LETTER

TO

SIR W. PULTENEY, BART. M. P.
&c. &c. &c.

ON

THE ESTABLISHMENT

OF

Another Public Bank

IN

LONDON.

BY WILLIAM PLAYFAIR,

INVENTOR OF LINEAL ARITHMETIC.

" Truths would you teach, or ſave a ſinking Land?
All fear, none aid you, and few underſtand."

POPE.

LONDON:

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PREFACE.

IT was the cuſtom formerly to addreſs a book to the public, and begin with a preface to ſome diſtinguiſhed perſon: of late, a new faſhion has prevailed; a letter is now written to ſome diſtinguiſhed perſon (known or ſuppoſed) and a ſhort ſpecies of preface only is addreſſed to the public.

It is not in order to be in the faſhion, that I follow the latter mode in the preſent caſe; the public would not have been ſurpriſed at any time, that on this ſubject I ſhould addreſs myſelf to a gentleman ſo converſant with matters of finance as Sir William Pulteney, but, when

Sir

Sir William ſtands forward ſo conſpicuouſly, it is peculiarly natural to do ſo; and, I ſhould imagine, needs neither apology nor explanation.

Ever ſince the year 1793, when Sir William Pulteney was named one of the truſtees for aiding commercial men, with five millions of Exchequer bills, he has been known to pay particular attention to the commercial intereſts of this country.

Many people have conſidered the wilfulneſs of the Bank Directors, as a principal cauſe of the embarraſſments of commerce. A rival bank is certainly the beſt remedy for the inconveniencies ariſing from monopoly and uncontrouled power; but there is much reaſon to fear, that the nature of the affairs of this country has but too well warranted the Bank Directors in many of thoſe caſes where

where they were thought to have acted through caprice or from perſonal motives.

The intention of the following letter is neither to vindicate nor condemn; but, by inveſtigating the matter on general principles, to attempt finding out what *ſpecies of bank* can with utility be eſtabliſhed in the preſent circumſtances.

TO

Sir William Pulteney, Bart.

SIR,

IT is well known and univerſally allowed, that few men in any rank of life unite a general knowledge of finance with a particular detail of facts in a more eminent degree than you do; it therefore follows, that your opinion muſt in ſuch affairs always carry with it very conſiderable weight.

Ever ſince the ſummer of 1793, when the failure of a number of country banks cauſed a ſtagnation of credit, you have diſtinguiſhed yourſelf particularly by your patriotic endeavours to remove the inconveniencies which have taken place, and been too ſeverely felt on that account. Your motives are too pure to admit of your being offended at my attempting to point out the difficulties that lay in the way of reducing to practice your patriotic intentions.

The mere theory of finance does not ſerve as a guide ſufficient in removing the inconveniencies complained of; becauſe private and perſonal intereſt, and the ſelfiſh manœuvres of individuals

and

and of particular bodies of men, come athwart every project; and therefore, in order that a plan may become practicable, it muſt be ſo conceived as to parry thoſe inconveniencies, ſo that what is pure and incontrovertible theory, muſt be combined with practical imperfection, if I may be allowed to uſe the expreſſion.

To eſtabliſh a Bank that may rival the Bank of England, and thereby pare, as it were, the nails of monopoly, is a plan certainly warranted both by theory and experience; as it is proved by the experiment that thoſe who, like the Directors of the Bank of England, are without *a ſecond, a rival, or a judge*, always act deſpotically; and nothing flouriſhes under deſpotiſm ſo well as it would, if that deſpotiſm were removed.

The commercial men of London are more completely under the controul of the Bank Directors than the Pachas in Turkey are under that of the Grand Signior; and though they may boaſt of being a high-ſpirited and a rich ſet of men, yet, in this inſtance, they are reduced to ſuch a ſtate of ſervility, that they dare not even complain.—You will have the great bulk of thoſe in oppoſition to your plan, whatever it may be, whether they inwardly approve of it or not; becauſe they dare not ſhew the leaſt will to ſeek any remedy, except what is dependent on the Bank itſelf.

