THE OLD LADY UNVEILED

A Criticism and an Explanation of

THE
BANK OF ENGLAND

BY J. R. JARVIE


Murder! murder! Rape! murder!
O you Villain! what have I kept my Honor untainted so long, to have it broke up, by you at last?
O Murder! Rape! Ravishment! Ruin! Ruin! Ruin!!!
BANK of ENGLAND
LOANS
POLITICAL-RAVISHMENT, or The Old Lady of Threadneedle-Street in danger!


MONEY LENT ON PLEDGE
OLD RAGS BOUGHT
THREE MILLIONS to be LENT
SHIPS HOUSES LAND FURNATUR JEWELS
ROTTON RAGS And PAPER HANGING MANUFACTORY
THE NATIONAL POP-SHOP IN THREADNEEDLE STREET 1826.

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J. R. JARVIE

WISHART & CO.
1933

To E. D.

WHO PRESENTS SO CONVINCING
A CASE FOR THE
GOLD STANDARD

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CHATHAM

CONTENTS

SECTION 1

SECTION 2

SECTION 3

SECTION 1
THE GOVERNOR AND COMPANY

THE OBJECT OF THIS BOOK is to awaken the public to the truth that the Bank of England, commonly believed to be the most disinterested and patriotic of the nation's institutions, has been since its foundation during the reign of William of Orange a private and long-sustained effort in lucrative mumbo jumbo, and that it is in these days under! international control, serving foreign nations better on occasion than it serves England.

As a preliminary to the writing of such a book, one generally undertakes a certain amount of research work on well-defined and easily followed lines. If, for example, one wished to find out all there is to be known about Barclays Bank, one would first of all search the records at Somerset House or at the registered offices of the company.

There would be no difficulty in unearthing such important information as the names of the shareholders, the amount each has invested, the real capital of the company subscribed in cash as against the proportion, if any, that has been "watered" by the capitalisation of profits, the total amount of profits earned and the present financial position of the concern.

Resolutions affecting the policy of the bank, its scope and powers and their amendment from time to time, would be set forth in the files as required by the limited companies acts, which also lay down that these shall be open for inspection by the public.

Research affecting the Bank of England is not quite so simple. The investigator is blocked at every turn. There are no files of the Bank of England at Somerset House. Since it is not a limited company, but operates under Parliamentary charters, it has no registered offices and therefore no place where by law its accounts may be scrutinised.

Enquiry at the Bank itself has negative results, unless the enquirer has more than usual persistence. Then he will doubtless have the positive satisfaction of being ejected by minions in uniforms as impressive and official seeming as those garbing the posse from the Brigade of Guards which watches over the sterling virtues of the Old Lady of Threadneedle Street throughout the hours of night.

Here is a reply, dated January 18th, 1933, to a written enquiry:

"In reply to your recent letter I have to inform you as follows:

(1) The list of stockholders published by the Bank is for internal use and is available to Proprietors of Bank Stock only.

(2) The Bank have no statutes or. Articles of Association, their constitution being based upon a Charter of 1694 and various Acts of Parliament, of which the chief is that of 1844.

I may mention that a Statistical Summary, compiled by the Bank of England, has recently been made available at an inclusive charge of 12s. per annum, payable in advance.

RONALD DALE, Secretary."

And that is as far as the Bank is prepared to assist those who may have the temerity to be interested in its affairs. The Statistical Summary, of course, confines itself mainly to the note issue and the Bank reserves, and this information is in any case published weekly in the London Gazette. The Summary gives away no secrets.

The bibliography of the Bank is meagre and leads nowhere in particular. There is a quite excellent orthodox history published in 1908, but it reveals nothing of the vital secrets of the institution which would have a direct bearing on the financial debacle of the 'thirties.

The author is a Greek, Professor A. Andreades, C. B. E., of the University of Athens, and he had perforce to depend largely on the material available concerning the superficial history of the Bank. As Professor H. S. Foxwell says in his preface:

"It (the Bank) 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. . .
.
"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 and occasional utterances of individuals."

Dr. Andreades' history is one of only two works written since 1900 which are to be found at the British Museum. The second volume, The Bank of England from Within, 1694-1900, by Mr. W. Marston Acres, which was published two years ago, caused no perturbation among the directors. So innocuous is it, in fact, that I would not dream of denying that the peripatetic Governor Mr. Montagu Norman has a prettily bound volume always by his cabin pillow.

Mr. Norman, in fact, wrote an introduction to the book.

While, as Professor Foxwell tells us, hearsay is all that we have to guide us on many questions of Bank policy, there is a certain amount of vital information fortunately available which indicates the direction in which a fundamental aspect of its policy must of necessity be bent.

The Bank makes a point of publishing the names of the governor and directors elected at the annual meeting. We must be grateful to them for the gesture. They are not bound to do so. At least I have been unable to discover any clause in the various charters and acts relating to the Bank of England which would make it obligatory that the people of Britain, having presented it with the inestimable privilege of a monopoly of the note issue and other gilded perquisites, should be regularly informed of the personnel which controls its affairs.

At all events the information is there. And read intelligently it is sufficiently illuminating. It reveals that the Bank of England is dominated by men whose interests are not primarily British but international. Their main occupations are the financing of foreign states and distant enterprises and the earning of profits from monetary transactions which may easily be, and indeed often are, inimical to the economic health of our country.

I shall analyse the last list of directors published by the Stock Exchange Year Book at the time of writing, that for 1932. It will be found that out of 26 directors, including the Governor, nine are associated with Anglo-foreign merchant banks, and six with important foreign or international concerns.

Of the remaining eleven, one is a permanent official of the Bank without apparent outside connections, two are professional economist organisers, and only eight are partners in industrial companies which are British, more or less.

The Treasury is not represented on the directorate nor are any of the great English joint-stock banks.

And 1932 was not materially different from any other recent year. As far as the Anglo-foreign private banks are concerned, though their representatives may change, they themselves retain their hold.

Here is the Board for 1932: Governor, the Rt. Hon. Montagu Collet Norman, D.S.O. Deputy Governor, Sir Ernest Musgrave Harvey. Directors, Sir Charles Stewart Addis, K.C.M.G., Sir Alan Garrett Anderson, Sir Basil P. Blackett, K.C.B., K.C.S.I., George Macaulay Booth, Lord Cullen of Ashbourne, Sir Andrew Rae Duncan, Arthur Charles Gladstone, Kenneth Goschen, Edward Charles Grenfell, M.P., Charles Jocelyn Hambro, Colonel Lionel Henry Hanbury, Lord Hyndley, Sir Robert M. Kindersley, Captain the Hon. Roland Dudley Kitson, D.S.O., M.C., Cecil Lubbock, Robert Lyd-ston Newman, Edward Robert Peacock, the Hon. Alexander Shaw, Sir Josiah Stamp, Frank Cyril Tiarks, Henry Alexander Trotter, Walter Kennedy Whigham, Arthur Whitworth, and Robert Wallace.[1]

Now let us find out who precisely these distinguished gentlemen are. Mr. Montagu Norman, who has come to be looked upon as the permanent Governor, having now held the post for thirteen years from 1920, has no directorships either in banking or industry, in this country. At least, if he has, there is no record of them.

But Mr. Norman comes of a wealthy old banking family, and presumably has other sources of income than his Governor's salary and his qualifying holding of Bank stock, £4,000 at par, £14,000 at the present market quotation of £340-£350. What his Mal wealth is, we have no means of knowing. He may hold fifty per cent. of the £14,000,000 paid-up capital of the Bank or he may not.

What we do know is that he was trained in and was formerly a partner of the private banking house of Brown, Shipley & Co., whose main operations are Anglo-American, in association with Brown Brothers, Harriman & Co. of New York, and which has played an important part in the financial exploitation of the Southern American countries.

Mr. Norman pays fairly frequent visits to the United States. An almost historic occasion will be recalled when he travelled under the delightful incognito of " Professor Skinner."Then he stated, or had stated on his behalf, that his business in America was purely private, and that he had dropped for the time, being the onerous role of Governor of Britain's economic destiny.

It is a fair question to ask what was the nature of his private business. The affairs of the chief of the Bank of England, like those of Royalty—the only other celebrities in our State who adopt incognitoes—are of considerable public interest and importance, except when they relate purely to the affections.

A rumour certainly gained currency that Mr. Norman had lost his heart to a lady, and that the announcement of a betrothal was imminent, and though confirmation has been forthcoming, and Mr. Norman is now married, we are entitled to the conjecture that he may have been browsing over the ledger accounts of the old private banking house with which his name has been associated. Why go to America to court a member of the L.C.C.?

There is the possibility that we may be wrong, and that Mr. Norman was enquiring into the health of Americanadian and other investments. But in the circumstances Mr. Norman has no grievance. Men in public life who make a science of secrecy have their remedy. (Later, I shall deal more fully with the career and personality of the Governor.)

After Mr. Norman comes the Deputy Governor, Sir Ernest Musgrave Harvey. He can be dealt with in a few lines. He is the permanent official to whom I have referred and his whole career has been spent in the service of the Bank, whose staff he joined in 1885. He was Comptroller from 1925 to 1928, when he was elected to his present position of technical domestic expert to the Board.

I shall deal with the directors, in discussing their business connections, in alphabetical order, and not according to their importance as stockholders. In any case, it would be impossible to follow the latter course. The respective holdings of the directors are unknown outside the inner circle of the Bank. The only published information is that they must hold £3,000 of stock to qualify for a seat on the Board. How deeply each is involved in the fortunes of the institution is a well-preserved mystery, as is the justification of their election.

First comes Sir Charles Stewart Addis, a man of and much distinction, who holds the honorary though potent position of Vice-Chairman of the Bank for International Settlements (when Any). A man with no narrow and parochial outlook in money matters, his election was fitting as the British representative on the General Council of the Reichsbank in 1924.

He continued for six years to assist the Germans in utilising the vast sums of money poured selflessly into the stricken Empire by British and American Investors on the advice of their national bankers, particularly with a view to repaying the British, American and other governments what was due to them in war debts and reparations.

Sir Charles retreated from these particular highlands of finance with the rest of the foreign representatives in 1930. Since then the German credits have become frozen and the reparations and war debts remain unpaid. It must be regretted that he was not permitted to remain until 1932. Who knows but that history would have been written differently at Lausanne.

Other and more personal interests of Sir Charles Addis extend far afield. Far Eastern shipping claims part of his time through his directorships of the P. & O. and the British India Steam Navigation Co., Ltd., and he has a whole collection of gilt-edged China through his connections with the powerful British and Chinese Corporation, the Chinese Central Railways, Ltd., and the Hong Kong & Shanghai Bank (he is chairman of the London Committee of the latter concern).

It can hardly be claimed that Sir Charles is a true representative of British industry. The fortunes of the Chinese Central Railways, for example, may run directly counter to it. Recently there have been military and political movements in the Far East of profound importance to the well-being of the export trade of this country.

Japan has occupied Manchuria, and at the time of writing has extended her field of strategy with the manifest object of bringing the whole of the Chinese Empire under her domination. In the early summer of 1932 she attempted a subsidiary movement through the occupation of Shanghai and the control of the Yangtsi Valley.

She was defeated in this effort by the Chinese nationalists. She could have been defeated more surely both here and in her northern operations had a resolute diplomatic front been presented by Great Britain and America. America was prepared for armed intervention. Great Britain was persuaded to maintain a neutrality benevolently inclined towards Japan.

It was not altogether clear why the British Foreign Office should have adopted this policy. For Japan to gain military control of China means ultimately that she will capture the best prizes of the Chinese market. The cotton trade which formerly brought so much to Lancashire will, under the re-stabilisation of China's civil affairs, inevitably pass to Japan.

There is no question about this. And for such a reason alone, firm action in the Far East, even to the point a combining with America in a naval demonstration, would have been justified. Lancashire, through its industrialists, was well aware of the danger, and sought to exert its influence on the Foreign Office.

It did nut succeed. Japan was allowed a free hand. And for this reason. Japanese statesmen know that in international affairs British policy is governed less by considerations of our export trade than of international investments. She therefore guaranteed the interest on certain Manchurian loans and the "sanctity" of foreign-financed enterprises, much as the Chinese Eastern Railway.

Before the occupation of Manchuria the revenues of the C.E.R. were uncertain, and the system was in fact menaced by the continued chaos throughout that country. For Japan to restore civil order in Manchuria was not a threat to foreign money invested in Manchurian enterprises. It was a positive advantage.

Whatever it might ultimately mean to the markets, and to British and other foreign exporters, Japanese occupation was to the definite profit of those who were more interested in the security of dividends on investments than in the sale of goods to the Manchurian population.

From the information in our possession, Sir Charles Addis is quite obviously more affected by profits from these financial operations in the Far East than by the manufacture and export of British products. If the Bank of England was consulted by the Government before the determination of our policy in face of the Japanese threat to China, on which side would he be likely to throw his influence —on that of British trade and British employment, or on that of secure dividends on British money invested abroad and greater security of employment for Manchurian railway workers?

I hope that the foregoing will not be taken as an argument in favour of a war with Japan. Had a sufficiently resolute attitude been adopted by the Western Powers in 1932, Japan would not have dared to proceed with the Shanghai operations or even with her further Imperialistic movements in Manchuria itself.

I am concerned merely with the possible bias of an individual financier who happens, through his directorship of the Bank of England, to have considerable influence on British foreign policy. That this bias is bound to be determined by the holdings of Sir Charles in the British and Chinese Corporation, the Chinese Central Railways and the Hong Kong & Shanghai Bank is not to be gainsaid.

His directorships in the P. & O. and the British-India Steam Navigation Company are not an adequate counter-balance, these enterprises being concerned, on the freightage side, with more than British cargoes.[2]

Notes to The Governor and Company

1. Mr. Robert Wallace, an East India merchant, died during the year, his place being taken by Mr. William Henry Clegg.

2. Sir Charles, who is now over seventy, did not seek re-election for 1933. His place was taken by Mr. Patrick Ashley Cooper, whose other directorships are as follows: Argentine Transandine Railway Co., Ltd., Beira Railway Co., Ltd., Compania Hispano-Americana de Electricidad, Primitiva Gas Co. of Buenos Aires, Ltd., Province of Buenos Aires Waterworks Co., Ltd., Rio de Janeiro City Improvements Co., Ltd., Hudson's Bay Co., and the Northern Assurance Co., Ltd.

A FAR-FLUNG EMPIRE

TO MR. ALAN GARRETT ANDERSON, the next on the list can be ascribed no direct international attachment though he is far from being a hundred per cent., British industrialist. His chief preoccupation is with shipping. He is a director of the Suez Canal Company and of Anderson, Green & Co., Ltd., managers of the Orient Line, and was formerly President of the International Chamber of Shipping.

He is at the moment Vice-President of the International Chamber of Commerce, but his nomination for that post was by virtue of his connections with British export trade and British shipping, and not because of purely financial activities. His only remaining directorate is on the Board of the London, Midland and Scottish railway.

Like Sir Charles Addis, he is a man of ability and distinction. His mother was the famous Elizabeth Garrett Anderson.

There must be some hesitation in deciding in which category to place Sir Basil Blackett, whether internationalist, British industrialist, or economist organiser. To err on the safe side, I am including him in the second.

Sir Basil was originally a Civil Servant. He is one of the small band of outstanding men whose brilliance, in the post-war years, laid them open to the temptation to forsake the traditions of the Service, and commercialise their brains and experience by accepting lucrative posts in commerce and finance.

His professional experience peculiarly fitted him for appointments of importance in the City. When the war came he was a young man of thirty-two and had already been marked by his superiors in the Treasury for promotion. He was sent to America in 1915 as a member of the Anglo-French Financial Mission which was successful in raising a loan of no less than 500,000,000 dollars from the then very neutral United States.

While there he came under the notice of Pierpont Morgan himself, financial agent to the United States Treasury and also to the British Government. Pierpont could not but be impressed by the personal talents of this fine young flower of England's official ruling class.

Two years later Mr. Basil Blackett, as he then was, went back to America in the supremely important role at that time of Representative of the British Treasury. He so distinguished himself that, two years later, he was brought home to become Controller of Finance to the Treasury. Not a bad record for thirty-six, and the knighthood which he received in 1921 was fully earned in the public service.

A few years ago he left the Treasury for the City and before becoming a director of the Bank of England was Chairman of Imperial International Communications, Ltd., the vast wireless and cable combine which includes Marconi's and the Eastern Telegraph Company. His less worldly pursuits have included the presidency of the British Social Hygiene Council and an unsuccessful fight for the Parliamentary constituency of Marylebone, though, to come back to earth, one must not omit mention of his connection with African Explosives & Industries, Ltd., and De Beers and other diamond mining interests.

The number of directorships which have fallen into the able hands of Sir Basil Blackett in the few short years since he forsook Whitehall must constitute a record and it is to be regretted that they should be so little concerned with the home productive industries. A brain like that should not be spent entirely on distant Golcondas and the ether, and smoke and powder in the southern subtropics.

Less spectacular, though possibly more potent in terms of solid financial associations, is Mr. George Macaulay Booth. Mr. Booth comes of a well-known shipping family and is on the board of the Booth Steamship Co., Ltd. But he is more than that.

He is associated with the famous firm of contracting engineers J. G. White & Co., Ltd., which has assisted materially in the development of backward nations fortunate enough to obtain the necessary loans from European and American financiers. His closest affiliation is with the South American Continent.

Here is a list of companies of which he is a director: the Amazonas Engineering Co., Ltd., Manaos Harbour, Ltd., Manaos Tramways & Light Co., Ltd., Para Electric Railways & Lighting Co., Ltd., and the San Paulo (Brazilian) Railway Co., Ltd., which is the most important of them and has £6,000,000 sunk in it.

The more one enquires into the financial connections of this particular Bank of England director the more interesting they become. There is a curious interlinking of railways, engineering and finance, all under foreign control. It is noted, for example, that the Para Electric Railways, a £1,000,000 company, are managed by J. G. White & Co., Ltd.

Now J. G. White & Co., Ltd., is not really a British concern. It was registered here in 1900 to "acquire the entire business outside North America of J. G. White & Co., Incorporated, of New York, electrical engineers, contractors, financiers and investment brokers." The British company controls the Municipal & General Securities Co., Ltd., the investment trust, but is in turn controlled by J. G. White & Co., Incorporated, of New York.

The two ostensibly British concerns with which Mr. Booth is connected are the Booth Steamship Co., Ltd., and Alfred Booth & Co., Ltd., the big merchant company which has an authorised share capital of £2,000,000. In this connection Mr. Booth can be classed as an exporter, but the dictates of his financial conscience must still incline him towards internationalism in his outlook.

He is too deeply involved in the fortunes of South America to be the ideal director of what should be so purely national an institution as the Bank of England. The methods of such firms as J, G. White & Co. are of profound significance when used to illustrate the various aspects of international Capitalisation.

This is the procedure in the securing and fulfilling of a foreign contract. An undeveloped foreign country wishes to exploit its natural resources by the construction of railways, roads, bridges or harbours. There are no native contractors equipped for the work and the home exchequer is not able to provide the necessary finance. The foreign contractors can find a way out of the difficulty.

When invited, they will give an estimate of what particular job will cost. They will also arrange through an associated company or through their banking friends to accommodate the state or Municipality in question with a loan raised abroad, usually in New York or London. If the scheme be sound, and the borrowers are in a reasonably healthy condition politically, there is in normal times little difficulty in having the loan fully subscribed, since attractive rates of interest are invariably offered.

