This article was published online on April 26, 2019
Final version June 30, 2019

Essays in

ECONOMIC & BUSINESS HISTORY

The Journal of the Economic & Business History Society

ISSN 0896-226X
LCC 79-91616
HC12.E2

GEORGE SCROPE, FREE BANKERS, AND THE BANK CHARTER ACT OF 1833

Paul E. Orzechowski
College of Staten Island
City University of New York
paul.orzechowski@csi.cuny.edu

This article explores the contributions of George Poulett Scrope and the free bankers to monetary reforms in 1833 through their parliamentarian efforts by exploring Hansard recordings. Scrope joined a group of free bankers in the British Parliament to lead a partially successful effort to derail the Whig Government's monetary reform plan. Many monetary economic historians do not emphasize these efforts and simplify the struggle as a pamphlet battle between the Currency School and the Banking School over the currency principle. Free bankers and Scrope were instrumental in defeating the government's effort to eliminate any future joint-stock banking formations under the Banking Co-Partnership Act of 1826 and impose a royal chartering process on banks. The Bank Charter Act of 1833 was approved with a declaratory statement that made clear that joint-stock banks of deposit were allowed to operate within the 65 mile exclusion zone of London. These events allowed for a significant increase in joint-stock banking after 1833, which may have helped British economic development.

Introduction

This article focuses on the contributions of George Poulett Scrope during the monetary policy debates about the Bank Charter Act of 1833 and his role in the free banking movement in the British Parliament. Scrope was a prominent parliamentarian and economist who joined a small group of free bankers who sought a different monetary policy than the one advanced by the Whig Government. The government wanted the English monetary system to have centralized bank notes issued by the Bank of England in the London metropolitan area and prevent the formation of any future banks under the Banking Co-Partnership Act of 1826. In contrast, Scrope wanted free banking principles to be applied to the banking industry as much as possible—these included the freedom of all banks to issue their own paper bank notes, subject to certain controls, and limiting the powers of the Bank of England.

Many monetary economic historians who study this period focus on a debate between two groups of competing policies. Jacob Viner's (1937, 218-289) economic review of the events surrounding British monetary policy in the first half of the nineteenth century divides monetary reform advocates into two main groups (the Currency School and the Banking School). John Clapham (1945), Marion Daugherty (1942, 1943), Frank Fetter (1965), and Lloyd Mints (1945, 74-124) are other examples of scholars who utilize this grouping methodology to study this period. However, Lawrence White (1984) suggested a distinct third group, which he calls the "Free Banking School" based on their *laissez-faire* philosophy as applied primarily to convertible bank notes. In an earlier monetary study, Vera Smith (1936, 71-91) showed that some economists in England had strong free banking principles that ran across the traditional currency and banking school debates.

This article explores the policy differences in *laissez-faire* politics that were prominent in the debate about the future direction of British monetary policy in 1833. A belief in a *laissez-faire* philosophy and an anti-monopoly sentiment were at the center of the free bankers' policy positions and was why these bankers were so passionate in their attempts to stop the passage of the Bank Charter Act of 1833 as initially proposed by the Whig Government; this is overlooked by many monetary historians. Thus, this historical analysis highlights that the *laissez-faire* philosophy was very strong and the arguments made by the two schools suggested by Viner were independent or occurred simultaneously along with free trade politics. This article builds on the studies of White (1984) and Smith (1936) by arguing that the policy debates in Parliament sought not only freedom in the issuance of currency but also wanted to eliminate the monopoly rights of the Bank of England based on the anti-monopoly politics of the Whig Party.

In order to show this, I make detailed use of the official transcripts of British Parliamentary debates found in *Hansard*. This approach is in the spirit of Fetter (1980), but this article offers a more detailed account than is commonly used in historical studies of this period, which refer only in passing to the debate records.[1] The debate in Parliament about the bank charter renewal was lively and reflected the struggles to establish British monetary policy in the wake of the Panic of 1825. In terms of the extent of the published transcripts, the debate was more intense than other banking reform debates, such as those of 1826 and 1844.

The debate about the Bank Charter Act of 1833 was important because the Act continued the Bank of England, established its bank notes as legal tender, and fatally dashed the hopes of free bankers seeking to limit the powers of the Bank of England. The 1833 Act set in motion the eventual elimination of private bank notes so that by 1844 the government was able to stop the issuance of all new private bank notes in England and Wales, thus giving the Bank of England a pure monopoly. However, the free banking parliamentarians did deliver a knockout blow to the Whig Government's effort to eliminate future joint-stock banking under the Banking Co-Partnership Act of 1826 in lieu of a proposed royal chartering process that would have subjected the early banking industry to constant changes by the government and parliament. This royal chartering process may have retarded not only the development of modern banking, as we know of it today, but may have also slowed the economic development of industries that were dependent on bank finance.[2]

Scrope is interesting to study because he was a heterodox economist and a Member of Parliament—a combination that is not common in economics. Redvers Opie (1929) offers an outstanding review of Scrope's theoretical contribution to economic thought and calls him the "neglected economist." Opie complimented Scrope for: "His power of generalization, coupled with his ability to see the difficulties in reasoning from the general to the particular, keep his writings, theoretical and practical, singularly free from rigidity and dogmatism" (1929, 134). Joseph Schumpeter praised Scrope: "When dates are considered, the insight—I repeat: the *analytical insight*—implied in this places him high above the common run of

[1] Fetter (1965, 156-164) offers more detailed references to debate records specific to the 1833 debate but does not provide the systematic approach offered in this article in defining the 1833 debate about free trade sentiment. Clapham (1945, 126-130) makes only passing references to the actual debate.

[2] See Cameron (1967, 15-59) for a discussion on how early banking aided economic development in England from 1750 to 1844.

economists of his time" (1954, 489). Frank Fetter (1958, 58) reflected on "The Rights of Industry and the Banking System" (Scrope 1832) as "a brilliant article" providing a "picture of the distress arising from falling prices" during this period.

