

HISTORY OF THE
BANK OF ENGLAND

1640 to 1903

A. ANDRÉADÈS

Translated by Christabel Meredith
with a preface by H. S. Foxwell

AUTHOR'S PREFACE.

THE Author of this book gladly welcomes the appearance of an English translation of so satisfactory a character. At the same time it may be well to remind the English reader that this is a history of an English institution written by a foreigner and intended for the use of foreigners. Difficulties must arise in any attempt to judge the institutions of other countries and to form an opinion with regard to advisable reforms. The task is especially hard in the case of a country like England, where more attention is paid to facts than to theories. Hence with respect to various questions, especially some arising towards the end of the work, when I have been unable to support my own views by the opinions of an English authority, I have chosen rather to confine myself to a statement of the facts than to set forth theories which might be disproved by subsequent events.

Moreover, in writing for French readers, I have described various matters and in particular historical events, the discussion of which may perhaps be superfluous for English readers. I must then ask the latter to remember that the political and

economic history of Great Britain is less well known to continental readers than to themselves.

I am conscious of many other short-comings in this book, which is a product of youth; were it not for the pressure of University duties and other work I should have completed and revised it. In its present form it is the result of the conscientious study of several years; and as such I hope it will obtain the indulgence of my new readers.

It only remains for me to express my thanks to Mrs. H. O. Meredith, who has spared no pains in the work of translation, and to Professor Foxwell, whose instructive preface is sufficient in itself to give the book a special value.

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AUTHOR'S PREFACE TO THE SECOND EDITION

THIS is less a preface than a kind of apology. I was from the first fully aware of the many shortcomings of a work, which, though it took nearly four years of constant work, was written when the author was still very young. As a matter of fact it was his first large publication.

In consequence I looked forward to a second edition with the hope of re-moulding many chapters, especially those concerning the eighteenth century, of adding some tables showing the progress of the Bank in the different branches of its activity, and last, but not least of devoting a large chapter to the History of the Bank of England during The Great War.

But the Greek and the Continental libraries generally are insufficiently equipped for a work of such a description, and moreover, while my time in Greece was taken up by several works on Greek finances and their history, such short stays as I was able to make in England in recent years were absorbed by a work on the population of the British Empire during and after The Great War.¹

My only chance of carrying out my plans would have been a postponement of this second edition till 1926, which would have allowed me to spend two summers at least in England, viz., the minimum of time which a thorough revision would have required. But I have to pay the ransom of a somehow unexpected success, and the demand of the public obliges the publishers to bring a new edition without delay through the press.

This being so, it was thought better to leave the book as it stands, and, while apologising to my new readers, to hope

¹ It was published in 1923 as a Supplement to *Metron*, the International Magazine of Statistics.

that their numbers will be great enough to allow for a third—this time enlarged and revised—edition—at a not too distant date.

I cannot bring these few remarks to a close without expressing once more my gratitude to Mrs. Meredith and to Prof. Foxwell. I am aware that the popularity of this book—which in many respects is a *pêché de jeunesse*—is due to a very large extent to the admirable translation of the former and the not less admirable preface of the latter.

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PREFACE.

ENGLISHMEN may be pardoned if they regard the Bank of England as the greatest financial institution in the world. It is far inferior, no doubt, to many Continental banks, in the extent of its metallic reserves and of its note circulation; and there are even other English banks which hold a larger amount of private deposits. It can hardly be considered so essentially a *national* bank as the Banks of France and Germany, each of which does a larger business in the provinces than in the capital: it is not so democratic in the range of its operations as the Banque de France, perhaps not so directly associated with general enterprise as the Reichsbank. No existing bank can boast a history at the same time so long, so continuous and so distinguished; nor has any played so large and so worthy a part, not merely in the fortunes of a great nation, but also in the general financial activities of the world.

The history of this famous Bank, here presented in an English version by Mrs. Meredith, must be held to be in many respects a *tour de force*. It was written by a Greek, in French: and notwithstanding the double difficulty with which the author had to contend in describing an institution, so characteristically English, in a language not his own, it is the most comprehensive and most readable account of the Bank yet published. Dr. Andréadès, indeed, following Mr. Stephens, goes so far as to say that nothing deserving to be called a history of the Bank had previously been written, though the attempt had more than once been made. If this be so, the fact is

sufficiently remarkable, and suggests reflections, some not too pleasant, to those who are concerned for the credit of English Economics. In what sense must we accept the statement?

