

The GrEco Project

Grenville's Economics

Lord William Wyndham Grenville

Bank Restriction Continuance Bill
(1818)

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BANK RESTRICTION CONTINUANCE BILL

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Lord Grenville expressed the greatest disappointment at the statement he had just heard from the noble earl. He said, he was one of those who had given entire credit to the grounds on which it had before been proposed to continue the Bank restriction for two years longer. He should be trespassing too much on their lordships time if he were to tread back the past history of that unfortunate transaction. Even at the commencement of the last war, he thought it a matter of great impolicy to acquire, not a facility of supplying the wants of the country, but to bur- then it with a dreadful difficulty, to which its resources could not be equal but by the greatest sacrifices. Satisfied as he was then, and confirmed as he was now, that there never had been a more fatal measure than the commencing and continuing the suspension of cash-payments to which he alluded, he looked with the greatest anxiety to the time when we should be again free from that clog. He had always been far from thinking that the six months which had been promised, or that one year after the conclusion of the war, would be too short a period for the resumption of those payments. But if he felt or stated fewer objections, at the time the continuation of the restrictions for two years was proposed, it was because he confidently believed that parliament had given the country a sacred pledge, which nothing but the most urgent necessity, such as a general failure of the Bank at least, could tempt them to forego-a pledge which he deemed so inviolable, that nothing but insuperable difficulties could tempt them to renew the restriction ; and he fondly clung to the hope that the day was at length positively fixed when the country would return to that system of circu[926]lation under which its credit was untained its capital unrestrained in its operation. This hope had now unhappily fled, destroyed as it was by the introduction or the present bill, which went to continue all the embarrassment and difficulty necessarily consequent upon the suspension of the proper circulation of the country, and this too upon the most illusory pretences. Let not their lordships be deceived by such pretences. Not only on account of the public, but on account of the Bank itself, it was high time that the truth should be known. It was not fitting to go on with what was called restriction and restraint, if that restraint was in truth no other than a boon and indulgence granted to the Bank of England, by which they were enabled to pay their creditors in a depreciated currency, in notes depreciated below the value of the sums of money represented. Let whatever pretences be urged in favour of this bill, to this truth they

must come at last, and he repeated it, that it was an indulgence granted to the Bank of England to pay their creditors in notes depreciated five per cent (or thereabouts he believed) below the value of the sums they purported to represent.-That, in effect, was the privilege that was given the Bank; and when the noble earl talked of danger to the Bank, he should also have some consideration for the ends of distributive justice, and the dictates of common honesty, and consider what was due to creditors whose debts were paid in paper sunk five per cent below the value that it represented. Before the House passed a measure of that importance, it was necessary they should clearly know how the matter stood-whether it was an indulgence to the Bank proprietors, under the name of a restraint, or a measure affecting them against their wishes, and calculated for the public welfare alone. It imported their lordships to consider whether the measure was or was not agreeable to that body to which it related. Some doubt was thrown out upon this subject which, in his opinion, ought to be explained. It was no light matter to grant an indulgence to the Bank in the payment of their debts, as if it was to be considered a compulsion, not an indulgence; it was no light matter to compel them, against their own will, to pay in a depreciated currency. Whatever name was given to the transaction, it was admitted that it was not disagreeable to the Bank in the first instance, though doubts [927] were now thrown out, that that body did not any longer acquiesce in it. It was necessary, therefore, to inquire if in a great commercial nation like this there could exist any grounds for compelling the Bank to defeat the claims of its creditors. Parliament should have something more than the bare silent acquiescence of the Bank in such a measure as was now proposed. If they had thought proper to declare, with respect to any of the great banking houses of the city, that in their opinion such establishments were likely to experience great difficulties, and therefore should be assisted by an indulgence of this nature, how would those houses have acted? If it were stated that the house of Hope, of Drummond, or of Child were likely to be distressed in attempting to pay their creditors, and that therefore it was expedient to pass a law enacting that they should be restrained from doing so, was there one of them that would not come forward and remonstrate not only as to the injustice of such a measure with respect to their creditors, but its oppression with regard to themselves? Would they not say, that to compel such injustice would be as repugnant to their own feelings and principles, as destructive to their credit, and ruinous to their interests? They would tell the parliament that it was only by their known ability to pay, and their acknowledged disposition to act fairly towards the public, that they were

