The Economic Policies of Lord Liverpool

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Robert Banks Jenkinson, 2nd Earl of Liverpool ("Liverpool," 1770–1828) was UK prime minister over the period 1812–1827. His achievements were remarkable. He designed the financial attrition strategy that defeated Napoleon; led the United Kingdom through the turbulence of the takeoff stage of the industrial revolution; inherited a daunting fiscal situation that included a debt/GDP ratio of well over 200 percent, and implanted the austerity measures needed to put this ratio onto the path that led to later Victorian levels; reformed the currency; pushed through the return to the gold standard; promoted both the Corn Laws and free trade; successfully managed the 1825 financial crisis, the worst in over a century; and pushed through subsequent reforms that put the UK banking system onto a stable trajectory that lasted into the late 20th century.

Liverpool had a strong economics training from his father Charles Jenkinson, 1st Earl of Liverpool ("Jenkinson"), a leading Tory statesman in the late 18th century and best known to American audiences as the author of the Stamp Act.[1] Jenkinson sent his son to Charterhouse,

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[1] Jenkinson was one of George III's leading economic advisors for 40 years, playing a substantial role in the North administration's economic policies and as Secretary at War, and served for 18 years as President of the Board of Trade under Pitt and Addington until his retirement in 1804.

whose education was broader than that of Eton, and insisted that he read widely in political economy and current politics. While at Oxford, Liverpool engaged in the traditional "Grand Tour," which took him to Paris in July 1789 where he witnessed the storming of the Bastille.

Liverpool entered the House of Commons at the election of 1790 and was a front bench spokesman on economic matters by 1794. His first senior office was Master of the Mint in 1799, sponsored by his father, a leading expert on coinage.[2] There he planned a major coinage restructuring, which he was to carry out as Prime Minister in 1816–1817. However, it was Jenkinson's influence as much as his own merit that got him into Addington's Cabinet as Foreign Secretary in 1801.

War Finance

From late 1809, Liverpool was Secretary of State for War and the Colonies, overseeing Wellington's campaign in the Iberian Peninsula. He outlined his preferred strategy to Wellington in September 1810:

> The question, in short, must come to this. We must make an option between a steady and continued exertion on a moderate scale, and a great and extraordinary effort for a limited time, which neither our means, military or financial, will enable us to maintain permanently. If it could be hoped that the latter would bring the contest to a speedy and successful conclusion, it would certainly be the wisest course; but unfortunately, the experience of the last fifteen years is not encouraging in this respect.[3]

It was this central realization that made Liverpool a more successful strategist than Pitt; he understood that the growing strength of the UK economy and its superior financial system gave the UK government a major advantage over Napoleon's financially unstable regime.

[2] Jenkinson oversaw a silver recoinage in 1774 and put working-class Britain temporarily on a copper standard after 1797 by minting the "Cartwheel" penny and two-penny pieces using Boulton & Watt steam stamping machinery. His 1805 treatise *Coins of the Realm* was the standard work on the subject throughout the 19th century.

[3] Liverpool to Wellington, September 10, 1810; quoted in Yonge (1868): Vol. I, 334–37).

A combination of stronger government finances, sustained financial attrition, and moderate but persistent military pressure would eventually win the war. When the war came to a head in 1813–1814, Liverpool pushed the British economy and taxation base to its limits and achieved his objective, but it was the earlier sustained pressure that had led to this point. By comparison, Pitt's coalitions, maintained for short periods and based on exceptional strains to the British economy and government finance, had all failed, as did the Fifth Coalition of 1809.

Finance underpinned Britain's strategic position. Public spending had peaked at 24.8 percent of GDP in 1801, the last full year of the French Revolutionary War, and revenues were only 14.8 percent of GDP. Spending then rose further to peak at 25.1 percent of GDP in 1809, a level that could be sustained but hardly increased. The deficit at 3.8 percent of GDP in 1809 had been better controlled than under Pitt—an average of 4.0 percent of GDP in 1803–1810 compared with an average 8.9 percent of GDP in 1793–1801 and a fiscally horrifying 15.9 percent of GDP in the year to October 1797 (Mitchell 2011: 581, 587, 822).

