UNIVERSITY OF OXFORD

Discussion Papers in Economic and Social History

Number 42, December 2001

LORD OVERSTONE AND THE ESTABLISHMENT OF BRITISH NINETEENTH-CENTURY MONETARY ORTHODOXY

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LORD OVERSTONE
AND THE
ESTABLISHMENT OF BRITISH NINETEENTH-CENTURY MONETARY ORTHODOXY

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Lord Overstone and the Establishment of British Nineteenth-Century Monetary Orthodoxy

It was central to British nineteenth-century monetary orthodoxy that the money supply would grow endogenously in line with the nation's need for currency. Virtually all had accepted David Hume's demonstration in 1752 that the balance of payments was self-correcting, and that any country which adopted a gold or silver standard would gradually obtain whatever specie it required for its monetary circulation through an excess of exports over imports.

Hume's argument had preceded the near-universal use of paper money. This added a significant complication, and Adam Smith and David Ricardo established principles which became the starting point for the theory of how the potential benefits from paper money should be exploited, and its impact upon Hume's argument.

Smith showed how the 'judicious operations of banking', by allowing near-costless paper money to perform the same functions as gold and silver, enabled some of the real resources tied up in such coins to be traded for additional productive capital in agriculture, industry and commerce. He created the powerful metaphor that paper money provides 'a sort of wagon-way through the air' which, if such roads existed, would enable 'a country to convert, as it were, a great part of its highways into good pasture and corn fields' in the manner that costless paper money serves the same purpose as expensive gold and silver coins ([1776] 1976, 321).

Ricardo added the insight (1816 and 1824) that since prices expressed in gold can be expected to fluctuate less than those expressed in any other medium, a paper currency would need to be freely convertible into gold to obtain the same degree of price stability. It would ideally be managed by commissioners, independent of government and appointed for long periods, with the sole responsibility of managing the paper currency. With paper thus acting as if it were gold, the money supply, which would consist partly of gold and partly of paper, would grow endogenously in line with the needs of the economy in precisely the manner of Hume's argument.

The benefit which Ricardo's argument called for, the gold convertibility of sterling, which Sir Isaac Newton originally established in 1717 as Master of the Mint, was lost in 1797, when Britain abandoned its gold standard early in the Revolutionary and Napoleonic war with France. After much debate in which Ricardo was closely involved, in 1821 Britain returned to the gold standard at the same value of sterling, £3 17s 10½d to an ounce of gold, as Newton originally established. Responsibility for the maintenance of this exchange rate rested with the Bank of England, a private banking company with a less than distinguished management. Six of its nine governors between 1828 and 1847 suffered the indignity of personal bankruptcy, in one case while in office (his son and partner had speculated imprudently) and the remaining five after the completion of their generally two year terms (O'Brien 1971, 391–4). Governors were drawn from those of the Bank's directors who were willing to be considered for the chair on a 'Buggins' turn' basis.

1. The Bank of England and the Establishment of the Bank Charter Act

After 1821 the Bank of England had four often contradictory responsibilities. First, it managed the currency as the principal issuer of sterling notes and by maintaining a sufficient gold reserve to ensure convertibility. A number of banks situated outside London (the English Country Banks and Scottish banks) also issued notes, but the Bank of England was responsible for the bulk of the currency, its notes had become the principal reserve assets of the country banks, and it was the Bank of England's gold reserve which preserved the convertibility of sterling.

Second, the Bank of England was the government's bank which arranged its debt finance: the budget was virtually balanced from 1815 to 1914 so there was no conflict between the need to arrange public debt finance and the Bank's other objectives. It could indeed earn interest on the predictable amounts which governments deposited during the various months of the year.

Third, the Bank ran a profit-making banking business in which its directors had strong personal financial interests.

Finally, as the custodian of Britain's gold reserve, and the principal issuer of paper currency, it was widely expected to support Britain's other banks and finance houses in times of crisis as 'lender of last resort', and as such it preserved some of London's leading banks and finance houses from bankruptcy.

The Bank of England's difficulty in fulfilling these four often-contradictory functions was compounded until 1833 by long-standing usury laws which limited the maximum rate of interest it could charge when it acted as 'lender of last resort' to 5 per cent. Their applicability to banking was repealed in 1833, and to all loans in 1839.

The Bank of England's charter which licensed it to act as the principal issuer and guarantor of the currency came up for renewal in 1844, and the conditions on which a further term would be granted aroused intense political and economic controversy. The gold convertibility of sterling was almost lost in 1825, in 1837 and in 1839 when the gold reserves were allowed to fall to crisis levels. In 1839, convertibility was only preserved through the loan of £2 million of gold by the Bank of France. Many regarded it as an intolerable indignity that less than 60 years after the assignat fiasco, assistance from the Bank of France should be necessary to sustain the integrity of the Bank of England: leading political economists of the 1840s described the need for such support from the Bank of France as 'ignominious' and a 'discreditable expedient'. In contrast, in 1958 Sir John Clapham was already using the language of the still to be created European Union when be observed that the directors of the Bank of France had acted as 'good Europeans', and that their willingness to assist London had 'effected an economy in Europe's treasure' (II.170).

A vast pamphlet literature emerged prior to the 1844 renewal of the Bank's Charter, and one of its leading contributors, Samuel Jones Loyd, brilliantly encapsulated the contradictory role of the Bank of England when he wrote in 1837 that 'We fall into ... confusion of ideas, and of course are led to many practical errors, when, seeing that the Bank is at once Manager of the Currency and head of the banking operations of the country, we confound these distinct characters' (Overstone Tracts, Annex 47). The leading political economists who contributed to the debate were divided between those who focused on the role of the Bank as 'manager of the currency' and those who emphasised its role as 'head of the banking operations of the country'. The labels currency school and banking school were a natural consequence.

The leading members of the currency school were Loyd himself together with James Ramsey McCulloch and Robert Torrens, while Thomas Tooke supported by James Wilson, editor of the *Economist*, and John Stuart Mill led the banking school.

