



## HOW TO INCREASE THE REVENUE WITHOUT TAXATION.

BY WILLIAM GATTIE.



TATED in a few words, my proposal is to substitute a National Note for the existing Bank of England note, to transfer to the General Post Office the function of issuing notes, now performed by the Issue Department of the Bank of England, and to transfer to the Royal Mint the business of purchasing uncoined bullion, now conducted in the Bullion Office of the Bank of England. I shall endeavour to show that, by the adoption of this scheme, at least £200,000 a year might without difficulty be added to the national revenue.

Such a change, although radical in procedure, is by no means fundamental; and, so far from departing from the sound principles laid down in the Bank Act of 1844, would tend to insure their absolute observance—an end which the existing system has failed to obtain. But as this system has been in operation, at any rate as regards its form, for nearly two centuries, it has, like everything else that has had a prolonged existence, become more or less sanctified by time and veiled in a certain mysticism. In order to free the public mind from those influences, and at the same time to prepare the way for an explanation of the alterations I advocate, it is necessary to go briefly into the origin of the Bank of England, the principles upon which it was founded, and its financial relations with the Government.

The Bank of England was created in 1694; and its title then coincided exactly with its functions, which were

- To receive deposits of current coin or bullion from the general public, and to give in exchange a promissory note payable to bearer on demand; and
- To deal with the store of cash so accumulated for purposes of loans on commercial paper, &c., in precisely the same manner as a private banker deals with the aggregate of balances standing to the credit of his several customers.

Upon this simple original principle, whereby it was enabled to relieve the necessities of the Government, the Bank of England began its operations in the house of the Company of Grocers. There, during many years, directors, secretaries, and clerks, might be seen labouring in different parts of one spacious hall. The persons employed by the Bank were originally only fifty-four. They are now upwards of nine hundred. Out of this small beginning has arisen the present gigantic institution.

Yet, well adapted as the system was to the times which gave it birth, it was doomed to come to an end. It was found that in times of political and commercial excitement the bank note was liable to serious fluctuations, hazardous to the institution itself and embarrassing to the country. More than once the Bank was on the verge of disaster. On a certain Saturday night its notes were cashed in sixpences in order to gain time, and a Cabinet Council hastily summoned on the following day authorised the suspension of cash payments. It became necessary, at length, to take measures to secure the convertibility of the note.

The Act of 1844 was practically the death-warrant of the very principle which brought the Bank into existence; and it furnishes a subject for curious reflection



on the contradictory influences produced by altered situations, that two great statesmen—Charles Montague and Sir Robert Peel—should both have earned the gratitude and eulogy of their country for the creation and destruction respectively of the same principle. Under the Act of 1844 the Bank, although retaining the right of issuing notes in exchange for coin and bullion, was debarred for the future from advancing the funds so obtained on commercial bills and other securities. That is to say, the issue of bank notes against securities other than currency and bullion was limited thenceforward to the amount (£14,000,000) at which it stood at the time of the passing of the Act.

An exception, however, was made in the event of the discontinuance of the issue of a country bank, the Bank of England being permitted to increase the amount of the securities in the Issue Department by a sum not exceeding two-thirds of the issue so discontinued; but it was provided that the whole of the net profits derived from the consequent increase in the issue of bank-notes should be credited to the Government. It was also enacted that an annual payment of £180,000 should be made by the Bank to the Government in consideration of their exclusive privileges and their exemption from stamp duties.