The work is proceeded with, at a profit naturally to the contractors. The international bankers have earned a good commission. Trade in the new country is given a fillip. Everyone is happy.

From the point of view of the business man there is nothing wrong in the procedure. It is a perfectly legitimate method of earning good profits. But the man who engages in it would not be the ideal director of a national bank. When he was faced with the choice of financing British industries or of aiding in the development of a backward people at the other side of the globe, he would be inclined to take the latter course.

How many millions of pounds have been "exported" from this country in the last thirty years it is impossible to estimate. And how much of it has been lost through wars, revolutions and other Acts of God, it would be too painful to speculate. At certain times the policy is defensible. When the nation has a surplus of capital after allowing for the natural requirements of its own industries, foreign investment is inevitable.

Its reactions, too, are healthy. There is a certain stimulus to trade, though this advantage is very often illusory, and the dividends on the loans largely circulate at home. But when conditions are abnormal or unsettled, the international loan policy is thoroughly unsound and perilous, though it still continues to be immediately profitable to the international bankers.

So much for Mr. Booth, but we have not yet finished with the South American associations of the Bank of England. There is Lord Cullen of Ashbourne. Lord Cullen, then Sir Brien Cokayne, preceded Mr. Montagu Norman as Governor of the Bank. He held the position for two years from 1918 to 1920, and was elevated to the peerage on his retirement.

Lord Cullen has been a merchant banker all his life. But not with a British concern. The firm of which he is a partner is Antony Gibbs & Sons, the Anglo-American house, which has played an important part in the financing of South American industries and the marketing of South American commodities during the last fifty years. (Antony Gibbs & sons, it should be explained, while fairly Classed as "merchant bankers," are more merchants than bankers.)

Lord Cullen worked in their branches in Chile for twenty-five years, from 1883 to 1900, and gained expert knowledge of the great Chilean nitrate Industry. What he thinks in his old age of recent happenings east of the Andes, such as the catastrophic crash of Cosach, the nitrate combine, would be interesting to hear.

Our next subject, Sir Andrew Rae Duncan, can be acquitted of any charge of super-internationalism or of too great a responsibility for the policy of the Bank. Sir Andrew, former Coal Controller and now Chairman of the Central Electricity Board, is one the two economist-organisers to whom I referred.

His functions on the Bank Board are decorative not diabolical, for his stock holding and his influence are nominal, comparatively speaking.

Mr. A. C. Gladstone is one of those obscure and respectable City men who may be worth a million for all one can say to the contrary. He may have vast holdings in the Bank, or his directorship may signify nothing. His foreign affinity is Turkey, for he is a director of the Ottoman Bank. He goes further into the Orient, but more imperially so, as a member of Ogilvy Gillanders & Co., the East India merchants. His only home directorship is with the Northern Assurance Company.

In Kenneth Goschen we meet the real international private banker. He is a partner in Goschens & Cunliffe, one of the cornerstones of the hierarchy of finance. In the history of Anglo-foreign banking over the last century, the name of Goschen stands second only to that of Rothschild in fame and influence.

The firm was originally Fruhling & Goschen and was founded, as one might think, to celebrate the Battle of Waterloo, in 1815, by Wilhelm Heinrich Goschen, the son of a Leipzig publisher. Wilhelm, who had come to the City of London some years previously, was the father of the first Viscount Goschen (George Joachim), the great Chancellor of the 'eighties.

In addition to the Viscounty, the Goschen family has been given two baronetcies, and has so thoroughly intermarried with aristocratic English families that it has now long lost any distinctly foreign characteristics. The banking firm which bears its name, however, has not greatly changed its function of discounter of foreign bills and negotiator of international loans, even through its amalgamation in later years with the old English banking firm of Cunliffe's.

Though not the largest private bank in point of capital, it is the apotheosis of internationalism in finance and, significantly, the name of Goschen has been associated with the Bank of England for nearly a hundred years. A Goschen first appeared on the directorate in 1839, the second in the line being the first Viscount.

A Bank rate has not been decided, nor a big Government loan floated in all these ninety-four years, but what a Goschen has had a finger in the pie. The name is so greatly respected, in fact, round Lombard Street and Lothbury, that when a City man is heard to utter the oath "By Gosh!" he means not "By God!" but "By Goschen!" Who cuts more ice, as it were, in places where the Golden Calf is best preserved.

There is nothing ambiguous about the firm of Goschens & Cunliffe. They are foreign bankers, and call themselves nothing else. The family has connections with the English joint-stock banks, naturally, and the present Viscount Goschen, a cousin of Mr. Kenneth Goschen, is on the board not only of such concerns as the Bank of Rumania and the Ottoman Bank, but of the Westminster Bank. Another Goschen was chairman last year of the National Provincial.

To what extent the family is interested as stockholders in the Bank of England there is no means of uncovering unless they or their friends choose to tell us, but the accepted belief in the City of London that the Goschens are one of the small hereditary circle which actually controls the Bank, deciding among other things who the remaining directors shall be, may be taken as well founded.

Of a similar aristocratic financial type to Mr. Goschen is Mr. E. C. Grenfell, Member of Parliament for the City of London. Mr. Grenfell is closely connected with two peerages, Grenfell and Desborough, and is a cousin of the present holder of the latter title. Both his father and grandfather were Bank directors, and Mr. Grenfell is senior partner of Morgan, Grenfell & Co., the Anglo-American private banking house affiliated to J. Pierpont Morgan & Co. of New York, agents, as we have seen, to the United States Treasury, and to the British Government in America.

A junior partner, Mr. Maurice G. Herbert, son of a former ambassador to the United States, left nearly a million when he died at the end of 1932. We may gather that operations in the dollar and the pound in association with J. Pierpont Morgan have not left Mr. Grenfell ill-provided to meet the out-of-pocket expenses involved in representing the City at Westminster.

The business section of the Grenfell family is connected with Grenfell Brothers & Co., Ltd., the investment company formerly known as the Canada Trust, and in the Trans-European Company, Ltd., which has Austrian representation on the board.

The international interests of the Hambro family are almost too well known for them to be emphasised. Mr. C. J. Hambro is a family nominee as a director of the Bank of England. He is the eldest son of Sir Eric Hambro, chairman of Hambro's Bank, Ltd., and is himself managing director.

Scandinavia is their principal field for foreign money business, but they have also operated extensively with Germany, and are directors of such concerns as the Danube Navigation Co., Ltd., the Hellenic & General Trust, Ltd., the Mid-European Corporation, Ltd., and the British & Continental Banking Co., Ltd.

After so powerful a whiff of Continentalism, it is refreshing to strike Colonel Lionel Hanbury, who is a hop merchant and apparently nothing more, and Lord Hyndley (formerly Sir John Scott Hindley) who confines his business activities to the affairs of Stephenson Clarke & Co.

Another big private bank, Lazard Brothers Ltd., one of the few which happens to be a limited company and whose balance sheets are therefore open public inspection, is represented by Sir Robert Kindersley. Lazard's was originally a French firm, but its business is no longer confined within Anglo-French limits.

Like most of the private banks the firm has negotiated loans with a variety of countries, and is particularly interested in Austrian affairs. On the Austrian default, and the collapse of the Credit Anstalt, Sir Robert, chairman of Lazard's, visited Austria as representative of the British bond-holders.

Sir Robert Kindersley is not actively connected with any foreign companies, but his brother, the managing director of Lazard's, is on the board of the Compagnie Centrale de Prêts Fonciers and the International Bank, whose head offices are both in Amsterdam.

George Goschen

ONE INDUSTRIALIST AND ONE SQUIRE

WE MEET OUR FIRST GENUINE BRITISH INDUSTRIALIST in Capt. Roland Dudley Kitson. A son of Lord Airedale, Capt. Kitson is a coal owner and a director of several steel companies, including the Darlington Rolling Mills, and Dorman Long & Co., Ltd. His interests are preponderantly British.

At the same time it is proper to recall the existence of Pearson & Dorman Long, the international contractors, whose business is world-wide, and who, in the past, have operated in much the same way as J. G. White & Co., Ltd., Mr. Alfred Booth's company.

It is good for a British firm to secure a contract for the building of a bridge or a railway in South America or China, so long as the materials are made in this country. It is not so good if the money to pay for the contract is lent by this country and the borrower ultimately defaults.

It means that we as a nation have paid the cost of other people's development. The deal is a dead loss. British wealth has not only been withdrawn: it yields no interest.

The foreign attachments of our next director, Mr. Cecil Lubbock, are sufficiently obvious from his presidency of the Corporation of Foreign Bondholders. He has further sympathies with international finance through being the father-in-law of Lord Cunliffe of Goschens & Cunliffe.

The connections of his own family with the Bank of England go back several generations through the old banking house of Robarts, Lubbock & Co., now absorbed through the big joint-stock amalgamations.

In Mr. Robert Lydston Newman one meets a fine type of English gentleman. His interests are so purely English in fact—I have been unable to discover that he has any foreign financial connections whatsoever—that one wonders what he is doing on the Board of the Bank of England.

He is a Devon squire and a justice of the peace of that county of green hills and good red earth, and of banks so different from those around Lothbury in the City of London. The Devon banks are very English.

I wish him good health and another forty years as a director of the Bank. Maybe by the end of that time its ideals will be nearer to the true patriotism which has inspired the best men of Devon through the centuries.

We need not be so interested in Mr. Edward R. Peacock, who is a Canadian by birth though now a Lieutenant of the City of London, as in the concern which he represents, Baring Brothers & Co., Ltd. Baring Brothers are, like Lazard's, one of the few Anglo-foreign merchant banks trading as a limited liability company. The capital is £2,000,000.

The Baring family has had a powerful influence on British finance for the best part of two centuries and has founded two peerages, Revelstoke and Northbrook. The present Lord Revelstoke, the third baron, is on the board of the company.

Originally the Barings were German, the first British ancestor being John Baring, the son of Franz Baring, minister of the Lutheran Church at Bremen. Baring Brothers have wide international interests, but have also been connected with the financing of Canadian enterprises. Mr. Peacock, it should be noted, is a director of the Canadian Pacific Railway and of the Hudson's Bay Company.

In any reference to the house of Baring, one is bound to recall the crisis of 1890 with which their name was associated. It was, in fact, known as the "Baring Crisis," and there are many points of curious similarity between that time of tension and financial landslides and the present much more tragic, though rather more obscure situation. It was South American investment that led to the Baring Crisis. The preceding years had seen very extensive speculation, the total amount of capital registered in 1888 alone being £858,000,000. A large number of the new companies were floated in connection with enterprises in the Argentine Republic.

According to the ***Economic Journal***, not long after, "The British public became interested to a very serious extent in the land mortgage bonds of certain Argentine banks known as cédulas, in connection with which it has since been ascertained that grave irregularities have occurred. These cédulas were introduced in Europe by one or two respectable London houses without any regular prospectus, and were bought by investors who trusted the firms in question."

In the autumn of 1890 there was a revolution in the Argentine, and the firm of Baring Brothers were unable to meet their obligations, though they were solvent on paper. Their liabilities were £21,000,000 but it was estimated at the time by a committee of investigation that their assets exceeded that figure by three millions.

With the help of the Bank of England, which provided a guarantee fund, the firm was reconstructed as a limited company, and ultimately was able to take over the full responsibility for the liquidation of its outstanding debts. The behaviour of the Baring family was exemplary, their private fortunes being placed at the disposal of the bank.

In the present crisis there is much more British money tied up in South America than in 1890, and I shall touch on that shortly.

After the Hon. Alexander Shaw, a son-in-law of the late Lord Inchcape, whose direct business associations are almost entirely with shipping, and Sir Josiah Stamp, the second of our economist organisers, we have another descendant of a German family in Mr. Frank Cyril Tiarks, of J. Henry Schröder & Co.

Mr. Tiarks' father came to this country from Hamburg and helped Baron Schroder to establish the success of the London branch of Schröder's, whose banking business was at first mainly Anglo-German. Now the operations of the firm are worldwide and extensive. They are almost as closely interested in South American loans as in European.

Mr. F. C. Tiarks is managing director of J. Henry Schröder & Co., Baron Bruno Schröder being the chairman. He is a director of the Anglo-Persian Oil Company and of San Paulo Coffee Estates. His son, Mr. H. F. Tiarks, a young man in the early thirties, is also on the board of Schröder's and is a director of the Angas Blancas Railway Co., the Antofagasta (Chile) & Bolivia Railway Co., and the Chilean Northern Railway Co.

The remaining three directors of the Bank, Mr. H. A. Trotter, Mr. W. K. Whigham and Mr. A. Whitworth, can be dismissed in a few lines. The last-named has no noteworthy business associations, and Mr. Trotter and Mr. Whigham are similar in their extra-Bank activities to others with whom I have already dealt.

Mr. Trotter's directorships explain themselves. They are the Alliance Assurance Company, the Atlas Electric & General Trust, the Borneo Company, Ltd., the Corporation of Foreign Bondholders (Mr. Trotter is Vice-President) and the International Investment Trust, Ltd.

Mr. Whigham is largely interested in insurance, but it may be noted that the Whigham family stretches farther afield. Mr. G. C. Whigham has many oil directorships, including the Anglo-Persian, and Mr. C. F. Whigham is a partner of Morgan Grenfell & Co.

WHERE ARE THE ROTHSCHILDS?

THE above analysis of the financial connections of the individual directors of the Bank of England proves, I think, the overwhelmingly international complexion of the Board as a whole. There are, as I said earlier, nine of them members of Anglo-foreign private banks—Mr. Norman, Lord Cullen, Mr. Goschen, Mr. Grenfell, Mr. Hambro, Sir Robert Kindersley, Mr. Lubbock, Mr. Peacock and Mr. Tiarks; and six mixed up in definitely foreign or international concerns—Sir Charles Addis; Sir Basil Blackett, Mr. Booth, Mr. Whigham, Mr. Trotter and Mr. Gladstone.

Of the remainder we have one Bank official, Sir Ernest Harvey, two economist-organisers, Sir Andrew Duncan and Sir Josiah Stamp, and eight whose interests appear to be mainly British, Sir Alan Anderson, Colonel Hanbury, Lord Hyndley, Capt. Kitson, Mr. Newman, Mr. Clegg, Mr. Shaw and Mr. Whitworth.

International finance and trade has a clear numerical superiority of 15 to 11. But it has much more than that. Its financial domination is overwhelming. If money talks anywhere it must talk at the Bank of England, and in speculating on the direction in which real control is vested we must find out where the money lies.

That still further reduces the national British minority. The influence of Sir Andrew Duncan and Sir Josiah Stamp, for example, however much their counsels may be respected, cannot possibly be measured against that of a Goschen or a Hambro. They have no hereditary associations with the Bank, and their stock holdings must be comparatively light.

Neither of them is wealthy, in the sense that Mr. Norman is reputed to be wealthy. They started at scratch in the board room and the counsel chamber. It is in the counting house that fortunes are multiplied, particularly if it is one's great grandfather's counting house.

In any event they are there as individuals, while all the nine of the private banking group, and at least two of the foreign traders, are appointed to the Board of the Bank as representatives of concerns of great wealth and influence. It is difficult to imagine the amiable and fluent Josiah attempting to use his debating powers in upsetting a line of action which the Goschens, the Morgans, the Hambros, the Lazards, the Barings and the Schröders, to say nothing of the Brown Shipleys, were already determined to follow.

I have a feeling that, if he did, he would have more leisure than he has had recently, to add to the already long list of his excellent economic treatises. And so with Sir Andrew Duncan, able and shrewd as he is.

As for the rest of the "native" element on the ,Board, there is no means of discovering, without the assistance of some indiscreet stockholder who possesses the Bank's secret list, the exact value of their holdings. These may be nominal, though it is unlikely that they are. Sir Alan Anderson and Mr. Shaw, as more than figureheads in the shipping industry, are in a position to own substantial blocks of Bank of England stock.

Captain Kitson, too, with his family connections in the coal and steel industries, should be able to command real Bank money. As for Colonel Han-bury and the others, they may count for much or they may retain their directorships on sufferance, taking their instructions from those who hold the purse strings.

One thing is certain. If, on a cleavage of opinion on a question of policy, the whole of this group acted in concert against the private bankers and those whose eyes also are on the ends of the earth, they would have as much chance of carrying their resolution as a neap tide of shifting Flamborough Head.

As an aside, it is only fair in a criticism of the constitution of the Bank of England Board, to call attention to the very high level of ability in the members. There is no comparable body in the country which can claim to have such a proportion of men of brains and experience and genuine capacity. Almost every one of them commands the respect of the City of London, whose standards are high, on his own merits and not because of any accident of position.

When one remembers how easy it is to cram a railway or even a joint-stock bank board with deadheads, guinea-pigs and creaky-jointed survivals, one must sincerely congratulate the Old Lady for displaying to the world so admirable a forehead. How very much worse it might have been!

Unhappily, the personal qualities of the directors may easily be a national misfortune rather than a cause for satisfaction to the public. If they were weak-witted, it might have been possible long since to have had their power wrested from them and put into the hands of national representatives. As it is, they have played their cards so skilfully that the supplanting of the Bank of England by a state-controlled institution is hardly discussed outside the extreme section of politicians.

It is fashionable to accuse the Bank directors of obstinacy and hoary Conservatism in their policy, as, for example, in their determined fight to retain the gold standard, and having lost it through circumstances beyond even their control to have it re-established. This attitude is foolish.

Right through the post-war years the Bank has never lost sight of its own advantage. The directors have been clever to a degree. Their actions might even have been termed "slick" on more than one occasion. To be clever, though, and able, does not necessarily mean to be wise.

There is another aside which I may make on this question of personnel. Nowhere on the Board does one see any direct evidence of the House of Rothschild. It is difficult to understand why. Rothschilds during the last century was the greatest of all the international private banks. • Separate branches of the Rothschild family have controlled separate branches of the bank in various countries, but all have been closely linked up during the whole course of modern banking. Throughout the period London has been the centre of the world's finance, and London has been automatically the headquarters of Rothschilds.

It seems inconceivable that a Nathan Rothschild in one generation or another did not appreciate the advantage of having a permanent say in the affairs of the Bank of England. Opportunities must have been numerous, and the wealth was never lacking to secure an interest on behalf of the family. It is a queer omission that on a board of twenty-six men of finance the name of Rothschild should be absent.

Here again we must speak without full knowledge of the facts. For all we know to the contrary, Rothschilds may be the Bank in most that matters. They may control the stock in their own name or they may control those who control it. They may be the " hidden hand " which has excited many imaginations and created one point of agreement between Communists and Die-hard Tories. I do not think for a second that the Rothschilds do control the Bank of England, or ever did, but the extraordinary point is that we cannot say, and that it is impossible to find out. That is one of the many secrets that Mr. Montagu Norman and his associates have shown such genius in preserving.

HOW PRIVATE BANKERS LIVE

ENOUGH has been said to prove beyond any kind of doubt that the private merchant bankers dominate the Bank of England. If Bank affairs were decided by vote of the directors, which in fact they are not, the support of the non-banking internationalists would be necessary for a majority.

They would automatically get that support on questions of policy. Nearly all the foreign concerns with which the Bank of England directors are connected are financed with American and English money. And the money for foreign investment is obtained through the merchant bankers.

