

Lord William Wyndham Grenville

Bank of England – Resumption
of Cash Payments
(1819)

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BANK OF ENGLAND - RESUMPTION OF CASH PAYMENTS.

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[604] The order of the day being read, for taking into consideration the Reports of the Secret Committee on the Resumption of Cash Payments by the Bank of England,

[645] Lord Grenville said, that the noble earl who had opened the debate, had explained the plan which he had proposed to their lordships in so luminous and argumentative a speech, that there was very little occasion for him to add a single word upon the subject. But having considered this restriction as one of the greatest calamities under which this suffering country had laboured; having frequently had occasion to lament and deplore the part which he had himself taken, on its original proposition, in prolonging it for the term of the then existing war; having avowed his error in so doing, as became an honest man, at the commencement of the last war; and having prophesied but too truly all the distress and misery which would befall the nation in consequence of it, he could not help expressing his joy and satisfaction, that the country was at last arrived at that period, in which it could look forward with certainty to the repeal of this injudicious and unfortunate measure. He could not remain silent when a measure was proposed to their lordships, which was almost positively certain of success, but must be allowed to add his voice, weak and humble as it was, to that of those who had spoken so ably and eloquently upon it. The noble earl had said that the Bank had been of the greatest utility to the government during the war, and had advanced many large sums to carry it on with vigour and energy; he did not mean to deny this assertion; but he could not help observing, that it was his opinion that no permanent advantage had been derived from the connexion between the government and the Bank, sufficient to compensate the evils to which it had given birth. He need not tell their lordships his opinion regarding the war which we had waged with France—that must be sufficiently well known to all of them; he need not repeat to them what he had often before stated, that he considered no sacrifice which could be made, too great to bring that war to a successful termination; but he must inform them, that even with those sentiments, he was of opinion that the restriction was an evil of such magnitude, that the sooner it was abolished, the better it would be for the country. He did not believe that any men sincerely wishing the welfare of their country could at any time resort to such a measure, without a sorrowful apprehension of the difficulties and dangers to national and

individual interests which [646] must result from it, and with out a conviction that it was for the moment absolutely essential for a particular crisis. Certainly, if the question were, whether any extraordinary exertion might at a particular moment avert an impending danger, to meet such a momentary crisis it might be necessary to resort to a forced circulation; still such forced circulation should not be continued beyond the momentary necessity. For he held it to be a maxim, that there was no difference in principle or effect, between excessive issues forced upon the country at par, by legislative enactment, as soon as they became depreciated; and the more direct system pursued by Austria, Prussia, Russia, and the other continental governments, of at once fixing an arbitrary value upon the national currency. He was inclined to express his sentiments on this subject in the strongest manner, because, hoping as he now did, that an end, would at length be put to the restriction, he wished to impress his country with that serious view of the question which, which after long and anxious and laborious deliberation, he was convinced was the true and only aspect which could bear the test of principle. He was disposed to go very far on this point; he would say, that under any circumstances, a restriction on cash payments, or in other words, a forced, and consequently an excessive paper circulation, must be attended with greater evil than good; he would refer to its natural effects, commercial distress, increase of prices, increase of taxes; and he would say, that these circumstances must so cramp and contract all the natural energies of the country, as even in time of war to obstruct the necessary efforts, and thus produce a mischief far overbalancing the advantage accruing from the facility of loans. The war terminated just before the breaking up of the bubble, and it was fortunate, it was providential, that it did: for its continuance, jointly with the continuance of the restriction, would have inflicted such distress on the country as it would have been impossible to bear. If, when no farther exertion was necessary than to wind up the war expenses, it had been found to be not only imprudent, but impracticable to remove the Bank restriction: and when it was necessary to have recourse to those methods of raising money, usual only in war, what would have been the case if the country had been called upon to make fresh and extraordinary efforts for the [647] farther conduct of a war, or rather for existence? It would have been this—that the country would have had to learn, by its absolute destruction, the effects of a measure intended to preserve it existence. He did not expect to live to see the practical results of any of his opinions: but he was anxious to be explicit, that future statesmen, who might propose a similar measure, might at least not be

