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With the Authors respective  
Compliments to  
Lord Lauderdale -  
Birmingham 1 March 15.  
William Redfern

**A LETTER.**

0137

A  
**LETTER**

TO

**THE RIGHT HON. F. J. ROBINSON,**

*CHANCELLOR OF THE EXCHEQUER,*

ON

**THE PROJECTED ALTERATION**

IN

**THE BANKING SYSTEM OF ENGLAND,**

BY THE

ESTABLISHMENT OF

**JOINT STOCK BANKS.**

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**BIRMINGHAM:**

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**1826.**

A  
**LETTER,**  
&c. &c.

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Sir,

VARIOUS expedients have recently been suggested both in and out of Parliament, for the purpose of preventing, if possible, a periodical recurrence of the frightful and unexpected reverse of fortune with which the nation has been so lately visited.—Perhaps, not one amongst the number is more popular, and on the first glance, apparently, better calculated to accomplish the desired end, than the general establishment of Joint Stock Banks.—The suggestion of this scheme has every where been received with the warmest and most unqualified expressions of approbation;—statesmen, practical men and theorists—generally so far asunder in their views—all concurring in one general sentiment of its utility, and of its ex-

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treme and urgent necessity as a cure for the evils of our present banking system.

To such a strong host of opinion and authority—all moving in the same direction—it behoves every man to listen with attention and respect;—and to doubt, to pause, and to deliberate, before he adopts, or ventures to express a decided dissent. But after having so doubted, so paused and so deliberated—after having examined the question in all its various points and bearings, calmly, without prejudice, and with a mind unwarped by any sinister interest—should his dissent still continue—or should it, from the very examination itself, have taken still deeper root, it then behoves him to throw aside his caution, which would else degenerate into cowardice; and boldly, firmly and loudly to proclaim his opinion.—Such is my case on the present occasion. After an attentive and impartial examination of the subject, I do not believe that the evils of the present system can be ameliorated, even in the slightest degree, by the establishment of Joint Stock Companies.—And as there is always danger, whilst grasping at

a shadow, that we may lose the substance which lies within our hold, I feel it my duty to communicate my opinions to the public, leaving it for them to decide, whether I am right or wrong.

Now, Sir, it appears to me, that it would be idle and ridiculous in the extreme to expect any beneficial results from the establishment of Joint Stock Banks, unless it can be demonstrated, either—

That their dealings will be characterised by greater integrity and wisdom, than the dealings of private banks—

That their interests will be more coincident with those of the community in general—or at all events will appear to be so in the eyes of the subscribers—or

That they will be less subject to pecuniary difficulties.

Upon each of these heads, I intend to submit a few observations to you.

First, then—Have we any sufficient reason to suppose that the dealings of a Joint Stock Bank, will be characterised by greater integrity than the dealings of private Banks?

I must confess that I can discern none. It appears to me, that the only difference between the two species of Banks will consist in this:— that in the one case the *will* of the Company will be expressed, and its proceedings determined by a few individuals, deeply and vitally interested in the result of every measure which may be adopted; and in the other case, such *will*, will be expressed, and such proceedings determined by a larger body, individually, but slightly interested in the failure or success of these measures, and operated upon both as regards the one and the other by comparatively weak motives.

Nevertheless, it will be found, that in spite of this different organization, exactly the same results will ensue.—True, the respective individuals of whom the Joint Stock Bank consists, are not separately so deeply interested in the consequences of all its measures, as a private individual would be, upon whom the sole responsibility devolved; and hence, it might perhaps be concluded, that in the absence of this deep interest, and for want of a strong motive, the former would feel less inclined to speculate

beyond their Capital than the latter: for this alone can constitute the want of integrity either in one or the other.

This conclusion, however, would be erroneous—for, although, under such circumstances, the motive to embark in rash and mischievous speculations, would be comparatively weak: yet, such also would be the case, and in exactly the same proportion, with the motive to refrain from them.

If the Joint Bank succeeded, but a small portion of the consequences of success, of the honor and pecuniary gain, would fall to the lot of each member; but if it failed, the consequences of its failure, the probable odium, mortification, and pecuniary loss, would also be similarly weakened by diffusion. On the contrary, if an individual alone were concerned, he would monopolize all the desirable consequences of success, and all the mischievous ones of a failure.

In the former case, both the motive to act, and the opposing motive to refrain, would be weak, and equally weak. In the latter case, both these motives would be strong, and equally

strong. But the necessary result of this would be an equal poise of the motive of the two establishments:—a grain balances a grain as completely as a pound balances a pound.

