

GLADSTONE AND THE BANK OF ENGLAND: A STUDY IN
MID-VICTORIAN FINANCE, 1833-1866

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The topic of this thesis is the confrontations between William Gladstone and the Bank of England. These confrontations have remained a mystery to authors who noted them, but have generally been ignored by others. This thesis demonstrates that Gladstone's measures taken against the Bank were reasonable, intelligent, and important for the development of nineteenth-century British government finance. To accomplish this task, this thesis refutes the opinions of three twentieth-century authors who have claimed that many of Gladstone's measures, as well as his reading, were irrational, ridiculous, and impolitic. My primary sources include the Gladstone Diaries, with special attention to a little-used source, Volume 14, the indexes to the Diaries. The day-to-day Diaries and the indexes show how much Gladstone read about financial matters, and suggest that his actions were based to a large extent upon his reading. In addition, I have used Hansard's Parliamentary Debates and nineteenth-century periodicals and books on banking and finance to understand the political and economic debates of the time.

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PREFACE

Finance and politics in nineteenth century Britain went hand in hand, although at times one hand appeared to palsied and the other arthritic, and neither hand seemed to know where the *body politic* was leading them. In 1854, William Gladstone challenged the Bank of England over a seemingly insignificant cash-flow problem called the Deficiency Note. At first sight this challenge may be seen as just another evidence of the government's faltering finance. Gladstone did not treat it that way. Instead, he made it the first step in a campaign against the Bank that lasted until at least 1866 when he stepped down from his fourth tour as Chancellor of the Exchequer.

Gladstone turned Victorian economics around with his handling of the Bank, both by what he did and what he did not do. His first step was to investigate the problems apparent in government finance. This he did by listening to debates and reading as many books on finance and economics as were available at his local bookstores. The second was to interview government officials, especially those in the permanent civil service, to identify policies, procedures, habits, and prejudices that were costing the government money. Then he began working on solutions. His confrontation with the Bank of England over Deficiency Bills in 1854 gained for him his first solution. His second came in the Public Moneys Act of that year which placed tighter controls on deposits of revenues, banking procedures, and tracking, to avoid losses and increase the Treasury's control on public moneys. The culmination of his first phase of reform came in the Exchequer and Auditor Act of 1866, remembered by Treasury officials as one of the most important acts of the nineteenth century.

I contend that these acts were not random, but part of a concerted effort to get the government's money problems under control. In expending a good deal of energy, a considerable amount of time, and not a little justified anger, he moved government finance off dead center and began reforming it. By ruffling the feathers of the mighty Bank of England, he also served notice that the government would not be treated as an underage heir of a doubtful estate, but as the mature, seasoned, and educated master of the estate with all its rights and privileges respected. This dramatic change in the way the government did business helped make it a more respected and far more powerful European power in the second half of the nineteenth century, and it is a transformation which deserves more study.

Gladstone was well educated in financial numbers when he first became Chancellor of the Exchequer of Britain in December of 1852. He was the son and brother of international merchants. He held a first from Oxford in mathematics and optics. He had worked tirelessly to save his brother-in-law's estate from bankruptcy and sale. He was beginning to be a rich man in his own right in 1852, and he saw the government's financial health as his special responsibility. During the next fourteen years he used the increasing number of books in economics and finance, as well as his numerous contacts with bankers and businessmen, to transform himself into a financial specialist. From 1852 to 1866 he did more than any other nineteenth-century Chancellor of the Exchequer to shore up and restructure Britain's financial government.

In those years, his budgets were well accepted both by parliament and the people. His blunders were few and generally detrimental neither to his career nor to the government and people of Britain. He used his political skills, such as knowledge of the

men and agendas that might support or oppose him, to extend his power and get his legislation passed. He quickly became master of the budget and taxation numbers that constituted Britain's financial strengths and weaknesses. Nevertheless, he failed in the one great mission he had set for himself: bringing the Bank of England completely to heel. The period of this thesis is 1833 when Gladstone entered the House of Commons of Great Britain, until 1866, when he stepped down as part of Lord John Russell's last government. In that time, three Bank Charter Renewal Acts were passed under three prime ministers and three Chancellors of the Exchequer; although Gladstone was Chancellor of the Exchequer for ten years during this thirty-three-year period, he was not chancellor when these Acts were passed and had no opportunity to offer to the House of Commons a Banking Act to suit his preferences. Thus, he was forced to find other ways of dealing with the Bank of England. This thesis studies the methods he used and assesses whether he was successful or not.

Following the line of reasoning presented in this work, more investigation is needed. Several lines of investigation present themselves: to do more research on Gladstone and his reading; to gain a more complete understanding of the banking structure of the nineteenth century and to evaluate the position of the Bank of England; and to explore other avenues that contribute to the understanding of the man, the period, and the banking industry.

As this thesis will show, Gladstone was a formidable reader. The first line of research will lead to a greater understanding of Gladstone's reading and his interaction with the books and other works he read on banking, taxation, and finance, three steps are required: to read what Gladstone read; to find the very books he read, where

possible, and search for marginalia; and to find any manuscript documents he may have written on various books as he read them. Reading the same books Gladstone read is the first step, fortunately not as drastic a step as it might sound. My research for this thesis has identified a total of more than three hundred books of interest—in banking, government finance and taxation, trade, and related topics. It should be possible to identify a statistically significant subset of these books accessible through libraries, purchase, travel, or other means, and to identify the ideas that Gladstone may have recognized and accepted.

Within this first line of research, the next step is to find Gladstone's copies of these books if possible. The first place to look for them is the Temple of Peace, Gladstone's private, non-religious library, on the Hawarden Estate where Gladstone made his home. These books may contain marginalia of interest to the further study of Gladstone as an economist and politician.

The second line of inquiry is the body of letters he wrote to his wife, his father, and his brother Robertson. It is not necessary to read all the Gladstone letters. One can match the dates on which Gladstone read a specific book and look at the letters written on that date (identified in the *Diaries*) to find comments of interest.

The third line of research encompasses the Bank of England. The Bank has made its archive collection available to researchers, and has placed its hand list on its web-site.¹ The archive itself is huge, covering as it does more than three hundred years of business and finance throughout its colonial outposts, and in its trade with North and South American, Asian, and African countries and banks. While the bulk of this

¹The source is <http://www.bankofengland.co.uk/about/history/archive/holdings.htm>

collection need not concern me, four types of records do: The first body of records is the correspondence and meeting notes between Chancellors of the Exchequer and the various the governors and deputy governors of the Bank of England regarding the passage of the Bank Charter Renewal Acts. The second is a study of the letters Gladstone sent to the Bank, identified by notes in the Gladstone *Diaries*. The third is the internal memoranda of the Bank during periods of crisis. For example, Sir John Clapham has written that the court of the Bank were not concerned in the latter days of 1857 commercial crisis, but even he admits that the court's attitude was somewhat out of touch with the real problems raised by the crisis. If the Bank was vulnerable, either to a take-over by the government, which Gladstone contemplated, or a competitor this vulnerability may appear. The cool exterior of the Bank may have disguised an inward weakness that could have been exploited.

The fourth line of study on the Bank of England side is the study of the Freshfields holdings. Freshfields was a firm of solicitors who handled a good deal of business for Gladstone, including the bankruptcy and restoration of the Oak Farm mines and the Hawarden estate. Gladstone wrote to Freshfields often, and research in those files, held by the Bank of England, will show whether the Bank of England became embroiled in Oak Farm, whether Freshfields was the law firm that supported the Bank of England in 1853, or whether Gladstone had other dealings with Freshfields that can be pulled from these files.

The fifth line of research is to reconstruct the details of the budgets of the 1850s and 1860s, from Stafford Henry Northcote's and Sidney Buxton's studies of the period, to reconstruct Gladstone's budgets in more detail, with a view to understanding how the

budgets affected commercial growth and crisis. One element of this research is the relationship between private and public borrowing. Another is between taxation and income. Revenues from taxation generally rose in the nineteenth century, but the question is whether they rose at a rate commensurate with the government's needs for money to manage its small wars and colonial empires. With the rise of detailed statistical studies both of the Bank of England and the government, it is possible to develop an almost modern understanding of national economics and the budgets of the third quarter of the nineteenth century. What the government did affected people's lives. What the people thought and spent affected the government's budgets. This line of study would reveal just how the interactions took place.

The sixth line of investigation is English banking. To understand the Bank's vulnerability as well as to test Gladstone's understanding of the banking environment, it is necessary to gain more background on the country banks, joint-stock banks, Scottish and Irish banks, stock jobbers, and the Exchange of London. The (a) collapse of the country and private banks or (b) their purchase by the "big five" are only two of the trends that made the government's attempts to deal with these banks problematic. But this information is essential since the Bank of England was neither the government's only debt holder nor its only adversary in producing banking legislation. Nor did the Bank England accept the role of central bank suggested by its powers and the tenor of Bank Acts in the nineteenth century.

Modern financial and economic writers fall into two camps: those who believe the modern methods of banking and investing will last long into the future, and those who believe that like the nineteenth century, the twenty-first century is one of banking

innovation and occasional failure. If we must understand the thirteenth- and fourteenth-century banks to understand those of the nineteenth, then it is necessary to understand the nineteenth in order to understand that of the twenty-first.

Why is this research important? Put another way, what benefit does this research promise to the numerous students of nineteenth-century Great Britain, that great “Victorian” presence so dominant in the world. The benefits range from understanding the lives of Victorian fatherhood to a narrowing of the breach between economic historians on the one hand and social and political historians on the other over continuing problems in our understanding of British economic life. Gladstone was the greatest and longest remembered Chancellor of the Exchequer of the nineteenth century. To understand what he did and why he did it, in the environment in which he worked, is to gain a better understanding of the nineteenth-century economy and economic imperatives.

CHAPTER 1

INTRODUCTION

Overview

In 1852 a dark cloud hung over Great Britain—the cloud of competition from her continental neighbors, France, Germany, and Russia. With colonial expansion taking place all over the world, Britain was constantly confronted by well-financed spies, trading posts, contending claims for territory, dazzling promises of wealth just out of reach, and the need for more armies, more naval vessels, and a greater understanding of how to bring that wealth home. The key was banking. Banking not only financed the governments that Britain contended against, but also financed the private adventurers, traders, and territorial developers who roamed that world looking for riches and advantages. To finance their territorial expansion, Germany and France had developed sophisticated modern banking that worked hand and hand with the governments and the explorers. Great Britain, with the oldest national bank, the Bank of England, founded in 1694 specifically to finance the government, had fallen behind. The Bank had grown complacent and powerful, but with its deep concern for profit and its apparently shallow concern for the welfare of the people or the government, it failed to participate in government goals and welfare to the extent that William Ewart Gladstone, who became Chancellor of the Exchequer for the first time in 1852, could have wished.

Part of the problem was of the government's own making. The Hanover line of kings was spendthrift. Government schemes for making money, such as lotteries and tontines, had failed. Customs taxes for everything from sugar and tea to cheap French silk gloves and shoes had made food and essential goods too expensive for poor and

lower middling classes to afford. Excise taxes had strangled British industry. Ideas for ending the national debt through the use of sinking funds and other schemes had been proven senseless and unworkable. The modern concepts of balanced budgets, reasonable and predictable taxation, a sensible fiscal policy, and a control on emergency borrowing had only been partially and imperfectly tried. Meanwhile, the Bank of England was treating the British government with contempt as were her enemies. A serious and dramatic overhaul was required if Britain was to continue to compete. Enter William Gladstone.

From the time I took office as chancellor of the exchequer I began to learn that the state held in the face of the Bank and the City an essentially false position as to finance. When those relations began [1694], the state was justly in ill odour as a fraudulent bankrupt who was ready on occasion to add force to fraud. After the revolution it [the government] adopted better methods although often for unwise purposes, and in order to induce monied men to be lenders it came forward under the countenance of the Bank as its sponsor. *Hence a position of subserviency which, as the idea of public faith grew up and gradually attained to solidity, it became the interest of the Bank and the City to prolong.* This was done by amicable and accommodating measures toward the government, whose position was thus cushioned and made easy in order that it might be willing to give it [the Bank] a continued acquiescence. The hinge of the whole situation was this: the government itself was not to be a substantive power in matters of finance, but was to leave the money power supreme and unquestioned [to the Bank of England]. *In the conditions of that situation I was reluctant to acquiesce...* I was tenaciously opposed by the governor and deputy governor of the Bank, who had seats in parliament, and I had the City for an antagonist on almost every occasion.¹

William Gladstone is rightly remembered in Victorian history for many things: his intelligent and intelligently argued budgets, his leadership in the House of Commons, his somewhat prudish and at times stuffy way of responding to distasteful political problems (contrasted with his eager response to political problems in which he could

¹William E. Gladstone, undated fragment, entitled "Mr. Gladstone and the Bank;" in John Morley, *The Life of William Ewart Gladstone*, vol. 1 (London: Macmillan, 1903), 650-651 (emphasis added).

take a leadership role), his religious beliefs, and his studies of Homer and other classical writers. Less remembered are Gladstone's adventures as a traveler, the friendship offered to a wide range of persons from great men to prostitutes, and his steadfast presence as a husband and father. But if his budgets are remembered, his other accomplishments as Chancellor of the Exchequer have been largely forgotten. Victorian finance has generally been consigned to the specialist realm of the economic historian and then abandoned. The last study of Gladstone as an economist was published in 1931 and is hardly penetrating.

The twentieth-century view of Gladstone is taken up in detail later in this chapter. One contemporary friend as well as economic writer was Walter Bagehot. Bagehot did not know what to make of Gladstone's constant, dazzling shifts in preference, from conservative politician to liberal, from solid Church of England advocate to ecumenical gadfly. One of the most contentious and least remembered shifts is his reversal of roles vis-à-vis the Bank of England. During his first Chancellorship of the Exchequer, Gladstone found the Bank pretentious, condescending, threatening, and irresponsible. When he confronted the Bank over a long-standing procedure that favored the Bank, its governor and directors threatened the first-time chancellor with the law. Gladstone responded with vigor, angry words, and his own application to the law. Gladstone won. The Bank was astonished.

Gladstone believed that the Bank held the government in contempt, and he set about to change that situation. He was on shaky ground. Chancellors of the Exchequer came and went. The Bank, founded in 1694 specifically to finance the government and support it in its efforts to borrow, would go on forever. Gladstone wanted respect from

the Bank and an improved working relationship. His challenge in 1854 did not accomplish this goal. His work as chancellor from 1859-1865 while he served in Viscount Palmerston's second government gained him some respect. His work while he served in Lord John Russell's government from 1865-1866 achieved more respect from the Bank and also performed the supreme act of getting the government's finances under more control so that it deserved the respect it gained from the Bank and kept it. His technical improvements in government fiscal operation also saved the British taxpayer money, improved life through reduced taxes, and paid for fortifications against an enemy that never materialized.

I contend that this little noticed and largely ignored passage between the government of Great Britain under the fiscal leadership of William Gladstone and the Bank of England is an important turn in the history of Victorian reform and government. I also argue in this work that the answer to the question of why Gladstone challenged the Bank of England is that he educated himself on finance, economics, book keeping, trade and a host of other subjects through his regular habit of reading useful works.

Gladstone regularly worked sixteen- to eighteen-hour days, and read during every spare minute of his life. The answer to many of his lightning shifts that so disconcerted his contemporaries and more modern historians lies in the multitude of books he read. This MA thesis argues that these books helped him evolve as a man and politician. Gladstone served as Chancellor of the Exchequer five times, as prime minister four times, and all the time, he read as many books a day as he could lay his hands on. This thesis investigates the numbers of books he read on banking and

finance during the years leading up to and including his first four chancellorships, 1833-1866.

Gladstone must be re-examined in light of his reading. He requires to be recast as a Chancellor of the Exchequer, head and shoulders above the others who held the seals. His general economic theory – on taxation, spending, and borrowing – was based that of Sir Robert Peel. Nevertheless, throughout his life he refined his ideas and abandoned Peel on some details because of the books he read, parliamentary debates he read, and his education provided by bankers, economists, and statisticians. In his years at Exchequer, he was the first to see British finance as a three dimensional problem with the axes of money, time, and results, and he was the first man to attempt to educate Britain and the British on the elements of what could be accomplished economically.

Gladstone was one of the most widely read and published men of his time, making full and impartial use of the works of hundreds of authors. His interest and influence in the publishing field alone would excite our interests if we had no other reason to look at Gladstone's life. However, his use of reading on financial topics should excite the attention of economic historians who have grown jaded over studies of cotton mill and railways and who find the Bank of England boring.

Another problem to be reevaluated is the strange case of Peelite economic theory, placed in the hands of a man Peel came to distrust and dislike, but a man capable of extending Peelitism to its greatest expression. Gladstone's discipleship with Peel gave the younger man a direction, but Gladstone was the man who carved out the

hills, built the bridges, and laid out the great road, and set the British government on what he saw as the correct path for the future.

Gladstone has been described as pettifogging and cheeseparing—a man bent on irrational penury, a man who stopped the salary of a bishop, a man against government spending, a man capable of crippling Britain's physical safety and her colonial future. In the twentieth century, the charges laid against him and the excuses made for him by H. C. G. Matthew, Roy Jenkins, Richard Shannon, and Travis L. Crosby, have cast doubt on sanity and probity of the entire Victorian era and its ability to order its own affairs, manage its empire, maintain civil order, and embellish its homes and cities. How can a man with as many foibles and failings have led this nation to further greatness and garnered the praise of twentieth-century writers of any stature. The rhythms of historical writing suggest however that the time has come to return to Gladstone and restudy his intentions, his methods, and the ways in which he educated himself to accomplish his job. Gladstone was an advanced autodidact. Working days that would cripple a normal man he carefully attended to government business, wrote numberless letters, and read every chance he got.

A revision of our thinking about Gladstone and government finance requires and equal reevaluation of Britain and her finances in light of her colonial accomplishments and expectations, her position as a world power, and her possession of a nine-digit national debt which no amount of financial invention or bookkeeping magic could erase. This thesis does not enquire into the problem of whether the empire was profitable. This is not an essay on the moral problems of a national debt. This is a study of a gigantic economic, manufacturing, and mercantile machine that had money to spend and spent

it, and Gladstone's efforts to understand and control that spending on the national level. Gladstone's job was to figure out how best to spend the money Britain had available to her. To understand Britain's spending, it is necessary to understand her relationship with her financier, the Bank of England. Gladstone distrusted the Bank of England. Thus, one necessary element of this thesis, and of any further and more detailed studies of Gladstone's finance must be a new look at the Bank of England. The question to answer is: what was it about the Bank that caused Gladstone and many other nineteenth-century bankers and businessmen to distrust the Bank.

I contend that the answers to many questions, speculations, and uncomfortable problems remaining with Victorian history may receive better answers if we understand that Victorians read, and that among them, Gladstone read voraciously. While historians understand Gladstone's reading in the classics, theology, travel, fiction, and the theater, they have avoided the wealth of material available to Gladstone that subsequently appeared in his *Diary* notations and on his bookshelves. The topics include banking, currency, taxation, prices, trade, war, manufacturing, invention, and science. Based on the wealth of detail I collected during the research phase of this present study, I believe that Gladstone the reader and Gladstone the economist were part of a single phenomenon: a Victorian man using the resources of his time to improve life in his time.

To argue thus I go much further into a specific area of nineteenth-century British history than any writer—economic or social historian—has traveled. Victorian history records many stories of connections—business man and banker, science and mine safety, savings banks and the poor, soap and respectability, steel and cotton. Yet that history is also full of disconnects, in military matters, medicine, and the welfare of whole

portions of the body politic, such as women, children, the poor, the Irish, Welsh renters and Scottish highlanders.

In this context Gladstone stands alone as a man able to make connections between, for example, government revenue and respectability—considered as a problem of excise duties on soap, and then to use his position to make economic changes that helped fight disease and helped young women enter respectable service through the use of soap, and by making it cheaper for the poor to purchase.

When we apply what Gladstone was capable of to the problems that Britain faced, we come immediately to the problem of government finance. For at least nine centuries English and British kings and their governments had been in debt. Failures in estimating and bookkeeping, poor tax-collection procedures, and waste routinely drove governments to borrow. Governments, and especially kings, did not always pay their debts. The Bank of England was formed in 1694 to finance the government. But it was also formed as a for-profit company. After its formation, the Bank of England came to think of itself rightly or wrongly as the conservator for a rich and spoiled heir, the government.

Gladstone appointed himself tutor and lawyer, with the expressed purpose of educating the heir and helping it, the government, come of age. As Germany and France were also discovering in the nineteenth century, no nation could achieve world power without the strength of its banking system. Britain grew up under Gladstone's hand. The Bank of England, and Britain's network of other banks, private and partnerships, Irish, Welsh, and Scottish may have provided the strongest banking network in the world, but it was a network where the government was entitled to

exercise a cautionary, restraining, and sometimes helping hand to guarantee that strength. Gladstone appears to have been the first Chancellor of the Exchequer who saw that a private bank in Carlyle might be entitled to the same rights as the mighty Bank of England. In doing so, he appears to have improved the climate in which banking as a total network was allowed to think and grow.

In doing so, Gladstone helped to create a climate in which economics, statistics, and political economy also grew as disciplines. The positions of economics professor, economist, statistician, and economic writer also grew. At the same time, Britain multiplied the numbers of resources available to those who wished to study economics, mathematics, statistics, and overall numeracy. The results included increasing sophistication in statistical reporting and production and better understanding of costs, prices, and profit.

In a far-flung empire, Britain's word, her banks, and her bankers carried excessive clout. Gladstone's war budget speech of 1854 demonstrates that he saw the importance of making the government's financial position well known in Europe as a guaranty of the sabers she was rattling in defense of the Ottoman empire. Finance had become a big and increasingly public part of world domination. In this context, Gladstone's efforts to get the Bank's attention, force it to work more constructively with the government, and rein in some of its privileges, while allowing it to maintain its strength deserve more attention and a far more positive view as one of Gladstone's best economic accomplishments.

Who Was Gladstone

This thesis contents that Gladstone was a wise and educated economist who used his powers effectively to rein in the Bank of England. This topic has not been tried before, and in its approach conflicts with the opinions of others. Several historians and biographers have written about Gladstone's evangelical Anglican upbringing, based on the teachings of his mother and his sister Anne. They have enlarged on the Scottish and mercantile background given him by his father and his brothers. His education at Oxford has been documented; his double-first has been noted. As the son of a wealthy man, set up with a handsome allowance, Gladstone might have taken up a great many pursuits, but he decided on public life and service.² He married well but not grandly, choosing a young woman of good family and high spiritual values. Neither his election to parliament, nor his pursuit of eligible young women and eventual marriage interrupted his reading. Throughout his adult life he followed the habits of his youth and university—continuing to read widely and deeply in any subject that interested him. This combination of reading and national, almost messianic, purpose led Gladstone to some youthful extravagances, such as his work on the relation between the established church and the state,³ but it also led to far more promising jobs, including his organizational work in the Admiralty, Board of Trade, the Colonial Office, and the

² He was admitted as a law student at Lincoln's Inn in 1833, after he was first elected for Newark. He withdrew from Lincoln's Inn in 1839. His parliamentary record, serving on numerous committees and even writing legislation, suggests that he was learning far more in Parliament than he was at Lincoln's, but the law education should not be overlooked in his progress as a legislator and cabinet member. See Morley, *Gladstone*, 1:98.

³ *The Church in its Relations with the State* was published in December, 1838. It was Gladstone's first major work. Pious and biased in favor of the established Anglican Church, its meanings were swept away by the revolution pushed upon the Church by the rising Roman Catholic influence on one side and the constant challenges offered by the dissenters on the other. Gladstone's mentor, Sir Robert Peel, found the book embarrassing. Nevertheless, Gladstone revised and published the book a second time in 1841. Morley, *Gladstone*, 1: 172, 175, 181.

Exchequer. In short, Gladstone trained himself to be a useful and well educated man.

His self-training, what we might call advanced auto-didacticism, has not been well understood, and this misunderstanding has led some historians to paint Gladstone as a willful, angry, dictatorial, and vengeful man; they have not judged his behavior as that of a man dealing with conflicting inner feelings, exacerbated by his insistence on reading conflicting theories on important topics. Instead, as this thesis will show, Gladstone's reading may have been a coping strategy, as Travis Crosby claims,⁴ but certainly not the irrational behavior roundly criticized by Roy Jenkins.⁵ Instead, his reading appears more like the activity of a man whose mind is insatiable for knowledge, who lived and worked during a period where the publishing business exploded and authors were insatiable for an audience. As he read, Gladstone began to see that one of the government's major problems was its relationship with the Bank of England. If his reading failed to help him find a way to turn the Bank of England into a servant of the government it also may have suggested better ways of dealing with the problem.