enabled to say, that the opinion of such a measure having once saved the country was unanimous. So far from wishing to be thought a party to such a doctrine, he hoped (if indeed any opinion of so humble an individual as himself could be expected to be remembered, he would not say after his death, but even for the few remaining years of his life)—he hoped that it would be recorded of him, as his decided conviction, that in proportion to the danger under which the country laboured, he would almost say in proportion to the extent of that danger, was the impolicy and desperate madness of such a measure as they were now considering how to rescind. Having providentially emerged with success from the war (for Providence would not suffer such an example of morals and Jaws as this country afforded to be lost to the world), they had now to deliberate and decide, whether, in time of peace, they would consent to prolong the measure of restriction indefinitely, and place its control in the hands of those who acted on a system by which it was impossible it could ever be terminated. It was with great surprise and pain that he had heard a most intelligent witness (to whom the noble earl had referred) declare, that the suspension act afforded great facilities to industry and commerce, without any countervailing evil. There were others who maintained that the measure was of the greatest service to the commercial world, although it might be injurious and even ruinous to the other interests of the community. With the latter part of this opinion he perfectly agreed; from the former part he must express his most decided dissent. The facilities of commerce returned on commerce with aggravated mischief; and whatever temporary advantages might be furnished to individuals, it rarely happened that those individuals did not ultimately suffer tenfold injury. He would refer to the memorable example of 1816. There was, indeed, nothing new in the progress and effects of a depreciated currency. For a time all seem-[648]ed brisk, and cheering; the vessel rode along in full sail, and with favouring current, but it never failed to happen that the calm sea became troubled, that the flattering gale swelled into a storm—such a storm as that from which this country had with difficulty saved itself, and from the effects of which it still suffered, and would long continue to suffer. As an illustration of his argument, he would refer their lordships to the list of bankrupts, from the year 1790 to the present time; and their lordships could not fail to remark the striking coincidence of increased bankruptcies with the system of increased facilities. While the Bank was lending money with one hand, with the other it was shaking the foundations of contracts, affecting all prices, and involving the country in distress, and individuals in ruin, and in a proportion tenfold greater than any advantage that could arise from

their liberal issues. He could willingly dwell on this subject, if he were not afraid of detaining their lordships: he could show how the miseries of 1816 followed on the issues of the preceding year; he could show how the excessive issue of country paper which could not maintain itself, like bank paper, by legislative enactment, led to a fearful depreciation, and without any fault of individuals, by the mere force of the system involved the whole kingdom in one general desolation. Not only its trade and commerce, but its agriculture, its landed interest, even classes the most remote from connexion with, or even knowledge of the paper system, found themselves suddenly consigned to total and inexplicable ruin. If their lordships could see at their bar, nor merely the victims of commercial failure, but those numerous persons of all ages, sexes, and classes, who had unconsciously suffered without even understanding how and whence the evil fell upon them, such a spectacle would fill their lordships with horror, and he sincerely believed, that not only no voice would be raised for the maintenance of such a system in commerce, but not even in war. In commerce, as in war, there could be but one sure basis of management, and that was a currency regulated by a standard of metallic value; not that metal was necessary as metal, but because it had the indispensable quality of value: for without value it was impossible to represent value it was as absurd as it would be to attempt to mea-[649] sure weight by that which had no weight, or to measure length by that which had no extent. On this ground a metallic standard had been adopted in this and in all well regulated countries. On its first introduction, the fineness of the metal being settled, the next thing was to take given weights, and those weights expressed the denominations of value. The original names of the divisions of money, in almost all known languages would be seen to refer to weight. Thus, the shekel among the Hebrews, the talent and mina among the Greeks, the pound, the sesterce, the as, among the Romans, the livre among the French, the pound, shilling, pennyweights, or pence, among ourselves, all showed their origin by their names. Our pound, under the Saxon monarchy was a pound of silver: the French livre under Charlemagne was a pound of silver; the metallic standard of the two kingdoms being the same. The value of the pound had not been altered in this country since the time of Edward 6th, but in other countries new value had been from time to time affixed to that denomination. In France especially, what was called the pound of silver, was now little more than an 80th part of its original value. Every such instance of reduction was a fraud upon the people; and it was remarkable, in looking back to those periods, when such deteriorations were established, that they were