The following simple illustration will, perhaps, place my meaning in a clearer point of view:—the National Convention of France, consisting, to the best of my recollection, of nearly one thousand members, sentenced Louis the 16th to an ignominious death upon the scaffold—Let us suppose that the motive which induced the perpetration of this deed of peril, so likely to draw after it the most painful consequences to its actors, was the hope which they entertained of dividing amongst themselves the usurped spoils of monarchical wealth and power; and that the conflicting motive—the motive which would have induced them to refrain from the perpetration of the deed, was the divided, and therefore weakened, risque of present odium and future punishment.—Now supposing these to have been the operating motives, the probability is, that the hope of obtaining merely an equal share of this spoil of wealth and dominion would not have been an

adequate motive to induce a member, single handed, to perpetrate the deed, and to bear upon his own shoulders, all alone, the odium and danger necessarily attached to it.—Undoubtedly there were many members of that Assembly who would have risked all; to gain all; but there were few indeed, who would have run an *undivided* risk to gain a *divided* advantage.

Again, let us suppose that a speculation were to present itself to a private banker, with a risque equal to one hundred, and a probable advantage equal to one hundred and fifty.—Would he, under such circumstances, be acted upon by a motive or inducement sufficiently powerful to embark in it? You answer in the affirmative.—Well, then I contend that a Joint Stock Company, consisting of one hundred members, would feel equally disposed to embark in such a speculation, provided the risque, to each individual member, were only equal to one, and the probable advantage were equal to one and a half.

To sum up my ideas on this subject—Men are not disposed to act because their motives

are positively strong—but because one motive is stronger than another. It is the excess which produces action.

But if the above reasoning be correct, it follows that a Joint Stock Banking Company, when its interests are, or appear to be identical with those of a private bank, will follow exactly the same courses, and will do so as undeviatingly, as selfishly, and with as little regard to the general welfare of the community, as the latter establishment. To expect greater integrity from one than from the other, would therefore be ridiculous.

Nevertheless it may be said, whether we may, or may not, expect greater integrity from a large body of men, than from a single individual, at all events we may expect greater wisdom.

But on examination, it will be found that the same reasoning which has been applied to the one, may be applied with equal force to the other. A private bank, consisting of a few individuals, must be acted upon by the strongest motives for the exercise of caution and discrimination. Every step which it takes is preg-

nant to the parties concerned with the most important consequences; rank and influence, or poverty and degradation must be ever before their eyes, and must form the strong moving principle of every thought, word and action. Surely it may be anticipated, that before such persons decide and act, they will think and judge—and that their determinations will be formed upon the most extended view which their faculties can embrace. In this case therefore, we shall have the concentrated powers of a few, in their utmost state of exertion—In a word, banking will be their business.

But how stands the matter on the other side? Why, there we find a great number of persons entrusted with the management of the affairs of the Company. But their interest in the success or failure of its transactions, being so much less than that of the partners in a private bank, we must not expect from them the same concentration of the faculties, the same undivided and unremitting attention.—That the absence of any strong motive for exertion will cause each individual to perform his allotted duties loosely, no one can doubt, who

has studied human nature in theory, or is conversant with the machinery of public Companies in practice.—Nevertheless, what is lost in individual energy, will be gained in numbers; so that the probability is, that the aggregate amount of exertion will, in both cases, be the same; and that each Company will possess somewhere about the same available fund of wisdom and discrimination.

There is one exception, however, to the above rule, and such an one as tells strongly against Joint Stock Companies; and that is, where the management of such concerns is entrusted to hired officers and servants. In this case there will be neither the concentrated faculties of a few deeply interested persons, nor the more diffusive, although less forcible faculties of a numerous body.—Unbettered in his condition by success, uninjured by failure, no other motive for exertion can operate upon the mind of a servant under such circumstances, than the apprehension of being deprived of his situation. Even supposing him to have no motive or interest prompting him to counterwork against the good of his principals, (and, frequently, how

far is this from being the case!) even then, his main object will be of a negative kind, not so much to do well, as to avoid doing ill—not so much to give satisfaction, as not to produce discontent.

Thus so far as we have yet been able to feel our way, we have met with no reason to anticipate any advantageous results from the establishment of Joint Stock Companies.

II. But it may perhaps be said, that the interests of a Joint Stock Company will be more coincident with those of the Community in general, than the interests of a private Bank; or, at all events, will appear to be so in the eyes of the subscribers; and that, in consequence, the measures which it will pursue will not so strongly militate against the public weal.

This argument, it must be observed, takes for granted, what I have above attempted to demonstrate; viz. that Joint Stock Companies will not possess greater integrity or wisdom than private Companies.—It is entirely founded upon the supposition, that there is as much



selfishness, as great a proneness to speculation, (if speculation could be turned to profit) and as little patriotism in one as in the other; but that, although operated upon by the same motives, different interests, or imaginary interests, will lead them in different directions.

