

Lord William Wyndham Grenville

Bank Restriction Bill
(1803)

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BANK RESTRICTION BILL

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Upon the motion for the third reading of the Bank Restriction Bill,

Lord Grenville said, he had already expressed his surprise at this Bill having been read a second time, without notice, the day after it came up to that House. He thought, that on the whole, it was best at the present moment to continue the Bank Restriction; but this was not a step to be taken with indifference, or to be forwarded as a matter of course through its various stages; it was, on the contrary, a great evil; necessary, perhaps, in such a crisis as the present, but well worthy of the most serious attention of Parliament. It had been first proposed as a measure merely temporary, to meet a momentary but very alarming danger; as such it had, he thought, been highly beneficial. But it had been attended with the mischief inseparable from all measures of the same description. The fundamental principle of all governments on this subject ought to be, that credit and circulation, if undisturbed by legislative interference, will invariably find their own level. Whenever any temporary purpose (as must sometimes happen) induces a departure from this principle, the misfortune is, that the first deviation too commonly leads to the necessity of a second, and so necessarily, until it becomes almost impossible to tread back the same steps, or to revert to the only wise system of policy on the subject. So it happened in this case. The measure adopted in the first instance to meet a momentary purpose had afterwards been prolonged (perhaps unavoidably) till the conclusion of that war; and even now, though he lamented the effects of that prolongation, he hardly ventured to decide that the opinion of Parliament had in that instance been wrong. Next came the peace, so very like war, that its authors themselves had been afraid to depart from the war system; nor had he himself then opposed its renewal, convinced as he was, that the pretended state of peace was a real state of war in every thing, except in the power of providing for self-defence, and for the protection of our own interest. To venture such a step in the present moment, at least with- [305] out much preparation, would doubtless be difficult and hazardous. But he was not equally convinced, that it was

wise to declare beforehand that the restriction should continue during the whole of this war, entertaining, as he confessed he did, some doubt whether it ought to have been continued to the end of the last war, and still, more, whether it should be prolonged at the peace. He was afraid that there was now growing up in this country a most mistaken apathy on the subject. Many persons believed that the continuance or the restriction had hitherto produced no inconvenience, and that there was therefore no danger in prolonging it almost indefinitely. Both parts of this opinion were, he thought, extremely erroneous. Much evil, he was persuaded, had already been produced by the measure, however necessary at the time of its adoption; and every day's continuance augmented, in a rapid proportion, both the extent of the evil and the difficulty of its removal.—That, during the continuance of this measure, our paper circulation, both Bank and private paper, had infinitely increased, no man was ignorant of. He was afraid it might be shewn, that this was a necessary consequence of the measure it-self. The power of converting paper into cash at the will of the holder, was the only safe limitation that ever could exist upon the issue of paper, and, if left to its free operation, it was a limitation that might safely be relied on. All other limitations were arbitrary, depending on the uncertain speculations of individuals upon points which no speculations ever can decide with accuracy. It was said that, if the Bank had not increased its circulating paper since the restriction, no mischief can have arisen from it. No position can be more fallacious. In the first place, the Bank paper has in fact increased; but, even if this had not happened, the argument would still be of no weight. If private paper has during that period been greatly augmented, it is plain that the whole proportion of paper to cash in circulation has been changed, and that this change has equally taken place, whether the increase has arisen in Bank paper or in private paper. The restraint upon the Bank must necessarily give some increased encouragement to the issue of private paper, because, for private paper, cash may legally be demanded, for Bank paper it cannot; and if, by these or any other means, the proportion of private paper be much increased, there must obviously be less room for the circulation even for the same quantity as before of Bank paper; and [306] there is therefore much more

