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STOPPAGE OF THE BANK

CONSIDERED

IN ITS

CAUSES AND CONSEQUENCES

IN ALL ITS RELATIONS TO

MANUFACTURES, COMMERCE,

GOVERNMENT, PUBLIC CREDIT,

AND

PROPERTY.

TO WHICH IS ADDED,

THE REPORT OF THE COMMITTEE.

En gé.éral, ce qu'on nomme crédit, n'est qu'un délai donné pour payer.

ABBE. RAYNAL.

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[Price SIXPENCE.]

STOPPAGE OF THE BANK, &c.

AT a moment, when the whole country is in a state of alarm, and consternation at the late event of the Bank stopping payment, a candid consideration of the causes and consequences must certainly prove generally interesting to the community. It is an event that involves the properties and concerns of so many individuals domestic and foreign, that we scarcely know a subject in which the investigation of the philosopher and the politician can be so serviceably employed.

By a fair enquiry, the public may have their fears dispelled, their confidence confirmed, and their knowledge improved with regard to the real state of the nation as well as the Stocks (a) and Funds (b) on which the exigencies of the country must always depend for support.

(a) Stocks are those sums which form the capitals of the different corporated societies.

(b) Funds owe their foundation to the various loans borrowed by Government from the public through the medium of corporated societies.

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With regard to the causes of this event, we shall only consider them with a view to trace the actual state of the credit of the Bank without any retrospect to the policy or impolicy of the political conduct of the Ministry.

We disclaim all other motives than an enquiry for truth and not for panegyric or invective: leaving this to the tools of party, we shall endeavour to satisfy ourselves and the minds of the public on the actual state of circumstances producing an effect which the feelings as well as the interests of society are perhaps more deeply interested than by any preceding event in our history.

In 1694, we find the Bank was incorporated by charter, and in 1796 its capital was 11,686,800l.

This Bank of circulation (c), consisting of two sorts of creditors; the one a set of persons who supported the public exigencies with a loan to the government of William the Third, amounting to 1,200,000l. This happened at a time when specie was exceedingly scarce and dear to obtain. As a consideration, they were allowed the extravagant interest of eight per cent. beside 4000l. for charges

(c) It is so called to distinguish it from Banks of Deposit, such as that which was at Amsterdam before the late revolution in Holland.

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charges which afforded them an income of 100,000l. a year. Added to this, they obtained an exclusive right of banking as a corporation, for thirteen years under the firm of proprietors of the Bank of England. To extend this term of exclusive privilege, they have accommodated succeeding governments with farther loans at a less interest. With this power of advancing money for public service, they derive certain profits.

Supposing the sums advanced be only 11,000,000l. and the interest on the average no more than three per cent. after paying incidental charges, it produces 330,000l. annually, and as they divide annually five per cent. to their proprietors, it is evident they must make out of the other creditors, who are those keeping cash with them, a yearly profit of 220,000l. to enable them to pay the dividends amounting, at five per cent. for 11,000,000l. to 550,000l. It must be understood that for the money the Bank lends to government, no greater interest in general is paid than three per cent. The difference of interest received for loan to government and paid to the original proprietors of Bank Stock is the efficient cause of the one falling and the other rising in value as political circumstances affect the demands for each in the Stock Exchange. The above calculation is made at the round sum of 11,000,000l. to avoid confusion of figures; but the actual capital

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capital at Midsummer, 1796, as stated before, was found to be 11,686,800l. and the interest to the proprietors has arisen to seven pounds per cent. in consequence of the purchase of this Stock having risen to 140l. The other advantages attending the circulation of the Bank Capital is beside the loans to government, discounting of Bills, buying gold and silver in which if they employ a capital of 8,00,000l. they have remaining in cash a sum of 3,686,800l. for circulation and current payments. And as this is nearly the proportion in which they calculate the public demands upon them may be made, it is in general their system to secure a third of their capital in specie to preserve their credit with the public. From this wise principle, it has always been found that when any unforeseen pressure has happened upon the Bank, and the people have seen the treasure not so soon exhausted as they surmised, it flowed in again from some faster than it was drawn out by others.

As we have seen that the Bank keeps in coin one third of the value of all their notes in circulation, we may attribute it as the cause of their business having been so regularly and respectably conducted when the prosperity of the kingdom was such as to have been owing no considerable balance to foreign nations. When the nation has owed a balance, the obligation to pay coin then arose from

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from the notes issued by the Bank to support domestic circumstances coming upon it for the payment of this foreign balance. And, therefore, the coin intended for supplying only the home demand is prematurely exhausted. And as this is certainly an event the most dangerous to Banks of circulation, the government has timely interfered to prevent the credit of the Bank being sacrificed when its absolute property was considerably superior to every demand that could be legally made upon the establishment.