What then is the interest, or imaginary interest, which is so continually impelling private Bankers in a direction so adverse to that of the public?—It is as follows:—

Every Banker, of course, carries on his business for his own emolument, and all his measures are intended for the promotion of this object; although it may frequently happen, that, for want of the requisite knowledge, his means are but ill adapted to his end. Now the amount of the emolument of a Banker is materially determined by the quantity of Notes which he may have in circulation, over and above the quantity of coin which he is obliged to keep in his coffers to meet the demand for specie;—every banker therefore endeavours to push as much of his paper, as he possibly can, into circulation. But when this course has been persisted in for a considerable period, the neces-

sary consequence is a great augmentation of the national currency; the prices of our commodities are proportionately advanced; and the rate of Exchange is turned against us.—It then becomes the interest of the holders of Bankers' Notes, to get them exchanged for Gold; and afterwards to send the gold abroad, where it bears a higher value than in this Country: but this occasions violent runs upon the banks, and an incessant demand for specie; until the issuers of the paper, apprehensive that their coffers will shortly be drained of Gold, are necessitated to contract their discounts, and reduce their issues. The blow is now struck! A fall in prices, sudden and unlooked for, and accompanied by a violent and unjust transfer of property speedily ensues; and, until matters have had time to adjust themselves to the new standard of things, commercial enterprise is paralysed, and the labour of the industrious classes out of demand. But amidst this general wreck and depreciation of property, there is no class of persons more deeply injured, than the bankers themselves. Unfortunately, however, it is not until the winding up of the catastrophe,

that they discover how closely their own interests are bound up in the interests of the Public; and that the good which they imagined themselves to have been so closely pursuing, was only an ignis-fatuus, which has deluded them from their straight forward path.

Such then are the motives and such the imaginary interests of a private Banking Company, and such are the evils which it inflicts upon society and upon itself, in the untoward attempts which it makes for the promotion of those interests. But why should we suppose that a Joint Stock Company will not also imagine—foolishly imagine—that its interests are precisely the same? Will such Company be more upright, and less prone to speculation? Will it be more wise in anticipating the remote consequences of its measures? I have before demonstrated that such an expectation would be wholly unfounded! What then is to prevent it from following the self same courses?

I will put an hypothetical case—I will suppose that a Joint Stock Company was actually formed, consisting of a large body of

wealthy men; that its notes were in circulation to the amount of £400,000. and that the rate of exchange was such, and the credit of the bank so high, that but few (if any) of these notes ever found their way back to the issuers; I will also suppose that there was a demand for a further supply of these notes—say by persons who could give ample security for their repayment; and that the superintendants of the concern, from their ignorance of the working of economical causes, had no reason to expect that such last-mentioned notes would come back, any more than those which had previously been put into circulation. Now, I will ask, whether the Joint Stock Company, under such circumstances, when its own apparent interests, and the interests, or, at all events, the convenience of its customers, appear to call upon it for a liberal and open-handed policy—will withhold the required supply?—Assuredly it will not. *The notes will, therefore, be put into circulation; and the HIGH CREDIT in which such a Bank would stand, by rendering the return of the paper more improbable, might perhaps materially contribute.*

*to this determination.* But, as it matters not from what source the augmentation of the currency takes place, so that it be unduly augmented; exactly the same disastrous consequences—the same general panic—the same sudden contraction—the same violent transfer of capital, and the same stagnation of commerce: all these would ensue in the same way, as if the additional and excessive quantity of notes, had been put into circulation by a private bank.

In answer to this, it may perhaps be said, that it can never be the interest of a Joint Stock Company to put so great a quantity of paper into circulation: inasmuch as the subscribers would be more injured by the national revulsion which I have above described, and by the sudden throwing back of the paper upon their hands, and the demand for gold,—than they would be benefited by the previous profuseness of their issues. But this argument applies with equal force to Private Banking Companies. It is the interest of neither to put their paper into circulation beyond a certain amount; and when either of them exceeds the bounds

of prudence in this respect; the error is caused by a too ready yielding to the hasty impulses of hope; and by a want of that calm judgment and far-seeing discernment, so necessary to penetrate into the remote consequences of our actions. But the newly projected system, being as ill adapted to bring forth these qualities as the old ones, no beneficial results can follow from its adoption. Before concluding this letter, however, I shall beg leave to submit to your consideration a plan, which, in my opinion, would have the effect of remedying the evil.

III. The advocates for Joint Stock Companies fancy, however, that they have one more hold, when they maintain that such companies will, at all events, be less subject to pecuniary difficulties than private banks;—to this branch of the question, therefore, we will now turn our attention.

Now, Sir, even admitting the above proposition—which, however, I am far from doing, as will afterwards appear—even then I contend that this peculiarity of Joint Stock Companies

will have but a slight effect, if it have any effect at all, in mitigating the evils of the present system.—This assertion may have a paradoxical air; it may startle many a deep-set opinion; but it is, I think, fully capable of demonstration.

If every Bank in the kingdom had maintained a firm attitude during the recent crisis, and had paid all demands upon them to the uttermost farthing; still the nation would not have escaped its present difficulties.—Even then there would have been exactly the same revulsion in the social system—the same violent transfer of capital—and the same stagnation of commerce as have actually taken place.