We must certainly agree, with M. Lyon-Caen, that no complete history of the Bank existed before the appearance of this book. Many valuable contributions to such a history had been published from time to time; but all of them left something to be desired. Some were fragmentary, some were hardly scientific; in the best of them history is often only incidental to the author's main purpose; nearly all, a characteristically English fault, were unsystematic; none of them covered the whole period, even approximately. We had no complete, formal and scientific account, such as would compare for instance with Alphonse Courtois' history of the Banque de France.

Let us glance at some of the more important existing works. The account given by Macleod, in his *Theory and Practice of Banking*, may be said to have held the field before the appearance of Dr. Andréadès' history. It is in many respects very good within its limits; the present writer, like the late Henry Sidgwick, found it more suggestive and instructive than any other. But the historical work was merely incidental with Macleod, not his principal aim; as may be gathered from the fact that the word 'history' does not even occur on the title of his book; and his vigorous sketch deals with banking rather than with the Bank: a distinction, I will admit, which counts for less in earlier times than it would to-day.

Tooke and Newmarch (the former especially) have also contributed invaluable material in their well-known *History of Prices*, notably for the period of the Napoleonic war, but in hardly less degree for the whole period 1793-1857 covered by them. But Tooke's work might be regarded as a documented argument rather than a reasoned history: an objection

which would apply to Macleod as well, though perhaps not quite to the same degree. The object of both writers was rather to establish a controversial thesis than to give a scientific explanation of the course of events. None the less, each work contains abundant and trustworthy historical material: the unconcealed bias of the writers does not seem to have interfered with their accurate record of the facts. Avowed bias, indeed, rarely misleads; what is really dangerous is the pretence of impartiality. Tooke, perhaps, sometimes puts upon the facts a construction they cannot fairly bear; on the other hand, he is most careful to give references, the lack of which is a principal defect in Macleod. It is certain that everyone who essays to deal with the history of English banking must be deeply indebted to both these writers.

There are some excellent authorities, too, upon the earlier years of the history of the Bank. First among them in merit, though not in time, I would mention Thorold Rogers, whose *First Nine Years of the Bank of England* has always seemed to me the most brilliant of his many contributions to economic history. It is, of course, only a fragment; but it is a model for the economic historian. Among others who have thrown light on the earlier history must also be mentioned Mr. Hilton Price, Mr. Maberly Phillips, and the late Mr. J. B. Martin whose numerous works and papers are full of valuable information as to early banking history, banking practice, and banking documents. Many others might be named, did space permit, who have made similar valuable studies of local banking, and individual banks. What seems to be an admirable sketch, covering a longer period in a more connected way, must be noted here; I mean Mr. W. R. Bisschop's *De Opkomst der Londensche Geldmarkt: 1640-1826*: S'Gravenhage, 1896. Unfortunately many of us are debarred by linguistic limitations from profiting as we otherwise

might from the acute and critical exposition of this scholarly writer.

Returning to the larger works, Lawson's *History of Banking* is another book of considerable merit. It wants system, but has a great deal of interesting information about the early history of banking, is throughout well-informed on points of banking practice, and deserves special mention for the frequent references to the relations between the Bank and the Government, on which little has been written in English, though Dr. Philippovich, in his *Die Bank von England im Dienste der Finanzverwaltung des Staates*, has treated it exhaustively over the whole period up to 1884. Lawson's book too has an Appendix full of interesting matter, including a reprint of the Charter and By-Laws of the Bank. It has been objected to Lawson, and it is still more true of the better-known *History of the Bank of England* by Francis, that his history is too anecdotal and popular in form. Neither writer, however, appealed to an academic audience, nor would have found one at that time if he had. It may at any rate be said of both works that they contain matter of value, the result of pretty wide reading. Gilbert again is a writer of whom we must speak with respect. His contributions to the history of banking range wide over both time and place. He has written of banking not merely in the United Kingdom, but in America as well; and has not confined his studies to the period he knew best, the first half of the 19th century. No one could accuse him of being unduly readable; his writing is always methodical and often didactic to the verge of pomposity. As might be expected from the founder and manager of the first great London Joint Stock Bank, his works are full of details of administration, of which modern students may be a little impatient; but they are solid, well furnished with statistics, and of real value to the historian. They

