

**BANK RATE AND THE MONEY
MARKET IN ENGLAND, FRANCE,
GERMANY, HOLLAND, AND
BELGIUM, 1844-1900**

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Bank rate and the money market in England, France, Germany, Holland, and Belgium, 1844-1900 by R. H. Inglis Palgrave

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HOLLAND, AND BELGIUM

1844-1900

By R. H. INGLIS PALGRAVE, F.R.S.

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DEMONSTRATIO LONGE OPTIMA EST EXPERIENTIA

FRANCIS BACON, *Novum Organum*

LONDON
JOHN MURRAY, ALBEMARLE STREET

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PREFACE

THE fact that the rate of discount charged at the Bank of England fluctuates more often and more severely than the rate at any other of the important banks of Europe led me to consider what the causes of this instability might be. There are several ways in which the position of the English Money Market is different from that of any other country, all which might have an influence in this direction. Among these are the constant liability to sudden and large demands for specie for export, and the long-standing arrangement by which the whole specie reserve of the entire country is placed practically with one bank alone, the Bank of England, thus causing any demand of this character to centre there. These reasons are of weight, but they appear hardly sufficient to account completely for what has occurred. After endeavouring fruitlessly to find explanations among the ordinary conditions of business for the great fluctuations in the rate of discount which have just been referred to as characteristic of the London Money Market, I was led to investigate the question whether the legal obligations under which the Bank of England carries on its operations could have anything to do with these fluctuations and consequently with the rate of interest charged.

No other bank, as will be explained further on, carries on its business under similar conditions. The banks on the continent of Europe are conducted under strict rules—stricter rules in some ways than those in force at the Bank of England. But at none of these banks are there conditions at all corresponding to those imposed by the Act of 1844.

To make this investigation out thoroughly required much purely statistical work, on which I have now been engaged for

a long period. I put forward the results, not as my personal opinion, nor as a criticism of the principles on which the Bank Act is founded, but as an analysis of what has occurred since that Act came into force.

In carrying this work out, I have continued the investigation commenced by myself in 1873 with a paper read before the Economic Section of the British Association at their meeting at Bradford in that year. This paper was reprinted in the *Journal of the Statistical Society of London* for December, 1873, and afterwards published separately in 1874 under the title of *An Analysis of the Transactions of the Bank of England for the Years 1844-72*. Since that date the connection between the Money Markets of England and of Europe generally has become so much closer that it was needful to carry the inquiry further and to include some notice of the transactions of the Banks of France and Germany. The results of this inquiry are given in the volume entitled *Bank Rate in England, France, and Germany, 1844-78*, published by Effingham Wilson in 1880. Subsequent events again called my attention to the subject, and I read a paper on it under the heading of "The Bank Acts of 1844-5, and the Bank Rate," before the Institute of Bankers, March 2nd, 1892. I reprinted this paper, in which the rates charged in Holland and in Belgium were also included, but as it and my previous publications on the subject are now out of print, I have been led to investigate the subject again and have brought the inquiry down to the close of the nineteenth century.

Thus this investigation, which was begun originally as an analysis of the accounts of the Bank of England, has gradually extended itself till it includes not only remarks on the Money Market of London, but on those of France, Germany, Holland, and Belgium. In all these countries, as well as in our own, a very great development in the business of banking has taken place during the last half-century.

But while business has extended itself very largely among those countries, this has not been accompanied with the same constant tendency to fluctuation in the rate of discount as has been the case in London, nor have the fluctuations been as sharp.

I have not thought it necessary to include the wonderful growth of banking operations which has taken place in the United States during the same period, because, although the growth in that country has been both proportionally and actually far larger than in Europe, and though the Money Market of New York is very closely connected with that of London, yet the circumstances of banking in the United States are so different from those which obtain in this country and on the continent of Europe that it did not seem possible to institute any useful comparison between them, for the purposes for which this volume is written. These are to call attention to: The increase needed in our specie reserve; and the desirability of maintaining greater stability in the rate of discount.

