,

Liverpool.

The cotton here referred to is in course of shipment from America, and when it arrives, it will be put into the hands of the acceptors of this Bill of £2,000, who will then be enabled to borrow money from their Bankers by pledging the dock warrants.

These four transactions I consider Mortgages, but the Bills referred to are called Bills of Exchange.

Ready money is a most valuable thing, and cannot from its very essence bear interest; every one is therefore constantly endeavouring to make it profitable and at the same time to retain its use as ready money, which is simply impossible. Turn it into whatever shape you please, it can never be made into more real capital than is due to its own intrinsic value, and it is the constant attempt to perform this miracle which leads to all sorts of confusion with respect to credit.

The Bank of England has been long expected to assist in performing this miracle; and it is the attempt to force the Bank to do so which has led to the greater number of the difficulties which have occurred on every occasion of monetary panics during the last twenty years.

The 'Economist'* newspaper has put forth what, in my opinion, is the most mischievous doctrine ever broached in the monetary or Banking world in this country; viz. that it is one of the proper functions of the Bank of England to keep money available at all times to supply the

* Vide 'Economist' of 22nd September, 1866.

demands of Bankers who have rendered their own assets unavailable. Until such a doctrine is repudiated by the Banking interest, the difficulty of pursuing any sound principle of Banking in London will be always very great. But I do not believe that such a doctrine as that Bankers are justified in relying on the Bank of England to assist them in time of need is generally held by the Bankers in London.

I consider it to be the undoubted duty of the Bank of England to hold its Banking deposits (reserving generally about one-third in cash) in the most available securities; and in the event of a sudden pressure in the Money Market, by whatever circumstance it may be caused, to bear its full share of a drain on its resources. I am ready to admit, however, that a general opinion has long prevailed that the Bank of England ought to be prepared to do much more than this, though I confess my surprise at finding an advocate for such an opinion in the 'Economist.' If it were practicable for the Bank to retain money unemployed to meet such an emergency, it would be a very unwise thing to do so. But I contend that it is quite impracticable, and, if it were possible, it would be most inexpedient; and I can only express my regret that the Bank, from a desire to do everything in its power to afford general assistance in times of Banking or commercial distress, should ever have acted in a way to encourage such an opinion. The more the conduct of the affairs of the Bank of England is made to assimilate to the conduct of every other well-managed Bank in the United Kingdom, the better for the Bank and the better for the community at large.

On the 11th May, 1866, the Bank was endeavouring to pursue the same course which it had pursued on many previous occasions, by complying, as far as practicable, with the applications for loans which were made to it; and the result was, that the reserve, in the course of a few hours, was reduced to a lower point than the Directors would have wished. That they had ample means to meet all their liabilities—that is, all their own engagements—there can be no possible question, as the whole of their capital was intact. The only question was, in what way could this sudden demand be met; whether by a sale of securities for cash, or by endeavouring to meet the demand, *in fact, by supplying it*, taking care to fix such a high rate of interest as would prevent applications from those whose demands were not pressing, and also, by that high rate of interest, induce repayment as soon as the temporary pressure should have ceased, and attract fresh capital to the country.

The application on the part of the public to the Government to permit the Bank to make use of a part of its issue reserve, in order to alleviate a very great pressure for money, having been granted, the Bank had no other course to pursue than to continue to make advances, trusting to this abnormal borrowing power in case of need. But it would, surely, be a great advantage to the country if the necessity could be avoided for bringing such a pressure upon the Government or the Bank; and if all Bankers and merchants would look more to the necessity of providing ready money for their own wants in times of need, and not allow so large a part of their resources to be locked up in inconvertible securities, this desired result could be, if not attained, at all events very much promoted.

The immediate cause of the sudden demand on the 11th May was, undoubtedly, the failure of Overend, Gurney & Co.'s new company; while the more remote cause was the large amount of inconvertible securities which were floating about, and had for some time been floating about and encouraged, in the market.

When I state that the Bank charged a very high rate of interest for the purpose of checking the demand, I do not wish it to be understood that the Bank supposes that *any* rate of interest will prevent persons applying for loans at particular moments, and endeavouring to obtain ready money to enable them to meet their own *absolute necessities.* The rate of interest they may be called upon to pay under such pressing circumstances is almost a matter of indifference. The Bank, also, knows that there may be moments of sudden alarm, when no one is willing to part with ready money *on any terms whatever*. No prudence will prevent a man in business from incurring the risk of suffering on such occasions. But it is not the less important to try and convince everybody that on such extraordinary occasions it is time alone which will affect the cure, and that under no circumstances should any attempt be made to allow the Bank to part with that portion of its bullion which is most wisely set apart for the protection of its Bank Notes.

I have alluded to the prevailing opinion that, by some management or other (though what that management should be no one has yet defined), the Bank of England might have the power, which the 'Economist' thinks desirable, of coming to the rescue whenever any financial difficulty may arise; and especially that good Bills of Exchange—that is, Bills of an undoubted character—*ought at all times to be discountable at the Bank of England*. One of the grounds alleged as a reason why this should be the case has been the public character of the institution of the Bank. Supposing that this reason had any sound basis, it does not appear to have occurred to those who advocate the right of holders of Bills of Exchange to claim ready money from the Bank in exchange for future engagements, that there are many other parties in England who are engaged in carrying on works of great public importance who might equally put in their claim to be as much considered as holders of Bills of Exchange. Why should not contractors for public works, railway companies and railway contractors, ship-builders and ship-owners, householders and house-builders, dock companies, and a host of others, all carrying on business in which the country at large is deeply interested, and last of all, the much-maligned agricultural interest, be equally entitled to benefit by any favours for which the public have a right to look from such an institution as the Bank of England? It should not be forgotten, in considering this subject in all its bearings, that the amount of ready money, or even to use the larger expression, of floating capital, in the country at any one moment is a fixed quantity; whatever part is taken or appropriated to the use of any one class, is so much abstracted from all others, or at least from some one of the others; what is really asked for by the advocates of the right of the holders of Bills of Exchange to have their bills at all times discounted at the Bank of England is, that one class in the country shall be benefited at the expense of the rest of the community.

It has been asserted, and very much credited, I believe, by many persons, that if the Act of 1844 had not been in existence, by which Act the accounts of the Bank of England are published weekly in a particular form—I mean, had the Bank's weekly publication been in the form used previous to 1844—the panic of May, 1866, would, probably, not have occurred; and even had there been a slight monetary pressure, it would never have assumed such formidable proportions, nor would the Bank rate of interest ever have reached 10 per cent. Before I attempt to show the fallacy or probable error of such an assertion, I must again remind my readers that had the Act of 1844 not been in existence, there is no probability, reasoning from analogy, that in the beginning of May, 1866, the bullion in the Bank would have stood at an amount exceeding 13 million pounds.

Assuming, however, that the bullion would have been the same on the 9th May, 1866, viz. . . .	£13,156,140
And the deposits . . .	19,297,363
And the securities . . .	32,185,470

the accounts, if published in the old form, would have read thus:—

	Liabilities.
Circulation and post bills . .	£22,806,659
Public deposits	5,781,826
Private ,, ...	13,515,537
	£42,104,022
	Assets.
Securities	£32,185,470
Coin and bullion	13,156,140
	£45,341,610

Balance of assets above liabilities, £3,237,588, being the amount of rest.

No one, I presume, will contend that the Act of 1844 had anything to do with the failure of Overend, Gurney & Co.'s Limited Company, or with the general alarm in the monetary world consequent on that event. London and Country Bankers, and others who had money deposited with that Joint-Stock Company, would naturally on its failure have sought means to provide themselves with available resources to at least as great an extent as their deposits at Overend, Gurney & Co.'s, where they had believed them to be always available at fixed but generally short notice; yet there can be no doubt but that all prudent persons did or would have wished to do much more than this—anticipating, at all events, the probability of further disasters, every one would have been glad, irrespective of any little loss of interest, to have had as much ready money at his command as possible. Ready money means Bank Notes. But how were these Bank Notes to be obtained from the Bank of England? In only one of three ways:—1st. By withdrawing deposits, if there were any at the Bank of England. 2ndly. By selling goods or securities for cash, and thus obtaining the command of Bank Notes. 3rdly. By sending Bills of Exchange to the Bank for discount; or by obtaining loans from the Bank on any security which it would be willing to accept.

The first of these three modes would not at all have answered their purpose. If they had had Deposit accounts at the Bank of England, they would rather have added to than diminished them. No one, or scarcely any one, was at all alarmed that their money would not be safe in the care of the Bank.

2ndly. The sale of goods or securities for cash was, if not impossible, at least extremely difficult at such a moment. Sales could certainly not have been made for cash except at a considerable sacrifice.

3rdly. The alternative of sending Bills into the Bank of England was therefore very naturally and very generally adopted, at least by those who had Bills of Exchange in their possession.

Such being the case, and such being the state of the accounts, would the Bank have been justified for one moment in lending money at the same rate of interest as before this event had occurred? and if any one will take the trouble of following the weekly accounts as they would have been published in the old form—*i. e.* in the form required before 1844, from that time forward—he will see that under no form of publication of accounts could the public, or would the public before 1844, have been satisfied if they had known that the Bank was continuing to lend money otherwise than at a very high rate of interest.

I give in a note at foot the state of the Bank * accounts under the old form as they would have appeared on the 30th May and 4th July, and from these it is evident that the Bank took the very earliest opportunity to reduce its rate of interest; and an examination of the subsequent accounts will show how, at the times chosen for further reductions, these changes were only justifiable by the altered position of the accounts, and by the state of the Foreign Exchanges. Even at the moment of the first reduction from 10 to 8

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* 30th May, 1866.

Circulation, including B. P. Bills	£26,562,525	Securities . . .	£44,759,100
		Coin and bullion	11,878,775
Public deposits .	6,188,512		£56,637,875
Private do. . .	20,467,079	Rest . . .	3,419,759
	£53,218,116		£53,218,116

4th July, 1866.

Circulation, including B. P. Bills	£26,497,624	Securities . . .	£41,974,676
		Coin and bullion	14,876,945
Public deposits .	6,800,251		£56,851,621
Private do. . .	19,939,607	Rest . . .	3,614,139
	£53,237,482		£53,237,482

per cent. on the 16th August, the step was more justifiable on account of the state of the Foreign Exchanges, and the evident "set in" of the import of bullion, than from the actual reserve in the Bank. It would have been a great error, at least in the opinion of a large number of persons, for the Bank to have lowered its rate whilst there was any considerable risk of having speedily to raise it. The result of the high rate of interest was to attract foreign capital to this country. The effect was certainly not so rapid as that which has been produced on former similar occasions, probably because the real evil, or the germ of the disease, was more deeply rooted than on any former occasion; *but it was produced at last*, and I cannot believe there is the smallest reason for supposing that had the Act of 1844 not been in existence, the rate of interest would have been lower; in my opinion it would have been much higher.

I have now endeavoured to show—

1. That the action of the Bank, as connected with the issue of Bank Notes, is merely mechanical, and that the Directors have no power of increasing or diminishing the amount that may at any time be required for circulation.

2. That the amount of such Bank Note issues in circulation is practically unlimited; that is, it is only limited by the total amount of gold in the world.

3. That the privilege of issuing Bank Notes in lieu of coin ought only to be granted under the direct supervision of the State,—the Legislature taking care that no Bank Notes shall be issued without due care being taken for securing their payment.

4. That the Bank cannot deviate from the sound principle of Banking without running great risk of serious injury to its own position, and great risk of injury to the Banking and commercial public.

5. That the only way to avoid, or, at all events, to diminish, the evils of financial panics, is by prudence on the part of the trading community in retaining a certain part of their property in ready money,—which is the word I have used generally, as more intelligible than available capital,—and that this certain part must be proportionably large, according to the extent of their operations.

6. That such reserve of ready money cannot be kept by the Bank of England to an extent, or in a manner, which will supply the necessity for due reserves by Bankers and other traders.

And, generally, that the cause of all monetary panics is the undue locking-up of capital which ought to have been kept more available and more easily convertible.