It is a mistake to suppose that the failure of a Bank is productive of a greater mass of misery, than a failure in any other line of business, for the same amount. An opposite opinion to that which I now advance, has, I am well aware, received the sanction of a high quarter in the state. It may, therefore, be as well to submit the question to a closer analysis than it has yet undergone.—Now it must be evident

that when a man fails, whether he be a Merchant, or a Banker, a certain portion of his debts must remain unpaid; and a certain portion of misery, equal to the amount of the deficiency in the payment of his debts, must necessarily ensue.—This is inevitable in every case of failure. But then it may be said, that the mischief produced by one failure, and generally by the failure of a bank, may be more widely spread than that produced by another failure: inasmuch as the creditors of one man, and particularly of a banker, may be more numerous than those of another man, and particularly of persons who are not bankers. Let us suppose, however, that in both cases the amount of the defalcation is the same—now in this case the more widely spread the mischief may be, or in other words, the greater the number of creditors, the more trifling it is evident must be the loss which falls to the share of each.—A banker fails for one hundred thousand pounds, and notes to half that amount are in the hands of as many different persons; upon this supposition, but very little loss and inconvenience will be individually

sustained—even should the greater part of those persons consist of mechanics and labouring men. In the course of one week every difficulty might be entirely surmounted. It should not, however, be forgotten that this privation and inconvenience, although individually insignificant, are experienced by a great multitude.—Such would probably be the case in the event of a bank failure.

But how would the circumstances be altered, were a Merchant to fail for the same amount? Say that his creditors would not exceed one hundred.—Are not their debts, at all events, of a large amount—so oppressively large, as perhaps, during the remainder of their lives, to entail upon them poverty, privation, and abasement! Under such circumstances, therefore, what would be numerically lost, would be gained in intensity: and as it is a doctrine of Moral and Political Philosophy, that the aggregate amount of human misery may be diminished by diffusion, it follows that a Bank failure is productive of less pain and misery, than the failure of a Merchant, for the same amount. If we look, too,

at the situation of the labouring classes, whose losses in the case of a Bank failure, have been so much deplored, we shall find that even they would be as much injured by the one event as the other. It is true that in the event of the Mercantile failure, they would not be immediate Claimants under the Commission of Bankruptcy; but their Masters would be so: and in exact proportion to the loss sustained by their Masters, would be the diminished demand for labour. In one case, therefore, the labourers would lose to a certain amount, what they had already gained: in the other case, they would be prevented, and to exactly the same amount, from gaining.

But if there be nothing so truly awful and astounding in the failure of a bank; if its effects be just the same, and neither better nor worse than those of any other kind of failure—what a gross delusion must it not be to ascribe our present disasters to so inadequate a cause! The fact is, that nineteen twentieths of the bankers are at the present moment perfectly solvent: are fully able to pay all claims upon them: and after so doing, would be possessed

of an amount of wealth which might vie with— which would most probably surpass—that of any other class of men in the Kingdom:—And even those few Bankers who have been wrecked by the tempest, may ascribe their ruin—not so much to their original want of property, which would have been amply sufficient on all ordinary occasions, and for all ordinary purposes, as to the peculiar circumstances of the times, and to a most pressing and unexpected emergency. To find out the true cause of the present alarming crisis, we must search further and deeper: and we shall find it to lie, not in the failure of some score Banking Establishments, hardly any of which ever deserved or obtained the full measure of public confidence, but in the sudden and forced contraction of the currency, which had been previously swelled to so dangerous a height. This, and this alone, has shaken the mighty fabric of English Commerce to its deep foundations.

But do I mean to contend that the failure of a Bank is no evil? Far from it.—I only maintain that it is not a greater evil than a failure in any other line of business to the same amount;

and that, most certainly, it is not *The Evil* under whose baneful effects the nation is now labouring. Why, therefore, this extreme anxiety to establish Joint Stock Bank Companies? Why, in this particular case, rather than in any other, guard against the remotest possibility of failure? Why, and wherefore all these extraordinary measures of precaution?

The root—the accursed root of the evil—a root which will vegetate and flourish in despite of a thousand Joint Stock Companies, is the temptation to which all Banks, whether public or private, are exposed, of issuing their paper in such ruinous abundance as to render a sudden contraction of it absolutely necessary in their own defence. Until some remedial expedient can be provided for this evil, every other attempt, whatever stability or firmness it may give to our Banking Establishments, will be perfectly vain and nugatory. But we will now proceed to another branch of the subject. Will the establishment of Joint Stock Companies have the effect, which is so generally anticipated, of guarding against pecuniary difficulties and embarrassments?

Now, the advocates for these establishments contend, that the immense capitals of which they will be possessed, will furnish a sufficient and perfectly satisfactory guarantee against the possibility of a failure.—And such would, undoubtedly, be the case, if the transactions of these concerns were not to be extended in proportion to the increased magnitudes of their capitals. But this supposition would contradict one of the most generally received notions of Political Economy, viz. that the profits of Capital have an invariable tendency to equalize themselves.