What are these private banks and how do they function? To the man in the street, unversed in banking matters, they are a few survivals of the great number of small concerns which formerly transacted the bulk of the banking business of this and the other European countries, and which in England, and to a lesser degree in Scotland, ultimately became merged in the big joint-stock amalgamations.

A century ago there were about 200 of these small private banks in England and 72 joint-stock banks. By 1890 failures and amalgamations had reduced the number of the private banks to 19, and that of the joint-stock banks to 44. Now there are only the "Big Five" joint-stock banks, while the old private houses have virtually disappeared. The names may be preserved, but they are under the ægis of one or other of the "Big Five."

But the international private banks are altogether different. Those already mentioned are the largest, having headquarters in London, and their functions are not to be compared with the old English private banks such as Cox's, Hoares, Robarts Lubbock, Childs and Drummonds.

These dealt direct with the community, their principal business being in private deposits, Current accounts and loans to tradesmen and others. The international private banks, on the other hand, rarely if ever do business with the small man, or even with commercial concerns whose operations are exclusively in the home market.

On the mercantile side, they are interested only in trade between one country and another. They are the acceptors of foreign bills. If a Lancashire weaver sends cotton goods to China, he has naturally to wait a considerable time for payment. The ship may take two months to deliver the cargo, and at the end of that time the buyer may still want further credit.

Money might therefore be locked up for six months. The Anglo-foreign banks, including the private merchant banks, specialise in accommodating the exporter whether in this country or abroad. Cash is advanced against the cargo, and when the ship reaches its destination, and the importer requires, say, three months' credit after delivery, his bill of exchange is accepted by the bank if it is satisfied that his credit is good.

In this capacity the private international banks have a useful and necessary function. But they do not stick to the British export and import trade. If higher rates of interest are obtainable and the risks are no greater, they may finance foreign merchants at the expense of the British. It may pay them to accommodate German or Polish coal exporters to the detriment of the British.

And bill acceptances are of secondary importance to the merchant banks. They have much bigger fish to fry. Their real business is in finding the finance for foreign states, municipalities and enterprises. In this they act as intermediaries between the borrowers and the banking groups in the lending countries.

The joint-stock banks borrow money from depositors at a low rate of interest. They lend out again either on overdrafts or by investment flotations both home and foreign. It is from them and the trust companies that the private banks as intermediaries obtain their principal support, though they also raise considerable sums from the individual investor when the foreign loan is underwritten in this country.

In these international financial operations, which reached a gigantic total from the end of the war until the world collapse of 1931, substantial as they were in pre-war years, the private banks have a second source of revenue. They are not only bankers, making their profit on the margin between the rate of interest at which they borrow and that at which they lend. They are frequently financial agents to the foreign governments.

This is a lucrative business. It involves no risk, and the fees and commissions are on a generous scale. When a South American state is desperately in need of money, it will not cavil at an extra pound per cent. on the general expenses of raising five millions, or maybe at a bonus of an equal amount.

These Anglo-foreign private banks have rarely any interest in the financing of British industries. They are out all the time for foreign loans. Put an end to that branch of banking and finance and Othello's occupation is gone.

They must be tempted to do something more than wait for the loans to come along. It has been suggested that states which were not actually short of capital have been persuaded to raise new loans abroad, to the profit of the private bankers.

Is it right that this class should control the Bank of England ? For ten years after the war, money was poured out of this country through the channel mainly of these international houses to Germany, Austria, Hungary, Greece, Rumania, Poland and South America.

During the same period the British productive industries were starved of capital. They could rarely afford to offer as high rates of interest as the foreigners, though it might be nearer the truth to say that they had a more honest estimate of their capacity to pay. But it is doubtful if the comparative rates of interest were the deciding factor in the distribution of Britain's surplus capital.

In the circumstances, one is entitled to presume that the private banks used all the influence they had to engineer the export of capital, whatever the claims of the British industrialists. It was to their own advantage. They would not have been business men to offer their advice against the support of the foreign loans.

And now, with the collapse of the world's markets, a staggering proportion of these loans are frozen or have vanished in the maelstrom. Hundreds of millions of British capital will never be recovered, nor will a penny of interest be paid. Much of this is on the books of various British and American banks as assets. That is a pleasant fiction, as the bankers know in their hearts.

Mr. Francis Williams, City Editor of. the Daily Herald, in his recent pamphlet ***Democracy and Finance,*** published by the Labour Party, makes the following comment: "Nationally this excessive foreign lending means that money available for industrial developments at home is restricted. It has meant also in the past that Britain has looked for industrial success in the foreign markets and has paid insufficient attention to consumption at home, while we have also failed to realise that as foreign countries developed they would themselves become industrialised and stop buying from us."

This is very true. I do not think Mr. Williams suggests, any more than I would, that there should be no foreign lending now, or that in the past the policy has been universally bad. When a country has a surplus of capital and invests a portion of it abroad it is bound to react favourably on the national trade, providing it is kept within reasonable limits.

But to lavish money on foreign enterprises beyond the point of saturation while home industries are starved, and the home market is declining through a fall in wages, is just suicide. And that has been the post-war policy of the Bank of England. Mr. Norman, as spokesman of the Bank, is asking for sympathy. The economic collapse in Europe and South America, he says, was due to factors beyond anyone's control, and which are outside the comprehension of the Governor of the Bank of England even.

How much can be traced to the superabundance of credits provided by the English and American bankers to countries which had not yet found their feet in the new political alignments of the Treaty of Versailles, and whose markets were at the best uncertain and at the worst illusory? Finance in these cases should have been administered like medicine, in small doses.

The bankers have a habit of scoffing at the politicians, but it was their deficiency of political acumen and of intelligent foreign information which led to the catastrophe of the foreign loans. They were, as I have said, clever without being wise. There were certain eventualities which they ought to have foreseen, but they were too concerned as bankers in the immediate profit to themselves of the foreign loan policy.

For it must not be forgotten that the private merchant bankers have not escaped the debacle unscathed. Many of them have foreign commitments in the way of interest payments accepted on behalf of foreign borrowers now sheltered by moratoria and exchange embargoes, which it would be difficult to meet if the big creditor banks were to enforce immediate payment.

I have good grounds for saying that eighteen months ago one of the best known of the international merchant banks was helped out by a consortium of the big banks, at the behest of the Bank of England, to the tune of £5,000,000.

It should have been obvious that Austria, for example, was a thoroughly unsound investment, so long as it remained cut off from its former home market by prohibitive tariff barriers, and a customs union with Germany was impossible of realisation owing to the balance of European military power being held by France.

The best illustration of the shortsightedness of the international financiers comes from Chile. The factors there were simple. Chile had been capitalised entirely by Great Britain and America. As money overlords the British and American financiers dictated the politics of the country, the Government being their puppet.

Now, no government can hope to be stable unless it has an army. And no army can be expected to remain loyal unless it is officered by a class which is tied by self-interest and tradition to the ideals of the government. That is axiomatic.

In Chile, the real aristocracy being both financial and foreign, the officers of the army had to be recruited from the middle and professional classes. The landed gentry were too proud to give their sons in defence of an alien oligarchy which had usurped their own hereditary place.

And the middle-class officers were thoroughly disloyal. They were nearly all socialists and spent their spare time and a good deal of their working hours hatching plots against the New York Guggenheims and their London colleagues. It was they who led the revolution of 1932, which so upset the calculations of the foreign capitalists and overlords.

The story of the Chile revolution serves to remind us that in spite of their apparent omniscience and of their imperviousness alike to criticism and advice, the leaders of international finance are as fallible as other mortals.

It is necessary, in concluding this analysis of the directorate of the Bank of England, to emphasise the integrity of the members, just as their capacity has already been admitted. The last thing I wish to suggest is that there is any question of the commercial morality of these twenty-six men being less elevated than that of any other body in the business or banking communities.

Mr. Montagu Norman and his colleagues have as strict a code as is to be found anywhere in the City of London, or, for that matter in the City of Liverpool, or the City of Manchester, or the City of Glasgow. I would unhesitatingly include the City of Birmingham if that were necessary. They would just about as soon die as dishonour a bill, and the behaviour of the Baring family in the crisis of 1890, when the members of the firm gave all their private fortunes to save it from complete disaster, would, I have no doubt, be repeated by the Bank directors if the concerns with which they are associated were to find themselves in deep water.

But the question of individual honour and probity does not arise. We are discussing a matter of public policy and the vital issue is, whether a bank which fulfils many of the functions of a State bank, and enjoys all the privileges of such an institution, should be in the hands of private persons whose outlook is not necessarily British but international.

When a Royal Commission is appointed by Parliament, care is taken that the members are unbiased by any self-interest. This is not considered to be a reflection on eminent authorities on the matter to be investigated, who are omitted because they have something at stake. The Civil Service is kept above suspicion by reason of the strict rules preventing Civil Servants from engaging in trade.

For what is to all intents a national bank to be controlled by private individuals is like having a Royal Commission on Betting composed of bookmakers, or employing army contractors and munitions-makers to run the War Office. The parallels are exact.

To say that it would be in the public interest to have the Bank of England controlled by Parliament rather than by private citizens, who happen also to be private bankers, is no reflection on the latter. I am not criticising them as private bankers, for the world has never seen better exponents of that profession, but as private bankers who wield too much public authority.

And if, in considering their position as controllers of the Bank of England, and therefore of the credit and monetary policy of the British Government, one is more critical than one would be of their handling of their other affairs, they cannot very well complain. Neither have they a grievance if criticism is not always well founded.

In the preceding chapters of this book nothing has been said or suggested that is not supported by known facts. But a good deal is written and spoken about the Bank which is unjustified and unfair. For this the Governor and the directors have themselves to blame.

The essential facts concerning the Bank are impenetrably veiled. It is preposterous, for example, that the files cannot be inspected as with a public limited liability company. If there is one body whose affairs should be made public from time to time it is the Bank of England.

The directors neglect, even, to let the public hear occasionally an explanation of the more important moves made in the name of British banking and finance. Fugitive antics by Mr. Montagu Norman and peep-bo frolics with the Press photographers are apparently thought to be adequate gestures.

The marvel is that the Bank should have so many supporters in the Press, apart from its old friend The Times. If it got what it deserved from the newspapers, and free criticism were not left so entirely to a few financial writers, the Bank of England would long ago have had to drop its veil of secrecy, and perhaps a great deal more.

SECTION 2
EARLY HISTORY

THE functions of the Bank of England can be briefly stated. Although, as we have seen, it is entirely in private hands, no nominal representative of the Government or of the Treasury being on the Board, it has all the advantages of a State institution and all its powers.

It has a monopoly of the note issue, except for the exercise of this privilege to a very limited extent by a few Scots banks, and while it must nowadays credit the Treasury with the profits of the Issue Department, it is paid for the expenses of management, and for the control and utilisation of the gold reserves.

It is the official agent for the Government in all other financial matters, floating its loans, generally on commission, though sometimes for a lump sum, paying the interests as they fall due and acting as managing director of the National Debt.

The Bank also acts officially, though not under official direction, in fixing the weekly Bank Rate, thereby determining all other rates of interest in home banking and financial transactions and profoundly affecting the world's lending and borrowing.

As the "Central Bank"—a term, preferred by Mr. Montagu Norman who hates the word "National," to describe Europe and the world's official banking bodies—it is the bankers' bank. All the joint-stock banks, such as Barclays and the Midland, and all the big financial houses, including the private international banks, keep accounts at the Bank of England.

The former deposit their resources there, mainly the money lent to them by the public. The latter are borrowers much more than they are lenders, frequently being financed by the Bank of England in their international flotations. The discount houses also keep their accounts at the Bank.

Private accounts and deposits are handled by the Bank of England exactly as by a joint-stock bank, but the directors do not go out of their way for this class of business. At least, they, never advertise their merits to the man with the small deposit and the limited cheque book. They have bigger game in their agencies for foreign governments, banks and financial houses, who must perforce use London as the centre of the world's money market.

The above condensed description of the business of the Bank covers the ground pretty fully. There is the Bank of International Settlements on which it represents Britain in the settling of international currency and other problems, but the benefits to the contributories to that scheme, like its eventual scope, are obscure.

Again there is the Bankers' Industrial Development Company, through which the Bank promised to extend credit to the national industries, but which, after three years of unprofitable existence, is now moribund.

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How did the Bank of England—this "National " yet purely private concern, now dominated as we have seen by international interests—reach its present pinnacle of vast influence and wealth ? The story is instructive and fascinating, and the adventures of the Old Lady in her undisciplined and indiscreet youth are of considerable point to the study of modern developments.

The founder was William Paterson, a hybrid Lowland Scot, who combined Celtic imagination and daring with a sound Sassenach capacity. He was a kind of big-scale ideas man, with sufficient personality to win the ear of governments and kings. He had vision with the rare combination of genuine financial talent.

Not much has been written about Paterson, but we know that he was born in 1658 and died at the age of sixty-one in 1719, after one of the most adventurous and remarkable careers in the history of Britain. By the time he was thirty he had travelled widely and had become involved at home in Whig intrigue.

At thirty-three he had amassed a fortune in the City of London and was apparently an influential member of the business community. Together with several merchants, including one Michael Godfrey, he conceived the idea of founding a bank modelled on the best European patterns, such as the Bank of Amsterdam, which then held a position similar to the Bank of England to-day, as the hub of the world's banking.

There was desperate need of a solid financial banking institution in England. On the one hand, the merchants and the public had to carry out transactions through the medium of an almost hopelessly debased currency, and certain rather dubious paper tallies issued by the goldsmiths, ostensibly against the stores of gold in their strong rooms.

On the other hand, the King, William of Orange, and his Government were in chronic financial straits. The stability of the new regime had not yet been achieved, and the needs of the exchequer, through a succession of wars and disaffections, were insatiable. There was no national agency through which money could be borrowed at a reasonable rate of interest.

Paterson, through his City of London connections, had become acquainted with Montague, a Commissioner of the Treasury, who afterwards became William's Chancellor. There was a strong affinity between the two, for Montague, as history proves, was himself a man of great ingenuity and resource.

And if neither of them was too fastidious when it came to the ways and means of achieving an ideal, they were no worse than many that went before, and have followed since, in Whitehall and the City of London.

Paterson expounded his idea of a Bank of England and Montague embraced it. No wonder. It had the irresistible basic appeal of finding Montague's harassed master an immediate loan of £1,000,000 on what were then moderate terms, in view of the uncertainties of royal promises to repay.

In return for the loan the Government must pay the Bank 6 per cent. per annum, plus £5,000 for the expenses of management. As compensation for what was then a low rate of interest, the Bank would have the right to issue notes which would be made legal tender.

This scheme, which was put forward in 1691, fell through, the King's advisers being unable to recommend the legalisation of the note issue. After three years of negotiation, a new scheme, not greatly differing from the first, was agreed upon by both sides.

The arrangement was that the capital of the new concern, which was to be called " The Governor and Company of the Bank of England," should be £1,200,000 and that the whole of the capital should be lent to the Government. Interest was to be at the rate of 8 per cent., plus a fee of £4,000 for expenses of management.

The Bank was to have the right to issue notes to the full extent of its capital, though these would not be legal tender. It must have a governor, a deputy governor and twenty-four directors, whose qualification was exactly what it is to-day, namely, £4,000 of stock for the governor, £3,000 for the deputy governor and £2,000 for each of the directors.

Paterson had already arranged for the raising of the bulk of the capital among a group of the wealthiest and most powerful merchants in the City of London. These merchants were, like their modern counterpart in the business community, a fine type, judged by commercial standards, and were respected at home and abroad for their integrity.

The word of the promoters, in short, was as good as their bond. This point should be kept well in mind, in view of modern theories on currencies. For the new Bank of England was not only allowed to issue notes to the full extent of its capital of £1,200,000. There was no obligation on it to keep any gold reserve or other tangible security against the note issue.

This is significant. It means not only that the Bank got the capital back on which it would continue to draw interest from the King, but that the economists and business men of the time considered that the word of a group of honourable and trusted merchants was good enough security for a paper currency.

The merchants, of course, did very well out of the deal. It was money, to the tune of £100,000 a year (the amount of the Government interest), for nothing. But that was the reward of virtue in the City of London.

We need be more concerned with the fact that the first note issue of the Bank of England was also the first example in this country of the creation of credit on a moral basis, and not on one of saleable security. Added to the bond of the promoters of the Bank was the support of the Government, but as it happened at this stage of our history, the promise of a group of City merchants was considered better "cover" than that of a precarious monarch, however good the latter's intentions.

In spite of the early difficulties of the Bank and of its turbulent career for many years, one is entitled to argue that the unsecured note issue worked. Depreciation when it did come was due to causes which had no relation to the basis of the note issue.

William Paterson's own views on the security of the notes are not quite clear. As quoted by Dr. Andreades in his History of the Bank of England, he asserted that the new institution ought to be based on the following principles:

"That all money or credit not having an intrinsic value, to answer the contents or denomination thereof, is false and counterfeit, and the loss must fall one where or other.

"That the species of gold or silver being accepted, and chosen by the commercial world for the standard, or measure of other effects, everything else is only accounted valuable as compared with these.

"Wherefore all credit not founded on the universal species of gold and silver is impracticable, and can never subsist neither safely nor long, at least till some other species of credit be found out and chosen by the trading part of mankind over and above or in lieu thereof."

This, so far, is rather ambiguous, for Paterson does not say what he means by "other species of credit." Later, however, he adds that, "if the proprietors of the Bank can circulate their own funding of twelve hundred thousand pounds without having more than two or three hundred thousand pounds lying dead at one time with another, this Bank will be in effect as nine hundred thousand pounds or a million of fresh money brought into the nation."

It is plain what Paterson meant by "lying dead." Obviously he had in mind the maintenance of a partial reserve of metal against the note issue, to the extent of twenty-five per cent. This would still mean that he believed that the bank notes should have a moral rather than a tangible security, for a proportion of the coin and bullion held would be necessary for working purposes, such as foreign transactions.

One thing is certain. Neither Paterson nor his associates had in mind the establishment of a hundred per cent. gold or gold and silver standard. That would have been impossible in the circumstances. They would have had no working capital. Their whole £1,200,000 had been lent to the King, and it would have been necessary to raise another £1,200,000 if the note issue was to have a hundred per cent. metal reserve. This would mean that they were in no more advantageous position than any other banker.

They would be getting only one rate of interest on their money—the 8 per cent. from the King on one half of a total capital of £2,400,000, and on the other, whatever they could make by putting their notes "into circulation," in other words lending them. There would, in fact, be no point in having a note issue, whose great virtue when unsecured by a cash reserve was that the capital killed two very fat birds with one stone.

When, of course, Paterson talked of his proposed twenty-five per cent, reserve " lying dead," he really meant "lying half-dead!"

There was strong opposition to the incorporation of the new bank. Many of King William's Tory antagonists were naturally hostile to any move which meant putting money into the hands of the Government, and the goldsmiths, who had hitherto had banking, such as it was, and money-lending in their own hands, fought ferociously in defence of their vested interest.

Many of the criticisms were foolish, and many are no longer of interest. There were others which, viewed in the light of the development of the Bank of England, exalted their authors to the company of the Prophets.

Dr. Andreades tells us, for example, that, "It was alleged that the Bank would grow too powerful, and would become the keystone of the commercial world, and that if it failed, it would drag down with it the whole of English trade ; and that the Bank could only favour a limited number of merchants, and that these, thanks to a very low rate of discount and to facilities of all kinds, would soon be able to ruin their competitors."

