

THE
BANK OF ENGLAND



HISTORY
AND
FUNCTIONS

THE
BANK OF ENGLAND

HISTORY
AND
FUNCTIONS

PRINTED BY GORDON CHALMERS FORTIN AT THE BANK OF ENGLAND PRINTING WORKS
DEBDEN LOUGHTON ESSEX.

1970



[Copyright Bank of England

The Bank of England as rebuilt by Sir Herbert Baker between the wars, showing the outer walls built by Sir John Soane between 1798 and 1828

THE BANK OF ENGLAND was incorporated by Act of Parliament and Charter in 1694 and in return its proprietors subscribed funds to help finance the war being fought by William III against Louis XIV of France. The subscribers, who numbered 1,268, were granted a Royal Charter on the 27th July 1694, under the title "The Governor and Company of the Bank of England". Of the original Charter the only clauses now remaining unrevoked are those relating to the incorporation of the Bank, the Common Seal, legal suit and the holding of property.

The Bank of England Act of 1946 brought the Bank into public ownership, but provided for the continued existence of "The Governor and Company of the Bank of England" under Royal Charter. The affairs of the Bank are administered by the Court of Directors, appointed by the Sovereign and comprising a Governor and Deputy Governor, each appointed for five years, and sixteen Directors, each appointed for four years. The Court may appoint four of their members as Executive Directors, who, together with the senior officials and a number of specialists as advisers, assist the Governors in the day-to-day management of the Bank.

* * *

Over the years the Bank of England has become the "bankers' bank" and banker to the Government: that is to say, the central bank of the United Kingdom. The principal banks in the United Kingdom, by custom, keep a substantial part of their total cash holdings in the form of balances at the Bank: these are the great "clearing" banks, familiar to the public through their

network of branches. Others that keep accounts with the Bank of England include those banks whose principal business is overseas, the central banks of other countries and the members of the London Money Market.

In its capacity as the Government's banker, the Bank renders the services that any bank offers to its customers, not the least significant of which is advice on monetary matters. In addition, it performs a number of specific services, the most important of which are described below.

First, it maintains the central accounts of the Government—the accounts of H.M. Exchequer and of the National Loans Fund—to which all receipts of the central Government are credited and from which all payments authorised by Parliament are made. The Bank also holds the accounts of many Government Departments—these, together with the central Government Accounts, form the bulk of Public Deposits in the weekly Bank Return.

Second, the Bank makes arrangements for the Government's fluctuating needs for short-term finance to be met by borrowing; in this connection it receives the tenders for each week's issue of Treasury Bills, allots and issues the Bills and redeems the Bills presented for payment on maturity.

Third, the Bank manages the Government Stocks which form the bulk of the National Debt. Not only does the Bank issue these Stocks, but it keeps the register of stockholders to whom it pays dividends on the due dates. This work as registrar is a gigantic task and in terms of staff ranks as the largest of the Bank's activities. As well as managing Government Stocks the Bank acts as Registrar for certain other borrowers, principally the nationalised industries, and some Commonwealth Governments and local authorities. In round figures the Bank manages nearly 200 stocks with a total nominal value of £20,000 million held on three million accounts, involving more than six million dividend payments and many hundreds of thousands of stock transfers each year. This large task is undertaken in premises at New Change, in the shadow of St. Paul's Cathedral.

Fourth, the Bank is responsible for the issue of Bank notes. For this purpose the Bank has a large modern printing works at Loughton in Essex, where millions of notes are printed each week; these are distributed to the



The South Court at New Change

[Copyright Bank of England



The Garden Court

[Copyright Bank of England

public throughout the country with the assistance of the commercial banks. The various processes of designing, printing, circulating, withdrawing and finally destroying the notes after their useful life is over, present a considerable responsibility.

Finally, on behalf of H.M. Treasury, the Bank manages the Exchange Equalisation Account, a Government account established in 1932 with the objects of checking undue fluctuations in the exchange value of sterling and maintaining the country's reserves of gold and foreign currencies, and administers the Exchange Control Regulations. These tasks have important implications, not least because sterling is an international currency in which a large part of the world's trade is transacted.

Such are the Bank's executive duties to the Government. In the advisory field the Bank is to-day, as formerly, the intimate consultant of the Treasury and the regular channel of communication between Whitehall and the banking world.