As banking has, for so long a period, formed an important feature in our commercial system, it is but fair to suppose that the profits of that business are only an adequate remuneration for the employment of the requisite capital. Hence it follows, that if a larger quantity of capital were to be employed in it, and the same quantity of business only were to be transacted, the profits must necessarily sink below the average rate. But if a greater quantity of business were transacted, so as to enable the Capitalists to realize the ordinary profits of

stock, they would be necessitated to incur an additional load of responsibility. Now the contingency of a man's failure depends, not upon the amount of his Capital, as viewed by itself, but upon the amount of his Capital as compared with the amount of his liabilities. Either, therefore, the concerns with the increased capitals must proportionately extend their transactions; and by that means become equally liable to insolvency with the more limited concerns:—or they must be satisfied with an inadequate remuneration for the employment of their capitals,—and this, certainly, is not at all probable.

For the sake of illustration, I will suppose that some limited Banking Establishment employed a capital of £50,000.; and that in order to make this capital yield the average profit, it was necessary, or at all events it appeared to be necessary, to issue a certain quantity of paper, and by that means to incur a certain degree of liability. This establishment however is at last superseded, and a Joint Stock Bank is substituted in its place, which employs a

capital of one million—that is, a capital twenty times as great as that which was employed by the former establishment. It is not to be imagined, however, that the latter will be satisfied with less than the ordinary profits of stock. But how are these profits to be obtained? How, but by extending the transactions of the establishment;—by issuing twenty times the quantity of paper issued by the former;—and by incurring twenty times the weight of liability. But if you were asked to give your opinion as to which of these two establishments was most likely to become insolvent, should you be able to make an election; should you not think there was not a straw to choose between them?

But, again, does not every manufacturer repose as much confidence in the stability of a petty tradesman, whose commercial transactions are circumscribed within the limits of his capital, as in that of the most opulent merchant, the whole of whose capital and resources are employed in his business? Surely there cannot be a greater analogy than between these two cases.

It should be observed that there may be two kinds of Joint Stock Banking Companies; namely, chartered and unchartered or simple ones. The difference between them consists in this, that the individual subscribers to the former will only be held responsible to the extent of the sum originally advanced by them; the subscribers to the latter, on the contrary, will be held liable to the utmost extent of their private fortunes, for all claims upon the joint concern.

First—Of all contrivances which human wit could devise for the purpose of aggravating the evils of the present system—not one, certainly, could be more successful than the establishment of Chartered Bank Companies with a limited responsibility. The great evil of the present system is that it fosters the indulgence of a speculative and sanguine disposition. But how much stronger would be the motives—how irresistible the temptation—furnished by Chartered Companies, for over-trading, for profuse issues of paper, and for all the various mischiefs of banking speculation! The whole weight of human motive would be



thrown into one scale—the scale of hope and sanguine expectation; the other—the scale of fear and prudent apprehension—(motives so necessary to preserve the equipoise of a calm judgment)—empty—and void, would kick the beam.

But as there is at present no intention of establishing Companies of this description, it is unnecessary for me to say any thing further upon the subject.

Secondly. A simple Joint Stock Company, the individual Subscribers to which would be held responsible for the payment of the joint debts, to the utmost extent of their private properties, would certainly be preferable to the Chartered Companies above mentioned; although I do not conceive that such an institution would be any improvement, upon the present system.

Good God! the individual subscribers responsible to the utmost extent of their private properties, and these individual subscribers, moreover, so numerous and so opulent! How in the name of wonder, can such a concern become insolvent!

Such is the idea which crosses the mind of a person when first superficially glancing over this subject.

But these individual subscribers, so numerous and so opulent, at what time are they to be called upon to contribute their respective quota towards the support of the Joint Concern:—of a Concern, in the prosperity of which their honour and credit, individually, may be but slightly interested? Will it not be in a season of adversity and distress, like the present:—in a season, when not only the Bank itself, but all the Subscribers to the Bank will be equally embarrassed? Is it not to be expected that the Merchants, the Factors, and the Manufacturers, will consider the claims of their private Creditors, as more importunate, as deserving of greater consideration than the claims of the creditors of the Joint Concern? And even the most opulent subscribers—even those who have an excess of Capital, which might be applied towards relieving the difficulties of the Bank—will they voluntarily come forward at such a moment, to support a tottering concern? If they should not come forward; if

they could not be compelled to come forward; the Joint Stock Bank, the Bank of a whole district, of a whole County, must stop: and hideous and terrible indeed, would be the calamity and despair flowing from such a source. And if they should come forward, either voluntarily or compulsorily, must not those who are rich supply the defalcation of those who are poor; and must not the former by means of Commissions of Bankruptcy, or similar expedients, endeavour to obtain some redress from the latter? If on the contrary, all the subscribers, both rich and poor, both those who have an excess of capital, and those who are unable to pay their private debts in full, are alike obliged to contribute:—why then, is it not evident, that what the Joint Concern may gain, the creditors of the Insolvent Subscribers must lose.

An illustration, perhaps, will place the above argument in a clearer point of view.