The history of the existing Government debt to the Bank of England of £11,015,100 is little known, save to those who have made the subject an especial study. The first portion of this loan, which was really the first transaction that started the Bank, was made in 1694, and amounted to £1,200,000. It was immediately subscribed, the rate of interest being 8 per cent. per annum, with £4,000 per annum for management, making in all £100,000 per annum. In 1708, or thereabouts, the Bank redeemed exchequer bills to the amount of £1,775,027 17s. 10d. at 6 per cent., and at the same time advanced without interest £400,000. In 1713 a further loan was effected of £2,000,000 at 5 per cent. In 1716 the interest on the exchequer bills redeemed in 1708 was reduced from 6 per cent. to 5 per cent. In 1721 the Bank advanced £4,000,000 for the purchase of South Sea Annuities, at 5 per cent. till 1727, and after that date at 4 per cent., bringing up the total amount of the debt from Government to £9,375,027 17s. 10d. Between 1727 and 1738 further transactions took place, leaving a balance of £275,027 17s. 10d. in favour of the Government, and so reducing the total amount due in 1738 to £9,100,000. In 1742 the Bank advanced without interest £1,600,000; in 1745 exchequer bills amounting to £986,800 were redeemed at 3 per cent; and in 1816 the Bank advanced £3,000,000 at 3 per cent., bringing the total to £14,686,800. In 1838 an Act was passed providing for the repayment of one-fourth of that sum, or £3,671,700, and the loan was thus reduced to its present amount of £11,015,100, bearing interest at the uniform rate of 3 per cent.

This debt from Government now stands as the far greater portion of the fixed amount of securities against which notes may be issued, as may be seen from the weekly account published by the Bank. Take, for example, that of the 8th of January last:—

Notes issued . . . . .	£33,484,890	Government Debt . . .	£11,015,100
		Other securities . . . .	5,184,900 <sup>1</sup>
		Gold coin and bullion .	17,284,890
	£33,484,890		£33,484,890

This account contains all the figures relating particularly to the function of issue. The bullion of course varies every week, and the notes issued against it vary to an equal amount; but the value of the securities can never be increased, except when the issues of country bankers are discontinued, or when the Chancellor of the Exchequer, in times of commercial panic, sees fit to suspend the Bank Act. This item of £16,200,000 is the nucleus of the question under discussion, because the interest it bears—averaging about 3 per cent, and amounting to some £490,000—is the whole and sole source of the profit on the bank-note issue. The point to be determined is whether this should be the property of a private joint-stock company, subject to a payment to the Government of £180,000 a year for exclusive privileges, &c., and also of the net profit on all further issues against securities above £14,000,000, or whether it should be the exclusive property of the State.

<sup>1</sup> Increased from £2,984,900 (the amount in 1844) owing to discontinuance of country issues.



It only remains to explain the function of the bullion office of the Bank of England in connection with the issue of notes. The procedure is very simple, prompt, and complete. The owner of bullion, after having it melted by an accredited firm, has merely to take it to the bullion office together with a "weight list"; if he so desires, he can obtain an immediate advance of about nine-tenths of the value, and in the space of one or two days he receives whatever balance may be found to be due upon calculation of the exact value of his bullion by the assay reports. Payment is made to him at the bullion office in the form of a cheque, technically known as a "bullion warrant," and he can either convert this into bank notes or coin in the issue department, or pay it into his bank, the latter course being that generally adopted. In fact, the process by which the Bank purchases bullion is practically the same as that of issuing bank notes in exchange for gold coin, excepting of course that it is necessary to calculate the standard value of the bullion.

That such operations could be as well conducted at the Royal Mint as at the Bank of England is sufficiently obvious, and it would, clearly be both convenient and appropriate that the Mint should be the repository of the bullion from which the coin is manufactured. More than a century ago Edmund Burke proposed that bullion should be warehoused and coined under the same roof; and the system of purchasing bullion was actually introduced in 1829 by Mr. Herries, then Master of the Mint. It fell through however, the chief reason being that the Mint was not associated with an issue department. This difficulty would be met by the institution of an issue department at the General Post Office, where the seller of the bullion could, if he pleased, obtain its value in notes or coin just as he can now at the Bank of England. In short, the relation between the two Government offices would be identical with that now existing between the two offices of the Bank.