At the heart of its work as the central bank lie the Bank's open market operations in Government debt. The Bank also maintains close and continuous relations on matters of policy with the chief banking organisations such as the Committee of London Clearing Bankers, the British Bankers' Association, the Accepting Houses Committee and the London Discount Market Association, with the Stock Exchange and the Insurance industry, and with organisations such as the Issuing Houses Association and the Finance Houses Association.

Internationally, the close relationships, both operational and diplomatic, which have been developed with the central banks of the Commonwealth and of other countries, are maintained and extended by personal contact at all levels. The Bank has assisted in the establishment of a number of central banks in the independent countries of the Commonwealth and elsewhere.

* * *

The Act of Parliament under which the original subscriptions to the Bank's capital were invited was passed on the 25th April 1694. Among a number of schemes that had been put forward for some kind of national bank, the one that led to the founding of the Bank of England was William Paterson's. It was not well received—"some said it was a new thing and they did not understand it, besides they expected an immediate peace and so there would be no occasion for it. Others said this project came from Holland and therefore would not hear of it, since we had too many Dutch things already". Its passage through Parliament owed much to the efforts of Charles Montagu (afterwards Earl of Halifax), one of the Commissioners of the Treasury, and of Michael Godfrey, a London merchant whose influence in the City was considerable.

The preamble to the Act describes it as one "for granting to their Majesties several Rates and Duties upon Tunnage of Ships and Vessels, and upon Beer, Ale and other Liquors; for securing certain Recompences and Advantages in the said Act mentioned, to such persons as shall voluntarily advance the Sum of Fifteen hundred thousand Pounds towards carrying on the War against France". The "Recompences and Advantages" (in return for subscriptions of £1,200,000 out of the total of £1,500,000 authorised) were to be the Bank of England's Charter.

The Charter declared that there should be a Court of Directors, numbering twenty-six with the Governor and Deputy Governor, and it appointed the whole of the first Court by name. Of the three co-founders, Godfrey was appointed the first Deputy Governor, but within a year he was killed by a cannon ball in the trenches at Namur while visiting the King to discuss supplies for the Army in Flanders; Paterson became a Director, but resigned the next year after a dispute with his colleagues; and Montagu, by now Chancellor of the Exchequer, continued to support the Bank through the critical years of its infancy.

The first Governor was Sir John Houblon, son of a Huguenot refugee, who had set up in business in a house which he had built in Threadneedle Street soon after the Great Fire of London in 1666. In 1689 he was elected an

Alderman of the City of London and was knighted in the same year. He was Master of the Grocers' Company from 1690 to 1691 and, while shouldering the onerous duties of Governor of the Bank during the first three years of its life, served from 1695 to 1696 as Lord Mayor of London and from 1694 to 1697 as a Lord of the Admiralty. In recognition of his great services a silver tankard was presented to Sir John, inscribed—"The gift of the Directors of the Bank of England to Sir John Houblon, Governor, Lord Mayor of London, in token of his great ability, industry and strict uprightness at a time of extreme difficulty. 1696". This tankard, after many wanderings, came into the possession of the New York Clearing House Association in 1893, and in 1924 it was generously presented by the Association to the Bank.

The Bank opened for business on the 1st August 1694 with a staff of seventeen Clerks and two Doorkeepers. Its first home was the Hall of the Mercers' Company in Cheapside, with tables "furnished with pens, inke, paper and sand"; but within a few months the accommodation was found to be inadequate, and at the end of the year the Bank moved to Grocers' Hall nearby, where it remained until 1734. For some years it had been the wish of the Directors to house the Bank in its own building and, in 1724, they bought an estate in Threadneedle Street which included the house and garden of Sir John Houblon, who had died twelve years before. The house itself was not well placed for conversion into the new Bank, being approachable only by an alley between other buildings; so these buildings were acquired too, and a site was cleared with an adequate frontage to the street. On the 5th June 1734, two years after the foundation stone had been laid, business was transacted for the first time in the Bank's own premises. The architect was George Sampson.