His hard work and study, documented in the chapters that follow led him first to the notice of Sir Robert Peel and then to that of the Earl of Aberdeen. Gladstone moved from post to post under Peel, his progress hampered only by his hero-worship, his sense of his own unworthiness, and his sometimes priggish attempts to resign over insignificant issues. In addition to the offices he held, Gladstone sat near or next to Peel in the House of Commons, handing Peel figures during his speeches, and taking the floor himself whenever Peel requested. He was with Peel on many occasions where the

⁴Travis L. Crosby, *The Two Mr. Gladstones: A Study in Psychology and History* (New Haven: Yale University Press, 1997).

⁵Roy Jenkins, *Gladstone: A Biography* (New York: Random House, 1997).

presence of a junior cabinet member might be questionable, and was certainly present during the great debates over budgets, customs and excise repeal, and the Corn Laws of the 1842-1846 government. Gladstone also attended Peel during the debates on the 1844 Charter for the Bank of England was approved.

The Bank Charter Act of 1844 was Gladstone's introduction to the inner workings of the Bank of England, its officers, its character, and its functions with respect to the government, the City of London, and the business of the nation. His reaction to the Bank was, under Peel, muted. Borrowing from the Bank of England for the continuance of government business was a Peelite rule, and one of the first elements of government on which Gladstone silently began to differ with Sir Robert.

Table 1 shows how the national debt from 1688 to 1853, just before the Crimean War.⁶ This table is not inclusive, for Inglis Palgrave has not been able to create a single series for either the expenses of the reign or the growth of the national debt. Palgrave has only been able to assemble both the total cost of the war and the national debt at the termination of the war for one period, the 1793-1815 wars with Napoleon. The entire British national debt of 1815 does not, in all likelihood, derive from the wars with the French. George III and his numerous children had been very expensive to support. If Gladstone had access to the national debt numbers for the years before he came down

⁶Harry Inglis Palgrave, *Palgrave's Dictionary of Political Economy*, ed. Henry Higgs, (New York: MacMillan, 1926), 2:3. This mix of values probably arises from poor government accounting procedures, lack of effective audits, and lack of determined parliamentary oversight. Also see Norman J. Silberling, "Financial and Monetary Policy of Great Britain During the Napoleonic Wars," *The Quarterly Journal of Economics*, 38, no. 2 (February 1924): 214-233. Silberling had documented the sources of revenues, both from revenues and from taxes for the years 1790-1816, including the interest charges, the capital charges and the amounts of money spent on civil government and war services. See Table I, in Silberling, "British Net Public Expenditure, with Principal [sic] Headings, 1790-1816."

from Oxford, and it is clear from this research that he read on Pitt's life and his speeches, he must have seen how badly Britain had been financed in the past.

Table 1: Governmental Expenses and the National Debt (£)

Years	Monarch	Event	Total Cost	National Debt at Termination
1688-1702	William III	Entire Reign	15,730,439	—
1702-1713	Anne	Reign and War of Spanish Succession	121,750,667	—
1775-1786	George III	American War of Independence	121,267,993	—
1793-1815	George III	Napoleonic War	603,842,171	848,282,477
1853	Victoria	Begin Crimean War	—	775,041,272
1855	Victoria	End Crimean War	—	808,108,722

Two very important reasons why the government could not control the costs of wars were the use of loans and subsidies to pay allies and the practice of hiring mercenaries to fight Britain's wars for her. Neither practice was peculiar to Britain. Mercenaries have been used throughout history. But loans (that might never be repaid), subsidies, and mercenaries were expensive, and the cost of war was expected to be balanced against the benefits received. When Britain fought and won quickly, the costs were waived as necessary. When Britain fought and failed to gain an early, decisive victory, the costs were reevaluated and often regretted. Sir John Clapham, who was later to write a history of the Bank of England, puts the total amount of money paid to allies and prospective allies between 1793 and 1816 at more than £57,000,000. In the Crimean War, Britain did not pay France subsidies to France, but she did pay for

Scandinavian mercenaries and other anticipated and unanticipated expenses, such as the longer than anticipated siege of Sebastopol.⁷

Gladstone served as Chancellor of the Exchequer from 1852 to 1855 and again from 1859 to 1866. In these periods he wrestled both with the budgets and with the Bank of England. In 1856, Gladstone left a puzzling pair of documents (lists of tasks) that appear to spell out a massive financial reorganization of both the government and the Bank.⁸ Both are lists of reforms, one of twenty-one items, the other of six, seeking to disband the Exchequer and replace it with “a true ministry of finance.” The twenty-one item list also speaks of further revisions of several customs and tariffs, and an end to the income tax. Finally, both lists revise the form and operation of the Bank of England, by removing the Issue Department from the Bank and transferring it to the government wholesale, while reforming the remainder of the Bank to act as an “agent of the government.” Few historians have noticed this list. However, H. C. G. Matthew regarded it as a mature plan of a seasoned government official to be carried out when next Gladstone was in government.⁹ Matthew also believed that Gladstone introduced, step

⁷ John Clapham, “Loans and Subsidies in Time of War, 1893-1914,” *The Economic Journal* 27, no. 108 (December 1917): 495-501; J. D. Woodruff, “Allied Debts, 1702-1914,” *Journal of the Royal Institute of International Affairs* 5, no. 3 (May 1926): 134-149.

⁸ These lists appear in their entirety in Chapter 6. The plans appear in William Gladstone, *The Gladstone Diaries with Cabinet Minutes and Ministerial/Prime-Ministerial Correspondence*, ed. H. C. G. Matthew, (Oxford: Clarendon Press, 1968-1994) 5:16/2/56, 20/2/56. In his references Matthew has used the English convention of day/month/year for all references (two-digit year). For references to the Gladstone *Diaries*, this thesis uses Matthew’s style. Matthew found these memoranda significant and their presence contributes to Matthew’s description of Gladstone as a seasoned statesman with a program ready to hand for the next time he found himself in government. See H. C. G. Matthew, *Gladstone, 1809-1874* (Oxford: Clarendon Press, 1986): 106, 109.

⁹ Matthew, *Gladstone, 1809-1874*, 106. Morley, *Gladstone* 1: 556, quoted Sir James Graham, “Your financial scheme ... is conceived in the very spirit of Peel.” However, Morley’s Chronology for volume 1 fails to mention the penning of either the list or the letter, and does not, apparently, take up the theme again. Francis W. Hurst, who was Morley’s reader for Gladstone’s financial papers, since Morley admitted lack of knowledge in that area, has offered a chapter entitled “Post-War Finance and Policy, 1856-1859” in *Gladstone as Financier and Economist* (London: Ernest Benn, 1931): 167-175. This chapter is dedicated to budgets and the urge to return the Army and Navy to their pre-war levels. Roy

by step, the items in his 1856 list, completing his task with the passage of the Exchequer and Audit Act.

The topic of this thesis, the relationship between Gladstone and the Bank of England, came from attempts to understand these reform lists and Matthew's response to them. Given the legal maneuvering with the Bank of England during Gladstone's first term in office, and the wide-ranging topics of the list itself, the urge to find out what really happened became an overpowering temptation to research.¹⁰ It is difficult to call this list a plan. It carried with it no enabling paragraphs, no strategy or tactics for accomplishing the tasks he set for himself, and no guidelines for knowing when the plan had been successfully completed.

If William Gladstone truly mastered and split the Bank by taking one half of its operation into the government, while dismantling the Exchequer along the way, as Matthew argues, I wondered where the proof lay hidden. When he wrote his biography of Gladstone, Jenkins had already served as a twentieth-century chancellor. The Bank of England had gone through several changes—nationalization, the end of the gold standard, membership in many international monetary and financial partnerships—but none of them took place during Gladstone's terms in office. In the twenty-first century, the Exchequer has not gone away, and it still has a chancellor.

Gladstone was not the first chancellor to challenge the Bank. Beginning with Robert Walpole,¹¹ the government had tried several times to flex its economic and fiscal

Jenkins, a former Chancellor of the Exchequer, did not mention it in the chapter that covers 1855-1861, entitled "Health and Wealth." See Jenkins, *Gladstone, A Biography*, 172-185. Other modern authors have also failed to take an interest.

¹⁰See Gladstone, *Diaries* 5: February, 1856.

¹¹Robert Walpole, Chancellor of the Exchequer in 1715 and 1717, 1742. See John S. Sainty, *Treasury Officials, 1660-1870* (London: University of London Athlone Press, 1972), 158.

muscles, seeking better financial terms. Some progress had been made, but a government consisting of alternating parties with alternating political and fiscal beliefs was not and could not be consistent. The differences among Whigs, conservatives, and the rising Peelite contingent brought nascent competing economic theories into earnest opposition as Chapter 3 shows.¹² Meanwhile, the Bank occupied a strong bargaining position, anchored on one hundred and fifty years of service to the government and investors, able to quote the great David Ricardo as their economic theorist. The Bank raised loans for the government whenever needed. The Bank paid a “bounty” each time its charter was renewed. The Bank was believed to control both the interest rate and the “management fee” paid by the government on new loans.¹³ The Bank, in short, believed in its privileges and seems to have regarded itself the guardian of the government in borrowing matters.

Gladstone, at other times characterized as a wily politician, appears temporarily to have sacrificed political reality when he contemplated reforming the financial and monetary system of the nation. When he wrote his plan, or list, in 1856 he was out of office and impatient. He was numerate, but not yet an economist, and there is no surprise in this. In spite of the assertions of the Banking and Currency schools,

¹²The Currency school preached a single bank of currency issue and control. This doctrine was based on the belief that the amount of currency in circulation directly controlled the health of the economy. In opposition, the Banking school believed that prices controlled the economy, and that a single bank of issue could only be tolerated if the bank carefully monitored prices, raising and lowering the circulation to keep pace with prices. Thomas Tooke and James Wilson (founder and editor of *The Economist* magazine) were, in 1844, the sole proponents of the Banking School, and were generally ignored. Norman Gash says that the Currency School had found its “bastion” in the Bank of England. Gash calls Tooke’s position (Banking School) “a highly modern and sophisticated theory.” See Norman Gash, *Sir Robert Peel: The Life of Sir Robert Peel after 1830* (Totowa: Rowman and Littlefield, 1972), 432-433. Tooke’s position also supports the requirements of a modern central bank, a position that the Bank of England was not yet willing to take on.

¹³A summary of banking sources appears in this chapter under the subhead “The Resources for this Thesis.”

economists were unsure of, or unwilling to acknowledge, the various factors involved in the analysis of any one problem—wages; prices; exports and imports; balances of trade; easy credit; available currency; over- and under-consumption; the poor; national debt; bankruptcies; savings; industrial output; and other factors. Economists were just beginning to face two problems, whether each item in this list affected the others, and if so, how. Uncertainty is evident in their writing: much of it focused either on currency or taxation. Their work did little to clarify problems faced by industrialists, international traders, small-town banks, and land-owners. Economists lacked both the mathematical skills and the range of statistical methods required to reach what we now accept as a reasonable theory of economics. So sure of themselves in parliamentary committees and in the press, the economists were in fact on shaky ground. Received wisdom regarding money derives from the seventeenth-century Mercantilists, not from wisdom gathered from the Industrial Revolution. Industrial growth was not a uniform, perceptible process but uneven and “enhanced by the specific conditions of the Anglo-French wars, resulted in an apparently general rise in prices.”

As to the functional value of a theory developed on this basis and proposed to be applied to the solution of monetary problems, we have to realize that: (a) The analysis of this rise of prices was carried on with the help of a scientific method which did not and could not include a concept of qualitative change. Quite the contrary, “received doctrine” as well as the outward appearance of the economic process seemed to suggest a merely quantitative expansion without any fundamental qualitative change in the structure of production. (b) The result of such an attitude toward the phenomenon of rising prices was to conceive of them as deviations from the otherwise static condition. (c) Such theoretical position did not prove fatal for that time for the reason that the actual though temporary economic conditions tended to obscure the imminent structural change indicated in the rise of prices.¹⁴

¹⁴Karl H. Niebyl, “A Reexamination of the Classical Theory of Inflation,” *The American Economic Review* 30, no. 4 (December 1940): 759. This work, which applies to inflation specifically, in fact

The Banking Landscape

Gladstone swore his oath as a member of parliament in 1833. One structural change was already taking place. The banking landscape in England and Wales was complex and growing more so.¹⁵ Two levels of banking existed: the country banks (some one hundred years old), and the Bank of England (one hundred and forty years old). In 1833, under the new Bank Charter, they would soon be joined by joint-stock banks, with more partners, more capital, and more willingness to be flexible than the Bank of England.

A relatively large number of country banks had been started in the eighteenth century, by cattle dealers, manufacturers, and others, who saw that this or that town needed a bank. Country, or private, banks were defined as small banking companies with facilities for deposits and loans; sometimes issue of currency was available to customers. Most were owned by one or two men, and their only problems generally occurred when the bank collapsed, or when a banking customer tried to exchange his local currency for Bank of England notes: he was usually turned down. Because country banks or issue were required to purchase stamps for their paper currency, and because the wiser of the bank managers established an account with the Bank of England or a London bill-broker, we can be fairly certain of their numbers and operations.¹⁶ They

accurately describes the situation in which anyone who believed that profit could be made also believed that profit should be made. Many companies were started on this shaky economic belief, and many bankruptcies, especially in the years of panic, followed. Also see Henry Oliver, "War and Inflation since 1790 in England, France, Germany, and the United States," *The American Economic Review* 30, no. 5 (February 1941): 344-351. Oliver calculated that at the start of the Napoleonic Wars in 1793, British and German prices rose approximately seventy-five per cent and American prices nearly doubled.

¹⁵Irish and Scottish banks, many having been formed under existing Irish or Scots law before the Act of Union (1707), were "grandfathered" under the laws of these nations, and could not be changed by laws that pertained to English banking. Their operation is not a focus of this thesis.

¹⁶The cost of the stamp for bank notes is documented in James William Gilbart, *The History and Principles of Banking* (London: Longman, Rees, Orme, Brown, Green, and Longman, 1834), 52, 56.

numbered in the hundreds. Many had business that was cyclical in nature, based on the farming year, or on a longer but generally dependable manufacturing cycle.

Joint-stock banks grew from the same investment impulses that drove cotton mills to enlarge both in operation and in ownership, and the growth of larger, long-distance railways requiring a great deal of capital. A joint-stock bank was considered to have six or more partners. From 1694, when the Bank of England was founded, until 1826, when an Act allowed joint-stock banks were allowed to form, the Bank of England was the only joint-stock bank in England and Wales. (It had been formed by charter.)¹⁷ The 1826 Act also allowed the Bank of England to establish branches in various cities. The Act also allowed formation of joint-stock banks and restricted paper currency issue by private banks. Joint-stock banks were defined as companies with six or more partners. They were allowed to form in any location outside a circle with a sixty-five mile radius of the City of London (a one-mile square).

Gladstone's was a period of joint-stock banks. The banking companies proliferated in the same way that joint-stock companies in railroads, cotton, and other large-capital companies grew. The greatest spokesman for joint-stock banking in its early days was James William Gilbart, who became manager of the London and Westminster Bank (non-issuing) situated not far from the main office of the Bank of England.¹⁸

Gilbart puts the number of issuing banks in 1822 at 552. For the numbers of country banks, see L. S. Pressnell, *Country Banking in the Industrial Revolution* (Oxford: Clarendon Press, 1956), 11.

¹⁷Gilbart, *Principles of Banking*, 63.

¹⁸James William Gilbart (1794-1863) gained his first experience of joint-stock banking during a six-and-a-half-year employment managing branches of the Provincial Bank of Ireland in Kilkenny and Waterford. He wrote constantly on banking. When he moved to London in 1833 he joined the London and Westminster Bank. See Robert Brown, "Gilbart, James William (1794-1863)," *Oxford Dictionary of National Biography*, Oxford University Press, 2004; <http://www.oxforddnb.com/view/article/10672>. Also

The Bank of England

The Bank of England was founded in 1694 as an adventurer company (and a joint-stock bank) on the same model as the British East India Company. It was managed by a governor and deputy governor and a bureaucracy of chief clerks, clerks and other employees. The governor and deputy governor met weekly with a “court” of shareholders elected from the entire company of shareholders. These men approved or disapproved the actions of the governor and deputy governor, set interest and discount rates, discussed banking strategy, and then returned to their other duties (outside companies, banks, legal offices, and the government). The Bank printed paper currency, not as money, but as promissory notes, guaranteeing the holder that he or she would be entitled to turn in the currency and withdraw an equal amount of gold. This operation was called convertibility, and was to become one of the most hotly debated problems in banking in the nineteenth century. Bank of England notes were used in the eighteenth century primarily in London and along the major travel and trade routes in England but not much in the countryside.

The Bank’s charter typically ran for twenty-two years from the time of passage, but both the Bank and the government were allowed exercised an option of reviewing the charter after a shorter period. Each charter typically affirmed all or most of the Bank’s existing rights under the previous charters, but added new rights and a few responsibilities to it. The main purpose of most charter renewals appears to have been

see Clapham, *Bank of England* 2:134. Clapham describes the obstacles thrown in the way of the London and Westminster: “doing what they could to cold-shoulder the London and Westminster,” such as refusing to allow it to use the bankers’ clearing house.

to reaffirm the Bank's monopolies, and, from the government side, to collect a bounty from the Bank.

Through the Bank Charter Acts in 1826, 1833, 1844, and 1857, the Bank of England increased its concessions from the government. In 1826, for example, the Bank of England gave up its monopoly as the only legally founded joint-stock bank in the country, and allowed non-issuing joint-stock banks to enter the London territory defined by the sixty-five mile radius. In exchange, the Bank was allowed to set up branches cities in England and Wales. In 1833, as a response to fears of gold drains from the Bank's vaults, the Bank Charter Renewal Act restricted export of gold to the Bank of England and made Bank of England notes legal tender for all payments. The theory behind the gold limitation was that gold was too heavy to transport very great distances, and the major port of England was London. The only way to get gold for export was thus to purchase it from the Bank of England , making the Bank responsible for managing any significant international gold transfer and reporting it to the government and the public.¹⁹

The *quid pro quo* that existed between the Bank and the government is shown in detail in a section of the letter Lord Althorp sent to the Bank at the beginning of the legislative year:

¹⁹The history of the Bank of England was lovingly and protectively presented in Sir John Clapham's two- volume study of the Bank. Clapham, *Bank of England*, 2: 172-181, 183-4, describes the Act of 1844. An older and more comprehensive history of the 1826 and 1833 Acts appears in Gilbert, *Principles of Banking*, 61-63, 80-92. Also see *Hansard's Parliamentary Debates* series 3, xviii (30 May-1 July 1833): 169, 1308, 1361; second reading xx (27 July-29 August 1833): 239; third reading and passage in House of Commons xx: 764; third reading and passage in House of Lords xx: 876. In his introduction to the bill, Lord Althorp said his main concern was to protect the Bank of England from gold drains when the European markets were said to "turn against us."

His Majesty's government desires me to call your attention to the advantages which these different propositions are likely to confer upon the bank. Their tendency must be to extend the circulation of its notes, and by relieving bills of short dates from the usury laws to facilitate its operation. While, on the other hand, the only relaxation in its exclusive privileges as they at present exist, which is required—is the permission given to joint-stock banks, established at a greater distance than sixty-five miles from the metropolis to draw bills and issue notes payable in London. *His majesty's government, therefore, think they have a right to expect some considerable pecuniary advantages from the bank in the management of the government business.*²⁰

In 1844, the Bank was given strict rules of currency issue, but the Issue Department also received £14,000,000 in government securities to use as a reserve when its issue went beyond the limits of its gold bullion reserve. The Act also strictly limited the ability of private banks to issue currency, increase their partnerships, or amalgamate with other banking entities. In any of these cases, the bank would lose its right of issue, and the amount of the sacrificed issue would be added to that of the Bank of England. In 1857, the Bank of England was temporarily strengthened by a removal of limited liability from joint-stock banks. This move allowed all members of a joint-stock company to be sued for their public and private wealth, a plan thought to inhibit formation of more joint-stock banks. The history of the passage of this Bank Charter Act is greatly muddled by two other efforts that arose at the same time: the governmental concern about the great financial crisis of 1857 (giving rise to the formation of a select committee on the commercial crisis) and a proposed Act to indemnify the Bank of England against litigation based on the charge that it had issued currency and credit beyond the limits set forth in the Bank Act of 1844.²¹ In 1858 parliament restored limited liability to joint-stock-bank partners.

²⁰Lord Althorp to the Governor of the Bank of England, May 2, 1833, in Gilbart, *Principles of Banking*, 81.

²¹For the history of the Bank Charter Act, the select committee, and the Act to indemnify the Bank see *Hansard's* cxlviii: 3 December, 1857-22 February, 1858. The three efforts are so intertwined in the

The Structure of this Thesis

This work is organized to focus primarily on the period 1852 to 1866 and encompass Gladstone's four chancellorships under Aberdeen, Palmerston, and Russell. Chapters 3 to 7 are chronological, showing Gladstone's educative process and also showing how he came to grips with the banking and governmental problems he faced, chose a strategy and tactics likely to improve the government's position, openly opposed the Bank's profits and assertions of monopoly powers, and attempted to support private banking. Gladstone leaned, I believe, strongly on the education he was receiving from those around him and from the books he was reading to understand his job, improve his performance in managing budgets, and contribute to Britain's prosperity and colonial power.

In addition, I take the position that Gladstone's actions vis-à-vis the Bank of England were not part of some public tirade or outraged personal glorification, but a concerted effort to gain his goals on behalf of his country. Gladstone was aware that his powers were limited. Thus, the problem of the thesis is to build up a story first of what Gladstone did, then to build up the historical rationale for what he did, and finally to find the contributing factors in his behavior to help us understand why he followed a somewhat torturous but effective course of public action in dealing with the Bank of England from 1853 to 1866. To accomplish these tasks, it is necessary to show that Gladstone's course of actions expressed neither rage nor withdrawal, but a continuous effort to confront, legislate, and get the best deal he could for his government and his people. That he succeeded is grudgingly acknowledged in an aside by Sir John

debates that they are somewhat difficult to follow. They are taken up in more detail in Chapter 6.

Clapham, who finally wrote, “in this period, Gladstone did better for the people of Britain than he did for the Bank of England.”²²

To help us understand Gladstone as an advanced autodidact, Chapter 2 explores the intellectual milieu in which he lived and worked, including the rise of bookstores and journals and social engagements at which books were sometimes discussed. It also explores the way he trained himself in various areas of the rising culture of Victorian education and improvement. Gladstone read deeply on many topics. This thesis identifies the books he read that are germane to the topic. It also explores some suggestive passages found in the Gladstone *Diaries*, such as the visits of deputations and meetings with well known bankers outside the Bank of England.

The next five chapters are chronological in nature, exploring the five periods of his life encompassed by this thesis: the Peel years (1833-1846) appear in Chapter 3. The years 1846-1852, following the fall of the long Peel government, are described in Chapter 4. Gladstone’s first two terms as Chancellor of the Exchequer (1852-1855) comprise Chapter 5. Chapter 6 follows the agonizing years out of office (1855-1859) when he wrote his list of financial reforms. Chapter 7 inquires into major events in his long Chancellorship of the Exchequer, 1859-1866.

From 1833 to 1846, we see Gladstone change from naive optimist to a more worldly-wise politician under the guidance of Sir Robert Peel. This chapter looks at his relationship with his fellow “Peelites,” a hardy band of Members of Parliament who followed Peel into the cabinet and the front benches of the House of Commons. Out of office, they used their considerable clout to swing parliamentary votes. One of their

²²Clapham, *Bank of England 2*: 256.

primary functions during these years was to consolidate and understand the Peel agenda so that in office they could act as a cohesive ruling unit. One of their other priorities was to educate Gladstone. This chapter begins a study carried through in the other four chronological chapters. It examines Gladstone's reading list. Reading was the primary method used by Gladstone to educate and inform his thinking.