In connection with the proposed transfer to the Mint of the purchasing of bullion, I would suggest, further, that the necessary melting and assaying, now performed by private firms, should also be undertaken by the Mint—in somewhat the same manner as in the United States—at the cost of the owner, a cost which he incurs now; but that he should be paid the full value of £3 17s. 10½*d.* per oz. of standard bullion, instead of £3 17s. 9*d.* per oz. as at present. The first alteration would be a source of profit to the Mint, and the second a source of considerable profit to the importer; but the benefit would reach farther. The effect of abolishing the existing "double price" of gold would be to increase its importation, and also on certain occasions to influence favourably the rate of discount. At present a prohibitive duty of 1½*d.* per oz. is imposed upon the importer of gold, the consequence being that the imports of gold bullion, which, if full value were offered for them, would in a large majority of cases be brought to the national store, are sent abroad whenever the foreign market is in a position to attract gold from England by offering a price between £3 17s. 9*d.* and £3 17s. 10½*d.* per oz. This re-exportation of gold, instead of its remaining at its original port of destination, is liable to be followed, when there is a pressure, by a rise in the rate of discount; and thus the interest of money may be raised throughout the country by one or one-half per cent., entirely owing to this difference of 1½*d.* per oz.

Apart from this consideration, it seems an obvious injustice that the importer of bullion should, by this indirect method, be made the only trader who has to pay for the manufacture of the coin of the realm.

The position of the Postmaster-General as a banker and the issuer already of a certain form of convertible paper currency is so well known to the public that I only refer to it in order to point out its analogy in principle to the position of the Bank of England before the Act of 1844. That establishment for a period of one hundred and fifty years dealt with money deposited with it by the people as a banking balance. The Post Office invests their deposits in the public funds, and the profits arising from these investments are from time to time passed to the credit of the State; and this is exactly what I propose should be done with the profits arising from a fiduciary issue based on public securities. Thus it will be seen that the scheme involves no new principle, but simply seeks to place all the Government obligations of a banking nature on the same footing.

The central situation of the General Post Office fits it admirably for a Bank of Issue; and its numerous branches in the provinces, from which notes could also be issued, would present favourable opportunities for increasing their circulation, and therefore ultimately increasing the profits of issue. For this purpose the existing staff



at those provincial branches at which it might be considered desirable to issue notes need be very little increased; and, as regards the operation itself, there would be as little labour in issuing a note, as a postal order. Another argument in the interests of economy, touching the fitness of the Post Office for this kind of work, is furnished by the employment of female clerks, to whose capacity a very considerable portion of the labour connected with the management of the issue of notes is excellently adapted, particularly the sorting and arranging of cancelled notes, a duty which now occupies about eighty clerks at the Bank of England.

It seems, then, that the function of issue is no longer of necessity proper to a banker; that, by the Act of 1844, the process of issuing notes became purely automatic; and that the Royal Mint and the General Post Office are in all respects well fitted to undertake the business. It remains to consider in what way the proposed change may be most conveniently accomplished.

The broad and general lines I would propose are:—

That the Bank of England should hand over to the Government *en bloc* the whole of its assets and liabilities connected with the issue of bank notes, as shown in the published weekly account at the date of transfer; and

That the outstanding Bank of England notes in the hands of the public should be redeemed as occasions arise by a national note, the form of which would of course have to be determined.

Thus the Government debt to the Bank of England would be liquidated by redeeming with the national notes the same amount of Bank of England notes issued by that institution on the security of that debt. To put the situation in another form. Say, A owes B a sum of money, and B owes C an equal amount; if A pays C what B owes C, plainly this discharges A's debt to B. In the same manner the Government would purchase with the national notes the amount of "other securities" against which an equal amount of Bank of England notes had been drawn. The bullion would be similarly dealt with; in fact, in consideration for the assets the Government would meet all liabilities that the Bank had incurred on account of issue.

The change of locality would involve no departure from the existing conditions of the Act of 1844, excepting that the bullion would be kept at the Royal Mint, and the current coin and notes would be in charge of the General Post Office, instead of their being in the bullion vaults and treasury respectively of the Bank of England. In its capacity as a bank, the Bank of England would have to draw its requisite supply of notes and coins from an issue department at St. Martin's le Grand, instead of at Threadneedle Street. The bankers who keep their drawing accounts at the Bank would be able to obtain their notes and coin in precisely the same manner as they do now, and the general public would get their wants supplied in a hall at the General Post Office in lieu of the hall of the Bank of England.