The main questions explored in this article are as follows: What were Scrope's proposed monetary reforms, and how did these differ from the government's position in the early 1830s? What was Scrope's relationship with the free bankers in parliament? How effective was the free bankers' challenge to the Whig Government's monetary reforms?

Scrope: His Background and Views

Scrope (1797-1876) was an accomplished political economist, geologist, and politician. He was born in London under the name George Julius Thomson and was the son of John Thomson, a merchant executive in the Russian trade. Scrope married Emma Phipps Scrope (1795-1866), the wealthy daughter of William Scrope whose estate was at Castle Combe in Wiltshire, and changed his name and coat of arms by royal decree in 1821. Scrope earned a bachelor's degree in 1821 from St John's College, Cambridge, where he specialized in geology and volcanoes. Before this, he studied at Pembroke College, Oxford. He toured Europe in search of volcanoes and saw the 1822 eruption of Vesuvius in Italy. Scrope published pioneering works in volcanology and became a member of the Royal Society in 1826.[3]

He was elected to Parliament, representing Stroud for the Whig Party from 1833 to 1867, and he became a strong advocate of free banking and aid to the poor. Scrope was defeated by David Ricardo, Jr. in the reform election of 1832 by a small margin, but Ricardo resigned soon after. Scrope subsequently ran uncontested in a by-election in late May of 1833. Scrope's writings on economics in the early 1830s, as well as on many other issues, earned him the nickname "Pamphlet Scrope." His writings on monetary reforms featured collateralized bank notes and a focus on bank capital to safeguard a free bank note issuance system that could avoid a Bank of England monopoly. He contributed to economic thinking about debt deflation and underconsumption, and he was critical of Ricardian

[3] See Paul Sturges (1984) for a more detailed bibliography of Scrope.

labor theories. David Hume and Adam Smith appear to have influenced Scrope as he mentioned them frequently in his papers.

How did Scrope become an advocate of free banking? Scrope was frequently exposed to the nature of banking transactions and wrote about how these transactions were impacted by monetary conditions. His father and brother, Charles Poulett Thomson, were involved with the family merchant firm of Thomson, Bonar and Co. based in London and St. Petersburg (Russia).[4] Although he was not directly involved with the firm, he was close to his brother and the two may have discussed banking, finance and trade. His brother also became a member of parliament as well as president of the Board of Trade. Scrope may have also gained financial business knowledge by observing the running of Castle Combe in the area of agriculture and tenant farming. His father-in-law vacated Castle Combe to make room for him and Emma to live at the manor house located on the property. The estate consisted of 1,520 acres, of which 800 acres were enclosed agricultural lands. As one of the county magistrates for Wiltshire, he may have seen civil cases that involved money contracts. In addition, Scrope appears to have been influenced by the experiences and/or writings of Sir Henry Parnell and Matthias Attwood (both bankers), which he cites in his writings, and he would join them in parliament. These experiences may have contributed to his detailed writings and knowledge on how the changes in the value of money may dramatically affect the ability of either creditors or debtors to manage their affairs and why alternative credit-currencies were needed.

Scrope (1830a, 1830b, 1832, 1833b) concluded that the changing gold/silver markets, the poor management at the Bank of England, the inability of the government to oversee the country banks (i.e. to ensure capital adequacy or collateralized notes), and the elimination of small bank notes had led to a currency that does not fit the needs of commerce. These factors resulted in wide fluctuations in the economy leading to the 1824 boom that was followed by the deflationary Panic of 1825 as just one example. Both the Bank of England and the government failed to maintain a useful currency for commerce that lead to periodic contracting of the money supply and depressionary price evils. Ideologically, Scrope saw the

[4] Sturges 1984, 14-20.

causality running from goods to money and stated (1830a, 69) that, "The key to the riddle [of why depressionary economies occur] is not that the supply of goods has been too great, but *that of money being too small*." Thus, the bungling Bank of England should be replaced either by a free competition of banks or by a national bank with free country banks in order to provide a flexible currency. Scrope shared in the ideology of Adam Smith's *invisible hand* in which free competition creates the best outcomes and helps regulate the supply and demand of goods and services (1833a, 417-418). Why not apply this *laissez-faire* attitude to banking? As proof of why perfect competition would work in banking, Scrope pointed to Scotland, which had a separate monetary system. In this system there was long experience of joint-stock banking and no direct equivalent to the Bank of England, and the country did not suffer the same level of bank failures and distress as England and Wales during the Panic of 1825.

Monetary Policy Reforms

After the Panic of 1825, the British Parliament debated a series of reforms to the structure of the banking system. The 1826 Bank Charter Act eliminated the "six-partner rule," which restricted banks of issue to have no more than six partners outside the 65-mile exclusion zone around London and allowed joint-stock banking. Parliament also made it clear at that time that the Bank of England could open branches (although there was no prohibition by-law). This has been viewed as a possible concession to the Bank of England for allowing joint-stock banking and not challenging the government on this matter in the courts. The bank had enjoyed the size limitations placed on country banks since 1709, and Parliament had restricted the formation of joint-stock banks since the Bubble Act of 1720 (which was repealed in 1825). The government hoped that future bank runs would be minimized by having country branches of the Bank of England and better-capitalized country banks. The main issues after 1826 regarding bank reforms were the role of the Bank of England, the issuance of bank notes, and joint-stock banks.[5]

According to Viner (1937, 220-224), the debate about monetary reforms during this period involved two main groups: the Currency School

[5] James Mill (1821) and Thomas Joplin (1822) were early agitators for joint-stock banking.

and the Banking School. The Currency School argued that that there should be a one-to-one ratio between bank notes and gold bullion or coin held as a reserve, which is known as the currency principle. The Currency School considered that if bank notes were regulated in this manner, then the economy and prices would be stable, and an over-issuance of bank notes that could lead to speculative inflation and instability would be avoided. The Banking School argued that it was hard to control the currency with any principles because of the existence of other credits (e.g., bills of exchange and deposits) that acted like currency. They usually argued against the currency principle and regulations. Some members argued for the continuation of the Bank of England and that it should act as the national gold depository.