And according to Bonnet, "there was strong opposition at the last moment, one of the chief objections being that this will be a Bank in the State without being under the control of the Government."

The opposition was ineffective, and on July 24th, 1694, the charter of the Bank was granted for a period of twelve years. Actually the full capital had already been raised. Although there was a public subscription, the Queen investing £10,000, it may be presumed that the bulk of the money was found by the group of wealthy merchants whom Paterson had interested in the promotion.

The first governor was Sir John Houblon, and the deputy governor Michael Godfrey. Paterson was given an annual salary of £2,000 as a director, but he remained on the board for only a year. After a disagreement with his colleagues he resigned.

Many reasons have been given for Paterson's disappearance from the bank which he had founded, and a plausible one is that of Dr. Andreades "Paterson was a genius," he writes, "bold even to rashness, quick to undertake difficult enterprises and to accept the risks of untried experiments. . . . His colleagues were of quite a different type ; they were merchants, the heads of important firms, not having like him made a rapid fortune, but on the contrary having amassed their wealth by prolonged effort, and on this very account not caring to risk in a day what had cost them so much labour to acquire.

"Paterson, in spite of his many good qualities . . . must have frightened not a little the good citizens who were his colleagues. . . . Paterson realised there was nothing for it but to retire, which he did in a perfectly dignified manner."

Fair as this explanation is, I do not think one need accept it. It is just as likely that Paterson quarrelled with his colleagues for their lack of prudence. It is often the most adventurous natures that have the strongest convictions, and to say that Paterson was rash is not borne out by his career.

He was unfortunate with the Darien scheme, which he subsequently conceived, but the failure of the enterprise was not his fault. Is it not very likely that he disagreed with the Board on the eternal Bank of England problem of the metal reserve ? As we have seen, he was clearly in favour of a policy of having twenty-five per cent. of the Bank tender in coin and seventy-five per cent. in notes.

This policy was not followed. We do not know the extent of the note issue in the first two years of the Bank, for the directors were enabled to maintain an even stricter secrecy over their affairs than Mr. Montagu Norman can to-day. But authorities are agreed that at the outset they issued notes up to the permissible limit of £1,200,000.

Against this there was no evidence of any cash reserve being in existence. What we do know positively is that in 1696, when the privileges of the Bank were already being extended, with an increase in the note issue, the Bank had £1,750,000 notes in circulation, against a cash reserve of only £36,000!

And what the £36,000 consisted of, only the directors knew. It may have been in bullion, or it may have been in the clipped and debased coin of the period whose actual was not much more than half of its face value. The Bank, for practical purposes, had no reserve at all, a most venturesome proceeding in what were, after all, experimental years, and the new institution was being assailed by powerful and sometimes unscrupulous enemies.

As Thorold Rogers puts it in his First Nine Years of the Bank of England, "The want of experience as to the basis on which a subsidiary currency must rest, in order that depreciation or even bankruptcy may be avoided, was the intrinsic peril which the Bank of England ran in its earlier days."

There must have been a violent conflict of opinion among the directors of the Bank on this all-important question, and while the several views of the directors are not known, those of Paterson are. To find himself overruled after having obtained official and public support for a scheme which embraced the principle of a twenty-five per cent. reserve, would be too much for a man of Paterson's convictions and temperament.

Students need look for no better reason for his resignation. At all events his colleagues went on issuing notes against their own credit, and with no thought of a gold standard.

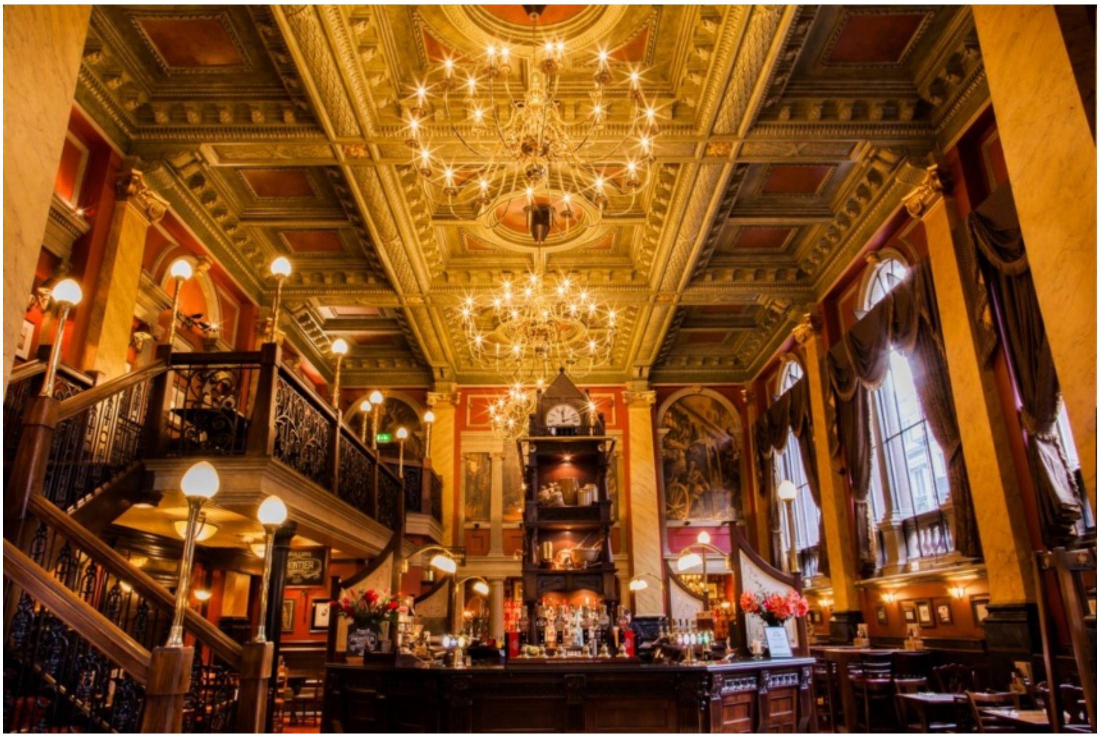
The original operations and business ambitions of the Bank are of passing interest. Here is a description from an early pamphlet, possibly by Godfrey, the Deputy Governor: "They (the directors) lend money on mortgages and real securities at five per cent. per annum. If the titles of land were made more secure, money would be lent on land at four per cent. per annum and in time of peace at three per cent. Foreign bills of exchange are discounted at four and a half per cent. ; inland bills and notes at six per cent.

" They who keep their cash in the Bank have the first of these discounted at three per cent., and the other at four and a half. (This really meant that the rate of deposit was one and a half per cent.) Money is lent on pawns of such commodities as are not perishable at five per cent., and on the Fund of the City of London Orphans at five per cent. The directors contemplate, for the ease of the poor, establishing a Lombard (a pawnbroker's shop) on small pawns at a penny per pound per month."

The pawn broking never came to anything, but it will be noticed that the habit of keeping the public reminded that the Bank of England had been founded with lofty social aims, and not especially for the benefit of the directors, was contracted early.

SEALING OF THE BANK OF ENGLAND CHARTER. 1694.

SIR JOHN HOUBLON. *Governor.* SIR JOHN SOMERS. *Lord Keeper.* MR. MICHAEL GODFREY *Deputy Governor.*



The Strand Branch of The Old Bank of England

THE YOUNG LADY PROVES HER METTLE

UNDER its first charter the Bank of England had no monopoly, but it secured the inestimable advantage of being the only bank to be incorporated by Act of Parliament and to be, therefore, " official " in all that matters within three years of its inception. A chain of curious circumstances led to the establishment of the monopoly, which, through 239 years, has been so tenaciously preserved by succeeding generations of directors.

The monopoly was really created by the opponents of the Bank. The latter had no intention of letting the promoters " get away with it." Within eighteen months a rival scheme had already been launched and had received the support of the Government. This was a Land Bank, which was to be founded on the security of real estate.

All the historians, including Macaulay and Thorold Rogers, damn it out of hand. I don't know why. Rogers, whose ***First Nine Years*** was published in 1887, but written fifteen years earlier, was in his salad days, more or less. He shared the unquestioning respect of his time for Our Solid Institutions. His unique and magnificent ***Six Centuries of Work Wages***, which got him promptly kicked out of Oxford, was yet to come.

The broad idea of the Land Bank was sound. Certainly its originator, Dr. Hugh Chamberlain, made some disputable actuarial calculations, but these were not of primary importance. Dr. Chamberlain's scheme was propounded in several pamphlets, including one entitled A proposal by Dr. Hugh Chamberlayne, in Essex Street, ***for a bank of secure current-credit, to be founded upon land, in order to the general good of landed men, to the increase of the value of land, and the no less benefit of trade and commerce.***

It was claimed that a public loan of over £2,000,000 could be floated on the security of landed property. The money would be lent to the Government for three and a half per cent., and notes would be issued to the full extent of the capital. These notes would be advanced to the landowners against their mortgages, also at three and a half per cent.

This would mean a total of seven per cent. to the Land Bank, not much of a margin after allowing for expenses, and for the risk of Government default or delay on its interest. But even so, the scheme was practicable with amendments. Rogers asks "where the money was to come from with which to aid the Government and to lend on mortgage at 3½ per cent." That is obvious enough.

The capital subscriptions in cash would go to the Government, and the notes issued would go to the landowners who would afterwards circulate it. Here was a paper currency secured by something that can never disappear. Critics pointed out that the land " reserve " could not be realised in times of urgency, but against this objection Chamberlain proposed to make the notes legal tender and therefore inconvertible.

The mistake of the Land Bank was in proposing to dispose of the whole of its note issue to the landowners. They should have been given stock equal to that of the cash subscribers. The capital would then have been doubled, but that half represented by the note issue would have been available for general banking purposes. The money could have been lent at the same as the Bank of England rates, and the landowner guarantors would no doubt have been happy with a small fixed interest, to be offset by easier terms than granted to the general public when they required advances for the agricultural development of their estates.

As a national institution, the Land Bank was certainly nearer the ideal than the Bank of England as it was then and as it is now. One of its first cares was the fostering of British agriculture, a more praiseworthy policy than the floating of precarious loans for the cultivation of nuts in Brazil.

Chamberlain got strong political support for his plan. The Tory landowners were naturally enthusiastic, and Chamberlain obviously offered them generous terms to make sure of their support in both Houses of Parliament. But the significant thing is that the King was all in favour of it.

He, like the landowners, had much to gain from it. The diplomatic situation was forcing him into a war on the Continent, and he had to raise money. The Land Bank would mean an immediate £2,000,000, or more. At the same time, it is inconceivable that William of Orange, one of the ablest kings that England ever had, should support a scheme which, as described by Rogers, was a "monstrous and palpable absurdity," and has been referred to by the other historians in like immoderate terms.

It may be that William was using the Land Bank as a lever for the lids of the coffers of the City of London, though that seems rather a roundabout method of extortion. He may have been making a gesture of goodwill to the Tory landowners. Whatever his motives he gave his assent to an Act establishing the National Land Bank, in April, 1696.

The Bill differed in many respects from the original scheme, the amount to be lent to the Government being £2,564,000 at 7 per cent., which was to be secured by a special salt tax. The Bill was passed, but that was all that happened. The appeal to the public for subscriptions was a complete failure, although the King himself headed the list with £5,000.

Many excuses were given by the promoters of the Bill, but the most convincing was that the City of London had done everything in its power to smash the Land Bank. Then, as in 1933, no big issue of any kind could succeed if "The City" instituted a boycott. Landowners rarely have floating capital for investments. It is invariably in the hands of "The City."

"The Bank strained so hard as to bankrupt themselves, rather than the Land Bank should rise," wrote an apologist for the latter. By one manoeuvre and another they nearly did, to all appearances, but when the Government approached them for an immediate loan of £500,000 they found it for them. A bargain was naturally struck, the outcome of which was a new charter in 1697. Before that happened, the Bank experienced its first "run."

Thorold Rogers naturally blames the Land Bank. "The real sufferer," he wrote, "was the Bank of England, which was called on to bear sacrifices and undergo the penalty of other people's folly and perversity, and to make good as best it could the deficiencies caused by the statesmen who heedlessly relied on this stupid and abortive expedient.

"The first effect of the scheme was to send the Bank shares down from 107 to 83. . . . Besides the new coinage was progressing very slowly, and the want of money was seriously felt. . . . Hence, on May 6th, there was a run on the Bank, the cash of which was insufficient for the demand."

Since the reserve was infinitesimal and did not consist of anything so solid as an acre of Thorold's discredited soil of England, the default was hardly surprising. It is important to note that the " run " was not an outcome of any lack of faith on the part of the business community in the Bank's paper currency. The "run" was engineered by the goldsmiths, according to Rogers himself.

The public at large were not anxious about the absence of a "gold standard" or of any substantial cash reserve. They had faith in the stability of the directors, who rose to the occasion. Assisted by a moratorium in the form of a Treasury order that " no public notary should enter a protest upon any bill of the Bank of England for fourteen days," they were able to advance the Government a total of £540,000. Of this the Bank borrowed £100,000 from the Bank of Amsterdam, who also apparently had faith in its stability.

A new Act was the Bank's quid pro quo. This extended the charter until 1711, the Crown reserving the right to put an end to the corporation in the improbable event of its being able to repay the loans advanced. During the fourteen years the Bank was given a monopoly, in so far as no other bank was to be established under Act of Parliament.

It has retained that monopoly ever since. The limit of the authorised note issue was increased from the original £1,200,000 by the amount of the new loans to over £2,200,000. It became a felony to forge Bank notes, a hobby which, until that time, could be indulged without fear of serious consequences.

A further act of goodwill on the part of the Government was to exempt all the property of the Bank from taxation. In view of the political uncertainties of the time and of the King's appetite for new revenue, this was a substantial concession. The Bank held on to it for a century and a half.

The few present-day members of Parliament who occasionally ask questions concerning the affairs of the Bank, and other impertinent enquirers, will be interested to know that, before the Act was passed, a balance sheet was published. There was some ceremony attached to this absolutely unique occasion in the history of the institution, for the "Governor and Company . . attended by order of the House of Commons and presented two papers, one a debtor and creditor account of the Bank, the other a list of tallies on the Parliamentary funds which were in their possession." (Thorold Rogers.)

More than that. A committee of fourteen, under Sir John Bolles, was appointed to inspect the books and report on them. No doubt Sir John and the committee were sensible of the privilege, though they finished their work in the short space of five days. Had they suspected that two centuries and a half were to pass without the ledgers and the minute books ever again being seen by members of the House of Commons, or by anyone else apart from the Bank's own directors, they might have prolonged their inspection.

Apparently Sir John Bolles and his committee found nothing in the books of the Bank that would lead Parliament to reject the Bill extending its charter. Armed with their new powers, the Governor and Company proceeded to make more money than ever. It is not necessary to have the balance sheets of those early years before us to be convinced of that. The eagerness with which they lent the King money in return for an increased note issue and a monopoly is proof enough in itself.

There is further evidence of prosperity. The new loan of £1,000,000 was allowed to be added to the capital of the Bank. In little over a year steps were being taken to repay the loan to the subscribers and the whole amount was, in fact, paid off by the end of ten years, though the £1,000,000 remained on the books as capital.

This does not seem to bear out the story of the Bank being " called on to bear sacrifices and undergo the penalty of other people's folly and perversity. "Further, Dr. Andreades quotes a letter of the time, in which the writer alleges " that the Bank offered to advance a million to the Government without interest for twenty-one years, on condition that its charter was prolonged for the same period."

It is quite likely that the Bank did make such an offer. The arrangement would have been to its advantage. To be permitted, as in its existing charter, to create "money" up to the full extent of its loans to the State, to be paid a substantial rate of interest on the latter, and to use the "money" to even better advantage was a lucrative stroke of business.

A new Government loan, interest free, would have been quite profitable if, as is probable, the Bank was to be compensated by the right to issue notes in excess of the loan, and by doubling the life of its charter and monopoly.

However, the Bank got what it wanted in due course. The times were troublous, and the directors had by this time learned how respectable usurers, backed by official authority, can exploit the misfortunes of their country. In 1707 came the War of Succession, and the King's imperative need of a big loan to support an army on the continent.

"The City" could find the money as usual. Their patriotism was stressed in Parliament, and a good case made out for a reward. A bargain was struck, and in 1708 an Act was passed substantially extending the Bank's privileges in return for financial assistance.

The charter, which was due to expire three years later, was continued for twenty-one years from that date until 1732, and the Bank was permitted to double its capital which stood at £2,201,171. The Government was lent £400,000 and the Bank, in addition, "backed" a circulation of £1,775,000 of new Treasury bills. This latter sum was also to be added to the Bank's capital, which was therefore brought up to a total of £6,577,000. Finally, the Bank's monopoly was strengthened.

Many public men were by this time becoming alarmed by the growing power and wealth of this private corporation. There was powerful opposition to the new Act, and not only by the Bank's old enemies, the goldsmiths. The Act forbade the formation of any bank consisting of more than six persons in all which could issue notes—an essential business at that time.

Obviously the Bank was a menace. Its privileges stifled healthy opposition. But forceful as were the attacks by the opposition, the Governor and Company had their way. Their right to issue notes up to the limit of their capital, and without metal security, was also opposed, though with less justification. Later economists have continued to criticise the principle.

Present-day controversies justify this quotation from H. D. MacLeod's Theory and Practice of Banking: "Now, to a certain extent, this plan might be attended with no evil consequences, but it is perfectly clear that the principle is utterly vicious. There is nothing so wild or absurd in John Law's Theory of Money as this. His scheme of basing a paper currency upon land is sober sense compared to it.

"If for every debt the Government incurs an equal amount of money is to be created, why, here we have the philosopher's stone at once. What is the long-sought Eldorado compared to this? Even there the gold is required to be picked up and fashioned into coin. But let us coolly consider the principle involved in this plan of issuing notes upon the security of the public debts.

"Stated in simple language it is this: That the way to create money is for the Government to borrow money. That is to say, A lends B money on mortgage, and, on the security of the mortgage, A is allowed to create an equal amount of money to what he has already lent ! Granting that to a small extent this may be done without any practical mischief, yet, as a general principle, what can be more palpably absurd ? The ravings of Chamberlain himself are not more wild."

Which shows, as have some foregoing quotations, that if you want to find violence of language, go to the economists. No zealot, religious or political, can work himself up to such a white heat as a professor of the dismal science in defence of a theory.

MacLeod, who wrote in 1855, when gold had again become the banking god, misses the main point like so many more writers on currency. This is that the creation of credit by the State, or by a bank supported by the State, in the form of a note issue, is dangerous only when it is in excess of a figure on which permanent interest and redemption rates can be met out of the productivity of the nation which the State represents. In other words, the notes will be "good money," so long as they can be, liquidated by loans or other promissory undertakings, should external or internal circumstances so dictate.

A note issue which is legal tender, or is virtually so by common consent, as with our modern Bank of England paper, will not normally depreciate if it is kept within the rough limits of the nation's own credit. I say it will not normally depreciate. That does not mean that it cannot be wrecked, externally, at least, by a breakdown in the artificial machinery of the foreign exchanges. But we are not concerned with this question.

Again, relative depreciation in paper currency, that is, the diminution of its power to command real values in commodities and services, does not necessarily indicate a weakening of the credit behind it. It is governed by altogether different considerations, which cannot be examined here. The five-pound note could purchase more in 1880 than it could in 1914. But so could five gold sovereigns.