uniformly periods of discontent and turbulence. In the reign of Edward 6th, an attempt to reduce the pound to one-fourth of its value, inflicted misery not to be endured. There was an apprehension of an insurrection throughout the kingdom, and of a total revulsion of the social system: so that the advisers of the measure were compelled to retrace their steps, and bring the currency to that state in which it was at present. Yet even then, from the sudden change, calamity ensued almost equal to that which was apprehended. These were his grounds for asking, whether we ought to go on with a system of variable value, or adopt some plan in order to arrive at the end of a system, which while it continued no one could say he did not hold his property, not indeed at the mercy of a despotic government, but, at the mercy of a body of individuals who, constituted for other purposes, took upon themselves forsooth the guardianship of the interests of the country! He wanted no such guardian-[650]ship. He wanted a currency established on public faith—on public laws; and for this he should look to the wisdom of parliament. If there were no other objection to the paper system, he would object to it on account of the self-assumption in this body of men of the right of calling themselves guardians of interests, which they would pretend parliament was unable to maintain. The question now was, would parliament perform its own duty; or leave interests so important at the absolute disposal of men, who, however respectable individually, yet as a body not only were not invested with the trust they assumed, but held a trust in its nature totally incompatible with it? His noble friend near him had asserted his opinion of the necessity of a return to a standard of value; and certainly that opinion was not uncalled for on presenting such a petition as his noble friend had that night presented; for when all classes acknowledged that something at least ought to be done towards a return to such a standard; when none ventured to deny that at some period cash payments should be resumed, it behoved those who came forward with such unqualified abuse of the proposed plan, to propose themselves some plan, or to suggest, at least, the propriety of one. The depreciation of paper had been nearly one-third, and the loss to all classes of the community who held it to that amount. Whether or not that depreciation arose from excessive issues, it was impossible, nay, there was no disposition now, in any class, to deny, that paper had been depreciated more than 30 per cent. Against the recurrence of such an evil there was at present no security whatever. Parliament had, by repeated acts, first fixed the termination of the system, then prorogued it, then prorogued it again. Could any man hope that what had not been hitherto done, would now be done decidedly and beyond all

doubt? He meant to cast no reflexion on the Bank, but he could only judge how they would execute their trust, by the way in which they had executed it in time past. If their lordships looked at the conduct of the Bank on preceding occasions, there was no expectation to be entertained of a greater probability of the Bank's resuming cash payments at the end of the next two years, than at the term now specified by the act of parliament. The exchanges at one period had righted themselves, and the resumption [651] might have taken place without injury. At that time, the only useful step that the Bank should have taken they did not take. In 1817 the price of gold and paper were at par; what did the Bank do? They increased their issues, and at the same time issued gold. When gold and paper were thus at the same moment poured into the market, there could be no difficulty in accounting for the rise of gold. He did not dispute the sincerity of their intentions, but certainly it was most unfortunate that it did not occur to them, that the issue of gold, without a corresponding deduction of paper, must raise the price of the former article. Even now they did not seem to admit the principle of the bullion report, so wisely and irrefragably established by that great man, the late Mr. Horner—a report, which could not be read without instruction and admiration, for the depth and soundness of its doctrines, and bitter regret for the premature loss of a statesman who was so calculated to serve and adorn his country—a loss which was never more severely felt than at the present moment. If the Bank now allowed the truth of that report, there might be some hope that they would prepare for the resumption of cash payments, by regulating their issues of paper in conformity with the issues of gold. But as they did not acknowledge that principle, whatever might be their talents and integrity, they were the last individuals to whom a discretion should be allowed unaccompanied by such provisions as should secure the object at last, which all wished to be accomplished. As to calculations which had been made respecting the quantity of a circulating medium, he thought they were little to be depended on. He did not think that it depended on capital, commerce, or manufactures. If he could form any judgment, he would say that the same quantity of circulation might, by an increased rapidity, perform twice its ordinary operation. He saw no reason for supposing that even the payment at present of the Bank-note at par would produce any serious evil. The utmost loss would be three per cent. This he did not conceive a serious objection: for at a time when it would have been thought sacrilege that the Bank should ever suspend its payments, there were frequent fluctuations in value to the amount of 5 per cent without any serious evil. Why, then, was this loss of 3 per cent objected as

an [652] insuperable difficulty? His opinion, indeed, had been, that cash payments might have been safely resumed at the end of this year. It would neither be just to the plan itself nor to the country, nor would it accelerate sufficiently the discharge of that most important duty which was now imposed upon their lordships, of removing the present pressure, if the plan were not carefully studied and well understood. But at the same time he must say, that the noble earl had stated grounds upon which he could not go along with him. The noble earl's description of the difficulties which they would have to surmount, before the Bank could resume cash payments, was most ridiculously exaggerated. What would they say at law of those, who, being required to resume their payments in cash, should increase instead of reducing their issues in paper? But it was time that this connexion between the government of the country and the Bank of England should be dissolved. It was a duty, of all others, the most imperative upon their lordships. As the matter stood now, the fact was this—that the Bank had not acceded to the propositions of government. They had not pursued the course which was expressly intimated to them. To this there was always a ready answer—"the necessities of government." If, on the other hand, it was asked, what should be done in regard to the Bank's resuming cash payments, they were immediately admonished to "remember the state of affairs between the government and the Bank." Government, and parliament itself, were thus placed in the hard condition of a debtor, who could not assert his own dignity, nor vindicate his own rights. Now, he said that their lordships must destroy this state of things, if they meant to restore order to their finances, and security to the government. It was incompatible with all the principles upon which the Bank was first constituted. It was not merely incompatible, it was in direct contradiction to them. It was in contradiction to all precedent; for the history of all the banks in Europe would prove that those which had fallen, all fell from the same cause, from the same fatal circumstance—dependence upon the government. If their lordships meant to have what they once possessed, an accredited Bank in this country, they must have one established upon the only principle upon which it could exist—a total inde-[653] pendence of the government. It was, therefore, upon that ground, much more than from any private wish of his, that he now earnestly pressed the repayment of the advances, as absolutely necessary before the Bank could resume cash payments. It was therefore, also, that he most heartily concurred in the measure, as the first step, advancing, he really hoped, to the ultimate result of dissolving the ominous and dangerous confederacy between the government and the Bank. It was true,