reason to apprehend that the issue is too large, when it appears that instead of remaining at the same amount, the quantity of Bank paper has also been very much increased. The actual increase of private paper, a fact which no one could dispute, was the particular circumstance to which Lord G. said, he principally wished to call the attention of the House.—"Paper (he said) now forms in this country the principal medium of circulation between man and man, not as formerly in commercial transactions only, but now in all the ordinary dealings of life. In times of perfect security and public confidence, even this might happen to a considerable extent without much inconvenience; and so long as the natural operations of demand and supply were allowed to control it, though some excess might occasionally take place, yet experience shewed, that any such evil would speedily correct itself. The tide might ebb and flow, but no permanent interruption would arise from it to the stream of national prosperity. The case is widely different now. We are called upon to provide against the danger of a sudden alarm, such as must arise in a country so long unused to the tread of a hostile foot should even for the shortest interval become the theatre of war. But we are discharging this duty in a most inadequate and insufficient manner. We are providing for the smaller evil, but seem wholly indifferent to the greater. We are guarding against the consequences of any sudden run upon the Bank in a moment of alarm; but we take no consideration of the effect of a similar alarm on that mass of private paper, which constitutes so much larger a proportion of the circulating medium of the country. The stability of the Bank has been guaranteed to its creditors by repeated parliamentary examinations; and when we restrain it by law from fulfilling its engagements with them, we have given a fresh pledge of public faith that they shall suffer no loss by that provision. But what will be the case of private paper? Let the House represent to itself the situation of a Bank, established perhaps in the very town to be first attacked, and the state of the surrounding district, whose circulation consists perhaps almost exclusively of that paper. What means will such a Bank possess to satisfy even the ordinary demands upon it? How much would those demands in such a case be increased? And what would be the state of such a district, if to all the other evils of

war were added the sudden annihilation of its whole circulating [307] medium? Already are we told from authority, that there appears in the country an eagerness to collect, or, as it is insidiously called, to hoard cash. In times of scarcity the ignorant are taught to clamour against the farmer and the cornfactor, who, by collecting and preserving grain, afford to a country its only security against famine. By the salutary provision of nature, the measures which individuals take in such cases for their own security and benefit, constitute in their aggregate the security and advantage of the community itself. In the same manner (it might appear paradoxical, but if a paradox, it was one which he held in common with all enlightened writers on this subject) the best security against a total want of circulating medium in the time of our utmost need, would be found in the necessity, which persons in the middling classes of life already feel, of providing beforehand for such an occasion. How, indeed, could it be expected, that when a man of that description joins the volunteer ranks, and serves his country in the field, he should leave his family to rely entirely, and for their daily bread, on the paper of a private banker, whose counting-house may be at that very moment occupied by the enemy.—The steps taken by such individuals to make provision for this case, must then of necessity produce at this time an increased demand for specie; that demand will in this, as in every other article, produce an increased value; and, unless the nature of things be inverted, tire increased value must, in its turn, produce air increased supply. He was therefore beyond measure astonished to hear that, in some other place, this conduct in persons of such a description had been spoken of as a fit subject of reproach and censure; and that this opinion had proceeded from a quarter which ought to be of the highest authority in matters of this nature. Such language could have no other tendency in this case (as in that to which lie had already likened it) than to raise popular odium, and to excite popular tumult, against men who used their own discretion in disposing of their own property. If it were fit to censure such a disposition, it must be essential to endeavour to prevent it. There were two precedents in history which might be resorted to for this purpose: two cases where, in support of an excessive issue of paper, government had regulated by law the quantity of specie which each

individual should be suffered to retain. Those were the Mississippi scheme, and the scheme of the assignats. In both [308] instances the measure had immediately annihilated the paper it was intended to support. He had no fear that the same principle, by whatever authority it had been countenanced, would be acted upon to the same extent in this country but he must take the liberty to say, that, in so far as it was followed up, either in speech or action, exactly in that proportion the public credit was affected and injured by it. The danger of such a shock to private paper, as he had stated, in the case of invasion, was not to be guarded against by such language, which had no other tendency than to increase that danger. Neither was it one which, on the other hand, it was prudent or safe for us to overlook. The wretched policy of neglecting necessary precautions for fear of creating just alarm began now to be sufficiently understood. In every instance in which it was resorted to, it always would produce the same effects as had already been so fatally experienced from it. Yet, by the present bill, while we confess the nature of the danger, the slightest glance at the proportion which private paper bears to that of the Bank will shew how far we are from providing for its extent. Those who at all understand the subject, know that the Bank paper possesses a stability not to be shaken but by such a total subversion of the country as no Englishman wishes to survive. Yet we think ourselves obliged to protect even this corporation, resting on such immutable pillars of security, against the danger of sudden pressure from temporary alarm. Shall we then wholly overlook the private paper, so much greater in extent, and so much less secure in its stability? The ultimate security of the paper issued by the country banks now established in every corner of this island might be as perfect as that of the Bank itself. The facility which they give in ordinary times to the commercial transactions of the country is unquestionable. But no man can look without the most serious apprehension at, the temporary effect which the first moment of actual invasion might produce on those, local establishments; at the extent to which such an evil might spread; or at the consequences which it might produce, in a country whose circulation is almost entirely composed of paper. To represent this danger to Parliament, even if no remedy for it occurred to the person stating it,