are not however so directly concerned with the Bank of England as with Joint Stock Banking. Passing over slighter sketches and papers, of which there are very many, as well as books like those of Maclaren, really a history of opinions, and of Doubleday, a notable criticism of the funding system, we come in conclusion to a writer of foremost importance, happily still active, Mr. Inglis Palgrave. He is our main source of information for the history of English banking in the last half-century. His mastery of English banking statistics is unrivalled; he has given us, partly in published works, partly in the *Bankers' Magazine* and elsewhere, a long series of studies of the discount rate and the changes in English banking structure and banking methods; and in his last work, *Bank Rate and the Money Market*, we have a collection of comparative statistics from 1844 to 1900 which seems to exhaust the available material on the subject.

If, then, we have no adequate history of the Bank, it is evident that very important contributions to such a history exist. Moreover, as Dr. Andréadès truly says, the records they contain are full of incident and attraction, almost of romance. Why have we had to wait so long for a worthy formal and fairly complete handling of such an interesting and fundamental chapter in our economic history? Dr. Andréadès makes a modest reference to the difficulty and magnitude of the task; but he does not seem convinced that this is quite an adequate explanation. Probably various reasons will occur to the reader. I will venture to suggest two considerations which may have given pause to others, as they certainly did to myself; and I write as one who for more than a quarter of a century has felt that special fascination in banking history to which our author refers.

The first is the remarkable absence of official records in connection with the Bank, especially for

the first century of its activity. It has often been observed that the English are peculiarly fortunate in this matter of records; a result partly of their habits of publicity, and of the representative character of their political life. Speaking of our legal records, Maitland says they form "a series which for continuity and catholicity, minute detail and authoritative value has—I believe that we may safely say it—no equal, no rival, in the world." This is equally true in the case of many of our economic and political institutions. The Bank of England stands out as a striking exception to the rule. It never seems to have published any reports, or even to have preserved its own minutes and accounts. We have mainly to rely for any official knowledge of its operations on the occasional returns extracted by Parliamentary Committees, and on the weekly returns under the Act of 1844, which competent judges have declared to be the most valuable result secured by that Act. But the Committees throw no light on the period before the French war; and the returns under the Act of 1844 are very inadequate. Neither source gives the mass of valuable information contained in the Annual Reports of the Banks of France and Germany, and indeed of most of the foreign banks. Hence there are many questions of Bank policy which can only be studied upon such basis as is afforded by hearsay, and the articles or occasional utterances of individuals.

This absence of official records greatly increases the labour involved in writing a history of the Bank, and makes the result of it, after all is done, less complete and authentic than could be wished. But we should probably have had our history, authentic or not, if this had been all that stood in the way. It was not the absence of official records that left so many other chapters of English economic history to be first dealt with by foreigners. The main cause is to be found in the anti-historical bias of the dominant

school of English official economists, most of them avowed disciples of that most unhistorical writer, David Ricardo. Their *doctrinaire* habits of thought, and their belief that they were in possession of a set of "principles" of universal application, led them to frown on historical research as at best mere waste of time. No physician, worthy of the name, will prescribe without some knowledge, direct or inferred, of the history of the case under treatment. To the typical English economist, however, who claimed that his "laws" were, would or should be (he was not *quite* clear about the tense) of world-wide pertinence, historical differences had no interest, and he relegated history to the antiquary. This, as we now see, is really the attitude of the quack. What is curious is, that in England, and to some extent in France also, the quack methods received the sanction of the professed practitioner, and it was left to the layman to follow the sounder practice. Hence for the half-century and more during which this "orthodox" school has been supreme, such economic history as was written in England was written outside academic circles, or at least by men whose work was under the ban of the dominant school. I well remember how completely this school ostracised Macleod. His admirable historical work, to which so many writers are indebted, was appreciated in every country but his own. Here, because of certain eccentricities in his theoretical position, his whole works were proscribed. Richard Jones in earlier days met a similar fate, though Whewell preserved him from entire neglect; and Cliffe Leslie in later times did not fare much better. There are many living economists who are not likely to forget the discouragement they suffered by this official blight on historical studies.