However, White's (1984, 1, 51-54) Free Banking School was an attempt to focus on the *laissez-faire* philosophy as applied to banking and the issuance of bank notes. Smith (1936) showed that free banking principles cut across the Banking and Currency Schools. Many free bankers wanted a system similar to the Scottish banking system and opposed the Bank of England's near-monopoly on issuing notes. They argued that the Bank of England was the main source of over-issuance through mismanagement of the money supply. However, White (1984, 52, 82) indicated that because Scrope offered a policy choice between free competition and a regulated national bank for the London metropolitan area that he should not be considered a "mainstream member of the Free Banking School" but was an important "fellow traveler."

Scrope's Policy Recommendations

Scrope's proposed monetary framework was mainly a free issuance monetary system, but it introduced some rules and regulations for banks. He opined that the English banking experience during 1824/25 occurred because of the issuance of improperly collateralized bank notes and improper capital adequacy at banks, and this created a bad public impression of free banking. "The law at present gives unlimited license to country banks to issue notes without a shred of property to back them, at the same time that it prohibits their issue by parties of such number and pledged capital as would offer an effectual guarantee for their solvency" (1830a, 60). In addition, he blamed the restriction of banks to fewer than six partners and the prohibition against joint-stock banking (before 1826) as contributing to the financial weakness of the banking system.

Scrope (1833a) recommended four main reforms of the British monetary system. The first recommendation was to reintroduce the pre-1772 silver standard and allow silver to be legal tender in all amounts. Scrope saw this as creating another source for settling payments instead of limiting the system to gold. He (1833b, 76-77) argued that gold should be allowed to float in exchange value. The second proposal was to end note issuance by the Bank of England. This was to be accomplished by either a free banking system or a public national bank that was regulated by Parliament (Scrope 1833a, 417-420).[6] The free system would be regulated in a similar manner to country banks with collateralized notes. The national bank would issue notes of legal tender, maintain the notes at a par value against gold ingots, and regulate the exchange rate between gold and bank notes. He stated that an independent board could run the bank. Scrope's plan (1833b, 60-61) was similar to Thomas Joplin's (1822) and Ricardo's (1824) plans. Scrope (1833b, 61-62) also advocated the position that the national bank should use the gold market price as opposed to the mint price to regulate bank notes in open market operations to control prices within a narrow range of the mint price. The third proposal (1830b, 37-38) required country banks to post secured collateral against bank notes and/or to increase their capital accounts (1830a, 43-47). [7] Collateral could be in the form of government bonds, securities, and real property and needed to be unencumbered and registered with the government. Thus, Scrope was advocating a broader monetization of other assets into currency that would help facilitate trade. Country banks would be permitted to issue bank notes smaller than £5. His proposal also indicated that country banks in England and Wales should be required to pay interest on deposits. Scrope hoped that this would speed up and encourage the

[6] However, Scrope appeared to doubt that even a national bank run by the government could overcome potential political mischief (1830a, 43).

[7] Parnell (1828, 17-18, 80-82) also suggested an increase in bank capital, particularly among country banks. He pointed to the United States, where some states required this type of convention. Ricardo (1816) and James McCulloch (1826, 280) considered government securities to be a possible substitution for gold in some circumstances. These suggestions were early attempts at regulating capital adequacy, today governed by the Basel Capital Accords.

reflux of notes into deposits as in the Scottish system. In addition, all banks would be required to disclose their financial accounts publicly so that their soundness could be determined (1830a, 43). This requirement would help reduce asymmetric information and would later be at the core of modern bank regulations. National bank notes could be used by country banks to redeem their own notes. The fourth proposal was to develop a "tabular standard" or statistical reference that was based on the prices of a hundred articles against the value of gold. The index was to be made public regularly and could be used to voluntarily hedge money contracts.

The Free Bankers in Parliament

The Whig Government from 1830 to 1834 was led by the Earl of Grey (Charles Grey) and was under pressure to renew the Bank of England's charter, which was set to expire in 1833. This government was very busy on a broad range of reform issues—these included the monumental Reform Act of 1832, which greatly expanded the number of members in parliament, as well as greatly increasing the number of eligible voters. The Whig Government also abolished slavery in July of 1833 at the same time that the debate on the renewal of the bank's charter was taking place.

The free bankers in Parliament were mostly made up of independent-minded Whig Party members but included independent Tories who had a range of opinions on how best to reform the banking and monetary systems. This article broadly defines free bankers as anyone who favored significant restrictions on the Bank of England's monopoly privileges or who favored the elimination of the Bank of England (as opposed to White's definition) in order to better group together those parliamentarians who opposed the proposed Bank Charter Act of 1833. These free bankers were at odds with the Whig Government's proposals regarding the renewal of the Bank of England's charter and this alliance included some Currency School members. Specifically, some of the outspoken members in this group who are discussed in this article include Attwood (Tory—Independent), Joseph Hume (Whig—Radical), Parnell (Whig), George Scrope (Whig), Colonel Robert Torrens (Whig), and Sir Henry

Willoughby (Whig).[8] These members actively participated in the debates and represented the core group of free bankers in parliament.

Most Whigs favored free trade, but many were hesitant to apply these principles to banking, particularly after the Panic of 1825, which had made it clear that some monetary reform was required. These differences in the application of free trade principles to banking peeled away some Whigs to oppose the government's position on the bank charter renewal and other banking reforms. The overall strength of opposition to the government on specific monetary issues varied from about one-quarter to less than one-half of the members in the Parliament based on various votes cast during 1833 but was strong enough to stop the government's plans to roll back joint-stock banking.