As this essay is meant to satisfy the public in general with regard to the state of the Bank, it may be necessary to inform such as are unacquainted with its concerns, from being, as members of the community interested in its operation, with the nature of its transactions. As a symptom of the present event, some few months past they advertised a resolution to discontinue the discounting of Bills. The system of discounting, thousands may have heard mentioned without understanding its principle. They are, therefore, to be informed of the following brief particulars.

A merchant or trader of London who has no property deposited in the Bank can give no order upon it. And to have the privilege of supplying himself with money at moments of emergency, he sends his bills to the Bank before they become due;

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due; for which he is credited and may draw cash for the same at any period within sixty days of their being paid allowing discount of five pounds per cent. for the time such bills may have to run. Foreign bills are discounted at four per cent. The intention of this discounting for merchants, &c. is evidently to derive a profit from a rapid circulation of the Bank Capital, and to produce the national advantage of assisting the commercial system in its progress. Thus are the Bank and the trade of the country mutually benefited. But this advantage chiefly depends on the quick returns the Bank must have for what they advance upon discount; as the merchants never suffer their property to remain uncirculating in their hands longer than they possibly can avoid.

The uncommon energies which the war has demanded from government having extended far beyond any powers to provide a sufficiency for national expenditure without applying to the monied interests for assistance obliged them to have recourse to loans, and the issuing of Navy and Exchequer Bills beyond what the emergencies of any former period have been known to require. To this great demand for specie, was owing the rise of the discount of Navy Bills to fifteen pounds per cent. and to an advantage of sixteen per cent. interest for money lent

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lent on government security. Those who had discounted these bills for the sake of the extravagant discount necessarily drew on the Bank for any stock they had there deposited. Accommodation Bills were mutually given among the monied speculators in order to have them discounted at the Bank at five per cent. so as enable them, with the money of which they were, thus, exhausting the Bank to obtain fifteen per cent. for cashing Navy Bills, &c. This caused such a demand of specie from the Bank, and rivalled the directors in their usual system of deriving emolument from discounting for government, that they thought it expedient to advertise a suspension of that discount which they felt was sapping their existence as a trading company as well as depriving them of their means of employing their specie to that extent of advantage to which they thought themselves so justly entitled. It arose from no deficiency of property, but from having prudently foreseen that continuing to advance their current specie upon accommodating paper enabled others with this fictitious credit to rival them and many more of absolute property in the market. This was considered by those who are always awake to alarm as the signal for spreading dilinay throughout the country which has ended in the late event. But there being no just cause of a alarm existing is evident from the associations that have been made, and were making of the principal
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merchants, traders, &c. in London, and every mercantile town in the kingdom for the purpose of unanimously resolving to take Bank notes in payment as formerly. This is a sufficient evidence of the best informed and most respectable persons in the country being unequivocally assured of the Bank being as unshaken in principle as it is solidly supported by its absolute property.

The general alarm of an invasion which pervades every part of the dominions to the great discomfiture of those possessing Bank or funded property render it necessary to state here a few remarks on public credit, that may operate for the preservation of personal possession as well as national prosperity. It is only by a firm resolution, and unshaken confidence in the resources being adequate to every exigency which the present state of political vicissitudes may create that we can oppose the designs of our invaders with any prospect of success. Armies may be raised, but unless they can be subsisted by a government supported by national confidence they must fall, and involve the destruction of the country in their defeat. In a state of adversity, the Stocks have comparatively more solidity of value than in a state of prosperity; for in the latter instance, they are like a bubble ready to burst at the first breath of misfortune, from their
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having a temporary set of men who are merely gamblers, adventurers, and fortune-hunters without a solid guinea in their possession. They consequently, on the news of ill success take away their contemptible shares, and leave the men of real property to consolidate the funds by their confidence in the stamina of the principle.

Thus the present possessors of property in the funds are men of real worth and sound understanding. They know their other possessions are such as do not require an immediate transfer of their funded capitals, and they also know that nothing can possibly tend so much to endanger them as a rash attempt to remove the capitals that constitute collectively the positive security of the individual proprietor. It is not the debility or weakness of the funds that threatens our public credit; it is the timidity of those who are frightened with the least breath of public alarm. This brings a multitude of sellers to the market who, thus, frequently lessen the price of a commodity at a time of its greatest abundance.