I have extended these remarks to a greater length than I had intended; but I have endeavoured to confine them to those points, in relation to the general subject of Banking and Currency, with which the Bank of England has been so much connected. The abstract subject is one which has engaged the attention of so many able writers, that I should feel it to be presumptuous were I to attempt to throw fresh light upon it. To those, however, who may take any interest in it, I cannot forbear to recommend the perusal of the two articles in the 'Revue des deux Mondes,' of 15th August and 1st September, 1866, written by Mr. Wolowski, who is a complete master of the subject, and has shown in those articles how fully he appreciates the advantages of the English Bank Act of 1844. I would also call attention to a memorial from the Bristol Chamber of Commerce, addressed to the Chancellor of the

Exchequer, which was printed in the 'Economist' of 20th October, 1866. And lastly, I would suggest the perusal of the Debate in the House of Commons of 31st July, 1866, on the motion, by Mr. Watkin, for an inquiry into the state of the Currency, Banking, &c., and especially to the able speeches of Sir Stafford Northcote, Mr. Fawcett, and Mr. Hubbard.

A LECTURE

DELIVERED AT PETERBOROUGH,

29TH NOVEMBER, 1858,

ON

BANKING:

ITS UTILITY AND ECONOMY.

BANKING is trading in and with money—buying, selling, exchanging, receiving, and paying money—not money's worth, not goods, but money in some shape or form—that medium which is used in all civilised societies for denoting a certain exchangeable value, and thus rendering as simple and as easy as possible the mutual exchange of all the commodities required for the use of mankind.

In considering the advantage and economy derived by society from a system of Banking, it is, I think, of essential importance to bear in mind this very general definition, because it is by no means unfrequently supposed that Bankers possess great powers of adding to the existing wealth of the country by augmenting its capital—powers which cannot properly be attributed to them without a risk of leading to much confusion of ideas on the subject of capital. I would take this opportunity of stating what I mean when I use this word 'capital,' and at the same time explain in what way I shall use the word 'currency.' The first I shall use as meaning any and every kind of accumulation of useful and exchangeable property; and the second I shall use as meaning money in its ordinary sense, whether Bank Notes or coin of gold or silver. I do not wish it to be understood that I consider as unimportant a discussion as to what ought to be the precise definition of either of these words, or whether they are clearly explained by Mr. Mill or other eminent writers on this subject, but I give these two general explanations of my own meaning, as believing them to be sufficient with reference to the more immediate object for our consideration to-day.

I have already said that Banks are supposed to have a power of creating capital. Because Bankers are constantly making loans of capital, or of credit, which is very frequently used as a substitute for capital, they are therefore very frequently supposed to be able to create it, and that by the loans they may make, or by the credit they may give, they are thereby adding to the existing stock of capital in the country. Now it should always be borne in mind that no fresh capital can be obtained by any country, excepting from the same source from which all capital is originally derived, namely, the excess of income, or production, or acquisition, over consumption or expenditure.

In a primitive state of society, where the community consumes immediately, or presently, all the produce of its labour, there can be no such thing as capital. All the community may be in a happy and comfortable condition, but so long as this state of things continues, it never can be possessed of capital. When, however, the same community, or any part of it, desires and finds it possible to lay by a part of its produce, that is, to consume less than it produces, such surplus becomes capital; and assuming that such surplus is of a nature either fit for future consumption, or exchangeable for other goods, it is then found to be capital available for reproduction; but without possessing either of these two last-named qualities, no matter how large the stock of goods or gold, it is valueless. Having mentioned gold, I will merely here say, with reference to that particular commodity, that I know of no other metal which can be accumulated with less general capacity for usefulness than gold. It certainly possesses some merit as an article of merchandise, but if its use for coinage be set aside, I believe that it is the least useful of any metal or mineral production. Now, until the process I have endeavoured to describe has produced some accumulation of property, which I call capital, no such trade as that of a Banker can be required. If there were no such thing practicable as the exchange of goods, no Bank would be found wanting to facilitate such exchange. Nor do I believe that the trade of a Banker can be found to have existed before money was used as a general medium of exchange.

Referring to a recent publication of Mr. McCulloch on Banking, I will beg permission to read the following extract:—

" The business of Banking was not introduced into London till the seventeenth century. It was at first conducted by the goldsmiths, who lent the money lodged in their hands for security to Government and individuals. In the course of time the business came to be conducted by houses who confined themselves to it only, and nearly in the mode in which we now find it. The trade or business of a Banker has probably existed in all civilised countries in all ages. The Bankers of Greece and Rome exercised nearly the same functions as those of the present day, except that they do not appear to have issued notes. They received money on deposit, to be repaid on demands made by cheques or orders, or at some stipulated period, sometimes paying interest for it, and sometimes not. Their profits arose from their lending the balance at their disposal at higher rates of interest than they allowed the depositors. They were also extensively employed in valuing and exchanging foreign moneys for those of Athens, Corinth, Rome, &c., and in negotiating Bills of Exchange. In general they were highly esteemed, and great confidence was placed in their integrity. The rate of interest charged by the Bankers was sometimes very high, but that was not a consequence, as alleged, of their rapacity, but of the defective state of the law, which, as it gave every facility to debtors disposed to evade payment of their debts, obliged the Bankers to guarantee themselves by charging a proportionately high rate of interest. In modern times the business of Banking and exchange was, for a while, almost entirely engrossed by the Jews and the Lombards of Italy."

It thus appears that in every country where money was in use, there the trade of Banking seemed to follow as a natural consequence. According to the commonest principles of the economy resulting from division of labour, where-ever money came into general use, there Banking became a common trade, in the same way as the trades of butchers and bakers, all found equally useful in their respective ways for the distribution of articles of consumption in the most easy and in the most economical manner. Banking was the channel into which money passed almost as an article of commerce,—the mode by which the money, not immediately required by one individual, found its way to be used by another: the Banker thus appearing to act, and really acting, in the double capacity of borrower and lender; but in neither case was he a creator, but a mere distributor of capital, any more than the baker or the butcher performed any other functions than that of distributing the articles in which they respectively dealt, and thus contributing to the general wealth of the community by the economy of time and money effected by this general system. Thus if twenty individuals each required a capital of £1,000, and an occupation of thirty days' labour to enable them to carry on any certain amount of business without employing the services of Bankers, butchers, or bakers, and after the establishment of these trades the same individuals found that they could effect the same amount of business with capitals of £500 each, and with an employment of only twenty days' labour, there would be a saving to the community of £10,000 capital and ten days' labour, both available for reproduction or profitable use in some other mode. But I must again remind you that in all these cases neither Bankers, butchers, nor bakers were the creators of capital; they were merely the economic agencies for the saving of capital already in existence, and rendered thereby capable of being again more rapidly brought into use, *for purposes of reproduction.* But here, perhaps, some of my friends may be disposed to say, "Oh, we understand all this very well when you are alluding to the business of a Banker merely as a receiver of deposits and payer of money belonging to other individuals, but surely the same remark is not applicable to a Banker who makes and issues Bank Notes; the Banker who is able to keep out an issue of £10,000 of Bank Notes in a district where scarcely a Bank Note was to be seen previously, has surely created an additional working capital of £10,000." As some idea of this nature is by no means an uncommon one, I must beg your attention for a few minutes whilst we consider this branch of our subject somewhat carefully. In the first place, let us try and find out how a Banker is able to issue and keep in circulation an amount of £10,000 of Bank Notes. He may discount Bills of Exchange, that is, he may substitute his own Promissory Notes for Promissory Notes or Bills of Exchange, both of which are engagements to pay so much money at a distant or deferred period; or he may buy goods, that is, obtain the goods or property of some one else, and give his own promise to pay whenever called upon for that purpose; or he may make loans in his own notes, that is, give his own promises to pay on demand in a manner which will enable the borrower to obtain capital or goods from some one else. In the second place, a Banker can hardly succeed in persuading people to hold, as if they were holding gold, his Promissory or Bank Notes, unless it is generally supposed that he is a man of property, or, in other words, possessed of capital;

but in none of the ways I have pointed out just now does he augment that capital which he already possesses, although all of them may be modes by which he may be enabled to make a very profitable use of it, and, consequently, if he is a provident man, may enable him to become a richer one. The Bill of Exchange which the Banker has obtained by discounting is not capital, it is merely a bit of paper promising to pay an acknowledged debt at some future period. The loan of Bank Notes he may make is not capital, it is merely a promise to pay. The goods he may buy, or enable some one else to buy, are not necessarily more valuable by this operation of purchase, and therefore with respect to them there is no increase of capital. Investigate the question in what way you like, you will, I am sure, come at last to the conclusion, that no issue of Bank Notes is an increase of capital, although by their means, as well as by a great variety of other Banking expedients, the transfer of capital is greatly facilitated, and thereby great convenience and great economy ensues; and here let me again give you a quotation from Mr. McCulloch's work, to which I have already referred, and I give this extract in support of the opinion I have just expressed:—

"Though Banks afford a valuable assistance in the collection and distribution of capital, it must not be supposed, as is often done, that they have any direct influence over its formation. That is the joint effort of industry and economy — the former in producing convenient and desirable articles, and the latter in saving and preserving them for future use. Credit is neither more nor less than the transfer of money or other valuable produce from one set of individuals called lenders, to another set called borrowers—a transfer which is greatly facilitated by the establishment of Banks. And as there can be no reasonable doubt that those who borrow have, in the majority of instances, better means of employing capital with advantage than those by whom it is lent, its transference from the one to the other will, in so far as this presumption is realised, be publicly advantageous. But this is the entire extent of the beneficial influence of what is called credit; and when it happens, as is too often the case, to divert capital into the pockets of knaves and gamblers, it is disadvantageous. No doubt we frequently hear of great undertakings being carried on by means of credit; but such statements are entirely false and misleading. They will, indeed, be uniformly found, when analysed, to mean only that the undertakings are carried on by means of borrowed capital. Credit is impotent to produce anything whatever. It is, in fact, a mere name for the trust reposed by a lender in a borrower. To call it capital is as much an abuse of language as it would be to call weight colour, or colour weight. It may transfer money or produce from A to B, or from C to D, but that is all that it either does or can do. When credit is said to be high, nothing is really meant save that those who have money or capital to lend have great confidence in the borrowers, and conversely when credit is said to be low."

Before proceeding further, I should like to qualify, for fear of being misunderstood, what I asserted about a Bank not adding to the capital of the country by issuing notes. If the Banker can induce people to take his notes, and they are not speedily brought back to him for payment, he is able, undoubtedly, to employ a certain portion of his own capital, or of the capital of others which he may have received in exchange for his notes, in some reproductive manner; and to that extent he will really have obtained the use of fresh capital, or rather be enabled to employ capital profitably, instead of unprofitably. The less money which may be required to be kept for use in a country, the greater the amount of capital which may be kept in a reproducing state, for all money is unproductive capital. This last assertion may perhaps appear somewhat striking and questionable. I will, therefore, again ask your permission, as I did a short time back, to consider the matter with a little attention; and, in order more clearly to explain my meaning, I would call to your recollection the way in which money is first brought into circulation or use. We all know that, in the earlier stages of society, little or no money could have been required; by degrees—as surplus means above expenditure, with a power of using or exchanging that surplus, created capital; and barter, or exchange of one description of goods for another description, began to be in common use—a defined standard as a medium of exchange was found highly desirable: bartering without some such medium was a troublesome and expensive process. When goods, however, were first sold or exchanged for money, if the seller who found himself thus possessed of money in exchange for goods sold, entered into another transaction immediately, by which he paid away all the money he had previously obtained, he found himself in his original predicament of being without money, although he might be largely possessed of other property; and, in order to avoid this in future, and to enable him to carry on his trade more conveniently, he put by a certain amount of money, which he may have placed in the hands of a Banker, if he liked, for safe custody; but whether in his own possession, or in that of his Bankers, so long as it remained in the shape of coin, however important to him to possess it, it was perfectly unproductive. Now, if I have made myself intelligible in thus endeavouring to explain my meaning, you will, I think, agree with me that gold and silver, when in the shape of coin or money, is unproductive capital, and, therefore, the less there is of it lying in that state, the more advantageously the capital of the country may be used. I say particularly *may be*, for I should be very sorry to be supposed to undervalue the importance of having a large stock of this, though unprofitable, capital at all times in the country. Without at all undervaluing the advantages of the greatest extension of Banking expedients (which are all of them founded on the principle of credit), I am quite convinced that we should purchase them all a great deal too dearly if we ever allowed such an extension of credit, either through Bank Notes not based upon necessity to pay them immediately on demand in gold, or any Banking expedient to be accepted as a substitute for a commodity like gold, which is of well-known value in every part of the globe. I hold it, however, to be quite consistent with this principle to resort to expedients by which much less capital is allowed to remain in this unproductive or dormant state than would be the case if Banks did not exist to facilitate commerce by the rapid distributions of capital, whereby all parties are greatly benefited throughout the country. And now, having dwelt perhaps at a greater length than was necessary on what a Banker cannot do, let us turn our consideration to the question of what he can do, and how all this economy and utility is brought about.