Bank Charter Act of 1833

Scrope took his seat in Parliament just in time to participate in the debate about the renewal of the Bank of England's bank charter and quickly joined the free bankers in parliament. He had recently written extensively on the topic of the bank charter (1830a, 1830b, 1833b), as well as on the general economy (1831, 1832, 1833a). His work was analyzed by the Bank Charter Committee of 1832, as well as in the writings of Scrope's economic opponent, McCulloch. The Bank Charter Committee of 1832 was a parliamentary study of the Bank of England and the country banks. Its report included the committee's general observations (but no specific recommendations), transcripts of witness testimony, and a large number of statistics (United Kingdom Parliament 1832a).

On May 31, 1833, Lord Althorp (John Charles Spencer), the Whig Government's Chancellor of the Exchequer and the Whig leader in the House of Commons, stated the government's position on the renewal of the bank charter of the Bank of England. Althorp was very articulate and knowledgeable in his delivery of the government's proposed monetary reforms. He believed that the key points of any legislation should be to ensure the convertibility of paper money into gold, that banks remain solvent, and that the amount of paper money issued was not excessive. The

[8] The names of the Members of Parliament (MPs) are followed by political party with which they were associated in 1833. Some MPs had various degrees of association with their parties, and some, such as Francis Baring, changed parties.

main challenge of managing the system was controlling the country banks' bank notes and the fluctuations in the foreign exchange markets for gold. Specifically, he laid out the government's position and introduced eight resolutions that would be the foundation of the bill to renew the bank charter. These positions reflected in part not what Althorp wanted but what was politically obtainable in parliament. Althorp stated, "I am ready to admit, that it would be a safer and more principle (if a banking system were now for the first time to be established), to have only one bank of issue; but the present state of things that is impractical."[9] These eight resolutions are summarized in Table 1 and are contrasted with Scrope's opinions as well as other related banking issues. Only proposals 1, 2, 6, and 8 are discussed in detail due to space limitations.[10]

According to Althorp, the time had come to decide what kind of system was best for maintaining a stable currency: a single body or competition of different banks. He argued, "It appears to me that there would be considerably more danger from the effects of such competition, than there would be from the power being in the hands of a well-regulated municipal bank."[11] This sentiment was at odds with the ideal that perfect competition or *laissez-faire* policies must prevail over old royal monopolies, which was held by many Whigs. Scrope and most free bankers were in favor of the application of free trade principles to banking. Scrope, in a later session of parliament, stated, "That the Government should, in this age, in the year 1833, continue this monopoly in the hands of a private company, was a most crying public injury, a solecism in Government; such as nowhere else to be found."[12] Althorp countered Scrope directly by asserting, "It was certainly a monopoly, but it remained to be shown that it was an evil."[13]

[9] United Kingdom Parliament (1833), vol. 18, 186.

[10] The other issues were not as controversial and involved the reduction of the British Government's debt and the reduction of management fees, and they were not opposed by free bankers. The changing of usury laws was in the spirit of free trade and helped the Bank of England to control the money supply, and was not opposed by most free bankers.

[11] United Kingdom Parliament (1833), vol. 18, 173.

[12] Ibid., 1316.

[13] Ibid., 1323.

Table 1
Lord Althorp's (Whig Government) proposals in contrast with Scrope's positions

	Whig Government's position	Scrope's position
A. Lord Althorp's resolutions to Parliament—May 31, 1833		
1a. Continuation of the BoE charter, but government can review charter after 10 years	Supported 21-year charter, but government could make charter expire after 10 years with one year notice	Replace BoE with free competition of banks of issue or public national bank
1b. Public disclosure of BoE financial statements	Quarterly averages to the public; weekly numbers to the government	Weekly numbers to the public and to the government
2. BoE notes should be legal tender	Supported	Not BoE notes; no legal tender to competition of banks of issue; except for national bank; but voted with government
3. Reduction of British government debt held by BoE by one quarter	Supported	Supported
4. Management fees for debt management to BoE	Reduction in management fees by £120,000	Supported
5. Repeal of usury law on bills of exchange over £5 and with less than 3 months maturity	Supported – need for BoE to control money supply	Supported
6. Joint-stock banks by royal charter	Resolution withdrawn	Opposed since it is against free trade principles

	Whig Government's position	Scrope's position
7. Stamp duty on issuing bank notes	Supported at rate of 7 shillings per £100 to keep track of private bank notes	Supported
8. Provisions on joint-stock banks; limited liability to bank that did not issue bank notes; public disclosure of financial statements	Resolution withdrawn	Allow joint-stock banks, but special license for the issuance of bank notes; collateralized by securities and limited guarantee of partners; public disclosure of financial statements
B. Related banking and monetary issues:		
Silver standard	Limited to under £2; only as token coin	Silver standard should be the only standard; gold floats at market rate
Bank Note Act of 1826 - Restriction of notes below £5	Supported, needed to allow gold coin to circulate	Abolish restriction on notes below £5
Indexation	Gold fix standard	Tabular standard
C. Theoretical policy issues:		
Source of overissuance	Country banks	Only BoE, no bank on their own
Self-regulating money supply	Only by BoE and gold standard	Only under competition
Better chance on maintaining stable prices and the economy	Gold standard	Silver standard

Source and Note: See text. "BoE" denotes the Bank of England

Other free bankers shared Scrope's views. Hume echoed his sentiments on monopolies: "This appears to him [Hume] to be a departure from all the principles to the full extent of which the noble Lord [Althorp] had stated himself ready to go in order to free the country from such monopolies and he [Hume] was sorry to find the noble Lord had been led to acquiesce in their continuance."[14] Hume was at odds with the government's plan and concluded, "The plan was wholly bad, and particularly as respected the renewal of the existing Bank monopoly. He saw no reason why the business of banking should not be opened the same any other trade, business, or occupation."[15] Parnell also opposed the monopoly. "He [Parnell] held strong opinions of quite the opposite tendency to those of the noble Lord [Althorp]: he maintained, that experience was decisive against the evils of all monopolies; and were it only to inquire how far, and in what most efficient manner, the free trade principle could be applied to the Bank of England."[16] Parnell thought that the Bank Charter Committee of 1832 was one-sided, and he wanted to consider other witnesses to explore alternatives to the Bank of England monopoly.[17]