There was nothing wrong in principle in the 61/2 million note issue of 1708 being unsupported by a metal reserve. In those days 6 millions was a big sum of money, but not in excess of the Government's credit, combined with that of the Governor and Company of the Bank of England whose private wealth increased as the note issue expanded, and who, to be fair to their memory, stuck to the highest business standards of integrity and honour, however weak their patriotism.

What was all wrong, and is to this day, was that the profits of the note issue should have gone into private pockets, instead of into the exchequer, as they would have done had the Bank of England been made a national institution from the beginning. Admittedly the founding of a national bank was impossible to William of Orange in 1694, when the stability of the Hanoverian dynasty was not yet achieved, without the assistance of " The City." And if the long-headed merchants took care that the only national aspects of the new institution would be in its charter, the profits remaining to themselves, there is no use blaming them at this distance of time.

But it was one of Britain's greatest misfortunes that the millstone which William tied round its neck in 1694 should have been so heavy, that it was never, in succeeding generations, able to resist the steady additions to its weight.

The Bank of England 1700's

GOLDEN DAWN AND BAD VISIBILITY

I **HAVE** given enough of the early history of the Bank for our present purposes. The eighteenth century was a period of steady consolidation of its position. Parliament renewed its charter from time to time, usually well in advance of the date on which it was due to expire, in return- for the inevitable cash assistance.

A notable year was 1722. For the first time the Board decided on a cash reserve. Hitherto the profits had been distributed as they were earned, and nothing was set aside at the end of the financial year as a reserve fund of any kind, even in the Bank's own notes. This was considered a dangerous policy and the reserve fund was established.

Its extent and quality was not published, and the announcement may have been something in the nature of that high-grade confidence trick in which the Bank has frequently proved so expert. Certainly it was almost negligible as a support of the note issue, which at that time was in the neighbourhood of £8,000,000.

But the fact that a reserve fund was started before the Bank had reached its thirties is worth recording. It may have been on the motion of an ageing director who had seen the ghost of William Paterson in one of his former City haunts. Conscience-stricken himself, he may have terrorised those of the new generation on the Board, by repeating the warnings of that formidable spectre.

We shall never know, but the minute books of those early years would have been well worth reading.

Another eighteenth-century Act of interest, if only to illustrate how consistently successive governments supported the private privileges of the Governor and Company with the full weight of the law, was that of 1778, which made the forgery of bank notes a capital offence. Apparently the lawbreakers of the early years of the century had not recognised the possibilities of this class of crime, and there does not appear to be any record of the forgery of bank notes till 1758, although, as we have seen, it had been made a felony fifty years earlier.

Not only did it become a hanging matter to pass off imitations of the Bank paper money as being genuine. It became an offence to print anything that might be taken to be an imitation of the Bank's engravings. It is still an offence to this day to print the words "Bank of England" in a form similar to the design used on the notes.

A few years ago a well-known newspaper published a picture of a Bank of England note to illustrate a story. The secretary of the Bank wrote to the editor and demanded the blocks. Legal advice was taken, and it was found that the secretary was within his rights.

However, we ought all to be grateful that it was never made a criminal offence to criticise in speech or writing the affairs of this remarkable institution. The directors no doubt considered more than once the advisability of pressing for legislation to stifle attacks for all time. They generally got almost everything else they wanted in the first hundred and twenty years of their existence.

The Bank's first serious rebuff came in 1832, at the time of the Reform Bill- Parliament was becoming less easy to handle, and it is significant that although the last of the Bank's charter extensions was due to expire in 1833, nothing positive had been achieved to guarantee its continued existence. So out of hand had the Government become that, instead of automatically renewing the Bank's privileges in return for certain cash assistance, it had the temerity to appoint a committee to enquire into the advisability of allowing the Bank to continue in its favoured position.

An Act was passed in 1833, which curtailed the Bank's monopoly, but otherwise did it no serious harm. The principal result of the Act was the formation of joint-stock banks in London. Hitherto these had not been allowed to operate within 65 miles of London, and had been allowed to transact business outside that radius only for a few years previously.

The Bank directors fought hard to prevent this competition, and while they succeeded in retaining their virtual note-issue monopoly, the growing use of the cheque system had enabled the joint-stock concerns to conduct banking business on an extensive scale. The question of a bullion reserve was seriously discussed in 1833, but no specific proportion was fixed. Apparently the directors were not themselves agreed on the point.

A certain Mr. G. W. Norman, as might be expected, was all for the precious metal. Mr. Norman, grandfather of the present Governor, believed that a third of the assets of the Bank ought to be in bullion. No definite margin was agreed upon, but from that time the Bank continued to hold a substantial metal reserve, in deference to public opinion, and as a means of advertising its stability.

In place of the reserve the bank notes were made legal tender, in spite of the opposition of Sir Robert Peel, who failed to carry the House with him on this particular clause. Since there was no legal obligation on the Bank to maintain a gold reserve, the legalising of the notes was, of course, a sensible step in days when runs on the Bank were much more imminent than they are to-day. So long as the notes were legal tender there could be no run, and this dispensed with the necessity of real cash to meet abnormal demands.

At the same time it was tacitly agreed that a substantial reserve be created. And a point arises here of great importance, although I am not aware that any of the historians have noted it. Since the foundation of the Bank there had been no metal reserve worth speaking about. All the assets of the Bank were in interest-bearing securities or were earning money in some way or other.

Now gold, held as a fixed security against notes, would earn nothing apart from the profits on the notes themselves. It would be, to use William Paterson's phrase, "lying dead." The Bank could not sell it on a rising gold market in the hope of buying it back again when the price had fallen, so making at least as good a profit as if it had been lent to the Government as well as in the form of a note issue. It would then cease to be a reserve.

Here we have the real secret of the persistence of the anti-gold standard theory up to 1833. It would have cost too much money! The Bank directors only started being "gold-minded" under pressure of political and public opinion. For the new Act laid down that for the first time in its history the Bank must regularly publish some sort of balance sheet. Hitherto all vital information had been withheld, save on the single occasion which I have mentioned. Apart from the directors, nobody knew how many notes were issued, what other liabilities existed, and what were the assets, except for Government loans.

For all the public knew to the contrary the Bank might be insolvent. It possibly was on more than one occasion. This era now came to an end, except that definite figures as to its solvency were still absent. All that the Treasury required was a monthly publication of the bullion held, the note circulation and the deposits for the previous quarter ending. The nature of the Bank's advances and of the security against them was not disclosed.

The Bank was more than able to meet the new call necessitated by the need for a gold reserve. As usual the public purse helped it out of the difficulty. The Act laid down that the Government should repay a quarter of its debt to the Bank, which then stood at £14,520,000, and that the capital of the Bank should be reduced by an equal amount, bringing it to £10,890,000.

With a windfall of £3,600,000 the directors were well equipped for the new situation. This was reasonable compensation for the transference of double profit-earning assets into half-dead weight of bullion.

The Act of 1833 renewed the Bank charter until 1855, but the Government reserved the right to suspend it after twelve years. Actually they took advantage of the provision, and brought in the famous Act of 1844, under whose terms the Bank operates at the present time, with certain amendments such as provided for by the important Currency and Bank Notes Act of 1928, which paved the way for the departure from the gold standard.

Given a proper lead by Parliament, there was an excellent opportunity at the time to transform the Bank of England into a genuinely national institution. Ricardo had written his famous Plan for the Establishment of a National Bank twenty years earlier, and it had many converts in the business and banking communities.

The opportunity was not taken. Parliament proved as docile as it is to-day. A few superficial reforms were introduced, but the Act as a whole left this private vested interest more firmly entrenched than ever. Sir Robert Peel, that perfect type of Parliamentary humbug, saw the Bill through. As he put it, "The true policy of this country is to work, so far as it be possible, with the instruments you have ready to your hand—to avail yourselves of that advantage which they possess from having been in use, from being familiar, from constituting a part of the habits and usages of society. They will probably work more smoothly than perfectly novel instruments of greater theoretical perfection."

It required something more formidable than the brilliance even of Ricardo, and the teachings of such a redoubtable independent banker as Sir John Gilbart, to survive against this sort of thing in 1844.

The Act did not follow the previous charters in fixing a nominal time limit to the operations of the Governor and Company. Instead it laid down that after 1855, on the Government giving twelve months' notice and repaying its debt to the Bank, "then and in such case and not till then the said exclusive Privileges of Banking granted by this Act shall cease and determine at the Expiration of such Notice of Twelve Months."

The Labour Government of our own day had time to do it. But since no Government could easily fund the Bank debt without the assistance of the Bank itself, or at least of the gentlemen who control it, we shall not be too hard on them.

On the question of the note issue, the Act conferred no complete monopoly on the Bank, but it granted it certain rights which in course of time amounted to the same thing. By 1844, the country banks had issued notes among them to a total of about six millions. It was now made law that the country banks could not extend their issue beyond the average for the twelve weeks preceding the passing of the Act, and that if one of them went bankrupt or amalgamated with another bank, it forfeited its right to issue.

And the Bank of England could issue notes up to two-thirds of the amount sacrificed by a country bank for any of the above reasons. It was obvious that sooner or later the Bank would once more have its monopoly, and this, indeed, happened.

As usual, when the affairs of the Bank came up for discussion in Parliament, the greatest bother was over the question of the reserve against the note issue. From the beginning of the century and even before it, there had been endless arguments on the mysteries of the currency. The theorists have been at it tooth and nail ever since, and if anyone tells me that there has been all along a secret fund at the Bank of England for promoting and sustaining the conflict, I shall believe it.

Nothing could better suit the purposes of the Governor and Company than to keep the public and the theorists themselves so utterly and chronically mystified that they are never likely to hit on the few simple keys to the truth about the Bank of England. Possibly the most important of these, except for the private interests of the directors, the naked and rather sordid explanation of the great gold-standard principle, I shall deal with later.

No two theorists ever have the same views, or can explain completely the movements of the exchanges. Always they tell you that "of course, it is very, very complicated and would require hours to tell you." As it is in 1933 it was in 1844. According to a quotation from Peel by Dr. Andreades, a succession of committees of enquiry had been sitting for five years previous to-the introduction of the Bill.

They had asked more than 14,000 questions —3,000 in 1836, 4,570 in 1837, 1,700 in 1838, which was a warm summer, 3,859 in 1840, but only 1,000 in 1841, possibly through calling the Governor, as did the MacMillan Committee of a few years ago, and having their childlike curiosity awed and chilled. And none of the committees issued a report. The whole business was, naturally, far too complicated!

Parliament thought it might simplify matters if it split the Old Lady down the middle. It divided the institution into two departments, the Issue Department and the Banking Department.

The first was to be concerned with the circulation of the notes and the maintenance of the security against them. This would consist of "securities to the value of fourteen million pounds" including the Government debt, which stood at £11,000,000. Notes issued beyond the £14,000,000 must be covered by metal, silver not to exceed a quarter of the total of gold held.

Then came the big question of the Reserve. The Bank was allowed to issue notes £3,000,000 in excess of the Government debt of £11,000,000, against securities, the nature of which was not specified. Any notes issued above this sum of £14,000,000 must be against gold and silver bullion, the silver not to exceed a quarter of the gold.

Here was a scheme for having gold not dead but floating. When the founder of the Bank outlined his principles, he intended that a third of the total issue should be covered by a metal reserve, only two-thirds of the Government debt being offset by paper money.

Under the 1844 Act, the Bank could issue notes for £3,000,000 against securities which might or might not be liquid, in addition to the full amount of what it had lent to the Government. Then, for every five pounds' worth of bullion it bought, it could issue a five-pound note.

The amount of gold bought and extra notes issued could fluctuate according to the profits which would be made.

The general principle of having the Issue Department separate from the Banking Department did not necessarily guarantee the security of the notes, although the Charter laid down that the securities and metal were held specifically against the notes, and must not be used by the Banking Department. In the Charter there were no pains and penalties attached to a failure to maintain the securities in the Issue Department. Naturally the. loss of the Charter was implied, but this guaranteed nothing in the event of a collapse, when it would have gone in any case.

Do not forget that the strength of a note issue is tested only in times of crisis. And then events move swiftly. At the end of one week the securities might be intact. By the end of the next week, the Bank might be forced to realise on its gold and other Issue Department assets for general purposes. Then, if the directors still failed to avert a smash and the liquidator came in, the note-holders would presumably rank with the other creditors. This, at least, is the view, privately stated, of an eminent legal authority.

The point does not arise at the moment, since, under the Currency and Bank Notes Act of 1928, bank notes are legal tender, but it will be worth examining if we return to the gold standard.

It gives me a certain pang to talk of a liquidator in the same breath as the Bank, but the illustration is, I hope it will be realised, a playful one, and the circumstances absolutely hypothetical. What I do want to make clear is that this solemn division of the Old Lady into two unequal parts was a piece of characteristic humbug, pretending a great deal but meaning nothing at all.

So, too, was a further provision of the Act, that relating to the publication of accounts. It was certainly a gain on the state of affairs which lasted for over a century, when the Bank told the Government and the public absolutely nothing. Everything about it, even its note issue and its reserves, was a closed book. Its solvency had to be taken on trust.

Now it must go farther than the quarterly balance sheet required by the Act of 1883 and publish weekly returns. These, since 1844, have appeared in the London Gazette. The information from the Issue Department on the debit side is the notes issued ; and on the credit side; the Government debt, other securities, gold coin and bullion and silver bullion. The items on the debit side of the Banking Department return are the capital, "The Rest," (which is a general reserve), public deposits, other deposits, and seven-day and other bills. On the credit side are Government securities, other securities, notes and gold and silver coin.

This is not too illuminating. It does not explain the nature of the securities held, a very important point. At the present time, for example, with so many hitherto gilt-edged securities " frozen " and quite unrealisable at their nominal value, the nature of these investments should be stated. The total of the bankers' deposits, it is generally agreed, should also be stated, and the manner in which the money is employed.

But, in fact, the whole of the business of the Bank of England should be as near being an open book as is practicable. All the investments ought certainly to be open to inspection, and no line of policy ought to be adopted without consulting the Government. And surely the public ought to know the names of the shareholders. It is preposterous that an institution which has all the powers of a national bank, if it has none of its responsibilities, should be owned by a collection of anonymities.

For all the people of Britain know to the contrary, the bulk of the Bank of England stock may be in the hands of a confederacy of subversive aliens. Mr. Montagu Norman and his directors may hold no more than their qualifying shares, and may depend for their election on the favours of a few capricious old ladies who have inherited their holdings from the days of the South Sea Bubble. It is hardly probable that this should be so, though it would be reassuring to know that the ultimate controllers of the Bank are no more dangerous.

It is curious that, in all the Parliamentary discussions on the Bank of England, this point should never have been given prominence, although it is of more vital importance in the long run than the amount of paper money which the Bank has put into circulation. We have seen what manner of men the directors are. It is as essential that we should know the full extent of their personal holdings. If we knew that, and the true reasons for the election of the Governor and the directors, we might find that the Bank of England is even more weighted on the side of internationalism than appears on the surface. Failing the provision of proof by the Bank that this is not so, one is entitled to the speculation.

CHESTNUTS OUT OF THE FIRE

THE history of the Bank of England after the passing of the Act of 1844 is not of great importance for our purposes. There has been no further legislation affecting the fundamental position of the Bank. A modification of the system of working between the Treasury and the Bank was made in 1866, and the Currency and Bank Notes Act of 1928, for example, gave the Bank power to amend its gold policy, which it did four years later.

As a matter of interest, the 1928 Act fixed the limit of the note issue not covered by gold, that is, the fiduciary issue, at £260,000,000. Normally the amount of gold now held by the Bank is in the neighbourhood of £120,000,000, which brings the total permissible issue up to £880,000,000. Such legislation did not affect the privileges of the Bank, which have not been seriously assailed throughout the last century.

In 1848 there was a rather timid report by a House of Lords committee of enquiry, which very nearly got to the root of the chief danger of the Bank, the personnel of the board and the interests behind the institution. "It appears further to be apparent," they wrote, "from the Evidence that the immediate pecuniary Interest of the Proprietors . . . may at times supersede or control larger and higher Considerations. This ought not to be. . . ."

The "may at times" is good. It is obvious from any reading of the history of the Bank that there has never been a period when the " larger and higher Considerations " have not been superseded by the personal interests of the proprietors. The directors do not appear at any time to have been elected for their altruism and for acts of distinction in careers of blameless self-sacrifice. They have been invariably business men cast in the same mould as other business men. They would not have been human if they had failed to consider their own interest when this happened to be in conflict with that of the nation as a whole.

The House of Lords Committee made what was then a novel suggestion—the appointment of a permanent Governor, just like Mr. Montagu Norman. They spoke of a "want of Permanence and Consistency derived from its system of periodical Elections of Governors and Deputy-Governors—the evil Consequences of filling these high and important Offices by a mere Rotation of Seniority—and the intimate connection subsisting between the Directors and the Commercial World of London, which may cast on them a degree of Pressure difficult at Times to be resisted." Why a permanent Governor should be supposed to be more able to resist the pressure of the commercial world is not stated, though the committee may have had in mind the appointment of an independent Governor who had no previous connection with the Bank and no pecuniary interest in. it. Or they may have seen in Mr. Montagu Norman's grandfather, then a director, an ideal and heaven-sent Governor. For the old gentleman must have been something out of the common to have produced the grandchild he did, the only Governor in two hundred and forty years to be thought fit to have a permanency.

In the fifty years from the passing of the Bank of England Act and the end of the nineteenth century, the country went through four economic crises—in 1847, 1857, 1866 and 1890. It is worth noting how the Bank weathered each succeeding storm. The 1847 crisis began after a series of bad harvests in England and the great potato famine in Ireland.

This had resulted in a big increase in wheat and other food imports with a consequent drain on the gold reserve of the Bank. Then there had been a speculation mania on the development of the railways. Over £180,000,000 was invested in 1847 alone. During the period 1846-1847 the stock of bullion fell from 15 to 9 millions, while the Reserve fell from 8 millions to 2 millions. There was a panic and several big failures.

The Bank failed in its function of making advances to the commercial world, but the Government saved the situation by suspending the Act of 1844 and permitting an issue of additional notes, in other words, creating new money.

The 1857 crisis started in America, where there was a series of crashes pretty much as from 1931 to 1933. The total number of firms which went into liquidation in the North American Continent was 5,123, involving over 291,000,000 dollars. The biggest failure was the Ohio Life Insurance Company. When the trouble spread to this country, the City of Glasgow Bank closed its doors, and all kinds of other concerns went down like ninepins.

The Bank of England itself was on the point of collapse, having under £1,500,000 in the Issue Department and £350,000 in the Banking Department. Again the Government stepped in and suspended the Act of 1844 by permitting the Bank to issue £2,000,000 of notes beyond the legal maximum.

The 1866 crisis also began in America, following the disorganisation of the markets through the Civil War. In this country the trouble was intensified by the aftermath of a fever of speculation due to the limited liability Company Law of 1862, about ninety per cent. of the new companies formed being unsound.

In February of 1866 there were two big failures, and in May the private banking firm of Overend & Gurney had to close its doors with liabilities of over £18,000,000. The partners had tried to borrow £400,000 from the Bank of England to tide them over, but were refused. The Bank itself was apparently in a bad way, its reserves again having fallen dangerously low. But Mr. Gladstone was at the Treasury and amid the applause of the House of Commons announced the suspension of the Act of 1844.