Government deficits at this period were financed by two means. One was short-term Exchequer Bills, bought by the public market or the Bank of England as backstop, and bearing interest at typically just under 5 percent per annum. Long-term financing consisted primarily of Consols, perpetual bonds mostly bearing a typical 3 percent annual interest rate but issued at a deep discount in wartime when interest rates were higher.

This system of financing brought important benefits. The prices of 3 percent Consols were low during wars, generally between 50 percent and 60 percent of par, giving a yield in the 5–6 percent range. When peace returned, their prices would rise. Since government debt was the people's principal investment asset, representing around 260 percent of GDP at its peak in 1819, the "wealth effect" of this price rise was considerable. More than 70 percent of GDP was added to bondholders' wealth in this way between the price nadir of 1813 and the postwar peak of 1824, providing much of the finance underpinning the "take-off" stage of the Industrial Revolution (see Hutchinson and Dowd 2018).

Throughout the remainder of the war Liverpool steered a careful path allowing a substantial and increasing war effort to be financed without jeopardizing government credit. After 1812 as Prime

Minister, he had the able Nicholas Vansittart to assist him as Chancellor of the Exchequer. It was a close-run thing; Britain's budget deficit in 1812 was 8.1 percent of GDP, rising to 12.1 percent in 1813 (Mitchell 2011). In 1813, the government's needs were especially difficult to finance, and Liverpool and Vansittart were repeatedly forced to beg the Bank of England for credit. Fortunately, news of Wellington's victory at the Battle of Vitoria arrived in early July, and thereafter improved market confidence made it easier to finance growing government borrowing, much of which was used to subsidize continental allies.

There was one final bout of financial difficulty after Napoleon returned from Elba in March 1815. Vansittart raised two loans to meet the emergency, one of £18 million proceeds and a second of £27 million, the largest financing ever attempted to that date, undertaken on June 14, four days before Waterloo. By contrast, Napoleon had raised less than 3 percent as much.

Agriculture and Trade

A pressing problem facing Liverpool as the war ended was how British agriculture should transition from war to peace. During the war, Britain had been forced into agricultural self-sufficiency, most notably during Napoleon's 1807–1812 Milan Decrees. This agricultural policy had required planting much inferior agricultural land. Corn prices were unprecedentedly high, and there was much hardship for the poor, especially in dearth years. With British agricultural wages higher than in Europe, he was concerned that a policy of zero protection would undermine British agriculture, which would not recover for a very long time and leave the country dangerously vulnerable to blockade in any future war. He was also concerned about balance across different taxes and tariffs: woolen, cotton, pottery, and other industries were all subject to a high protective tariff, so agriculture should be similarly protected. Even if agricultural protection raised the cost of manufacturing labor, he doubted this would cause emigration or hinder manufacturing, since British wages were relatively high compared to those of other countries and manufacturers testifying to Parliament had confirmed that cheapness of capital, credit, and fuel were far more important advantages to British manufacturing than cheap labor. In general, Liverpool believed that the balance of economic advantage for Britain lay with dearer corn and higher wages, rather than attempting to achieve rock-bottom labor costs.

Liverpool's solution was the Corn Laws, prohibiting imports when corn prices were below 80 shillings a quarter, a threshold that could be adjusted quickly if need be, and freeing imports when prices were higher than that, while for the first time, following the 1801 Act of Union, allowing free grain supply from Ireland.

Ever since the agitation for their repeal from the late 1830s, the Corn Laws have been much criticized. There was no doubt that, as Liverpool freely admitted, the Corn Laws would need to be modified as peacetime conditions returned and wartime inflation was wrung out. However, the agricultural distress of 1820–1823, as wartime debts proved onerous and prices fell, suggested that protectionist measures had been appropriate during the postwar period, though a relaxation of the law was instituted in 1822 and a further relaxation was designed by Liverpool with Huskisson in 1826–1827. The principle of balance in both taxation and tariffs between different sectors and interests was an important one, abandoned by Peel in his Corn Laws repeal of 1846.[4]