These debates highlight the strong passion among some of the free bankers to end exclusive monopolies, which is not emphasized strongly enough by many monetary historical studies of this period, such as Mints (1945), Viner (1937), and others. Even White (1984) focused on the free bankers' *laissez-faire* theory on how competition produces the best benefits to the economic system but did not mention the evils of monopolies (i.e. the other side of the *laissez-faire* coin), which may curtail individual liberties or foster evils against free trade principles. Yet Scrope emphasized clearly, "in the United States the people were determined not

---

[14] Ibid., 199. Hume was a Scottish medical doctor and like Scrope was a member of the Royal Society. He regularly challenged the Chancellor of the Exchequer and was in favor of the silver standard similar to the one advocated by Scrope.

[15] Ibid., 199.

[16] Ibid., 1332. Parnell served within the Whig Government in various posts, including as Secretary of War. He was a key member of the Free Banking School, and, like Scrope, he was adamant about revoking the monopoly powers of the Bank of England regarding note issuance. Parnell actively represented joint-stock companies in Parliament and filed petitions on their behalf.

[17] Ibid., 1330-1.

to continue the privileges of the [Second] Bank [of the United States] from an apprehension of the effects it might have on their liberties. He [Scrope] objected, therefore, to the measure [monopoly rights to the Bank of England], because he thought it likely to trench upon the liberties of the subject—to lead to a profligate expenditure of the public money, and an undue control over private property."[18] In addition, there was criticism of the Bank of England throughout the speeches delivered by the free bankers regarding its mismanagement of the regulation of the money supply.

An alternative national bank or government bank plan was also dismissed by Althorp because it would be too much of a "temptation of the Government to abuse its power" to control the currency and aid businesses as a lender of last resort.[19] Scrope offered a national bank plan that had previously been discussed, and he doubted whether the government could be trusted to control the money supply (1833a, 418-419). Torrens and Hume also expressed a desire for a national issuing bank. Althorp also opposed competition among banks in the issue of bank notes because, "if there were several banks in competition with each other, no one among them could, under such circumstances [of a banking panic], come forward to give its assistance to trade, in consequence of the fear that each would entertain of the competition of its rivals."[20] In modern terms, he was afraid of market failures.

Another special state monopoly right or policy had been declared by Althorp a year earlier, when the Bank Charter Committee of 1832 was being organized. He had stated, "The issuing of money was the prerogative of the State, and, therefore, the Legislature had a right to say, on what conditions individuals should be allowed to issue money."[21] Althorp's red line around all types of money instruments and the assertion of the right of the government to regulate coins and bank notes (but not deposits) put him on a collision course with the free bankers.

Scrope countered this sentiment by indicating that coining money was the prerogative of the state and should not be confused with the issuance of private paper money. This viewpoint could also be seen as a crude early

[18] United Kingdom Parliament (1833), vol. 20, 296.
[19] United Kingdom Parliament (1833), vol. 18, 174.
[20] Ibid., 173.
[21] United Kingdom Parliament (1832), vol. 12, 1358.

"inside" and "outside" money argument. Scrope challenged Althorp's red line by stating:

> He [Scrope] would notice a fallacy of those who support the Bank [Bank of England]: they compared it to the Mint, and concluded, because a monopoly in the one case was advantageous, that it must be advantageous in the other. But the two system had no similarity. The one was a public office, the offices were responsible to the public, and paid by the public; the other was a private concern, quite irresponsible to any person but its proprietors. The public had no hold over the Bank of England.[22]

In a profound argument in favor of the Bank of England's monopoly and why it was an exception, Scrope's fellow parliamentarian, Thomson, stated that,

> The honorable member [William Brodie] had asked how they, who were the advocates of free trade and the opponents of all restrictions, could advocate the monopoly of the Bank of England. Now, he [Thomson] thought that the two things were perfectly reconcilable, and capable of being advocated upon exactly the same principle—the principle of the public good. He denied that it would be inconsistent for the advocates of free commerce to object to the issue of paper. Those who advocated free trade did so on the grounds that an individual could only injure or abuse himself by the misappropriation of his capital; but in the case of a private banker issuing his notes, he might not only injure those with whom he dealt, but also disarrange the whole monetary system of this country.[23]

Today, we call this financial contagion risk, and Thomson was alluding to the Panic of 1825 felt by many parliamentarians. Baring stated it simply as, "It was the duty of the House, in renewing the Bank of

[22] United Kingdom Parliament (1833), vol. 18, 1315.
[23] United Kingdom Parliament (1833), vol. 20, 302.

England Charter, to render events of the description of those of 1826 impossible."[24] These statements highlight the fear of many MPs of repeating the economic problems of 1825 and explain why many Whigs were willing to give monopoly powers in an effort to avoid future financial instability in banking.

Another contentious issue was the granting of legal tender status to Bank of England bank notes, which was Althorp's second resolution, as shown in Table 1. The government stated that this measure would help support country banks by giving them the ability to pay out in Bank of England notes instead of gold. During financial crises or banking runs, this measure would be a great advantage for the country banks and give the Bank of England better control of the overall national gold stock, particularly the foreign exchange.[25]

Legal tender status was opposed by many of the free bankers in parliament, as it would give special status to one bank issue over another bank, and the topic provoked a great deal of debate. Parnell presented a petition to Parliament on the behalf of joint-stock banks that opposed the monopoly powers of the Bank of England. In particular, these banks believed that making Bank of England bank notes legal tender would give the bank an unfair competitive advantage.[26] Peel objected to the proposal to make Bank of England notes legal tender. He thought that this violated the spirit of the Act of 1819 in which gold convertibility was the standard or at the core of the monetary system. He pointed out that the proposed measure was more extreme than the Restriction Act of 1797 in which the conversion of bank notes into gold had been suspended, but the Bank of England was never given legal tender status.[27] Fetter (1965, 159-160) stated that many older MPs might have been concerned about this status because French Revolutionary assignats also had legal tender status and then became worthless.

