



Lombard Street

WALTER BAGEHOT

JVA EDITORA

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A Description of the Money Market.

By WALTER BAGEHOT

CHAPTER I.

Introductory.

I venture to call this Essay 'Lombard Street,' and not the 'Money Market,' or any such phrase, because I wish to deal, and to show that I mean to deal, with concrete realities. A notion prevails that the Money Market is something so impalpable that it can only be spoken of in very abstract words, and that therefore books on it must always be exceedingly difficult. But I maintain that the Money Market is as concrete and real as anything else; that it can be described in as plain words; that it is the writer's fault if what he says is not clear. In one respect, however, I admit that I am about to take perhaps an unfair advantage. Half, and more than half, of the supposed 'difficulty' of the Money Market has arisen out of the controversies as to 'Peel's Act,' and the abstract discussions on the theory on which that act is based, or supposed to be based. But in the ensuing pages I mean to speak as little as I can of the Act of 1844; and when I do speak of it, I shall deal nearly exclusively with its experienced effects, and scarcely at all, if at all, with its refined basis.

For this I have several reasons,—one, that if you say anything about the Act of 1844, it is little matter what else you say, for few will attend to it. Most critics will seize on the passage as to the Act, either to attack it or defend it, as if it were the main point. There has been so much fierce controversy as to this Act of Parliament—and there is still so much animosity—that a single sentence respecting it is far more interesting to very many than a whole book

on any other part of the subject. Two hosts of eager disputants on this subject ask of every new writer the one question—Are you with us or against us? and they care for little else. Of course if the Act of 1844 really were, as is commonly thought, the *primum mobile* of the English Money Market, the source of all good according to some, and the source of all harm according to others, the extreme irritation excited by an opinion on it would be no reason for not giving a free opinion. A writer on any subject must not neglect its cardinal fact, for fear that others may abuse him. But, in my judgment, the Act of 1844 is only a subordinate matter in the Money Market; what has to be said on it has been said at disproportionate length; the phenomena connected with it have been magnified into greater relative importance than they at all deserve. We must never forget that a quarter of a century has passed since 1844, a period singularly remarkable for its material progress, and almost marvellous in its banking development. Even, therefore, if the facts so much referred to in 1844 had the importance then ascribed to them, and I believe that in some respects they were even then overstated, there would be nothing surprising in finding that in a new world new phenomena had arisen which now are larger and stronger. In my opinion this is the truth: since 1844, Lombard Street is so changed that we cannot judge of it without describing and discussing a most vigorous adult world which then was small and weak. On this account I wish to say as little as is fairly possible of the Act of 1844, and, as far as I can, to isolate and dwell exclusively on the 'Post-Peel' agencies, so that those who have had enough of that well-worn theme (and they are very many) may not be wearied, and that the new and neglected parts of the subject may be seen as they really are.

The briefest and truest way of describing Lombard Street is to say that it is by far the greatest combination of economical power and economical delicacy that the world has even seen. Of the greatness

of the power there will be no doubt. Money is economical power. Everyone is aware that England is the greatest moneyed country in the world; everyone admits that it has much more immediately disposable and ready cash than any other country. But very few persons are aware how much greater the ready balance—the floating loan-fund which can be lent to anyone or for any purpose—is in England than it is anywhere else in the world. A very few figures will show how large the London loan-fund is, and how much greater it is than any other. The known deposits—the deposits of banks which publish their accounts—are, in

London (31st December, 1872) 120,000,000 L

Paris (27th February, 1873) 13,000,000 L

New York (February, 1873) 40,000,000 L

German Empire (31st January, 1873) 8,000,000 L

And the unknown deposits—the deposits in banks which do not publish their accounts—are in London much greater than those many other of these cities. The bankers' deposits of London are many times greater than those of any other city—those of Great Britain many times greater than those of any other country.

Of course the deposits of bankers are not a strictly accurate measure of the resources of a Money Market. On the contrary, much more cash exists out of banks in France and Germany, and in all non-banking countries, than could be found in England or Scotland, where banking is developed. But that cash is not, so to speak, 'money-market money:' it is not attainable. Nothing but their immense misfortunes, nothing but a vast loan in their own securities, could have extracted the hoards of France from the custody of the French people. The offer of no other securities would have tempted them, for they had confidence in no other securities. For all other purposes the money hoarded was useless and might as well not have been hoarded. But the English money is 'borrowable' money. Our people are bolder in dealing with their

money than any continental nation, and even if they were not bolder, the mere fact that their money is deposited in a bank makes it far more obtainable. A million in the hands of a single banker is a great power; he can at once lend it where he will, and borrowers can come to him, because they know or believe that he has it. But the same sum scattered in tens and fifties through a whole nation is no power at all: no one knows where to find it or whom to ask for it. Concentration of money in banks, though not the sole cause, is the principal cause which has made the Money Market of England so exceedingly rich, so much beyond that of other countries.

The effect is seen constantly. We are asked to lend, and do lend, vast sums, which it would be impossible to obtain elsewhere. It is sometimes said that any foreign country can borrow in Lombard Street at a price: some countries can borrow much cheaper than others; but all, it is said, can have some money if they choose to pay enough for it. Perhaps this is an exaggeration; but confined, as of course it was meant to be, to civilised Governments, it is not much of an exaggeration. There are very few civilised Governments that could not borrow considerable sums of us if they choose, and most of them seem more and more likely to choose. If any nation wants even to make a railway—especially at all a poor nation—it is sure to come to this country—to the country of banks—for the money. It is true that English bankers are not themselves very great lenders to foreign states. But they are great lenders to those who lend. They advance on foreign stocks, as the phrase is, with 'a margin;' that is, they find eighty per cent of the money, and the nominal lender finds the rest. And it is in this way that vast works are achieved with English aid which but for that aid would never have been planned.