This paper will focus on the powerful contributions to the winning side, the currency school, of Loyd, its most formidable member. His father Lewis Loyd, was a Welsh Classical Tutor and Unitarian Preacher who married the daughter of a Manchester banker. Lewis Loyd turned a small bank into a great one, and his son consequently acquired personal assets of £2 million in the 1850s at a time when Britain's National Income was no more than £500 million (O'Brien 1971, 14–15). Several Chancellors of the Exchequer relied extensively on his advice, and a vast correspondence survives, edited by Denis O'Brien in 1,500 pages in 1971. Lord John Russell as prime minister sought his advice on the suitability of particular industrialists for elevation to the House of Lords. When the billionaire banker son of a Welsh preacher (Loyd's 0.4 per cent of Britain's national income would now amount to about £3 billion) himself became a peer in 1850, Russell wrote to express the expectation that he would advise the Leader of the House of Lords on banking and currency questions (Corr. 476). Loyd became Lord Overstone in 1850 and it is as Overstone that he is generally known and will be referred to in the remainder of this paper.

He exercised great personal influence among economists. Francis Jeffrey, editor of the *Edinburgh Review* asked his advice on the respective merits of McCulloch, Torrens and Mill as authors for a definitive article on the currency (Corr. 390). As a Member of the Political Economy Club which Ricardo and Malthus had founded in 1822, and to which he was elected in 1831, he wrote to George Ward Norman (grandfather of Montague Norman, Governor of the Bank of England from 1920 to 1944), 'Tooke and some followers of his are getting an undue predominance in the Club – and they will ruin it if we do not take care what we are about. The election of new Members at our next meeting is a vital matter' (Corr. 564). According to Torrens, Overstone commanded a respect in the Club comparable to Ricardo's, but while James Mill used to restate Ricardo's contributions at the conclusion of each meeting, Overstone's expositions had such clarity and lucidity that restatement was never called for (Corr. 421).

His published contributions to debate on the currency took the form of pamphlets or Tracts published in 1837, 1839, 1840 and 1844, and a series of article-length letters in *The Times* signed 'Mercator' in 1855–56 which McCulloch republished in a collection of Overstone's Tracts in 1857. This included some of his evidence to a succession of House of Commons Select Committees. The influence of his Tracts and the force and clarity of his evidence over six days in 1840 to the 'Select Committee of the House of Commons on Banks of Issue' had the consequence that the actual provisions of the Bank Charter Act of 1844, which provided the framework for the management of the currency until 1914, were widely attributed to him.

Sir Robert Peel, the Prime Minister, had been a leading member of the Committee and Peel's Act as the Bank Charter Act came to be described, included provisions which were central in Overstone's publications and evidence. He had demonstrated in detail that the near-exhaustion of the Bank of England's gold reserves in 1825, in 1837 and in 1839 had arisen because, as the reserves began to fall, the Bank expanded its note issues. David Hume's mechanism for the correction of a balance of payments deficit which was reiterated by Ricardo, was of course that a loss of gold would deflate domestic demand, reduce prices, and consequently enhance the competitiveness of exports, until gold began to flow back into the country. But if the Bank of England issued extra currency notes as gold left the country, there would be no contraction in the monetary base (gold plus currency notes) and therefore no improvement in the balance of trade. The gold drain would continue, until far more drastic correction was required than would have been the case if the Bank had responded to a loss of gold by immediately contracting its note issues. The rule the Bank was following was that of a prudent banker, the so called 'Palmer Rule' established by John Horsley Palmer, Governor in 1830–32. It called upon the Bank to back one-third of its short-term liabilities of currency notes plus short-term deposits with gold and silver bullion, and the remaining two-thirds with interest-yielding earning assets (Fetter 1965, 132–3). The Bank had no rule which specifically linked its currency issues to its gold reserve, and as the gold ran out in 1825, in 1837 and in 1839, it merely sold investments to sustain the two-thirds ratio, while it actually expanded its note issue.

Overstone attributed its behaviour to the observation that in two of the three occasions when the Bank's gold almost ran out, the whole British commercial community was caught up in an expansion phase in an economic cycle, illustrated in the attached cartoon (p. 30 below), which he originally described in 1837:

> The history of what we are in the habit of calling the "state of trade" is an instructive lesson. We find it subject to various conditions which are periodically returning; it revolves apparently in an established cycle. First we find it in a state of quiescence, – next improvement, – growing confidence, – prosperity, – excitement, – overtrading, – convulsion, – pressure, – stagnation, – distress, – ending again in quiescence. (Tracts, 31)

Gold beginning to run out coincided with the 'growing confidence' phase of this cycle, when 'every merchant and tradesman, is desirous of extending his operations, – the Banker is looked to by his customers to act in concert with them, to facilitate their operations, and to distribute among them all the aid which the extent of his resources enables him to command.' Overstone's observation in 1837 of the behaviour of his fellow-bankers, including those who were directors of the Bank of England, was that:

> A Banker cannot contract his accommodation at a period when the whole trading and mercantile world are acting under one common

> impetus of expansion. If under these circumstances the Banker, in addition to what may be properly called his ordinary and legitimate resources, is also entrusted with the power of issuing paper-money *ad libitum*; is it not inevitable that he should abuse that power? Can we expect that under such circumstances, whilst all his other resources are strained to the utmost for the accommodation of his customers, he will keep a firm and unyielding restraint over the amount of his issues? Will he, under such temptations, in no respect compromise his respective duties as a Banker of Issue and a Banker of Deposit and Discount? (Tracts, 32–3)

Worse still, as the crisis point in the cycle approached, the difficulty was compounded because many expected the Bank to act as lender of last resort which increased the pressure to expand its note issues:

> The calls which have lately been made upon her to support mercantile credit have been urgent and imperative; in her banking capacity she has been under the necessity of meeting those calls to the utmost extent of her means; and it would be well for the public interest that she should do so, *if among these means there did not unfortunately exist a power over the paper issues of the country*. A diminishing amount of treasure requires a diminished amount of circulation; the struggling and convulsive calls of commerce equally demand augmented accommodation; how is she to meet these conflicting claims, how is she to perform these opposite and inconsistent duties? (Tracts, 34–5)

Peel became convinced that the difficulties inherent in these contradictory functions of the Bank would only be resolved if it was divided into two distinct departments. The Issue Department would be responsible for the note issue and be entirely independent of the Banking Department which controlled the profit-generating banking business. The Issue Department would hold the bullion reserve and it would be allowed to sustain a note circulation which exceeded this by £14 million, which was close to the lowest level to which it had fallen between 1821 and 1844. The note issues of the country banks would be gradually phased out and two-thirds would then be absorbed into the permitted fiduciary issue of the Bank of England. The extent of the Bank's note issue would be continually held at its bullion reserve (at least three-quarters in gold) plus £14 million, plus whatever it absorbed from the country banks. Hence Britain's monetary base of notes plus bullion would precisely track the Bank's gold and silver reserve upwards and downwards. The vicissitudes of the Bank of England's commercial operations would not be permitted to intrude on this formula for the control of the currency.