That national property as supported by the acts of government is not in such a precarious state as to render it necessary to withdraw any confidence in the credit of the funds is evident from the following circumstance:

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That in the last twelve months ending Jan. 31, 263,724l. 9s. 3d. are acknowledged by accounts from the Bank of England to have been received by the Commissioners for this reduction of the national debt. It appears also that no less a sum than 695,403l. 18s. 4d. is received for application in the present quarter ending May 1, 1797.

The impolicy of selling out on every idle rumour is accelerating the evil you are endeavouring to avoid, and like Santon, you thus pull the portals of property into one mass of ruins in which you bury yourselves with the rest of your fellow-citizens.

Were the amount of taxes rendered inefficient by either revolt, decay of trade, or excessive expenditure, confidence alone would re-establish prosperity by proving the parent of trade and industry. By such precautions as would tend to revive and confirm the confidence of the people in their own labour and resources, the welfare of the country would be restored. But without this confidence, the natural and immediate consequences would succeed each other as follows :

1st, Every Creditor must become poorer, in proportion to the irretrievable loss of his income.

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2d, Consumption, and the labour of the poor would be diminished in proportion to the Public Creditors having their means necessarily lessened of employing them.

3d, Trade would directly suffer proportionably to the loss of that part, which Public Creditors were prevented from exercising as usual in some branch of manufacture or commerce.

4th, By this intemperate forfeiture of confidence the Public Creditors would lose all, the trade of England would be ruined, and those who depend for subsistence on employment, would be reduced to misery.

The consequences of the stoppage of the Bank will certainly prove to manufactures, commerce, government, public credit and property a most essential service. The Committee of the House of Commons having ascertained the Bank to be possessed of a surplus amounting to about fifteen millions and a half sterling more than what is due to the public creditors will substantiate this credit upon such a basis that no alarms of stock-jobbers, political parties, or panic-struck individuals can possibly shake into a state of fluctuation much less into that of tottering on the brink of annihilation. Those, who ignorantly supposed the property of the Bank was visionary will now find it substantial; those who thought it merely the

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the possession of loans advanced by the proprietors will find it consist of independent funds; and such as thought they were absolutely in a state of insolvency will be convinced that no firm or establishment whatever can be more founded on principles of solid and substantiated property. This will re-animate the languid, confirm the desponding, inform the ignorant, correct the prejudiced, and unembarrass those who were lost in the maze of their own perplexities excited by not having sufficient information to direct their opinions.

The manufacturers will now return to their vocations with renovated ardour; for in proportion to the confidence of the public being restored, their demands will encrease. And as the circulation of small Bank notes are now legalized, their concerns of payment will be facilitated beyond any conveniencies they have ever experienced. The power of manufacturers, traders, and others to issue small notes will supply every temporary defect that may arise from a want of current specie. And as the act which repeals those of the 15th and 17th of his present Majesty which Sir George Saville brought in to prevent the passing of notes under five pounds provides not only a penalty but a shameful punishment on those who may issue them without sufficient property to discharge them when presented; the

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poor will be thus secured from the danger of being deprived of their wages by adventurous swindlers, and insolvent dealers. This caution will gain the confidence of the artizan in their security, and will animate his industry with the assurance of an unfailing means of having his labours rewarded.

When a Bank has substantiated its solidity of principle, the country must derive from it in all its departments and transactions of mutual intercourse the most essential advantages. It becomes the centre of commercial energy which the nation it animates with an influx and reflux of circulating medium. Those who would bury their treasure for want of knowing where it would be secure, and produce a certain advantage will now see the means of obtaining an income from what they must otherwise diminish from the necessity of subsisting on it or render it useless by keeping it out of mutual circulation.

By persons depositing their property in the Bank to draw a certain profit of five per cent, annually when they could not obtain that advantage any other way, they constitute a fund to which persons can repair with proper securities for money which they can employ in commerce to a considerable advantage. By this means, the general system of trade is promoted, the resources of government strengthened, and the individual enriched

enriched by being, thus, enabled to exercise his talents and industry. In this manner, all ranks and degrees are accommodated to the extent of their views, their habits, and their talents.