The Bank printed more paper, confidence was restored and once more the Bank of England had saved the fabric of British commerce and finance. It is true that two banking concerns went down the following week, the London Bank with liabilities of £4,833,000 and the Agra and Masterman's Bank with liabilities of £15,500,000. In banking the race is most certainly to the swift.

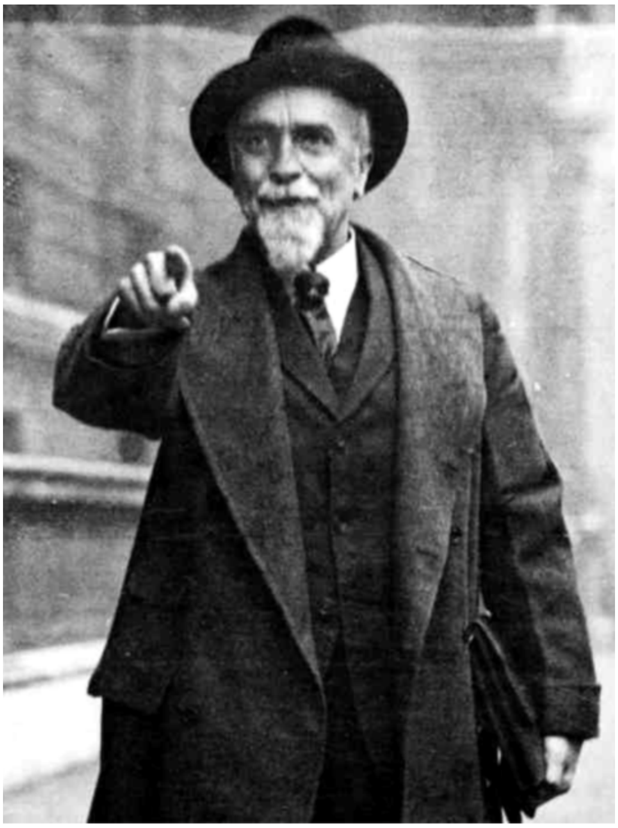
Last came the crisis of 1890. Again there had been a speculation mania, the chief hopes of the public having been centred on South American flotations, American mining companies and miscellaneous home bubbles. Baring Brothers, as has been mentioned earlier, found themselves in serious difficulties, and it looked as if the black days of 1866 would be repeated. The Bank of England and the leading City houses got together in time, and a guarantee fund was raised which was to be maintained for three years.

The one thing in common with all these crises from 1847 to 1890 was that in none of them did the Act of 1844 prove of the slightest use in an emergency. Three times it was suspended in order to allow for an increase of the note issue actually on the credit of the Government, and in the fourth case a substitute for the creation of new credit by paper money was found, in a special loan backed by the financial community generally.

The Bank of England as an institution designed to support Britain's national monetary structure failed every time. There is good reason to suppose that it preferred to call in the help of its friends at the time of the Baring crisis rather than depend on Parliament in case a repetition of its former policy would finally convince the country of its own inherent weakness, the real support of finance coming from the Government of England and not the Bank of England.

It is also noteworthy that in 1890 the Bank applied for help to the Bank of France, which sent to London large consignments of bullion, for the maintenance of the exchange. If the international bankers of later times do not hang together, at least they stick together.

SECTION 8
MR. MONTAGU NORMAN



IN post-war years Bank of England policy has become identified for the first time with the personality of an individual. Since 1920, the tradition of electing governors for short terms only has been departed from, and the present Governor, Mr. Montagu Collet Norman, has held the position for thirteen years. His post has virtually become a permanent one. Periodically there are hints, not lacking in foundation, of his impending resignation, but even if he decides shortly to go into retirement, now that he has married for the first time at the late age of sixty-two, a study of the Bank of England during the most difficult financial period in the world's history cannot be separated from the personality of Mr. Norman.

It is not easy to arrive at a true estimate of this rather astonishing character. He has rarely spoken in public. He never appears to have written anything apart from an introduction to a book about the Bank, though from the cast of his countenance, which is more that of the artist than of the man of affairs, he may well have made some private contributions to English lyric poetry, or have occasionally painted Christmas cards and Valentines in water colours. His friends are few, and none of them has yet been inspired to write his biography. As far as I am aware, only one personal appreciation of Mr. Norman has been written for an English journal.

This, however, gives us something to work on, if not to swallow whole. Its author was Lord Snowden, former Chancellor of the Exchequer, and it appeared in The Spectator in October of 1932. After describing Mr. Norman as "one of the greatest men of our time," Lord Snowden wrote as follows:—

"During the four years I was at the Exchequer, I had abundant opportunities of getting to know Mr. Norman well. The relations between the Chancellor and the Governor of the Bank are intimate and confidential. What takes place between us is inviolable as if under the seal of the confessional.

"But this I may say. The ranting of ignorant demagogues who know as much about monetary and financial matters as a boat-horse, who hurl denunciations at the Governor as a sinister ogre who uses his great power to serve only selfish interests of financiers ruthlessly crushing industry, fill me with disgust. Whether Mr. Montagu's policy and actions are right or wrong, whether he makes mistakes or not, one thing is indisputable.

"No man with great responsibilities ever tried more faithfully to discharge them with the single aim of promoting national and international well being."

One thing is clear from this somewhat passionate eulogy. Mr. Norman has an attractive personality when met in private where there are no cameramen and no reporters to upset sensitive nerves. A man who can make Lord Snowden of the iron. intellect believe that those who have criticised him from time to time must be as ignorant of financial matters as a boat-horse, must be capable of inspiring great loyalty and admiration.

In point of fact, there have been comparatively few denunciations of the Governor. His policy has been severely criticised by such boat-horses as Mr. Reginald McKenna, chairman of the Midland Bank. But to say that things have been hurled at Mr. Norman's attractive head is not quite accurate, if we forget what has been said in the heat of election meetings. He has got off very lightly.

The earlier career of "one of the greatest men of our time "can be told briefly. He was sent to Eton and Cambridge, but did not distinguish himself at either place. In fact, he remained at Cambridge for only a year, and left while he was still nineteen to join the family banking firm of Brown Shipley & Co., in 1890. After a few years he went to the associated firm of Brown Brothers of New York (now Brown Bros. & Harriman).

He returned to London towards the end of the century, and was made a partner of Brown Shipley & Co. The South African War fever was then at its height, and young Mr. Norman fell a victim. One can imagine how difficult it would be for his highly-strung and patriotic nature to resist, even at twenty-nine, the nation's call to arms, though the form which the appeals sometimes took must have grated. That he should have been carried away by the strains of " Good-bye, Dolly, I must Leave You," is unthinkable. And he eschewed the much be photographed City of London Volunteers, preferring a commission in one of the less spectacular regiments of the line, the Bedfords.

In South Africa, Mr. Norman did well. He reached the rank of captain, and while attached to the mounted infantry, won the D.S.O. and was mentioned in dispatches. He returned to his firm after the war, became a director of the Bank of England in 1907, and in 1915 was appointed Deputy-Governor. In that year he resigned from Brown Shipley & Co., and since then has held no position with any firm other than the Bank.

Mr. Norman's family connections are of more significance than his pre-Bank career. Both his grandfathers were directors of the Bank of England —George Warde Norman and Sir Mark Wilks Collett. The former, the son of a timber merchant who was Sheriff of Kent, married into Martin's Bank (then Stone & Martin), possibly the oldest financial house in the country. Its origins date back four centuries. There is no evidence that the family association with the firm was absolutely unbroken throughout, but it is of sufficiently ancient date to give Mr. Norman strong hereditary claims to the country's highest banking honour.

Mr. Norman's father became a partner in Martin's Bank and his uncle a partner of Baring Brothers. His mother brought the Brown Shipley connection, her parent, Sir Mark Collett, being a partner in the firm, as well as a director of the Bank and Governor for two years. How much the total family holdings are in Bank of England stock we do not, of course, know, but the family influence was presumably strong enough to secure Mr. Norman's election as Governor of the Bank.

That he has retained the position for thirteen years could be otherwise explained than by weight of money, now that Lord Snowden has let us into the secret that Mr. Norman is "one of the greatest men of our time." Stranger things have happened than that a man should achieve greatness after having had greatness thrust upon him. History is full of examples of this. There is Queen Elizabeth and there is Lord Salisbury. Why grudge Mr. Norman his laurels?

Greatness apart, Mr. Norman has inherited certain characteristics which might well betray fifteen centuries of banking ancestors. He is about the most secretive person of his time, and he is one of the most contemptuous of un-financial people. I do not mean that he is uncharitable to the poor. It would not surprise anybody in the City of London to learn that he has given large sums to charity anonymously or under assumed names. The publication of his name against a donation to an almshouse for victims of the gold standard would be to him a distastefully vulgar gesture.

He hates to let the world into the secret, even, that he keeps a fine herd of Jersey cows with dull gold markings at his country home near the beautifully named village of Much Hadham, In Hertfordshire. Mr. Norman had been a prominent national and international figure, as Governor of the Bank of England, for about ten years when this paragraph appeared in a corner of one of the newspapers: “It is believed that the name of ' Mr. C. Norman, under which the National Milk Challenge Cup, valued at 100 guineas, was won at the Dairy Show, conceals the identity of Mr. Montagu C. Norman and his brother Mr. Ronald C. Norman."

It is also believed that, when this startling bit of publicity hit Mr. Norman in the eye over the breakfast table, he immediately decided on a new alias for his cows. At all events, I have been unable to find any record of the Much Hadham herd having carried off any more challenge cups for " Mr. C. Norman " since they stampeded into the limelight in 1929.

Mr. Norman's habits of secrecy are already well known to the whole reading public of five continents. He takes such infinite pains to wrap his movements in mystery that they have become the subject of more newspaper comment than those of any other public figure in Europe, with the exception of such skilled and deliberate publicists as Mr. Ramsay MacDonald and Herr Hitler. He has, in fact, become such a provoking secret that he is liable to be snapped by a Press photographer on such ordinary occasions as his journey to the office in the morning. As a subtle manoeuvre to outwit the cameras, he is liable to travel up to the City by the underground railway instead of in his car. But he was caught once, stepping off the escalator at the Bank Station, naturally looking scared and annoyed.

He has another dodge to avoid being waylaid on his way home. This is the two-car trick. If photographers are signalled from the secret watchtower on top of the Bank building, Mr. Norman's Rolls Royce drives up ostentatiously to the door from which he usually emerges. The photographers wait there for an hour until the Rolls drives off without Mr. Norman. He meanwhile has gone off in another Rolls from the back entrance. The same subterfuge was employed, successfully, on his recent wedding at a register office in the grey hour of the dawn. While the pressmen watched the car outside the front door, Mr. and Mrs. Norman escaped by another at a back entrance reached through the workhouse yard.

Mr. Norman was eventually caught slinking up an alley near his London home, but kept well in the background while his bride took the shutter. There were those who thought that Mr. Norman as Governor of the Bank of England owed the duty of a good conservative to the conventions, by being married at St. Margaret's, Westminster. It is only fair to state that this could not be so, since his wife, a niece of Lord Fitzalan, is a Roman Catholic.

The staff at the Bank nobly set an example to the rest of the country by respecting the "Guvnor's" desire that secrecy should surround his nuptials. There are 4,000 of them, and they subscribed a shilling each for a wedding gift. Through no fault of any of the staff, news of the present got into the hands of an editor. A reporter was sent to get details, but out of the various members of the staff whom he approached all he was able to elicit was : " We have nothing to say." When the presentation was made, Mr. Norman, it is understood, referred to this moving example of loyalty.

Mr. Norman invariably uses an incognito when travelling abroad, which he has done extensively since the war. He used to be "Mr. Collett," as, for instance, on his South African trip of 1930, when, as was inevitable, a rumour about his -being on the verge of a breakdown had to be denied. In time the "Collett" became too thin a disguise, and on that famous occasion in 1932, when he set the world's wires buzzing over a "purely private" visit to the United States and Canada, he adopted the unexpected and somewhat unfitting disguise of "Professor Clarence Skinner."

To many straight-laced people, the " Professor " was bordering on the dubious. It is an offence to use a degree to which you are not entitled, and while professorship is as often as not an honorary designation, being legitimately adopted by unqualified singing masters, boxing instructors and the more elegant vendors of pills in market-places, the unearned professorship of Mr. Montagu Norman was, I have the strongest reasons for divulging, frowned upon in the best University circles, excluding the London School of Economics.

The passion for originality, which is said to be the mark of men of genius, may have been responsible at times for breaking down the wall of secrecy which Mr. Norman's inherited instincts have led him to build round his movements. How otherwise can we explain the incident of the liner meeting with Governor Benjamin Strong, of the New York Federal Reserve Bank, in 1928, which attracted much attention at the time?

Governor Strong was then on his way to France, on board the White Star liner Majestic. It was necessary that Governor Norman should discuss certain financial matters with him. Governor Norman boarded the liner Aurania at Southampton and met Governor Strong at Cherbourg. It was really an inconvenient way to meet Governor Strong. A quiet journey to Paris would have been quicker and less agitating. But there would have been no originality about it.

Something similar happened in 1930, when Mr. Norman sailed from Southampton on the Bremen, ostensibly for New York, accompanied by a friend and his valet. Another passenger on board was the Governor of the Federal Reserve Board, Mr. Harrison. At Cherbourg, Mr Norman decided to return to England, and changed over by launch to the Majestic, which was bound for England. He arrived home twenty-two hours after leaving, accompanied by the usual unwelcome blaze of publicity.

The regal touch, speaking of an ancestry which has through long generations held peers and princes in fee through the power of money-lending, is inimitably displayed by Mr. Norman on those peregrinations when he has dropped the incognito. This extract from the Daily Mail, of September 24th, 1931, is worth repeating: "Very careful preparations, not unlike the arrangements usual in the case of a royal personage, were made when Mr. Montagu Norman arrived home yesterday.

"As the Canadian Pacific liner Duchess of Bedford in which he travelled from Canada arrived in the Mersey, Mr. Norman sent instructions by wireless to Liverpool that he wanted to disembark in midstream. A tender was therefore sent out to the liner and brought Mr. Norman to the landing:stage, from which he hurried by car to catch the 8.15 express to London.

"At Euston Station extraordinary precautions were taken to ensure that no one should approach Mr. Norman. A police inspector, two sergeants and eight constables were stationed on the platform. No one, not even those who came to meet other travellers by the train, was allowed to pass along it.

"As the train arrived, Sir Josiah Stamp, who was waiting to welcome Mr. Norman, hurried to the Governor's compartment. Then, after a moment's conversation, they walked along inside the corridor and left the train by a guard's van opposite Mr. Norman's car. Immediately the police closed round them, and in the scramble as people rushed forward men were knocked over.

“Mr. Norman looked a little bewildered as he stepped into the car. Then the police made a gap in their circle and the car drove rapidly away. Very few of the waiting people had even a glimpse of the Governor of the Bank in his soft felt hat and brown tweed suit."

Only the bunting and the bands were absent, and it should have been explained in the report whether the police belonged to the railway corps or were from the official body maintained by the public purse. If the former, it was nobody's business outside the L.M.S.; if the latter, the question might fairly be asked why the Commissioner of Police was elsewhere.

All aristocrats have something of the despot in them, and none more so than banking aristocrats. This trait is well developed in Mr. Norman, according to the only writer who has tackled this side of the Governor's character, Mr. Paul Einzig. Mr. Einzig, who has apparently had the opportunity of a "close-up" of Mr. Norman at work, says in his Montagu Norman: A study in financial statesmanship, that "it is impossible to imagine anybody more suitable than Mr. Montagu Norman to uphold the despotic traditions of the Bank."

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"He is as characteristic a Governor of the Bank of England as Francis Joseph was characteristic as a Habsburg Emperor, or Lord Roberts was characteristic of an old-type military commander. . . . Having been elected a director of the Bank in 1907, he spent thirteen years in the atmosphere of the Bank before he became Governor. Those who have ever been inside the Bank must agree that not thirteen years but thirteen minutes spent amidst its atmosphere are sufficient to create a profound impression upon one's mind. . . .

"There is a story that a brief visit to the Bank was sufficient to convert Lord (then Mr.) Snowden from an advocate of the nationalisation of the Bank into a strong opponent of the idea. . . . Is it thus surprising that Mr. Norman with his traditions and experience should assimilate himself to it so completely ? His character fitted him for the role which he was to fill. He is said to be a born despot, who has all the qualities enabling him to reign supreme in the citadel of Threadneedle Street. It is a kind of natural despotism which does not require to be enforced by means of fear-inspiring severity.

"Mr. Montagu Norman inspires no fear. . . . Although he is subject to the influences of his artistic temperament and his opponents at conferences have often good reason to complain of the way he treats them, most of the time he is friendly to those working with him and under him, and has a kind word for everybody. . . ."

This is excellent as far as it goes, but I am afraid that few in the City of London and in the other capitals, who understand the inner workings of international finance, will accept Mr. Einzig's conception, declared elsewhere in the book, of " the immensely important part Mr. Norman has played, not only in finance, but in international politics."

Hitler's central banker Schacht meeting with Montagu Norman, Governor of Bank Of England

A MEASUREMENT OF POWER

MR. NORMAN may be a despot by nature as he is an aristocrat. But the possible range of his despotism must be qualified. As I said earlier, money talks more insistently at the Bank of England than elsewhere, and to measure the real power of Mr. Norman or any other of the directors, one must first know the extent of his holdings and those of his family. And this we do not know. Mr. Norman's share may be comparatively limited, or it may embrace half of the stock.

There are other very potent names connected with the Bank of England, as we have seen—Goschen, Schroder, Hambro, Morgan Grenfell, Lazard, and the rest. It is improbable that these concerns are swamped by the Brown Shipley-Martin's interests even when the Baring family connection is thrown on to the scales. It may be, of course, but we have no right to assume that it is. And without assuming it, we cannot speak of Mr. Norman's " immensely important part " in international affairs.

It is really much more likely that Mr. Norman, though not necessarily a "dummy" put up by a more powerful and retiring section of high finance, is the spokesman and titular head of a confederacy of which he is a member, but which could get rid of him whenever it felt the necessity. He is not badly cast for the part. In fact, the selection of Mr. Norman as virtually permanent Governor, if it were deliberately done, and was not solely of his own and his family's will, was a subtle stroke.

High Finance has always kept the public mystified, and the need of this was never greater than during the post-war period of daring moves in the monetary game, when motives must be concealed. No person could have been better chosen for the part of Chief Mystifier in Financial Affairs than Mr. Montagu Norman. Browning said that there is no one more difficult to understand than the man who does not know what he is up to himself, or words to that effect. I would not apply that to Mr. Norman, though the possibility is worth examining.

Is that expression of gentle surprise which is sometimes caught on his features by the Press photographers the whole explanation of the character of the Governor of the Bank of England ? And has he really another side sufficiently convincing to leave a rooted impression of his being " one of the greatest men of our time"?

Towards the end of 1932, Mr. Norman made a speech at the Mansion House Bankers' dinner. He is understood almost to have burst into tears. That report spread abroad was taken as an unmistakable sign of lack of strength in the Bank Chief. The conclusion of the speech, which was the only emotional part, was this: "Obviously one of the great things which we, speaking technically, wish to dispose of are the frozen credits throughout Europe. I think there is nothing which impedes the business and the prospects of bankers to the same extent as those. . . . For most of us, ' One step enough for me.' That is as far as, on the whole, I can say.