On the assumption that Britain's demand for Bank of England notes would never fall below £14 million, the Bank would never run out of gold, because the needs of circulation would always require some bullion backed money in addition to the permitted fiduciary note issue. Hence Ricardo's objective of continual convertibility of the pound sterling to gold at an unchanging exchange rate would be unshakably preserved. The monetary base would indeed behave as if it consisted entirely of bullion.

Britain would additionally enjoy Smith's advantage over an all-bullion monetary base that the country would benefit from £14 million of costless paper notes (plus the more limited country bank issues) in place of expensively mined and minted gold coins. Britain's real capital stock would therefore be enhanced by £14 million, which Peel regarded as the maximum extent to which Smith's 'waggon-way through the air' could safely be extended.

Sir Charles Wood who became Chancellor of the Exchequer in 1846 wrote to Overstone in May 1847 that you are 'the person to whom we are really indebted for the Act of 1844' and he was not without hope that Peel would 'speak out' and 'do it justice' (Corr. 381). Fetter has accepted Overstone's own personal statement in 1857 that he had 'no connexion, political or social with Sir Robert Peel' and that he never exchanged one word upon the subject of this Act' with him (Fetter, 182). Peel was present through five of Overstone's six days of evidence to the 1840 'Select Committee' and in 1852 Disraeli placed Overstone on the list of persons, 'representing some theory or system exercising an influence over [Peel's] mind' (p.200).

2. Lord Overstone's Economic Analysis

O'Brien has shown how Overstone's thought 'remained remarkably consistent throughout his career' (1971, 143). There were developments in his analysis of the influence of the rate of interest (ibid., 126), and the role of the country banks (ibid., 91–2), but his underlying theoretical approach on which his Tracts and his six days of evidence were based remained essentially the same from 1837 until the publication of his final Tract in 1857.

His fundamental argument rested on the assumption that the monetary base consisted of the elements in the money supply which could unambiguously settle a debt. Coin and convertible currency notes met this need, but not bank deposits, because these depended on a bank's solvency in an age when banking failures were frequent. Gold coin and Bank of England notes therefore provided the monetary base on which the viability of the banking system depended. Overstone sharply rebuked Torrens in 1857 when he was momentarily proposing to include bank deposits in his definition of money:

> a person ordinarily says he has *so much Money* at his Bankers ...
>
> But this power of obtaining the Money is an incomplete power – One, two, or three Depositors may draw and obtain the Money – but if *all* Depositors draw simultaneously they cannot obtain the money – because Money to the amount of the Deposits does not exist. –
>
> So also with regard to the sale of Stock – some few sales may be effected to obtain Money – but all Stockholders cannot simultaneously make their stock command Money –
>
> The doctrine that Deposits are Money – is really the doctrine that all convertible property is Money – this is nothing more than throwing confusion over the term money – depriving it of all strict and accurate meaning, and therefore rendering it a Term useless for Scientific reasoning. (Corr. 714–5)

Torrens' response was, 'on questions of monetary science I never felt confidence in the soundness of my own conclusions until they received Your Lordship's sanction ... I throw deposits to the dogs' (Corr. 717). This obliged him to withdraw much of his proposed draft for the second edition of *Principles and Practical Operation of Sir Robert Peel's Act of 1844, Explained and Defended* which appeared later in 1857 with far less on money and banking than the first Edition of 1848 or the third of 1858. Torrens made good the length of his truncated second edition by republishing his 1808 refutation of the physiocrats and an account of money in Australia which he had included in a book originally published in 1855.

Unlike Overstone, the members of the banking school regarded bank deposits as money, so that their money supply corresponded to M3. Tooke, perhaps the banking school's most notable member, insisted that increases in this broadly defined money supply were not in themselves inflationary. Prices would depend, 'not upon the total quantity of money in circulation', but upon 'the revenues, valued in gold, of the different orders of the state under the head of rents, profits, salaries, and wages, destined for current expenditure.' (1844, 71) Therefore, like many modern theorists, Tooke insisted that it was national income-based effective demand and not the money supply which determined prices.

The element of Tooke's analysis which has aroused most controversy is the so-called real bills doctrine, that expansion of the money supply through the discounting of unquestionably sound bills by the Bank of England cannot be inflationary. Anna Schwartz has pointed out that this confuses the *flow* of loanable funds, the total of bills which are discounted in a year, with the *stock* of money (1992, 149). A constant rate of discounting of real bills per annum will produce an indefinite increase in the money supply, which can hardly be expected to have a negligible impact upon prices. Tooke attached as much significance as Overstone to the maintenance of the gold convertibility of sterling, but he believed that this was compatible with an indefinite willingness to provide official support for the banking system through an unconditional willingness to discount real bills, while Overstone and his followers were only prepared to contemplate a discounting of bills within the limits established by the Bank Charter Act. Neither Tooke nor Overstone found it necessary to refer to Thomas Joplin, who was prepared to suspend gold convertibility after, for instance, a harvest failure, 'in order to avoid monetary deflation' (O'Brien 1994, 152).

Overstone, and his principal currency school followers, McCulloch and Torrens entirely ignored Joplin, and they regarded the banking school's analysis and especially the real-bills doctrine, as inherently absurd. It was they who influenced legislation and official policy, not least because of Overstone's undoubted success before the House of Commons Select Committee in 1840.

His monetary theory also benefited from a simplicity and clarity which Tooke's lacked. His definition of the money supply corresponded to M0, the monetary base of notes and coin. He believed that the Bank of England had to manage the currency through its power to control M0, which, after the Bank Charter Act, became the direct responsibility of the newly created Issue Department.