Postwar Fiscal Policy

After Waterloo, the government had to address its fiscal and debt position. Public debt was far over 200 percent of GDP and the budget was heavily in deficit, with debt interest payments absorbing well over half the government's normal funding sources (i.e., excluding the Income Tax, which was abolished in 1817). The budget was balanced in 1818 and kept in surplus thereafter. The government's rigorous austerity program saw noninterest public expenditure cut by a remarkable 67.2 percent from 1814 to 1817. By 1825, at the top of the major economic boom and 10 years into peacetime, noninterest government expenditure was reduced by a further 8.5 percent. The natural buoyancy of revenues had by then been used to produce major tax reductions, mostly in tariffs and excises, as well as a

[4] The Corn Laws also extended protection to Ireland, whose low labor costs and benign climate made it highly competitive against British corn producers. This was to give some protection against the potato blight of the 1840s; 18 percent of Irish arable land grew corn in 1847. The Corn Laws' repeal in 1846 did nothing to alleviate the famine and removed a useful source of Irish agricultural income.

substantial budget surplus (Mitchell 2011: 581, 587, 822). Britain's debt to GDP ratio peaked at around 260 percent in the recession year of 1819 and fell below 200 percent in Liverpool's last year of 1827 (Mitchell 2011: 601, 822).[5]

Liverpool's reduction in Britain's debt burden thus set up Victorian prosperity and gave Victorian Chancellors of the Exchequer far more room for fiscal maneuvering than Liverpool and Vansittart had. Only once in subsequent British history has Britain's debt to GDP ratio been so high—in 1945, after World War II. On that occasion, the problem was solved through inflation, so that by 1975 the 3 percent War Loan had returned holders a 90 percent real loss.

Economic Policy in the Aftermath of the War

The period 1815–1820 saw massive economic disruption caused by the end of two decades of war, the largest natural failure of the European harvest in 1816 and a severe deflation caused by the return to gold. The British economy was also going through changes unprecedented in world history. The French economist Jean-Baptiste Say visited Britain in late 1814 and set out his impressions in a pamphlet *De l'Angleterre et des Anglais*. Say wrote:

> But it is principally the introduction of machines in the arts, which has made the production of riches more economical. There are almost no big farms in England, where for example, threshing machines are not used, by means of which, in a large operation, more work is done in a day than was done in a month by ordinary methods.
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> At last human labour, which has rendered the high cost of consumer goods so expensive, is in no circumstances replaced so advantageously, as by steam engines . . . . There is no work which cannot be . . . executed by them. They go to the mills, weaving cotton and wool; they brew beer, they cut crystals. I have seen them embroider muslin and beat butter. At Newcastle, at Leeds, I have seen moving steam engines dragging after them carts of coal; and nothing is more surprising, at first sight, for a traveller, than to meet in the country long convoys which advance by themselves and without the help of any living being.

[5] See also www.ukpublicspending.co.uk.

> Everywhere steam engines are prodigiously multiplied. There were no more than two or three in London thirty years ago, there are thousands at present. There are hundreds of them in the large manufacturing towns; one sees them even in the countryside, and industrial works could not be sustained profitably without their powerful help [Say 1815].

Say also believed that the size of Britain's government, and the charges on the national debt would make British goods forever uncompetitive in European markets.

The Liverpool government freed the British private sector to compete by swingeing cuts in public spending. After an inevitable period of postwar retrenchment lasting two years and exacerbated by the "Year without a Summer" in 1816, caused by the Mt. Tambora eruption, the economy recovered rapidly in the second half of 1817 and 1818. There was then a second downturn, presumably due to the sharp deflation surrounding the 1819–1821 return to the gold standard, after which the economy took off, producing levels of real economic growth never before seen. There was a banking crash at the end of 1825, so 1826 saw a further mild recession, but recovery was returning from the middle of that year and continued into 1827.

Before 1820, the Liverpool government was responsible for two pieces of economic legislation that had positive long-term effects. The Savings Bank Act of 1817 established what were to become known as the Trustee Savings Banks. The Act provided for savings banks administered by unpaid trustees, which would be required to invest their money only in government securities or deposits at the Bank of England.

The Savings Bank Act was one of the Liverpool government's most important pieces of legislation. Even by 1825, only eight years after the Act, savings bank deposits had grown to £13.3 million, 27 percent of the share capital of the Stock Exchange that year (Mitchell 2011: 671). Trustee savings banks were to be a major feature of the British financial landscape until the 1980s.