In the post-Peel-governmental years from 1846 to 1852, Gladstone began to see that Peelitism was not a satisfactory springboard for his political future. In this period he first began to toy with the possibility of falling back on the conservative party or moving forward toward an unlikely but emerging liberalism. It was an especially difficult time for Gladstone and some of his friends because Peel, refusing to take office again in his own right, had cast his lot with the Russell-Whig government. He did this because he saw the Russell government as the only way to keep the conservatives out of office. He feared that the conservatives would throw out Free Trade, reinstate the Corn Laws, restore the tariffs and customs, and again raise prices on goods and commodities important to English consumers. Gladstone attended on Peel but refused to follow the Peel line of blind support for Russell. In keeping with his growing independence, Gladstone expanded his reading to include books on banking, trade, and finance.

Gladstone joined Lord Aberdeen's 1852-1855 government as Chancellor of the Exchequer, and found himself attempting to finance a war (Crimea) that he personally opposed. While his view of his own importance was badly shaken by the war and by the House of Common's overthrow of Aberdeen's government, his confidence as a man of numbers, and thus as Chancellor of the Exchequer, grew. Because of the two-plus years of close work with fellow Peelites, Gladstone left office more sure of himself as a

Peelite and as a numerate man ready to serve the nation, but less sure from where his next cabinet post would come. His reading increased during this period, and the book list at the end of the chapter shows how he continued to improve himself through his reading, confident that it would lead to some good in his character and also support his aspirations.

In Chapter 6 we find Gladstone attempting to come to grips with the dual urges to enter government and to stay out of it. He firmly believed that the Peelites should only join a strong government so they could carry out a Peelite financial policy. Both Lord Palmerston and the Earl of Derby courted him for office; in fact, he served in Palmerston's government for fewer than three weeks and then resigned. He became somewhat fretful and fractious, mostly avoiding debate on financial matters but offering a near filibuster over a divorce bill brought up in the House of Commons. This was the period in which he wrote his financial plan, shared it with his fellow Peelite, Sir James Graham, and then apparently shelved it. Nevertheless, he read faithfully and constantly on money matters, as his reading list for this chapter shows.

The final chronological chapter (Chapter 7) shows the return of Gladstone to the Exchequer with what Matthew called a mature plan of a seasoned politician: a plan of social reform. Matthew suggests that Gladstone introduced the plan point by point, and suggests that Gladstone succeeded in accomplishing all the goals he set for himself in 1856. This chapter challenges Matthew's belief by considering what Gladstone did accomplish, where he failed, and how one act of legislation has made Gladstone a champion of fiscal probity and reform for the next one hundred years. As this chapter will show, Gladstone took the politically correct, defensible, and financially responsible

position of cleaning up the government's operation in order to present itself in a better and more formidable light to the Bank of England. His reading list for this period shows his focus on finance, taxation, and government for this period.

Chapter 8 concludes this thesis with a brief essay on Gladstone's legacy. Morley, Matthew, Jenkins, Shannon, Crosby, Buxton, and Northcote have not ended the discussion of Gladstone. The *Diaries* still have a good deal to yield, as do the parliamentary debates and the budgets. This thesis is not a biography but a study of the relationships between Gladstone and his government, between Gladstone and the Bank of England, and between the Bank of England and the government.

The Resources for this Thesis

Those who begin to write a thesis are endowed by their mentors with certain inalienable rules: Work on it every day. Do not get distracted. Do the research properly. Remember to footnote everything. Learn the secondary sources. In the case of this thesis, the work was overwhelming, and so interesting I worked every day and dreamt about the work nearly every night. The primary sources were a constant delight. Gladstone's *Diaries*, thirteen volumes of his writings accompanied by a volume of indexes,²³ illustrate a picture of a larger-than-life man, interested in a great many topics, many of which gave him material for his public and parliamentary speeches. Many of his notes contribute to an understanding of Gladstone's budgets, the welfare of the nation, and the financial needs of working people.

²³*The Gladstone Diaries*, volumes 1 & 2, ed. M. R. D. Foot; volumes 3 & 4, eds. M. R. D. Foot, H. C. G. Matthew; volumes 5-14, ed. H. G. C. Matthew. The entire fourteen-volume set was published by the Oxford University Press in the period 1968 to 1994.

His *Diaries* also show that he was also an ardent family man. He taught Scriptures, Latin, and Greek to his sons and daughters. He tended his wife in her post-partum nursing, read to her and prayed with her. He visited his father, sister, brothers, aunts and uncles, and withheld his disappointment when they berated and blamed him, especially when his father consistently accused him of breaking family faith by siding with Sir Robert Peel on free trade. Gladstone also read. Bursting from the pages of these *Diaries* are references to material that Gladstone read, much of it on the classics and religion; and also poetry, drama, and novels. But he also read much more—on banking, the Bank of England, government finance and taxation, and the wealth and operations of other nations in Europe—and these were very much to the point of this thesis. By contrast, the secondary sources were disappointing, and drove me back to the primary evidence.

As this section will show, the secondary sources began well enough, with Matthew's study of Gladstone, but did not, in general, provide the kind of aid I had hoped for in this MA thesis. The later twentieth-century sources are of two types: first, those about Gladstone's religious and classical studies; and second, the "psychological studies." These latter paint Gladstone as an often irrational, unreliable man, subject to loud singing, flagellation, rages, and other extreme behavior. Each of these studies presents Gladstone as useful and rational one minute, angry and irrational the next. Neither of these types of secondary work helped me focus on Gladstone the Chancellor of the Exchequer, economist, and financier. They did not help me find the answers to the problems of what Gladstone did about the government's money.

Returning to earlier sources was beneficial—a study of finance written by Sidney Buxton while Gladstone was still alive,²⁴ and the family’s official biography of the great man, written immediately after his death by John Morley.²⁵ Both studies favor Gladstone. Morley’s satisfied the family, and Morley himself believed strongly in Gladstone’s greatness. Buxton spent a great many more pages on Gladstone’s budgets than on those of the other Chancellors of the Exchequer of the period. Nevertheless, these works are very detailed and quite useful. John Morley’s three-volume work on Gladstone’s life, family, politics, finances, classical works, and church-related writings was begun immediately after Gladstone’s death. Morley was a journalist and MP, and often visited Gladstone at his office, his home in London, and at the Hawarden, the Glynne family that Gladstone rescued from bankruptcy and made his family seat. In the biography, Morley shows that he had asked Gladstone numerous questions about political life, and Morley used these question-and-answer sessions to great advantage as he wrote. During some of these interviews, Gladstone appears either to have found or to have written down notes for Morley (such as the one quoted at the beginning of this chapter). Morley also used *Hansard’s Parliamentary Debates*, *The Times*, and other sources such as letters, to round out chapters on Gladstone and the church, his political activities, his financial acumen, his love of and interaction with his family, and his pastimes. Later works have leaned heavily on Morley’s work.

²⁴Sidney Buxton, *Finance and Politics: an Historical Study, 1789-1885* (London: John Murray, 1888). This work provides budget tables for the years 1862 to 1886-87.

²⁵The Gladstone family selected Morley to write Gladstone’s biography with the intent of producing a definitive work. Morley was allowed to use Gladstone’s original journals, but after publication of the three-volume life, the journals were archived, and access to them denied to other historians. See later in this chapter.

Less well known but extraordinarily useful is Sydney Buxton's two-volume work *Politics and Finance*, written while Gladstone was still alive. Buxton focused on the budgets of the nation from 1862 to 1886-7 (providing us with twenty-five years of Victorian budgets, heavily notated). Buxton's work deliberately follows upon the work of Stafford Henry Northcote, a one-time aide to Gladstone and co-author of the Northcote-Trevelyan report, authorized by Gladstone and considered one of the most powerful governmental works of the nineteenth century.²⁶ While Morley focused on Gladstone the man, Northcote and Buxton focused on government finances, detailing from first-hand experience the budgets of various governments and the political reasoning behind these budgets. In doing so, they annotated the actions of Gladstone the economist as he responded to one or another national crisis through the power of the national budget. Northcote's treatment, published in 1862, also produces the budgets, and provides a year by year account of the decisions made to keep the government in funds.

Buxton's work provides far less detail about Gladstone's life but far more detail on government finance, the political environment in which finance decisions were made, and Gladstone's thoughts and feelings about them. This is not, *per se*, a memoir of Gladstone's finance, but of a government's finance. Nevertheless, Morley's insight into the role of the Chancellor of the Exchequer, or Finance Minister, is useful to our understanding of what Gladstone accomplished:

The business of a Finance Minister is a two-fold one. To know how to impose taxation when required, in the way least burdensome to the country as a whole, and to the individual taxpayer; and to know how to remit, when remission is

²⁶Stafford H. Northcote, Lord Iddelsleigh, *Twenty Years of Financial Policy. A Summary of the Chief Financial Measures Passed Between 1842 and 1861, with a Table of Budgets* (London: Saunders, Otley, 1862).

possible, in a way that will give the most impetus to trade, and most distinct to the taxpayer.²⁷

Francis W. Hirst worked with John Morley on the biography, reading and commenting on the financial material Gladstone provided. His independent work, based in large part on his earlier work for Morley, was written in 1931. He described his work as “imperfect but not uncritical ... an even-handed study of Gladstonian finance” suggested by the financial problems of his own time.²⁸ His treatment of Gladstonian finance follows closely on the work performed by Morley and Sydney Buxton, both of whom were members of Gladstone’s late-life coterie.²⁹ Hirst’s work, however, has more bite than Morley’s. For example, he mocks Oxford’s slow movement “in her political orbit from antiquated conceptions and prejudices.”³⁰ His only new material is that provided by Gladstone’s youngest son, Henry Neville, who contributed a personal recollection.³¹

Letters give a flavor to Gladstone’s thinking on finance, and the pressures he withstood. Useful in this context are Phillip Guedalla’s two compilations: *Gladstone and Palmerston* and *The Queen and Mr. Gladstone*.³² When he was in office, the Queen’s finances were Gladstone’s responsibility. For example, from 1852 to 1855 Gladstone was master of the Mint as well as Chancellor of the Exchequer. As such, he was

²⁷Sydney Buxton, *Mr. Gladstone as Chancellor of the Exchequer: A Study* (London: John Murray, 1901), 162.

²⁸Francis W. Hirst, *Gladstone as Financier and Economist* (London: Ernest Benn, 1931), vii-viii.

²⁹Morley and Buxton attended Gladstone in the 1880s and 1890s. For numerous references to Morley, see Gladstone, *Diaries* 14:763-764. For Buxton, see *Diaries* 14:629.

³⁰Hirst, *Gladstone as Financier*, 113.

³¹Hirst, *Gladstone as Financier*, 300. Hirst may be thanked for giving us with a picture of Gladstone in the robe of Chancellor of the Exchequer, the hotly contested garment that Disraeli refused to give up in 1852. Gladstone, *Diaries* 4:6/3/53.

³²*The Queen and Mr. Gladstone*, ed. Philip Guedalla (Garden City: Doubleday Doran, 1934), 175, 186. Also see William M. Kuhn, “Queen Victoria’s Civil List: What did she do with it?” *The Historical Journal* 36, no. 3 (September 1993): 645-665; W. Menzies Whitelaw, “The Financial Plight of a Queen’s Consort,” *The American Historical Review* 42, no. 4 (July 1937): 691-699; Patrick Linstead, “The Prince Consort, F. R. S., and the Founding of the Imperial College,” *Notes and Records of the Royal Society of London* 17, no. 1 (May, 1962): 15-31.

responsible for the massive recoinage that took place during this period, and was thus the Queen's "contact man" over problems with the casting of her image on the coins produced by the Mint. In addition, Gladstone was also responsible for Victoria's allowance, requiring several line items in great budgetary heading called Supply. Having a queen costs money. More money is required if she has a consort, many children, several castles, and ladies and gentlemen of the court. If the queen gives grants pensions, travels, and entertains potentates, and if the queen feels she is strapped for cash, her first thought is that the government should pay rather than straining her tiny purse.

Gladstone's letters to the Queen were always correct, couched in the third person, and carefully reasoned. Hers, on the other hand, ranged from expressions of concern for his health to petulance and anger. On the casting of a coin with her image, she announced "the portrait is so frightful that the Queen cannot sanction it ...all her sitting & all her corrections have proved utterly useless." Her letters on expenses were even more petulant, forcefully reminding Gladstone at one point that the oath she had sworn required her to turn all her revenues over to the government while the government remitted to her only what Parliament agreed to in terms of allowances, annuities, and marriage portions. From finance, her pen ventured into budgets and foreign policy, and annoyed not only Gladstone but Palmerston as well.³³

Of more importance to this thesis are the letters between Gladstone and Palmerston on the budget in general, the size of the Army and Navy, fortifications,

³³William Gladstone and Henry John Temple, Viscount Palmerston, *Gladstone and Palmerston: Being the Correspondence of Lord Palmerston with Mr. Gladstone, 1851-1865* (New York & London: Harper & Brothers, 1928). See especially letters 275-276 on allowances for the Queen's daughters and letter 260 on the expenses of the Prince of Wales' trip to Canada.

government purchase of railroads, and other financial matters that affected each budget Gladstone wrote while he served in the four cabinets covered in this work.

The modern, secondary sources provide the researcher with a mixed company. In his introduction to a collection of papers written to commemorate the hundredth anniversary of Gladstone's death, David Bebbington categorized the scholarship related to Gladstone.³⁴ Bebbington's first category consists of those historians and biographers who wish "to keep the statesman's memory green." He includes John Morley and F. W. Hirst in this category. A second category consists of those historians who used the Gladstone *Diaries* and thus began an era of detailed research, a division that suggests the *Diaries* might not support the "green" Gladstone. Bebbington cites the work of J. L. Hammond, author of *Gladstone and the Irish Nation* (1938), in this category. Bebbington based his categorization on access to the Gladstone *Diaries*. The *Diaries* are extremely important to the study of Gladstone. Gladstone recorded his life in his *Diaries* for most of his life. For many years, research was hampered because the family considered Gladstone personal journals (later presented as the Gladstone *Diaries*), his letters, and parliamentary papers, some of which were available but unsorted, to be deeply religious or inclusive of problematic material relating to the Gladstone family and Gladstone's work with prostitutes.³⁵

The Gladstone *Diaries* were brought to public view beginning in 1968. This enormous work commenced with a special grant to support the research: it was known

³⁴David Bebbington, "Introduction," in *Gladstone Centenary Essays*, David Bebbington and Roger Swift, eds. (Liverpool: University Press, 2000), 1-3.

³⁵See Derek Beals, "Gladstone and His Diary: 'Myself, the Worst of All Interlocutors,'" *The Historical Journal* 25 no. 2 (June 1982): 463-469.

that the volumes, which sold for £40 the pair, would not be commercially successful.³⁶

As the *Diaries* were published, Bebbington writes that more flavors of Gladstone began to appear: Victorian history that bows to Gladstone but centers on a left-wing or Marxist interpretation; the high politics school with right-wing in orientation; and what Bebbington classifies “the older Liberal tradition of the nineteenth century.”

I chose to work on the main period of 1853 to 1866.³⁷ I used specific volumes of the *Diaries*, listed in the Bibliography. Because my work stopped at 1866, I often found the first or second volume of a work useful while later volumes in the same set were not. This selection process applies to Morley, where volumes 1 and 2 were of utmost importance but volume 3 was not.³⁸ H. C. G. Matthew produced two volumes. The first one was useful, covering the dates 1809, the date of Gladstone’s birth, to 1874. Matthew’s presentation is sedate but light-handed, and given to generalization. His assertions about Gladstone’s inter-chancellorship period and his work in the second Palmerston government (1859-1865) have given me the topic of this thesis, precisely because his light-handedness and his failure to support his reasoning with relationships, dates, and other anchoring details left me with a very large question to be answered.

Richard Shannon has produced two volumes on Gladstone’s life, but only the first is used. With Shannon’s work, we enter into the world of historiography challenging

³⁶Beals, “Gladstone and His Diary,” 463.

³⁷Gladstone served as Chancellor of the Exchequer from December 1852 to February 1855 in the Earl of Aberdeen’s government. He served for less than three weeks in February 1855 in Viscount Palmerston’s first government. He served in Viscount Palmerston’s second government from June 1859 until the Viscount’s death in October 1865, and carried on in the government formed by Lord John Russell until June 1866. In Gladstone’s second tour as first lord of the Treasury, April 1880 to June 1885, he also served as his own Chancellor of the Exchequer. This dual position caused something of a constitutional stir until Gladstone pointed to his two predecessors, Pitt the Younger and Sir Robert Peel, who had served in both positions simultaneously.

³⁸John Morley, *Gladstone*. Volume 1 encompasses the years 1809-1859; volume 2, 1859-1880.

the Gladstone ethos by using his own words against him. For Shannon and others like him, Gladstone required rethinking. Keeping the great man's name green was not Shannon's object. Shannon was one of the first beneficiaries of the release of the Gladstone *Diaries*; he appears to have read them avidly but selectively.³⁹ His biography of Gladstone begins quite gently describing a young man with wintry thoughts,⁴⁰ not quite brave enough to ask the third woman with whom he fell in love to cast her lot with him. But soon Shannon gives way to a harder vision in which Gladstone metamorphoses from wistful young man to a growling vindictive character,⁴¹ suffering paranoia and then helpless inflexibility in his confrontations with the Bank of England.⁴² By the time Shannon arrives at Gladstone's tour of duty in the Ionian Islands, he is accusing Gladstone of many sins: the lust for petty tyranny, an overwhelming urgency to scuttle the career of a friend, the willingness to give up his base in England for a low-level position of high commissioner in the Ionian Islands.⁴³

One writer who should have had an inside track on Mr. Gladstone, his budgets, and his overall economic policies was Roy Jenkins, the post-war Chancellor of the Exchequer. One could wish that this book had not been written for so wide an audience, or that Lord Jenkins might have provided us with just a little modern insight into Gladstone's budgets and finance. He did not. A glance at his endnotes shows that his main source was the Gladstone *Diaries*, although Jenkins had read Richard Shannon's

³⁹Richard Shannon, *Gladstone, 1809-1865* (Chapel Hill: University of North Carolina Press, 1984): xiii

⁴⁰*Ibid.*, 144.

⁴¹*Ibid.*, 256.

⁴²*Ibid.*, 282.

⁴³*Ibid.*, 379.

study and commented on Gladstone's morbidity, using Shannon as a source.⁴⁴ While most of his book consists of a play-by-play of Gladstone's life, Jenkins took several opportunities to show how Gladstone had gone astray with various (to Jenkins) highly irrational or objectionable indiscretions: Gladstone's long journey to Italy to try to retrieve Lord Lincoln's eloping and very pregnant wife,⁴⁵ his attempt to tax charitable donations,⁴⁶ his speech on the North and South,⁴⁷ and his attempts to reform ladies of the night. Jenkins devoted a sixteen-page chapter to Gladstone's work with prostitutes, his self-conscious self-scourging, and wondered in print about a summer-long season in which Gladstone chastised himself only once.⁴⁸

Another voice that reflects a "new look" at Gladstone is Travis L. Crosby's *The Two Mr. Gladstones, A Study in Psychology and History*.⁴⁹ Crosby's index gives us clues to the Gladstone of the *Diaries*, but a Gladstone filtered through Crosby's admittedly experimental, psychological approach introducing topics such as anger as a means of control,⁵⁰ psychological incoherence,⁵¹ emotion-focused coping, and escape-avoidance coping.⁵² To Crosby, stress forced Gladstone into these coping strategies. Reading constituted an emotion-focused strategy, while travel was for escape avoidance. Crosby is not uniformly wedded to scandal and intrigue, nor is he anxious to condemn Gladstone as the century's greatest mad man. He says, for example, that

⁴⁴Jenkins, *Gladstone, A Biography*, 65.

⁴⁵*Ibid.*, 93-95.

⁴⁶*Ibid.*, 241: Jenkins called this a Don Quixote attack.

⁴⁷*Ibid.*, 241: Jenkins called this nonsense.

⁴⁸*Ibid.*, 107.

⁴⁹Travis L. Crosby, *The Two Mr. Gladstones, A Study in Psychology and History* (New Haven: Yale University Press, 1997).

⁵⁰*Ibid.*, 6, 15, 231 n.4.

⁵¹*Ibid.*, 6, 7, 10, 46, 50, 55, 150, 173, 174, 211.

⁵²*Ibid.*, 221.

anger may have beneficial effects, not when it leads to violence, but when it is drawn on and reflective of cognitive behavior, a way of fighting back.⁵³

Crosby's work received mixed reviews, but for the purposes of this thesis, three reviews are useful because they point to the pitfalls of seeing the model instead of seeing the man. Judith M. Hughes writes that Gladstone was curiously absent from Crosby's work. She feels that Crosby's characterization of the two Gladstones, one as the private man of work and discipline and the other as the public man of anger and aggressive verbal attacks—often against hapless opponents—does not advance our understanding of the Grand Old Man.⁵⁴ T. A. Jenkins describes Crosby as an accomplished political historian, but also finds Crosby's characterization minimalist, and Crosby's treatment throughout Gladstone's life as repetitive.⁵⁵ Stewart Weaver mentions the juxtaposition between the release of Crosby's book and that of Roy Jenkins as a shame. Weaver believes Lord Jenkins produced a far more readable book. Thanking Crosby for avoiding a Freudian approach, Weaver is nevertheless unhappy with the reductionist approach embodied in the idea of coping strategies. In his conclusion, Weaver writes that "Crosby proves conclusively and absolutely to anyone who may still doubt that Gladstone was a man of great volatility and passion. Those who want to understand more of what he was passionate about may have to turn elsewhere."⁵⁶

⁵³Ibid., 6.

⁵⁴Judith M. Hughes, review of *The Two Gladstones* by Travis L. Crosby, *Journal of Interdisciplinary History* 28, no. 3 (Winter, 1998): 449-450.

⁵⁵T. A. Jenkins, review of *The Two Gladstones* by Travis L. Crosby, *The English Historical Review* 113, no. 454 (November 1998): 1348-1349.

⁵⁶Stewart A. Weaver, review of *The Two Gladstones* by Travis L. Crosby, *The American Historical Review* 103, no. 4 (October 1998): 1251-1252.

And thus, the dichotomy in Gladstone studies can be established: The “green” view is that of Victorian financial genius. The “grey” view is that of a man in deadly peril of losing his composure and his sanity. One may, with proper curiosity, ask where to find the Victorian man who was not frustrated with some portion of his life, or with all of it, and who functioned as well as Gladstone did. Biographies of many Victorian ministers and prime ministers show men with dark thoughts, personal aberrations, trouble with their wives and children, and difficulties of coping with recalcitrant governments.

To factor the darker interpretations of Gladstone’s life in with the energetic and vehement way in which he attacked mid-Victorian finance is to undermine his accomplishments. Government officials and financial historians have been astonished at how much he accomplished. I argue that Gladstone’s energy in the 1850s was translated into legislative energy in the 1860s, and that his battles with the Bank probably made him stronger, leading to a proper understanding of what could be fixed, what couldn’t, and what shouldn’t have been tampered with. Shannon and Crosby do not aid this effort. And books like Jenkins’ must be read very carefully to sort the useful financial analysis from the less useful personal criticism.

It is true that Gladstone was hated—by *The Times*, many Whigs, some conservatives, and much of the time by that sardonic novelist, Chancellor of the Exchequer, and Prime Minister Benjamin Disraeli. Gladstone was bound to be hated: he held strong opinions on finance and religion, spoke and wrote what was on his mind (often speaking for two, three, or four hours without rest), got published, and earned money from his writing. He was a man who was everywhere, seemingly, at once. On his mission to the Ionian Islands, for example, a trip that was part idyll and part political

expediency (the need to remove a loyal Peelite and friend from a mission gone badly wrong), Gladstone was hounded by the press. Reports of every dinner, ball, opera, meeting, and speech were lovingly telegraphed back to London where they were reported to give Disraeli his daily dose of heartburn.