I will therefore suppose, that a Joint Stock Company were established; the individual subscribers to which were made responsible for the payment of its debts to the utmost

extent of their private properties, that the subscribers were numerous, and the amount of its original Capital was large:—I will also suppose that in order to obtain the ordinary profits of Stock, the transactions of the concern were extended proportionately to its capital, and that its affairs not being managed with greater wisdom than those of private banks, its issues of paper had been too profuse, so as to throw great quantities back upon its hands, to be exchanged for gold;—I will also suppose, that under these circumstances, it became necessary in order to extricate the bank from its difficulties, and to enable it to pay its debts, that a call should be made upon each of the subscribers for £500. or upon the body for £50,000.

Now, out of so numerous a body of subscribers, there would most probably be some so much oppressed by the difficulties of the times, as to be unable to pay the total amount of their own debts, and also the full amount of the contribution to the Joint Concern. Let us suppose that there were twenty persons in this situation; and that each of them was possessed

of property to the amount of £500. and owed debts to the same amount:—now if these persons should pay the full amount of their contributions to the Joint Concern, it is evident that their private debts, to the amount of £10,000. must remain unpaid. Should they, on the contrary, pay their private debts, it would be impossible for them to pay their contribution to the Joint Concern, and thus there would be a defalcation in the bank assets, to the amount of £10,000.

Nevertheless (it may be said) as the probability is, that those persons who were unable to pay, as well their contributions to the Joint Concern, as also their own private debts, would prefer paying the latter; and as the more opulent subscribers would be obliged, out of their private funds, to supply any defalcation, no bankruptcies need take place, either of the joint or separate Estates.

This argument appears ~~to be~~ plausible; but will not bear a very strict scrutiny:—for, if the more opulent subscribers to the concern should supply the defalcation, either they would insist upon a repayment, or they would

take out a Commission of Bankruptcy against the defaulters, and would claim the privilege of proving under their estates; by which means the loss would fall partly upon the opulent subscribers, and partly upon the Creditors of the bankrupt. But if, on the other side, those who supplied the defalcation were not allowed the privilege above mentioned, the whole burthen of the loss would fall upon their shoulders. And it should not be forgotten, whilst considering this subject, that the loss which the opulent subscribers would thus sustain would be no trivial matter, even in a national point of view; since the whole argument is built upon the supposition that Joint Stock Companies consist of a great number of subscribers. Such loss would be injurious to the losers themselves; inasmuch, as it would diminish their comforts, in a greater or less degree: it would be injurious to the labouring classes; inasmuch as the diminished Capital would produce a diminished demand for labour.

Should these Joint Stock Banks be established, the probability is, that there will not

be so many failures as under the present system; and for this plain reason, because there will not be so many Banks. For if a single Joint Stock Bank should employ a Capital equal to that which had been previously employed by all the other banks in the same district, it must either drive all those other banks out of the Market, and usurp their places; or its profits must be reduced below the average rate. When, however, it reigns alone, the chances of failure are, of course, much diminished; but the single failure of a Joint Stock Company, by which all the pecuniary concerns of a whole neighbourhood have been transacted, would be productive of a degree of insecurity and suspicion; of misery and want; of panic and despair; compared with which, the failure of one of our Private Companies would weigh but as dust in the balance.

But there is one other argument which may be urged by the advocates of Joint Stock Companies; it may perhaps be said, that such Companies would, in point of fact, be satisfied with lower profits than the partners in a private Company; and that, consequently, although

employing a larger Capital, they would incur a smaller proportionate amount of liability.

To this proposition, however, I cannot assent. The profits of Stock, when properly understood, signify neither more nor less than the customary remuneration, according to the circumstances of the times, received by the Capitalist for the temporary abandonment of his capital, and the risk which he runs of losing it altogether. A person therefore who invests his capital disadvantageously, must sustain a degree of inconvenience, and incur a degree of risk, which he might avoid. Now true it is, that the interests of society may require this sacrifice, and that the parties who thus invest their capital may be benefited by the act, in their characters of members of society—but the stumbling block is, that to the extent of the diminution of their customary rate of profit they would be injured. If such an institution, therefore, were to be brought forward—an institution promising but an inadequate remuneration to the different subscribers, although fruitful with advantages to the public in general—every one would express his admiration

of it,—would admire the philanthropy of those who subscribed to it—and would wish it to stand firm and thrive. There are, however, but few, very few, indeed, who would offer themselves as victims. Almost all would stand aloof—almost all, even when praising it, would leave the task of supporting it to some one else.

Should a Joint Stock Company be formed, whatever may be its ultimate results, and however conducive its measures may be to the public welfare—this is certain, that the individual subscribers to it, on bringing it forward, can have no other motive than that of investing their capital in an advantageous manner. If the welfare of the community, and their own welfare as members of the community, be promoted by it, so much the better:—but the actuating and efficient motive—the motive which leads to the formation of the establishment, must be the selfish one which I have above mentioned.