The central principle, that savings banks could buy only government bonds, gave working-class savers security for their holdings in them. In the early years it also allowed the savings banks to grow their capital, since the Consols in which they invested increased sharply in value. It also separated the capital accumulation and protection function of financial institutions from their lending function, to the great benefit of the saving public and the financial system.

Liverpool also supported government's first step in regulating child labor, the Cotton Factories Bill passed in 1819. This legislation forbade the employment of children younger than 9 in cotton factories and limited their working day to 12 hours until the age of 16. The Tories generally supported it, while the Whigs, especially those of Benthamite predilections, were opposed.

Liverpool's speech introducing the Second Reading was brief and eloquent. "I highly approve of the Bill and consider it so much a principle of the common law of the land that children should not be overworked, that I desire some words to be introduced into the bill to declare this fact," he began. "I agree . . . that free labour ought not to be interfered with, however unwholesome or deleterious might be the nature of the manufacture; but to have free labour, there must be free agents, and I contend that the children to whom this bill applies are not free agents, . . . nor is there any doubt that such excessive labour is highly injurious to them."[6] The following day, he reinforced this view: "Is it possible to say that children compelled to labour more than fifteen hours a day are not overworked? What evidence could [negate] that proposition? If all the medical staff of Manchester were brought before the bar to prove it, I would not believe them."[7]

The Return to Gold

The centerpiece of Liverpool's economic management was Britain's return to the Gold Standard, legislated in the Parliamentary session of 1819 and coming into effect on May 1, 1821. The Bank of England had suspended cash payments in gold in 1797, and the gold price had moved ever since at a fluctuating premium of up to 30 percent from its par value of £3/17/10½ per ounce of 22-carat gold. Parliament's Bullion Committee of 1810 had examined the matter and recommended a return to gold when the war ended, or earlier if possible, but at Liverpool's behest Parliament had prolonged the payments suspension annually since 1814.

[6] Hansard (1818): Vol XXXVIII, cols. 548–49 (May 7).
[7] Hansard (1818): Vol. XXXVIII, col. 582 (May 8).

In January 1819, the Committee of Treasury of the Bank of England had a preliminary meeting with the government to discuss possible resumption and expressed serious reservations about doing so in the near term.[8] On February 2, Liverpool proposed a Secret Committee of Inquiry on payments resumption, which should both consider evidence and draw conclusions. Select Committees from the Commons and the Lords were then appointed for this purpose. Reports from the Select Committees presented on May 6 and 7 recommended returning to the old par gradually, to minimize inconvenience. By this time, the economy had turned down, with the temporary euphoria of 1817–1818 having ended and a deflation in anticipation of the return to gold having set in. There was some excuse for nervousness; Nathan Rothschild had told the Commons that resumption of gold payments would cause "a great deal of mischief" given that money would be "so very scarce, that every article in the country would fall to such an enormous extent, that many persons will be ruined."[9] Liverpool however recognized when a banker was "talking his book": the exchange business (while sterling floated) was highly profitable to the Rothschild house.

The Bank of England Court of Directors met to consider the Secret Reports of the Lords and Commons, saying it "cannot but contemplate with the greatest anxiety" the proposed plan for resumption. It suggested that the Bank's obligation to supply bullion should be at the market price, not at £3/17/10½ per ounce.[10] Then on May 20, the Bank relented somewhat but still professed a "repugnance, however involuntary" to a system in which they would have little control over note issuance, since it would be set by market demands and the gold parity.

The debate proper on May 21 began with Liverpool producing the Bank's letter of May 20. After deprecating further delay, Liverpool gave his views on resumption. There were three questions to be considered, he said: whether to return to a fixed standard of value, whether to return to the pre-1797 standard, and how it was to be done.

[8] Bank of England, Court Minutes, January 26, 1819.

[9] Quoted in Kynaston (2017: 113).

[10] Court Minutes, May 18, 1819.