When

When I hear the converſation that paſſes upon and about the Royal Exchange; when I ſee faces lengthen or ſhorten in proportion as the Bank diſcounts liberally or not; I fancy myſelf thrown upon the borders of the river Nile, and that I am overhearing the Egyptians foreboding famine or anticipating abundance, according to the overflowing of that famous river. I can conceive that men *look up* to God or to Nature; but I cannot bring myſelf to conceive they can deſcend ſo low as to hold their proſperity by the precarious and diſgraceful tenure of the *unexamined* and *unexplained* orders of their equals; juſt becauſe thoſe equals are veſted with *a little brief authority*.

You will have againſt you, likewiſe, all the bankers and money-brokers, whoſe intereſt it is to keep money ſcarce, as then it can be employed to great advantage: but, as your ſteadineſs and perſeverance are well known, I only mention theſe obſtacles as being certainly awaiting you, not as being either formidable or frightful.

The eſtabliſhment of a Bank at Edinburgh, under the name of the Britiſh Linen Company, to rival the Royal Bank, is the example moſt immediately in point, and it is in favour of your idea; but ſtill the caſes are by no means ſimilar.

I grant that the rival Bank in Edinburgh was productive of the beſt effects, and I grant, even

that

that in London, the ſame thing would be of the very utmoſt importance; but the manner to accompliſh it, that, Sir, is the difficulty.

The manufactures and commerce of Scotland experienced a change for the better, at the eſtabliſhment of the Britiſh Linen Company's Bank, very much like what the Engliſh commerce and manufactures received at the time the Bank of England was eſtabliſhed; and even the mad ſchemes of thoſe who eſtabliſhed the famous Bank of Ayr, and all thoſe ſmaller Banks which ſtarted up in almoſt every market-town, and which ruined ſo many individuals, did in no very ſenſible degree counteract the beneficial effects of a free circulation of paper.

One Bank in a town is governed by one ſet of men, who, in their turn, are governed by their opinions, and their prejudices; to which, for want of any effectual appeal, all muſt ſubmit. So ſoon, however, as a rival Bank is eſtabliſhed, opinions and prejudice, give way to intereſt, and thoſe who apply *having an alternative*, are ſure to be liſtened to, when, what they demand, happens to be reaſonable.

Edinburgh, however, is ſo ſmall a place, when compared to London, and the other circumſtances of the caſe are ſo different, that I cannot agree to its being a caſe by any means directly in point.

But,

But, before we enter into a diſcuſſion of this, let us enquire into the cauſes of the preſent criſis in our finances which occaſions your propoſing a plan.

It has been maintained on one hand, that the money ſent out of this country has occaſioned a real ſcarcity of ſpecie; on the other hand, it has been aſſerted, that want of liberality in the Bank Directors has occaſioned the want of a circulating medium. Miniſters have hinted at our financial apoplexy having ariſen from too much wealth; but, amidſt all theſe aſſertions, I have in vain ſought after a plain ſtatement of facts. I do not ſay that others are to blame; it may be my want of comprehenſion, perhaps; but, at all events, the reaſon is yet to be explained to me. You, Sir, if I am not miſtaken, are one of thoſe who think that it is not the quantity of money ſent out of the kingdom that is the cauſe of our diſtreſs, but rather that it ariſes from the illiberality of the Bank Directors.

Now, Sir, though I am certainly not intereſted, nor much inclined to take the part of the Bank Directors, yet I do not lay the blame entirely at their door; and I hope in God the day never will come, when, from private and perſonal reaſons, I ſhall blame any public men, when reaſon and truth plead in their favour.

That there ought to be gold in proportion to the paper currency is certain; and in times of

diſtreſs

diſtreſs and diſtruſt, the proportion of gold would require to be augmented. Now, Sir, if I can prove to you that gold and confidence have both diminiſhed in this country of late, I think I ſhall have proved why the paper circulation muſt of neceſſity have been diminiſhed alſo, or at leaſt why gold could not be found to anſwer the demand.

We have all been ſo much miſtaken about the quantity of Bank of England notes that was in circulation, that it is probable we may have been miſtaken about the quantity of gold alſo; but I do not much mind that, I pay more reſpect to *relative proportions* than to real quantities in things of this ſort.

