Economic Regeneration through Banking Reform

A Report to the Chancellor of the Exchequer
by the
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I

The bank, which was a banking system free of all but the most

interference, or controls. The engine behind that remarkable
growth was a banking system with no party and did it without government activity.

Scotland raised its standard of living from half that of England
forward towards a more prosperous future. Between 1750 and 1844,

the example of an earlier period which well indicates the way
but, if failure is the predominant feature of post-war policy
unemployment existed, while the role of government was largely
creating transient growth at the cost of long-term depression and
and the welfare of society, and of periodic bouts of inflation.

Despite the aid they received while the areas financing regional

in the light of actual experience, or deplorable areas remaining so
both views have become progressively more difficult to sustain.

Supply, spending, financed as often as not through inflation of the money
way to generate growth in general. As through increased government
and cheap loans. Equally, it has been commonly argued that the

cars, and through positive measures such as subsidies, grants,
through negative measures such as fiscal and developmental certif-
poorer parts of Britain was through government intervention.
world war that the way to bring about economic growth in the
It has been the common belief that since at least the second

Introduction
ness. Anyone who wished to establish a bank could do so and
years on precisely the same footing as any other kind of busi-
From that date, banking in Scotland operated for nearly 130
In 1716, another Bill was passed, the Banks Act of 1716, which
stituted until 1822, whereas the Bank of Scotland's monop-
years, the Bank of England enjoyed a much more privileged post-
years, the Bank of England enjoyed a much more privileged post-
corner monopoly of banking within Scotland for only twenty-one
ending to the state). While the Bank of Scotland was given a
money to the government, the Bank of England was founded in 1695
called, whereas the Bank of England was founded in 1694 to lend
From the start, Scottish and English banking differed dramati-

Freedom and Restrictions - the contrasting consequences

economy has ceased for their customers,
which British banks have to operate and the consequences that
would seem appropriate for a radical review of the regime within
societies are increasingly offering banking-type services, it

and when non-banking financial institutions such as building
let operations with its English affiliate, Williams & Glyn's,
joint-stock bank, when the Royal Bank of Scotland is integrating
gamut of the Trustee Savings Bank movement into a new national
At a time when registration is promised to complete the amal-
Issues of notes deposited at another bank, except issues of notes supported by gold or some more acceptable notes, a process facilitated by the early development of a clearing system, returned for payment in gold or some more acceptable notes, a process which attracted the public's attention to accept them and they were quickly accepted almost immediately. It was the competitive advantage that brought monetary stability and economic growth.

In the case of the Royal Bank of Scotland, the collapse of the anonymous bank in 1772, for example, left all the liabilities of the bank and in virtually every case all the liabilities were met in full, ability was not a failure. In fact, failures were rare.

In the case of the Royal Bank of Scotland, the customers and public could judge the bank's ability on the part of their partners or shareholders. Since in 1772, all further banks were required to accept unlimited acceptability, after the formation of the Royal Bank of Scot...
Having to redeem them, it was urgent, for the private enterprise
passage of a series of Acts of Parliament to protect it from
serious overissuing the notes and thereby finding a back on the
issue of the Bank of Scotland was periodical quantity
protection of the privileged position and the limited liability
responsibility behaviour of the Bank of England. Beyond the
management, they could not insulate themselves from the often
small. While they were under the same pressure towards prudent
the Bank of England ensured that banks were largely local and
in England the restrictions imposed to protect the position of
greater strength and confidence.
restriction on the use of Scottish bank notes because of their
commercial and Westminster Parliament the government against any
to the notes of the local banks. Indeed, in 1826, ciphers of
circulated freely throughout the North of England in preference
because England followed suit during the First World War but also
took the place of currency in common usage well over a country
favorably were Scottish bank notes regarded that they not only
the dramatically different situation in England. So much more
upon favorably by Karl Marx among others, and contrasted with
out the eighteenth and early nineteenth centuries was commended
the remarkable monetary stability enjoyed in Scotland through-

powerful.

Utilities. The pressures operating to encourage prudence were
failure and the possibility of the proprietors having to meet the
bank notes, therefore, brought the guilty bank face to face with
system controlled by the bank of England.