On the first issue, while there was no doubt that the bank restriction had enabled Britain to survive the war, it could not be a permanent part of the country's economic system, even in future wars, which were unlikely to be so total as that against Napoleon. As for the question of whether there should be a fixed standard:

> No body of men, I believe, was ever entrusted with so much power as the Bank of England, or has less abused the power entrusted to them: but will parliament consent to commit to their hands what they would certainly refuse to the sovereign on the throne, controlled by parliament itself—the power of making money, without any other check or influence to direct them, but their own notions of profit and interest?

As for returning to the former standard,

> Policy, good faith and common honesty call on the state to return to this ancient standard, if possible. . . . I am prepared to show that it is not only practicable, but that no permanent inconvenience can arise from the adoption of the principle I recommend.

Gold had returned from a price 30 percent above the standard between 1813 and 1816 and was now only 3 percent above.

Liverpool ended by advocating that the House accept the Committees' recommendations:

> My own persuasion is . . . that most, if not all the inconveniences that might be incurred from the experiment, have been incurred already, and that if parliament will steadily adhere to the course recommended, it will see the ancient standard of the country restored without material distress to any class of his majesty's subjects.[11]

The bill was passed.

Liverpool had pushed resumption against strong opposition from the City and the Bank of England. His judgement that gold payments could be resumed at the old rate "without material distress" was overstated, however. The deflation necessary to accomplish this caused a

[11] Hansard (1819): Vol XL, cols 610–28 (May 21).

28 percent further decline in prices between 1818 and 1821 and another sharp recession (Mitchell 2011: 722). However, the economic downturn, while severe, was concentrated in the manufacturing districts of northern England and west-central Scotland. This concentration suggested that the recession's cause was indeed monetary stringency (having caused manufacturing credit to seize up) rather than a general downturn. The 1819 recession was highly localized and short, but not as deep as that of 1816–1817, and ended in the first months of 1820. By the end of 1820, the economy was considered sufficiently strong for full convertibility, which was resumed on May 1, 1821.

Toward Free Trade

In May 1820, Liverpool announced the government's move toward a policy of free trade, pivoting British economic policy toward the removal of trade restrictions and instituting the principal British economic policy of the next 40 years, which was eventually to culminate in the 1860 Cobden-Chevalier Treaty.

In a speech on May 16, Liverpool had expressed his enthusiasm for machinery:

> I will take the opportunity of telling you that, next to the spirit of her people, England is indebted for her commercial power and greatness to the inventions which this people have made in machinery. It has given, as it were, legs to the lame and sight to the blind: it has inspired the dull with enterprise, and to the enterprising has given additional energy; it has placed the country . . . on a level with the most favoured nations, and has enabled its merchants, who pay a heavy price for labour, to compete with other nations, who pay but a trifle for it.[12]

On May 26, responding to a pro–free trade motion by the Whig leader Lansdowne, Liverpool agreed on the advantages in principle of free trade:

> I can entertain no doubt of what would have been the great advantages to the civilized world, if the system of unrestricted trade had been acted upon by every nation, from the earliest

[12] Hansard (1820): Vol. I, cols. 417–22 (May 16).

> period of its commercial intercourse with its neighbours. If to those advantages there could have been any exceptions, I am persuaded that they would have been but few. . . . But my lords, we are now in a situation in which . . . it is impossible for us, or for any country in the world, but the United States of America, to act unreservedly on that principle. The commercial relations of the European world have been long established and cannot suddenly be departed from.[13]

In modern terms, Liverpool supported the principle of multilateral free trade, but was opposed to unilateral free trade. One must keep in mind that the United Kingdom at the time no longer had an income tax, so tariffs were an important source of government revenue.

In general, Liverpool welcomed the idea of examining opportunities to free trade and ended by concurring with Lansdowne's motion, though he believed the benefits likely to be less than Lansdowne thought.[14]

Following Liverpool's speech, a Select Committee of the Commons was appointed on June 5, which recommended the greatest practicable measure of free trade, including the relaxation of the navigation laws, the extension of the warehousing system, and the simplification of commerce laws.

Reform of Workers' Rights

From 1820, the Liverpool government was a reforming one. The most significant economic legislation of this period was an 1824 trio of bills relating to workers' rights. One repealed the 1799–1800 Combination Acts and earlier anticombination legislation, thus allowing free collective bargaining and the legal formation of trade unions. Another abolished the punitive 1719 legislation forbidding "artificers" from emigrating, and the third set up arbitration provisions for disputes between masters and workmen.