I have, Sir, on one hand learnt, that, during the laſt four years, twenty millions have been ſent out of the country; and I have examined the balance of trade in our favour. The balance of trade is paid generally in gold, and thus becomes the meaſure of the quantity of the precious metals that comes in from other countries. I find again, that, before the American war, the balance, on an average, in our favour was about four millions, which was equal then to more than one-fourth of all our exports. I find, alſo, that for theſe laſt fifteen years the balance has greatly decreaſed; and that during the laſt four years whilſt we have ſent ſo much money abroad the balance in our favour has not been one million annually,

ally, which is not one twenty-ſixth part of the whole amount of our exports at the preſent time. I do not mean to be punctilious or ſcrupulouſly accurate in this buſineſs, when I know it would be impoſſible to be ſo; and, when, even if it were poſſible, it would be of little utility: I ſhall therefore ſuppoſe the balance in our favour to be double what it appears by the Cuſtom-houſe books, by which I find, that five millions only can have come in, while twenty millions, I am informed, have gone out. I believe no one will ſay (barring the famous gold mine in Ireland) that there is any other mode of gold accumulating, but by the balance of trade; and, I am ſure that you will be ready to allow that exports are generally repreſented rather too high and imports rather too low: ſo that upon the whole, the balance repreſented to be in our favour is exaggerated rather than otherwiſe; therefore to ſpeak candidly and fairly, it muſt be allowed, that the quantity of the precious metals has diminiſhed very conſiderably within theſe laſt four years, and conſequently that either the circulating paper muſt have been diminiſhed alſo, or a greater riſque of ſtoppages muſt have been incurred than on former occaſions.

In ſhort, Sir, we muſt allow, that want of gold and ſilver is one cauſe for the ſtoppage of the Bank of England, and the other Banks in the country.

country. Again, we muſt allow that a diminution of ſpecie is not the only cauſe for a ſtoppage of payment. A general miſtruſt could not but take place when England, miſtreſs of the ſeas during a century, was invaded with impunity. Sir, there is a paradox in invaſions that deſerves to be examined; a formidable invaſion cauſes diſcredit, becauſe it gives us an idea of the ſuperior force of our enemy; and a trifling invaſion occaſions diſcredit, becauſe it fills us with an idea of our own weakneſs or cowardice. I hope I ſhall not be miſunderſtood when I ſay, that the contemptible and unrevenged *invaſion of Ireland* did and muſt make us deſpiſe ourſelves; but if it did not, what are we to ſay of the ſtill more contemptible invaſion of Britain? Sir, I ſay, it is extremely natural to be impreſſed with this opinion, that when 1200 galley ſlaves could be landed with impunity in Wales, that the Bank of England notes were no longer ſo good as gold. What do I ſay! It was natural.—Why, Sir, the felons had not landed three days in Wales, when the Bank of England was ſhut up. The circulating medium ſince adopted, which would be better called the ſuccedaneum, I mean the 20*s.* notes, ought rather to be conſidered as the ſpurious progeny of the galley-ſlaves, than of Abraham Newland, on whom they are fathered in a very improper manner; for honeſt Abraham has not committed any crime.

Confidence

Confidence in ourſelves or in our rulers having decreaſed in an unexampled degree, and the quantity of bullion being alſo diminiſhed, how could a cataſtrophe ſuch as has taken place be averted? And how are we to avoid it in future?

Another bank upon the ſame plan of the preſent may remedy matters, ſo far as the Bank Directors act amiſs; but ſtill, *gold and confidence are wanting*, and I am afraid, you cannot bring in a bill that will bring them back; if you can, I ſhall be one of the firſt to thank you; but, as that is out of the queſtion for the preſent, I dare ſay you will agree with me, that the eſtabliſhment of a ſecond bank in London, the capital of which is to conſiſt in gold alone, will not anſwer the intended purpoſe; for it will only tend to correct what may have been wrong in the conduct of the Bank Directors of the now exiſting bank, but will not remove the real cauſe of our diſcredit.

A gold bank then, will not anſwer the purpoſe: now let us enquire what other bank is moſt likely to do ſo.