What one does not find in these character analyses is Gladstone the Chancellor of the Exchequer, economist, or financier. Those historians who were more interested in politics apparently have found much more to explore in Gladstone's stints as first lord of the Treasury and prime minister, his expertise in managing Whigs and liberals, or the politics of Ireland than in his ability to manage money. An author who has again turned the historiography of Gladstone around is Eugenio F. Biagini's *Gladstone*.⁵⁷ Biagini seems to have understood Gladstone's rhetoric, especially that which focused on finance, better than his predecessors. Biagini notes that Gladstone's 1853 budget speech, the first of his long career, combined Peelite financial orthodoxy and a moralist-populist approach to public opinion. He also notes that Gladstone's financial approach "was a further development of his Peelite creed: its ingredients were a balanced budget, regular surpluses, and a careful consideration of the social and political implication of various taxes."⁵⁸

Sources for the History of Banking

The history of banking and the Bank of England is extensive and rich. To understand what Gladstone did and did not do are required to understand banking in

⁵⁷Eugenio F. Biagini, *Gladstone* (Houndsmills, Hampshire; MacMillan and New York: St. Martin's Press, 2000), 31-36, 40-42, 53-56, 75-78. These pages describe Gladstone's financial approach to government.

⁵⁸Biagini, *Gladstone*, 32-33.

Britain as it stood in Gladstone's time. The history of banking in England covers, all-told, at least a thousand years of credit, coinage, wealth, and downfall. As a truly ancient institution, even though partially transplanted, it defies the first-time student's attempts to understand the Victorian era of banking unless one is willing to go all the way back to the Normans, their needs for money, and the Jewish money-lenders and Italian bankers who provided it. Such a huge subject, with its multiplicities of sources and arguments, is far too large to attempt in a thesis, but an understanding of the wealth and complexity of this history, as well as a feeling for the terms, transplants, and people involved, is required to bring readers a little up to speed. To appreciate the historical fact that Gladstone could meet and interact with nineteenth century bankers, and to judge his support of, for example, Lionel Rothschild's repeated attempts to enter parliament, it is necessary to understand how banking, Gladstone, and to some small extent, Lionel Rothschild, all came to be involved.

For the reader's convenience, I offer the following list of my major banking sources, and the reasons I have found them useful. This exposition falls conveniently into episodes: medieval, Tudor, and "modern," meaning England after the Commonwealth. With minor exceptions, medieval and Tudor banking was foreign banking, first provided by French Jews, and then provided by Tuscan merchants turned bankers. Tudor banking was dominated by banks in Antwerp and Germany. The first true English banking flourished only after the Restoration. All three periods are studded with luminaries, philosophers, bankrupts, con-men, and here and there a very cautious and rich family or man.

Medieval Period

The first bankers to an English king were the Jews, who arrived from France with or very soon after the conquest. B. Lionel Abrahams has written that the Jews were indeed French, that they brought money with them, and that, as they had no other skills, they made their living lending money. They lent to the king “when the ferm of his counties, or his feudal dues were late in coming in.”⁵⁹ They also lent to the barons and to those who followed the king’s court from one town to another, and to those who were required to plead before the Papal Curia at Rome.⁶⁰ The Jews held themselves aloof from the life of the towns they inhabited, eating different food, refusing to participate in Watch and Ward. Unable to own land or join guilds in their former homes, they did not purchase land or join the trades in their new homes. Thus, Abrahams says that while the Normans looked like Englishmen one hundred years after their immigration, the Jews did not. They remained “other” although a very useful other.⁶¹

Henry III found the Jews useful as long as they had money to lend or confiscate to finance expeditions to Brittany and Gascony. Henry took one-third of their wealth (1230), levied a tallage of 60,000 marks (1244), and confiscated what wealth his men could find in sweeps through the Jewish neighborhoods (1250, 1252, 1254, and 1255). These raids were so vicious that the Jews petitioned to be allowed to leave the country.⁶²

Edward I inherited from his father (1272) and returned to England in 1274.⁶³

⁵⁹B. Lionel Abrahams, “The Expulsion of the Jews from England in 1290, Part 1,” *The Jewish Quarterly Review* 7, no., 1 (October, 1894): 75-100; 76, n.1.

⁶⁰*Ibid.*, 76, n.2.

⁶¹*Ibid.*, 77, n.1,2.

⁶²*Ibid.*, 92.

⁶³B. Lionel Abrahams, “The Expulsion of the Jews from England in 1290, Part 2,” *The Jewish*

Edward was later to be known as a great reformer, but as a law-giver, he was, like most medieval kings, supremely short-sighted, giving law, but then discovering that his new law conflicted with older rules. This was certainly the case for the Jews. His father had impoverished the Jews although nobles and churches had risked the wrath of the king by pledging land to the Jews as surety on loans and those loans were outstanding.⁶⁴ Mavis Mate has shown that the chapter of Canterbury Cathedral was deeply in debt to the Jews, paying high rates of interest, and was borrowing in one place to pay its debts in another.⁶⁵ Edward had heard the preaching of various church fathers on usury and was willing to use them as a guide.⁶⁶ He ordered an inquisition into usury of the Florentine bankers already operating in his kingdom with a view to suppression, and used the same logic against the Jews.⁶⁷ The contraction of their business through raids and confiscations meant that the Jews could no longer support the king. They were being surpassed by the Italian banking companies—Florence, Rome, Milan, Pisa, Lucca, Sienna, and Asti.⁶⁸ The result was that Edward was able to borrow great sums of money from as many as thirty-four Italian bankers, while the Jews, no longer rich enough to lend to the king, were not longer useful.⁶⁹

The first step in the expulsion of the Jews from England was the recoinage of 1279. Edward's judicial commissions looked into offences concerning currency, and the

Quarterly Review 7, no. 2 (January 1895), 236-258; 258.

⁶⁴Abrahams, "Expulsion of the Jews, Part 1," 98.

⁶⁵Mavis Mate, "The Indebtedness of Canterbury Cathedral Priory, 1215-95," *The Economic History Review*, new series 26, no. 2 (1973): 183-197; see the tables at the end of the article.

⁶⁶Abrahams, "Expulsion of the Jews, Part 2," 236-239.

⁶⁷*Ibid.*, 240.

⁶⁸*Ibid.*, 241. Christian bankers were not allowed to charge interest but were forced to find other ways to make a profit. See "the Riccardi system" below.

⁶⁹*Ibid.*, 243.

Jews suffered from this enquiry. Any evidence either of debased metallic currency or export of metallic currency abroad led to severe punishments.⁷⁰ In 1275, following the teachings of St. Thomas Aquinas, Edward sent the Jews to practice merchandise or live by their labors.⁷¹ But the Jews failed to become what the king wanted because other laws and local rules kept them from trade, from the guilds, and from farming and land-holding. Abrahams says the Jews were tempted to transgress against the usury laws because they were desperate. To overcome the laws, a Jewish lender could agree with his gentile borrower to hide the interest payments, but if caught, both could be punished. In one famous round-up, both Jews and Christians were found guilty. Three Christians were condemned to death, but two-hundred ninety-three Jews were hanged, drawn, and quartered.⁷²

The crimes of the Jews were no greater than those of the Christians around them, though they called for heavier punishment. Christians clipped and coined; Christians still lent money on usury. And a certain amount of crime among Jews could not but be looked for as a natural result of the terrible difficulties in the way of the social revolution that had been demanded of them. Edward saw that he had been trying to do too much at once.⁷³

Edward was forced to admit to himself that the country needed money-lenders, but he could not abide the Jews. He found his method of getting rid of them by charging them in 1295 with defacing the legal English coinage.⁷⁴

⁷⁰Michael Prestwich, "Edward I's Monetary Policies and their Consequences," *The Economic History Review*, new series 22, no. 3 (December 1969): 406-416. Debasement typically consisted of one of four procedures: clipping, sweating, coining, or recasting with base metals at the core. Clipping trimmed away the edges of a coin. Sweating heating the coin until some of the precious metal flowed from the surface. Coining used a base metal die with precious metal faces. Recasting consisted melting lead or other base metal into the mix (usually with silver) and casting the coin from the mix. These procedures were not limited to counterfeiters. Philip IV debased his own coinage to finance his war with Edward I in 1294.

⁷¹Abrahams, "Expulsion of the Jews, Part 2," 244.

⁷²Ibid., 256, n.4.

⁷³Ibid., 257, n.1.

⁷⁴Abrahams, "The Expulsion of the Jews from England in 1290 (Concluded), *The Jewish*

The Tuscan bankers, notably the Florentines and Luccans brought their own coins, and better still, the first European credit institutions, with them. Bankers did three types of business in England: they lent to the king, they dealt in wool with the nobility, and they transacted credit business between the great monasteries and the Holy See. Richard W. Kaeuper's *Bankers to the Crown* shows how the Riccardi of Lucca lent money to Edward I and introduced the "Riccardi system." The Riccardi system ensured that England's debt was *funded debt*—that is, loans for which the source of repayment was guaranteed up front, in the Riccardi case through collection of the export customs on wool by Riccardi agents instead of governmental servants.⁷⁵

The Florentine banks, the Bardi and the Peruzzi, lent to Edward III, in part, attempting to help finance the opening stages of the Hundred Years War. They adapted the Riccardi system to their own purposes until they ran into credit difficulties. Two studies, one by Edwin S. Hunt and one by Hunt and James M. Murray, provide us with a good deal of information on the Florentines and what for them was very nearly a world market-place.

Hunt's solo effort, the book that resulted from his dissertation, is *The Medieval Super-companies*.⁷⁶ Hunt shows how the Peruzzi, one of the bankers to Edward III, carried on business. Hunt has negated the commonly held and often repeated belief that Edward III bankrupted three Florentine companies—the Peruzzi, the Bardi, and the Acciaiuoli. He has demonstrated that Acciaiuoli never did business with Edward. The

Quarterly Review 7, no. 3 (April 1895): 428-458.

⁷⁵Richard W. Kaeuper, *Bankers to the Crown: The Riccardi of Lucca and Edward I* (Princeton: University Press, 1973).

⁷⁶Edwin S. Hunt, *The Medieval Super-companies: A Study of the Peruzzi Company of Florence* (Cambridge: University Press, 1994).

Bardi and Peruzzi, he writes, were victims of the Florentine government's take-over of the grain cartel from the private bankers, and the animosity of the French king who evicted all foreign bankers from his borders.

The Hunt-Murray book, *A History of Business in Medieval Europe, 1200-1550*,⁷⁷ shows that after the first waves of the Black Death, merchants recovered the fine art of banking from its beginnings dating back to the Athenians and Romans. The locations of medieval fairs served as sign-posts on these merchants' trade routes, which took them easily as far as England and its monarchy. Hunt and Murray also discuss the use of credit and credit instruments that provided long-distance banking to any king, noble, or bishop who could afford it.

The Medici came later than the Bardi and Peruzzi and are better known as bankers than any of the previous companies. The Medici were actually smaller than either the Bardi or Peruzzi in their hey-day. The Medici are well represented by two books that show the family's banking organization and operation: The first, Raymond de Roover's *The Rise and Decline of the Medici Bank*,⁷⁸ describes the Medici network, with branches all over Italy as well as Lyons, Avignon, Geneva, Bruges, and London (1451-1480). Part of their success in managing their branches was the use of an advanced form of double-entry bookkeeping which gave them a clear view of their profits and losses and helped them determine when to close a branch that was not contributing to profit. They became involved in several wars, including the War of the Roses. The second book, Christopher Hibbert's *The House of Medici*, is more

⁷⁷Edwin S. Hunt, James Murray, *A History of Business in Europe, 1200-1550* (Cambridge: University Press, 1999).

⁷⁸Raymond de Roover, *The Rise and Decline of the Medici Bank, 1397-1494* (New York: W. W. Norton, 1966).

concerned with the political and social facets of the Medici life in Florence, but is also useful for placing some of their financial dealings in their political context.⁷⁹

Tudor Period

In the Tudor period, international trade and banking had long periods of prosperity in spite of wars and the upheavals of the Reformation. England and Scotland began to support small-scale manufacture (notably cloth and stockings) and a prosperous international trade during this period. Richard David Richards' book *The Early History of Banking*⁸⁰ describes the Tudor and later periods. In his early chapters he introduces us to important characters and organizations that supported English banking until it could support itself: the Antwerp bankers, the Fuggers, and Sir Thomas Gresham, the English merchant who borrowed money on behalf of Henry VIII and Elizabeth I wherever and whenever he could.⁸¹ Here we find the first mentions of terms like retailing and exchange brokers, the stock-jobber, and the money scrivener, all precursors of nineteenth-century banking. Richards begins with English and Antwerpian "pioneers" in banking, giving the merest mention of the Florentines who came before. In his second chapter he takes us through the Royal Mint and the Tower of London, used as depositories, and explains concepts such as assignability and cheques.

The activities of Sir Thomas Gresham—his founding of the Grasshopper Bank (at the sign of the Grasshopper), his contribution of the Royal Exchange building to the City

⁷⁹Christopher Hibbert, *The House of Medici: Its Rise and Fall* (New York: Morrow, 1980)

⁸⁰Richard David Richards, *The Early History of Banking in England* (reprint, New York: Augusts M. Kelley, 1965).

⁸¹R. B. Outhwaite, "Royal Borrowing in the Reign of Elizabeth I: The Aftermath of Antwerp," *The English Historical Review* 86, no. 339 (April 1971): 251-263.

of London, and his financial support of Henry and Elizabeth—are well represented in George Chandler’s two-volume *Four Centuries of Banking*.⁸² Again, this book covers a long period of time and therefore its chapters may be used individually to study a number of problems. In the early chapters, Chandler has described two banks, the Grasshopper, owned by Gresham, and another bank, the Liver Bird. Chandler’s story shows how the two banks evolved and then merged under one sign-board. In the nineteenth century the bank began to purchase and foreclose on other banks, growing into the nation-wide Martins Bank Ltd.

Of Sir Thomas Gresham we gain some useful knowledge.⁸³ He does not seem to be the author of what has become “Gresham’s Law” that bad money drives out good. He was the author of many letters to Elizabeth I in which he earnestly begged her to pay her debts if only so she could borrow more.

Elizabeth borrowed from, among others, the family bank of the Fugger. *Jacob Fugger the Rich*⁸⁴ is an adulatory little book highlighting the life, wealth, and right-thinking of the founder of the clan. A more complete study of the entire family, their investments, and the profits they made from lending, primarily to central European royalty, is Richard Ehrenberg’s *Capital and Finance in the Age of the Renaissance*.⁸⁵

⁸²George Chandler, *Four Centuries of Banking as Illustrated by the Bankers, Customers and Staff Associated with the Constituent Banks of Martins Bank Limited* (London: Batsford, 1964) 1, *The Grasshopper and the Liver Bird, Liverpool and London*.

⁸³Robert Giffen has argued that “Gresham’s Law” (bad money drives out good) does not originate with Gresham. He wrote that Gresham is only responsible for the part of the “law” that applies to worn and deteriorated coins that drive good coins of the same metal out of circulation. Robert Giffen, “The Gresham Law,” *The Economic Journal* 1, no. 2 (June 1891): 304-306. Also see Frank Whitson Fetter, “Some Neglected Aspects of Gresham’s Law,” *The Quarterly Journal of Economics* 46, no. 3 (May, 1932): 480-495. Gresham’s work with the foreign exchanges is outlined in H. Buckley, “Sir Thomas Gresham and the Foreign Exchanges,” *The Economic Journal* 34, no. 136 (December 1924): 589-601.

⁸⁴Jacob Strieder, *Jacob Fugger the Rich, Merchant and Banker of Augsburg, 1459-1525*, Mildred L. Hartsough, trans. (1966).

⁸⁵Richard Ehrenberg, *Capital and Finance in the Age of the Renaissance: A Study of the Fuggers*

Ehrenberg emphasizes new facets of banking introduced by the Fuggers, in war finance, the beginnings of public credit, and the problems of lending to princes and cities. Here we see repeated an aspect of lending we saw with the Riccardi: the demand on the part of the bankers for a funded debt. The Fuggers lent to kings only if the source of repayment was a well known, valued source of income. In the case of the Fuggers the collateral that funded the debt was silver in mines held by the nobility. The Fugger also accepted German real estate and was allowed to foreclose on the land in certain circumstances.

The reign of Elizabeth saw the emergence of many major trends in banking that became received wisdom in the nineteenth century and were no longer questioned. The great banks lent to governments (public credit). Wherever possible they ensured their payment at the beginning of the loan (funded debt). Banks began to expect that every credit transaction would lead to a profitable continuing business in which they fully intended to make a profit. Banks paid dividends to their investors, dividends over which the government had no control. Because they worked in public credit, banks were always political in nature. Finally, banks believed in tradition. In 1853, when Gladstone refused to make the government's payments to the Bank of England in the manner used by former Chancellors of the Exchequer, the Bank demanded that he return to the old, "legal" way of doing business. The Bank threatened to go to law, forcing Gladstone to turn to his own legal team, the Chancellor and the Solicitor General. When these two members of the government ruled that the traditional payment method was not

and their Connections, H. M. Lucas, trans. (reprint, Fairfield: Augustus M. Kelley, 1985).

embodied in law, the Bank of England was outraged. Tradition was, apparently, as good as law to the Bank.

Modern Banking in Britain

The “Modern Period” period of banking here is used to describe the period in which English banking finally became national, and then an international operation. It was supported from within, by English bankers, not foreign ones. The continental loans of previous periods passed into history. England needed its own banks, linked to shipping, manufacturing, the coffee houses, the government, and the people. From the seventeenth to the nineteenth century, banking and its cousin, the money market, became allies and strengthened British finance dramatically.

Two sources are indicative of this rise of banking. The first is W. R. Bisschop’s *The Rise of the London Money Market, 1640-1826*.⁸⁶ The money market is an adjunct to banking as well as a business in its own right. In 1640, the money market was a steadily growing business, applied primarily to the purchase and sale of shares: in businesses, in shipping ventures, in merchant adventurer companies, and in government investments. One of Bisschop’s major topics is the way in which the money markets began to work with the rising class of modern bankers and the new Bank of England. By the time Gladstone entered the Exchequer, the money market (known as “the City” after the territory it occupied) provided a useful bridge between the Bank of England and its interests on the one hand and the government of Great Britain on the

⁸⁶W. R. Bisschop, *The Rise of the London Money Market, 1640-1826* (first Dutch edition, 1896; first English edition, London: Frank Cass, 1910; reprint, New York: Augustus M. Kelley, 1968).

other. By providing the market for government securities, the City gave investors a way to share in the wealth of government finance.

Frank Melton's *Sir Robert Clayton and the Origins of Deposit Banking, 1658-1685* describes one of the most important functions of early banking: safety.⁸⁷ Deposit banking is generally overlooked, but the importance of security, whether it be the Mint, the Tower of London, or the vaults of the Bank of England, should not be overlooked since a banker's probity and the security of his operation attracted and continues to attract influential customers. In the nineteenth century deposit banking took on added importance when bankers and economists argued about whether a bank should maintain a reserve equal to the amount of deposits it carried, so that it could cover itself in case of a run of depositors seeking withdrawals.

Three books deserve mention because they explain how Scottish banking began in the same period as English banking but under different rules. *The History of the British Linen Bank*⁸⁸ is really the history of the Edinburgh Linen Co-Partnery, a linen warehousing and shipping company that began to finance linen producers and shippers. When the Scots linen industry began to fail, the company turned more and more to banking, diversified in terms of the customers it accepted, and began to open branches in Scotland. (The bank was barred from doing business in England). The Linen Bank and other Scots banks were also barred by distance and prejudice from using the London clearing house. Instead, they were required to ship money between branches and to exchange with one another. Security was essential. The bank's instructions (in

⁸⁷Frank Melton, *Sir Robert Clayton and the Origins of Deposit Banking, 1658-1685* (Cambridge: University Press, 1986).

⁸⁸Charles A. Malcolm, *The History of the British Linen Bank* (Edinburgh: T. and A. Constable for the Bank, 1950).

Appendix 7 of the history) for messengers is a telling document of safety and reliability: bank officers were to travel by first class, placing parcels in iron portmanteaux strapped to their wrists; they were to travel by hired carriages with steady coachmen, and they were to practice safe handling of money parcels throughout. Richard Saville's massive and detailed *Bank of Scotland*⁸⁹ describes the history of Scots banking, the founding and management of Bank of Scotland (no article "The"), and the bank's response to various crises. One of the most important chapters for those studying British banking is "The Mind of the Scottish Bankers." As the next reference will show, the English and Welsh banking systems were constantly compared unfavorably with the dour and less volatile Scottish banking system. These comparisons led to two recurring questions: could the Scots banks be brought under English control? - the answer was no. Should the English banks follow a more Scottish model? - the answer was yes, but they probably could not and would not. The chapter "The Mind of the Scottish Banker" shows how Adam Smith arrived at some of his beliefs about money and banking. A student of English banking philosophy does well to study Saville's early chapters to understand the differences.

These two books lead us to Lawrence White's *Free Banking in Britain*.⁹⁰ White's thesis is that Scotland's banks were "free" in the sense that they were formed without political interference, while the periodic renewals of the Bank of England's charter were always fraught with the Bank's demands for more benefits and equal demands for squelching the growing number of country or joint-stock banks that competed freely with

⁸⁹Richard Saville, *Bank of Scotland: A History, 1695-1995* (Edinburgh: University Press, 1996).

⁹⁰Lawrence Henry White, *Free Banking in Britain: Theory, Experience, and Debate, 1800-1845* (Cambridge: University Press, 1984).

the Bank. White introduces a well documented theory of free banking in Chapter 1 and explains how free banking worked in Scotland both before and after the Bank Act of 1844 (which legally had no effect on the Scots and Irish banks). In this presentation, he raises the one problem that confounded Sir Robert Peel's political and banking theories of the 1840s—that on the one hand Peel could foster and fight for free trade, while on the other he could foster a monopoly, the Bank of England. In White's view, the continued battle over currency in the English banking system confused and misled the English people, the government, and the bankers themselves.

While they showed no particular interest in Scottish banking, the English did concern themselves with banking in their former colonies of America, the new United States. James William Gilbart's *History of Banking in America*⁹¹ and John H. Wood's *A History of Central Banking in Great Britain and the United States*⁹² were written nearly one hundred and seventy years apart, but they look at many of the same problems. The United States, not America, was one of Britain's great trading partners. A commercial crisis in one country could threaten the commercial health of the other country.⁹³

The United States had practice in the creation and use of a central bank, the Bank of the United States, incorporated by Act of Congress in 1816. The charter was strict, but with a capitalization of \$35,000,000, the bank might, with continuation of its charter, have been able to handle the growth of the nation if it had continued to be

⁹¹James William Gilbart, *The History of Banking in America: An Inquiry How Far the Banking Institutions of America are Adapted to this Country; and a Review of the Causes of the Recent Pressure on the Money Market* (London: Longman, Rees, Orme, Brown, Green & Longman, 1837).

⁹²John H. Wood, *A History of Central Banking in Great Britain and the United States* (Cambridge: University Press, 2005).

⁹³This certainly occurred in 1839. See Clapham, *Bank of England* 2:166, ff. For the crisis in 1857, see Clapham, *Bank of England* 2:226. Clapham called the crisis of 1857 the first true world-wide crisis.

chartered. Instead Andrew Jackson vetoed the bill that would have given the bank its first renewal for another twenty-year term. Gilbert has produced a number of passages from Jackson's veto message, words that may have warmed the hearts of many Bank of England officials and investors.

In the nineteenth century, central banking was a great topic in Britain. Two movements were afoot, one to turn the Bank of England into a central bank, and one to create a new central bank to replace the Bank of England as banker to the government—a banker with at least some of the same powers that had been granted to the Bank of the United States. The Bank of England resisted both movements strenuously. Gilbert's book is extremely fresh, full of figures and long quotes. Gilbert, who also seems to have had a good deal of inside information about the Bank of England, as seen in his *History and Principles of Banking*, also shows how the Bank of England was fighting to avoid becoming that government-centric, all-powerful friend of the economy, a true central bank. John Wood has taken the story further, showing how the Bank of England evolved and was forced into the mold of a central bank. Wood also offers a critical examination of banking in the United States up to the year 2000.

The Bank of England

In nineteenth-century English banking history, all roads led to the Bank of England. Three topics emerge along the way: the history of the Bank itself, the 1844 Bank Act and its aftermath, and the problem of the Bank of England as a central bank.