The great objects effected by Banking, at least certainly as carried on in this country, are to promote economy of capital, and to afford convenience for carrying on our daily transactions between man and man. And let it not be supposed that it is a trade beneficial alone to the richer part of the community, who have money more frequently, and in larger amounts, passing through their hands. There is not a man in this country, however poor, who is not interested in this question; every tradesman is able to carry on his business with greater economy, and to trade on smaller, because on well-ascertained or rather on more reliable profits, by the facilities afforded through Banking in the purchase of the material from which he makes, by labour, an article generally required by all classes. The dealer in cattle, in wool, in coals, in wood,—in short, everything,—finds additional facilities for carrying on his trade, either afforded directly or indirectly by Banking; and the poorest man is enabled, from the same cause, though perhaps somewhat more indirectly to appearance, to obtain the articles he must purchase in the most easy and economical manner. If this is not very perceptible to the comprehension of every one I am addressing, let him only think what would be the injurious alteration that would affect every description of trade if we were compelled to resort like our ancestors to a system of barter, exchanging directly goods for goods;—or even under a system without credit, by which every man was compelled to keep by him money to pay for all that he might find necessary for the supply of his daily wants. However general may have been the use of Banking as a trade amongst the ancients, I do not believe that the separate trade of a Banker was in existence before the beginning of the last century. It is true that the Bank of England commenced business under a Royal Charter from King William III. in 1694, but it was then principally used, both at its commencement, and for many years subsequently, for Government purposes. It was not until the middle of the last century, or about 100 years since, that it assumed or performed any important part, as it now does, in facilitating operations of trade of all kinds in this country. I think that I can hardly afford you a better illustration of the essential use of the trade of Banking than by showing you what is done in the largest Banking establishment in England, reminding you that what is going on daily at the Bank of England is merely a concentration of what is going on to a less extent in every town, and in almost every village, in England. The increase of business of this nature is strongly marked by the fact, that whereas in the year 1750—I believe that is the year I have taken note of—the average daily receipts at the Banking department of the Bank of England were about £180,000, I find that in the year 1857, in the same department, the average daily receipts were about £3,500,000 ; and I have no reason to doubt that the Banking business throughout the whole country has increased in a like proportion. Now, let me endeavour to describe the nature of the general business carried on at the Bank of England. The business may be considered as of a three-fold nature, and every one of these three parts might be again sub-divided, but I will consider them as consisting of three great departments :—

1st. That of the management of the National Debt.

2nd. Issue of Bank Notes.

3rd. Government and Private Banking.

I hope I shall not weary you if I describe the business of each of these three departments in detail. First, then, the management of the National Debt. No one would be willing to lend money to a Government without either a positive engagement for the repayment at a fixed time, or without an easy and well-adapted arrangement by which the lender could transfer the engagement, of whatever nature it might be, either for payment of principal or interest, or both, to any one willing to purchase it of him, and thus obtain a return of his money, if he required it, or of so much of it as the engagement of the Government to pay a certain fixed rate of interest might be considered to be worth at the time he might wish to realise or sell. For this reason it has always been made a condition in every loan obtained by the Government that such facilities should be given to the lenders, or what has been commonly called the takers of the loans; and in this country it has been required as a condition in every loan made by our Government, that the same shall always be transferable, and that the dividends or interest shall always be paid half-yearly at the Bank of England; and the certainty of the fulfilment of this condition has been one of the elements which has rendered the Government Stocks of this country at all times a favourite security for investment. I am not stating this as a ground of peculiar merit due to the Bank of England; had that establishment not been formed, doubtless some other similar machinery would have been contrived by the Government, or it would not have been able to borrow money on such favorable terms. But I think, from what I am now about to state, you will easily see that the present service rendered by Bank agency in this way is no unimportant one. The whole amount of the National Debt of the United Kingdom is £730,986,800. Now, this is subdivisible into any number of accounts, with only one limit—that no one is allowed to have a smaller account than the amount of one penny; but with this sole limitation, any person whose name has once been inscribed in the Bank books may sell all, or any part, at almost any time, and can immediately, without any charge being made to either seller or buyer by the Bank, transfer it to as many different people as he may have chosen to deal with through his stockbroker. The introduction of this stockbroker is only necessary to give some security to the Bank as to the person being really the party he may represent himself to be, or, in other words, merely to prevent fraud. Now, of these accounts on which dividends are paid half-yearly, there were, the last time I inquired on the subject, about 214,000; but if more persons desired to invest their money in these securities, there is no reason why the number of stock accounts might not be multiplied ten-fold. No matter how many the separate accounts, the Bank is bound to keep them without any increase of payment from the Government; and on every account a separate order, or what is there called a "warrant," is made out every half-year for the payment of dividend, from which a separate deduction has to be made for Income-tax, which latter the Bank pays over in one gross sum, at each half-yearly payment of dividends, to the Government. The dividends are paid to anybody applying one day after the days on which they become nominally due; this one day being reserved for delivering dividend warrants, for which the stockholders have given powers of attorney to their bankers or agents in London, who in this way receive out of the present number of 214,000 accounts the dividends on about 180,000; and all these dividends so received by Bankers and others are transmitted or advised, on the same day on which they are paid by the Bank, by that night's post to all their customers; so that on the same day every stockholder in Great Britain may either receive his own dividend on his own stock, or he will hear that his Banker has received it, and has either transmitted him the amount, or followed some other direction as to its appropriation. And now I think that you would be puzzled to contrive any other kind of machinery than a Bank by which all this facility for receipt of dividends, and for transfer of stock, could be managed. I ought to add that the title to every particle of stock is given on the responsibility of the Bank; and although it were transferred under a forged power of attorney, no question can ever arise affecting the right or title of the holder when once the stock has passed into his name; and when I also say in addition, that it is a very rare occurrence for an error of one penny to arise in the whole number of transfers made, and dividends paid, by a vast number of clerks throughout a whole year, I think you will be willing to admit that the business in that establishment cannot be very badly conducted.

For all this business the Bank receives a fixed payment from Government, which, though considerable, owing to the very large extent of the business required to be transacted, is, I have no hesitation in saying, smaller, and I believe considerably smaller, than it would cost the Government if the same business were undertaken by itself. The amount paid by the Government to the Bank for the management of the National Debt is at the rate of £300 per million for the first £600,000,000, and £150 per million for the remainder. This amounts now to about £200,000 a year.

Department No. 2 is that of the Issue of Notes. The Bank issues Bank Notes to anybody bringing gold, or other notes requiring them to be exchanged. If to parties bringing gold not coined, the notes are issued at the rate of £3 17*s*. 9*d*. for every ounce of gold of standard fineness; that is, being twenty-two parts out of twenty-four fine or pure gold, or, in other words, quite free from any alloy. Of the gold it thus receives in exchange for these Bank Notes, the Bank is permitted to invest as much as £15,000,000 in Government securities, and to receive the benefit of the interest; and all the remainder of the gold it is obliged to keep in its vaults ready for use when required. I ought to mention, that in lieu of this treasure or reserve being in gold, the Bank is permitted, if it prefers it, to hold a limited amount of silver, being one-fourth part of the whole of the gold and silver. Now, of these notes, about fourteen millions were issued last year; I mean that number of separate Bank Notes,—all of which were made within the walls of the Bank, the paper being the only part made elsewhere. These Bank Notes are generally issued to Bankers, and in large amounts, most commonly in bundles containing 500 each; but when I tell you that every single Bank Note has a separate entry when issued, in a book kept for that purpose, and that they are brought into the Bank for exchange or payment in almost every kind of parcel, small and large, and that every note is, on its again returning to the Bank, whether it has been out one day or twenty years, immediately entered in its proper book and place, and that all these books are daily balanced, so that the Bank knows exactly, before the work of the day is closed, the total amount of Bank Notes for which it is liable, I think you will admit that No. 2 department is not in a very defective state. I ought to mention here that the Bank of England never re-issues its notes. As they come in they are laid aside, and kept seven years and then burnt. The whole number is not destroyed together, but at different times, and as many are burnt as corresponds with the new notes issued. The profit derived by the Bank in this department for the year ending February, 1873, was £100,419; that is, after having paid £138,578 to the Government for the privilege of issuing notes, £60,000 in lieu of stamp-duty, and £184,000 for wages, rent, &c., the Bank receives a profit of somewhat about £100,000 on the transactions in this department of issue.

Department No. 3 is perhaps the most important of all, as it comprises all the accounts kept on behalf of Government, for which the Bank receives every shilling of the income of the nation, as well as the accounts of a large number of public and private mercantile and other establishments; and here it is that the economy of Banking can be most fully appreciated. The whole revenue of the Government, arising from its daily receipts of customs, excise, post-office, taxes, stamps, &c., &c., no matter whether received in London, Cornwall, the Hebrides, or Galway, finds its way almost immediately into the Bank of England, and is thereby rendered instantly available for the daily demands on the State. In all these transmissions scarcely a sovereign is used; the whole is effected by purely Banking arrangements. The collector of the Government may require to transit £50,000 from Liverpool to London; but some private individual on the same day wants to remit £50,000 from London to Liverpool, through the Bank of England, or some other Bank; both transactions are carried out by the mere entry in books and the advice or instructions sent by the post. The revenue is paid into the Bank of England at the rate of about £1,300,000 a week, that is, in ordinary times; a considerable portion of this is allowed to accumulate to provide means on each quarter day for the payment of the dividends on the Government debt. Suddenly, on those days, five or six millions sterling are paid away by the Bank to the public; but the difference as to the abundance or scarcity of money just before or just after the payment of this large sum is scarcely appreciable, so nicely do the ordinary operations of Banking accommodate and render easy all these large transfers of money. And for all this business the Bank receives no other remuneration than the use of the Government balances, which vary from "nil," the day after the payment of the dividend, until they accumulate to the amount required for payment of the next dividend; and if then there is not sufficient, the Bank is expected to advance the difference, which is repaid out of the next accruing revenue. And these remarks apply not only to the public Banking department,—the benefit and convenience are equally apparent if we look to the department for private Banking. In this department every kind of Banking business is carried on for ordinary private customers; their savings may be invested by the Bank, and the dividend and interest of all kinds received for them and placed to their account; all the property they may keep in securities will be taken charge of for them, and they may keep all their cash and other securities in the same way as they would keep them at any other Banking establishment, and with all similar convenience as to receipts or payments in any way that may be required. If a large deposit is required to be made on account of a railway, if large foreign payments are required to be made abroad by the transmission of gold, every facility is given, through the machinery of the existing system, by which these large transactions are daily carried out without causing the smallest derangement to the ordinary trade of the country; or at least, if any derangement or inconvenience is experienced, it is doubtless in a very mitigated form, in consequence of the general prevalence of a good system of Banking throughout the country. I have just now been referring only to the general Banking arrangements or business carried on at the Bank of England; the same remarks are applicable to the particular transactions of the other Banking establishments in London, which, in their aggregate, are far, very far, larger than those of the Bank of England. The average amount of deposits of all classes at the Bank of England is about twenty-eight millions. The amount of deposits at the Joint-Stock Banks alone, in London, appeared, by the last general statement, considerably to exceed one hundred millions sterling; and in addition to these Joint-Stock Banks, there are about fifty private Banking establishments in London, many of them carrying on a very large amount of general Banking business. In no way that I know of can the extent of the general Banking business of London be better exemplified than by the arrangements of the clearing-house. To those who are unacquainted with the nature of the business here transacted, I would merely state that it is a house or large room to which almost all the London Bankers send daily a clerk, charged with all the Bills of Exchange or Cheques payable at any of the London Banks, and which the Bank sending the clerk may have received in the ordinary course of business from its customers to be collected and placed to their respective accounts. Here in this clearing-house a mutual exchange of all these bills and cheques takes place, and instead of every Banker being obliged to provide money throughout the day for such of them as might be presented at his Banking House, he has only to provide at the close of each day for the final balance that he owes, and which, through the arrangements of the clearing-house, is distributed amongst the several parties to whom it is due. Such is the system at the clearing-house, and by this means, it has been stated by Mr. Babbage, in a publication on this subject, that a settlement of accounts amounting in one year (1839) to £954,000,000 was effected by a total payment of £66,275,000 in Bank Notes, or by about 7 per cent. of the amount which would otherwise have been required. So much for the Banking economy up to the year 1856. In that year still further improvement was made in the arrangements of the clearing-house. It was determined to settle all these balances daily between Banker and Banker by cheques on the Bank of England, and this has worked so well that the daily settlements of accounts in 1872 amounted during the whole year to £5,893,446,000; while it is estimated by Sir J. Lubbock that the amount passing through the clearing-house this year will exceed £6,000,000,000;* and all this has been effected without the use or employment of one single Bank Note or one single sovereign. Now, this system of the London clearing-house is only a sample and exemplification in wholesale of what is daily occurring in detail in every part of England, Scotland, and Ireland. The daily business of a Banker, either in town or in country, is but a constant clearing or exchange of money or credit in some form between individuals. What would otherwise be done by one man wheeling a barrow full of bags of gold or silver to deliver to another man, of whom an estate or some property had been bought, and the man receiving the gold in this way sending it in a mass, or in various sub-divisions, to other persons to whom

* Vide Sir J. Lubbock's speech in the House of Commons on 26th March, 1873.

he was indebted, and so on, is now effected through Bankers, to be met with in Peterborough as well as in every town throughout Great Britain. No matter in what part of the kingdom a payment is to be made, the transmission is readily undertaken by any Banker as a regular part of his business, and at very little expense the whole transaction is effected, and generally by the mere entry in books, and, as I have before said, one or more letters by the post.