The circulating the small Bank notes with regard to external commerce will operate most effectively to check that quantity of specie being exported from this country to France and other countries, where it could not re-produce an adequate advantage in purchasing raw materials essential to our manufactures or other commodities that we may have re-exported, and, after employment of shipping, and payments of duties returned us a considerable surplus of foreign specie. In this point of view, the stoppage of the Bank may be considered a most essential preservation of our specie and benefit to the trade, and, consequently, to the resources of the country. By thus having timely secured our specie from being prematurely drained into the coffers of a people whose system is to employ it, if possible, in our destruction, we have effectually baffled their designs, and fettered their energies.

The issuing of small notes at the Bank is considered by some as productive of great inconvenience to the lower orders of society. This opinion arises from those prejudices which are always the offspring of prevailing customs. A people
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people in the habit of receiving and paying specie, cannot be led to adopt the medium of paper without feeling sentiments of alarm unfavourable to their conveniencies and their properties. And, although these apprehensions have no other foundation than in their own misled imaginations, yet until their former habits and prejudices in favour of specie are, by cool reflection and experience, proved to have been founded in error, murmurs and discontents will not entirely subside. But in proportion to paper being used, the people will find their grievances imaginary, and their former apprehensions merely delusions.

Had they been, like the inhabitants of Scotland, always accustomed to pound and guinea notes, they would, like them, have considered and experienced that they never knew the want of any convenience a guinea in gold would afford which they did not derive from a note of the same value. The same facility of changing a note in Scotland, and a guinea in England made them equally valuable and accommodating to the inhabitants respectively. All the difference of sentiment felt by us in favour of coin has, therefore, merely arisen from being in the habits of its circulation. So that as we become accustomed to the circulation of notes, we shall, as observed above, find our alarms vanish, and ourselves
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insensibly reconciled to small notes we shall experience to be a most essential accommodation to our personal interests, and national prosperity.

R E M A R K S

ON

THE REPORT OF THE COMMITTEE.

AS much has been said on this Report in public and private, the following sentiments are most respectfully submitted to the candid part of the community.

The Committee being formed of some of the most respectable characters for opulence and talents in the opposition as well as in the ministry, their report cannot, for a moment, be supposed to be partial or fallacious. We have, therefore, no reason whatever for not receiving it as the most unequivocal testimony of the Bank property being independent of that danger with which it has been frequently threatened in times of party alarm and political emergency; for we find it possesses a fund of fifteen millions and a half independent of the expence, intrigue, or machination of those who to effect a sinister purpose of party ambition or personal avarice might combine to withdraw their shares of stock, and, thus ruin the establishment. But the Bank as formed of a corporation
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of persons entrusted with a capital to obtain a profit by its circulation may now be justly compared to a firm of private bankers entrusted with the money of private individuals who are not concerned with the management, provided the bankers have sufficient property to satisfy their claims.

The same has happened to the Bank as may happen to Houses or Establishments of the greatest solvency. A greater demand was brought upon it by the alarms of some, and the combination of others than they had specie to answer. But the directors---like persons conducting any business liable to such a temporary pressure, stopped payment until they could convince their creditors of their absolute sufficiency, and provide a means for meeting an evil which threatened themselves with absolute bankruptcy, and their creditors with a partial, if not a total loss of their property; for the Bank and its creditors, like every other concern of debtor and creditor might both have been ruined by an intemperate impatience to divide the property, and disorganize the establishment.

This conduct has frequently reduced merchants of absolute property to a state of indigence where a little forbearance of his creditors would have preserved to the great advantage of themselves and the community.

REPORT

REPORT FROM THE COMMITTEE OF SECRESY.

“ Your Committee have examined the total amount of out-standing demands on the Bank of England, and likewise of the Funds, for discharging the same; and think it their duty, without loss of time, to state those total amounts, and to report the result thereof to the House.

“ Your Committee find upon such examination, that the total amount of out-standing demands on the Bank, on the 25th day of February last to which day the accounts could be completely made up) was 13,770,390: and that the total amount of the Funds for discharging those demands (not including the permanent debt due from Government of 11,686,800l. which bears an interest of three per cent.) was, on the same 25th day of February last, 17,597,280; and that the result is, that there was, on the 25th day of February last, a surplus of effects belonging to the Bank, beyond the amount of their debts, amounting to the sum of 3,826,890l. exclusive of the above-mentioned permanent debt of 11,686,800l. due from Government.

“ And your Committee further represents that since the 25th of February last, considerable issues have been made by the Bank in Bank Notes, both upon Government Securities and in discounting Bills, the particulars of which could not immediately be made up; but as those issues appear to your Committee to have been made up on corresponding Securities, taken with the usual care and attention, the actual balance in favour of the Bank did not appear to your Committee to have been thereby diminished.

F I N I S.