Regrettably the legalization of free collective bargaining, together with the peak of the 1820–1825 trade cycle, was followed by a massive outbreak of industrial unrest, with a five-month strike in the cotton industry from August 1824 to January 1825. In response, the

[13] Hansard (1820): Vol. I, cols. 565–94 (May 26).

[14] Hansard (1820): Vol. I, cols. 546–65, 565–94 (May 26).

Combinations of Workmen Act 1825 made combinations illegal beyond those with the sole purpose of raising wages or depressing working hours. Within those narrow restrictions, trades unions remained legal, although they also remained liable for damages caused by industrial action and could not legally coerce workers to join them. This was probably the optimal structure of trades union legislation; the liability for damage was removed by a combination of Gladstone's 1871 legislation and Disraeli's further liberalization of 1875, which together wrecked British labor relations and took over 100 years to reverse.

The 1825 Financial Crisis and Subsequent Reform

Liverpool's final economic achievements were his handling of the December 1825 financial crisis and the banking reform he instituted afterward. The proximate cause of the overspeculation and subsequent crisis was the proliferation and expansion of weak country banks in the prosperity of the early 1820s. Banking law at the time restricted banks to a maximum of six partners, making most of them small and undercapitalized. Country banks could issue £1 and £2 notes with no restrictions on their gold reserves. Liverpool had already warned of the excessive number of country banks in 1817; by 1825, after a period of excessive speculative activity, especially in foreign bonds, the problem was out of hand. The issue of notes by country banks, which had increased by 50 percent in the year to July 1824 had increased by a further 31 percent by July 1825, to almost double the level of only two years previously.

Anticipating a crisis, Liverpool made a famous House of Lords speech in March 1825. He began by claiming that speculation was unavoidable and, within limits, beneficial.

> In a moment like the present, in a time of profound peace, and when the interest of money is low, it is to be expected that speculation will exist in a very considerable degree. To this, I have no objection, but I wish that the public should be set to rights as to the situation in which they stand.

He then asked what the position of the public would be if there were a war or any "embarrassing event" short of war. In the recent war, when commercial embarrassments occurred, bankers and merchants had been helped through issues of Exchequer bills.

He continued:

> I wish it, however, to be clearly understood, that those persons who now engage in Joint-Stock Companies, or other enterprises, enter on these speculations at their peril and risk. I think it my duty to declare, that I never will advise the introduction of any bill for their relief; on the contrary, if such a measure is proposed, I will oppose it, and I hope that parliament will resist any measure of the kind. I think that this determination cannot be too well understood at the present moment, nor made too publicly known.[15]

We frequently hear that it is impossible to spot a bubble while it is in progress; well, Liverpool did so, even though there had not been a financial bubble since 1720. His firm declaration against bailouts, which he stuck to when the crisis erupted,[16] was courageous and economically sophisticated.

The first signal that something was seriously wrong came at the end of October when the merchant Samuel Williams closed its doors. The money market was tight through November, alarmingly so in the last week, when the Bank of England continued draining gold from its domestic correspondents rather than seeking it abroad. Then on December 3 the major private bank Pole, Thornton came close to failing, and the following day the Bank of England agreed to provide £300,000 in loan capital to bail it out. But the pressure continued and Pole, Thornton was forced to close its doors on December 10. Because of Pole, Thornton's extensive network its failure triggered the failure of 38 country banks, and by the end of the crisis 73 of the 770 country banks in England and Wales had failed, as well as 3 of the 36 banks in Scotland (Neal 1998: 64). On December 13, Liverpool and Robinson, "in order to relieve present distress," ordered the Bank of England to purchase £500,000 in Exchequer Bills on the government's behalf and agreed to cancel them immediately if necessary.[17] The climax of the crisis came on December 16, when the Bank of England itself came close to stopping gold payments.

[15] Hansard (1825): Vol. 12, cols. 1194–95 (March 25).

[16] Liverpool was not however averse to short-term liquidity support to the financial system, as his subsequent conduct showed.