The way in which money ordinarily finds its way into a Bank is in the shape of deposits. Such deposits, though at the disposition of the depositor when he may desire to withdraw them, are nevertheless completely under the command of the Banker whilst they remain with him, and whatever profit he may derive from the use of so much money becomes his own, and is a clear gain of profit to the country, if, at least, such money would otherwise have been kept in an unproductive state in the hands of the original depositor. A private individual, if a landowner, or an owner of property of which the income is paid in various parts of the country, employs his Banker to receive all this money immediately it is collected, and uses it only as he may require it, his Banker meantime making whatever use of it he thinks he can safely do; and thus, what one individual is doing on a small scale, is being repeated until the aggregate of money thus turned from an unproductive to a productive state is very large, and constitutes one of the most important economical advantages derived by the country from our extended system of Banking—a system which is still capable of being expanded to a very great degree, and with great benefit to the community at large. The business of a London or a country Banker—of a private or a Joint-Stock Bank—is precisely the same as to all matters of principle. Each and all are required to use great caution as to all investments of money deposited with them, and which may be withdrawn at call, that is, at the immediate will of the depositor, without any notice; and this is more especially incumbent on Bankers who allow interest on money deposited with them, for it may be reasonably supposed that persons, particularly those engaged in trade, and requiring the use of all their capital, will not leave more money in the hands of a Banker who allows no interest than the necessities of their trade require, or than they consider sufficient to repay the Banker for the trouble they give; whereas the Bank which allows interest may, and frequently does, accumulate large deposits, placed with it by persons who do not intend so to leave them permanently, but who are glad to make some interest until any better opportunity for employment may occur, and this may be very suddenly, at a moment when, without great care in its employment having been exercised by the Bank, it is not easy to convert the investments into cash without loss; for it must always be borne in mind, that the very principle on which a Bank is conducted, that of causing economy in the use of gold and silver, is inconsistent with the power of converting all investments immediately into cash—I mean, of course, all at the same time. To render this possible would require large stores of unemployed capital to be kept in gold in an unproductive state; and it has been shown that the great advantage of all Banking expedients is to render this unnecessary.

Various calculations have been made, and many estimates framed, to show what is the amount of money altogether in this country. It is very easy to know what is the amount of paper-money,—I mean Bank Notes. The nearest return of Bank Notes in circulation on 28th December, 1872, shows that the amount of all Bank Notes, of every description, in England, Scotland, and Ireland, was about £43,500,000 sterling; but it is by no means easy to obtain even an approximate statement of the amount of gold. Before a Committee of the House of Commons in 1867, the Governor of the Bank of England stated, as his opinion, that the amount of gold coin was from forty to fifty million pounds. The late Mr. Miller, Chief Cashier of the Bank of England, who gave a great deal of attention to this subject, considered that it was then not less than eighty million pounds of gold, and about twelve million of silver. I incline myself (although I profess to have very little data on which to form an opinion) to think that both these gentlemen were in error, and that the real amount, although somewhat less than the calculation of Mr. Miller, is still considerably nearer his statement than that of Mr. Weguelin.* Be this, however, as it may, I feel no doubt whatever that, were it not for the Banking expedients adopted throughout the country, at least double the amount of gold and silver would be required for the wants of the country. I would, however, go much further, by expressing an equally strong conviction, that without these Banking arrangements or expedients the trade and general prosperity of the country could never have attained its present gigantic proportions.

There is one point which I must not omit to allude to, as having an important bearing on all Banking operations, and that is, the quality of moral worth. This very important ingredient, in connection with all human actions, is not of a nature to be estimated by any money value; but it does not, on that account, enter otherwise than largely into the consideration of the way in which Banking is carried on in this country, and I hope in every other country in the world. And as this is

* It is probably now not less than £100,000,000.

an ingredient which every man can possess, if he is earnestly desirous of possessing it, I think some allusion to its value cannot be inappropriate in connection with our present discussion.

We are all destined in this world to earn our bread by the sweat of our brow; and I know no trade or calling in which high religious and moral qualities can be more sensibly appreciated and brought to bear for practical utility in our journey through life than in that of Banking. Let me find a man honestly striving to use his best talents and energies in the endeavour to discharge his duties to the best of his ability in that position of life in which it has pleased God to place him—acting as if he were convinced that he can only succeed by living a life based on sound religious principles, which he will never violate for any worldly objects that may appear to tempt him out of his path of duty,—and I would infinitely prefer to deal with that man as a Banker, or trust him as a correspondent in business with the use of money, than a man of the greatest wealth acquired by less honest means, and acting as if he thought lightly of honesty and integrity. Honesty is a quality which many political economists have thought deserving of at least an equal value as industry and credit; and we, who are connected with trade, know how immeasurably superior it ought to be esteemed above every other qualification for a good man of business, The old adage, that "honesty is the best policy," should be prominently placed up in the office of every Banking establishment, and should be engraved on the mind of every one who wishes to obtain credit amongst capitalists. I confine these remarks, of course, to worldly objects; this is not a place in which it is necessary for me to enter on such a question as honesty proceeding from higher motives.

If I have carried you along with me sufficiently to see how the Banking trade of this country has been productive of utility and economy, you will, I hope, feel inclined to pardon the somewhat dry details into which I have been led to enter; and you will also, I trust, admit that the subject is not altogether barren of interest to us all, and not undeserving the consideration of an hour in this room.

The foregoing Lecture contains a brief abstract of the general proceedings of the Bank of England; and the purpose for which it was introduced was to afford an illustration of the advantages and economy to be derived from a good system of Banking.

Since the Lecture was delivered, however, many applications have been made to me to procure for different friends, interested on public grounds in a more extended and general system of Banking in other countries than England, some printed account of the mode in which the business of the Bank of England is conducted. In several parts of Europe the attention of Governments, and consequently of statesmen, is turned to this subject, and a knowledge of the action of the Bank in its separate departments is desired as an assistance in enabling others to mature plans for improvement in their respective systems. I have been induced for these reasons to put on paper some remarks relating exclusively to the Bank of England, showing in what way its separate departments are brought into unison in the general scheme of management, and in what way the detail of the business is generally conducted. *This*, even, is of an abstract nature, but the information given is far more detailed than was required in the Lecture to which I have alluded. The remarks are merely an amplification of the Lecture; and if they will serve no other purpose, I venture to think they are worth keeping amongst our Bank documents, as I believe they may be considered as giving a tolerably correct account of the mode in which business was conducted at the Bank of England at the commencement of the year 1860.

The Bank of England was established in 1694, and certain privileges and immunities were secured to it by a Royal Charter granted by William III., and dated 27th July in that year.

During the succeeding 150 years its operations, which were considerably augmented from time to time, assumed greatly increased proportions. It is needless to recapitulate the various Acts of Parliament which affected its constitution until the celebrated Act of 1844, which regulated the Banking operations of the whole country, and prescribed the conditions in accordance with which the Bank is now conducted.

Up to this period the Bank of England, as also private Banks with not more than six partners, could issue notes without restriction, whilst the "promise to pay" expressed upon the notes was guaranteed only by the desire and ability of the issuers to keep faith with the holders of them. The Act of 1844 prohibited in future all issues by newly-formed private or Joint-Stock Banks, and restricted such issues as then existed within certain fixed amounts.

It is not intended to enter minutely into the provisions of this Act; suffice it, that those which more particularly affect the constitution of the Bank are:—

1st. Those which created the "Issue Department," by means of which the issue of notes is distinctly separated from the Banking Department.

2nd. Those limiting the issue of notes to such a sum as the Bank may hold in bullion (of which a fourth part may be silver), in addition to a sum of £15,000,000 issued on securities, whereof the debt due by the public to the Bank formed part. And,

3rd. Those compelling the Bank to purchase any amount of gold offered to it at a certain fixed rate; or, in other words, to receive in deposit any quantity at a certain rate in exchange for Bank Notes.

The Act by this means secures, as far as possible, that gold shall be the basis of the currency of the country, the circulating medium expanding or contracting as gold is plentiful or scarce, or as if it consisted of gold only; and also acts as a guarantee to the general note-holder for the convertibility of his note. This last is assured by the special constitution of the Issue Department, where the right is confirmed of demanding at any moment coin for notes; and, further, by the weekly publication of the accounts of this department, which explain at a glance, and in the simplest language, that the issue of the notes is the same as the bullion of which the Bank is possessed in this department, and the £15,000,000 issued on securities.

For the privileges in regard to the issuing of Bank Notes, and for exemption from duty on them, the Bank yielded to Government a sum of £198,578 per annum. The Bank, however, makes no additional profit on any issue beyond £15,000,000. On the contrary, as its only remuneration is derived from the interest on the £15,000,000, less the annual sum allowed to Government, and the expense of fabricating and maintaining in circulation the total amount of the issue, it is evident that the cost of every note issued beyond the sum of £15,000,000 is a direct charge on the Bank for the benefit and convenience of the public.

The Bank also acts as Banker for the State, and undertakes the management of the Funded Debt of the country. For this latter service it receives direct remuneration.

The Bank at the same time transacts, on an extended scale and on its own account, the ordinary business of a London Banking establishment.

It is intended to explain in the following account, somewhat in detail, how the three departments into which the Bank is thus divided are carried on, and brought into united action. For this purpose the following order will be found convenient for consideration:—

1st. Management of the National Debt.

2nd. Issue of Bank Notes.

3rd. Banking Department.

NATIONAL DEBT.

1st. The Management of the National Debt.

Stock Offices.—The mode in which the connection of the Bank with the National Debt has been formed, can be seen in the Loan Acts which have from time to time been passed by the Legislature on the various occasions when loans have been contracted. A clause will be found in every Act to the effect that so long as the Bank of England continues to exist as a Corporation, books shall be kept in that Bank in which the name of every stock proprietor shall be entered. In the first instances these entries are confined to the original subscribers to the loan, whose names are sent in to the Chief Cashier, to whom the instalments are paid, and he grants a scrip certificate for the amount paid, in which certificate the name, residence, and quality of the subscribers are entered. This certificate is then taken to the Stock Office, the amount entered into the Scrip-book, and the certificate left with the Bank. The name and amount are then copied into a journal, from which they are entered into the ledger, and the scrip then becomes stock, transferable at the pleasure of the proprietor; the whole operation of converting the scrip into stock requiring but one day. The total of the entries in the ledgers will then correspond with the total amount of the specific loan.