In his final 1856 Tract based on the Mercator letters, Overstone explained how Britain's money supply emerged endogenously from the monetary requirements of the British people:

> The power ... of increasing or diminishing the circulation rests exclusively with the community at large....
>
> If a country increases in population, in wealth, in enterprise, and activity, more circulating medium will probably be required to conduct its extended transactions. This demand for increased circulation will raise the value of the existing circulation; it will become more scarce and more valuable than the circulation of other countries – in other words, gold will rise in value in England; it will be

> imported from other countries in which it has not so risen in value; and by this import of gold the amount of the circulation in England will be increased. The extent to which the circulation should be thus increased is a very delicate and difficult question to decide.... The decision of it can be safely intrusted only to the community at large, acting in free and unrestricted competition. By their trading operations they may bring gold into the country whenever and to any amount they may think proper.... Thus they have in their own hands – the only hands in which the power can be placed with due security for its proper exercise – the full and uncontrolled means of regulating the circulation. (Tracts, 319–20)

The balance of payments adjustment mechanism which Hume first identified, divided the world's money between countries on that basis. Through this, Britain's monetary base like those of others would expand endogenously in line with its need for currency. The maintenance of gold convertibility was vital, as Overstone had already explained in his second Tract of 1837, that if the currency is:

> at liberty not merely to swell and roll on the surface, but wholly to break loose from the law which fixes its level, and what will be the consequence? Confusion in all transactions between man and man; prices violently disturbed; the mutual condition of different classes unjustly altered, and all the operations of trade subjected to convulsive agitations. (Tracts (Annex), 37)

The monetary base Britain required could fail to be compatible with the maintainance of gold convertibility. The Bank of England might issue excessive paper money. This would not influence Britain's overall currency requirements, which depended on the country's requirements for base money. Hence any additional circulation of paper money would displace gold, and the bullion that became redundant in Britain as a consequence of its additional issues of paper would go abroad:

> If we now proceed to a further issue of bank-notes, this will at once render our circulation redundant compared with that of other countries; the exchanges will be relaxed, and bullion will pass from us to those places in which there has been no corresponding increase of circulation.
>
> This process will go on so long as this additional issue of notes is maintained at the increased amount.

It was by a persistence of this process that on occasions of adverse state of exchanges, before the Act of 1844, the bullion was reduced to an alarming extremity....

> Upon the supposition under discussion – namely, a further increase of bank-notes under present circumstances.... If the increased amount of circulation be maintained, the bullion will immediately leave the country, and a suspension of cash payments must ensue. (Tracts, 334–6)

Gold convertibility could also be lost through a failure of the Bank of England to maintain interest rates at a level corresponding to those in other countries. If British interest rates fell below those abroad:

> there will arise a demand upon this country for capital (because it will for a time appear to be cheaper here than in other countries) which no resources can possibly meet: and, secondly, what still remains of specie in the hands of the Bank will at once be carried away through the exchanges. (Tracts, 314)

The international level of interest rates depended on the global scarcity of capital and the Bank of England had no alternative but to follow world interest rates. Writing in 1855 in the first year of the Crimean War:

> When all the civilized world is competing for capital no country can retain its due proportion which will not consent to pay the necessary price in the form of a high rate of interest. When peculiar causes create a general and severe demand for the precious metals, the country which will not consent to bear her proportionate share of the pressure, must consent to yield to other countries in which there is more firmness and more regard to principle, those precious metals, and to abandon that metallic standard which she has neither the virtue nor the resolution to maintain. (Tracts, 355)

In the twentieth century, it became a central problem that the interest rates required to sustain the exchange rate of sterling often differed from those which domestic circumstances required. Overstone insisted that the need to maintain reserves sufficient to sustain the gold convertibility of sterling must always have over-riding priority, even though this would sometimes require interest rates entirely governed by international considerations, as during the Crimean War and its aftermath. His insistence that in such circumstances Britain must have the 'firmness' and 'regard for principle' to bear a 'proportionate share of the pressure' underlined his belief that the maintenance of the international value of sterling must always govern the domestic level of interest rates. In the nineteenth century, London as the world's principal financial centre often took the lead in the establishment of interest rates, so conflict between domestic and international considerations rarely arose, but the Crimean War evidently exerted sufficient pressure to force high interest rates onto London.

Overstone was actually concerned that the War could undermine the convertibility of sterling. In 1855 he concluded a letter to Gladstone, who was then Chancellor, which was mainly about the Commission on Decimalisation which he was about to be invited to join, with the sentence, 'But while we are Decimalising our Coinage in theory – our Gold is all going to the Mediterranean, and our Silver to India and China – If nothing remains – What then?' (Corr. 626).

By 1856 it was evident that the Bank Charter Act had sustained gold convertibility. In October, the new Chancellor, Sir George Cornewall Lewis invited Overstone to prepare a paper on the operation of the Act, and its possible amendment. Overstone's 3,000-word paper (Corr. 667–74) for the consideration of the Cabinet underlined the success of the practical operation of the Act:

> That the Act has fully accomplished all that was expected from it ... admits of no reasonable doubt – It has been in operation for 12 years; and during the latter part of this period, we have passed through a severe Trial – a sudden transition from Peace to War; and again, a return from a State of War to Peace – immense military expenditure – and heavy loans by the principal Governments of Europe, – a severe drain upon the precious metals in all the principal Exchange Towns of Europe – a great rise in the rate of interest throughout the Continent from the extensive destruction of Capital during the War, followed by the sudden, tho' natural, expansion of commercial enterprise on the return to Peace....
>
> Through the whole of these momentous events, the Bullion in the Bank of England has been steadily maintained at an amount which it effectually suppresses all alarm or anxiety respecting our specie payments – the unavoidable pressure upon the money market has come on gradually and progressively, in concurrence with the drain upon the Bullion; and, this result being clearly anticipated and the cause of it correctly understood by the Trading Community, it has produced neither alarm nor serious inconvenience – In this respect the contrast of the circumstances attending the recent drain, and the manner in which it has been met by the trading Community, with the effects produced during former periods of pressure in 1825, – 1837 and 1839 is most satisfactory and encouraging. (Corr. 669–70)

The leading members of the banking school were far less sanguine. They believed that fluctuations in the Bank of England's gold reserve frequently arose, as a consequence of, for instance, good and bad harvests where the Act's automatic response of contraction or expansion in the note issue would be entirely inappropriate. They believed that the Bank of England should be prepared to accept fluctuations in its gold reserve, without parallel adjustments to the monetary base. The Bank should use discretion to determine whether a loss of gold was due to a cyclical boom which required correction, or an exogenous shock such as a bad harvest which would in due course be reversed without any need for intermediate correction of the money supply. According to Mill's criticism of the Act which he included in every edition of his *Principles of Political Economy*:

> This theory, and these practical arrangements are adapted to the case in which the drain of gold originates in a rise of prices produced by an undue expansion of currency or credit; but they are adapted to no case beside. (1871 [1965], 672–3)
>
> … it appears to me that notwithstanding the beneficial operation of the Act of 1844 in the first stages of one kind of commercial crisis (that produced by over-speculation), it on the whole materially aggravates the severity of commercial revulsions. And not only are contractions of credit made more severe by the Act, they are also made greatly more frequent. (ibid., 682)