The Bank of England began as a merchant adventurer company in the model of the British East India Company, with a charter to lend money to the king. Its charter was

renewed approximately every eleven years until the nineteenth century when the Bank took on the mantle of *de facto* power, began openly to express its interests in profit, and assumed an even more condescending attitude toward the government it had financed for so long. Investments in the government were good business, because, with sufficient numbers of bankers and investors in parliament, the government could be made to pay its debts and make its interest payments on time and in full, even if the Bank was required to lend it more money to do so. The Bank saw the government as an unsophisticated borrower, attempting without mathematics or success to pay off its debts by schemes with unhappy names, such as sinking funds⁹⁴ and dead-weight annuities.⁹⁵

Gladstone's intention was to turn the government into an intelligent borrower, and, if possible, to pay off the national debt without raising taxation to a politically insensitive level. His skirmish with the Bank in 1854 was effective. It centered on two problems that were peripheral to the real problems of the Bank's power and the enormous size of the national debt. These problems were the dates on which the government made quarterly payments to the Bank, and the ways in which the Bank lent money to the government money without approval by key government officials.

The generally accepted history of the Bank of England was published in 1945 by

⁹⁴See Manuel Gottlieb, "The Capital Levy and Deadweight Debt in England-1815-40," *The Journal of Finance* 8, no. 1 (March 1953): 34-46. The Capital Levy was discussed in England in 1714 and in France in 1870.

⁹⁵Britain also attempted to finance its government with state-run lotteries from 1694 to 1784. James Raven calls the national lottery, which netted a total of £144 million "involved in elaborate and often extremely inefficient borrowing, debt retirement, and joint-stock operations associated with state lotteries. James Raven, "The Abolition of English State Lotteries," *The Historical Journal* 34 (June 1991): 371-389, esp. 371, n.4 and Figure 1.

Sir John Clapham.⁹⁶ Perhaps it served the Bank of England's interests well at the time, but to modern eyes it is biased, condescending, and sometimes scurrilous, expressing a definite bias against Jews, Quakers, and Gladstone. It is also lacking in tables that would have pulled Clapham's numbers together into meaningful data. It is not the only work on the Bank's history, but it is still, after sixty years, the most quoted. One of the great mysteries of English history is why a really modern history of the Bank, free of slurs and full of data, structured on the lines of that Richard Saville took in his work on Bank of Scotland, has not been written.

Having found and used the histories available, problems still exist. Two approaches then present themselves to the scholar: one is to keep on digging and looking, reading bibliographies from modern works and tracking down books. The other is to begin with T. A. Stephens's highly useful and sometimes delightful *Bibliography of the Bank of England* compiled in 1897.⁹⁷ This work concentrates on publications about and related to the Bank of England, beginning in the 1650s, a period in which writers understood England's need for a bank and were attempting to find a model. Their search was embodied in such books as *Seasonable Observations Humbly Offered to His Highness the Lord Protector by Samuel Lambe* (1658).⁹⁸ Stephens' work ends with 1889 publications, such as *An Account of the Operations under the National Debt Conversion Act, 1888, and the National Debt Redemption Act, 1889*. He has provided two indexes, one listing people, which includes Peel but does not include Gladstone,

⁹⁶Clapham, *Bank of England*. Volume 1 addresses the period 1694 to 1797; volume takes the Bank's history through 1914.

⁹⁷T. A. Stephens, *A Contribution to the Bibliography of the Bank of England* (London: Effingham Wilson, 1897; reprint, New York: Augustus M. Kelley, 1968).

⁹⁸Stephens, *Bibliography of the Bank of England*, 1.

and one listing titles. Stephens' book is doubly useful because in each chronological chapter of this thesis (three-seven) I have included a list of Gladstone's reading on banking, and have identified the books that appear in Stephens's bibliography and were read by Gladstone.

By 1843-44, as Stephens' bibliography shows, debate about currency was the most important topic of interest to readers of banking literature. Currency had been a topic of debate ever since the Bank of England was allowed to issue paper notes. For example, and it is only one example of the numerous works published, Sir Francis Baring authored *Observations on the Establishment of the Bank of England and on the Paper Circulation of the Country* in 1797.⁹⁹ Fifty-seven years later John E. Cairnes published *An Examination into the Principles of Currency Involved in the Bank Charter Act of 1844*.¹⁰⁰ British banking appears to have been so obsessed with the currency problem that Britain could not focus on other difficulties that existed in finance and commercial management, nor could they solve the currency problem in areas such as finding small coins and notes to pay workers. Thus, the currency question appeared in book after book without finding a viable solution.

The idea of central banking was a problem for the Bank of England in the nineteenth century. The Bank's directors did not wish to assume the role or responsibilities of a central bank: bankers' bank, supporter of commerce, banker to the

⁹⁹Sir Francis Baring, *Observations on the Establishment of the Bank of England and on the Paper Currency of the Country* (London: Sewell, Cornhill & Debrett, 1797; reprint, New York: Augustus M. Kelley, 1967).

¹⁰⁰John E. Cairnes, *An Examination into the Principles of Currency Involved in the Bank Charter Act of 1844* (Dublin: Hodges and Smith; London: Ridgeway, 1854; reprint, New York: Augustus M. Kelley, 1989). Idem *Principles of Currency: The 1844 Bank Charter Act of 1844* (Dublin: Hodges and Smith; London: Ridgeway, 1854; reprint, New York: Augustus M. Kelley, 1989).

government, final arbiter on interest rates, international spokesman on national banking, and sympathetic friend of the people. It was banker to the government; that function had been its reason for foundation. It willingly set discount and interest rates for its own operation, but it did not presume to set rates for other bankers. And as a profit-making business, it tended to be nobody's friend. The governor, deputy governor and directors of the Bank of England had other views. In 1832, John Horsley Palmer, who was then the Bank's governor, stated what he saw as the Bank of England's primary functions:

To furnish the paper money with which the public act around them, and to be a safe deposit for the public money, and for the money of individuals who prefer a public body like the Bank to private bankers.¹⁰¹

To Elmer Wood, author of *English Theories of Central Banking Control, 1819-1858*,¹⁰² central banking was about control in all its facets, including: country banks, especially those of issue; the discount rate; prices; public deposits; securities and exchanges; and the truly sticky problem of Bank reform. In each chapter, Wood focused on one of these areas of control, such as attempts to rein in the private banks, or the way in which the Bank might affect prices through cheap credit. In the nineteenth century, each problem mentioned by Wood presented a problem to economists and bank theorists, and these problems were often played out in the debate in the House of Commons. Economists were only vaguely aware that banking was somehow connected with even more worries elsewhere: over-production; prices of raw materials and wages; international balances of payments; and overall business fluctuations. Business

¹⁰¹ John Horsley Palmer, Testimony to the Committee of Secrecy on the Renewal of the Bank of England Charter, 1832, Q. 181, quoted in Edward Victor Morgan, *The Theory and Practice of Central Banking, 1797-1913* (Cambridge: University Press, 1943; reprint, London: Frank Cass, 1965): 1.

¹⁰² Elmer Wood, *English Theories of Central Banking Control, 1819-1858, with some Account of Contemporary Procedure*, (Cambridge: Harvard University Press, 1939).

fluctuations occurred in nearly every decade. Before 1844 downturns were generally blamed on the private banks and their tendency to over-issue. After 1844 they were generally blamed on the Bank Act of 1844 and the Bank's tendency to wait too long before clamping down on credit and issue. The rising discipline of economics had not yet reached the point that the statisticians had: the identification of problems that led to serious fluctuations in the economy.¹⁰³ Wood's work is studded with tables, charts, and footnotes that lead the reader to the main theorists of the time, demonstrating, for example, that Gladstone would certainly have had access to the books and articles that would give him ways to approach control of the Bank.

Edward Victor Morgan's book *The Theory and Practice of Central Banking, 1797-1913* compares the theory of central banking with its actual history in England and Wales. He shows why it took so long to centralize the Bank and mold it into the bank the government so desperately needed. He states that the modern central bank has four functions: manager of the national debt and banker to the government, regulator of the currency, banker's banker, and lender of last resort.¹⁰⁴ He uses the testimony of the governors and deputy governors of the Bank of England before secret and select committees to show how the Bank resisted being forced into any other role than the one they had chosen for themselves. We cannot help but notice how the Bank's functions, listed in John Horsley Palmer's statement quoted above, fail to match the list written more than one hundred years later by Morgan. Even on the topic of currency issue they

¹⁰³As result of a bullion and coinage drain at the Bank of England in 1797 the government allowed the Bank to stop exchanging notes for gold coin and bullion (convertibility). This period ended in 1821. The Napoleonic wars had led to inflation, where the price of gold, if it could be had, far exceeded the statutory value of £3, 17s. 10-1/2d.

¹⁰⁴Morgan, *Central Banking*, 1.

disagree. Palmer listed currency issue, while Morgan called for control.

The Economists and the Schools

Banking theorists were not, by and large, economists. Their views were clouded by what was good for their banks, their pocketbooks, or their corners of the British economy. This uncomfortable truth places writers like John Horsley Palmer, Sir Francis Baring, and William Gilbert, for example, on the fringes of economic theory. It does not, however, remove them from the main chorus of published authorities on economic theory, primarily because they all had banks to back them (Bank of England, Barings Bank, and the London and Westminster, for example) that were able pay printers for the publication of their thoughts. The economists were a smaller and somewhat struggling group, not because they could not publish, but because there were so few. Moreover, their messages were more complex than that of the bankers, the modern profession of economist was younger than that of banker, and investors had a greater stake in the success of banks than in the success of economics.

The first “modern economist” to affect English banking beliefs was Sir Thomas Mun (1571-1641), not Adam Smith as some historians insist. Mun’s followers comprised the Mercantilist school; its most famous publication was Mun’s *England’s Treasure by Forraign Trade*.¹⁰⁵ Mun argued against excessive controls on foreign trade and foreign exchange, provided always that England maintained the trade advantage and the quantity of gold bullion in her vaults. Mun believed the primary business of England was

¹⁰⁵Thomas Mun, *England’s Treasure by Forraign Trade* (downloaded from <http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3113/mun/index.html> Dec. 21, 2005).

to maintain a positive trade with the world. In the arguments about convertibility (of gold for paper currency) and “runs” on the Bank’s gold supply, we see the lasting effects of Mun’s arguments in debates about ratios (gold versus securities in the vaults) and in the insistence that Bank of England notes were not money but promissory notes payable in gold.

Adam Smith came later, publishing *An Inquiry into the Nature and Causes of the Wealth of Nations* in 1776.¹⁰⁶ Smith clearly believed that economics and politics encompassed many more concerns than whether gold could be used as money and whether it ought to be stored in Britain’s vaults. His first book begins with a discussion of division of labor—an argument introduced by Aristotle. Smith demonstrated that limits on division of labor, and thus manufacturing, farming, transport, banking, and other human endeavors, were based on the limits of the marketplace. He believed that derivative incomes, from stocks, from interest, from rent, and probably from writing, were reasonable sources of income that benefited the owner and did no harm to the person who had to pay. For the next century, many writers paid lip service to Adam Smith and quoted him whenever possible. They used his arguments to defend the rise of factories, smoke, and polluted waters. They failed to see what Smith saw: that national economy was to be taken as a whole, not in part. They fastened on currency, the evils of country banks, and the need for colonies (Book IV, Chapter vii) without understanding the ways colonies contributed to national goals and the ways these colonies interfered with other national goals.¹⁰⁷

¹⁰⁶Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, R. H. Campbell, A. S. Skinner, eds. (Oxford: University Press, 1976, photo reproduction with minor corrections, Indianapolis: Liberty Fund, 1981).

¹⁰⁷Other fledgling economists who benefited from new interest in economics included Jeremy

One writer who benefited from Adam Smith's work was David Ricardo, bill-broker turned parliamentarian, turned writer. A quiet man with decided opinions, Ricardo fell under the guidance of James Mill, father of John Stuart Mill and several other children, for whom writing was not a pleasure but a necessity. Ricardo was soon publishing under the elder Mill's tutelage. Ricardo believed in limitations on currency, and thus provided the philosophical backing for the position taken up by the Bank of England. But Ricardo's beliefs went much farther, and, tempered by the fortune he had made as a bill broker, he saw the economy from the standpoint of the ways in which men become rich. *On the Principles of Political Economy and Taxation* came from a statement that Ricardo made to Mill, "The improvements in agriculture raise the profits of stock, and produce immediately no other effects."¹⁰⁸ His work included chapters on rent, profits, natural and market prices, wages, profits, foreign trade, and many types of taxes, poor rates, and the difference between value and riches. Most important, he argued that although the value of paper currency should be pegged to the value of metal, the two should not necessarily be interchangeable. However, he also stated that compelling banks of issue to pay in gold was the only way of ensuring that these banks would remain honest.

Like Smith, Ricardo was a long-winded and somewhat torturous writer, but he

Bentham who published *An Introduction to the Principles of Morals and Legislation* (1789), *A Manual of Political Economy* (1795), *Anarchical Fallacies* (1795), *Principles of the Civil Code* (1802), and *Defense of Usury; Shewing the Impolicy of the Present Legal Restraints on the Terms of Pecuniary Bargains in a Series of Letters to a Friend to Which is Added a Letter to Adam Smith, Esq., LL.D. On the Discouragements Opposed by the Above Restraints to the Progress of Inventive Industry*. 1787. For John Stuart Mill's biography of Bentham, reprinted from the *London and Westminster Review*, August, 1838 (revised and included in *Dissertations and Discussion* 1), see <http://socserv2.mcmaster.ca/~econ/3113/bentham/bentham>, downloaded Nov. 14, 2005. Also see T. W. Hutchison, "Bentham as an Economist," *The Economic Journal* 66, no. 262, (June 1956): 288-306.

¹⁰⁸ *The Works and Correspondence of David Ricardo* 1, *On the Principles of Political Economy and Taxation*, ed. Piero Sraffa (Cambridge: University Press for the Royal Economic Society, 1966).

had the advantage of developing a coterie of followers: James Mill, Colonel Robert Torrens, and John Ramsay MacCulloch. These men made Ricardo's works approachable and understandable, and did much to spread Ricardo's fame. The 1844 Bank Charter Act had been described in David Ricardo's 1824 *Plan for the Establishment of a National Bank*, a charter that separated currency issue from banking. As the agitation that followed the Act shows, neither Ricardo nor the Act had solved Britain's financial problems: prices of manufactured goods, the money supply, over- and under-investment resulting in a stream of bankruptcies, and especially the price of money in terms of wages, raw materials, government support and supervision, and the promise of more (colonial) customers for goods.

Thomas Tooke was also a Ricardian at the beginning of his career. But Tooke began to believe that the quantity theory of money, as represented by the Currency School, as it came to be called, was not the correct focus for a description of British economics. Tooke believed the real problem was prices. He had seen and recognized the way inflation had affected the value of the pound from 1797 to 1821. As he thought about the problem of inflation, he came to believe that prices provided a better way to measure the interchangeability of goods and therefore, to borrow from Smith, the limits of the market. Thomas Tooke wrote just as much as Ricardo. His *Considerations on the State of the Currency*¹⁰⁹ contained new thinking on interest rates. His first two volumes of the six-volume work *History of Prices* covered the period 1783 to 1814 and concluded that bad harvests and interruptions of trade by war had led to high prices. He concluded

¹⁰⁹Thomas Tooke, *Consideration on the State of the Currency* (Variorum of the first and second editions, in *Reprints of Economic Classics* 2, Number 8, Sydney: University Press, 1996).

that good harvests, increased trade, and improvements in manufacturing had led to lower prices.¹¹⁰ His work on prices eventually grew to six volumes (with the help of his friend and colleague, statistician William Newmarch).¹¹¹ But it was not well received or understood. Phyllis Deane, the twentieth-century economic historian, says that the 1850s and the 1860s constituted a period of relative prosperity in the British economy and a general complacency in economic thought. Meetings of the Political Economy Club debated topics such as “Was Ricardo right when he said _____”¹¹² but the members did not concern themselves with the prices of goods.

Two more names are required to fill out the picture of the information available in the area of banking: Samuel Jones Loyd, later Lord Overstone, and Walter Bagehot. Samuel Jones Loyd appeared before a large number of secret and select committees on banking, his last appearance during the commercial crisis and Bank Charter Renewal crisis of 1857.¹¹³ He was not simply a banker and author: he was also a publisher, who brought to the attention of the public an economics writer named John Ramsay MacCulloch. Jones Loyd was anxious that the public be fully informed about the true nature of banking and currency.¹¹⁴ He was not shy. For example, after his

¹¹⁰G. H. Murray, ‘Tooke, Thomas (1774-1858)’, rev. Arie Arnon, *Oxford Dictionary of National Biography*, Oxford University Press, 2004 [Http://www.oxforddnb.com/view/article/27546, accessed 10 Sept 2005].

¹¹¹See for example, Thomas Tooke, *A History of Prices, and the State of the Circulation, from 1839 to 1847 Inclusive: with a General Review of the Currency Question and Remarks on the Operation of the Act 7 & 8 Vict. c. 32 4* (London: Longman, Brown, Green, and Longmans [sic], 1848).

¹¹²David Ricardo, *Plan for the Establishment of a National Bank* (London: John Murray, 1824); in Phyllis Deane, *The Evolution of Economic Ideas* (Cambridge: University Press, 1978): 94.

¹¹³For a good representation of the types of materials covered in parliamentary debates over banking and currency, see *Select Statutes, Documents, and Reports Relating to British Banking, 1832-1928*, ed. T. E. Gregory (Oxford: University Press, 1929; reprint, London: Frank Cass, 1964).

¹¹⁴A very fine study of Lord Overstone’s position in the banking and political world can be found in Lloyd Alvin Helms, *The Contributions of Lord Overstone to the Theory of Currency and Banking* (Urbana: The University of Illinois Press, 1939).

testimony in 1857 before a select committee of the House of Commons, he paid to have his testimony published in book form.¹¹⁵

In addition to publishing his own work, he also published works he thought contained useful information. *A Select Collection of Scarce and Valuable Tracts and Other Publications on Paper Currency and Banking* was first privately published under the editorship of John MacCulloch in 1857.¹¹⁶ Another select collection on the national debt and the sinking fund also appeared in 1857. It too contained selections hand-picked by Lord Overstone for the education and intellectual improvement of his friends.¹¹⁷

Walter Bagehot (1826-1877) has been called the Victorian's most versatile genius—banker, economist, political thinker, critic, and writer.¹¹⁸ He was the son of a private banker in Langport; the bank later was expanded as the country's first joint-stock bank. He became a writer and in 1856 met James Wilson, founder and editor of *The Economist*, the first publication in England devoted exclusively to economic thought. When Wilson left England to take up the post of Chancellor of the Indian Exchequer, Bagehot became editor of his now father-in-law's magazine. He then wrote two articles every week for the magazine on current affairs. This demand for output made him an

¹¹⁵Samuel Jones Loyd, *The Evidence Given by Lord Overstone before the Select Committee of the House of Commons in 1857 on Bank Acts, with Additions* (London: Longman, Brown and Company, 1858; reprinted, Clifton: Augustus M. Kelley, 1973).

¹¹⁶John Ramsay MacCulloch, *A Select Collection of Scarce and Valuable Tracts and Other Publications on Paper Currency and Banking* (London: Private printing of 150 copies; reprint, New York: Augustus M. Kelley, 1966). This work includes "The Utility of Country Banks Considered" (1802), "Just, though rather too favourable), and "Treatise on the Coins of the Realm" (1805) by the first Earl of Liverpool, which MacCulloch calls one of the most valuable of that class of publications.

¹¹⁷John Ramsay MacCulloch, *A Select Collection of Scarce and Valuable Tracts and Other Publications on the National Debt and the Sinking Fund* (London: Private printing of 150 copies; reprint, New York: Augustus M. Kelley, 1966). William Gladstone read both these books and served on many of the committees where Overstone testified.

¹¹⁸Norman St. John-Stevás, *Bagehot's Historical Essays* (New York: University Press, 1965): vii.

expert on many subjects including all the economic debates that raged around him. Bagehot was believed to be the only man in England outside its management that completely understood the Bank of England. Bagehot was a friend and adviser to Gladstone and helped Gladstone modify the Banks Notes Issue Bill in 1865, the bill which offered rights of issue to any bank willing to pay for the license. In addition to working with Gladstone, Bagehot wrote four articles about him, “Mr. Gladstone” (1860), “Mr. Gladstone’s Chapter of Autobiography” (1868), “Mr. Gladstone and the People” (1871), and “Mr. Gladstone on Home Rule for Ireland” (1871).¹¹⁹

Conclusion

The books listed above are only a sample of the histories and biographies available to the reader who wishes to take on both Gladstone and the Bank of England in one thesis. In 1856, Gladstone wished to paddle rapidly in a slow-moving river, find a place to dam and reroute that river, and make it into the useful waterway he believed he wanted. Nine hundred years of history were against him. Traditions in banking were against him. By 1866, this thesis contends, he had read sufficient history and modern writing on banking, finance, currency, gold, and trade that he took another route, bypassing the Bank of England, and joining the reform movement in the government. His Exchequer and Audit Departments Act was widely admired. This single Act when a long way to put the government’s financial affairs in order. Gladstone also came to accept the National Debt as a fact of life. This thesis shows how this transition from

¹¹⁹These articles are included in St. John-Stevas, *Historical Essays*. They are also included in the longer and more comprehensive work, *The Works and Life of Walter Bagehot*, ed. Mrs. Russell Barrington, (Longmans, Green, 1915).

warrior to political strategist was accomplished, leaving Gladstone with fewer financial battles to fight and far fewer enemies to make.

CHAPTER 2

GLADSTONE AS READER—THE SOURCES

Introduction

This chapter examines available evidence that helps to define William Gladstone as MP and Chancellor of the Exchequer. I contend that Gladstone was an advanced student and his *Diaries* show that he was a constant reader. Furthermore, I contend that his reading on taxation, government finance, and other topics helped him in his goals of creating budgets and policy that contributed to Britain's prosperity, health, welfare and internal peace. This chapter examines my sources for this contention—his *Diaries*, edited by M. R. D. Foote and H. C. G. Matthew, and Hansard's Parliamentary Debates, and his contacts, including the writings and testimony of Samuel Jones Loyd, Lord Overstone.

Part of this chapter is given over to those classic and more modern works of economic theory to show, first, the broad range of theories about finance and economics available to the interested reader in 1833, the year Gladstone came down from Oxford and entered politics; second, the materials that Gladstone wisely did not read; and third, the ways his understanding might have been strengthened if he had benefited from some writers such as the Physiocrats and the Mercantilists.

My examination of economic and financial theory began after I read the record of Gladstone's disagreements with the Bank of England. Much about nineteenth-century economics appears to be incomprehensible unless one understands the history of banking, as shown in Chapter 1, or understands the importance of gold to early merchant theorists such as the Mercantilists. Britain was, whether her theorists

understood it or not, in difficult financial and economic straits in the period under study.

The first gigantic fires of the industrial revolution were dying down and Britain was encountering competition around the world for pursuit of colonies and markets. The growth of railroads rekindled investors' interests in spending money to make money. They built iron horses not only in Britain but in the colonies and protectorates around the world. In the 1850s, Britain began iron-cladding her ships. Each new scientific discovery and engineering breakthrough saved the nation from slipping from her leading position in the world, encouraged investors, increased enrolment in technical schools and thus the number of engineers and other experts able to spread the learning and growth.

Economic theory failed to keep pace. The men able to push the economists into understanding what was happening or might be happening required courage and knowledge. Gladstone was such a man. Gladstone's strength and courage came from his faith and his determined but not, I think, messianic sense of purpose. This purpose drove him to public service and public finance. His family life grounded him. His father and one brother were merchants, accustomed to dealing in finance. His brother-in-law Stephen Glynne was a failed entrepreneur desperately in need of saving: Gladstone managed to solve Stephen's financial problems while leaving his brother-in-law with a modest competence and a helping hand whenever needed. His numerical skills coupled with his rich desire to learn more gave him the knowledge to keep Britain on track. Gladstone read. If we miss that facet of his character, we have missed much of Gladstone as a man.

This thesis aims at redefining Gladstone as a man much educated by his reading and personal contacts who, persuaded by his learning and experience as well as guided

by his religion and family values, saw a good deal that was wrong with the government he served. This is a man who labored to be of service to his country, who occasionally evinced deep disappointment and sometimes anger and despair. There was much about Victorian England that justified occasional anger and unhappiness: too many babies and too many of the poor died early of terrible diseases such as cholera; England wasted her resources in colonial actions and a perilous war (Crimea) with lasting repercussions both for popular feeling and the national debt; England could be accused of over-zealous recriminations against the Irish; England's wealth emerged at the costs of poisoned rivers and cloud-black skies; the church that Gladstone loved was flawed and threatened both by dissenters and resurgent Roman Catholicism. Gladstone tried hard to understand national problems and to turn every office in which he worked into a triumph for himself and for England. Gladstone—a man of deep religious piety, enormous energy, sound political judgment, a large ego, and a good intellect—wanted to do more, and was often frustrated in his attempts.