To take the first point:—The increase needed in our specie reserve. Whilst the reserve which the Bank of England keeps is now smaller in proportion to its own liabilities than it was forty or fifty years ago, it is far smaller in proportion to the liabilities of the other banks in the United Kingdom at the present time than formerly. Besides being smaller, the reserve may be weaker because the amount of specie required to be held against the note issues is relatively less. This follows from Clause V. of the Bank Act, 1844, which enacts that on the extinction of any portion of the note issue of the country banks of England and Wales an addition may be made to the issue of the Bank of England against securities to the extent of two-thirds of the amount of the country note issue cancelled. The effect of this has been since 1844 to increase the securities in the Issue Department of the Bank of England to the extent of £4,175,000. Of this amount of securities, £3,175,000 has been added since 1880. For an example of the manner in which this arrangement occasionally works out, the figures of the Issue Department as given in the returns of 2nd July, 1879, and 12th November, 1902, are quoted. The balance between the amount of notes issued, and those in the hands of the public is entered as "Notes" among the assets of the Banking Department and forms the greater portion of the reserve of the Bank of England. The gold held against these notes in 1879 and 1902 is shown in the figures which follow:—

		ISSUE DEPARTMENT	<i>2nd July, 1879.</i>
Notes issued	£49,022,675	Government debt	£11,015,100
		Other securities	3,984,900
		Gold coin and bullion	34,022,675
		Silver bullion	—
	<u>£49,022,675</u>		<u>£49,022,675</u>
<i>12th November, 1902.</i>			
Notes issued	£49,339,090	Government debt	£11,015,100
		Other securities	7,159,900
		Gold coin and bullion	31,164,090
	<u>£49,339,090</u>		<u>£49,339,090</u>
Notes issued in 1879	£49,022,675	Gold in 1879	£34,022,675
" in 1902	49,339,090	" in 1902	31,164,090
Notes issued in 1902, <i>more</i>	316,415	Gold <i>less</i> in 1902	<u>2,858,585</u>
Gold <i>less</i>	2,858,585	Securities in 1902 as com- pared with 1879, <i>more</i>	£3,175,000
	<u>£3,175,000</u>		

It is to the reserve of the Bank of England that the other banks must have recourse in any time of pressure. The Directors of the Bank of England consider, no doubt, that the reserve they maintain is adequate to their own requirements, but it is only needful to compare it with the vast amount of banking deposits now held to see how entirely inadequate it is to be the reserve of all the banks of this country. Matters have gradually drifted into this position. The arrangement is an anomalous one, but what we are concerned with now is not to discuss the manner in which it has arisen, but to consider how the existing system may be strengthened and improved.

The next point is: The desirability of maintaining greater stability in the rate of discount. Great instability in the rate of discount is a very prejudicial thing to the interests of commerce, and hence to those of banking. The close competition between one country and another renders it a far greater danger to our business now than previously. A supply of capital at a fairly low rate, and at a rate which may be expected to remain tolerably constant, is as important to trade as a steady supply of food and other necessaries of life to

everyone, and of the materials on which he operates to the manufacturer. Instability in the rate for money tends to render the results of trade more uncertain than they otherwise would be, and is sufficient even to prevent business enterprises from being entertained which otherwise might be carried out to the advantage of the country. The chapters which follow show how much more equable the rate of discount has been at the Bank of France and at the Bank of Holland than in this country. Nearly the same may be said of the rates in Belgium and in Germany, although in Germany a higher rate has been charged than in this country; in the three other countries named the rates have not only been more equable, but they have been lower.

In many ways the position of matters is greatly altered from what it was in the early years over which this inquiry has extended. Thus to take two directions only in which the reserve of the Bank of England and the rate in consequence is affected. The first is through the great increase in the Scotch and Irish circulation. This increase causes larger demands on the reserve; these fifty years ago were comparatively small, but are now of serious importance. The next is the great increase in the note circulation of the Bank of England. Every bank note in the hands of the public, whether held by a banker or a private individual, means so much the less in the reserve of the Bank. It is doubtful whether, with the great growth in the use of cheques, a larger number of bank notes is really required, but the vast increase in the banking offices of the country, now about 6,700—probably not more than 1,000, if so many, in 1845—of itself causes a greater number of notes of the Bank of England to be entered as "issued" at all times. These notes are of necessity held by the banks in England and Wales as "till-money," and they can scarcely be said to be in circulation. If these notes were in the Banking Department at the Bank of England the reserve would be considerably stronger. The requirements for Bank of England notes, now that the English country note issue is almost extinguished, thus help to increase the instability in the rate of discount. The following pages will explain all these matters more fully.