It is possible that at a moment of panic like the present, the Joint Stock Company might make wise and salutary regulations, for the purpose of restraining the spirit of specu-

lation within due bounds. But no sooner would the panic have ceased, and the recollection of the remote disasters be erased from the minds of the subscribers, than they would become discontented with their stinted profits, and a fresh visitation of evil would be prepared. Public meetings of the body would of course be held.—At one of these meetings some smooth and plausible tale would be got up, shewing how by pursuing this course or that, the low profits at which they so much repined, might be very much raised; how, instead of realizing a paltry five, they might manage to clear a liberal ten; and that, perhaps, so far as the Company might be capable of judging, without running the slightest risk. Can there be a doubt that such a bait would catch—and that, inspired by the same infatuated hopes of gain, the Company would again plunge into its former ruinous courses?

Mr. Baring, in the long and able speech which he lately delivered in the House of Commons, on this very question, thus expressed himself in relation to the Bank of England.

“ If (said the Honorable Gentleman) the

"Bank were conducted upon proper prin-  
 "ciples, if it would not drive such hard bar-  
 "gains, and would be content with less profits  
 "than it sought to obtain at present, if it  
 "would be satisfied with a profit of 5 instead  
 "of 8 per cent., and if, when its charter ex-  
 "pired, it would adopt some prudent and  
 "liberal measures to limit the emoluments  
 "upon its capital, he was convinced that the  
 "system would soon stand upon a better  
 "footing than it did now, and that some pre-  
 "ventive would be found against the recur-  
 "rence of such evils as had recently befallen  
 "the country."

Now the whole of the above argument is  
 founded upon the supposition of human nature  
 being exactly the reverse of what it really is.  
 But what should we say to a natural Philoso-  
 pher, whose most ingenious problems depended  
 upon the absurd belief of heavy bodies ascend-  
 ing, instead of descending? Yet equally at vari-  
 ance with all practical utility, is Mr. Baring's  
 reasoning as above set forth. It is indeed just  
 the same, as if he had said, when all men are  
 good, how happy we shall be! Surely Mr.

Baring, who has been so long engaged in mer-  
 cantile transactions, must, himself, have experi-  
 enced the stimulating effects of the *cacoethes*  
*accumulandi*.

Joint Stock Companies, therefore, will not  
 be satisfied with less than the ordinary profits  
 of Stock: and in order to realize these ordin-  
 ary profits, they will be under the necessity of  
 incurring liabilities in proportion to the amount  
 of capital which they employ;—but if such  
 should be the case, it has been demonstrated  
 that they will not furnish any securities with  
 which the public is not already provided.

#### EXPERIENCE.

IV.—Our experience of the effects of Joint  
 Stock Bank Companies is, at present, very  
 limited; but, certainly, so far as it is to be  
 depended upon, it does not speak very highly  
 in favour of the system.

The bank of England, the bank of Ire-  
 land, and the bank of France—the three  
 greatest banks in the world—all of them cor-  
 porate bodies and enjoying peculiar privileges,  
 have been, more than once, involved in diffi-

culties, and have been obliged, by their misconduct and improvidence, to perform acts, which, under ordinary circumstances, would inevitably have led to bankruptcy.

The stability and high credit of the Scotch Banks is, however, most frequently instanced by the advocates for Joint Stock Companies, in support of their theory.

Three of these banks are corporate and chartered bodies; and nearly all the rest, although not strictly speaking, Joint Stock Companies, are yet placed upon a much broader and more extended foundation than our own: and certain it is that Bankruptcies are much less common amongst them than in this country: but this circumstance is perhaps more fairly ascribable to the state of national manners, than to any peculiarity of the Banking System. Of all the nations of Europe, the Scotch are certainly the most cautious and phlegmatic, insomuch that their character for these qualities is grown into a proverb; and a prodigal Scotchman is considered as great a rarity, as a taciturn Frenchman, or a cool Irishman. We throw a spark of fire

amidst gunpowder, and it produces an explosion: we throw it into water, and, lo! it is extinguished.

But with all their caution and phlegm—so uniform are the phenomena of human nature, the Scotch have not steered clear of the difficulties in which this country is involved. By the latest intelligence from Scotland, it appears that the Banks there have been under the necessity of contracting their over issues of paper; and that, in consequence, great difficulty and distress every where prevail. As yet, it does not appear, that any bank has actually failed, although how soon such may be the case, God only knows! But even though no bank failure should actually take place, it does not follow that their system is preferable to ours. What has been before demonstrated should still be borne in mind, that the root of the evil is the forced and unnatural expansion of the currency by excessive issues of paper, and its subsequently abrupt contraction.—When this is the case, it has been shewn, that a loss must alight somewhere,—whatever the system of banking may be,—whether private

or Joint Stock; and that exactly the same national mischief will result, from the improvidence of one as from that of the other.