"The difficulties are so vast, the forces so unlimited, so novel, the precedents are so lacking, that I approach this whole subject not only in ignorance but in humility. It is too great for me. I am willing to do my best."

This rare example of Mr. Norman as a public speaker is very illuminating. It is not necessarily a weak speech. It takes more strength of character to admit that a problem is too great for you and that you are willing to do your little best, than to utter the flatulent optimism of some of our strong men in finance and industry. What is noticeable in Mr. Norman is the perpetual parenthesis, a feature also of his evidence before the Macmillan Commission in 1931. Mr. Norman has a parenthetical mind, as one would expect from a study of his physiognomy. Where the forthright business man has rarely more than one idea at a time on which to work, Mr. Norman has two or three.

This does not mean weakness, but it almost invariably does mean indecision, which is the next worst thing in men of action. But in the Governor of the Bank of England, assuming him to be the figurehead of a group who make the real decisions, it is a genuine asset. The risks of such an individual taking a strong line on his own initiative on those occasions when he has plenipotentiary powers are not great.

And he is the more likely, as I have said, to mystify the public when he himself is mystified by the multiplication of his own mental reactions. Mr. Norman mystified even the Macmillan Commission. His replies were masterpieces of vagueness, and, I am convinced, unintentionally so. The Commission got nothing out of Mr. Norman except a confusion of the issues, and there is not much doubt that Mr. Norman was confused. His meanderings rang true.

When, for example, he was asked, with reference to the Bankers' Industrial Development Co., which was founded by the Bank to aid home industry as "an abnormal effort for an abnormal occasion," how long the abnormality was going to last, he replied: "I do not know how long it is going to last, but I am quite certain that when this company was formed a year or two ago the conditions were abnormal in the sense in which I mean them."

Which explained precisely nothing.

Here are some more replies by which he led this rather formidable Commission into the fleecy clouds of his intangible mind : " For reorganisation, I ought to say rationalisation, because that is what I mean without explaining its precise significance." . . . " I seem to see this as possible. It has been in my mind for a long time, and the more I look at it the more confident do I feel in myself, without being able to submit evidence to prove it, that some such course as that will be followed.". . . " I think the direction in which he (the banker) may give credit is very important, but otherwise, I do not think that any further link, an incorporated link, so to speak, between industry and banking is needful. . . . But if you are going to try and establish any definite, any incorporated, form of liaison, it is either going to come down to ownership or to conflict with ownership, and I am all against that —to conflict with the proprietors. I am entirely against that."

And while Mr. Norman was babbling his indeterminations to the Macmillan Commission, his colleagues on the Board of the Bank, say Mr. Tiarks and Mr. Goschen, with the advice of Mr. Pierpont Morgan on a quiet holiday, were no doubt putting through a strong deal in sterling and dollars. At the same time I am not admitting weakness in Mr. Norman. Gentleness, if you like, and a marked inability to come directly to the point, but he may have a kind of feminine capacity of endurance which is as good as masculine strength. But can we seriously accept Lord Snowden's estimate of him as "one of the greatest men of our time," or Mr. Einzig's conception of the "immensely important part Mr. Norman has played, not only in finance but in international politics"? I do not think so.

We must consider the Bank of England, not as an institution converted into a despotism by the will and intellect of a single individual or by the weight of his personal wealth, but as a business concern, subject to the same laws of interest and necessity as govern a joint-stock bank or a big commercial house. It has stockholders. These must inevitably decide in the long run who shall be the directors. We know that Bank of England stockholders' meetings are a formality at which nothing important is ever discussed.

But it is impossible for the directors to act contrary to the interests of the general body of the stockholders for any length of time. Assuming that there could be a minute standing which permits the existing directors to decide on the continued composition of the Board positively against the wishes of the majority of the stockholders, the minute could surely be upset by application to the courts.

And since certain persons, representing financial concerns, are re-elected directors over long years, their places being taken by members of the same, or allied concerns, when they retire, it is obvious in whose hands the controlling share of the capital of the Bank of England lies. It is held by the members of the private and other international banking firms whose extra-Bank activities were indicated in the first section of this book.

Mr. Norman is one of them. However nominal his post of Governor may be, his directorship is on solid ground. His paternal grandfather, Mr. George Warde Norman, was a director for over half a century, till 1872, and his maternal grandfather, Sir Mark Wilks Collett, was on the Board of the Bank for thirty-nine years, from 1866 till 1905. Death, not failure of election, removed Sir Mark.

The Bank of England's Boardroom

BREAD UPON THE ICE FLOES

NOW let us see in what manner the majority of directors of the Bank of England, in their capacity as private bankers, have acted since the war and before it. In the earlier part of the book, I touched on their business of financing foreign countries on commission. I shall not be wasting my readers' time or their patience, I think, in giving some of the figures.

We shall take Europe first. Since the war the London private merchant banks, most of those concerned being represented on the Board of the Bank, and the Bank itself have been, among them, instrumental in advancing to European states and ,municipalities roughly £180,000,000. (Vast sums were lent in addition by British financiers to European industrial concerns.) The pre-treaty loans outstanding against European borrowers are considerably greater.

In 1928 Austria borrowed £14,000,000 through a League of Nations guaranteed loan. Of this £10,000,000 was issued in London by the Bank of England. In 1930 a further loan of £3,500,000 was raised, this time through Barings, Morgan Grenfell, Rothschilds and Schröders. A year later the Bank of England lent the Austrian Government a further £6,000,000 privately, though not out of its own pocket, as I shall explain further on, the transaction being of interest in our study.

Belgium wanted to raise 7¼ millions in 1926. They got it in London, and the commission went to Barings and Morgan Grenfell. Bulgaria, another gallant little war-time ally, though of the Central Powers this time, wanted her coffers replenished on two occasions, in 1926 and 1928. A word to London and the cash was forthcoming for this very rocky demesne. The loans were issued by the Ottoman Bank (Mr. Gladstone, of the Bank Board, is a director), Schröders and Stern Brothers.

Earlier on, in 1922, the new state of Czecho-Slovakia offered 8 per cent. to anybody who could lend it £4,650,000. London rose to the occasion on the suggestion of Barings, Rothschilds and Hambros. Two German loans of £12,000,000 each, in 1924 and 1930, were pushed out with all the prestige of the Bank of England itself.

Greece did very well in the hours of its post-war need. Its sacrifices in the Great War for lasting peace were not forgotten. It had first of all a "Refugee Loan" in 1924. Well, the City just couldn't bear the idea of refugees being left to starve in a country that is teeming with buildings reminiscent of the old Royal Exchange, and when Hambros said the word the money poured in. Four years later there were still a few refugees hanging around Olympus, and the "Greek Government Stabilisation and Refugee Loan" of £3,500,000 was issued by Hambros and Erlangers. Ten months later, at the end of 1928, the Greeks, not having found any reason to be discouraged, gave a final hint to the London financiers and got away with £6,000,000 for a Government Public Works Loan (Hambros and Erlangers) and presumably found jobs for any able-bodied and willing refugees who might still be at a loose end.

And now, to show the uncertainty of human affections, even in the City of London, if you mention Greek loans in the neighbourhood of Threadneedle Street, you will be asked to move over the border to the Metropolitan area.

Hungary, in spite of its difficulties through the terms of the Treaty of Trianon, was not discriminated against. Why help Austria and refuse Hungary ? That would not be cricket. In 1924, Barings, Rothschilds and Schröders issued £1,250,000 and in 1926, Barings, Rothschilds and Schröders were again prominent in connection with a trifle of £8,000,000.

Lazards looked after Poland in 1927, Britain finding £2,000,000 to help that indomitable nation to give a further smack in the eye to the British export coal trade. Her ally Rumania, for some reason unexplained, did considerably better with a total of £24,500,000 between 1922 and 1929, the names associated with the loans being Helbert Wagg, Hambros, Lazards, Higginson and the British Overseas Bank, Ltd.

I need not give details of the European Municipal loans floated in London during the post-war period, and totalling about £20,000,000. About half of the issues were in the hands of firms represented on the Bank of England. The remainder were negotiated by Erlangers, Rothschilds, Higginsons, Helbert Wagg and Guinness, Mahon & Co. In addition to these and the national loans, much money was advanced by British bankers and others direct to Continental industrial concerns. German shipping was generously financed. With the assistance of state subsidies, paid in part, at least, out of the loans advanced by Great Britain and which are now " frozen," interest payments being postponed, it is having a satisfactory revenge for Scapa Flow by helping to push the British mercantile marine off the seas.

This is an aside, by way of emphasising just how English the Bank of England is.

Now we come to South America. The total of loans floated in London for the benefit of states and municipalities only is well over £200,000,000, prewar and post-war. This does not include the enormous sums invested in South American industrial enterprises.

The bulk of Argentine official borrowing since the war, like that of the majority of the South American states, has been done in New York, but there is £84,000,000 outstanding to British creditors, the issues having been made through Barings and Morgan Grenfell. In Brazil, the total British money involved through official loans is £105,000,000, raised through Barings, Rothschilds and Schröders. Of this £16,000,000 was found since the war.

Through Rothschilds, Schröders and Morgan Grenfell we are owed by Chile £30,000,000, half of it being pre-war loans still outstanding. Colombia, Montevideo, Paraguay, Peru, Rio de Janeiro, Uruguay and the rest have all had their whack. And so, of course, have the private bankers, through their commissions.

The Far East was not overlooked by the British money market, when surplus capital was pining to be borrowed at rates of interest in excess of those paid on safe home securities, and British issuing houses were on the look-out for commissions. Japanese loans outstanding, which were practically all issued in London, total £89,000,000, including about £10,000,000 for the South Manchurian Railway.

Approximately half of the money was lent after the war, and while the Yokohama Specie Bank, whose directorate is composed entirely of Japanese nationals, negotiated the £24,000,000 6 per cent. of 1924, the £12,500,000 5 per cent. of 1930 was in the hands of the Westminster Bank, the Hong Kong & Shanghai (Sir Charles Addis, of the Bank of England, is chairman of the London Committee), Barings, Morgan Grenfell, Rothschilds and Schröders, in addition to the Yokohama Specie. A very happy family, though a mixed one.

China owes us much less money than Japan. Owing to the disturbed condition of the country since the war it has been ostensibly a "bad investment." As events have proved, it would have been as safe for its interest payments as a number of European and South American countries, but the City of London simply can't stand bandits—at least, not the picturesque kind they breed in the ex-Celestial Empire.

The Bank of England personality, I repeat, prominently identified with Chinese finance, is Sir Charles Addis. Practically all the British loans were floated through the Hong Kong & Shanghai Bank, the British and Chinese Corporation and the Chinese Central Railways, which has taken a hand in issues from time to time. Sir Charles Addis is connected with all three companies. Having a preponderance of investments in Japan, British finance is bound to throw its weight on the side of that country in the present diplomatic tangle, no matter what the ultimate effect will be on British trade.

And as I have said, the Japanese made a shrewd move by a reassuring statement on the fate of the Chinese bonds. A further point in favour of Japan is its excellent record, from the point of view of the bankers, in the matter of interest and principle payments. Japan's diplomatic record has become suspect. Her diplomatists are shifty and her promises are worthless. But so long as she can maintain the " sanctity " of her financial agreements, her conduct otherwise is of no moment.

When, of course, she has taken over the whole of China, with its markets, has knocked Russia back to the Caspian, has relieved America of her responsibilities in the Philippines, cut the Australian sea route, and demonstrated by her superior Imperial genius that the presence of the British Raj is no longer necessary to the preservation of Indian stability, she may not think it worth while to conciliate a handful of Occidental bankers.

On the other hand, Japan, mindful of the origins of her own commercial prosperity and military development, may take a hand in financing British and French industries, the world's financial centre having by this time shifted to Tokyo. Stranger things have happened in the history of empires.

Here again we are bound to ask if there is any wisdom among the men of international finance. They are aware of their immediate interests, but they are inconspicuous when measured by standards of real intelligence. We saw what happened in Chile. The bankers sent money there without any true understanding of the politics of the country. Russia is a much more striking example. Before the war, and during it, money was lent to Russia without stint. Yet the Czarist Government was as palpably insecure as it could be. Political observers knew that it was bound to collapse under pressure of great events. No state built on oppression and run on corruption can survive.

The international financiers, in spite of their resources, appeared to maintain no intelligence department. They were bewildered when the revolution did come, and lent their support first to the Menshiviks, whose futile volubility was doomed to swift suffocation, and then to the White military expeditions whose chances of success were equally slender.

After the war they put money into Austria and Hungary, neither of which countries could hope to create a productive surplus with which to maintain national solvency, after the truncation of Trianon. "One of the greatest men of our time," Mr. Montagu Norman, now sobs that he approaches the subject of frozen credits "not only in ignorance but in humility." But surely it required no marked genius in monetary weather prophecy to foresee that Austria and Hungary could not but " freeze " the moment that the foreign financiers ceased to keep the pot boiling.

Those of Mr. Norman's audience who recalled the history of post-war Anglo-Austrian finance required no reminder of the ignorance of London's banking hierarchy, and humility after the event earns no interest. Bearing all this in mind, it is difficult to understand why the British Foreign Office should still be guided so largely by the City of London, as it has undoubtedly been in the Far Eastern crisis.

Apologists of the bankers are fairly persistent critics of the politicians. The latter have their blind spots, no doubt, but their subservience to the monied interests must surely be explained by factors against which the exercise of pure intelligence does not avail.

There is, however, another way of looking at the matter. The international bankers may be excused for a certain indifference to the ultimate effect of their policy on the general well-being of nations. They have means of recouping themselves. So united are they, and in such complete control of the artificial operations of the exchanges, and so powerful is their influence on the treasuries of the world, who seldom have any option but to obey their dictates, that whoever loses, they, in the end, often contrive to win.

I shall explain, in a concluding note, how the maintenance of the international gold standard can be used as a sheet-anchor to the financiers, however devastating the effects of currency fluctuations and crashes may be on the business communities and the individual investors. Meanwhile, I shall give the details of a recent and very extraordinary series of transactions illustrating the " heads I win, tails you lose " policy. The story was partly told in the House of Commons, but the Press reports were rather abbreviated and did not let the public into the full secret.

In June of 1931, Austria had one of her recurrent financial crises, the most serious since the war. The famous Credit Anstalt Bank was threatened. In order to avoid a crash, the international bankers effected a number of cross loans which assisted this institution with foreign exchange. This did not avail. Liquidation of the Credit Anstalt seemed inevitable, and the whole of the Austrian loans were put in jeopardy. Steps to safeguard the position became urgently necessary.

The international bankers were anxious to get the Austrian Government, as part of a moratorium settlement, to give a governmental guarantee up to about £14,000,000 to back the Credit Anstalt. Under the arrangement, the Austrian Government was advanced 150 million schillings, or over £6,000,000, by the Bank of England on short term. The payments were made in weekly instalments at rates of interest 1 per cent. above the Austrian bank rate ruling at the time each instalment was paid. Over the period the Austrian bank rate fluctuated between 6 and 10 per cent., and the average rate for the whole loan was about 9 per cent.

An undertaking was given that the Austrian Government should take steps to float a loan abroad, and that the repayment of the Bank of England loan in full should be a first charge. The Credit Anstalt went into liquidation, but a major collapse was averted. Sir Robert Kindersley, of the Bank of England and of Lazards, was over in Vienna during the period " to look after the interests of foreign bondholders."

In the autumn of 1931, negotiations were opened for the floating of the loan, but the question of a customs union with Germany was suggested by way of strengthening Austrian credit, and the French Government put its foot down. It was then obvious that the only way in which the loan could be raised would be through the guarantee of other powers. Promises by Austria to pay were worth nothing unless supported. And unless the other powers stepped in, Austria could not possibly meet her interest payments on her 1923 loan. In other words, if the international financiers, who had put their own and other people's money in Austrian loans at comparatively high rates of interest, were to continue drawing their repayments, the taxpayers of other European countries must come to the assistance of Austria.

It is in such situations that the League of Nations can be really useful. Representatives of Britain, France and Italy met at Geneva and drew up a protocol, under which Great Britain and France each undertook to find 100 million schillings (£4,300,000) and Italy 30 million schillings. Various conditions were made, such as the effecting of economies in the Austrian social services. It was also stipulated that the arrangement should be confirmed for the repayment of the outstanding portion of the Bank of England advance, out of the loan actually raised in England.

The protocol was signed in July, 1932; and following the first reading of an Austrian Loan Guarantee Bill in the House of Commons, in December, 1932, the protocol was ratified by the British Government. On February 7th, 1933, the second reading of the Austrian Loan Guarantee Bill was moved by Mr. Leslie Hore-Belisha, Financial Secretary to the Treasury. His speech and the debate which followed are of great interest.

It was an advantage, he said, "that the whole of the 100 million schillings which we are to guarantee will remain in this country." He added: "It will be recalled that after the failure of the Credit Anstalt, the Bank of England advanced, not 100 million schillings, which is the sum specified in this Bill, but 150 million schillings to the Austrian Government to save it from collapse. It is proof at any rate of the good intentions of Austria that they have reduced that 150 million schillings by 50 million schillings."

Mr. Brendon Bracken asked whether the advance made by the Bank of England had the concurrence of the Treasury, and whether the Treasury entered into an agreement to be responsible for that advance.

Mr. Hore-Belisha : " The Bank of England made the loan to Austria in 1931 on its own initiative, but His Majesty's Government at that date, though not the present Government, was informed of and expressed its concurrence in what the Bank of England was doing. . . . The loan mentioned in this Bill will now be raised on the full credit of the British Government at somewhere, presumably, between 3 and 4 per cent. That will be an advantage to Austria as well as an advantage to this country which does not lose a single penny. (A voice : " Very clever ") We are not doing it to be very clever. The Bank of England advanced the money out of humanitarian motives. That is proved by the facts. If no national loan is raised, of course the Bank of England cannot be repaid out of the proceeds of the national loan. . . ."

The Bill was severely criticised by members of the Labour Party, and by Conservative members, notably Sir Arthur Michael Samuel and Mr. Brendon Bracken. Mr. Rhys Davies (Labour) declared that " the House has just listened to one of the most sordid stories of international finance it has ever heard." Mr. Lambert objected to what he termed "simply pouring £4,000,000 of good British money down the Austrian drain." He went on: "The loan is to be under the -control of the League of Nations. While I have the utmost admiration for the League of Nations as an assembly for settling international disputes, I have none whatever for its financial reputation.

" The League of Nations' loans have amounted to £79,000,000 of which £36,000,000 to-day are in total or partial default. The League is not a financial authority to which I would entrust the British taxpayers' money. . . . If the Bank of England makes a blunder, the stockholders of the Bank of England should pay, and not the taxpayers of Great Britain. I do not agree that my constituents, many of them struggling men, should be called upon to pay income tax in order to buttress the dividends of the stockholders of the Bank of England."

This from Mr. Aneurin Bevan: "The Financial Secretary to the Treasury has tried to persuade us that this loan which we are confirming would put Austria on its feet. Its main purpose is to keep Austria bankrupt. If the loan was so well secured, why does not the Bank of England rest content with the security? Why do we need to find the money? . . . If any suggestion is made here that the Government should use their credit to raise money for work schemes at home, it is turned down and condemned by all the financial pundits as Socialist extravagance; but it is perfectly sound finance to ask us for £4,300,000 to reimburse the Bank of England which has lent money to keep a central European state in bankruptcy in order that it might be a pawn in French foreign policy. . . . The proposition . . . has neither honour nor sound finance to back it up."