Repositioning Gladstone requires sources, and these are well at hand. They are the same ones that have been used before, but used in different ways: *The Gladstone Diaries* have been quoted, but the indexes in Volume 14 of the *Diaries* are little used.¹ Volume 14 contains three indexes: *Dramatis Personae*, "Gladstone's Readings," and a general index. *Hansard's Parliamentary Debates*, Series 3, have been used, but they can be made to yield more. Many historians, including Shannon, Crosby, Matthew, and Jenkins, have used the *Diaries*. Others, notably Morley, have used *Hansard's* to quote speeches. The chapters that follow use these resources in other ways: the aim here is

¹Gladstone, *Diaries*. The indexes appear in Volume 14.

to go beyond the speeches in *Hansard's* and the jottings in *The Diaries* and to demonstrate how some of Gladstone's changes of attitude and behavior, especially his apparent abandonment of Peel and his declared war on the Bank of England, reflect his contacts with social and political acquaintances and the reading matter he absorbed. Further, it is possible to show how the readings, for example, changed his point of view on such topics as the Bank of England.

His *Diaries* show Gladstone to be a whole, evolving, socially and politically sensitive man. While he may very well have used books and public contacts as coping strategies, he also used them to educate himself and shape his response to the discourse of the day. This thesis is not a biography. It looks only in passing at elements of a "whole man" such as his relationship with his family. It is a history of a man and an institution, and shows how Gladstone, as David, searched for the sling and a small stone that would call the Bank to attention, not bring it crashing down. As Chapter 7 and 8 demonstrate, this is what seems to have happened.

When we look, the evidence is suddenly all around us. Georgina Battiscombe, author of a book on Catherine Gladstone, comments that the new Mrs. Gladstone soon learned her husband was not entirely her own: that she could not while away twenty minutes or two hours between trains in pleasant conversation with him. As soon as they were on the train, on the boat, on the platform, or in the waiting room, he pulled a book from his pocket and put his nose, and his concentration, into it.² The new husband was training his new wife to respect his inclinations. He was, as this thesis will show, a

²Georgina Battiscombe, *Mrs. Gladstone, The Portrait of a Marriage* (London: Constable, 1956): 36.

lifelong reader, advanced autodidact, and self-made economic politician. His reading habits and his social and political contacts deserve more credit for his progress than has been given.³

A reexamination of *Hansard* is also in order, not merely for the substance of the many speeches, which have been commented on, but for the social milieu and the debate that surrounded the budget and other money bills in the House of Commons.⁴

In H. C. G. Matthew's three indexes to the Gladstone *Diaries*, each line item is followed by at least one date of contact: for people, this is a date of first meeting, birth, or other significant date. In the Readings section, this is a date on which Gladstone recorded reading the work. The *Dramatis Personae* provides us with an interpersonal history of Gladstone from his personal contacts in the political, social, family, church, statistical and economic, or public sphere. "Gladstone's Readings" includes most (but not all) the books, plays, pamphlets, poetry, and journals Gladstone read. The general index is of use for work with categories, such as "inventions." Gladstone read widely on inventions, and the general index lists many of these events by date and invention name, but does not, for example, mention the huge steam-driven chain-saw that Gladstone once saw demonstrated.⁵ This thesis pays scant attention to duchesses, prelates, soldiers, and Oxonians. It focuses on political economists, bankers, and

³Michael Bentley says the Duchess of Sutherland created a political salon for Gladstone's benefit, and counseled him on occasion. However, it is reasonable to assume that for Gladstone and the Duchess to maintain the salon, many people must have been exposed to Gladstone's thoughts and positions, and he must have benefited from theirs. See Michael Bentley, "Victorian Politics and the Linguistic Turn," *The Historical Journal* 42, no. 3 (September 1999): 883-902, esp. 887, n.24.

⁴All references to *Hansard's Parliamentary Debates* in this paper refer to Series 3. For Gladstone's first budget speech and the form that the reporting took, see *Hansard's* 3, cxxv:1350.

⁵Gladstone's participation in an experiment with various types of gun cotton caused windows in Downing Street to be shattered. See Gladstone, *Diaries* 8:1/8/72.

economic writers whom Gladstone met or read. Thus, this thesis ignores charges to clergy, biographies of politicians, and travelogues and concentrates on works of finance, political economy, taxation, and the cost of war.

Hansard's Parliamentary Debates give us a good deal more than apparently faithful representations of Gladstone's speeches. During Gladstone's parliamentary career, the editors of *Hansard* made significant advances in improving their reporting. These improvements appear in the front matter, the body text, and the indexes. The body text, whose numbered columns provide addresses for various speeches, debates, and outcomes of individual bills, was enhanced several times between 1853 and 1866, and the changes made to improve front and back matter help researchers piece together personalities and parliamentary developments.⁶ For example, the name of the speaker in debate appears at the bottom of the left-hand column of the page, a convenience for following a long speech in an imperfect reproduction of the proceedings.

Contacts were hugely important to a Victorian politician. In the late 1840s, Gladstone met and worked with Prince Albert on the Great Exhibition of 1851. Albert is said to have recommended Gladstone to the Queen as a possible Chancellor of the Exchequer in the Earl of Aberdeen's government. This contact certainly resulted in invitations to him, his wife, and later his children to the various palaces where they mingled with kings, queens, duchesses, and other members of the highest strata of

⁶In 1857, the *Hansard's* typesetters were still struggled to cope with really tangled problems such as the concurring debates on a renewal of the Bank Charter, an indemnity bill to save the Bank from prosecution for inadvertent over-issue, and the financial crisis of 1857. See Chapter 6 of this thesis. *Hansard's* also had problems with the names of bills and debates, offering different titles for a bill as it was debated, sent to committee, withdrawn, recommitted, or otherwise modified in passage. See, for example, the debate on the Banks of Issues [sic] bill in Chapter 7 of this thesis.

British society; the Prince of Wales included young Willy Gladstone in his entourage for a tour of Europe.⁷ The Prince and Princess of Wales as well as other royals visited the Gladstones more than once.⁸ The *Diaries* show a good deal of this contact. Gladstone also hobnobbed socially with the very men he often opposed, such as banking magnates and opposition politicians.⁹

Given Gladstone's reading habits, we should not be surprised that his interests in the Corn Laws, mid-Victorian budgets, the Crimean War, and the constantly changing European political situation triggered conversations in company about these various problems. Gladstone developed, for example, a relationship with many members of the powerful Rothschild banking family, both those who lived in England, and those who visited, or in one case were exiled there. Knowing of this relationship, we may reasonably ask how an inquisitive and numerate Chancellor of the Exchequer could avoid exploiting the tremendous personal expertise of family members as well as the international spy network and courier service provided by the Rothschild family.¹⁰

⁷Gladstone, *Diaries* 6:13/1/63.

⁸*Ibid.* 6:23/6/64: Gladstone and his wife dined with the Prince and Princess of Wales at Marlborough House. In *Diaries* 6:8/7/64 we learn the prince rode with Granville and Gladstone.

⁹*Ibid.*, 5:3/6/59. Gladstone even carried on a social relationship with Bonamy Dobree, director, deputy governor, and governor (1859-1861) of the Bank of England because of the interest they shared in fine china. Gladstone saw Dobree's collection in June, 1859. He met several other governors and directors socially over the years.

¹⁰*Ibid.*, 14:221. This entry lists thirteen members of the Rothschild family with whom Gladstone either met or corresponded. When one recognizes the power of this single family in Europe, one must accept that Gladstone derived some benefit from this acquaintance. See Niall Ferguson, *The House of Rothschild, Money's Prophets, 1798-1848* (New York: Viking, 1998): 9, 15, 380, 385. The index for this book contains four references to Gladstone. By contrast, Stanley Weintraub, *Charlotte and Lionel, a Rothschild Love Story* (New York: Simon & Schuster, 2003): 310, lists seventeen index entries to Gladstone.

Gladstone's Reading Habits

H. C. G. Matthew calls the record of "Gladstone's Reading" a "very remarkable cultural document in itself":

There are many records of the contents of prominent persons' libraries, but I know of no other major figure who attempted to record, day by day, his or her reading over a life-time, let alone a life-time as long as Gladstone's! Since a part of each day was systematically reserved for reading even when Chancellor or Prime Minister ... and since *Gladstone read as eclectically as any Victorian*, the record of his reading is a tour not only of Victorian high culture—and it certainly is that—but also of the by-ways of nineteenth-century political, religious and literary life.¹¹

The *Diaries* begin in 1825 when Gladstone was fifteen years old, and recorded his reading habits from then on. He was sent to Eton a year later. In 1828 he went up to Oxford to study humane letters, and also to learn mathematics and optics. The study of humane letters was an accepted curriculum for young men of the rising merchant class in that period. That Gladstone should also have chosen to study mathematics and optics, with its excursions into physics, logarithms, and differential calculus, appears somewhat surprising when Matthew states that Gladstone was sadly deficient in math and required tutoring before he could enter Christ Church.¹² His decision to sit examinations in this tough second school attests to the mastery he thought he had achieved, and his resulting first shows that he had not misjudged himself. It would be a mistake to ignore the "other" first in mathematics, because it made him a known commodity, a numerate person: numbers simply made sense to him. The audiences for his budget and other speeches would consist primarily of two mentalities: the ill-

¹¹H. C. G. Matthew, "Preface," in Gladstone, *Diaries* 14: v.

¹²Matthew, H. C. G. "Gladstone, William Ewart (1809-1898). *Oxford Dictionary of National Biography*, Oxford University Press, 2004. [<http://www.oxforddnb.com/view/article/10787>, downloaded 1 April, 2005], printed page 3.

numerate, who could understand nothing larger than small numbers and sums, and the highly numerate, those who managed banks, breweries, factories, and large farms, and well understood their profits and losses, saw them in three dimensions, and looked at government finance the same way. MPs and lords who might mistrust him on Italy, free trade, or the church, may have found they could put more faith in him if they could trust his numbers.

Chapters 3-7 list the books and articles related to this politically numerate position. I have organized these readings into six categories, all directly related to the main topic of this thesis, and loosely connected with the audiences he faced when he rose to deliver a budget address:

Accounting and Trade includes topics related to the mercantile interests in Britain: trade, free trade, the Corn Laws, and the American Civil War. The segment on the *Bank of England* collects all the books he read on the Bank as well as the materials he read on the highly controversial Bank Act of 1844. *Banking* sums the books he read on country and private banks, joint-stock banks, and arguments about currency.

Government Finance brings together the books Gladstone read on government budgets and finance, Indian finance, the national debt, and taxation. *Political Economy* pulls together the works Gladstone read by Adam Smith, David Ricardo, Thomas Tooke, and a host of others whose opinions he followed, even when he did not particularly agree with their ideas.

Cost of War is a necessary final category for four reasons: the dramatic rise in the national debt caused by the prolonged Napoleonic Wars, the costly mistakes made

in fighting the Crimean War, the costs of “Victoria’s little wars” ¹³and the threat of a European war held over Gladstone’s head while Viscount Palmerston dabbled in United States and European politics. These books are listed individually, in the chapters that follow, by category, author, publication date, and the date on which Gladstone first recorded reading them. Table 2 is a summary from which some trends emerge.

Table 2: Composite List of Gladstone’s Reading by Topic and Year

Topic	Year					Total	No. of Periods	Ave per Period
	1833-1846	1846-1852	1853-1855	1855-1859	1859-1866			
Accounting and Trade	38	7	2	1	16	64 ^a	5	12.3
Bank & 1844 Bank Act	1	1	2	9	4	17	5	3.4
Banking	20	6	15	12	44	97	5	19.4
Government Finance	—	24	22	4	41	91	4	22.75
Political Economy	—	7	4	3	6	20	4	5.0
Cost of War	—	1	6	11	8	26	4	6.5
Total Reading per Period	59	46	55	40	119	315	—	—
Total Years in Period	14	6	2	5	7	33	—	—
Ave per Year	4.2	7.6	22.5	8.0	17.0	9.5	—	—

^aThe early hump in this category derives from Gladstone’s readings in the Corn Laws.

Particular attention should be given to specialty collections of titles, such as the three books Gladstone read on accounting, bookkeeping, and double entry

¹³Byron Farwell, *Queen Victoria’s Little Wars* (Ware: Wordsworth, 1999): 3.

bookkeeping.¹⁴ The fine art of double entry bookkeeping, with its over-arching structure of accountancy, was not new when Gladstone entered government. Coombs, Edwards, and Greener have traced the rising need for effective bookkeeping in government back to 1822 when a Select Committee on Public Accounts attached an appendix to their yearly report listing proposed accounts and explanatory papers. In 1829, a study of the mode of bookkeeping in the official accounts included specimens of a cash book, journal, and ledger, all standard accounting documents, each with a defined purpose, and each providing a step in any audit trail required.¹⁵ We should note that the early bump in reading arises from Gladstone's extensive reading on the Corn Laws.

Industry had already established accountancy and bookkeeping as primary requisites to management and profitability. Unlike the opinions of investors, parents, and friends, accountancy gave the manager an unbiased and unvarnished view of his operation, and some indication of whether or not his company could be a success. In his study of James Watt, Jr., and Samuel Oldnow, Robert Williams wrote that

Accounting had attractions that appealed to the rational, materialist, positivist philosophy that each [Watt and Oldnow] had adopted because it provided a system of measurement leading to an objectivity that was not otherwise obtained. Also, accounting provided a quantification of performance that accorded well with the pragmatic outlook of both men and provided an order from the apparent

¹⁴Double entry bookkeeping is an accounting system in which two entries are made for every transaction: one in the debit column of the account from which the sum is withdrawn, and the second in the credit column of the account where the same sum is deposited. See Gerald Klein, *Dictionary of Banking*, 2nd edition (London: Pitman, 1995): 89. For the ways in which double entry bookkeeping began to enter the business of the various departments and agencies, see *Double Entry Bookkeeping in British Central Government, 1822-1856*, Hugh Coombs, John Richard Edwards, Hugh Greener, eds. (New York: Garland, 1997). This book provides a history and documents describing the government's progress in adopting double-entry bookkeeping, the departments that had made the attempt, and forms for various exchanges. Note that Inland Revenue did not require double-entry bookkeeping at that time. For the Civil Service examination questions see idem, 308-314.

¹⁵Coombs, Edwards, Greener, *Double Entry*, 37.

chaos of a multitude of activities which complemented and supported the observations each made.¹⁶

Publications of the Academy of Accounting Historians have shown that accountancy was no new idea but an approach to government and merchant business at least hundreds if not thousands of years old.¹⁷ Gladstone read on accounting, and promoted government accountancy when he was Chancellor of the Exchequer in 1853. It should not surprise us when Civil Service examinations were introduced that they emphasized numeracy.¹⁸ Many business men served in parliament, and were capable of demanding the same level of financial responsibility from the government that they demanded from their factories. Accountancy was a rising profession. Given the wide range of revenue and spending departments in the British government, the massive size of the British national debt, and the difficulties of collecting some revenues, many parliamentarians must have believed that much-improved accounting procedures would aid the government in getting its fiscal offices in order.

¹⁶For a detailed study of the apparent first attempts to arrive at a complete accounting system in industry, see Robert B. Williams, *Accounting for Steam and Cotton: Two Eighteenth Century Case Studies* (New York & London: Garland, 1997). Williams says management accounting in industry improved during the industrial revolution. The driving factors were accountants and managers who saw the benefits of the practice and the new philosophies that supported it, including religion. Another study of bookkeeping is Y. W. Yarney, "Scientific Bookkeeping and the Rise of Capitalism," *The Economic History Review*, new series 1, no. 2/3 (1949): 99-113.

¹⁷For a sample of the history of accountancy, see Hermann Kellenbenz, "The State of Bookkeeping in Upper Germany at the Time of the Fuggers and Welsers," *The Academy of Accounting Historians* 1 (1979): 87-98; George J. Costouros, "Early Greek Accounting on Estates (Fourth Century B. C.)," *The Academy of Accounting Historians* 2 (1979): 1-6; David A. R. Forrester, "Aspects of French Accounting History (1985), *The Academy of Accounting Historians* 4 (1989): 56-81.

¹⁸For the focus on numeracy in the Civil Service examinations, see *Double Entry Bookkeeping*, 301-314. This passage contains excerpts from BPP 1856: 361, "The First Report of her Majesty's Civil Service Commissioners for Conducting the Examinations of the Young Men ... to be Appointed to ... Junior Positions in Civil Service Positions ...," including Table B, "Differential Standards of Qualification Established by the Various ... Departments" and Appendix III, "Examination Papers" for double entry bookkeeping. Arithmetic (including vulgar and decimal fractions) was required the offices of the Admiralty, Civil Service Commission, Colonial Office, Customs, Exchequer, Factory Inspectors, Inland Revenue, Metropolitan Police Office, Poor Law Board, Treasury, War Department, and Office of Woods. The Office of Works required arithmetic including interest. Purchase of stock and exchanges was required for the Paymaster General's Office. Vulgar fractions only were required for the Metropolitan Police Courts, National Debt Office, and the Post Office.

The accounting tests included in a Civil Service examination for one of the departments listed in BPP 1856:361, bear only a slight superficial resemblance to the mathematics, optics, and physics that Gladstone studied at Oxford. But Gladstone believed in economy, and apparently had no difficulty in relating economy to efficiency in government, especially if it led to increased revenues, fewer losses, and more efficient management. His mercantile background might have been all the education he needed to understand double-entry bookkeeping, but to a man with a first in mathematics and optics and a zealous mind for learning, efficient bookkeeping would have made a great deal of sense and was quickly grasped. He taught his wife to keep simple and accurate accounts, bailed his brother-in-law out of bankruptcy, built up the Hawarden Estate until it was debt-free, and passed the estate on to his first son and that son's heirs. He prided himself in understanding his worth and his earnings, and in his expectations in order.

The reason for this instant grasp of accounting was probably that like optics, mathematics, and the rising discipline of statistics, accountancy is in its own way three-dimensional: the axes are time, numbers, and results.¹⁹ Accounting not only shows past results but also allows a person to predict the outcomes of changes in approach: instead of changing the size or type of lens, as one would do in optics, or increasing slightly the denominator of a fraction, accountancy allows a Chancellor the Exchequer, for example, to change the type of tax, rate of tax, or the way in which the tax was collected and understand the change in revenue that would occur. Because the whole

¹⁹A standard accounting or business management response to an unreasonable demand is that "You can have it fast, have it good, or have it cheap. Pick one."

point of accountancy is accuracy without bias, it is the ideal tool for a politician who must balance resources with policy. It is also a language. In university, Gladstone had learned to speak the languages of optics, physics, and mathematics, and added them to the other languages he spoke and read, like Greek, Latin, and French. By learning accountancy, he learned to speak another.

Gladstone augmented his talent for numbers with voluminous reading in economics and finance. Matthew noted Gladstone's reading in Victorian culture—political, religious, and literary life—but shied away from political economics, manufacturing, medicine, invention, and other more technical topics. These, too, were part of the Victorian culture.²⁰

Nothing Gladstone ever read was apparently lost: Books he studied at Eton and Oxford remained on his book shelves and offered their guidance long after he entered Parliament. His readings on the church, religion, and the church fathers have been documented.²¹ Agatha Ramm, for example, found that Gladstone followed Aristotle in finding harmony between scientific knowledge and “things that are not variable, that is, things eternal, things having no end and no beginning.” She shows that in his book *Church Principles* he rested his understanding on book vi of the *Nicomachean Ethics*.²² But as this thesis shows, his readings in science, manufacturing, invention, railroads, shipping, and other “hard” subjects were numerous, consistent with his character, and for at least one historian, Jenkins, infuriating.

²⁰The second index in Diaries 14 is “Gladstone's Readings.” Among many other topics, this index lists titles of books on manufacturing, mathematics, inventions, geology, medicine, and other technical topics.

²¹See for example, Agatha Ramm, “Gladstone's Religion,” *The Historical Journal* 28, no. 2 (June 1985): 327-340.

²²Ramm, “Gladstone's Religion,” 332.

Historians have used the Gladstone's *Diaries* to understand the man, the theologian, and the Homeric scholar. But the *Diaries* show us much more, such as his involvement in his family and their accomplishments.²³ They also show us how and when he trained himself to be an educated chancellor and prime minister. Gladstone read as many as four books at a time and typically worked a sixteen hour day, in spite of his busy social and political life. True to his biographers he read classics, Biblical studies, and theology. Gladstone also read about the modern church whenever he could: for example, he seems to have read every pastoral charge a bishop ever wrote to his flock. In addition, Gladstone created a program that continued his adult education and his growth as a politician and man²⁴. He read any book that supported one of his interests: he had trouble with his skin, eyes, colon, and throat; he suffered occasional headaches; he read books on medicine whenever he could lay hands on them.²⁵ He received deputations of manufacturers of all types, and read books on industry and accounting. He traveled and read books on travel.

Historians who understand Gladstone as a deeply religious man and continuing

²³Crosby says Gladstone spent scant attention to his family, but the *Diaries* show that Gladstone remembered their birthdays; delighted in showing off his children in church and on Rotten Row; taught his sons and daughters Latin and Greek; concerned himself with their performances on the piano forte and the cricket fields; attended their parties and their illnesses; and talked himself through his boys' sometimes lackluster progress in schools and exams. He doted on his grandchildren. Such criticisms are surprising to one who has read the *Diaries* thoroughly, and one would be tempted to ask how other Victorian gentlemen stood up as fathers in comparison with Gladstone.

²⁴The books that contain his marginal comments and manuscripts in answer to specific authors and ideas are contained at the St. Deiniol's Library on the Hawarden Estate. However, even without his marginalia and private manuscripts, we can gain directions and insights into his readings by the titles and sheer volume of his reading on individual topics.

²⁵Matthew lists thirty-six medicines and treatments; see Gladstone, *Diaries* 14: 756. He records, for example, a conversation with "Mr. Lane" whom Matthew identifies as "probably Hunter Lane, (d. 1853); Edinburgh surgeon and writer on medicine"; see *Diaries* 3: 31/8/46. The family physician, Dr. Locock, treated the entire family, from the baby Harry to William Gladstone and his wife, and was the doctor on call even if the Gladstones were traveling. As an example, see Gladstone's son Harry's complaints, *Diaries* 4: 23/2/54.

classical scholar have often missed other character developments spelled out in his *Diaries* by his readings in and study of political economics, government finance, banking, and a host of related topics. In doing so they have missed the clues that might have helped them understand Gladstone the economist, finance minister, economic politician, and sometimes contradictory thinker, or Gladstone's changing reaction to the Church of England as the established church of Great Britain and Ireland.

Matthew identified a shift in focus between the 1830s and 1840s. In the 1830s, Matthew says that Gladstone's reading was largely theoretical, consistent with his beliefs as a young parliamentarian, "seeking right rather than results."²⁶ Matthew comments that during the thirties Gladstone did not try to make himself a spokesman or accepted authority on a matter, but tried to seek the correct and right way of settling issues. By the mid-forties, after he came into Sir Robert Peel's sphere of influence, Gladstone's voracious reading habits shifted from theoretical to practical; by then he was embroiled sequentially in the free-trade problem and repeal of the Corn Law.²⁷

There are, of course, problems with sources. When they edited the *Diaries*, M. R. D. Foote and H. G. C. Matthew expended a good deal of effort to track down the journal articles, pamphlets, and books Gladstone recorded. These references appear in footnotes throughout the *Diaries*, and are collected, as far as they can be identified, in

²⁶Matthew, *Gladstone, 1809-1874*, 32. It is also consistent in a young man thrown so early into national politics after a university grounding in the classics.

²⁷Matthew, *Gladstone, 1809-1874*, 98. Gladstone was only peripherally involved in the Bank Act. See Gladstone, *Diaries* 3 (February, 1844). He attended some meetings at Peel's house and thought he understood Peel's position on a single bank of issue. The Subject Index in Vol. 14 shows one place where Matthew's index breaks down, listing no references to Peel for 1844, even when Gladstone specifically attended meetings that included the governor and deputy governor. See *idem*, 14:621, which lists panics, profits, deficiency bills, private issues, and the Overend & Gurney attack on the Bank of England but fails to mention Gladstone's attendance at early meetings.