would not only be a blameless, but a laudable and proper discharge of public duty. When the subject was brought under the consideration of Parliament and the public, if [309] its importance engaged their attention, the wisdom and experience of men much more conversant than he pretended to be, would doubtless suggest every remedy or precaution which the nature of the case admitted; suggestions which might well escape the researches of individuals far superior to him in knowledge or ability. But if the subject should continue to be wholly disregarded, overlooked by negligence, or put out of sight by hopeless despondency, the evil would corns upon us at the last; it would overtake us in the midst of difficulty and distress, when precaution would be too late, and remedy impossible he therefore earnestly recommended, after the recess, if it could not be done before, that Committees might be named by Parliament, to take this subject into the most serious and attentive consideration. To such Committees it would naturally belong to suggest those remedies, which, on full discussion and consultation with men experienced in such matters, might appear most practicable and useful. Any suggestions of his would in the present moment be premature, and certainly must be in a great measure crude and undigested. But he by no means despaired of seeing the most beneficial consequences result from such an investigation. Two objects it would naturally have in view. The first to reintroduce into the circulation of the country such a quantity of coin as might at least suffice for the ordinary dealings of life; that coin which was now vanished by the excessive issues of paper of all descriptions, no longer checked by the natural limitation, that of being immediately convertible into cash. The next object naturally would be, to provide, as far as possible, for the stability and credit, even during the existence of actual invasion, of such paper as would still continue to circulate. These objects would both of them, as he apprehended, best be obtained, by recurring, not suddenly nor abruptly, but by well considered gradations, and with every possible attendant precaution that the wisdom of man could devise, to that first principle by which alone paper issues can be limited, and on which it alone can securely rest, namely, the power of their immediate conversion into cash. He spoke on this subject with all the distrust of his own opinion, which lie ought to feel; but at

least he spoke not without much consideration of the question; and the conviction of his own mind was, that this was the end to be kept invariably in view, to be accelerated as could be found consistent with prudence and due regard to public safety, and to be considered as the only fundamental cause of [310] the evils now felt or apprehended. With respect to the paper, if resting on a solid foundation of ultimate solvency, it might be provided for by some mutual guarantee, so far removed from the scene of immediate alarm, as to place the security of the holder far beyond the reach of any danger merely local. He remembered to have heard it said many years ago by Mr. Burke, a man whose words and thoughts were well calculated to leave a lasting impression on their hearers, "That the effect of the system of credit in this country was such as to make the whole commercial and monied interest of Great Britain joint proprietors and co-partners in the whole mass of capital existing in the country." In some sense this was undoubtedly loose; and as these extensive interests had the benefit of such a partnership, so it must be added that they were not wholly-exempt from its risks. They had *all* an immediate interest in upholding the credit of *all*; and he did not despair, that, by examination and discussion, a system might be framed, in which the paper of individuals or private houses might, if resting on a sure and due foundation, be supported to a limited extent, by some extensive and reciprocal guarantee against the effects of sudden alarm; and to such a voluntary association, formed under the direction of Parliament, and countenanced by its authority, there might or might not be added, as should on the whole be judged expedient, some additional security from the intervention of the public. In his own mind, he had followed these ideas further, and pursued them into some detail; but he wished not to trouble the House at this time with any discussion of them. No man felt more strongly the difficulty and delicacy of the whole subject. No man more sincerely distrusted his own judgment upon it: but, impressed as he was with its importance, satisfied that if we were unprepared in this respect, all naval and all military preparation, however extensive, would be inadequate to the safety of the country; he had done his duty in calling the attention of Parliament to the question. He had no doubt that the

danger of leaving it unexamined was infinitely greater than any danger that could, by any possibility, arise from the examination of it; and it would therefore be offering an insult to the understandings of the House, if he delayed them by any farther explanation of the motives with which he brought it forward. He could have no interest in increasing the public danger. If this evil could not be avoided, we must prepare ourselves to meet it with resolution. But such a shock as the [311] sudden depreciation of the whole circulatory medium of a country, and this too in a moment of invasion, must, in its consequences, overwhelm all men, of whatever descriptions or situations in the country. He was confident that diligence, wisdom, and firmness, would avert this, and every other danger of the country: but this could only be done by ascertaining the nature and extent of the evils with which we were menaced. This bill was itself a proof that the subject of public credit was not thought unfit for public discussion, or incapable of parliamentary provision; and the matters he had now brought before the House were nothing else than different branches of the same extensive subject.