Mill's statement that the appropriate response to some losses of gold would be contraction of the currency, but not for others, would have left the Bank with a discretion with which Overstone was unwilling to entrust it:

> There can be no fixed and definite rule to determine the time and extent of the proper contraction of paper circulation, except correspondence with the bullion.
>
> Without this rule, all must be left to the irregularity and uncertainty of individual discretion. The manager of the circulation must undertake to foresee and to anticipate events, instead of merely making his measures conform to a self-acting test.
>
> In the exercise of such a discretion, the manager of the circulation, be he whom he may, we may safely say will, in nine cases out of ten, fall into error; whilst the interests of the whole community, and the fate of all mercantile calculations, will be dependent upon the sound or unsound discretion of some individual or body; instead of depending upon their own prudence and judgement, exercised

> under the operation of a fixed and invariable law, the nature and provisions of which are equally known to every body. (Tracts, 254)

He was especially distrustful of the possible corruption of the note issue by elected governments. Writing to the Chancellor, Cornewall Lewis, in September 1856, he said that if the pressures of monetary contraction were associated in the mind of the people 'with Government responsibility', then there was danger that 'weak or dishonest Governments will yield to the pressure to which they will of course be subjected' (Corr. 656). Cornewall Lewis actually agreed and added, 'If the Chancellor of the Exchequer were made directly responsible for every contraction of the currency, he might, in certain states of trade, and certain states of politics, be placed in a position in which his duty would directly conflict with his interest, or at least with the interest of the Government to which he belonged' (Corr. 678). Overstone, like Ricardo, was thus convinced, with the complete agreement of a distinguished Chancellor, that control over the currency should be wholly independent of government.

There was the added and crucial advantage that if it was based on clear rules which all understood, Britain's private banks and finance houses would be able to act rationally. They could readily anticipate whether the money supply was about to be expanded or contracted and adjust their own behaviour accordingly. This was assisted by the regular publication of the Bank of England's banking reserve. The Bank's note issue always corresponded to the bullion reserve plus £14 million and two-thirds of country bank issues as these were absorbed, and the banking reserve showed how much of this remained with the Bank for the possible assistance of finance houses in difficulty. If the banking reserve fell, monetary conditions were certain to become tight:

> The publication of the state of the banking reserve was made an essential feature of the arrangement, and the public are thus furnished with accurate information from week to week, not only as to the amount of notes actually passing from hand to hand; but also as to the fluctuations in the amount of that banking reserve from which the amount of notes circulating with the public is from day to day to be supplied. The result has been precisely that which was anticipated. The public attention, which was previously directed only to the state of the bullion, is now fixed upon the banking reserve; as that diminishes, public anxiety increases, credit and confidence are gradually contracted, and speculation and the state of prices founded on speculation are subjected to an early and salutary check. This effect is further promoted by the influence which the bill exer-

> cises upon the Bank of England, and upon the country bankers. Previously they acted under a sense of unlimited power in the issue of notes; now they act under a full consciousness that that power is subjected to positive restrictions, and circumscribed within clearly-defined limits. If the notes in the hands of the public are maintained at their full amount during a drain of gold, this can only be effected through an exhaustion of the reserve of notes in the banking till. Of this fact the public become fully cognizant through the weekly publication of the accounts, and all the legitimate results of contracted circulation ensue. (Tracts, 327–8)

His analysis of the influence of Britain's monetary arrangements upon the real economy centred on his conception of the cycle. Growing confidence was generally followed by prosperity, excitement, over-trading, and convulsion, pressure and stagnation. The extent of the real damage in the convulsion phase would crucially depend upon how far the previous excitement and over-trading had been allowed to go. He believed that the obligation on the Bank to contract the monetary circulation as soon as gold began to flow out would reduce the amplitude of the cycle and the consequent degree of damage at the peak of the boom. Writing in 1844 when the future Act was still before parliament:

> Hitherto contraction of circulation has usually been delayed till the effect of adverse exchanges has been long in operation, and the amount of bullion has been seriously diminished.... The consequence of this system has been, an abrupt and violent action upon credit and prices at an advanced period of the drain; and the ultimate evil, exhaustion of the bullion, obviated, not without great difficulty, and at the expense of severe pressure upon the public. The Bill now under consideration proposes to substitute a system of early, steady, and continuous contraction in place of that which has been late in its commencement, sudden and violent in its operation, and irregularly carried out. By this means, it seems almost a matter of demonstration, that the occurrence of many circumstances, by which the intensity and extent of former drains has been increased, will be prevented; and that the correction of those causes of drain which cannot be altogether obviated, will be brought into operation in an earlier stage of the drain, and will therefore be effected with less contraction of the circulation, and consequently with less inconvenience to the public. (Tracts, 242–3)

In his first 1837 Tract, he had vividly expressed the case for early correction:

> There is an old Eastern proverb which says, you may stop with a bodkin a fountain, which if suffered to flow will sweep away whole cities in its course. An early and timely contraction, upon the first indication of excess in the circulation, is the application of the bodkin to the fountain; commercial convulsion and ruin in consequence of delay, is the stream sweeping away whole cities in its course. (Tracts, 23)

Overstone assumed in both 1837 and in 1844 that a small monetary contraction early in the boom would suffice to bring it under control so that little damage to the real economy would result. His account of the adjustment process was sophisticated and it involved the deflationary influence of the monetary circulation upon interest rates, share and commodity markets and finally upon the general price level:

> Contraction of circulation acts – first upon the rate of interest – then upon the price of securities – then upon the market for shares, &c. – then upon the negociation of foreign securities – at a later period, upon the tendency to enter into speculation in commodities – and lastly upon prices generally. These effects may be retarded or accelerated by other circumstances ... but this is something like the order of succession in which the effects of contraction of the circulation are gradually developed. (Tracts, 253)

The provisions of the Bank Charter Act were precisely intended to reduce potential damage at the upper turning point, by introducing these deflationary influences at an early stage in an inflationary boom, while if a gold loss had other causes, re-expansion of the currency would rapidly reverse deflation.