Volume 14.²⁸ Gladstone referred to many of his books and pamphlets by a partial name; his faithful editors attempted to identify every one of these mysteries, and were generally successful. Yet they were unable to identify every document. Their footnotes in the *Diaries* volumes 1 through 13 often include tags such as “unknown,” “not traced,” and “probably.” Some titles appear in the index in Volume 14 without an author’s name, or without a publication date or both. Nevertheless, one must be impressed at the number of titles, authors, and publication dates the editors managed to identify.²⁹ Their work in this one area must have been daunting. Gladstone haunted bookstores, appears to have left standing orders with several booksellers, and recorded many letters to booksellers. He is known to have moved five thousand books from Fasque (his father’s home) to London when his father died. He later moved a similar load to Hawarden Castle.³⁰

We cannot be certain that because he mentioned a book, journal, or pamphlet Gladstone read it in its entirety; the only assurances would consist of jotted notes or marginalia in the book itself, repeated entries in the *Diaries* over a number of days, or the phrase “finished _____.” Without marginalia or a memorandum, we cannot tell in most cases whether he agreed or disagreed with the author. In other cases Gladstone was clear in his *Diaries*. In 1856 he read Frances Isabella (Fanny) Duberley’s *Journal Kept During the Russian War; from the Departure of the Army from England in April 1854 to the Fall of Sebastopol (1855)*.³¹ Gladstone dismissed it as a “poor thing.”

²⁸Ibid., 285 - 609.

²⁹Ibid., 14:285-609, 425 pages in all.

³⁰Ibid., 4:26/12/51. Matthew, *Gladstone, 1809-1874*: 101.

³¹Ibid., 5:1/2/56.

Gladstone read *The Merchant of Venice* on 1 June, 1855.³² While Matthew lists *Macbeth*, *Measure for Measure*, and *Much Ado about Nothing* as Shakespearian plays Gladstone read and/or saw, he missed *Merchant*.³³ While those of us who have attempted to put together an index of any book will say sympathetically, “no wonder,” it is, nevertheless, a pitfall that should be taken into consideration in any attempt to prove that Gladstone either read or did not read a specific publication—sermon, poem, novel, play, or three-volume history.

There are other skips as well. The indexes are sometimes disappointing. For example, in *Dramatis Personae* the entry for Gladstone family members lists Catherine Jessy (daughter), Helen (daughter), Henry Neville (son), Herbert John (son), Stephen Edward (son), and William Henry (son). Mary and Agnes (daughters) are missing.³⁴ In the Subject Index, the entry for Agnes is marked “See Wickam.”³⁵ Mary, who should have appeared between John Nielson and Robertson, is still missing.³⁶ The reason cannot be lack of attention on Matthew’s part, for Matthew’s work is monumental. It may have been a matter of time, or too few assistants, or a typesetting error. To the researcher, it is a trip-wire which requires care in case other problems also exist.

Little problems like these suggest that a firm reliance on the indexes sets a trap for researchers who do not pay close attention to the *Diaries* themselves. This is particularly true when Gladstone read (and wrote) on so much and about so many topics. He constantly read what he could find about himself, commenting occasionally

³²Ibid., 4:1/6/55. Idem, 5:2/6/55, he marked “*Merchant of Venice*—Finished.”

³³Ibid., 14:554.

³⁴Ibid., 14:100.

³⁵Ibid., 14:690.

³⁶Ibid., 14:697.

that he should not be proud, or that the criticism aimed at him should make him a better person. He was genuinely miserable when Sir Robert Peel refused even to comment on his book *Church and State*.³⁷ When his work on Homer appeared, he commented that he was so weak he actually read it for two hours.³⁸

He read both when he was happy and when he was unhappy. Travis L. Crosby has documented Gladstone's mood swings and has identified one of Gladstone's coping mechanisms as withdrawal. Withdraw he might, grieve he certainly did, but rarely without a book in his hand. His readings in the thirty-three year period of office from 1833 when he entered parliament to 1866, if sometimes idiosyncratic, are important to our understanding of the man. Books, pamphlets, and journals gave him, on the one hand, facts, theories, and opinions—weapons he could use in the debates and governmental duties into which he threw himself—the Corn Laws, taxation, and the Crimean War. On the other hand, his books seem truly to have educated him, softened some of his edginess, tempered his temper, introduced him to new writers and new ideas, and given him the mental superiority and surety in debate that he craved but could not always claim on his own merits.

The *Diaries* show us that he used two approaches to filling his bookshelves and his mind: His first was reading from the bottom up, as when he read books on the Corn Laws and from them began to master political economy as a whole. His second approach was to descend on the bookstores and purchase anything that suited his needs or fancies, building up collections on medicine, finance, the Bank Act of 1844,

³⁷Ibid., 2: 9/2/39. Gladstone and Peel also disagreed on religion in 1841. See idem, 3:9/5/41, 10/10/41, 17/10/41.

³⁸Gladstone, *Diaries* 5:26/3/58. For the *Edinburgh Review* article, see idem, 5:21/10/58.

inventions, poetry, and travel literature, as books were published. He does not appear to have created a top-down strategy, but picked up books on such topics as political economy as he went along.

This is certainly the case with a topic like medicine. During the 1859-1866 session alone, when he was Chancellor of the Exchequer for the third and fourth times, he read the books on medicine listed in Table 3.

Table 3: Gladstone's Reading in Medicine during his Second Chancellorship

Author	Title	Publication Date	Date Read
B. Winslow	<i>On Obscure Diseases of the Brain and Disorders of the Mind</i>	1860	29 July 1860
Charles Barrett	Paper on wind-pipe construction	1861	14 May 1861
Sir. J.A. Simpson	<i>Antiquarian Notices of Syphilis in Scotland in the Fifteenth and Sixteenth Centuries</i>	1862	22 May 1862
Unknown	<i>Report of the Committee on Venereal Diseases in the Army and Navy</i> (PRO WO 33/12; S. Whitbread, Chairman)	1863	18 Feb 1863

The list in this table should not be interpreted as a personal Gladstone problem with syphilis.³⁹ Nor can we assume that he had more than the usual minor problems with his wind-pipe or his brain. The condition of the Army was a constant concern given Palmerston's interests in Europe. In addition, we should note that in every case, Gladstone read the item in the same year in which it was published. He simply took in what he could find to read if it concerned him at all, read it, and sometimes commented

³⁹Gladstone did not suffer from syphilis. The Subject Index in volume 14 does not list the disease either as one which Gladstone suffered or as a separate line item. See Gladstone, *Diaries* 14:722-723, 837.

on it. There is no question that his reading, as well as his personal contacts, penetrated his thinking and changed the way he viewed certain phenomena in his world. A short memorandum on political economics is appropriate to quote in its entirety because it appears to have been triggered either by something he was reading or his conversations with “Mr. Kay ... on matters of religion ...”

Pol[itical]. Ec[onomics]. The question arises and it is of course a very serious one whether the system of modern industry is not merely liable to abuse but fundamentally and essentially at variance with the principles of the gospel [sic]. It appears to me that this question must be deliberately answered in the negative. The principle of accumulation of stock or capital arises out of the division of labour. But the division of labour economises labour & multiplies its power [Aristotle, Adam Smith]. It seems therefore to be a beneficial & laudable use of the faculties which God has given us--and one that honours the Giver. The division of labour prevents each man from supplying his own wants as is the case among mere savages: it thus requires him to purchase, & to live upon stock while he is preparing what he is to sell. On the accumulation of stock hangs all the rest.¹

This kind of passage suggests how much and how rationally Gladstone was working to reconcile his political, religious, economic, and even social learning and belief into a workable set of ideals from which to run a family, a family investment, or a country.

Gladstone's Re-reading and Non-reading

Once established in public life, Gladstone retained and reread many of the books he had read at Eton and Oxford. He was never far away from Plato's *Republic*, St. Augustine's *De Civitate Dei*, Aristotle's *Nichomachean Ethics*, or *Politics*.⁴¹ Matthew

⁴⁰Gladstone, *Diaries* 3:31/8/46.

⁴¹He picked up Plato's *Republic* at least twice: *Diaries*, 1:23/8/32, 16/12/32. He records reading Plato's *Laws* in October, 1837. He may either have read for the first time, or repeated a visit to St. Augustine's *de Civitate Dei*: idem 2:20/12/36, 2:24/10/37. He read Aristotle's *Politics* at Oxford, but looked at it repeatedly after he came down: idem, 2:6/22/34, 5:14/8/56, 5:3/9/60, and 6:16/8/61.

says that Aristotle gave Gladstone the ability to analyze and categorize society as a natural organism. He “gained the concept of a vision of human society not yet realized” from Plato.⁴² Bebbington believes that Aristotle’s sense of justice required a person with the state of mind that disposed him to perform just actions.⁴³ Gladstone aspired to this lofty goal, castigating himself whenever he failed.

These books cannot be dismissed merely as religious or classical books. Both Plato and St. Augustine believed in an idealization of political and social intercourse. Gladstone read both repeatedly. Plato’s ideal city was a calm metropolis, based on the golden idea of balance, an antidote to the boisterous, mercantile Athens in which he lived. Augustine based his city on his belief in God’s perfection played out in real life. The same Greek city-state that infused Plato with the need for a sense of balance, and with authoritarian rule to maintain it, caused Aristotle to concern himself with the nature of money. It is Aristotle who fostered that confusion about the nature of money that was later to haunt the medievalists. In the *Nicomachean Ethics*, Aristotle accepted a non-metallic version of money that served as a measure of value, a way for the seller of shoes to trade with a seller of houses.⁴⁴ Aristotle believed metallic money was an unnatural substance, unable to serve man in the same ways that shoes, food, and houses did. Aristotle’s view at that time was based on his idea of value based strictly on utility. Aristotle failed to understand credit transactions, used extensively in Athenian business for overseas trade.⁴⁵ He condemned all forms of usury as wealth-taking,

⁴²Matthew, *Gladstone, 1809-1874*, 33-36

⁴³David Bebbington, *The Mind of Gladstone: Religion, Homer, and Politics* (Oxford: University Press, 2004), 23.

⁴⁴Barry J. Gordon, *Economic Analysis before Adam Smith, Hesiod to Lessius* (New York: Barnes & Noble, 1975), 44 - 45.

⁴⁵Carl F. Taeusch, “The Concept of ‘Usury’,” the History of an Idea,” *Journal of the History of*

showing a distinct lack of political sympathy for the capitalists with whom he lived.⁴⁶ In the *Politics*, written some years later, however, money emerged as a commodity in its own right, like wheat or wool. Aristotle wrote that it must have value in and of itself. He then wrote that men required “iron, silver, and the like” to facilitate trade between communities.”⁴⁷

Joseph Schumpeter, says S. Todd Lowry, stated flatly that Aristotle had no theory of price.⁴⁸ Other writers disagree. Barry Gordon found that Aristotle intended all goods should have a price,⁴⁹ and Lowry himself believed that in Aristotle’s model of justice, the concept of price was fundamental.⁵⁰ On Aristotle, Meikle has written:

The interpretation of these passages [on money in *Nicomachean Ethics* and the *Politics*] is now in a chaotic state. Even the object of Aristotle’s inquiries is disputed. It has been seen as economic analysis, as entirely ethical and having nothing to do with economic analysis, and as snobbish political prejudice against traders and money-makers. The chapters are usually thought to lack intellectual cohesion, and to amount to little more than an expression of aristocratic anti-business attitudes. Few parts of the Aristotelian corpus are held in lower esteem, and they are seldom included in selected editions of Aristotle’s works.⁵¹

If scholarship is in such disarray, it is immaterial to our understanding of Gladstone as a reader of Aristotle. Gladstone read Aristotle, but he was, in his political and personal dealings, a modernist, well versed in the use of stocks, credit, cheques, and overseas transactions, and unworried about the meaning of gold. Nor were the problems of medieval (Roman Catholic) scholastics. His readings show he did not

Ideas 3, no. 3 (June 1942): 296.

⁴⁶Gordon, *Hesiod to Lessius*, 36-37. See also, Scott Meikle, *Aristotle’s Economic Thought* (Oxford: Clarendon Press, 1995), 1. Meikle says the main texts are *Nicomachean Ethics*, book 5, chapter 5 and the *Politics*, book 1, chapters 8-10.

⁴⁷*Ibid.*, 36-37; Meikle, *Aristotle’s Economic Thought*, 1.

⁴⁸S. Todd Lowry, “Recent Literature on Ancient Greek Economic Thought,” *Journal of Economic Literature* 17, no. 1 (March 1979): 67.

⁴⁹Gordon, *Hesiod to Lessius*, 46.

⁵⁰Lowry, “Recent Literature,” 72.

⁵¹Meikle, *Aristotle’s Economic Thought*. 1, n.3.

attempt to enter the world of the medievalists, except to understand the feudal history of land and land transfer as described in Blackstone. What follows, however, is useful, not because Gladstone read the works of the medieval scholars, the Mercantilists, and the Physiocrats, but because he did not, and thus found himself confronting a mix of beliefs and myths about money, finance, and politics that he failed to crack in his attempt to reorganize the government's relationship with the Bank of England. This body of information is what I call Gladstone's "nonreading." Had he read more, with an economic view of what he was reading, he might have understood more.

Between the year 1000 and 1500, most "economic" writing was performed by churchmen of two types: those who paid more attention to the work of bankers and merchants than to ancient beliefs, and those who wrote after Aristotle's works were translated.

The earlier group includes such writers as Ivo of Chartres (b. 1080), who had read the *Codex Theodosianus* (438), the *Lex Romana Visigothorum* (506), eighth century Bavarian law, and the ninth century capitularies of Benedictus Diaconus. Ivo preached on such topics as buyer's remorse, stating flatly that once a transaction was complete, the purchaser could not return goods because the price was too high.⁵² This was new thinking, designed to protect the merchant in his dealing with princes and other wealthy people. Giraldus Cambrensis (b. ~ 1146) worried that a nation must maintain its own stock of essentials to avoid famine in time of war or pestilence, when the prices of necessary goods would soar. The reason is obvious. In war or in famine, a nation could

⁵²George A. T. O'Brien, *An Essay on Medieval Economic Teaching* (London: Longman, Green, 1920), 169.

be brought to its knees either by an enemy's embargo or blockade, or high prices demanded by merchants.⁵³ In these two examples we see a worldly-wise church attempting to come to grips with the realities of the world. Ivo gave consideration to the merchant; Giraldus gave wise council to the prince and his people.⁵⁴

After Aristotle's works were translated, however, the mood changed.⁵⁵ St. Thomas Aquinas (c. 1225 -1274) studied under Albert the Great (1193-1280). Albert had read Aristotle.⁵⁶ Albert took to heart Aristotle's earlier definition of money, that money existed only as a way to facilitate exchanges. Aquinas followed Albert and quoted Aristotle when he wrote *Summa Theologica*. Money, he said, was sterile, and could not grow itself. Aquinas was particularly harsh on the merchants and bankers, now beginning to do a wide business across Europe, for taking profit from the exchange of different moneys across Europe.⁵⁷

Wood has argued that quite by accident Albertus managed to abstract both the idea of a marketplace and price from Aristotle's chapter on the shoemaker.⁵⁸ Albertus used these findings to assert that the just price of any commodity was its current price, established in the marketplace in the absence of monopolistic trading practices, a position similar to that of Aristotle.⁵⁹

St. Thomas's teaching ran contrary to the very real facts of English secular and

⁵³Lester Kruger Born, "The Perfect Prince: A Study in Thirteenth- and Fourteenth-Century Ideals," *Speculum* 3, no. 4 (October 1928): 475.

⁵⁴*Ibid.*, 477.

⁵⁵Wood, *Medieval Economic Thought*, 10-11. *Nichomachean Ethics* was translated in 1247, probably by Robert Grosseteste, Bishop of Lincoln. *Politics* was translated in the period from 1260 to 1264 by William of Moerbeke.

⁵⁶George A. T. O'Brien, *An Essay on Mediaeval Economic Teaching* (London: Longmans, Green, 1920): 16.

⁵⁷Gordon, *Hesiod to Lessius*, 159-160.

⁵⁸Wood, *Medieval Economic Thought*, 137

⁵⁹Gordon, *Hesiod to Lessius*, 174

church history. By 1279 the number of rents paid in money had overtaken the number of rents paid in labor; the amount of hard currency paid in taxes rose sharply in the early fourteenth century, while a drop in the value of a silver penny made paying rents and taxes easier.⁶⁰ Many peasants were paying their tithes in money, not kind. Wood quotes N. J. Mayhew who calculated the amount of money in circulation in England in 1200 (£250,000) compared to the amount available in the early 1300s (£1,100,000) as proof that most transactions began to be carried out in money.⁶¹ Mate has shown that the brothers and chapter of Canterbury Cathedral were nearly always in debt, and paying usurious rates of interest to their creditors as well.⁶²

When Gladstone made his transition from the theoretical 1830s to the more concrete 1840s, Plato, Aristotle, St. Augustine, and Dante made the transition with him, but not as his fundamental philosophers in economic theory.⁶³ Other writers, such as Ivo, never entered Gladstone's library. This is too bad, because Ivo and Geraldus would have made sense to the hard-headed financiers of the 1850s. Modern price theory as well as the role of government in supporting trade, agriculture, and industry arose not from the writings of church fathers, but from the more worldly English Mercantilists and the French Physiocrats.

The Mercantilists and Physiocrats paralleled some incidental English writers who also helped to set the mold of nineteenth century British economics. For example, the first modern attempt to explain supply and demand, and, incidentally, inflation, came in

⁶⁰Wood, *Medieval Economic Thought*, 79.

⁶¹N. J. Mayhew, "Money and Prices in England from Henry II to Edward II," *Agricultural History Review* 35 (1987): 125-126; in Wood, *Medieval Economic Thought*, 79 n.42.

⁶²Mate, "Indebtedness of Canterbury Cathedral Priory," 183-184.

⁶³Morley, *Gladstone* 1, 202-203.

1601 when Geoffrey Malynes published *A Treatise of a Canker of England's Common Wealth* (1601):

... plentie of money maketh generally all things dear, and scarcity of money maketh likewise generally things good cheape ... Whereas things particularly are also dear or good cheape, according to the plentie or scarcity of the things themselves, or the use of them.⁶⁴

Rice Vaughan wrote *On Coins and Coinage* (published in 1623 and republished in 1655) showing the varying relationships between ancient and modern gold and silver.⁶⁵ John Locke (1632-1704) wrote *Some Considerations of the Consequences of Lowering the Interest and Raising the Value of Money* (1692).⁶⁶ Nicholas Barbon responded *Discourse Concerning Coining the New Money Lighter* [devaluation], *a reply to Locke*.⁶⁷ These materials were aimed at helping government officials, merchants, and investors solve the problems associated with money; they now seem somewhat hit or miss. Nevertheless, they are the first works representing a new trend of churchless, and sometimes unschooled, economic writers. They were also coincident with and only slightly separated from the Mercantilists then coming to the fore.

The best known Mercantilist was Sir Thomas Mun, author of *England's Treasure by Forraign Trade*. Mun argued against excessive controls on foreign trade and foreign exchange, provided always that England maintained the advantage in foreign trade and the quantity of gold bullion in her vaults:

It is not the power of exchange that doth enforce the treasure where the rich prince will have it, but it is the money proceeding off wards in foreign trade that

⁶⁴Malynes, *A Canker*, cited in Marian Bowley, "Some Seventeenth Century Contributions to the Theory of Value," *Economica*, new series 30, no. 118 (May, 1963), 125.

⁶⁵Bowley, "Seventeenth Century Contributions," 137.

⁶⁶*Ibid.*, 125.

⁶⁷*Ibid.*, 130

doth enforce the exchange, and rules of the price thereof high or low, according to the plenty or scarcity of said money.⁶⁸

The English writers, including Mun, removed money from the medieval-scholastic, Aristotelian cocoon of a zero-sum game, moved England toward an optimistic, every-one-who-works-wins mentality. Oblivious of the change in the amount of money circulating in England between 1200 and 1300, medievalists had argued that every economic victory automatically involved an equal and opposite loss (now called a zero-sum game). In the seventeenth century, international trade convinced men that every one could win, but winning required some care. The most important tenets that identify Mercantilism are the importance of bullion and control of the balance of trade in England's favor.⁶⁹ Mun and his followers argued that as a trading country, England was only strong if she maintained more bullion in her coffers than her trading partners. Instead of replacing the zero-sum game, therefore, Mun had merely moved it off-shore. By insisting that England must control the bullion supply, Mun made the Indians, the Chinese, and Britain's other trading partners into the losers. The reason was that although the sum of trade in the world would continue to grow, it could not grow uniformly. Those nations that had gold and wanted goods, such as India, would lose their gold. The sum of gold in the world was growing because of discovery, but in the hands of two other countries—Spain and Portugal—not England.

The Mercantilists argued both for and against government intervention, asking for monopolies and the movement of bullion into the hands of merchants, and for support of laissez-faire operations in the shipping lanes. In 1622-23, for example, Mun served on

⁶⁸Thomas Mun, *England's Treasure by Forraign Trade* (downloaded from <http://socserv2.socsci.mcmaster.ca/~econ/ugcm/3113/mun/index.html>, printed Dec. 21, 2005), 125-126.

⁶⁹Wood, *Medieval Economic Thought*, 111.

the Privy Council commission on trade, arguing against trade restrictions on exports of precious metals because they stopped merchants from gaining a profit.⁷⁰ The mixed messages from the Mercantilists, arguing at one moment against trade restrictions and then in favor of them (by, for example, the granting of monopolies) caused later economists to undervalue the benefits the Mercantilists gave to Britain. By forgetting that the Mercantilists correctly identified Britain as exactly what it would later be called, a nation of shopkeepers, they ignored the both the weight the Mercantilists gave to the later concept of free trade, and to their often resented but popular attitude that Britain should take the lead in world-wide trade and world-wide riches. The Victorians, more than they were willing to admit, assented to the Mercantilist position, including the continuance of the two most important monopolies still in operation, the British East India Company and the Bank of England.

The French contribution to British monetary policy and thinking came from the Physiocrats, seventeenth- and early eighteenth-century writers attempting to find ways to finance their increasingly expensive kings.⁷¹ Their arguments sound ancient to modern ears, for they wrote and preached that the only wealth in a nation lay in its land and its farmers, and that a single tax, on farming, was the only dependable way to support the king. However, they also presaged Peel's and Gladstone's attacks on the customs and excise taxes in England. The Physiocrats recommend abolition of the

⁷⁰Lynn Muchmore, "A Note on Thomas Mun's 'England's Treasure by Forraign Trade'," *The Economic History Review*, new series 23, no. 3 (December 1970), 498-503.

⁷¹The best known Physiocrats are Richard Cantillon, author of *Essay on the Nature of Commerce in General* (1775), Francois Quesnay (1694-1774), creator of the *Tableau Economique*, which taught Adam Smith so much, and Anne Robert Jacques Turgot (1727-1781), author of *Reflections on the Formation and Distribution of Wealth* (1770). A useful reader on these writers is *The History of Economic Thought: A Reader*, eds., Steven G. Medema, Warren J. Samuels, (London: Routledge, 2003), 78-118.

internal tolls and customs collected on the roads and rivers of France. They argued that if the tolls were struck down, internal smuggling would cease, men would have more money in their pockets, and the land tax would be far easier to collect. Their dissatisfaction with industry was based on their belief that industry could never replace land as a source of wealth in the nation.

Francois Quesnay, one of the French Physiocrats, is notable both for his understanding of the ways in which money is transferred from hand to hand and for his creation of the *Tableau Economique*.⁷² The *Tableau* is graphic study of cash flow, and was, for its time, a unique tool. Adam Smith saw the *Tableau* during in his travels in France, studied it, and used it when he wrote *An Inquiry into the Nature and Causes of the Wealth of Nations*.⁷³

Coming to the Nineteenth Century

When Gladstone came down from Oxford, he enrolled in Lincoln's Inn as a legal student. Gladstone first read William Blackstone's *Commentaries* (four volumes) on English law (1765), in 1832,⁷⁴ and again in 1839,⁷⁵ and 1850.⁷⁶ Blackstone, the commentator who first attempted to understand the various types of English land law or the relationship between king and parliament, and to make sense of many precedent-

⁷²Almarin Philips, "The Tableau Economique as a Simple Leontief Model," *The Quarterly Journal of Economics* 69, no. 1 (February 1955), 137-144. See also, "Tableau Economique" in *History of Economic Thought, A Reader*, 97-102.