Thirty years later, the increasing work of the Bank having made it necessary to acquire adjoining properties, the task of extending the façade and constructing additional offices was entrusted to Sir Robert Taylor. His elegant Court Room and Committee Room overlooking the Garden Court were in use until 1933, when the rebuilding of the Bank made it necessary to move them to the first floor. In their new position these rooms reproduce almost exactly Taylor's original design. It is in the Court Room that the Directors hold their weekly meetings, and it is from here that Bank Rate is announced. Bank Rate, which is determined in agreement with the Chancellor of the Exchequer, is the

minimum rate at which the Bank of England will lend "at last resort" to the money market, and on it the general level of all other short term interest rates depends.

After Sir Robert Taylor's death in 1788, Sir John Soane was appointed architect to the Bank, a position that was to keep him employed for forty-five years and establish his reputation. During that time the Bank's premises were extended to the present boundaries of Threadneedle Street, Bartholomew Lane, Lothbury and Princes Street, and the area was increased from one acre to three and a half acres. Except for minor alterations, Soane's work stood until the total rebuilding that was begun in 1925. A statue of him, by Sir William Reid Dick, R.A., stands in a niche in the Lothbury wall.

The present building accommodates some 3,000 of the Bank's 7,000 staff and has seven storeys above ground, with three vault floors below. It was completed in 1939, the pace of the work being set by the need to carry on the business of the Bank without interruption. The architect was Sir Herbert Baker, K.C.I.E., R.A., who designed the Parliament Buildings in Pretoria and many of the Government buildings in New Delhi. The great windowless screen-wall, which surrounded and guarded the cluster of banking halls, squares and courts still remembered as the "old Bank", is all that now remains of Soane's building as it existed in 1925, although some of Baker's designs were inspired by or modelled on Soane's.

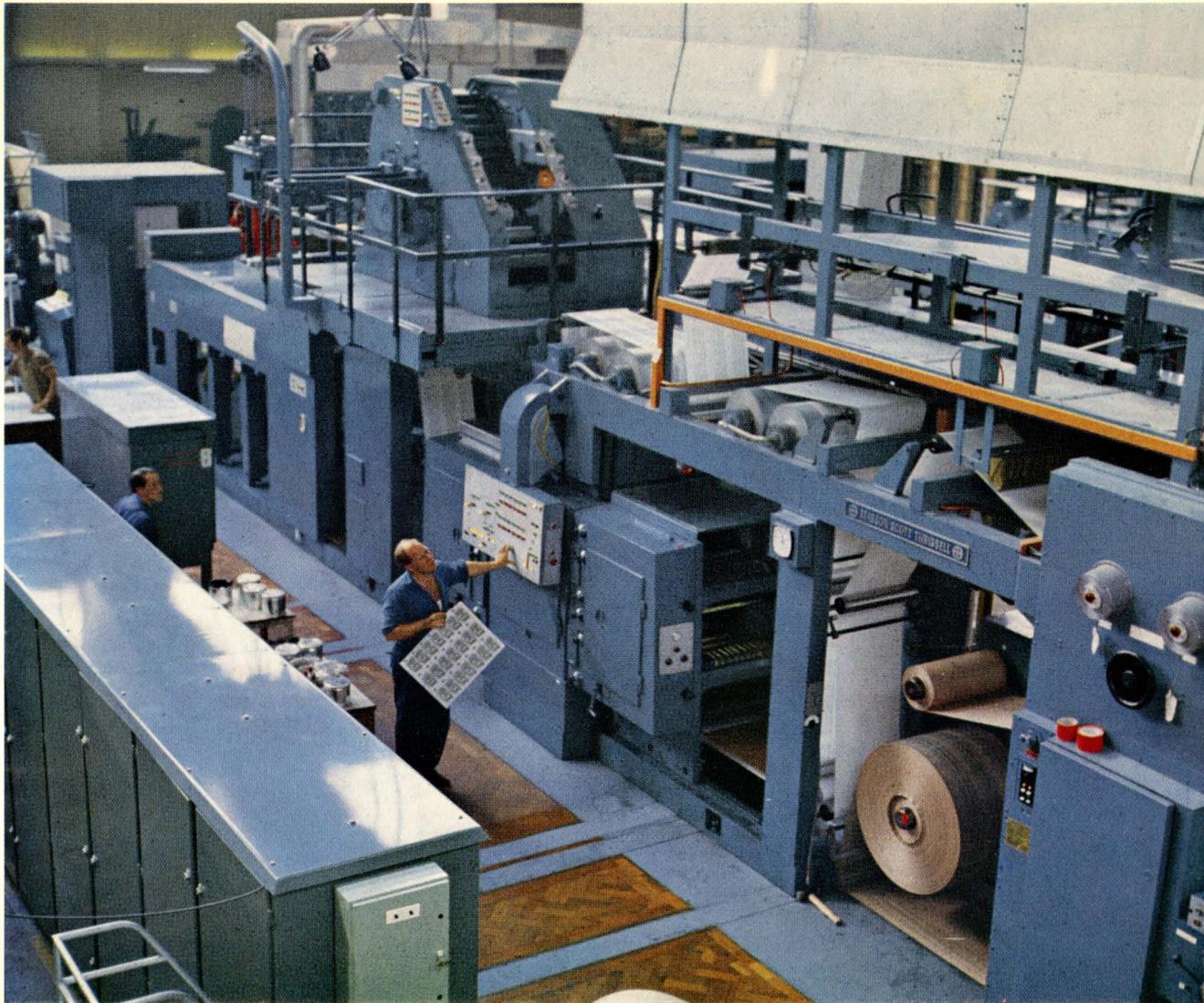
The Garden Court, around which the Bank is built, covers part of the site of the churchyard of St. Christopher-le-Stocks. The church was acquired by the Bank under the authority of an Act of Parliament passed in 1781 and, when arrangements had been made for the re-burial of the bodies, the building was pulled down. This was to allow for an extension of the premises and because the Directors, alarmed by civil disturbances, felt that a flank exposed to the church and churchyard was insecure.