Banking crises occurred, despite the Act, in 1847 and in 1857, and these each proved so severe that the Act had to be suspended. To perform its ‘lender of last resort’ function the Bank had to be allowed to increase its fiduciary issue beyond the amounts permitted in the Act and in each case the Chancellor (Wood in 1847 and Cornewall Lewis in 1857) issued a letter which temporarily suspended the Bank of England from the provisions of the Act, and promised to publish a Bill of indemnity if this should be needed. Overstone was in continual correspondence with each Chancellor. The crises tested the effectiveness of the Act, and his theory on which it had been based. His interpretation of how the crises arose and the actions which should be taken, in contrast to the actual reaction of the Chancellors to what Cornewall Lewis described as the ‘facts’ is therefore of great interest.

3. Lord Overstone and the Suspensions of the Bank Charter Act in 1847 and 1857

A month before the 1847 suspension, Overstone wrote to Wood to attribute responsibility for the developing crisis to unsound lending policy by the Bank of England rather than the operation of the Act:

> The Bill of 1844 undertook to regulate Currency not Banking; It undertook to preserve the Paper Issues from any *jerks* more violent than the jerks of the Bullion; But it did not undertake to protect the community from *Banking* jerks. Now there has not been any violent jerk in the amount of the Notes ... the reduction has through the whole period of drains been *steady* and *gradual*.... The *present* state of things is the correct exhibition of the operation of the Bill. But we have had an intermediate jerk – not a jerk in the amount of the Circulation but in the state of confidence produced not by Monetary mismanagement under the Bill, but by bad management of its banking business by the Bank. Against this the Bill never pretended to afford any protection. – I could at any time convulse Manchester by gross mismanagement of my banking business – and the Bank of England, acting with infinitely larger powers, can and recently has convulsed the whole Country by mismanagement of its banking affairs. It may be desirable to take precaution against such convulsion in future – but the measures for this purpose must not be classed under the head of Management of the Circulation. (Corr. 383–4)

Later in 1847, the combined pressure of rising corn imports and heavy flotations of railway shares produced a need for sharply higher interest rates. The Bank raised its discount rate too slowly and too late, and the reserve in its Banking Department all but disappeared which meant that it had no funds for the exercise of its 'lender of last resort' function. The Chancellor wrote to Overstone on 25 October, the day on which he suspended the Act, 'The deed is done; and I hope it will succeed, but I never did anything so unwillingly in my life', and a week later, 'I think our best chance of preserving the act, depends upon how far we can make out grounds for special case' (Corr. 397–8). In the event the rapid return to the Bank of hoarded cash made the suspension sufficiently brief to preserve the Act. The maintenance of the gold convertibility of sterling, its principal purpose, was at no point in doubt, while this had been threatened in 1825, in 1837 and in 1839. But the limitation on the notes the Bank of England was allowed to issue had threatened its role as lender of last resort, and a continuing danger remained that the reserve of the Banking Department would become too weak to sustain a swathe of banks and finance houses in crisis.

The next threat to the Act arose ten years after the 1847 suspension, and it was again associated with a banking panic. There had been a banking collapse in the United States, and this was preventing American companies which consequently became insolvent from paying British exporters, whose bills, endorsed by British banks, consequently failed. In a letter to Henry Reeve, editor of the *Edinburgh Review*, describing what Torrens might say about the crisis in a forthcoming article (Torrens 1858), Overstone likened these events to a spreading epidemic:

> He may ... trace the disease first showing itself at our Anglo-American ports Glasgow and Liverpool – next spreading through those towns which trade thro' Glasgow and Liverpool with the original seat of the disease – and last show it – poisoning the whole commercial atmosphere of the kingdom.
>
> This may be done as distinctly as we trace the Cholera generated in the unhealthy, because undrained, swamps of India. until travelling westward we find it first landing at Hull and at Sunderland, and hence infecting the whole country. (Corr. 780–1)

Writing a week later to George Arbuthnot, a very senior Treasury official, he repeated the metaphor of disease, and related it to the failure of the United States to adopt principles similar to those of the Bank Charter Act:

> The Monetary System of the United States seems to me to contain every principle which any one has suggested for the management of paper issues in antagonism to the principles upon which the bill of 1844 – rests – We know the result. These principles have rendered the United States the monetary cesspool from which the pestilence of inflated Credit has diffused itself over the trading world. They have brought the U.S. into the universal suspension of Specie payments for *the second* time at least – whilst the principles on which the Act of 1844 rests – have, under the same circumstances rendered our store of bullion impregnable. (Corr. 808)

But by then the Act had already been suspended, and the Bank was permitted to increase its note issue by up to £5 million, provided this was lent out at an interest rate of at least 10 per cent. Arbuthnot told Overstone that the Bank had exhausted all its means to lend, and that the suspension 'was just in time to save 3 or 4 houses' (Corr. 797). Arbuthnot added four days later:

> Now I believe it to be beyond question that, if the letter had not been issued, Gurneys must have stopped immediately, then Alexanders and then other Discount houses. In this case the stoppage of the Joint Stock Banks of London must inevitably have followed. I believe that a rigid adherence to principle would, in the end, have worked for good, even under these circumstances. But the immediate crisis would have been appalling, and no British Ministry could have maintained itself in opposition to the cry which would have been raised (Corr. 803).

Overstone agreed:

> Possibly the best course in the end would have been to leave things to take their course – a great crash would have ensued and the real evil would have been exterminated or nearly so –
>
> But as a matter of practical statesmanship this could not be. (Corr. 808)

Overstone had written earlier to his closest friend, Norman, to explain why financial crashes which involved no loss of capital caused remarkably little real economic damage:

> The quantity of necessaries and luxuries in the world has sustained no diminution. The quantity of capital applicable to reproduction has not been diminished – Neither has the reproductive power of that capital – been diminished. The world is not really poorer than it was.
>
> What then are these losses. they are evidently fictitious not real losses as regards the whole community. Certain persons in the wildness of their imagination have *estimated* their property. that is – their share of the capital of the world much too highly – and they are now compelled to correct that extravagant estimate and to see clearly that they have been apportioning to themselves in their imagination and their accounts, a larger share of the existing capital than really belongs to them.
>
> Again. individual losses are no doubt sustained thro' the insolvency of debtors – but there is no absolute loss to the community. if A has parted with his Machinery or his Clothing &c without *receiving* an equivalent. some party has obtained those goods without *giving* an equivalent. Absolute loss there is none in these cases. A fire, a shipwreck, an earthquake, an unproductive enterprize upon which large capital has been expended. – these are cases of real loss – but