#### THE REMEDY.

V.—The knowledge of the precise nature of the evil, is one step towards the discovery of the remedy. Now it has already been stated, over and over again, in the course of this discussion, that the expansion of the currency in the first instance, and its contraction afterwards, are the real source of our present difficulties. But every augmentation of the currency by excessive issues of paper, must be as injurious to the issuers themselves as to the community at large—inasmuch as the depreciated superfluity will always find its way back to the different banks to be exchanged for gold; and this exchange can never be effected without considerable loss to the latter.

Hence it follows, that it can never be the interest of the banks to issue paper in such ruinous abundance. But if it be not their interest, how is it that their conduct in this

respect so frequently belies the known principles of human nature? How is it, that a large body of shrewd and enlightened men are constantly acting in a way diametrically opposite to their best interests?

The problem is not difficult to solve. Each man acts for himself, and acts in such a way, as, he imagines, will best promote his own interests; but unfortunately he neglects to consider that his neighbour, by acting in the same way, will entirely baffle the results of his calculation.

Let us suppose that there are one thousand banks in this country, and that the rate of exchange with foreign nations is such, that any one of these banks might with perfect safety, provided its credit were good, issue notes to the amount of £100,000. Now upon this supposition it is the apparent interest of every bank in the country to issue these notes.—For each one calculates upon the strength of its own individual transactions; each one wishes to have as many notes in circulation as possible; and as the notes hitherto put into circulation have not found their way back, each one has reason to suppose that any additional



quantity which it may afterwards issue, will share the same fate. But it would be impossible for every bank under such circumstances, to act upon this principle without inundating the country with notes—without turning the exchange wofully against us, and producing all those calamities which we are now experiencing.

The banks, therefore, do not force their notes into circulation, to an overflow, because it is their interest to do so—but because each one acts for himself alone, and does not reflect that the very same cause which stimulates him to increase his issues, is acting with equal force upon his neighbour. If each one knew what his neighbour was doing, each one would so contrive as not to issue a greater quantity than the state of the currency at any particular time would well bear.

Hence, it is clear that so long as the present system continues—so long as any number of banks, separate and unconnected, and jealous of publicity, whether private or Joint Stock, continue to have the privilege of issuing what quantity of notes they please, so long

shall we be exposed to a recurrence of our present difficulties—so long will the vice in our constitution remain uncured.

It appears to me, however, that the evil might be obviated by the adoption of either of the following expedients.

First. By confining to a single establishment, the Bank of England for instance, the important privilege of issuing paper money: and by allowing such establishment to found branches in intimate and almost daily connection with itself, in every part of the country where commercial convenience might require it.

If this suggestion were adopted—the establishment, to which the privilege of issuing notes was confined, would be too deeply interested in preventing the depreciation of its paper, to admit of its attention being diverted, even for a moment, from the fluctuations in the rate of exchange: for experience would soon teach its directors that such depreciation must always bring back the paper, and create a demand for gold—a demand, which under some circumstances, it might be difficult to satisfy.

And as in their character of sole and exclusive issuers of paper money, they could not err from ignorance as to the real wants and exigencies of the community; surely it would not be too much to expect that a close and inseparable identity of interest would produce a line of policy highly favourable to the public weal.

But the Bank of England could not establish so many provincial branches without a great augmentation in its capital; and a complete change in the character, proceedings, and dealings of the Institution; and it is, therefore, not improbable that the Proprietors would object to such an arrangement.

We come, therefore, to the second remedial expedient. It is:—

That a board of *responsible* persons, skilled in finances, statistics, and political economy, should be formed; and that no stamped paper for Bankers' Notes, should be issued without its approbation. As an additional security, the members of the board might be sworn to perform their duties with honesty and impartiality.

The latter expedient, I must confess, I pre-

fer to the former. In both cases, the parties invested with the privilege of issuing notes, might become well acquainted with the wants and exigencies of the community; so that it would be impossible for either of them to err from ignorance. But the latter expedient would effect a much slighter change in the present state of affairs. It would not deprive the private bankers of the privilege of issuing their own notes; it would only prevent such copious and excessive issues as must be injurious, both to the issuers and to the public at large. It would, in fact, simply purge away the disease, without any amputation of the members. In addition to these advantages, the public would also be furnished with stronger pledges for the performance of the prescribed duties, in the responsibility of the functionaries, and the total absence from their minds, of the remotest interest, at variance with the general welfare. And certainly when we consider the nice, delicate, and important duties which these functionaries would have to perform; when we consider that some of the highest interests which can affect the destinies of this mighty empire, would be put into their

hands; and that by drawing too tightly, or holding too loosely those threads whose slightest motion and perceptible vibration, they ought to watch with unwearied vigilance and assiduity, thousands and thousands of their fellow countrymen might be plunged into sudden, unlooked for, and irretrievable ruin; it would be difficult to exact pledges of too high and binding a nature for the possession and exercise of every required faculty and qualification.

I am, Sir,

Your obedient and humble Servant,

\* \* \* \* \*

*Birmingham, February, 1826.*

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