In introducing any such change, the most vital consideration is the preservation of the convertibility of the note. I believe that the security for this would be even better than it is now; and for the following reason: The holder of a bank note has never been legally declared to be a preference creditor; and, in the possible event of the Bank's becoming involved in its capacity of a private banker, he would probably only rank with the depositors as a creditor of the Bank, which is, of course, a limited company. The holder of a national note, on the other hand, could only fail to recover in the event of a national bankruptcy; and even then his position would not be improved by being a holder of a bank note, because the security for the payment of that note consists in the main of Government obligations.

Let us imagine an extreme case. Suppose that, owing to some sudden commercial panic, the depositors in the banking department were to insist on payment in cash of their balances, and were to keep the money in their own pockets, a glance at the weekly account shows that the Bank would at once lose all its gold. No one would maintain for a moment that such an event is in any degree probable; but it is an extreme possibility, and strictly and only in that sense may fairly be suggested by way of illustration. It is, however, a matter of history that the Bank stopped payment in 1696, and were assisted out of the difficulty by the Government, and that in 1797 a similar catastrophe was averted by Government interposition. For twenty-four years (1797-1821) bank notes were inconvertible into cash, and during the war with the First Empire they were at a discount of from 5 to 25 per cent; and even in our own



times, it has been found necessary to suspend the Bank Act on three occasions ; the last being in 1866, when the reserve at one time fell as low as £860,000.

No matter how powerful a bank may be—and the Bank of England stands head and shoulders above every bank in the world,—if that bank is a bank of issue as well as a general banker, its stability must on occasion be more severely tried than if it had only one set of creditors. It should not be forgotten that the Bank of England was established solely as a bank of issue, and that what may be called its private banking business has only grown to its present dimensions during the present century. It is manifest that the note-holders' security is prejudiced by the fact that the depositors have the power of drawing all the gold out of the Bank at a moment's notice ; and it is not unlikely that Sir Robert Peel had this in view when he introduced his Bill in 1844.

While the abolition of this dual responsibility would transfer to the State the whole of the profit on the issue of notes, I believe that it would ultimately prove advantageous to the Bank of England itself. Freed from the restrictions entailed by the necessity for maintaining the convertibility (*i.e.* the credit) of the note, the Bank, with its gigantic capital, its distinguished history, and its boundless and unimpeachable credit, backed by the patronage and support of Government, would be in a position to compete, at an overwhelming advantage, with every rival for the lion's share of the banking business of this great commercial country. At present, after deducting the bankers' balances, with which the Bank cannot deal with the same freedom as with ordinary deposits, the aggregate balance on private accounts is only about equal to the capital—a state of things without parallel in any great bank.

Before quitting the important subject of security, it may be well to remind the reader that, although a bank note may be, and in fact is, a national currency, the holder has no claim upon the Government ; whereas, with the proposed national note, he would have a direct claim against a State with the highest credit in the world and a revenue of ninety millions. The bullion would of course afford the same guarantee that it does at present ; and, whether it were the Chancellor of the Exchequer or the Lords of the Treasury who had the control of the issue, the amount of its excess beyond the reserve of gold would be fixed, as now, and should only be increased by consent of Parliament.

It will be convenient to explain here the grounds on which I conceive that the profit on the issue of notes, if undertaken by Government, might be considerably increased. On looking at the various amounts of bullion that have lain uncalled for in the Bank vaults since the passing of the Act of 1844, it would seem that at the present time at least four millions of fiduciary notes might safely be added to the issue and invested in the redemption of Government stock, which at  $2\frac{1}{2}$  per cent. would yield an additional profit of £100,000. In other words, I would suggest that the fixed amount of securities against which notes can be issued should be increased from sixteen to twenty millions. This suggestion is justified, I think, by the fact that since the passing of the Act of 1844 the bullion in the Bank has never been below £8,000,000, except in November, 1857, when, under stress of a severe financial crisis, following upon the inflation caused by the Australian gold discoveries in 1852, it fell to between six and seven millions. In subsequent years the average amount was, as a rule, from sixteen to eighteen millions, and since 1871 it has generally stood at about twenty millions. Consequently, the issue of Bank of England notes, which fluctuates, as has been seen, with the bullion, has since 1844 never been less than £21,000,000.