[17] Court Minutes, December 13, 1825.

On that day, a Cabinet meeting was called to discuss what should be done. The Bank was down to £100,000 in gold coin and wanted to suspend payments. Eventually, the Cabinet merely agreed to encourage the Bank temporarily to issue £1 and £2 notes, which it began the next day. In the event, £150,000 in sovereigns had arrived from the Continent that morning and Rothschild paid them immediately into the Bank.

On December 20, large shipments of gold began to arrive from the Continent, the first of £200,000 in sovereigns ordered by Rothschild. Although the Bank's gold reserves did not bottom out until December 24 at £1,027,000, slightly below the nadir of February 1797, but without anything like so serious a crisis to excuse it, the worst of the crisis was now over.

The next question was how to avoid future financial crises or limit their damage. After some consultation, he decided on a plan, which he outlined to the Bank's Court on January 13.[18] He proposed three remedies to the banking system's problems. First, the Bank of England should open branches, thus enabling gold to circulate more easily around the country's various economic centers. Second, country banks should no longer be allowed to issue £1 and £2 notes. Third, the prohibition established in 1708 against banks having more than six partners should be removed, so that country banks more than a certain distance from London could have unlimited numbers of partners or be capitalized on a "joint-stock" basis with limited liability. The Court eventually agreed to these proposals, subject to the additional stipulation of a prohibition against other banks' paper being paid in London.

In Liverpool's speech on the opening of the 1826 Parliamentary session, he summarized the problem with the six-partner limit on country banks: "Any small tradesman, a cheesemonger, a butcher or a shoemaker, can open a country bank; but a set of persons with a fortune sufficient to carry on the concern with security are not permitted to do so."[19]

On February 17, Liverpool moved the second reading of the Country Bankers Act of 1826, which allowed joint-stock banks with limited liability and banking partnerships with more than six partners to be formed and to issue bank notes of £5 or more, provided they

[18] Court Minutes, January 20, 1826.

[19] Hansard (1826): Vol. XIV, cols. 15–20 (February 2).

were more than 65 miles from London. He began by recalling the previous year's speculations, and his warning against them, which had included a caution against the part played by country bankers. "I do not think that all these speculations and gambling transactions could have been carried to the degree they were carried, if they had not been aided by [expansion of] the paper currency." Paper currency expansion had come from two sources: the Bank of England and country banks. The Bank's note issuance did not affect the exchanges, Liverpool's favorite indicator, until September 1824, and from March 1825 onward was already being brought back under control.[20] Country bank note issuance, on the other hand, had doubled between 1823 and 1825. Thus, whatever reduction in the paper circulation was made by the Bank of England was more than made up for by the increase in the country banks' circulation, which had facilitated speculations that then failed and brought many of the country banks down.

The government therefore had proposed two remedies, one for removing £1 and £2 notes from circulation and the other in the proposed Country Bankers Act. Withdrawing notes from circulation and replacing them with metal would considerably check the circulation that trade required, and cause distress. However, the measure was necessary; otherwise "the country might be left in a state of perfect delusion" even while the Bank of England reduced its own issues. Moreover, since commercial crises were inevitable, "it is necessary to provide some protection . . . to the poorer classes" who could be left destitute by the failure of their local banks. In the recent crisis, working men who had received their pay in worthless banknotes could be seen hawking them around at 5 shillings in the pound, to buy necessities.

As on economic questions throughout his career, Liverpool's leadership on bank reform was decisive, carefully thought out, and economically sound. The move to joint-stock banking was a reform that is with us today. Liverpool's reform stabilized the British banking system and made bank failures almost unknown—the next big British bank failure was to be Overend, Gurney & Co. in 1866.

On February 17, 1827, Liverpool suffered an incapacitating stroke, which forced him to retire. He died on December 4, 1828.

[20] Figures based on Gayer, Rostow, and Schwartz (1953): Vol. I, 202.

Conclusion

Over 15 years, Liverpool won the war, brought Britain's budget and debt under control, reestablished the gold standard, and led the country through a rapid acceleration in its industrialization, among other achievements. His administration set up the conditions for the century of peace and prosperity that followed. Economically, his record is unmatched.

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