> the losses of periods like the present, are not as it seems to me *real* losses – they are losses by estimate – the rectification of miscalculations – losses to particular individuals – but no loss to the aggregate society. Hence the remarkable ease and rapidity with which we always recover from these (so called) ruinous convulsions – as soon as the confusion and alarm which accompanies them has subsided. (Corr. 775)

The extraordinary nineteenth-century growth which was achieved in that 'monetary cesspool', the United States, despite the bankruptcies and the banking failures, is germane to this argument. But Overstone overlooks the personal catastrophes of individuals, who became insolvent merely because their creditors or bankers had failed. This underlines the dryness of his approach to political economy which he had expressed in print as early as 1840:

> There are subjects, undoubtedly, upon which
>
> 'the head'
>
> 'Might learn a useful lesson from the heart',
>
> but the principles of economical science, and the practical application of them, is not the subject upon which those instructions can be most safely admitted. (Tracts, 52–3)

It was evidently Overstone's dry power of analysis which earned the respect of Sir Robert Peel and successive Chancellors of the Exchequer. A year earlier Gladstone had paid a remarkable compliment to his analysis of the decimalisation question:

> I have received your admirable note and questions. They form the most Socratic document of modern times within my recollection, or at least since Bishop Berkeley: and at every page I see almost with the bodily eye pure Decimalism broken upon the wheel. (Corr. 732–3)

His successor as Chancellor, Cornewall Lewis, who shared Gladstone's respect for Overstone's powers of analysis, took over the correspondence from Arbuthnot eight days after the 1858 suspension. He said that he mostly concurred with Overstone (whose letters he had, of course, seen) and supplemented Arbuthnot's assertion that the clearing banks would have failed, but for his decision to suspend the Act, with a searching question: 'I ask you to consider what would have been the result if the joint stock banks had drawn out all their deposits from the Bank of England and how the balance sheet of the banking department would have stood after that operation' (Corr. 814). He added that the need to occasionally suspend the Bank Charter Act did not make it a bad law:

> Constitutional liberty is an excellent thing, but circumstances may arise to justify the proclamation of martial law. The stoutest defender of the Habeas Corpus act will acknowledge that the state of the country *may* render its suspension necessary. What I have observed during the late crisis makes me think that the state of men's minds, as to mutual confidence, during a commercial panic is as different from their ordinary state, as the state of the country when it is disturbed is different from its state when it is quiet and ordinary.
>
> I cannot therefore see why it should be any disparagement of the act of 1844 to say that it has been necessary, and may probably be necessary hereafter, to suspend its operation during a period of commercial crisis. (Corr. 815)

Overstone responded that there is 'little practical difference between our views', but drew the Chancellor's attention to the potential for 'moral hazard' if the commercial community could base its behaviour on the firm expectation that the Act would be suspended in times of crisis:

> The misfortune, as it appears to me, is this. The vicious system of Credit and Banking which is the source of the evil – will derive additional strength, and the upholders of that system will feel encreased confidence – from the assurance that in all future emergencies the Law will be relaxed for their assistance and protection.... For this danger I do not see the remedy. The vicious system of Credit, and all the dangerous practices dependant upon it, will extend themselves. Never mind the apparent restraints of the Law, there is no reality in them, dash forward with boldness – the reins will certainly break.
>
> This consideration leads me to anticipate future convulsions, encreasing in magnitude, and more formidable in their consequences. Bill brokers and Joint Stock Banks have now ascertained, or at least have convinced themselves that they can terrify the Govt can stop the Bank of England, can convulse the country – unless they are protected by Govt interference whenever their own extravagance brings about or threatens public inconvenience. Twice we have refused to face the danger, of course we must make up our minds to be trampled upon by the bully. (Corr. 818)

The Chancellor's response the next day was again that there was little practical difference between their views (when there was actually the fundamental divide between Cornewall Lewis's pragmatism and Overstone's wish for rigid adherence to monetary base control, whatever the consequences). The Chancellor added that no personal pressure had been applied to suspend the Act, the entreaties of individuals could have been resisted 'as easily as an application for a postponement of the hop duty'.

> The pressure which was applied to them was the pressure of *facts*. The Govt acted upon their knowledge of the state of the Bank on Wednesday night, and their anticipation of what was about immediately to follow. Now I do not believe that this state of things was brought about by deliberate imprudence, in the conviction that it wd compel the govt to suspend the law in order to arrest panic. No individual could safely act on such a principle. He could not be sure that his house would not fall during the preliminary process, and before the suspension might take place. Gurneys and Alexanders were saved, but Sandersons fell. The London joint stock banks weathered the storm, but one Liverpool and two Glasgow joint-stock banks went by the board. I suspect that those who are accused of promoting the panic for the purpose of bringing pressure upon the govt in fact did their best to arrest it. (Corr. 819)

Overstone concluded the correspondence two days later with a prescient observation about Gurneys which actually failed (as Overend and Gurney after a merger with Overend) in the next crisis of 1866 which produced the final suspension of the Bank Charter Act until it became obsolete after the First World War:

> Gurneys, I am confident, will persist, with encreased confidence, in their present course, in consequence of what has now occurred. Govt, they now know, will not allow them to declare their inability to discharge their debts *at call* to the trading world, when they amount to *many Millions* – and therefore they will have no misgiving or fear in again incurring such dangerous obligations. (Corr. 822–3)

As a former leading banker (he had withdrawn from active management on his elevation to the House of Lords in 1850) Overstone evidently knew and distrusted those who ran this House. He continued with an observation of profound significance:

> Have you considered what would have been the position of the Govt and the Country – if the panic creating the necessity (supposed) for issuing the Letter had occurred *before* the Bank had fully succeeded in correcting the Exchanges. If it had occurred when In-

> terest had risen to 8 per cent, but before it had reached 10 per cent – in that case either the public convulsion, from which as it was we shrank, must have been faced – or by the act of Relaxation a Suspension of Specie payments must have been rendered inevitable and almost immediate. (Corr. 823)

Extra note issues by the Bank following a suspension of the Act risked the exhaustion of Britain's gold reserve for the reasons which Overstone had reiterated in publication after publication. Suspension therefore placed the gold convertibility of sterling which had been preserved in 1825, 1837, 1839, 1847 and indeed in 1857 at risk. But if, as in 1857, suspension could be delayed until *after* high interest rates had succeeded in transforming a possible gold outflow into an inflow, gold convertibility would no longer be threatened. It can be assumed that Overstone saw the point of crisis which could produce suspension as occurring in the 'overtrading – convulsion' phase of his cycle. It was at this point that potential adverse pressures on the balance of payments would be greatest. Once monetary tightness and high interest rates had succeeded in turning round the balance of payments, the cycle would proceed towards 'pressure and stagnation'. If it was regular, it would not return to convulsion.