enabled to go on under all circumstances of difficulty, that by destroying their responsibility, they interfered with their credit, and affected the very essence of their stability and respect the confidence of the people. Whether the Bank of England looked upon it as a restraint to which they were willing to submit, or as was sometimes insinuated, in which they were unwillingly but singularly acquiescent, in either case the great interest to which parliament was bound to look was that of the country, and looking to that he never could be induced to consent to such a measure, even for the shortest period, upon a ground so problematical and in- considerable has had been urged by the noble earl, In former times they were told that the existence and safety of the country were at stake, and the suspension of cash payments was justified as a necessary provision against the most fatal consequences. It was then adopted for a short period; but since then it had been [928] renewed at different periods, until now that it assumed an indefinite character, being defended in a manner which placed it beyond the power of any man to assign a probable limit to its operation. They were informed by the noble earl, that this was not the time to abandon the system. Why was it not the time?-because it would be attended with inconvenience ! The House was, therefore, called upon to sanction a measure, on the ground of convenience alone, which could only be justified by imperious necessity. That necessity was not contended for, nor even alleged; nor was it in conformity with any speculative principle or theory of political economy that it depended. mitted upon all hands that the Bank should pay their notes in cash; but it was at- tempted to be inferred (for all the reasoning they had heard amounted to that, in fact) that on the slightest possible ground -on such a ground, for instance, as that France was about to make a grant, no one knew to what amount-the practice of cash payments should be interrupted, parliament should do away with the land marks of public credit, and blindly per- severe in a system which had already brought the country to the verge of destruction, and which, if still adhered to, must lead it, not to the verge, but inevitably down the precipice. There was this evil attending the state of our circulation under its influence, that no class of society, from the highest to the lowest, could know what were their means, what their income, or their wages. It affected the greatest and the smallest in their several degrees, the landed proprietor, the mercantile speculator, and in short, all from the richest occupiers, down to the most miserable annuitants, and even through the gradations of mechanical and agricultural labour. Would they expose the population of England to such an evil as this, for the sake of carrying on some scheme of scientific visionaries, or political economists,

even if such a scheme required it? But there was not even that excuse to countenance them. All men were agreed, whether practical or scientific, that a metallic currency was the only proper basis of circulation. With this principle admitted, they were now called upon to substitute paper in its place, knowing that paper must continually vary, not according to any process of nature, but at the will or caprice of one body, and according to their views of profit. [929] They were required to give to that body, not the state, but within the state, a power of this alarming magnitude, and to place at their absolute control the property of every man in the kingdom. Was this mere hearsay, or did they actually exercise the power as he had described it? They issued paper at one period until it was depreciated to the extent of 25 per cent below the currency it represented; so that no man received his rent without suffering a loss of 25 per cent or more. The grievance was then felt, the mockery of receiving only 75 per cent in payment of private debts, was felt; the mockery and cruelty, and gross injustice of exposing the public creditor to the same hardship in a transaction with the state itself was felt; but how was it encountered after all? Not by retracing the steps which were so taken, but by forcing a circulation, -by enacting a law, which made that depreciated currency a legal tender, imitating thereby the worst conduct of the worst government that had ever disgraced the country. It was thus they saw how little reliance could be placed on the wisdom and moderation of any body, vested with a power to issue paper currency at their own discretion, to be directed in that discretion by their own desire of gain, and not by the wants of the country. That such was the case was clear, from the fact that, in the face of all this depreciation, the issues of the Bank had doubled, if not trebled, in amount. In all this he meant no imputation on the Bank. The objects of a bank company were grossly misunderstood, when it was said that they were to consider the interests of the public. They were no other than the directors of a mercantile concern, who were bound to do as well as they could for themselves and that concern, and it was for parliament to see *ne quid detrimenti capiat respublica*. That was the duty of parliament alone, and it were much to be wished that parliament had performed that duty as well towards the public, as the Directors of the Bank had discharged their proper offices towards the proprietors, for whom they were interested. The gentlemen of Leadenhall-street, he might be permitted to say, would have grossly misunderstood their duty, if they considered that attention to the financial or political system of the country constituted any part of it. If, however, the fact was, that parliament declining its just privilege in this respect, had lodged it in the Bank, [930] the history of the present