In domestic enterprises it is the same. We have entirely lost the idea that any undertaking likely to pay, and seen to be likely, can perish for want of money; yet no idea was more familiar to our ancestors, or is more common now in most countries. A citizen of

London in Queen Elizabeth's time could not have imagined our state of mind. He would have thought that it was of no use inventing railways (if he could have understood what a railway meant), for you would not have been able to collect the capital with which to make them. At this moment, in colonies and all rude countries, there is no large sum of transferable money; there is no fund from which you can borrow, and out of which you can make immense works. Taking the world as a whole—either now or in the past—it is certain that in poor states there is no spare money for new and great undertakings, and that in most rich states the money is too scattered, and clings too close to the hands of the owners, to be often obtainable in large quantities for new purposes. A place like Lombard Street, where in all but the rarest times money can be always obtained upon good security or upon decent prospects of probable gain, is a luxury which no country has ever enjoyed with even comparable equality before.

But though these occasional loans to new enterprises and foreign States are the most conspicuous instances of the power of Lombard Street, they are not by any means the most remarkable or the most important use of that power. English trade is carried on upon borrowed capital to an extent of which few foreigners have an idea, and none of our ancestors could have conceived. In every district small traders have arisen, who 'discount their bills' largely, and with the capital so borrowed, harass and press upon, if they do not eradicate, the old capitalist. The new trader has obviously an immense advantage in the struggle of trade. If a merchant have 50,000 L. all his own, to gain 10 per cent on it he must make 5,000 L. a year, and must charge for his goods accordingly; but if another has only 10,000 L., and borrows 40,000 L. by discounts (no extreme instance in our modern trade), he has the same capital of 50,000 L. to use, and can sell much cheaper. If the rate at which he borrows be 5 per cent., he will have to pay 2,000 L. a year; and if, like the old

trader, he make 5,000 L. a year, he will still, after paying his interest, obtain 3,000 L. a year, or 30 per cent, on his own 10,000 L. As most merchants are content with much less than 30 per cent, he will be able, if he wishes, to forego some of that profit, lower the price of the commodity, and drive the old-fashioned trader—the man who trades on his own capital—out of the market. In modern English business, owing to the certainty of obtaining loans on discount of bills or otherwise at a moderate rate of interest, there is a steady bounty on trading with borrowed capital, and a constant discouragement to confine yourself solely or mainly to your own capital.

This increasingly democratic structure of English commerce is very unpopular in many quarters, and its effects are no doubt exceedingly mixed. On the one hand, it prevents the long duration of great families of merchant princes, such as those of Venice and Genoa, who inherited nice cultivation as well as great wealth, and who, to some extent, combined the tastes of an aristocracy with the insight and verve of men of business. These are pushed out, so to say, by the dirty crowd of little men. After a generation or two they retire into idle luxury. Upon their immense capital they can only obtain low profits, and these they do not think enough to compensate them for the rough companions and rude manners they must meet in business. This constant levelling of our commercial houses is, too, unfavourable to commercial morality. Great firms, with a reputation which they have received from the past, and which they wish to transmit to the future, cannot be guilty of small frauds. They live by a continuity of trade, which detected fraud would spoil. When we scrutinise the reason of the impaired reputation of English goods, we find it is the fault of new men with little money of their own, created by bank 'discounts.' These men want business at once, and they produce an inferior article to get it. They rely on cheapness, and rely successfully.

But these defects and others in the democratic structure of commerce are compensated by one great excellence. No country of great hereditary trade, no European country at least, was ever so little 'sleepy,' to use the only fit word, as England; no other was ever so prompt at once to seize new advantages. A country dependent mainly on great 'merchant princes' will never be so prompt; their commerce perpetually slips more and more into a commerce of routine. A man of large wealth, however intelligent, always thinks, more or less 'I have a great income, and I want to keep it. If things go on as they are I shall certainly keep it; but if they change I may not keep it.' Consequently he considers every change of circumstance a 'bore,' and thinks of such changes as little as he can. But a new man, who has his way to make in the world, knows that such changes are his opportunities; he is always on the look-out for them, and always heeds them when he finds them. The rough and vulgar structure of English commerce is the secret of its life; for it contains 'the propensity to variation,' which, in the social as in the animal kingdom, is the principle of progress.

In this constant and chronic borrowing, Lombard Street is the great go-between. It is a sort of standing broker between quiet saving districts of the country and the active employing districts. Why particular trades settled in particular places it is often difficult to say; but one thing is certain, that when a trade has settled in any one spot, it is very difficult for another to oust it—impossible unless the second place possesses some very great intrinsic advantage. Commerce is curiously conservative in its homes, unless it is imperiously obliged to migrate. Partly from this cause, and partly from others, there are whole districts in England which cannot and do not employ their own money. No purely agricultural county does so. The savings of a county with good land but no manufactures and no trade much exceed what can be safely lent in the county. These savings are first lodged in the local banks, are by them sent to