indeed, that they might throw difficulties in the way of the resumption of cash payments, by the exertions necessary to be made for the repayment of those very advances. Some provision, therefore, of gradual operation seemed indispensable; and he knew of no other mode that could be adopted, except the present—the one before them; unless it was possible to restrict, by numerical amount, or with reference to the price of gold, the issues of notes by the Bank. Their lordships must be satisfied, by the paper which had been read to them that night, that the numerical amount of such notes was no true nor certain criterion by which those issues could be regulated. Here remained then nothing but to revert to the true principles by which alone government could restore the finances, and by which they must regulate the approaching progress of the Bank towards the resumption of cash payments. They must revert to the legitimate standard of this country, in respect to its currency. It was not the value of that currency, but the value of the metal by which it was regulated, as paper was regulated by the price of bullion. In the bullion report, which hereafter, he did not doubt, would form a standard constant and unerring, in the political economy of this country, and of the great merit of which he was by no means aware till lately, from having had constant occasion to refer to it, their lordships would find this subject clearly treated and defined. They would find that the object of that report was, to restore the currency to its real and legal standard—gold bullion. He dwelt upon these two words, because one of the objections taken to the plan was, that it was a departure from the ancient system of the country; because it had been termed a fanciful scheme; and had been considered as a departure from true and received principles. He repeated, on the authority of those who had most scienti-[654]fically considered the subject, on the authority of that admirable report, that gold bullion was the true legal and ancient standard of the value of the currency in this country. It was therefore, to that only that they must refer their currency. There was no objection to it throughout the country, and all principle was favourable to it. But if any man had determined to give his judgment upon the subject, without having read the reports relating to it, at least let him inquire whether there ever existed any other standard. This had been called a novel experiment. What! Was that a novel experiment which had been always adopted in establishments of this description? What had preserved those establishments, in the midst even of the melancholy desolation occasioned by protracted wars?—a desolation which, among its numerous attending calamities, had involved the Bank of England in the disgrace of paying in a depreciated currency, and the government in the disgrace of recognizing

it. It was a plan recommended by men of science, by men who had made these matters the object of great study and deep research. If the objection to it proceeded from such men, he for one should receive it with all the deference which it gratified him on every occasion to pay to talent and to learning. His own experience at least enabled him to say, that greater lights on this important subject had not been derived from those who had practised, than from those who had written upon it; but the present plan was recommended by men who, to profound and intimate acquaintance with the theory of the subject, united the most extensive practical experience. Above all, it came recommended by a name which of all others in Europe would be most likely to recommend any question of political economy. Men, indeed, without science, experience, or information in the details of this, extensive matter, and only such, considered and treated this plan as whimsical and impracticable. But let it be remembered who those were who supported it, men of unexceptionable character for knowledge, practice, and sagacity. He saw no objection to it whatever, and with him its greatest recommendation was this—that although it did inevitably prolong, much longer, indeed, than he wished, the period at which the mischief he so much deprecated should terminate, yet, at its very outset, it recognized and recommended the sacred standard of metallic value, which unfortunately had been almost lost sight of, which for the last 20 years we had nearly given up altogether, and which could alone restore its native vigour to our finance. Their lordships would thus have the satisfaction of knowing, that the very first step which they made was on the right principle, and in the right way. He was sorry to have consumed so much of their lordships' time; but the deep interest which he took in this momentous subject, would not permit him to leave the discussion without strongly urging the incalculable advantages of the proposed measure. It was not his wish, or his design, in any thing that he had now said, to reflect on individuals, or on the conduct of the Bank of England. That it had not been regulated by sound policy or wisdom could not be matter of dispute. Confident as he felt that they might have more rapidly resumed cash payments, yet under existing circumstances it was highly probable, that they thought the doing so might have shaken credit, and engendered alarm. It was upon his persuasion, that the reverse would be the result of the plan under their lordships' consideration, that he most heartily declared he gave it his entire, unlimited, and unqualified approbation.