It may fairly be inferred that the fiduciary issue might now be raised at any rate to twenty millions ; and it is probable that, with the more complete security offered by the national note, and the facilities for increasing its circulation in the provinces afforded by the numerous branches of the Post Office, the issue, and therefore the profit resulting from it, might be still further increased in the future. The attraction of bullion to this country by offering for it its full equivalent in coin would also have an effect in the same direction, since it is clear that, the more the bullion base of a paper currency widens, the more it can be drawn against with safety.

It would, of course, have to be decided in what districts the national note should be *payable* out of London, and whether it would be wiser, at the beginning, to make payment in the provincial issuing offices only permissive. To make it compulsory might, until the working of the system could be fairly gauged by experience, prove a source of serious inconvenience. To restrict the payment of notes to the London



office would tend, no doubt, to keep them longer in circulation, but might, on the other hand, have a deterrent effect upon the issue. This matter, however, is one of detail, and only calls for passing mention here.

I now proceed to consider the important question, what it would cost to conduct the new business, which, as already seen, would produce, under existing conditions, a gross income of about £490,000 a year. The chief difficulty consists in there being no sufficient data upon which to base the calculation. It is true that there is a parliamentary paper published nearly thirty years ago, which purports to give the cost of issue, but the figures are so extraordinary, that, without an explanation which does not accompany the paper, they are of little value as a guide. I quote this document as it stands, in order that the reader may judge of it for himself, and also because it is a curiosity in the way of official returns.

Bank of England, 7th February, 1861 (No. 12, page 13). The Committee (of the House of Commons) makes the following report in reference to the issue—

“ISSUE DEPARTMENT.

“The expenses of the Issue Department of the Bank of England have been returned to us as follows:—

“Wages . . . . .	£89,731
Pensions . . . . .	8,063
Rent . . . . .	25,600
Repairs . . . . .	8,568
Directors' Allowance . . . . .	2,926
Rates and Taxes . . . . .	2,300
Stationery . . . . .	1,811
General Charges . . . . .	6,790
Bank Note Paper . . . . .	11,623
Interest on Cost of Machinery . . . . .	1,500
Compensation paid to Bankers . . . . .	20,493

£179,405

“This statement shows a great increase of charge over the amount of the account presented to the Committee in 1832; and the aggregate is largely in excess of the estimate submitted to the Chancellor of the Exchequer in 1844. The augmentation is chiefly explained by the compensation paid to country bankers for issue under the Act 7 and 8 Victoria, Cap. 32, and the increased charges for rent and for renewal of bank notes.

“The profits of the Issue Department of the year have been returned as follows:—

“Interest on fixed securities . . . . .	£445,117
Gain on foreign coin and bullion . . . . .	10,811

455,928

“Deduct expenses as above . . . . . 179,405

“Profit . . . . . £276,523

“Of this sum the public receive from the Bank:—

“1st Composition in lieu of stamps . . . . .	£60,000
2nd ditto, for share of profit of the circulation department . . . . .	128,078

£188,078

“Net Profit . . . . . £88,445.”

The first charge which attracts attention in this account is the amount of wages. The total amount paid under this head for the whole service is about £200,000 per annum. The number of persons employed by the Bank was at that time about 900 in all, and on reference to the “official” part of the London Post Office Directory, it will be found that the number of persons employed in the Bank Note and Issue Offices is, even now, at the most 150. According to the above figures these individuals would be receiving some £600 a year each, while the remaining 750 would have to share the other £110,000 amongst them. Of course this is absurd, but it is what the account teaches as it stands. Next comes the £8,000 for pensions; by what system this amount is apportioned to the Issue Department is not shown, but presumably it would be found to be subject to the same criticism as “wages.”