Sir A. M. Samuel: "It is no good talking self-righteously about the standard of living of Austria being kept up by us. I want to see the standard of living of the people of West Surrey, Norwich and Bristol kept up. If it is to be lost, let it be lost at home. . . . The Austrian foreign debt on the 30th June was £140,000,000, of which £120,000,000 was non-commercial. The budget deficit for the first nine months of 1932 was nearly £1,000,000. . . . Taxes are not being collected in Styria and Western Tyrol. In fact, when the officials attempt to obtain the taxes for the Government they are met with armed resistance. How can we expect Austria to supply interest upon this loan when she cannot get in her taxes? . . .

"We bolstered up Turkey for years to keep the equilibrium in the Balkans. . . . We found her money. She was our bitterest enemy during the war. . . . Just before the outbreak of war we found a loan for Hungary. Hungary took up arms against us. This lending of money to foreign countries for political purposes should be brought to an end."

Sir Stafford Cripps made the official reply for the Labour Party. He was in a difficulty. The Chancellor of the Exchequer in the Labour Government was Lord (then Mr.) Snowden. Mr. Snowden was on the friendliest terms with the Bank of England. He had by that time learned to talk of the institution with bated breath. It was highly probable that Mr. Snowden had nodded assent to the loan by the Bank, without the Labour Party as a whole being informed.

Sir Stafford Cripps stated that he understood that there was no approval of "any sort or kind" on the part of the Labour Government, but he made no reference to Lord Snowden as Chancellor of the Labour Government. He declared that the loan was only part of a much larger transaction between the creditors of the Credit Anstalt, and that the Bank of England was interested in preserving the stability, not of Austria, but of the big London houses. The Austrians already owed so much to the City of London that if the loan had not been made, there would have been a very urgent crisis in the City of London itself.

"The Bank of England," he said, "is a particular creditor of Austria, and we do not see any reason why that particular creditor should be provided with money at the expense of the British taxpayer, because there is very little doubt that no one will ever see this money again except the Bank of England. . . . I suppose the country will never get it back again until they nationalise the Bank of England . . . though whether the item will then be traceable in the accounts it is impossible to say."

Here are some further points made by Mr. Brendon Bracken: "The Government are ratifying a decision taken secretly between Lord Snowden and the Governor of the Bank of England, and by doing so we are losing the whole of the boasted control of the House of Commons over finance. . . . Why not bring in a Bill to help joint-stock bankers in Lancashire, Yorkshire and elsewhere ? If the Government are so anxious to relieve bankers, surely they will relieve those who are financing our home trade. . . . If France and Italy will turn Austria into an almshouse, they had better be told to keep her, but I do not think that the British taxpayer should be called upon to do so."

It will be seen that these speeches, whose points were repeated in the third reading of the Bill, representing a minority of the House, naturally, confirm almost every criticism I have made of the methods and basis of the Bank of England. It is the headquarters of a group of bankers whose principal business is with foreign loans, for which they are paid substantial commissions, and on which, when their own money is involved, they receive higher rates of interest than on national and home municipal loans.

In the case of Austria, the loans were not secure. That did not matter to the Bank of England. By reason of its position as the official British bank, it could take risks which no other financial institution lacking its support would dare to invite. If the worst came to the worst, the Treasury would come to its assistance. The Treasury did what was expected of it. Lord Snowden, as Labour Chancellor, quite obviously gave some sort of promise to the Bank that the Government loan to pull its chestnuts out of the fire would be forthcoming.

At the time of writing, he has remained silent.. Again, to quote his eulogy of Mr. Montagu Norman, " The relations between the Chancellor and the Governor of the Bank are intimate and confidential. What takes place between us is inviolable as if under the seal of the confessional."

And isn't it damned insolence when you think of it? Why the secrecy? Why the inviolability? A private financier, representing others of his kind, because of a freak of history and of a centuries-long conspiracy to keep the Treasury of the British people involved in the fortunes of their own concern, can, by lifting his hand, extract £4,300,000 from the pockets of the taxpayers and transfer it to his own account. And this after the Bank had made £400,000 on the interest! Lord Snowden calls him " one of the greatest men of our time." Lord Snowden did not retire a day too early.

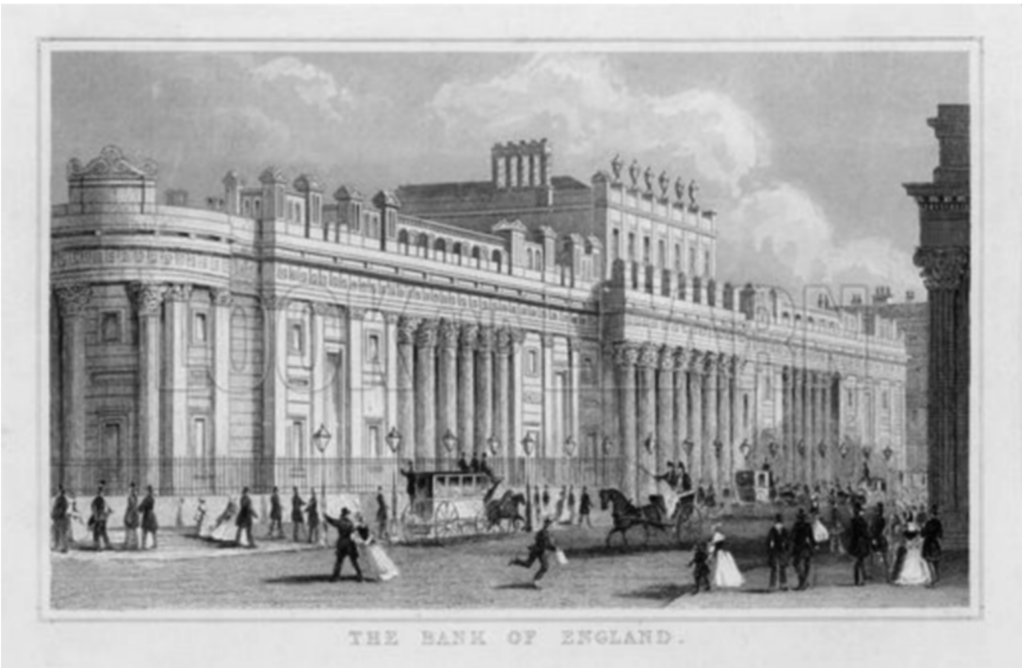
The Austrian Loan is, of course, not an isolated case. What has happened with Britain is only a repetition of various transactions carried out on the international field through the League of Nations. The financiers made bad debts all over Europe. They found in the League an instrument to make good the losses. By means of League-guaranteed loans, countries have been kept solvent in order to be able to repay the capital and interest on loans which they negotiated.

In this way £79,000,000, Mr. Lambert pointed out in the debate, has been raised on the credit largely of this country and France, and already £36,000,000 is in total or partial default. Before long that money must be made good out of the pockets of the British and French taxpayers. Even the international bankers cannot contrive to keep half of Europe's present economy floating forever on a system of continued moratoria. Mr. Norman's philosophy of, " One step enough for me " is hardly good enough with the escalator moving backwards.

There is one good thing about the Austrian Loan Bill. It is about the most blatant bit of chicanery effected in the interests of the Bank of England since 1694. The Bank has made as lucrative strokes of business many times. But never have the moves been so overt. The plot is bare from the beginning to the end. There is hardly an attempt at concealment, as far as Parliament is concerned.

From time to time, a good deal of Hansard's Parliamentary Debates have been devoted to the affairs of the Bank of England. Never before has the opposition been able to get down to bedrock so thoroughly. Either the Bank of England is getting careless or it is getting desperate. Though it may be that Mr. Montagu Norman, if not one of the greatest men of modern times, is one of the most noble, and that the Bank, as Mr. Hore-Belisha assured the House of Commons, " advanced the money out of humanitarian motives."

And the fact that it is now the British taxpayers who are the humanitarians does not necessarily diminish the sublimity of Mr. Norman's impulses. He may have transferred the giving of the largesse to us in the spirit of the Lama in Kim, so that we might thereby "achieve merit."



Bank of England, Sir John Soane's South Front, 1823

THE SECRET OF THE GOLD VAULTS

THERE remains only one major " mystery " of the Bank of England to discuss—the fanatical affinity of Mr. Norman and his internationalist friends here and in other countries to the gold standard. At the moment Britain is off the gold standard; as it was during the war. Propaganda is being steadily maintained by the friends of the Bank in favour of a return to the metal reserve against the note issue at the earliest favourable opportunity.

The fundamental merit of gold, according to its apologists, is its stability as a measure of value. By reason of its stable price in the markets of the world it can be used as a standard for fixing the relative value of the various currencies.

Its own inherent virtue from which it originally derived its utility was, of course, that it was indestructible and reasonably "mobile." Consignments of very considerable value could be shipped easily from one place to another, and the metal could be conveniently changed from bullion into coin and coin into bullion when required. Before international banking had become so highly organised, gold, as a medium of fixing relative currency values, was not of primary importance. Gold's chief function as a reserve was to stabilise the internal value of paper money, which invariably bore on its face a promise to repay the holders in gold on demand, and to be used for the general purposes of the coinage.

In those times there was no other metal that could quite take its place. Silver had the demerit of too great bulk. Platinum approached nearer to the virtues of gold, but the world's supplies were not sufficient to fill the normal needs of the banks.

As far as Britain is concerned, now that gold coins have vanished, a gold reserve has no inherent virtues as a support of the internal paper currency. Any metal, or, for that matter, any other commodity with a stable value, would serve the purpose equally well. And so with the foreign exchanges. Gold as a means of determining the relative values of the world's currencies could easily be supplanted. At the present time it has only two merits, its mobility and its stability. It is easily transported, and its price does not violently fluctuate.

But there are other things which are as convenient as gold for transport in consignments of small bulk but of great value. Platinum is one. Diamonds and other precious stones are even more convenient. To ship the American debt instalment in diamonds would be less trouble than to send it in gold bars. As a standard of international values, diamonds would also suit the purpose. The price of gold is arranged. It is not allowed to fall too low nor to rise too high.

The world's central banks own the bulk of the world's gold and they decide on its price value among themselves. They could do the same with diamonds if they agreed to have universal diamond reserves instead of gold reserves. I am not suggesting they should. There would be no point in it. But there is no good reason why they should not have diamonds and a variety of other precious stones and metals as alternative reserves against their currencies, always assuming that gold is as essential to the foreign exchanges as the international bankers say it is.

There are many experts who say that gold has no more value externally as a currency reserve than it has internally. But Mr. Montagu Norman and his prototypes abroad insist that it has. Taking them at their own word, how can they object to the maintenance of alternative reserves which have all the virtues possessed by gold ? When Britain's gold reserve falls " perilously low," why cannot the Chancellor be in a position to appeal to patriotic dowagers and maiden ladies to send their diamonds for safe keeping to the admirable new cellars of the Bank of England, so putting their fingers to their noses, as it were, at Mr. J. Pierpont Morgan and the rest of the dirty foreigners?

The diamonds could be deposited without interest until such time as the danger to England was once more averted. That would mean no strain on the resources of the Bank, and would be asking no more of the maiden ladies and others than their Conversion Loan sacrifice, when they agreed to accept 31/2 instead of 5 per cent. on their bonds.

We digress. I have introduced this point of alternative reserves merely to illustrate that gold has now no exclusive inherent virtues from the point of view of the communities of the civilised world.

Has gold a general value as an international standard, which might be shared by any other similar commodity ? If it has, it must be on the assumption that the gold of any central bank is actually held by that bank in its own vaults while it stands in the accounts as reserve against the note issue.

If gold held against a national note issue is to be effective in fact, and not merely in theory, it must be available for purchase by any other country which wishes to " cash in " on the exchange. It is not sufficient for the gold to be deposited outside the country concerned. In such a case it is not a national reserve in the real sense. It cannot be produced in case of emergency such as a severing of diplomatic relations between the country owning the gold against its currency, and the country actually holding it.

Here we strike upon a very queer aspect of international banking. In October of 1932, Great Britain was due to pay its debt instalment to the United States. The sum involved was £19,000,000 at par, or about £25,000,000 at the current rate of exchange. We arranged to pay in gold and the necessary purchase was made by the Government from the Bank of England. The Bank of England was supposed to ship the gold to America. It did not do so. A series of book-keeping transactions took place.

Instead of packing up the bullion and sending it across the Atlantic, the Bank of England simply earmarked it to the credit of the Federal Reserve Bank of New York, which acts in such matters for the United States Government. It is still in the vaults of the Bank of England. The American people did not get it, although they thought they did. Since then a certain amount of the gold has been brought back from the United States, and the " earmarked " bullion held on their behalf is in the neighbourhood of £12,000,000 at par in respect of the October, 1982, debt instalment.

Therefore we have not paid the debt instalment. Theoretically we have, but not in fact. It could only be paid by handing over the bullion to the elected representatives of the American people. It will be recalled that we had to pay in gold because the balance of trade was against us, and we could not pay in goods. All international debts must ultimately be settled by the transference of real wealth from the debtor country to the creditor country. And there must be a physical transference of the real wealth. Otherwise the transaction is merely a paper one.

Certainly we have ceased to reckon the debt gold as belonging to us, but the American people cannot say that they have got it. The British electorate might put a new government into power with a mandate to take the gold back again. In that (admittedly unlikely) event the American people would have no say in the matter, for we have the gold, not they.

This is by no means an isolated case. For some years, up to 1931, France was pursuing a policy of gold-hoarding. She brought her total up to £350,000,000. This enormous gold reserve was supposed to be, in part, a " war chest." A great deal of this gold was bought from America, and one was left to imagine that almost every liner that left New York for Cherbourg carried a large consignment of bullion to be added to the pile in the vaults of the Bank of France.

In actual fact, the bulk of the French purchases remained in the vaults of the Federal Reserve Bank until last year. It was only during 1982 that the gold was actually shipped to France, the total consignments being over £50,000,000. Presumably the war situation in the Far East decided the French Government that the gold might be safer in their own hands.

On the other hand, millions of French gold may be lying in the vaults of the Bank of England at the moment. We have no means of finding out, since the Bank issues no figures of its " earmarked " gold. It certainly holds considerable quantities belonging to other European countries. The policy is a convenient one, for it saves money on freightage and insurance.

But the point I wish to emphasise is that if " gold shipments " are so very often mythical, and that if national gold reserves may not be held by the nations in question but may remain in the keeping of a foreign state or its bank, gold has not the value for currency purposes that the international bankers claim for it. It has its commodity market value and is an asset of the State which owns it wherever it lies.

But the currency of the State in question is being supported by a form of credit—the good faith of the country which has the gold in its possession!

* * * * * *

Here are the real virtues of gold from the point of view of the international bankers. We saw earlier how the Bank of England first adopted the policy of a gold reserve in 1833, nearly 140., years after its foundation. Until then, it had practically no gold "lying dead," that is, kept in the vaults for emergencies and earning interest only on the notes issued against it. The Bank of England had from the beginning operated on the basis of earning two separate interests on its capital. It lent its capital to the Government at interest. It printed notes for an equivalent amount and lent them out, also at interest.

When the reserve was decided upon in 1833, the Government repaid the Bank over 3½ millions of its loans, so that the Bank could buy the bullion. This amount was now earning only one interest, that of the note issue, but the Bank had to find no new capital.

Gradually the Bank accumulated gold against which notes were issued, and at the time of writing it holds just over £130,000,000 at par. Britain is off gold, but gold still remains the world standard. The price of gold is determined internationally, and the Bank of England gold therefore retains its value. Whether Britain is "on" or "off " does not matter so long as the world keeps "on."

But what would happen if the whole world went "off," the governments of the world having decided, independent of the central bankers, to adopt some other means of fixing relative currency values? Gold would cease to have a banking value. It would become an ordinary commodity.

Now, the League of Nations Gold Committee estimated that, in 1930, the world's stock of monetary gold was about £2,000 millions. The moment that this vast hoard ceased to have a banking value and was released, as must inevitably happen, for commercial purposes on an unregulated market, gold prices would slump. And the fall in price could not be less than 75 per cent.

The demand for new wedding-rings these days, compared with the annual world gold output of 50 to 70 millions, is not sufficient, I feel sure, to keep the price above 30 shillings the fine ounce. The present price is in the neighbourhood of 120 shillings.

The Bank of England holds £160,000,000 of gold. If gold were abandoned as a world standard, the Bank of England would lose a very large sum of money, possibly £120,000,000. No wonder Mr. Montagu Norman is so fanatical an apostle of the Gospel of Gold. A departure from gold, he preaches, even on the part of one country such as our own, is a kind of sin against the Holy

Ghost. It is a treacherous blow at the stability of the currency, and, through that, at the very foundations of the nation and the Empire.

However debatable this point may be, there is no question but that the dethronement of gold internationally and finally would be a serious matter for the Bank of England. It might, of course, by dint of its superior lobbying technique in the House of Commons, contrive that the British taxpayers should hold the golden baby. Or it might sell its bullion stocks before the slump came to that mysterious Treasury organisation, the Exchange Equalisation Fund. We may be sure that if the Bank failed to transfer its losses to the public, it would not be for want of trying.

I have given the negative explanation of the Bank of England policy of adherence to the gold standard. There is a positive explanation. By accumulating gold bearing a fixed price, which is not affected by the vagaries of the exchange and is independent of the influences which may cause a general slump in the price of all other raw materials, the international bankers have devised a means of safeguarding their own wealth in almost any contingency, and of adding to it' in most. So long as gold has a fixed price, those who own and control it are in a position of great advantage over the rest of the community.

This is so even when a currency depreciates. The real value of the money held by the public diminishes in ratio to the fall in the exchange. That held by the gold owners in the form of gold does not diminish. Every paper pound in circulation three years ago is now worth about 25 per cent. less in terms of marks. A gold pound held three years ago still has its full value.

For example, when Britain arranged to pay its debt instalment to America in gold in October, 1982, it had to pay £25,000,000 for sufficient gold to purchase £19,000,000 worth of dollars at par. The value of the pound had fallen. The value of the Bank of England gold stocks had remained stationary. As with paper currency, so with general securities. During a time of depression, when stock values have fallen, the men with the gold can buy to great advantage. If we presume international co-operation by the gold owners, as we are entitled to do, the profits of the game of money buying and selling can be steady and lucrative, if the instrument of the operators is unvarying in value.

If a currency is devalued, as in the case of the franc, the gold owners win. The franc was devalued in 1928 at a fifth of its pre-war value, the amount of gold for which it could be exchanged being reduced from 290 milligrams to 59 milligrams. Gold in France, therefore, commanded five times as much currency as before the war, though not necessarily the same increase in real wealth. A great accumulation of gold is, therefore, an insurance against all contingencies which are to the disadvantage of the bankers outside the gold ring.

By entrenching itself in the international confederacy of gold, the Bank of England is the better enabled to maintain its traditional role of withstanding the crises which overtake the financial community from time to time, and of emerging from them more powerful and wealthier than ever.

So, at least, it has calculated, and intelligently according to its view. But somehow things are not just working according to plan. The gold god has crushed so much in these later years that there may be nothing left even for the men who fashioned it.

THE NEW CHRISTIAN CRUSADE CHURCH

CALLING THE PEOPLE OF BRITAIN

At last the bible makes sense!

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Its the book of the RACE

"For out of Zion shall go forth the law, and the Word of the Lord from Jerusalem" (Isaiah 2:3)."