Torrens argued that the establishment of Bank of England notes as legal tender would contract the currency because this action would drive out country bank notes, and, to make up the difference, the Bank of

[24] United Kingdom Parliament (1833), vol. 18, 1368.
[25] Ibid., 179.
[26] Ibid., 1300-1.
[27] Ibid., 1345.

England would be under pressure to increase its gold reserves (i.e. Torrens was assuming this would be necessary to maintain the Palmer Rule that one-third of the Bank of England's liabilities were backed by gold reserves).[28] Torrens referred to Palmer's testimony in which Palmer stated that the only way the bank could obtain additional gold was by contracting the currency and decreasing prices; thus, this may not be able to be accomplished without economic dislocation. In addition, Torrens argued that this would also decrease the profitability of the country banks and thus drive some of them out of business, which would result in a further decrease in credit availability.[29]

Scrope broke with his free banking allies and stated that he would support legal tender because it would delay or slow down the process of immediate convertibility, which could be advantageous in a banking crisis.[30] He also opined that legal tender status would allow debts to be paid at all times, which was the job of the Legislature. The vote on making Bank of England bank notes legal tender was relatively narrow compared to the other resolutions, with 214 votes in favor and 156 votes against.[31,]

Althorp challenged the joint-stock banks (resolutions 6 and 8 in Table 1). He proposed that all future joint-stock banks go through a royal chartering process with the approval of Parliament and the government and that the Crown would have the right to refuse a charter. Existing joint-stock banks could remain as they were, or they could apply for a charter. Two types of joint-stock chartered banks would be formed: one bank that

[28] The "Palmer Rule" refers to the testimony of John Horsley Palmer, governor of the Bank of England, before the Bank Charter Committee of 1832 between May 29, 1832 and June 8, 1832 in which he discussed the bank's attempts to tie its liabilities to about one-third of the bullion assets held by the bank (United Kingdom Parliament 1832a).

[29] United Kingdom Parliament (1833), vol. 18, 1312-13. Torrens was a member of the Royal Society and like Scrope wrote about the political economy. Although a late member to the Currency School, Torrens was suspicious of whether the Bank of England would be able to achieve the currency principle. Both Scrope and Torrens favored a national government bank to control the currency.

[30] Ibid., 1399.

[31] Ibid, 1400. A second vote on removing the legal tender status clause in the final act took place on August 19, 1833 and was defeated with 35 votes in favor and 82 votes against (United Kingdom Parliament (1833), vol. 20, 781-82).

would issue bank notes and other banks that would not issue bank notes. The purpose of the chartering process would be to control the banks and make sure that the paid-in capital was firmly established. The government would determine sufficient bank capital levels at their sole discretion on a case-by-case basis. Banks that wished to issue bank notes could not be established within 65 miles of London and must have a certain amount of paid-in capital (with half of the subscription paid-in, and this capital to be invested in government securities). Althorp was trying to address the capitalization of joint-stock corporations: these joint-stock banks could have a nominal or subscription amount of capital value that did not reflect the actual paid-in capital value. It was the custom that the subscription value could be called upon by the shareholders of the joint-stock company, whose liabilities in excess of the subscription value would have been unlimited according to the government proposal.[32] Banks that did not issue bank notes could locate closer to London and must have a certain amount of paid-in capital (one-quarter of their subscription and invested in securities). The stockholders of these non-issuing banks would have liability only up to their subscription share amount. The capital adequacy would be left to the discretion of the government.[33] In addition to capital adequacy concerns, Althorp was under political pressure from country banks that wanted to limit the unlimited liability usage, and this may have motivated him to curtail joint-stock banking, according to Clapham (1945, 127-128).

Baring opposed the proposed charter system, as this meant unlimited liability for the partners of note-issuing banks. Joint-stock banking needed limited liability to attract sufficient capital and wanted the system used in France, wherein a corporation had paid-in capital that could not be removed and limited liability.[34] Attwood was appalled at the suggestion of not allowing joint-stock[35] and called it a “breach of public faith.”[36] Both pointed out that it was the government that had pushed for the formation

---

[32] United Kingdom Parliament (1833), vol. 18, 1325.

[33] Ibid., 183-4.

[34] Limited liability corporations as we know them today would not fully come about until 1858.

[35] United Kingdom Parliament (1833), vol. 18, 1326.

[36] Ibid., 1333.

of joint-stock banks and that the "experiment" had been successful in forming well-capitalized banks. Scrope was in favor of joint-stock banking on its own and pushed the Whig Government not to back-pedal on joint-stock banking, but his writings on how joint-stocks would issue their own notes were changing. In his pamphlet *An Examination of the Bank Charter Question* (1833b), he argued against joint-stock banks issuing their own bank notes and favored a national bank scheme. However, in his book *Principles of Political Economy* (1833a), he had been open to the option of rivalry among note-issuing joint-stock banks or a national bank.

On July 1, 1833, Althorp suddenly withdrew proposals 6 and 8 before further debate, indicating that he would introduce them in a separate bill so as to concentrate attention on renewing the bank charter.[37] This would be the free bankers' only critical victory in parliament, which was significant because it opened the path to the modern banking corporations of today with limited shareholder liability. After 1833, there was a sizable increase in the number of joint-stock banks, and these banks may have played a significant role in British economic development during this period of the industrial revolution. The withdrawal may have been due to the inability of the government to demonstrate the need to reform joint-stock banking, as none of the new joint-stock banks had failed since 1826. Likewise, the Bank Charter Committee of 1832 did not discuss joint-stock banking in any detail nor reforms regarding joint-stock banking, so MPs may have been caught off guard regarding the sudden government proposal to repeal or reform the Banking Co-Partnership Act of 1826, which probably should have been discussed and studied by such a committee in advance of its introduction. Indeed, many parliamentarians complained about the government's push for the renewal of the bank charter at the end of their parliamentary session.