transaction was one of the grossest breaches of trust that ever had disgraced the history of a nation, and had placed us in a situation of unparal- leled difficulty and danger. He was not absurd enough to think that the immense expenditure of the war, and the misfortune of unproductive seasons, had not some effect in producing the distresses that were experienced, but giving them all the fair consideration to which they were entitled after making every allowance for the enormous expense of the last year of the war (120,000,000l.), for the distress and dearth that attended the first year of peace, for the extent to which the exchanges were affected, and all other operating causes, he was confident that the principal, the *sine quâ non*, cause of all our late calamities, arose from the extensive issue of bank paper, and the ruin consequent on the depreciation of that issue. To that more than to any other cause, must thousands in every rank of life, in the highest circles of commercial and agricultural enterprise, and the lowest sphere of laborious earnings, attribute the sufferings they had so grievously experienced. To that was to be ascribed the tears and wants of families reduced from comfort to dependence, and the distress, which embracing all orders from the highest to the lowest, had almost ground to destruction the middle classes of society. The principal cause of all this, he repeated, was the suspension of cash payments, the consequent over-issue of bank paper, and the depreciation consequent on that over-issue. When the circulation of this country was in a healthy state, it consisted of three elements, specie, the paper of the Bank of England, and the paper of private banks. It was an inevitable consequence that the over-issue of Bank paper should cause an over-issue of country paper; and it was in evidence before the committee that made inquiries on this subject, that whenever the Bank pa- per increased as one, the country paper increased as three. This increase was inevitable; for in removing from the Bank of England the necessity of paying in coin, private banks could not be excepted from the same exemption. When, the Bank paper was become a legal tender, the country bankers could not be called on to pay in coin, because there was none to be had, but they paid in Bank of England paper, and if that had been con- fined within any limits, it would have been [931] some restraint on the increased circulation of the country banks. But the former having increased to an enormous amount, there was nothing that could affix any bounds to the circulation of paper money, and the ruinous extension of credit. Out of this arose also the enormous losses sustained in consequence of forgery, which, though not so great on the country banks, had caused an unprecedented amount of loss and crime in the case of the Bank of England. The forgeries, indeed, on the Bank of England,

had increased to a frightful degree; and even if the bill before the House could produce a hundredfold more benefit than the noble earl anticipated from it, if the actual dangers were a hundred times greater than he apprehended, those benefits and those dangers would be light and trivial, compared with the horrid spectacle every day before their eyes, originating in a compulsory paper circulation, which entrapped not hundreds but thousands, into the commission of crime. It was the duty of a wise legislature not merely to punish, but to prevent the commission of crimes; and, therefore, on this consideration alone, the resumption of cash payments was of paramount importance. Besides this, the Bank paper having led to an inundation of country paper, that had happened, which happened in all countries where paper was made a legal tender—the prices of all commodities were raised, the value of all property was disturbed, and speculation was carried to an inordinate height. These had been the consequences of the Mississippi scheme, of the South Sea bubble, of the plantation paper money, and of the French assignats. The Bank continued its issues till the country bankers failed on all sides for sums in which they never could have been debtors except through the medium of that paper currency that was forced on the country: they had failed in this manner to the ruin of the poor and industrious, of the great commercial speculator, and of the agriculture of the country: all of these had been unable to meet the demand for making good their engagements, through the convulsion attending the banking system. The next step was that which could not be wondered at. Other country bankers were obliged to control their issues and narrow their accommodation; they were obliged to call in payments, for which the demand came wholly unexpected; and unavoidable failures ensued. At this time the Bank called in its paper, [932] thereby reducing the amount of country paper, and causing calamities which no other country could have endured without entire destruction. This was the state of things produced by the system he had described, and after which, as the noble earl had informed the House (a melancholy truth indeed), the Bank might have safely resumed payment in the course of last year. If there were any who felt like him (lord Grenville), how must they be disappointed at being told, that the very level of exchanges, so much required by the other side of the House, did then exist; and there was no circumstance of deeper regret than that the Bank did not avail itself of that crisis; he said the Bank, because, though it was incumbent on the government to provide for the necessities of the country, yet, for two years, the government had abdicated that power, and in the very preamble of the former bill, said, that they gave the Bank those two years to take such measures as they