Fortunately this has all passed away, never, we may confidently assert, to return; passed away so completely that the younger men perhaps hardly

above all, for the imports of corn and cotton. These causes combined with others¹ produce a phenomenon also observed in several other countries and known in England as the *Autumnal Drain*.² This withdrawal of money is important. Clare³ calculates that the average rate of discount is $1\frac{1}{10}$ per cent. higher from October to March than from April to September.

II.—The Bank Rate and the Market Rate.

The Bank's policy as regards its discount rate has varied considerably. For a long time, indeed almost up to 1844, the Bank kept its rate fixed at from 4 to 5 per cent. When the market rate was high the Bank discounted, but when it was low—and it was sometimes from $1\frac{3}{4}$ to 2 per cent. lower than the Bank rate—the Bank of necessity ceased to discount, since no one was stupid enough to apply to it.

After 1844 the Bank began to compete with the other banks of discount, sometimes leading and sometimes following the market. Then by degrees its discounts, which had been very considerable,⁴ declined, and in 1878 it even made an official statement to the effect that it did not feel bound to keep to the published minimum rate.

As a matter of fact, from 1872 until the present time, the market rate has always been less than the Bank rate. Between 1845 and 1872, on the contrary, there were ten years during which it was higher.⁵ It should be observed that in the provinces the current rate is sometimes higher than the Bank rate and, strange to say, this causes discontent

¹ In particular the periodic increase in the paper currency in Scotland, which causes an immediate demand for gold from the Bank of England. For further details on this point see Palgrave, pp. 107-110.

² For the *Autumnal Drain* see Stanley Jevons, *Investigations in Currency and Finance*, pp. 160-193. This chapter in Jevons' posthumous work had appeared in June, 1866, in the *Journal of the Statistical Society*. The phenomenon had previously been pointed out and described by Mr. William Langton before the Manchester Statistical Society.

³ *Op. cit.*, p. 9.

⁴ See the whole of the Inquiry of 1848. Mr. James Morris estimated that the discounts of the Bank at this date were one half of the total discounts.

⁵ For details see the table given by Palgrave, p. 33.

among the local bankers who have their deposits at the Bank and who complain that the latter is using their own capital as a means of competing with them.

III.—Frequent Fluctuations in the English Bank Rate; Comparison with other European Banks in this respect. Effects and Explanation of this Phenomenon.

(a) The most noticeable feature about the Bank of England rate is its lack of stability and this is yet more remarkable when we compare it in this respect with the rates of the Banks of France and of Germany.

To take the period from 1875-1900¹ alone; during this interval the English Bank rate was altered 167 times, whilst only 84 changes are recorded in the German rate and only 25 in that of the Bank of France.²

Thus the average duration of the same rate is 365 days for the Bank of France, 108 days for the Bank of Germany and 54 days for the Bank of England.

If instead of taking averages the movements of the rate are examined year by year, it is found that between 1844 and 1900, *i.e.*, during 57 years, there are only two years (1851 and 1897) during which the English Bank rate was unaltered, as compared with nine in the case of Germany and twenty in the case of France.³

What is still more serious is that the fluctuations in the English Bank rate are not only very frequent, but are also very great. The Bank of England is the only bank at which

¹ Paul Loubet, Appendix E.

² The discount rate at the Bank of France was only altered 124 times during the whole of the 19th century, so that in 25 years the English rate has changed 43 times more than the French in a period four times as long. Compare Paul Loubet, p. 104. Between 1866 and 1900 the Bank of England made 400 changes in its rate, the Bank of Germany 161, the Bank of Belgium (established in 1851) 173, the Bank of Holland 173 and the Bank of France 111. See Palgrave, Tables 37, 38 and 39, pp. 196-198. The statistics given by Mr. Palgrave with regard to the fluctuations in the discount rate are exceedingly complete and full; they begin in 1844 and relate to the five banks of issue just mentioned.

³ Palgrave, p. 211, Table 43. This Table is inconsistent in some points with Table 39, given by the same author.

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