Parliamentary Maneuvering

Overall, the resistance to Althorp's plan by the free bankers and their allies in Parliament was tenacious. They attempted to delay every reading of the bill and made numerous motions to change various clauses in the final bill. Scrope was very active on the floor of Parliament as he tried to

---

[37] Ibid., 1361; United Kingdom Parliament (1833), vol. 19, 82-5.

postpone or change the final bill with a zeal that may have been due to being a new MP. Torrens moved to postpone debate on the bank charter question when Parliament revisited Althorp's plan on June 28, 1833 and was quickly seconded by Scrope.[38] However, this motion was voted down, with 83 voting for a delay and 316 votes opposing. Immediately after the vote, Scrope rose to protest the original resolution, but he was shouted down with loud cries of "question," "divide," "adjourn," "oh, oh," and "other sundry expressions" from other MPs. Scrope was in shock and despair; he withdrew his protest and moved that the chair proceed. The grilling was so bad that Andrew O'Dwyer rose to Scrope's defense, stating, "It was monstrous that hon. Members should come down to the House apparently with a determination not to listen to what was said, and to drown everything in uproar. He cared not so much for the interruptions, but he must say, such a question ought to be debated at least with decency."[39]

However, this experience did not deter Scrope. On August 2, 1833, during a late night session in parliament, Althorp asked for a second reading after a debate on the abolition of slavery. Scrope was caught off guard but nevertheless rose to seek a postponement of the second reading, stating that the Bank of England, with its monopoly powers, was "a more complete system of tyranny" than Napoleon Buonaparte's systems of prefects.[40] Scrope was joined by Sir Henry Willoughby who seconded the motion and was later supported by Parnell and Attwood. After limited debate, Scrope then withdrew his motion due to the low attendance of MPs, stating that many of his supporters were gone for the evening, and it was thus likely that they would not have the votes to postpone the reading.[41]

Another attempt to delay the bill was led by Thomas Gisborne on August 9, 1833, in which he proposed that Parliament establish an inquiry to study the advantages of a free system of banking.[42] This effort failed

[38] United Kingdom Parliament (1833), vol. 18, 1306-20.
[39] Ibid., 1306-53.
[40] United Kingdom Parliament (1833), vol. 20: 295.
[41] Ibid., 308.
[42] Ibid., 453-54.

with 40 votes in favor of postponement and 119 against.[43] Later in that session, the free bankers tried to narrow the exclusion zone for joint-stock banks from 65 miles from London to 25 miles, but this attempt failed with 51 votes in favor and 113 votes against.[44] Another attempt to change the chartering period from ten years to three years was introduced by Torrens and seconded by Hume; this was subsequently defeated with a vote of 47 in favor and 122 against.[45] In all of these votes, Scrope, along with the four other free bankers covered in this paper (Hume, Parnell, Torrens, and Willoughby), voted in favor of the resolutions. Attwood had given up his delaying tactics and indicated that he supported his colleagues' efforts, but he thought that any more delays would "compromise the interest of the community."[46] On August 10, 1833, Scrope attempted to introduce an amendment to the final Bank of England Charter Act of 1833 that would have given Parliament the power to impeach the members of the Bank of England's Court of Directors. The amendment was quickly pushed aside.[47]

An unexpected surprise for free bankers occurred at this time (August 10, 1833). The solicitor general, Sir John Campbell, offered an interpretation of past laws regarding the Bank of England that led to a declaratory clause, which would be included in the final bill. This clause clarified that the Bank of England's charter was exclusive to note issuance within 65 miles of London and did not include other bank services, such as deposit gathering.[48] This allowed joint-stock banks of deposits to be established within 65 miles of London and offered new competition to private banks that had been long established in London. According to Clapham (1945, 128-130), the clause did not originate from the government or from Treasury officials who were opposed. Clapham speculated that the legal interpretation was pushed by a group of investors looking to start up the joint-stock bank known as The London and Westminster Bank. Parliament approved the declaratory clause despite Thomas Gisborne's attempt to postpone a vote on the clause (there were 16 votes in favor of postponement and 49 against, with Scrope and

[43] Ibid., 468.
[44] Ibid., 471.
[45] Ibid., 473.
[46] Ibid., 468.
[47] Ibid., 502.
[48] Ibid., 496-98.

Willoughby voting for postponement). The final attempt to stop the third reading took place on August 19, 1833, with the focus on removing the legal tender clause, but this was quickly brushed aside. Finally, the King gave his royal assent on August 29, 1833.

In the following years, Parliament debated additional monetary reforms, which culminated in the Bank Charter Act of 1844, but Scrope had little to say on monetary matters. Instead, he focused on relief for the poor. Did Scrope's bad experience poison his zeal for banking reform, or did he conclude that the Bank of England would eventually win and he was supporting a lost cause? We will never know the answer, but, after 1833, Scrope was not as energetic in monetary debates and rarely spoke on banking issues in parliament. In addition, by the time that the 1844 Act was before parliament, two of Scrope's main allies were gone. Torrens lost his seat in 1835, and Parnell died in 1842.

Why did the free bankers fail? Smith (1936, 71) made an insightful observation of this period regarding *laissez-faire* politics. She stated that by the time that *laissez-faire* politics was effectively challenging other royal monopolies, the Bank of England was already too well established within the economy to be the subject of reform. I would add to this that the Bank of England was too big to change after its performance in the Panic of 1825 to rescue the banking system. Many parliamentarians were motivated to prevent 1825 from ever happening again and were willing to sacrifice *laissez-faire* policies for security. Vera Smith also stated that banking had moved on to other profitable areas, such as deposits with check-writing capabilities, which diminished the need for banks to offer bank notes.