might deem advisable for the public advantage to prepare for the resumption of payments in specie. But were their lordships in the result satisfied with the exercise of that discretion? They would surely look back with more satisfaction on what they had done, if in the first instance they had called upon the Bank for a candid statement of their affairs, and extended the period of respite according to the appearance of those affairs, reserving to themselves the right of judging as to the time. Had that been done, the opportunity would have been seized, and payments, ere this, resumed. It was indeed greatly to be regretted, now their lordships were again called on to renew this pernicious system, that they were not allowed to examine what measures the Bank had taken to ensure the resumption of payments; because, if he were to trust to mere report, the Bank intended, instead of preparing for payment, to throw such difficulties in the way of government as to deter it from proposing any such measure. | Now if the Bank wished to create any such difficulties, they could not do it better than by creating a difference between gold and paper, making gold dearer and paper cheaper; nor could they adopt more effectual means for this latter purpose than by drawing from the limited circulation of the continent from 25 to 30 per cent of that circulation. If you draw from any market a commodity to the amount of one fourth of its quantity, that commodity must become immediately dearer, and this was what had actually happened. Again—persons who were really desirous of resuming payment, would take care that their paper should increase in value: and how would they do that? By contracting their circulation. The Bank knew very well that by an excessive issue they had depreciated the value of their paper; they knew, therefore, that by limiting the issue they might again, in some measure, restore its value. Instead of this, they had actually increased their issues two millions sterling. He did not ask the Bank to confess their error of 1811, but he did ask them, when they had seen that an issue of 29 millions had decreased the value of their notes, whether they were not aware that the means to increase their value was not to reduce the circulation. He thought it not too much to expect that they should beware of increasing the issue, if they wished to raise the price of their paper, after having already experienced the effects of the contrary system. Parliament must come to one of two conclusions on this review of their conduct, either that they had granted a discretion by the act to persons who were unfit to exercise it, or that those persons knew the increase of issue must depreciate what it was their duty to advance. The error would be more striking if their lordships called to mind the state of the other paper circulation of the country. It was notorious, that while the Bank had been

thus increasing its issues, it had been doing so at a time when the country banks were beginning to revive from the distress they had so deeply experienced. The circumstances to which he had adverted greatly increased his repugnance to commit any thing farther to the Bank of England, without the utmost nicety of inquiry. It was the duty of parliament to consider whether there were any circumstances which required the renewal of this measure, and if so, to probe them to the bottom. Formerly, grounds were stated of the most important and extensive nature, and calculated, if not to convince the reason, at least to astound the imagination. They were informed that it was necessary in order to support the war, and in order to put down the enormous power of France; but though such arguments were often advanced, it would be difficult to prove their connexion with the act they were intended to justify. This country had often triumphed over [934] great and trying difficulties; the evils of the present day were always in appearance the greatest; but whatever the extent of those evils, a more desperate measure of relief could not be devised than that which went to banish the money circulation of the country. Their lordships should recollect that this was not a concern of the Bank, but of the nation; every man in the country, from the highest to the lowest, was more deeply interested in it than in any other question that had of late years come before parliament. He was well convinced that one of the greatest difficulties with which this kingdom had to encounter in its late contest with France, was occasioned by the measure of Bank restriction, which had produced that disastrous state of the circulation so frequently admitted and lamented; and had it pleased Providence to continue the war but a single year longer, he apprehended that the country must have sunk under the yoke of the enemy—not that it had not physical force to resist him, but in consequence of its crippled resources and depreciated currency. The pretence now urged for a farther suspension had never before been heard of, because foreign princes were raising loans in their own countries, the renewal of cash-payments in this was to be farther suspended! He denied that the late loan in France of fifteen millions had produced the effect attributed to it by the noble earl: neither the raising of that sum, nor indeed of any sum in the present year, could have had the effect of altering the exchanges, or of raising the price of gold, at least to the extent asserted; for it was notorious and obvious to the most superficial, that where payments were to be made by one country to another, they were made in that commodity which it best suited the interest of the country paying to send. This point required no argument, since experience proved that the payments from