Overlooking the Garden Court are statues of Charles Montagu and of Lord Norman, who was Governor for the unprecedented period of 24 years. To the one we are indebted very largely for the foundation of the Bank, and to the other for developing it into a modern institution of international importance.



The Head Office Computer Centre

[Copyright Bank of England]



One of the new presses at the Printing Works

[Copyright Bank of England

Nearby is a bronze statue of St. Christopher, recalling the patron saint of the vanished church and commemorating the members of the staff who gave their lives in two World Wars.

* * *

The early years of the Bank were beset with difficulties. There was political opposition, obstruction by the goldsmiths who feared competition, shortage of money during the recoinage in 1696, the threat of a rival establishment in the ill-fated Land Bank, and the Government's insistent clamour for more money. Firmer ground was reached, however, in 1697, when the life of the original Charter was extended and certain new privileges were granted. These continued with little substantial change until the second quarter of the 19th century, when new ideas on the rights and duties of a central bank were expressed in laws that opened the ordinary business of banking to free competition, but concentrated exclusively in the Bank the note issue of England and Wales.

The 18th century, though in the main a time of prosperity, had days of public panic when all the Bank's resources had to be employed to avert disaster. There was a background of continuing anxiety because of the military power of France, and the threat of Jacobite rebellion to restore the exiled Stuarts which persisted for most of the first half of the century. In 1709 political changes led to weeks of rioting in London, and mobs seeking to assault the Bank were dispersed only by the approach of the Guards hastily summoned from Whitehall at the request of the Directors. In 1715 Jacobite forces invaded the country and this happened again in 1745, when they got as far south as Derby, causing a brief panic in London. There was the fantastic growth and collapse of the South Sea Company in 1720, when the Bank had considerable difficulty in maintaining its own credit. The Bank was seriously attacked in 1780 by a mob of rioters headed by Lord George Gordon, in agitation against an Act that had removed some of the disabilities suffered by Roman Catholics. After destroying Newgate Prison the mob unaccountably

delayed for a day before attacking the Bank, and so gave time for the arrival of Horse and Foot Guards, sent by the Government at the request of the Lord Mayor. The two attacks finally made were beaten off, and the mob put to flight. Of the 530 soldiers then sent by the Government to defend the Bank, 50 were stationed inside the building. Ever since those days of riot in 1780 the Bank has had a military guard at night.

Another development of the same period was the Bank's familiar nickname "The Old Lady of Threadneedle Street". This can be traced back with certainty for well over a century and a half, for it was in 1797 during the Napoleonic wars that a cartoon by James Gillray was published depicting William Pitt the Younger, then Prime Minister and Chancellor of the Exchequer, attempting to get possession of the Bank's gold from an elderly lady seated on a locked chest. It may be that the idea for the title "Political Ravishment, or the Old Lady of Threadneedle Street in Danger" came from Sheridan, the dramatist, who earlier in the year had spoken of the Bank in the House of Commons as "an elderly lady in the City of great credit and long standing".