It was therefore vital, if a government suspended the Act, that it should delay until after monetary tightness had had sufficient time to correct the balance of payments. This would in general be achieved by postponing suspension beyond the onset of the 'convulsion' stage of the cycle.

4. Some Concluding Comments

Overstone himself had weathered the 1847 crisis when he was still directing a bank 'which could at any time convulse Manchester' by holding 'an apparently extravagant balance at our credit at the Bk of E'. He told his closest friend Norman that, 'I was determined that at the critical moment my funds should not be in jeopardy – that I would float or sink with the Bk of E. but with no body else' (Corr. 774). He was, of course, holding an 'extravagantly large' *precautionary balance*. From Henry Thornton's *Enquiry into the Nature and Effects of the Paper Credit of Great Britain* of 1802 onwards, it was widely understood that a dash for liquidity was to be expected in times of crisis. Banks, finance houses, and wealthy individuals would increase their liquid balances including cash. Banks and finance houses would do this to serve the precautionary motive of meeting future obligations when their creditors might fail, and when, for a variety of reasons, profits might fall short of previous expectations. Thornton had argued that at such times, the monetary base could safely be increased without inflationary risks, and that if the Bank of England failed to accommodate this increased demand for precautionary balances, widespread banking collapse would be an inevitable consequence.

Thornton's argument was echoed by the leading members of the banking school, and especially Mill, but Overstone placed little weight on it in his Tracts or his correspondence. He was of course aware that the velocity of circulation of notes and coin would be slower than normal in a financial crisis (O'Brien 1971, 104, 123–4), but he regarded the level of economic activity as the predominant influence on a country's demand for notes and coin, so he focused primarily on the transactions demand to hold money. The Chancellors who suspended the Bank Charter Act in 1847, in 1857 and in 1866 understood the catastrophic consequences of a failure to accommodate the extra demand for cash in a crisis, and because these additional demands lasted only until the crisis was resolved, their suspensions of the Act were extremely brief.

In 1847 no additional notes were actually issued. The mere announcement of suspension sufficed to remove the panic, and to bring hoarded cash back into circulation. Interest rates were reduced from their crisis 8 per cent within four weeks (Clapham, II.209–10).

In 1857, £928,000 of the permitted £5 million of additional notes briefly passed into circulation (to temporarily increase the monetary base by perhaps 4 per cent) but eighteen days after the suspension, there was no excess, and bank rate was reduced from the crisis 10 per cent six weeks after the initial suspension (Clapham, II.231–4).

In 1866, when Gladstone was persuaded to suspend the Act, the mere announcement of suspension sufficed to resolve the crisis and no additional notes were issued. According to Clapham, 'The panic was psychological and needed a psychological palliative; and on that day of lost heads Gladstone was no doubt right to give these scared deputations what they asked for.' Bank rate actually remained at the crisis 10 per cent for three months: the Foreign Office had blundered by issuing an international circular which stated that 'British business was essentially sound'. The courts and bourses at once assumed that this was a screen for unsoundness, and according to Clément Juglar (p. 386), 'every British signature was distrusted abroad' (Clapham, II.265–8).

Overstone was of course correct to say that in each case an earlier suspension of the Act, which might have produced large additions to the note issue, could have led to losses of specie and a consequent suspension of gold convertibility.

Because in each case, suspension came late, either no additional notes, or few as in 1857, actually needed to be issued, so there was no risk to gold convertibility.

Overstone's failure to discuss the case for accommodating an increased demand for precautionary balances in a crisis, to which Thornton and the banking school attached such significance, is consistent with his preference for clear rules which should be followed without exception. For him, the decisive consideration appears to have been that official policy with its prime objective of safeguarding the convertibility of sterling should be entirely predictable, so that expectations which precisely anticipated future actions by the Bank and the Government could be rationally formed.

This paper has sought to show how his analysis had a decisive influence from 1844 until 1914 on British monetary legislation, and upon the rules the Bank of England was expected to follow to control the money supply and the balance of payments. Many elements in the orthodoxy which he played so large a part in establishing have strong modern echoes.

The idea of monetary base control, whatever the short-term costs, has had many late-twentieth century adherents. A corresponding preference for rules over discretion is always a central issue in monetary debate. The belief that entirely predictable rule-following behaviour by the authorities would allow the private sector to form rational expectations which reduced the amplitude of the cycle has acquired powerful modern adherents since Muth's seminal 1961 article. The belief that central banks should be entirely independent of governments whose short-term political motivations will often have inflationary consequences is now almost universally accepted. The moral hazard involved in a predictable readiness to support any multi-billion dollar or yen bank, finance house, or hedge-fund in difficulty, became a central issue throughout the world in the 1990s.

The questions about these elements in the monetary orthodoxy which Overstone played so large a part in establishing, and which are equally widely supported today, concern whether an 'ultra-sound' monetary policy is actually neutral. The great international slump of the 1930s showed that Overstone's belief that the orthodox resolution of financial panics would often involve no destruction of real capital, but merely a redistribution of its ownership, had by then become obsolete. His analysis may have been appropriate to much of the nineteenth century, when despite its 'financial cesspools', the United States achieved unprecedented growth, while the frequency of bankruptcies actually contributed to the reorganisation of much of its capital stock into technically efficient conglomerates headed by the likes of the Carnegies, the Morgans and the Rockfellers.

In the 1930s, in contrast, financial collapse led to massive destruction of real capital, and to far from temporary unemployment for up to 30 per cent of the labour force. The unemployment which is inevitably associated with fluctuations is already anticipated in the cartoon of the Overstone cycle. If actual fluctuations can produce high unemployment and a large loss of real capital, a case emerges for the discretionary monetary policies advocated by the banking school in the nineteenth century, and by John Maynard Keynes in the twentieth. But those who share Overstone's preference for clear rules based on an unambiguous control of the monetary base and the rational expectations which can thereby be formed, are as influential today as in the mid-nineteenth century. The key question, then as now, is whether such policies can be expected to reduce the amplitude of the cycle in the manner that Overstone anticipated. That is an empirical and not a doctrinal question.

Trade Cycle cartoon, from a print

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