Every bank muſt have a capital conſiſting of ſome real value, and land has been conſidered as the moſt ſolid.—I do not mean to conteſt the ſolidity of a land bank, but to conſider its effects and utility.—Nothing in the world has ſo real

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and permanent a value as land; and therefore nothing it may be thought, insures the ultimate value of a note better: but this is an unfair inference.

In the first place, what description of men have the chief credit in a Land Bank? Why, men of landed property and not men in trade; men who seldom borrow unless either to pay debts with the money, or to squander it away; not the men who sustain the trade and manufactures of this kingdom. Therefore, on this score, a Land Bank, simply as such, is very objectionable.

Another objection is, that though land is of great real value, yet it is the value of all others the least capable of being converted into money suddenly, if it should be wanted; for it would not in one year be possible to sell to advantage any great number of landed Estates: because wealthy people alone can make such purchases; because they cannot be exported like goods to foreign markets; and lastly, because, being local, any one estate suits but very few persons to purchase; and therefore, unless a great reduction of price brings a competition of purchasers, much time is necessary; and even in that case, if the time is shortened, the amount of the sum is also diminished.

Such are the leading disadvantages of a Land Bank: but there are many of an inferior sort, which

which may, perhaps, most properly, come under the head of inconveniencies, but which are very serious ones.

It is one essential thing in every Bank, that the sums advanced by it should be for temporary purposes. This is one of the principles laid down by Mr. Smith, and, a proof thereof, is that the Bank of Ayr in Scotland, which was a Land Bank *, was ruined principally by lending to men of landed property sums which they sunk on the improvement of their estates. The agriculture of the country was benefited, but the borrowers were unable to pay, and the Bank was ruined in a very short space of time.

The objections to a Land Bank in a commercial country will be found insurmountable, or, which is the same thing, the Bank will soon be discovered to be useless, if not ruinous.

There are not the same objections to Banks founded on other property, which, in the common course of things, is sold and converted into money,

* The Bank of Ayr was not conducted on the principle of a Land Bank, though it turned out to be one. The monied capital subscribed was soon absorbed, and the lands both of those who had borrowed money and of the Bank proprietors who had lent it, were obliged to be brought to market; and near half a century has been employed in liquidating their affairs.

and

and which is of a value not ſo permanent, but for a time equally certain with that of land.

Bank Notes, which repreſent goods and merchandiſes, may be paid by the ſale of thoſe merchandiſes on the faith of which they have circulated; becauſe, in the regular courſe of buſineſs, all merchandiſes are converted into money, and therefore ſerve for payment

Another thing in favour of a Bank founded on goods is, that the paper iſſued goes into the hands of commercial men, who employ it for the purpoſes of trade, and neither to pay debts nor to ſquander away.

If, then, it is true that gold and ſilver are diminiſhed in quantity; that our trade and commerce, as well as the immenſe payments of public revenue, require an augmentation of a circulating medium; ſome other foundation than gold and ſilver muſt be found. The inconveniencies of a land bank have been pointed out, at the ſame time that its ſolidity has been acknowledged. Goods and merchandiſes, and the obligations of the ſtate, afford another baſis, which we find attended with leſs inconveniency. I would, therefore, Sir, undertake to maintain, that, in the preſent circumſtances, a Bank iſſuing notes upon all theſe ſecurities together, and poſſeſſing a capital ſufficient for performing its engagements with punctuality in

in caſe of a delay on the part of the borrower would anſwer all the purpoſes of the community and would be found practicable, ſafe and profitable.

The gold neceſſary to be ready at command might be calculated thus, ſuppoſing the circulation one million on ſecurities realizable in two months; of theſe it may be reckoned (putting 30 days in the month), that 16,666l. comes due in one day, but of this 16,666l. one third at leaſt will not come in within a fortnight, ſo that it is reduced to about 11,000l. per day.

Again, if prudently managed, not above one tenth of the ſecurities will require to be converted into caſh by the Bank, ſo that the ſum is equal only to about 1,100l. a day. Now, though all ſecurities do not admit of being equally expeditiouſly tranſformed into money, yet, as ſome may be done in a week, and the greateſt part in three weeks, then we may ſay all in 20 days. So that 22,000l. would ſecure the payment of one million by what I apprehend to be ſtrict calculation; but ſtrict calculation leaves nothing for accident, and therefore will not do; inſtead, therefore, of 22,000l. let the ſum be put at 100,000l. and it will be far more than ſufficient even at the beginning of the eſtabliſhment.