During the second quarter of the 19th century the Bank of England opened branches in fourteen towns. Some have since been closed, leaving to-day branches at Birmingham, Bristol, Leeds, Liverpool, Manchester, Newcastle, Southampton and one in London adjacent to the Law Courts. The Bank's branches helped to meet the rapidly growing needs of industry and commerce; but it was seen that the essential reform needed in the banking system was to remove the right to issue notes from a multitude of small and not always creditworthy bankers and confine it to one central institution. This was provided for and gradually achieved by the historic Bank Act of 1844. In the same Act the issue of Bank of England notes was separated from the general banking business of the Governor and Company. It was assumed that the Bank would continue to keep commercial and private accounts; but as a result of its gradual development during the remainder of the century as banker to the State and central reserve bank of the country, its activities as a commercial bank diminished until to-day it does relatively little private or commercial business.



The Court Room

[Copyright Bank of England]



“DIVIDEND DAY AT THE BANK OF ENGLAND”, 1850

By G. E. HICKS

Dividend Day was once a well-known City event which brought people thronging to the Bank counters to collect their dividends on the Funds. Payment of Government dividends by attendance was finally abolished in 1910

[From the painting in the Bank Collection]

Developments in the 20th century were dominated by the two World Wars. The disappearance of golden sovereigns and half-sovereigns from circulation began during the 1914-1918 War, when currency notes for £1 and 10s. were issued by the Treasury through the Bank. These notes were replaced in 1928 by Bank of England notes of similar denominations. "White" Bank notes were first issued early in the 18th century and those of £5 and upwards remained legal tender until 1943 when all except the £5 note were withdrawn; the issue of this denomination was eventually discontinued in 1957 and it was replaced by the modern type of coloured note which is more difficult to forge and lends itself to printing on the most advanced machinery. The Bank is constantly seeking to make its notes more difficult to counterfeit, but there can be no infallible single security feature which will invariably defeat the forger. At one time "white" notes of up to £1,000 denomination were issued, but modern banking facilities have rendered such high denominations unnecessary and our modern notes have been designed for no higher denomination than £20.

From 1920 to 1944 during the Governorship of Montagu Norman, later Lord Norman, the Bank changed more in functions and structure, though not in spirit or purpose, than in the previous two centuries of its existence. The restoration of stable conditions in Europe after the First World War; the help given by encouragement, advice and personal contact in the establishment of central banks in Canada, South Africa, India and New Zealand; the maintenance of close relations with the Federal Reserve System of the United States; the constant effort to keep the currencies of the world in balance—these were but a few of the objects for which the Bank worked under Norman's direction and inspiration.

Some of the basic industries dependent on the export market were in great distress in 1930 and the banks and financial houses, under the leadership of the Bank of England, came to their assistance. In the Securities Management Trust, Norman collected a group of industrial experts to advise on plans of reconstruction, and the Bankers Industrial Development Company was formed to provide the finance. The Bank took part also in the formation of the Agricultural Mortgage Corporation and other companies to assist agriculture and industry. After the Second World War the Bank

continued to strive for orderly financial development. At home it played its part in creating two new institutions, the Finance Corporation for Industry and the Industrial and Commercial Finance Corporation. In addition, the Bank has filled an important role in the various international institutions such as the International Monetary Fund and the International Bank for Reconstruction and Development. Abroad the Bank continued to give help and advice in the administration of currency matters and in the development of central banks in a number of countries in the Commonwealth and the Sterling Area: in East, West and Central Africa, Libya, Malaya, the Middle East and the West Indies. The Bank also took part in the establishment of the Commonwealth Development Finance Company.

In the course of two and three quarter centuries the Bank of England has developed in a typically British way, without any kind of revolution and with experience taking the place of an elaborate written constitution. Nor are old customs forgotten—there is still in the Court Room a wind-vane, which in the days of sailing ships warned the Directors of likely delays in arrivals in the Port of London, and so helped them in estimating the day-to-day demands for money. Though only a relic now, it serves as a reminder that foresight and business skill are not purely modern arts and that, though methods may change, the past is not lightly to be disregarded.