Despite the clear and obvious superiority of the Scottish system of free banking, it was the history of crisis and failure that led to the 1844 and 1845 legislation which introduced the controls that have led, gradually but inevitably, to the present position of a centralized banking system. The problems were the overissue of notes by the bank and that the country's monetary problems, reported in 1810 that the cause of which was the chaos created by the bank of England that the country should be saved. The effect of notes for gold could be resumed. The center, conversely, only solution lay in reducing the issue to the point where redeemability would be maintained.

Recession, recession, recession! As the measures taken to protect banks in all closed their doors, an average of one in 250 per bank by the Bank of England, whereas an average of one English bank in the British colonies failed at least between 1809 and 1830, only seven Scottish banks failed yearly between 1809 and 1830, only seven Scotch banks failed yearly between 1809 and 1830, only seven Scotch banks failed yearly between 1809 and 1830. The cycles of monetary expansion and contraction that England, the world's largest economy, suffered were largely the responsibility of the Bank of England. They could not escape the consequences of this irresponsible...
Last to lose it was Fox, Power & Co., Ltd., of Wellington in
and no bank has retained the right to issue its own notes. The
banking is now concentrated in the hands of the big four banks.
Two-thirds of the bank notes in circulation there, in England,
Scotland have fallen to three although they still account for
the results were predictable. The number of joint-stock banks
were created.
To ensure that few if any new banks were ever created,
other restrictions this worked effectively
In neither country was the establishment of any new banks of
cultivating within England.
was already responsible for nearly two-thirds of the notes at
monopoly over the printing of bank notes. At that time the bank
visions deliberately designed to bring about a bank of England
bank or set up businesses within sixty-five miles of London, pro-
issue only so long as they neither closed, merged with another
notes. Henceforth they were allowed to maintain the same levels.
In England there were 279 banks, entitled to issue their own
entertainments, but any which went out of business lost the right.
with which merged could continue their
bank of England notes). Banks which merged could only be covered by gold (or later by
additional notes would have to be covered at that level but any
had nineteen banks issuing their own notes. Henceforth they were
when the mid-nineteenth century controls were imposed Scotland
such innovation tends to be more attractive\npackage of banking services than the banks themselves.
commercially. It is now often the building societies that offer a
realistic threat to their operations to the needs and demands of their
customers. Furthermore, each of the new or different services and
institutions that have demonstrated both the variety and quality of service, increasingly, it has
become apparent that there is a clear choice for the consumer and a reduction in
the results of this concentration of banking services has been

Monopolies and mergers Commission's

were stopped by the government after an adverse report from the
Bank of Scotland, and a base for their operations within Britain
Hong Kong and Shanghai Banking Corporation to take over the Royal
and Standard Chartered Bank and the

significant entry into the United Kingdom, attempts by British
new banks and reinforced by barriers to overseas banks making a
comparable has been aided by the effective ban on the formation of
this centralisation of banking into the hands of very few large
giving banks and is, therefore, 14% owned by Lloyds Bank
while the Royal Bank of Scotland is 25% owned by Barings Bank
and Midland Bank. The Bank of Scotland is wholly owned subsidiary of the
Clydesdale. The Clydesdale Bank is a wholly owned subsidiary of the

In addition to this concentration within each of the two
Somerset, which merged with Lloyds in 1921.
basing the existing big three Scotch banks. Such a step

transition of the new bank to be able to issue bank notes on the same

normal joint-stock company made provision for the Scotch sec-

forthcoming Bill to establish the Trustee Savings Banks as a

British banking system described earlier could be captured if the

as a preliminary step, some of the benefits of the Liberal Scot-

FUTURE POLICY

To a lesser extent, the rest of Britain,

coupled and funded the economic development of Scotland and,

freedom and competition upon which previous generations of banks

whole basis of our banking policy with a view to restoring the

In these circumstances there is a clear need to rethink the

with the establishment of the TSB, the creation of the Inter-

competition from new banking companies.