The ledger being now complete with the accounts of each original stockholder, and the holders being able to sell according as buyers appear, all further transactions proceed without any interference, in the first instance, by the Bank. The Bank in their capacity of managers or account-keepers of the National Debt, neither buy nor sell, although as Bankers, or in their corporate capacity, they may buy or sell, as may any other stockholders. Buying and selling stock is carried on principally through the intervention of stock-brokers. A person wishes to buy £1,000 of a particular stock, say 3 per Cent. Consols; he applies to his stockbroker, who deals with a person called a stockjobber, and having agreed as to the price, the broker sends to the Bank a transfer ticket or request to have a certain amount of stock transferred from the name of A, a seller, to B, a buyer. One of the clerks of the Bank, who attends to the stock transactions of all accounts beginning with letter A, refers to the ledger to see that such an amount of stock is on the account of A, and he then copies from the transfer ticket left by the broker, into a book called the transfer book, which consists of blank forms of transfer, printed according to the regulation of the Acts of Parliament, the name into which the stock of A is required to be placed. In the meantime the broker has prepared a document called the stock receipt, agreeing in the main particulars with the entry made in the transfer book; and when A comes to make the transfer (having previously been identified to the satisfaction of the Bank), he signs the book, which is a formal discharge to the Bank for that amount of stock, and the stock receipt, which is handed to B, the buyer, as an acknowledgment both for the money received in purchase of the stock, and a voucher that the said amount of stock has now become B's property. From that moment A ceases to have any control over that particular amount of stock. It is at once entered in the name of B, and B stands in the place of A, and can in like manner, on being identified, deal with the stock by selling to C. It matters not into how many accounts A may wish to transfer his stock; for if, instead of selling the whole amount to B, he sells one half, or £100, or sixpence, the same operation goes on with respect to that particular part as if he were selling all the amount standing in his name. Each transfer is a perfect deed of conveyance, and the book is so contrived as to be at the same time the journal by means of which the entries in the ledger are posted or checked. If the seller of stock lives away from London, and cannot or does not wish to make the transfer himself, he can give a "Power of Attorney" to any person to act for him, the charge for which is 1s. 6d., and a Government stamp of 10s. on the power;* but if the seller desires to make the transfer himself, no matter into how many accounts he may wish to subdivide his stock, the transfers are made without any charge whatever by the Bank, provided the transactions be made on the regular transfer days. If they take place on other than those days, there will be a charge of 2s. 6d. for each transfer.

The transfer tickets formerly mentioned, and which are looked upon as the very foundation of all stock transactions, are scrupulously preserved by the Bank in a place set apart expressly for them, and removed from the vicinity of the stock ledgers. If, therefore, the ledgers should at any time by mischance be destroyed, the possession of these tickets, together with the dividend books of the preceding payment (copies of which will have been supplied to the Government), would at any time enable the Bank to prepare fresh ledgers. The process would of course involve an immense amount of labour and care, but still it could,

* By an Act passed in 1860, the duty on Powers of Attorney for the receipt of dividends not exceeding £10 per annum, or for the sale of Stock not exceeding £20, was reduced to five shillings; and by a subsequent Act the duty on Powers of Attorney, for a continuous receipt of dividends on any amount, is reduced to five shillings, and for the receipt of one dividend only, to one shilling.

and doubtless would, be successfully carried into operation.

The dividends on all English stock are paid half-yearly, either in January and July, or April and October; and about five weeks before the day on which the dividends on any particular stock are payable, the books of that stock are, as regards the general purposes of transfer, closed, that the dividend books and the necessary warrants for payment may be prepared.

The dividend books are made up by the following process:—

The name of each proprietor is entered on a "slip," with the capital stock belonging to him, the half-yearly interest, the amount to be deducted for income-tax, and the net sum payable after the said duty has been deducted. These slips are then sent to the printing office, where all the particulars are set up in type and stereotyped, forming metal plates, which are arranged in order; they are then printed, and eventually made up into volumes forming the dividend books. The columns appropriated to principal, interest, duty, and net sum being respectively cast up, and the total amounts of the dividend books added together, show the aggregate of stock on which dividend is payable, and the amount of the dividend itself.

The dividend books having been made out and agreed, the warrants for the payment of the dividend are then prepared. For every individual account contained in the dividend books, a warrant specifying the principal amount of stock and the interest to be paid thereon, is printed from metal slips in a similar manner and order of arrangement as the dividend books; and when the warrants have been carefully read over and checked against the dividend books, and are found to be correct, the preliminary arrangements for the payment of the dividends are complete.

The preparation of the dividend books and dividend warrants is a work of great magnitude. There are from 200,000 to 220,000 holders of stock in the Bank, and the weight of metal forming the stereotype plates from which the dividend books and the dividend warrants are printed is equal to 70 tons.

Dividend Rooms.—Immediately previous to the first day of payment, the dividend books and the warrants are passed from the Transfer Offices into the Dividend Rooms. The books being arranged on the counter in alphabetical order, and the warrants deposited in drawers inside the counters, both are presided over by a numerous staff of clerks, whose duty it is to deliver the warrants to the stockholders as they appear to receive their dividends. The parties applying must name the amount of stock of which they may be possessed, and state the name, or names, in which the same may be standing. If right, the applicant is required to sign the dividend book as an acknowledgment that the dividend has been received, and the warrant for the amount is then handed to him. This he also signs, and his signature to the same having been attested by the clerk who is attending upon him, the warrant is finally handed over to the applicant, and from that moment may be considered as so much money. He can pay the same in to his Bankers, he may pay it away as money, or he may at once present it at the counter of the Dividend Pay Office (which is immediately contiguous to the Dividend Room), and receive, either in notes or gold, or partly in both, the amount the warrant may represent.* The functions of the Dividend Pay Office will be found in greater detail under the head of the Banking Department, as it is more particularly a branch of that division.

Cheque Office.—The warrants thus paid in the Dividend Pay Office are handed over, day by day, to the Cheque Office. The duty of this office is to make up the amount of all the warrants passed to it, and see that they agree in the aggregate with the amount paid upon them by the Dividend Pay Office. The warrants are from time to time sorted into numerical order, and the principal and

* Dividend warrants are now sent by post at the request of the holder of the stock, under the authority of the Act 32 & 33 Vic. cap. 104. In 1872, 23,416 warrants were thus sent.

interest of each warrant are entered on sheets of paper printed with numbers corresponding with those in the warrants. When the greater part of any particular dividend shall have been paid, the total amount contained in all these sheets added together will be the amount already paid. The numbers against which no entries have been made will represent the warrants that have not yet been applied for, and those which have been drawn but not presented for payment. These exceptions are checked by reference to the warrant drawers in the dividend rooms and the dividend books; and, thus substantiated, it is obvious that the amount of those already paid, those not drawn from the Bank, and those drawn but not paid, will make the gross amount of the dividend. Formerly the warrants relating to each particular stock, and a copy of the sheets above alluded to, were sent to the Audit Office, Somerset House, in evidence that the dividends on the said stock had so far been paid.*

Power of Attorney Office.—The powers of attorney taken out for transfer and the receipt of dividends amount in the course of a year to about 31,000. These are issued from the Power of Attorney Office, and the greatest care and attention are required, in the first place, in the preparation of these most important instruments, and the

* The Government has now dispensed with this evidence, and the warrants remain in the possession of the Bank.

most careful and discriminating examination when they are returned to the Bank after execution. It must be borne in mind that all transfers in stock effected by means of forgery are at the risk of the Bank, and although every reasonable care is taken to prevent error or fraud, yet it is impossible, without imposing such restrictions as would be a great impediment to public business, to avoid occasional mistakes, and, consequently, the Bank is not only exposed to risk, but does at times actually incur severe losses.

Register Office.—Another office immediately connected with the management of the National Debt is the Register Office. In this office a registration is made of all Wills and Administrations lodged at the Bank, for the purpose of substantiating claims to the various amounts of stock standing in the names of persons deceased. At the expiration of three days they are delivered up to the parties depositing the same, or to their order; and, in the meantime, the deceased person's account will have been "made dead," as it is called, in the Bank books, in the various stock accounts in which his name may appear. In this way upwards of 4,500 Wills and Administrations are dealt with annually.

Unclaimed Dividend Office.—It must be obvious that from many causes, amounts of stock, and the dividends thereon, will from time to time remain unclaimed. Parties die intestate, and the relatives are not aware, perhaps, that they were possessed of stock. Others leave the country, and perhaps never return. Suffice it, that large amounts do so remain unclaimed. When such amounts have remained unclaimed for ten years, it is the custom to transfer the same to the account of the Commissioners for the Reduction of the National Debt; but the parties entitled can at any time make good their claim if they be in a position to prove their title, and upon such satisfactory proof being forthcoming, the amounts will be re-transferred by the Commissioners. Until lately the means of obtaining knowledge of such claims were very circumscribed, but within the last year or two the Government has taken a most laudable step in furtherance of these unknown claims. An office has been established in the Bank called the Unclaimed Dividend Office, and the duty of the clerks in that department, the expense of which is defrayed by the Government, is to trace out from the old unclaimed dividend books all the cases in which any information can be obtained; and in this manner no less than 10,517 claims have been satisfactorily adjusted since the institution of the office in August, 1856.

Stock Office Library.—The Stock Office Library of the Bank contains the old stock ledgers, transfer books, dividend books, power of attorney cases, and numerous other books and documents from the establishment of the Bank in 1694, commencing with the original accounts of Bank Stock created at that early period, and embracing the various Government stocks and securities from the respective dates of their creation down to the present time. There are upwards of 100,000 of these books and documents, which are all placed under the immediate charge of a librarian, and so systematically and conveniently arranged that reference can readily be made to any of them. They are all in good condition, and their due preservation is a matter of considerable moment. It is not too much to assert that the titles of all who have at any time been possessed of Government stock can be proved by these means more readily and satisfactorily than is the case with many other descriptions of property; and that, if occasion should require, the whole of any Government loan could be traced from its present possessors, through the various holders, to the original subscribers, and that the legal possession of any one holder, at any period, could be clearly established. No reference, however, can be made but by those persons connected with the business of the respective stock offices, and all references are registered, being signed for by the parties making them. The books in this library contain a very interesting and valuable collection of autographs, embracing among their number those of some of the most remarkable persons of their day.

To carry out the management of the National Debt it is estimated that about 200 persons are constantly employed, with an additional staff of about 50 when the dividends are paid. Ten rooms are entirely devoted to the purpose, and upwards of 1,700 books are in constant use. The remuneration made to the Bank for this service is at the rate of £300 per million for the first £600,000,000, and £150 per million for the remainder of the capital stock, and amounts at the present time to about £200,000 per annum.

It requires the peculiar education of the man of business to apprehend at a glance the amount of labour involved in the production of results such as those just described. The number of transfers, for instance, is about 136,000 in the course of the year, and this operation alone necessitates 272,000 alterations of accounts, because for every transfer made the amount must be taken from one account and added to another. This is one instance, out of many, of the work involved in this department of the Bank. Again, at the making up of the dividend books, every single account must be agreed, the interest calculated, the tax estimated and deducted, and the net sum to be paid ascertained; and as a single mistake in any one of these operations would throw out the whole, it must be discovered and set right. Thus, as dividend after dividend becomes due, it is found that the whole of this complicated process has been completed, and on the day of payment the stockholder applies for his money without a shade of doubt on his mind either as regards the operations of the Bank or the good faith of the State with the public creditor;—and yet there is involved, in the course of each year, the payment, twice over, on 214,000 accounts, of the interest on more than £700,000,000 of money.

The Bank has also undertaken the management of the East India Stock, Metropolitan Consolidated Stock, and of the various funds raised, and the interest on which is guaranteed, by the Council of India, viz.:—

India £5 per cent. Stock.
India £4 „ „
East India £4 per cent. Transfer Loan.
Rupee Promissory Note Paper.

In no other country of the civilised world is there exhibited so bright an example of national integrity on the one hand, and of simple unsuspecting confidence on the other, as is shown in this vast monetary connection betwixt the Government and the people; concerning which only the faintest outline of its administration by the Bank of England has been attempted in the foregoing pages.*

Number of Transfers and of Accounts in the Government Funds in the years 1839, 1849, 1859, 1865, and 1872 :—

Years.	*Transfers.*	*Accounts.*
1839	201,190	279,584
1849	190,912	277,506
1859	171,881	269,304
1865	162,187	245,973
1872	136,000	214,000

Capital of the Unredeemed Debt of the United Kingdom as per published return :—

5th January,	1839	£761,347,690
,,	1849	774,022,638
31st March,	1859	786,801,154
,,	1869	740,418,032
,,	1872	730,986,800

* In 1861 the "shuttings" were abolished. On 1st of March, June, September, and December, the balance of each separate account is struck, and transfers may be made on the following day, ex-dividend, so that stock may now be sold and transferred every day in the year, holidays excepted.