The next astonishing feature is the modest charge for rent, taxes, and repairs,



amounting to upwards of £36,000 per annum, of which nearly £9,000 is for repairs. This latter sum would seem a liberal estimate of what is required for the whole building. The Bank Note Office, the Hall, a part of the Bank Treasury, a part of the Bullion Office, the weighing room, some of the vaults, and part of the printing room, are roundly the accommodation furnished for the above sum.

Then comes Directors' allowance, which is a most difficult item to understand, because it is in the very essence of the Act of 1844 to dispense with any directional management. The only duty which devolves upon the Directors in connection with the Issue Department is to act in the capacity of custodians of the bullion vaults and to take stock once a year. For this service £2,926 seems a large sum; in fact, it represents nearly half the annual allowance to the whole Board at the time the account was published. The charges for stationery and bank-note paper, amounting to over £13,000, are probably open to the same comments as the wages, &c., but there are no means of appraising them, and this applies also to "interest on cost of machinery," and that comprehensive term "general charges," amounting together to over £8,000.

Even with the scant materials available, however, it is possible to arrive at an approximate estimate of the cost under the suggested arrangement. From the Official Directory it has been assumed that about one hundred and fifty clerks are employed in the Issue Department. Supposing their work to be transferred to the Post Office, it might be divided between male and female clerks—say fifty male clerks at an average salary of £200 per annum, and one hundred female clerks at an average salary of £70 per annum, amounting in all to £17,000 per annum.

The next large item of annual expenditure would be the cost of the note itself. For this the figures in the account rendered may be taken as a general guide. There is no specific charge for printing, but it may fairly be assumed that the several charges for bank-note paper £11,623, interest on cost of machinery £1,500, and stationery £1,811, amounting in all to £14,934, cover the total annual cost of plant and material. This would bring the annual expenditure to £31,934. The charge for compensation to bankers would of course remain as at present; but it may be omitted from the estimate as it is no doubt recouped by the profits on the additional issue.

The only other outlay of a substantial character that has to be provided for is the cost of making the necessary alterations at St. Martin's le Grand; but when the amount of saving under the head of rent, &c., comes to £36,000 per annum, this hardly seems worth consideration. A survey of the space now devoted to the purpose of issue at the Bank of England (exclusive of the bullion office and vault for bullion, for which accommodation already exists at the Mint) would readily supply data from which an estimate could be made. Just now a very favourable opportunity occurs for carrying out any alterations, as the Post Office is largely increasing its premises, and it is difficult to conceive that a sum amounting to half a year's rent at the present rate of charge would not be ample to fit up the additional offices that might be wanted. But taking this at £20,000 as an extreme figure, and calculating the rental on this at 10 per cent., which is also a very full estimate, the charge for rent would show a reduction of some £34,000 per annum, and would bring the total charge for conducting the issue at the Post Office to £33,934 per annum.

Such additions to the staff of the Mint as might be found necessary should be very trifling, and under any circumstances an expenditure of £2,000 per annum should fully meet the requirements. Therefore the gross charge over all would be, say, £36,000, as against £158,912 according to the Bank return, giving a total yearly saving of about £123,000. Adding the net profit shown by the same return, and deducting the profit on bullion which it is proposed to surrender, we have in round numbers a net profit of £200,000 a year, the sum named at the commencement of this article.

Thus by a simple change of procedure, without infringing any principle, or imperilling any security, but rather setting both on a sounder footing, a considerable addition might at once be made to the income of the State. There seems to be no reason why the change should not be immediately effected, as the engagement between the Government and the Bank is terminable upon a year's notice.

It is, after all, essentially a question for the tax-payer to decide. In the course of this article I have endeavoured to rend the veil that has imparted something of a mystic aspect to several very commonplace subjects, and to demonstrate to the satisfaction of the general public "How to increase the revenue without taxation." It remains for them to say *when*.