 Such

Such a bank would then add nine times its gold capital to the circulation of the country, and the notes that it iſſued would be ſecure beyond all ſuſpicion.

I think, Sir, it would be ſuperfluous, and indeed the time does not admit of my entering into a minute detail of what might then be the precautions neceſſary to make the buſineſs ſucceed; and this the leſs ſo, that I am actually partner in the ORIGINAL SECURITY BANK eſtabliſhed in Cornhill, of which the ſucceſs is great, beyond expectation; the mode of doing the buſineſs, is every day attaining greater perfection by experience; and the openneſs and fairneſs with which it is done are ſuch that we are enabled to ſhew to all the world our tranſactions.

To render ſuch a bank complete, it wants not the protection, but the friendly aid of Government, and in the following manner:

I. The ſecurities taken ſhould be depoſited in a public office, and a duplicate of the great regiſter be kept along with them.

II. Some perſon of confidence in the employment of Government ſhould be charged with this operation.

III. The notes ſhould not be ſtamped, or at leaſt, ſtamped according to their value, ſo that 5l. would not pay as much as 30l. as is now the caſe.

III. The

IV. The ſecurities being under the protection and controul of Government, the notes of the bank ſhould be received in payment of taxes and duties when they had not more than one month to run, diſcount being allowed.

Government could not be compromiſed by ſuch aid, and the Bank of England itſelf would be benefited by it; for as it is notorious that the bank cannot diſcount for all thoſe who apply, the New Bank would then relieve the old one, without rivalling it; becauſe notes payable on demand will always be preferred to notes payable at a future day.

I know that it may be ſaid, that the Bank of England has forfeited its charter, and therefore need not be ſpared. I am one of thoſe who believe it has forfeited it, and broke its engagement with the public; but though I am not its advocate nor deceitfully pretending to be ſo, yet as an Engliſhman, I do inſiſt upon it, that it is the duty and intereſt of the nation at large to heal the wound that has been given to credit, by aiding to repair the evil, and by paſſing lightly over it as a misfortune rather than as a fault.

I am aware that there is ſtill one portion of men in trade who will not be aided by this New Bank; and I left out that part of the ſubject, that as it is upon a different principle, I might treat it ſeparately.

Bills

Bills of Exchange are not real ſecurities, and therefore cannot ſimply ſerve as a ſolid baſis for notes; but, as every note that circulates, unleſs guineas are in a drawer ready for its payment, depends in ſome ſhape upon contingency; a moral, not a phyſical certainty, is all that a paper circulation admits of.

The caſe is ſo eaſily to be ſuppoſed, and is ſo evident from the very circumſtance before our eyes, that the Bank of England is ſolvent in a balance of property, but inſolvent in caſh, that I need not give an example, particularly to you: now, Sir, a moral certainty approaching, indeed, very near to a real one, being all we can attain even in the caſes of real property, I am about to ſhew you how we propoſe to give to bills of Exchange a ſufficient degree of moral certainty likewiſe.

That any ſolvent man ſhould be bankrupt in two months, is a chance of about one to 312; but, that two ſhould be ſo in that time, is one to 624, three is 1248, and ſo on thus of the others.

I then take ſix notes of 100l. each, and each note with at leaſt three ſolvent names upon it, ſo that beſides the man from whom they come there will be eighteen names, nine of whom muſt ſtop payment before the 600l. is diminiſhed to 400l.; that

that is a chance of 79,872 to one *. The probability of being able to ſell a diamond in a given time for only half its value, is not ſo great; therefore, though each of the notes individually is incapable of being a ſecurity, yet the whole packet of notes is as nearly approaching to a perfect ſecurity as need be obtained.

This ſpecies of ſecurity is only liable to one objection, viz. that the drawers and indorſers may be credited when they do not deſerve it; the anſwer to which is, that before any great riſque can be incurred on that account to the public, thoſe who have the management of the Bank muſt be ſuppoſed either fools or madman to ruin themſelves for the ſmall commiſſion which they receive upon theſe ſecurities.