ISSUE DEPARTMENT.

2nd. The Issue of Bank Notes.

I now come to the second great division of the functions of the Bank of England, viz. the Issue of Bank Notes; and this operation is carried on at present under the conditions imposed upon the Corporation by the Act of 1844.

The first requisite of a practical nature is the preparation of the notes themselves. The paper required in their manufacture has for many years past been made at Messrs. Portal's mills at Laverstock, Hampshire, and about 13,785 reams are usually supplied to the Bank yearly at a cost of 19s. 9d. per ream of 500 pieces of paper, which is generally kept for six months before being taken into use. The dies from which the water-mark is made, as well as the plates used in printing the notes, are all manufactured at the Bank, and the printing machinery and printing are placed under the joint care of the chief printer (Mr. Coe), and the engineer (Mr. Hensman). The chief cashier regulates the quantity of notes required to be printed, and sends orders to the printing-office for the number he deems requisite. The notes are printed by two distinct processes, the first of which—embracing every detail, except the numbering, dating and signing—having been completed, they are handed over to the superintending cashier of the Bank Note Store, who then becomes responsible for their safe custody. The second process—that of printing the numbers, dates and signatures, in the skeleton notes—is entered upon as they are required for issue, under the direct inspection of some of the cashiers, who count them over, see that they are all right, and discharge the printers of all further responsibility. The notes thus prepared for issue are then deposited in the treasury, and kept ready for daily use.

When the chief cashier from time to time orders the numbering and dating of Bank Notes he gives the chief accountant notice thereof, specifying how many are to be prepared, and the dates they will respectively bear. The accountant immediately opens a general credit for the amount of the new creation of notes, and at the same time prepares books in his own department, called ledgers, numbered and dated to correspond with the notes in question, in which a separate credit is opened for every individual note made.

The notes being now ready for use are drawn from the treasury, as occasion may require, by the chief cashier, and passed into the Issue Department, from which they are issued to the public, to the bankers, to the banking offices of the house, and to the respective branches, so that this department is cognizant of, and virtually responsible for, the issue of all the notes circulated by the Bank of England. There are two principal ways in which notes get into circulation. In the first place, any one can demand notes in exchange for sovereigns; and, secondly, any person having a drawing account at the Bank has only to draw a cheque, and on its presentation he will be paid the whole or any part of the amount on his account in notes, or notes and gold, as he may prefer. Every note issued is entered by its number and date in the books of the Issue Department, and these books being all duly balanced at the close of each day, all the remaining notes (including those considered as broken cash, in the portfolios of the pay clerks, and deposited each night in the treasury) are returned every evening to the cashier, whose account will then show the number of notes issued in the course of the day. Simultaneously with this process, another will have been in operation through the day, and in the same department, viz. the exchange of notes for gold. The Bank Note being a promise to pay the amount thereof in gold on demand, any one bringing notes to the Bank is entitled to make this demand, and during each day large amounts of gold are given in exchange for notes. The cashier's daily account, therefore, will show the number of notes received back again by the Bank in this way, as well as all paid in to account by parties having drawing accounts at the Bank. A similar account in abstract of all notes exchanged for gold, or gold exchanged for notes, and of notes paid or received in the banking offices, is kept by the accountant of the Bank, whose accounts must agree daily with those of the cashier.

It has already been mentioned that as the notes are from time to time numbered and dated for issue, the accountant is made acquainted therewith, and that he prepares ledgers containing a separate credit for every note issued. When the notes are returned again to the Bank for payment, these individual credits are cancelled by the date of the return of each respective note being posted in the ledger against the number corresponding with that borne by the note itself. Thus it will be seen that the amount of the credits closed, or, in other words, the number of notes paid in, being deducted from the circulation account, will show at the close of each day the actual number and amount of the notes remaining in circulation.

When notes are received by any Bank clerk they are at once cancelled, which is accomplished by tearing off the corner bearing the signature of the cashier, and subsequently they are further defaced by the amount placed in the left hand corner being punched out. When cancelled and written off in the books of the accountant's office, the notes—which will previously have been separated into amounts and dates, and sorted numerically—are tied up in parcels varying from 300 to 1,500, and each individual note will have upon the face of it a stamped mark, which will bear such reference to the balance-sheets of the day as will enable a clerk in the space of a few minutes to state by whom and when the said note was paid into the Bank. These parcels are then deposited in the accountant's library, and put away in boxes containing from five to six bundles of 1,000 notes each, and are preserved for seven years, at the expiration of which period they are burnt upon the premises. During these seven years any note can be referred to and the particulars of payment ascertained, provided sufficient description can be given as to the number, date, and amount. The number of notes paid into the Bank and cancelled daily, varies from about 32,000 to 67,000, giving an average of about 46,000 a day.* In the library just mentioned there are 16,500 boxes containing the bundles of Bank Notes, and the notes themselves generally amount to the almost incredible number of 93,000,000, any one of which can be referred to in about four or five minutes. The whole of this vast and expensive arrangement is maintained for the convenience of the public, that they may have the opportunity of tracing Bank Notes, should occasion arise. As far as the Bank

* The number of these notes cancelled in 1852 was as follows: 24,000 to 42,000, or an average of 33,000 per day.

is concerned the notes might be destroyed as soon as they have been paid, and the obligation expressed upon them thus fulfilled.

The number of persons employed in the printing department solely on the production of notes is about thirty, including twenty-four boys, who supply the machines; in addition to these, there are nine cashiers, who are highly-paid officers of the Bank, and eight store clerks.

The number of clerks employed in the department for the exchange of notes for gold, and gold for notes, is about eleven, and the number in the treasury having the custody of the notes ready for use is about three.

The number of clerks and other persons employed in the accountant's department for entering, posting, and pricking off notes as received, is one hundred and twenty, including sixteen inspectors, whose sole business it is to inspect notes for the purpose of detecting forgeries and giving the earliest intimation for inquiry, if by accident a forged note shall have been paid. As the bulk of notes paid in daily to the Bank are received from the London Bankers, who leave their parcels some hours for examination, there is great opportunity afforded to prevent any forged note from being cashed.

Bullion Office.—Another part of the Bank, which is directly connected with the issue of notes, is the

Bullion Office. As the Bank is bound by law to buy any amount of gold at the rate of £3 17s. 9d. per ounce of standard gold, or, in other words, to give its notes or acknowledgment at that rate, it is quite necessary to have a department where the bullion so acquired may be placed in safe custody. The obligation on the Bank to buy gold or bullion at the rate of £3 17s. 9d. per ounce standard is a convenience to the public who require an exchangeable commodity such as coin, instead of gold as imported, in the shape of bullion—bullion meaning gold or silver in any other shape or form than coin. If an importer of gold wishes to sell, that is, to obtain gold coin which he can pay away, he can take his bullion to the Mint, and for every ounce of gold of twenty-two carats fine, or twenty-two parts out of twenty-four pure gold, he will receive gold coin at the rate of £3 17s. 10½d. per ounce; but to obtain this he must send the gold to the Mint, and wait some days for the coin. It is therefore found more advantageous to the seller to take the gold to the Bank and receive 1½d. less per ounce; this operation being effected without any loss to the Bank, which sells again the same bullion at a charge of £3 17s. 10½d. per ounce. The Bank only sends its bullion to the Mint as it may be in want of gold coin. Frequently it sells foreign gold coin at a small profit, as it may be worth more to an exporter—for instance, to Russia—to have Russian gold coin than either bar gold or sovereigns; but, in all cases, the rule of the Bank is to buy gold only at such a price as will render it equivalent to gold coin—that is to say, at a rate for which without loss it can always convert the bullion into coin at the Mint.

The Bullion Office at the Bank is also made use of as a depôt or warehouse for gold or silver, or other such valuable commodities—diamonds or precious stones, for instance; and importers are allowed to deposit and retire their goods free of charge, the Bank being remunerated by small payments for the use of the Bank scales, packing bullion for export, or collection of freights on bullion, &c., so that this department does not add anything to the general expenditure of the Bank, but, on the contrary, yields, though an uncertain, yet always some, annual profit.

There is a department in the hall called, for distinction, the In-Tellers' Office, in which about twelve clerks are employed in taking in silver from the Bankers and others. In this way, about £665,000 worth were counted over, weighed, and carefully examined in the course of the year 1872, in addition to nearly £1,000,000 of new silver from the Mint.*

* In the year ending October, 1866, £2,200,000 worth was counted over, &c., as well as £500,000 new silver from the Mint.

Gold Weighing Room.—All gold paid into the Bank is weighed in a room called the "Gold Weighing Room." In this room there are ten machines (the invention of Mr. Cotton, a former Governor of the Bank) constantly at work. It is merely necessary to keep them fed with sovereigns and half-sovereigns, and the whole process of weighing and dividing the light from the full-weight coins is performed by the machines themselves, at the rate of about 2,000 an hour each, and with an accuracy and precision that could not possibly be attained by manual labour. In this manner, in the year 1858, £17,814,070 worth of gold coin was weighed and sorted, and the number of individual pieces amounted to £18,871,425. As each gold coin paid into the Bank is very accurately weighed, to the daily average of about 63,000, and those found to be light are cut, the current weight of the circulation is to a considerable extent preserved.

The machines are kept in motion by an atmospheric engine, connected with the steam engine, and the light coins are immediately cut, to be re-melted.

BANKING OFFICES.

3rd. Government and Private Banking.

The Offices which are embraced under this title are those in which the ordinary business of the Bank as London Bankers is transacted. The most important of them are the Private Drawing Office, the Public Drawing Office, the Bill Office, and the Dividend Pay Office, which are all intimately connected in their operations.

Private Drawing Office.—The Private Drawing Office is, for the sake of convenience, devoted entirely to the custody of private accounts. Any person may open a drawing account at the Bank upon being respectably introduced, the sole condition being that the account shall be remunerative to the Bank. This condition will be fulfilled if the ordinary balance on the account be sufficient to enable the Bank, by the use of such balance at the average rate of interest for money, to realise a profit over and above the expense of keeping the account. The amount of balance required in order that an account may be considered remunerative, will of course depend upon the number of cheques paid, and the amount of work otherwise required to be done. There is no stipulated sum insisted upon as a cash balance; but the head of the department will always explain to any person, on his opening an account, what kind of balance would be deemed remunerative. As a rough guess, it has been considered, that unless the Bank can receive as interest, during the year, 6d. for every entry of a cheque paid, there would be no adequate remuneration. Suppose, for instance, that a customer keeps an average balance of £500, it would be necessary to keep £100 unemployed, and the remaining £400, at 3 per cent., would yield an interest of £12 a year. Now, if not more than 480 cheques are drawn in the year, the balance would be considered remunerative, 480 at 6d. being £12. If, however, such account were used at the rate of 1,000 cheques, or drafts for payment, in the course of the year, the case would be different. Some accounts are allowed to be kept without the necessity of a balance being insisted upon; but a charge, in proportion to the quantity of work required to be done, is made annually—this plan is, however, an exception to the general rule.

The Bank affords every convenience to its customers, and will buy, or sell, or take charge of securities, receive their dividends of all kinds, and make payments at almost any place; and although accounts are not allowed to be overdrawn, the Bank is always ready to discount Bills, if considered good, for its customers, and to make advances on such securities as it is in the habit of receiving; but these advantages are only afforded to those who keep either their sole account at the Bank, or what is considered a remunerative balance. It is the duty of the head of the department to see that all the accounts are fairly worked, and that the Bank is thus remunerated for the work done. If an account is not considered to be fairly worked, the customer is communicated with, and if the representations made are not attended to, the account is ordered to be closed.

The ordinary business of receiving and paying money on Banking accounts is transacted in one large room, divided into three parts, one of which is the office now under consideration, in which the ordinary customers of the Bank transact their business at a long counter divided into sections, alphabetically, to save time and prevent confusion. In this part there are clerks always at the counter, receiving or paying money, and as they are responsible either for paying forged cheques, or for allowing accounts to be overdrawn, they have the most ready access to the ledgers, which are kept constantly posted up by separate clerks, so that any clerk at the counter can immediately ascertain, before paying a cheque, whether there is sufficient balance on the account.