this country had been made in cloth or other manufactures, or in the produce of her colonies. The proportion paid in gold was exceedingly small, and could have no effect on the coin required for circulation. Under all the evils arising from this protracted system, he had hoped that parliament would now have stepped forward to compel the Bank to do that which was absolutely necessary to a wholesome state of circulation: if it had done so at an earlier period, the remittances from this country would not have been made at all [935] in gold, which now gave a profit of 5 per cent above other articles, but in articles of trade and commerce that would have added to the wealth instead of draining and impoverishing the nation. Another mistake out of doors, but too gross for the noble earl to fall into it, was, the supposition that the loan to France was in specie, and not in the circulating medium; yet, though the noble earl had not actually fallen into that error, his argument seemed to indicate that he had had it in view ; although the moment the mistake was proved to be so, the argument built upon it of course fell to the ground. If cash- payments were not to be resumed, if the bill now before the House was only the prelude to others, if gold was not to be the chief circulation in 1819, but the paper system was to be continued in 1820 and 1821, and so on indefinitely, he entreated the House to consider what it was in fact doing by these repeated acts of restriction : every landlord would feel the effects of it in his rents, every merchant in his remittances, and every tradesman in his receipts ; every man who had money in the funds, and who went to obtain his dividend, would annually be paid by the Bank 5 per cent less than was his real due. It was but a short time ago that the burthened subjects of the kingdom were relieved from the income tax; that was a national impost, and while it was necessary it was paid cheerfully; but would the country submit in future to pay five per cent, not as an income tax, but in a different form: not to the state, but to the Bank? Such was, in truth, the effect of measures like that before the House: it gave to the Bank the power, as it were, of putting a pump into the estate of every man, and pumping out just as much of it as was thought convenient. Now it was at the rate of 5 per cent, but if the issues of the Bank were augmented, in a short time it might be 10 per cent, or even more: the profits of the Bank, and the losses of the people, were equally unlimited by any provision the legislature had yet adopted. This was a state of things not to be endured. Though he was willing and happy to live under the dominion of the king and of the parliament, he could not consent by this noxious law to be placed under the control of the Bank of England. It was worthy of remark also, that as the measure was now framed, and as it had existed since 1797,

even if the Directors should themselves wish (a sup[936]position certainly not very probable) to put an end to this injurious system, they had not the power to do so: there was besides no clause to prevent an excessive issue of paper, which might soon involve the labouring and industrious classes in the same ruin and distress they had experienced about two years ago. He had thus endeavoured to show the consequences of perseverance in this paper currency: on the one hand, he could discover no benefit that would arise from it; and, on the other, he saw nothing but mischief and ultimate destruction to the finances of the country. The evils were so many, that he could not enumerate them, and so great, that his majesty's ministers did not dare to look them in the face.

[949] Lord Grenville wished to set the noble earl right as to the report of the bullion committee. In that document which [950] formed an era in the theory, and which, he hoped, would produce a change in the practice of political economy, the noble earl was mistaken, if he supposed the effects of the country bank issues were not taken into account; but the error, if he might venture to ascribe error to such a work, was this, that the Bank of England issues were supposed more completely to regulate those of country banks, than in fact it appeared they did. It was well known to every person who had examined the state of the country within the last three years, that there was an excessive issue of country notes; so much so, that numberless persons were ruined by the failure of many of those banks, and those bankers who were able to pay, did so, by contracting, in a great degree, the issue of their notes. gave a fallacious appearance of prosperity to the country, when, in fact, it was in a state of distress. He had thought it incumbent on him to make that statement from respect to the memory of a lamented friend (Mr. Horner), who had taken a leading part in the proceedings of the bullion committee.