* The calculation of ſolvability may be made ſeveral ways; but the readieſt is to take the total number of people in trade, who draw or accept bills, and ſee what proportion of them become bankrupt in two months on an average. There are in England about 50,000 perſons in trade who draw and accept, and one week with another there are about twenty bankruptcies; that is, in eight weeks 160. Divide 50,000 by 160, and you have the probable ſolvability of a man, which is 312 to one for two months, or for any nine men given 79,872, and nine men muſt become bankrupt before the ſecurity is reduced to leſs than 400l.

This

This ſubject might require long inveſtigation. It is capable of being elucidated by ſome very curious calculations, and ſo far as I know, is perfectly a new idea; it is therefore ſufficient at preſent to prove, which I think I have done, that it is capable of being of great ſolidity *.

Before I finally quit this ſubject, I have briefly to obſerve, that if your New Bank is propoſed as a rival to the Bank of England, then there is a double reaſon for not making the notes payable on demand; becauſe that will give the preſent Bank a means of cruſhing the new eſtabliſhment.

Banking has lately received a ſhock from which it will not ſoon, if ever entirely, recover; and I am inclined to think, that the preſent ſyſtem, founded on blind confidence, is near at an end. I cannot help making compariſons, and therefore I muſt compare what I foreſee with what I have ſeen. I have ſeen in France the nobility honoured, eſteemed, and obeyed; becauſe the origin of the order was good, and becauſe the individuals wore ſwords. The race was thought brave, becauſe the

* This calculation, I know, is liable to one objection, ariſing from the credit of a number of different perſons being ſo connected, as that the fall of one ruins the others. This is a poſſible caſe; but thoſe who fall into the error *muſt do it through* not being at the pains to know who are good and who bad men, and whether the bills diſcounted are fictitious or real.

founders

founders were really ſo, and their deſcendants preſerved the appearance of bravery; but when put to the teſt they *did not pay on demand* and ſoon after, all nobility was aboliſhed. The origin of credit is ſolvability; but when people ſee the appearances but not the proofs of it on a copper-plate, I am afraid it alſo will degenerate. The charm will perhaps break; and we ſhall ſee that men will demand upon a Bill of Exchange and a Note *a reference to the property on which it is founded.*

The ſerpent with its tail in its mouth, emblematical of eternity, does not badly repreſent the affairs of this world. Things get back to their origin quicker than people imagine; and it requires not any great foreſight to ſee that *credit founded on real property*, as well as nobility founded on real nobleneſs, will ſome day be the only credit or nobility exiſting. I need not tell you what befel the prodigal ſon when he abandoned the houſe and the principles of his father. It is an admirable parable, and applies perfectly to the eſtabliſhments of men. When I recolect that parable, I only put confidence in ſuch eſtabliſhments as bear evident marks of adheſion to the baſis on which they were originally founded.

I am ſorry, Sir, that the times in which we live are little favourable to any eſtabliſhment founded on public good. If you will ſucceed, addreſs yourſelf not to patriotiſm but to ſelf-intereſt; for

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men now are governed by that and by that alone. I am afraid that each individual, thinking for himſelf, the nation is forgotten; and that every plan which does not carry with it lucrative places and emoluments, will be looked *cold upon*; and conſequently that a Bank beginning by degrees, though on a ſolid footing, will not be protected. I do not ſay it will not, but I ſay that I am afraid of it; but if you propoſe what is ſplendid, magnificent and lucrative to individuals, you may ſucceed in obtaining a patient hearing.

As to the Bank in which I am concerned, I am perſuaded it is on the right principle. I am convinced that we have found the means of repreſenting property in a better manner than has ever been done before; and I am almoſt perſuaded, that no New Bank can be eſtabliſhed with advantage that will not embrace partly our plan.

If ſerious intentions are entertained of parliamentary interference, I hope and truſt, ~~and my hope is founded upon the belief,~~ that the eaſieſt and faireſt mode will be adopted, which is, to make ſuch regulations, and grant ſuch advantages to the Original Security Bank, already eſtabliſhed, as will render it univerſally uſeful, by the eaſy and ſafe mode which I have ſuggeſted.

CORNHILL, MAY 23, 1797

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