If cheques requiring collection at a distance are paid in to the credit of an account, time must be allowed for the receipt of money before it can be drawn off; but the endeavour of the Bank is to afford every facility, consistent with security, to enable its customers to make use of every kind of order for payment, by turning it into cash as quickly as practicable.

All the London Bankers and Joint-Stock Banks have drawing accounts at the Bank, and a division of this office is especially reserved for their convenience. The great advantage gained by the Bank, and by the Bankers adopting this course, is the power of conducting their vast daily exchanges of drafts and bills, &c., without the necessity of Bank Notes or coin, and, consequently, with very little risk from loss or fraud. This division of the Drawing Office is a most valuable adjunct to the Clearing-house,—in the settlements of which last year exchanges to the enormous sum of £5,893,446,000 were effected for the Clearing-house without the use or employment of one single Bank Note or coin of any kind. The number of separate accounts kept in this office, as ordinary deposit accounts, is about 5,000.

Public Drawing Office.—The province of the Public Drawing Office is to take the management of all Public or Government accounts, but this definition is not strictly preserved, as there are a number of accounts usually called public which are not Government accounts, such as the Trinity House, the Accountant in Bankruptcy, the East Indian Railway, &c., &c. The separation of the public from the private accounts is merely made to insure, by the sub-division of labour, greater convenience both to the public generally and to the clerks of the Bank. There is no practical difference whether money is paid or received on a Government account, or on any other account which may be kept at this separate department; all receipts in the day go to the credit of deposits, and all payments are charged to deposits, and the balance at the close of the day must agree with the cash brought in to the cashiers as money not used, after accounting for all payments and receipts made during the day.

There are about 140 clerks employed in these two Drawing Offices, and about 221 books in constant use.

Bill Office.—In the Bill Office all Bills of Exchange belonging to customers, or bills which have been discounted belonging to the Bank, are kept duly sorted and so arranged as to be presented without fail at maturity. About thirty-two out-tellers are engaged in this duty, and in presenting also the various cheques which are paid into account at the Drawing Offices during the day. There are two collecting circuits, called the "Out Walk" and the "City Walk." In these, which include all West-End Bankers and the suburbs of London, there is only one collection daily, at eleven o'clock in the morning, so that drafts on places of business within these limits, which are paid into account in the Drawing Offices the previous day, are forwarded the following morning; but, on City Baukers, included in the Clearing-house, the collections are made hourly till three o'clock, and so promptly are the presentations made that cheques paid in to a drawing account up to that hour may be drawn against the same evening. In this office, also, securities which are deposited for safety by customers and others are received and re-delivered, and the coupons and Interest Notes are cashed as they fall due. About forty-seven clerks are employed, and about 121 books are used in recording the bills, &c., for collection and the securities deposited. Although this office adds nothing to the revenue of the Bank, it is most important in the economy of the general business, performing the part of a collecting agent for the other departments in presenting, under a system which ensures unerring precision and great promptitude, all the cheques, &c., they have received, and all bills or Interest Notes which are payable at a distant date.

The Bank grants bills due at seven days' or sixty days' date, the value being paid in cash when the bills are taken out, and the Bank becoming responsible for the payment of the bills at maturity. These bills, which can be taken out for uneven amounts, are a great convenience to parties having occasion to remit money to various parts of England, or even foreign countries, as they are readily taken all over the world upon the credit of the Bank of England; and the person wishing to make a remittance knows that the only expense is the loss of the interest of the money. There is generally an outstanding balance of about £500,000, which the Bank may make use of; the interest which can be made, minus the expense of the office and printing the bills, being to the profit of the Bank.

There are about 85,000 bills issued in the course of the year in London and at the branches, representing an aggregate of about £10,000,000.

Dividend Pay Office.—There is one other department of the Banking Offices which is not adjacent to those already mentioned, but which, for greater convenience, is located in the immediate vicinity of the Stock Offices, and is called the Dividend Pay Office. Every dividend is paid by what is called a warrant, which answers the double purpose of being a cheque payable on demand as well as a receipt, and which is used afterwards as a voucher to produce at the Audit Office in proof of the payment of the dividend which the Bank has charged to the Government. The work in this office is light at any other time than the four quarterly periods for payment of dividends on the Government Stock, when the receivers of dividends not paid through Bankers generally require payment immediately after the receipt of the warrant in an adjoining room.

Frequently as many as 5,000 separate dividend warrants are paid over the counter on these occasions in the course of a single day, when as many as forty-eight clerks are employed in this office.

Discount Office.—There is a separate office for discounting bills, called the Discount Office. The Bank employs a considerable amount of its usual deposits in this kind of security, as it is considered one of the very best modes in which money payable on demand can be safely used. If the sum so employed were generally kept up to about the same proportion of the deposits, say one-third, or one-half—the utmost limit of the date at which bills become due, commonly called the *échéance*, being ninety days, and the average about sixty-eight days,—the amount returning to the Bank for bills daily falling due would be about the same; and thus a very satisfactory control over these resources of the Bank would be maintained. But this state of things—owing to the ordinary habits of London, and the great dependence placed on the Bank to supply additional funds at periods when money or capital has become unduly engaged—it is extremely difficult to maintain; and, consequently, in the management of this description of security the greatest care is required. It has been held by some authorities that the power of raising the rate of interest to an unlimited extent is sufficient to protect the Bank against an undue amount of pressure; but, practically, this has not been exercised with much severity. It has very frequently occurred that, after a long succession of very low rates of interest, indicating a great abundance of unemployed capital, an extent of business has been undertaken far beyond what a judicious regard to safety should have induced; and if, when this state of things is in existence, any sudden apprehension of an approaching scarcity of capital should occur, no rise in the rate of discount at the Bank will immediately check the demand; on the contrary, for a certain time the very opposite effect may be produced, and it is therefore very necessary for the Bank of England to have other sources on which it may depend for a supply of money on such occasions. If the Directors think it desirable to go on increasing their securities by discounting more largely, it is very difficult, though by many authorities considered by no means impossible, for them so to keep their rate of discount exactly on a level with the current rate, as to render it probable that they will have about a similar proportion at all times of the general discount business of the country. But the prevalent desire to extend discount operations, especially by those banking establishments who make their money principally by the difference between the interest allowed on deposits and that which they can make by employment of the same, renders it quite impossible for the Bank, however prudently its own business may have been managed, to make others, with whose conduct it has nothing whatever to do, equally circumspect. At particular periods, for many years past, it has invariably been found that the Bank of England has been looked to for an unusual supply of money at the very time when other banking establishments, and especially the bill brokers of London, have had less available money at their command than usual.

Any person who is carrying on a respectable business in London can have a discount account at the Bank of England, if introduced by any Director to whom he may be known, or by introduction to the Governors with such references as they may think fit to require; and when once introduced and a discount account opened, he may send in bills daily for discount—the quality of the bills, and the amount to be granted, being subject to the approval of the Directors in daily attendance.

Branch Banks.—The country Branch Banks of the Bank of England are all perfectly subordinate to the parent Establishment. They carry on all the ordinary business of local banking—such as receiving deposits, payable on demand—transmitting money—receiving money for customers at all places, and taking charge of securities; in short, each branch carries on the same kind of business as is conducted in the drawing (or ordinary banking) offices in London, in addition to the issue of Bank Notes, seven days' Bills, or Bills at longer dates. The notes issued at a particular branch are payable in cash only at that branch, or in London. The accounts are balanced every night, exactly as in London, and the balance sent up to town daily by post, together with particulars of all the transactions of each day. Any sum of money may be remitted from London to any branch, or between the respective branches, where also stockholders can now have their dividends paid. There are nine of these country branches, and about one hundred and fifty persons are employed at them. One of the most important services performed through the Branch Banks is the remittance of the Revenue, which is paid over by the collectors at the various places of receipt to clerks attending from the Branch Banks for the purpose. Credit is then immediately given to the Exchequer account in London, so that the revenue is made available for the public service with the least possible loss of time.

Western Branch.—The Western Branch, which was established in 1855 at the West End of London, may be regarded rather as an extension of the London Drawing Offices than as a separate establishment. The arrangements, however, differ in no important particular from those at the other branches.

Branch Banks' Office.—All the London business connected with the branches is managed in an office called the "Branch Banks' Office," in which twenty clerks are employed.

The Secretary's Department stands separate from the other departments which have been mentioned, although intimately connected with each. Its chief province is to attend to all such matters as are brought under the consideration of the Court of Directors.

The Secretaries see that all the requirements of the Charter are complied with in respect to the periodical Meetings of the Proprietors, the Election of Directors, &c. They record the proceedings of the Court, transmitting the orders emanating therefrom to the several departments. They summon and attend all Committees, record their proceedings, put them in due form to be reported to the Court, and also attend to all work immediately required by the Governors. In the Secretary's office the loss of notes and bills is registered, and all correspondence arising out of the same is conducted; sometimes as many as 2,700 notes are stopped in the course of a year. Applications for payments on notes where one half is lost, or on lost bills, are here investigated, declarations prepared, and bonds taken. Upwards of 600 separate applications of this nature alone are received annually, affecting property to about £16,000 in value, and requiring upwards of 1,000 declarations to be drawn up. Record is kept also of all the clerks and others in the employ of the Bank, with their salaries, annual augmentations, and promotions; and the monthly pay-sheets for the payment of salaries, together with pensions, gratuities, &c., are prepared, and all expenses of the house are examined. The management of the Bank Provident Society, and the payment of the Annuitants on the Directors' Charitable Fund, have recently been confided to this office. There are generally under the control of this department about fifty unattached clerks, who are lent to the different parts of the house, as the work may require; and all examinations of candidates for admission into the service, and the periodical examinations subsequently required, are conducted here.

As a general rule, all matters and correspondence of a formal nature, directly affecting either of the two great divisions of the house, are conducted by the two Heads of Departments, viz. the Chief Accountant and the Chief Cashier; but all general inquiries are referred to the Secretaries, and all incidental correspondence, in addition to that immediately relating to the Secretary's department, is here carried on, as may be directed from time to time by the Governors.

I do not intend here to enter at any length on the subject of the general management of the Bank, as the principle on which the business is carried on does not differ, so far as I know, from that of any well-conducted Bank in London.

The average amount of deposits being known, and due regard paid to the temporary or permanent character of the same, the first duty of every Banker is to invest, in the best banking securities, all above the amount to which such deposits are likely to be reduced. Of these securities none are better than Bills of Exchange, or loans for short periods, and to these should be added stock or other investments capable of being easily realised. Care must also be taken to reserve such an amount of cash as will enable the Banker to meet the ordinary fluctuations arising from reductions of deposits, without disturbing the general nature of the investments. These investments are called at the Bank of England "Banking Securities," and the amount held by the Bank is published weekly in the 'London Gazette.'

The investments of the capital of the Bank, though classed under the ordinary term of securities, are not necessarily of the same realisable nature; but it is always desirable to keep even a considerable portion of this capital in good banking securities, which can be brought to sale should more than ordinary demand arise.

The general management of the banking securities comes, in the first instance, under the direct cognizance of the Governors, who have always the power of consulting with the Committee of Treasury; and the Court itself is made fully acquainted with not only every transaction affecting these securities, but also every matter of interest in the Bank.

The Issue Department requires no management whatever. As every Bank Note issued beyond the amount of £15,000,000 is represented by bullion in the vaults, and the 15 million itself is invested in Government securities, no risk can possibly occur with respect to this department until the issue of Bank Notes is reduced to that amount, which has never yet been the case.