in England that there is unlikely to be any significant increase in

of new banks is currently so strictly controlled by the Bank of

from a source that already exists. And, again, the establishment

however, be competition strengthened only

that is in market contrast to the established corporatisation of its

large banks. It has already shown a willingness to experiment

The reorganisation of the Trustee Savings Bank will certainly

commercial customer rather than at the industrial or
To go far further and work towards the restoration of free
the public preferred them to the unpopular £1 coin.
by the Scottish ones to continue to produce £1 notes so long as
private demand, that the English banks would follow the lead taken
in the forms of currency they used. It is likely, in the face of
loss of income but would restore to the public a degree of choice
issue to all major banks would involve the Treasury in a multitude
Scottish banks, extending the right to such a non-electronic
issued, even on request, by any of the English branches of the
land although they lack the status of legal tender and cannot be
dated bank, Scottish bank notes already circulate freely within buy-
4 per cent Scottish bank and even that is 3½ owned by Barclays
bills of Scotland and will be able to claim to be
Royal Bank and the wholly owned subsidiary status of the Clydes-
with the establishment of the TSB, the creation of the integrated
distinctions between Scottish and English banks are diminishing.
Major banks operating in Britain. As already pointed out, the
notes covered by holdings of Bank of England currency to all
not would it be a major step to extend the right to issue bank
English bank.
in size from the Clydesdale bank, it itself also a subsidiary of an
and equal terms within Scotland where it will be little different
the TSB to compete with the existing joint-stock banks on equal
by a holding of Bank of England notes. It would, however, allow
over the economy, since each note issued would have to be covered
would involve no cost to the Treasury nor any loss of control.
...centuries by earlier banks in England, but responsibility in England during the eighteenth and early nine-
...stability. Scotland and still exist today as striking evidence of their
...that this is essential. In the Scottish experience, the two
...may be that the granting of that right to any individual bank
...neary 130 years, would require the existing banks should be
...baking as it was practiced so successfully in Scotland for
Lished confidence in bank notes and the readiness availab... that the total note issue and might well be minute given the long estabished past experience has shown, would be small in relation to the be so, particularly in the longer term, the amount involved, as... their customers, while likely to be good it need not necessarily demand of their notes would have to reflect the preferences of... what backing the banks choose to hold against demands for red-

Economy. Activity creates additional, beneficial effects elsewhere in the newly formed ones. And, of course, any increased economic and enterprise of the existing banks and the added initiative of national business activity created by the newly regained freedom further additional tax revenues will be generated by the addit-

ional taxes arising from the issue of unbacked bank notes. Yet positive effect is likely to be once the transition is made the final effect is likely to be... by the issue of additional or long, any sudden loss. Moreover could be spread in gradually to avoid... 200 million the process... while a complete loss of the note issue will cost the govern-

ment (through the Bank of England) £1,200 million. The process prove attractive to the commercial banks, except perhaps with regard to the issue of coins which might not be followed by the ending of the case department of the Bank of England, and issue of bank notes to joint-stock banks should be accompanied for these reasons, any expansion of the right to a liquidity...
tion of the Bank of Scotland in 1695 up to 1841, the Scottish country and did so without significant failure. From the form-
sufficient to fuel the dramatic industrial development of the government interference. It provided services to its customers
For 130 years, a banking system operated in Scotland free of

Concussion

sectors or entirely new companies were removed. Banking, be they established institutions in other functional
proposed reforms, it would help if barriers to new entrants to
matched by the establishment of new companies. As part of our
century controls were imposed, the number of banks fluctuated but
did not decline markedly. Additional controls and closures were
enforced by a small handful of banks. Before the nineteenth-
dominance was limited. The result has been very restricted competition in a market
to the United Kingdom. As noted above, no new banks were formed in the United Kingdom. An act of 1844 and 1845 effectively ensured that
also removed. The acts of 1844 and 1845 effectively ensured that
in doing so it the barriers to the formation of new banks were
England to near parity, it would be much more likely to succeed
property of Scotland in little more than a century from half of
would stimulate the kind of enterprise that helped raise the
while freeing the commercial banks from Bank of England control

Less attractive than bank notes.

that now characterize the value of gold may well work to make it
gold for anyone who wishes to buy it. Indeed, the fluctuations
banking public lost a total of only £32,000 through bank failures. Under the regulated English system, losses in London in 1840 alone were double that: and in England, a banking system restricted and controlled by the government with the Bank of England enjoying a privileged and protected central position in fact saw recurrent crises with widespread failures resulting from periodic inflation of the currency.

It was to deal with the difficulties created within England that the controls of 1844 and 1845 were imposed, and Scotland was forced to accept the same system. Henceforth, the Bank of England had an effective monopoly over the creation of money with the resultant government interference, both direct and indirect, that has created recurrent bouts of inflation and deflation with all the economic disruption they cause.

It is an appropriate moment to rediscover the Scottish experience of free banking and apply the lessons it has to offer to the Britain of the late twentieth century and the early twenty-first.