Finally, the weakness of the free bankers in Parliament appears to be due in part to disagreements among themselves over what to introduce as a substitute for the government's plan, and they did not have a single charismatic leader to rally around to become an effective force. The success of the free bankers in fighting the joint-stock banking restrictions desired by the government was significant, but this victory along with the declaratory clause regarding other banking services within London may have pacified some potential supporters. According to Rondo Cameron (1967), joint-stock banking flourished, increasing from approximately 30 entities in 1833 to 150 by 1844, and was a contributor towards British economic development. White (1984, 78-79) made a similar point when he stated that the 1844 Act may have "co-opted" some fellow free bank travelers by grandfathering existing bank notes while forbidding the issuance of new notes. Arguably this had begun in 1833.

Conclusion

The review of the parliamentary debate records showed that the historical Currency School and Banking School debate was not the dominant topic among policy makers in 1833 within parliament. A significant (but small) number of parliamentarians voiced a strong anti-monopoly (Bank of England) sentiment, as well as a desire to apply *laissez-faire* policies to banking. Thus, this article supports the historical analysis advocated by White and Vera Smith that historians should consider *laissez-faire* politics, as well as the traditional Currency School and Banking School arguments, when analyzing this period.

Although the free bankers lost the main struggle in 1833, their tenacious efforts and resistance to the Whig Government helped roll back the government's plan to end joint-stock banking, and this eventually evolved into the modern banking corporations we know today. It is hard to imagine how banking and economic development would have evolved under the alternative royal chartering system that required constant tinkering by the government, which the Bank of England had to endure. Finally, economist Scrope is noteworthy in the 1833 debate on the re-chartering act because of his prophetic warning about the future monopoly powers of the Bank of England, and central banks in general, that would "lead to a profligate expenditures of the public money, and undue control over private property." Concerns about the proper balance between central banks and private property remain today, especially after the unprecedented monetary interventions that followed the 2008-2009 global financial crisis.

Acknowledgements

I would like to thank the two anonymous referees for their helpful comments to improve the paper on earlier drafts as well as support from the editor (Mark Billings). In addition, I thank Grayson Fant (research assistant) for his helpful comments and research help with the article.

WORKS CITED

Cameron, Rondo, ed. 1967. *Banking in the Early Stages of Industrialization*. London: Oxford University Press.

Clapham, John H. 1945. *The Bank of England: A History*. Vols. I and II. New York: Macmillan.

Daugherty, Marion R. 1942. "The Currency-Banking Controversy: Part 1." *Southern Economic Journal* 9 (2): 140-155.

Daugherty, Marion R. 1943. "The Currency-Banking Controversy: II." *Southern Economic Journal* 9 (3): 241-251.

Fetter, Frank W. 1958. "The Economic Articles in the Quarterly Review and Their Authors, 1809-52." *Journal of Political Economy* 66 (1): 47-64.

Fetter, Frank W. 1965. *Development of British Monetary Orthodoxy*. Cambridge, MA: Harvard University Press.

Fetter, Frank W. 1980. *The Economists in Parliament: 1780-1868*. Durham, NC: Duke University Press.

Joplin, Thomas. 1822. *On the General Principles and Present Practice of Banking, in England and Scotland, with Observations on the Justice and Policy of an immediate Alteration in the Charter of the Bank of England, and the Measures to be pursued in order to effect it*. London: Newcastle.

McCulloch, James R. 1826. "Fluctuations in the Supply and the Value of Money." *Edinburgh Review* 43 (February): 263-298.

Mill, James. 1821. *Elements of Political Economy*. London: Henry Bohn.

Mints, Lloyd W. 1945. *A History of Banking Theory*. Chicago: University of Chicago Press.

Opie, Redvers. 1929. "A Neglected English Economist: George Poulett Scrope." *Quarterly Journal of Economics* 44 (1): 101-137.

Parnell, Henry. 1828. *Observations on Paper Money, Banking, and Overtrading*. London: James Ridgeway.

Ricardo, David. 1816. *Proposals for an Economical and Secure Currency*. London: John Murray.

Ricardo, David. 1824. *Plan for the Establishment of a National Bank*. London: John Murray.

Schumpeter, Joseph. 1954. *History of Economic Analysis*. London: Oxford University Press.

Scrope, George. 1830a. *On Credit-currency, and its Superiority to Coin, in Support of a Petition for the Establishment of a Cheap, Safe, and Sufficient Circulating Medium*. London: John Murray.

Scrope, George. 1830b. *The Currency Question Freed from Mystery*. London: James Ridgway.

Scrope, George. 1831. "The Political Economists." *Quarterly Review* 44 (January): 1-52.

Scrope, George. 1832. "The Rights of Industry and the Banking System." *Quarterly Review* 47 (July): 407-457.

Scrope, George. 1833a. *Principles of Political Economy*. London: Longman.

Scrope, George. 1833b. *An Examination of the Bank Charter Question.* London: John Murray.

Smith, Vera. 1936. *The Rationale of Central Banking*. London: P.S. King & Son Ltd.

Sturges, Paul. (1984). *A Bibliography of George Poulett Scrope, Geologist, Economist, and Local Historian*. Boston: Baker Library.

United Kingdom Parliament. 1832a. *Report of the Committee of Secrecy on the Bank of England Charter: With the Minutes of Evidence, Apx. and Index*. London: Hansard.

United Kingdom Parliament. 1832b. *Hansard Parliamentary Debates*, 3d ser., vol. 12.

United Kingdom Parliament. 1833. *Hansard Parliamentary Debates,* 3d ser., vols. 17-20.

Viner, Jacob. 1937. *Studies in the Theory of International Trade*. [Reprinted 1975] Clifton, NJ: Augustus Kelley.

White, Lawrence. 1984. *Free Banking in Britain*. Cambridge: Cambridge University Press.