It has been stated that, as the sum of £11,000,000, which is a large proportion of the capital of the Bank, has been lent to the Government, the Bank is thereby prevented from affording that assistance to commerce which it might be able to render if that sum were invested in realisable securities and available for discounting Bills of Exchange at particular periods. A statement of this kind can only be made by those who are very ill-informed as to the actual state of the Bank accounts. It is true that a large part of the original capital of the Bank was, at some time long past, lent to the Government, and that the State now owes the Bank that sum. The Government, however, pays to the Bank upon the said sum an interest of £3 per cent., or £330,000 a year. This comes to the same thing, as far as the Bank is concerned, as if it held Government stock yielding an interest of £330,000 per annum; and the State could at any moment, with the approval of Parliament, discharge its debt by a mere book-entry in the stock ledgers of the Bank. But the inference is not correct, that the Bank is thereby prevented from making advances, or loans, or discounting to the amount of its capital, as well as to the amount of its deposits, if it were considered desirable. The Bank could pay off all its stockholders and all its depositors without any interference with this Government debt of £11,000,000, provided its note circulation were in the same position of credit, and in excess of fourteen millions sterling, as at present. Say that the capital of the Bank, including the rest or undivided profits considered as capital, is—

	£17,000,000
And that the deposits, including Bank Post Bills, amount to about	28,000,000
The total liabilities in its banking department will be	£45,000,000
The Bank holds banking securities—all perfectly good—to the amount of about	35,000,000
And has generally notes in its banking reserve to about . . .	10,000,000
	£45,000,000

Thus the Bank could discharge all its Banking liabilities, and pay off the whole of its stockholders, without calling on the Government for the repayment of the debt of £11,000,000.

This assumes, as I have already said, that the Issue Department is conducted on the same principles as at present, and that all notes presented for payment can be immediately met by cash. If the circulation were reduced below £15,000,000, the Bank would, under these assumed circumstances, be compelled to call in the Government debt, and this would at all times be provided for by the Government by the creation of an equivalent value of three per cent. stock, which would be bought by the public, and repaid by the Government to the Bank.

I have now given at some length an account of the working of the Bank as carried on in the separate departments alluded to before,—viz. those for the Government National Debt, Issue of Notes, and Ordinary Banking,—and briefly stated the general principles of management. It remains to be seen in what way those three principal divisions are worked by the two heads of departments, and by the Directors. The two chief officers in the Bank establishment are the Chief Accountant and the Chief Cashier. The Chief Accountant has cognizance of all the accounts, including those relating to the National Debt; and the Chief Cashier has charge of all matters relating to money payments or receipts. The early theory of the Bank was to keep the two departments entrusted to these officers entirely distinct; and thus almost every book in the Bank was kept under the superintendence of the Chief Accountant, the Chief Cashier only taking charge of cash, receiving deposits, paying depositors, granting Bank Post Bills, exchanging notes for gold, and gold for notes, and, in short, doing all matters connected with Banking for which no book-keeping was requisite; the book-keeping being all carried on in the department of the Chief Accountant, who required the Chief Cashier to account for all cash paid and received, and by this arrangement he was enabled to check daily all the transactions of the Bank.

The working of these two departments (cash and accounts) has been for many years past much more blended than formerly; but still the theory is mainly kept up, and they continue to act as a check on each other.

The Governor and Deputy-Governor are in daily attendance at the Bank; and there is also a daily Committee, consisting of three Directors, who meet at half-past eleven o'clock, to receive reports of all proceedings at the branches, see that the whole of the securities of the previous day have been lodged with the proper officers, take in or deliver gold or silver from the vaults, approve or reject bills offered for discount, examine from time to time securities deposited by customers, and attend generally to any work required by the Governors.

There are twenty-four Directors in addition to the two Governors, and these, collectively, constitute the Court of Directors. The Court meets for regular business every Thursday, when a statement is made, showing the exact position of the Bank accounts up to the preceding night, and when every matter is brought before it requiring its authority, such as the granting of discount accounts, the ordering of all payments for lost notes, the granting of pensions, and all other matters which the Governor has not authority to carry out on his own responsibility, as well as those which the Governor thinks of sufficient importance to require communication to the Directors.

The Directors have full cognizance, either by direct weekly communication or otherwise, of every transaction carried on in the Bank.

The Court of Directors is divided into certain Committees, whose duty it is to attend to all matters referred specially to their consideration, and who are required to report their proceedings from time to time to the Court.

The regular Committees are six in number, viz.—

The Committee of Treasury.

The Committee of Daily Waiting.

The Committee for Lawsuits and the Management of the Branch Banks.

The Committee for the House and Servants and the Examination of Clerks.

The Committee of Inspection for the Accountant's Offices. And,

The Committee of Inspection for the Cashier's Offices.

In addition to which, special committees are from time to time appointed, as occasion may require.

The Treasury Committee consists of the two Governors for the time being, the Directors who have already filled those positions, and those who, without having served as Governor, have been specially elected by the Court to this Committee.

The Committee of Daily Waiting consists of three Directors in rotation from the whole body. Their attendance is at half-past eleven o'clock daily, and they are required to remain until all that part of the business of the day which is usually referred to them is concluded. All bills offered for discount in London are submitted to this Committee, and all bills discounted at the country branches, except local bills, are shown to them on the following day. They have likewise charge of all bullion not required by the cashiers for daily wants.

The Committee for Lawsuits and the Management of the Branch Banks attend to all business arising from prosecutions relating to forgeries, &c., and to everything appertaining to the ordinary administration of the branches.

The Committee for the House and Servants and the Examination of Clerks examine and pass the tradesmen's bills and accounts, order the payment of the salaries of the clerks and of the pensions, and in addition, examine all candidates for admission into the service, and conduct the periodical examinations of those already in the employment of the Bank.

The Committee of Inspection for the Accountant's Offices, and

The Committee of Inspection for the Cashier's Offices, take cognizance of all irregularities amongst the clerks, and consider and report upon any changes in the mode of conducting business which may be referred to them by the Court of Directors.

Some of these Committees meet on regular stated occasions, and the rest as often as the business necessarily appertaining to their jurisdiction may require.

The Governors are selected from the Board of Directors by an annual election, but not necessarily in rotation.

They are usually re-elected after one year's service, so that they almost invariably serve for two years each, the Deputy-Governor succeeding the Governor, and their attendance is, as a rule, constantly required. Matters of daily routine, such as questions relating to discipline, are generally referred, in the first instance, to the Deputy-Governor; while all communications between the Government and the Bank, and all matters affecting the principle of management, are referred, usually, direct to the Governor, who is the final appeal in all cases requiring decision, which the heads of departments may not consider themselves justified in settling.

The Directors are elected annually by the proprietors of Bank stock; but although the stockholders in this way have the power of turning out any Director—that is, of not re-electing him—yet it has been the invariable rule to leave the selection of new Directors to the Court, who are considered more competent to choose efficient members for the Board, and who, from their position in business and general character, are best calculated to promote the important interests and general welfare of the Bank of England.

The vast proportions of the whole Establishment may be summed up in a few general remarks. As a building it covers nearly four acres of ground, and bears an estimated rental of £70,000 a year. In addition to the Clerk of Works and various doorkeepers and attendants, the two principal officers, viz. the Chief Accountant and the Chief Cashier, have residences within its walls; and although it is understood that they shall always be in residence, the Bank premises are never left without the superintendence of other responsible agents—clerks of character and standing being appointed to attend every night during the year. A guard of soldiers is also on duty nightly, besides a body of watchmen, formed of the porters and workmen of the house, all of whom are trained to the use of the ample arrangements provided in case of fire.

Upwards of 1,100 persons are employed, including those at the Branches, the porters, mechanics, machine-boys, &c.; and the salaries and wages amount to nearly £260,000 a year, besides pensions to superannuated officers of about £35,000 more. The clerks have an Insurance Society amongst themselves, in which they can secure a limited assurance on favorable terms; and they also possess a valuable and well-selected library in the Bank, a great many of the books having been presented by the Directors.

The almost universal mode of subordinate government is by a Principal and Deputy-Principal to each office—whilst in some of the larger offices there are Superintendents in addition. The Principals exercise control in their own offices, and once in each quarter have direct communication with a Committee of Directors, when they are encouraged, and, in fact, required, to make a full report of the working of their several sections of the house ; but, ordinarily, they report only to the head of the department they may be under, who, if necessary, communicates immediately with the Governors. The most complete subordination and the strictest discipline are insisted upon amongst the body of clerks. Their work is not excessive, but it is expected that it will be (and, indeed, generally is) performed with punctuality, zeal, and gentlemanly behaviour. Should occasional instances arise to the contrary, and fortunately they are few, the system of administration is so judiciously arranged, that upon the first appearance of irregularity it is promptly and resolutely suppressed.

This is no place to discuss the political aspect of the Bank of England. The foregoing sketch is simply intended to show, at least in outline, the constitution and arrangement of the powerful machinery which the Directors have at their disposal for carrying out the important trusts which have been committed to their charge.

GOVERNORS OF THE BANK OF ENGLAND

FROM THE FOUNDATION, 1694.

1694-95-96	Sir John Houblon.
1697—1698	Sir William Scawen.
1699—1700	Nathaniel Tench, Esq.
1701—1702	John Ward, Esq.
1703—1704	Abraham Houblon, Esq.
1705—1706	Sir James Bateman.
1707—1708	Francis Eyles, Esq.
1709—1710	Sir Gilbert Heathcote.
1711—1712	Nathaniel Gould, Esq.
1713—1714	John Rudge, Esq.
1715—1716	Sir Peter Delme.
1717—1718	Sir Gerard Conyers.
1719—1720	John Hanger, Esq.
1721—1722	Sir Thomas Scawen.
1723—1724	Sir Gilbert Heathcote.
1725—1726	William Thompson, Esq.
1727—1728	Humphry Morice, Esq.
1729—1730	Samuel Holden, Esq.
1731—1732	Sir Edward Bellamy.
1733—1734	The Hon. Horatio Townsend.
1735—1736	Bryan Benson, Esq.
1737-38-39	Thomas Cooke, Esq.
1740	Delillers Carbonnel, Esq.
1741—1742	Stamp Brooksbank, Esq.
1743—1744	William Fawkener, Esq.
1745—1746	Charles Savage, Esq.
1747—1748	Benjamin Longuet, Esq.
1749-50-51	William Hunt, Esq.
1752—1753	Alexander Sheafe, Esq.
1754—1755	Charles Palmer, Esq.
1756—1757	Matthews Beachcroft, Esq.
1758—1759	Merrik Burrell, Esq.
1760—1761	Bartholomew Burton, Esq.
1762—1763	Robert Marsh, Esq.
1764—1765	John Weyland, Esq.
1766-67-68	Matthew Clarmont, Esq.
1769—1770	William Cooper, Esq.
1771—1772	Edward Payne, Esq.
1773—1774	James Sperling, Esq.
1775—1776	Samuel Beachcroft, Esq.

1777—1778	Peter Gaussen, Esq.
1779—1780	Daniel Booth, Esq.
1781—1782	William Ewer, Esq.
1783—1784	Richard Neave, Esq.
1785—1786	George Peters, Esq.
1787—1788	Edward Darell, Esq.
1789—1790	Mark Weyland, Esq.
1791—1792	Samuel Bosanquet, Esq.
1793—1794	Godfrey Thornton, Esq.
1795—1796	Daniel Giles, Esq.
1797—1798	Thomas Raikes, Esq.
1799—1800	Samuel Thornton, Esq.
1801—1802	Job Mathew, Esq.
1803	Joseph Nutt, Esq.
1804—1805	Benjamin Winthrop, Esq.
1806—1807	Beeston Long, Esq.
1808—1809	John Whitmore, Esq.
1810—1811	John Pearse, Esq.
1812—1813	William Manning, Esq.
1814—1815	William Mellish, Esq.
1816—1817	Jeremiah Harman, Esq.
1818—1819	George Dorrien, Esq.
1820—1821	Charles Pole, Esq.
1822—1823	John Bowden, Esq.
1824—1825	Cornelius Buller, Esq.
1826—1827	John Baker Richards, Esq.
1828—1829	Samuel Drewe, Esq.
1830-31-32	John Horsley Palmer, Esq.
1833—1834	Richard Mee Raikes, Esq.
1835—1836	James Pattison, Esq.
1837—1838	Timothy Abraham Curtis, Esq.
1839—1840	Sir John Rae Reid, Bart.
1841	Sir John Henry Pelly, Bart.
1842-43-44	William Cotton, Esq.
1845—1846	John Benjamin Heath, Esq.
1847	William R. Robinson, Esq.
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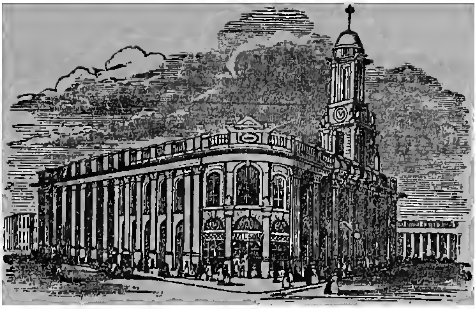

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