⁷³Published 1776. Book One and Book Four appear in Medema & Samuels, *A Reader*. For the full text of Smith's great work, see *An Inquiry into the Nature and Causes of the Wealth of Nations*, R. H. Campbell, A. S. Skinner, W. B. Todd, Eds. (Indianapolis: Liberty Fund, 1981). Also see Deane, *Evolution*, 30, n.3.

⁷⁴Gladstone, *Diaries* 1:27/8/32.

⁷⁵Gladstone, *Diaries* 2:18/3/39

⁷⁶Gladstone, *Diaries* 4:30/4/50.

setting legal judgments of the past, was required reading for all lawyers and judges in the Victorian period.

Anyone wanting to understand the political or ideological background to the party and factional conflicts of George III's early years of the American War of Independence will need to turn to these pristine commentaries.⁷⁷

Gladstone also read one of the two edited versions of Adam Smith's *An Enquiry into the Nature and Causes of the Wealth of Nations* (3 vols., 1776).⁷⁸ Blackstone and Adam Smith may have provided Gladstone with a reasonable replacement for histories of England. The existing examples of history writing focused on kings and wars, not economics. As a boy he had Tobias Smollett's *A History of England ... Designed as a Continuation of Mr. Hume's* (1790).⁷⁹ He also read Thomas Babington Macaulay's *The History of England, from the Accession of James II* (1849). Adding Macaulay's five volumes of history to Blackstone on jurisprudence and Adam Smith' *Wealth of Nations*, he may have had about as good a foundation in history as was possible for the times.⁸⁰

⁷⁷I. G. Doolittle, review of the facsimile edition of *Commentaries on the Laws of England* (1765-9) by William Blackstone, (Chicago/London: University of Chicago Press, 1979), in *The English Historical Review* 101, no. 398 (January 1986), 258. Also see Michael Lobban, "Blackstone and the Science of Law," *The Historical Journal* 30, no. 2 (June 1987), 311-335. Blackstone remains the basis of much modern British, United States, and Commonwealth law.

⁷⁸Two four-volume editions were on offer by 1841: one with J. R. Buchanan as editor and one with John Ramsay McCulloch as editor. McCulloch's version appeared in 1828 and bore McCulloch's unmistakable Mill-Ricardo slant on the poor, primitive accumulation, banking, and land-holding. See Gladstone, *Diaries* 3:1/11/41. He certainly was reading the McCulloch edition in 1855 when he looked into McCulloch's preface, "Life of Adam Smith," in *Wealth of Nations*." Idem, 5:1/7/55.

⁷⁹Ibid., 1:5/6/26. Also see David Hume, *The History of England, from the Invasion of Julius Caesar to the Revolution in 1688*, (Indianapolis: Liberty Fund, 1983).

⁸⁰The reason for this problem in the young Gladstone's life was the rise of the publishing business in the nineteenth century. History taught at Oxford consisted of standard references such as *The Rise and Fall of the Roman Empire*. Publishing in history appears to have been hobbled until other colleges, universities, and writers began to intrude into this limited structure with new works. Few historians before William Stubbs (1825-1901), bishop of Chester and Oxford, Regius Chair of History, Oxford, and author of *Constitutional History of England* (3 vols., London, 1866) bothered to perform original research. See Michael Bentley, "The Evolution and Dissemination of Historical Knowledge," in *The Organisation of Knowledge in Victorian England*, ed. Martin Daunt (Oxford: University Press for the British Academy, 2005), 173-198. Bentley has developed a "genealogy" of historical research, beginning with Stubbs, including several historians that Stubbs trained, and has paid particular attention to the rise of historical research at Owens College under Dr. Richard Copley Christie (1830-1901), Adolphus Ward (1837-1924),

From Blackstone and Smith, Gladstone may have learned a good deal of history *en passant*: Blackstone carefully described history as it applied to law. Smith's detailed writing on the modern world of 1776, took landholding through to a discussion of rents before moving on to real prices of manufactures, accumulation of capital (banks of deposit). From these Gladstone gained an interesting accumulation of history, historic examples, and descriptions of a number of problems in English money and banking.

The medieval scholastic churchmen had risen out of the universities. The Physiocrats were French landowners and nobles. The Mercantilists were merchants. The Physiocrats looked down on manufacturers and merchants. Both the university men and the land-owning men claimed privileges for themselves in commenting on economic affairs that they could not grant to merchants. Hence, while merchants followed the thinking of the Mercantilists, the churchmen and the Physiocrats did not, and were generally sidelined by the rising merchant class and the needs for money that came from trade. It was not until Adam Smith began to lecture and publish that a man came to the fore who fit the profile of an authority that critics wanted to read on money matters.⁸¹ Smith had been trained at the University of Glasgow, a center of the Scottish enlightenment, by another professor, Francis Hutcheson, and Smith's roots in the

and T. F. Tout (1855-1929). Owens College was founded in the year of the Great Exposition, and is considered one of the earliest examples of determined historical teaching based on the scientific method. By contrast, the

⁸¹At one point, for example, Adam Smith spent six months in London consulting with the government over taxation at the start of the American Revolution when he longed to be away and writing his great study, *An Enquiry into the Wealth of Nations*. See, W. R. Scott, "Adam Smith at Downing Street, 1766-7," *The Economic History Review* 6, no. 1 (October 1835), 79-89). Karl H. Niebyl has discovered that in various wars of the eighteenth century England spent a staggering £60,000,000 on mercenaries, support for foreign princes, and other continental expenses, and that this national debt had serious repercussions for monetary theory in the eighteenth and nineteenth century. See Karl H. Niebyl, "A Reexamination of the Classical Theory of Inflation," *The American Economic Review* 30, no. 4 (December 1940), 760.

classics were very deep. Joseph Schumpeter, a twentieth-century economic historian has suggested that the first five chapters of the *Wealth of Nations* recapitulates Aristotle.⁸²

Smith's work were refined in his public lectures, first in Edinburgh in 1750 and 1751, and then at the University of Glasgow. Smith thought himself a moral philosopher, and his belief in an inborn human decency, as well as man's need to better himself, must have fallen pleasantly on the ears of those who believed that theirs was an age of improvement.⁸³ What Adam Smith assumed is as important as what he wrote. He assumed, for example, writing in 1776, that all paper currency was and would continue to be convertible into gold coin by the Bank of England and the "subsidiary banks."⁸⁴ He wrote that the Mercantilists were wrong on the subjects of gold bullion and the need for a positive balance of trade with other nations, two ideas he might have withdrawn if he had foreseen the Bank's suspension of payments in 1793.⁸⁵ And, he earnestly regretted any attempt, such as the creation of a monopoly, by the government to form, control, or reform trade.

Gladstone's Practical Reading

Adam Smith takes us to the nineteenth century and the great money-bullion-banking crises that were to plague bankers, manufacturers, investors, and the

⁸²Lowry, "Recent Literature," 67.

⁸³Arthur Herman, *How the Scots Invented the Modern World* (New York: Three Rivers Press, 2003), 197-197.

⁸⁴Deane, *Evolution*, 47.

⁸⁵For his attack on Mercantilists, see Smith, *An Inquiry*, IV.vi, 32 (555); idem, IV.vii.c 54 (610); idem, IV, vii.c, 89 (630); idem, IV.i,3 (663). Smith believed their coinage ideas were based on vulgar principles, that they used mean and malignant expedients, that their view of monopoly was detrimental to trade. In sum, he called them "plodding man of business."

government for long days to come. The problem was identified by Henry Thornton (1760-1815), a different class of man from Smith. Thornton was a sophisticated banker, comfortable in international trade, and the man sometimes credited with founding the Banking School of the nineteenth century classical economists.⁸⁶ The Napoleonic War had left England with two problems: a massive debt and a need to resurrect her international trade. The Bank of England had suspended cash (gold) payments in 1793. This suspension held until 1821, when an ounce of gold had risen in price from the statutory-£3 17s. 10-1/2d. to more than £6.⁸⁷ When convertibility was restored, and the Bank began to allow withdrawals of gold to those who required it, the price had to fall steadily to maintain economic stability. This fall was dramatic, representing nearly half of the lower price of gold and a third of the higher price. Those who held gold suffered. Those who held notes rejoiced.

But the end of war and the end of inflation did not create stability. Within five years, Great Britain had suffered deflation and commercial crisis, partially caused by the fall in the price of gold, and also in the fall of other prices. This fall in prices demonstrated Malynes' premise. It also demonstrated one of the real problems with wartime affluence and production: that a market not driven by war-time demand for production and an international economy still disturbed by the aftermath of war were not a good combination. War was to be avoided so that trade could return to normal.

⁸⁶Neil T. Skaggs, "Henry Thornton and the Development of Classical Monetary Economics," *The Canadian Journal of Economics* 28, no. 4b (November 1995), 1213.

⁸⁷See Norman J. Silberling, "British Prices and Business Cycles, 1779-1850" *The Review of Economic Statistics* 5, Supplement 2 (October 1923): 223-347. During the suspension, several economic shifts caused the British people considerable consternation, the most serious of which was the variation in the price of food. Using the year 1790 = 100 as an index, Norman J. Silberling found that the price of food rose to 121 in 1798), 143 in 1799, 170 in 1800, 174 in 1801 but fell to 138 in 1802. The rises up to 1802 clearly demonstrate what we now call war inflation.

Thornton believed that the question in 1811 was not the state of the bullion, but whether the Bank of England should consider the state of the exchanges (such as money, grain, coal, gold, and wool) when it regulated to currency issue. He showed how the opinion of the Bank of England differed from that of the Bullion Committee:

The Bank and the Bullion Committee were at variance on this leading and essential point. The Committee affirmed, that the quantity of money [affected] the price of Bullion and ... the state of the Exchanges. All the Directors of the Bank who had been examined, affirmed that it had not ... This is the great practical question. If the Bank had in their own hand the power of improving the Exchange, and lowering the price of Bullion, and did not use it, if they had the means of restoring, or contributing to restore, the standard of the country, and did not at all believe that they possessed it, then it became the House, who had exempted them from the necessity of making payments in cash, supposing to agree with [its own] Bullion Committee, to take care that the Bank should resort to the proper remedy of the present evil, by interposing some suggestion of their own on the subject.⁸⁸

Thornton's practical approach to the convertibility question, the problem of whether paper could be traded directly for gold, and at what price, was a voice crying in the wilderness. His suggestions, first that the amount of gold was not the problem but that prices were, and second that the House of Commons should have the right to overrule the Bank of England in the way it did business, were thoughtful, intelligent, well reasoned, and neglected for the rest of the nineteenth century. His thinking gave Thomas Tooke the change in insight that led him to write several books on the "currency question" and six volumes of a comprehensive study of the history of prices in the eighteenth and nineteenth centuries. Together, Thornton and Tooke argued long and well against the Bank of England and its gold standard. And they were powerless to

⁸⁸Henry Thornton, Speech before the House of Commons, May 7, 1811, in *An Inquiry into the Nature and Effects of the Paper Credit of Great Britain, Together with his Evidence Given before the Committees of Secrecy of the Two Houses of Parliament in the Bank of England, March and April, 1797, Some Manuscript Notes, and his Speeches on the Bullion Report*, ed. F. A. Hayek (London: George Allen & Unwin, 1939; reprint, Fairfield: Augustus M. Kelley, 1978), 327.

change either the law or people's way of thinking about gold. The gold standard continued until the twentieth century.

When Gladstone came to office in 1833, Britain was finally recovering from the problems caused by the Napoleonic Wars. His father, for example, had retained sufficient income to support his son in a reasonable style at Oxford and set him up in London with an allowance of £1000 a year, not a bad stipend for a young man studying at the bar and entering parliament. Nothing stopped Gladstone from reading, but he began to find his way slowly. His first excursions into modern political economics were when he read two books in the year they were published: Archibald Alison's *The Principles of Population and their Connection with Human Happiness* (1840)⁸⁹ and John MacGregor's *The Commercial and Financial Legislation of Europe and America; with a Pro-forma Revision ... of Taxation* (1841).⁹⁰

With this modest training in the broader world outlined above, William Gladstone entered under Sir Robert Peel's tutelage, and poured himself into free trade and repeal of the Corn Laws with enthusiasm. This was a "bottom-up" excursion into learning. From 1841 to 1846 he read approximately thirty works centered on the Corn Laws. He began with R. N. B.'s *Corn and Wages* (1841),⁹¹ and Sir David Salomons' *The Corn Laws; Their Effects on the Trade of the Country Considered, with Suggestions for a Compromise* (1841).⁹² Every book in this category contained the words 'corn' or 'corn laws' in the title. Without exception, every title tied corn and the Corn Laws to another topic—workmen's wages, trade, food prices, manufacturing costs and profits, national

⁸⁹Gladstone, *Diaries* 3:5/9/40.

⁹⁰*Ibid.*, 15/9/41.

⁹¹*Ibid.*, 17/6/41. The total list of works he read on the Corn Laws appears at the end of Chapter 4.

⁹²*Ibid.*, 11/12/41.

finance, and foreign trade. He read, for example, Thomas Jevons' *The Prosperity of Landholders not Dependent on the Corn Laws* (1840) in 1841;⁹³ he confronted manufacturing and wages in James Wilson's *Fluctuations of Currency, Commerce and Manufactures Referable to the Corn Laws* (1840). Interspersed with corn, Gladstone read the work of Jacob Omnium (Matthew James Higgins) entitled *Cheap Sugar ... Three Letters* (1848),⁹⁴ Charles Newdigate's *A Letter to the Right Hon. H. Labouchere*⁹⁵ *on the Balance of Trade ... During the Last Four years* (1849);⁹⁶ and George Frederick Young's *Free Trade and the Navigation Laws*.⁹⁷

The scope of Gladstone's reading expanded in many directions related to political economics in the years that followed. Without the guidance of a strict Oxford tutor he made his own way, his curriculum partly decided by political winds blowing through parliament and partly determined by book reviews and booksellers' display windows. Evidence of his hit-or-miss collecting and reading appears before and during the Corn Law debates: while he was reading on corn, for example, he also dipped into or read Henry Booth's *Carrying Question in Reference to Railways and Canals* (1841);⁹⁸

⁹³Ibid., 23/9/41.

⁹⁴Ibid., 6/11/47. This document offers another problem with the Readings that requires constant attention. Gladstone mentions *Cheap Sugar* in 1847 while Matthew dates it (perhaps only the final digit but still a problem) 1848. Later in his career Gladstone recorded reading several documents and books, usually in the last months of the year before their publication date. One suspects that authors and publishers began sending him preview or galley copies, so great had his reputation grown as a writer, reader, and connoisseur. Nevertheless, dating is an area in which constant care must be used when relying on Gladstone's readings in historical research.

⁹⁵H. Labouchere served in Lord John Russell's first government as chief secretary for Ireland from July 1846 to July 1847, when he was made president of the Board of Trade. See K. Theodore Hoppen, *The Mid-Victorian Generation, 1846-1886* (Oxford: Clarendon Press, 1998), 716.

⁹⁶Gladstone, *Diaries* 4:24/3/49.

⁹⁷Ibid., 5/3/49.

⁹⁸Gladstone, *Diaries* 3:5/3/41. Matthew cites Gladstone's Railway Bill of 1844, tidying "up the procedure for handling the mass of private bills necessary for developing a railway network sponsored by private capital, and reserv[ing] the State's rights to intervene in the concerns of the railway companies." Matthew, *Gladstone, 1809-1874*, 67.

Ichabod Charles Wright's *Thoughts on the Currency*,⁹⁹ Nicholas Carlisle's *Correspondence on the Mint: Memoir or William Wyon ... Chief Engraver of the Royal Mint* (1837);¹⁰⁰ *The Economist* 79, on the German Zollverein (trading domain);¹⁰¹ and B. van Owen's *Ought Baron de Rothschild to Sit in Parliament? An Imaginary Conversation*.¹⁰²

Having identified political economy as a separate and useful topic, he read John Ramsay McCulloch's *The Principles of Political Economy* (1830),¹⁰³ J. P. Corry's *Competition and its Influence in Producing Distress* (1842),¹⁰⁴ and *The Economist* 75, "F[riedrich] List on Political Economy" (1842).¹⁰⁵ He also began reading the first two volumes of Thomas Tooke's master work on prices, *History of Prices and the State of Circulation* (1838 on).¹⁰⁶ The purpose of this last-named book was to convince bankers and investors that prices, not the amount of currency in circulation, controlled the economy. Tooke began his economic career as a follower of David Ricardo¹⁰⁷ and the Currency School, those who believed that the quantity theory of money was the source of economic success or distress, and the writers who did most to convince readers and members of parliament that the Bank of England was right. Tooke soon identified the

⁹⁹Gladstone, *Diaries*, 3:28/12/41.

¹⁰⁰*Ibid.*, 17/4/43

¹⁰¹*Ibid.*, 4/9/44.

¹⁰²*Ibid.*, 16/12/47.

¹⁰³*Ibid.*, 17/11/41.

¹⁰⁴*Ibid.*, 1/2/42.

¹⁰⁵*Ibid.*, 16/7/42.

¹⁰⁶*Ibid.*, 16/8/42.

¹⁰⁷David Ricardo (1772-1823) became a prodigious author within a few short years. His publications include *The High Price of Bullion, A Proof the Depreciation of Bank Notes* (1811); *Reply to Mr. Bosanquet's Practical Observation on the Report of the Bullion Committee* (1811); *An Essay on the Low Price of Corn on the Profits of Stock ...* (1815); *Proposals for an Economical and Secure Currency; with Observations on the Profits of the Bank of England, as they Regard the Public and the Proprietors of Bank Stock*; *On the Principles of Political Economy and Taxation* (1817); *On the Protection of Agriculture* (1822); and *Plan for the Establishment of a National Bank* (1824).

flaws in Ricardo's thinking, and founded, based on Henry Thornton's work, a rival group called the Banking School. Tooke's work on prices eventually led some economists away from Ricardo to a more workable understanding of Britain's economy, but it was a long road, not completed until late in the nineteenth century. Gladstone also read Thomas Tooke's *Inquiry into the Currency Principle* (1844) in the year it was published.¹⁰⁸

By the middle of the 1840s, Gladstone was well launched on his career as a reader of political economy and satellite topics, including banking, the costs of war, currency, taxation, and the government's budget, and relocated from theoretical to practical thinker. Gladstone was not the only man of public affairs who was reading: the publishing business centered on finance and money was flourishing. Matthew's comment, that Gladstone's *record* of reading is unique and useful, does not negate the fact that Victorians were reading and the market for non-fiction books appears to have been prodigious and growing.¹⁰⁹ There can be little question that in the midst of governmental turmoil, the demands of a large family, travel, estate building, social events, and a host of other demands on his time, Gladstone would not have maintained his studies if they had not helped him survive and flourish as a politician. In the chapters that follow, we confront not only the political and economic situation in which the country found itself, the behavior of the Bank of England, and the ways in which Gladstone reacted to it, but also look at what he was reading that might have contributed to his reactions.

¹⁰⁸Gladstone, *Diaries* 3:2/5/44. Gladstone read Henry Thornton's *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (1802) in 1854.

¹⁰⁹Martin Daunt, "Introduction," in *The Organisation of Knowledge*, 3.

His reading has confounded some of his biographers. He maintained touch with the scientific world, perhaps because he believed that improvements in science and technology would make Britain and her people richer, or perhaps because he had an active mind interested in a wide number of ideas. This interest drove one of his biographers to exasperation: Roy Jenkins calls it “wild and almost pointless eclecticism” when Gladstone read “Colt on his revolvers” on 28 October, 1853.

in the first year of his chancellorship of the Exchequer, he had at least perused a published work by the American inventor of a type of pistol (a side-arm in which Gladstone was neither in theory nor in practice particularly interested) and which bore the unpromising title of *On the Application of Machining to the Manufacture of Rotating Chambered-Breach Fire-arms and their Peculiarities*.¹¹⁰

Here, we are confronted with a historian who has accepted stereotype instead of looking at the man. Jenkins did not expect Gladstone to read a book on arms manufacture, and got quite cranky about it. Jenkins, *Gladstone*, 179. The original entry is in Gladstone, *Diaries*, volume 4, 28/10/53.¹¹¹ The Subject Index in *Diaries*, Volume 14 refutes Jenkins’ lament. Under an entry entitled “inventions, G’s interest in,” Matthew has found many new ideas, including but not limited to Ansell’s fire damp apparatus (19/3/66); the gun cotton experiment that shattered Downing Street windows (1/8/72); Leger’s magnetoscope (27/3/52); a reaping machine demonstrated on the Hawarden estate (13/8/52); the telegraph (20/3/39, 4/7/40); and the telephone (18/3/78, 30/4/79). This thesis makes no claim to be a psycho-history. Instead, in this and other points, it focuses on facts: Gladstone was the son of Liverpool and Scotland. He had lost a finger

¹¹⁰Jenkins, *Gladstone*, 179. The original entry is in Gladstone, *Diaries* 4:28/10/53.

¹¹¹Gladstone was among the first to rely heavily on the trains for long-distance transportation, to send his wife and precious first newborn to visit her mother on a train, and to invest in railroad stocks. He read widely on machinery: see, for example, a reference to Sir Travers Twiss, *Two Lectures on Machinery*, in Gladstone, *Diaries* 3:16/5/44.

in a gun accident. He had welcomed and was vitally interested in the invention and improvement of railways; he took personal pride in racing between Hawarden and London on the rails.¹¹² He must have been aware that war was on the horizon and that various members of the cabinet and the Army complained about lack of proper equipment. He would later (1872) invite the makers of gun-cotton and members of the Ordnance Committee to Downing Street to give a demonstration of the firing power of various forms of gun-cotton. He was a man of inexhaustible energy who liked felling trees (and, one suspects, hearing crash when the tree hit the ground). He may have been in one of his any-book-that-takes-my-fancy moods at a bookstore: a mood he enjoyed to the fullest. Why should a man whose fancy was addressed, and whose wealth was not threatened, not take the opportunity to read such a book?¹¹³

Much of what Gladstone read was supplemented by those he saw and interviewed, notably trade deputations—bankers, merchants, brewers, wine importers, and the like, and inventors. Seeing deputations was part of his normal course of work in the offices he held in Sir Robert Peel's government of the mid-1840s, and then in his office as Chancellor of the Exchequer. In 1853, for example, he recorded seeing a Mr. Archer on 17 March, in the middle of preparing for the budget. Matthew noted that

¹¹²*Ibid.*, 29/12/41, 21/5/42, 23/5/43, and 10/8/43. At the Board of Trade, Gladstone worked on proposals for the exportation of machinery used for goods manufacture. To understand the complexities of the problems Gladstone was dealing with, see Kristine Bruland, *British Technology and European Industrialization: The Norwegian Textile Industry in the Mid Nineteenth Century* (Cambridge: University Press, 1989), 1-3. In this study, Bruland identified the British prohibition against export of machinery as a major barrier to industrialization in countries that were not Britain's direct competitors. Britain also forbade emigration of skilled artisans from the early 1700s, and began to prohibit machinery export in 1750. This was a Board of Trade problem which Gladstone handled, and saw the repeal of the previous laws through parliament in 1843.

¹¹³*Ibid.*, 14:725-726. Matthew records more than a dozen inventions in which he took an interest in. For gun cotton, see *idem*, 8:1/8/72. For the illumination of Big Ben with electricity, see *idem*, 8:6/5/73. For linotype, see *idem*, 12:26/6/89. Gladstone read at least one other book on firearms: Westley Richards' *Loading at Breech and Loading at Muzzle, for Military Weapons* (1863), *idem*, 6:12/7/64.

Henry Archer had invented a machine for perforating postage stamps; the Treasury bought the patent for £4000.¹¹⁴

Gladstone read several journals of the day and was a member of the Political Economy Club and the Statistical Society of London (later the Royal Statistical Society). Frank Fetter has studied the economic writers of articles on the nineteenth-century political journals and the economists and commentators who wrote for them, and has shown that the new professions in journalism were becoming a source of gentlemanly occupation for large numbers of trained and self-trained writers.¹¹⁵

Gladstone also read foreign journals, such as *Revue Dieux Mondes*. He read any book he could acquire and language seems not to have been a problem. Matthew says he read Latin, Greek, French, and Italian; had what Matthew called a working knowledge of German; and “got by” in Spanish.¹¹⁶ Overall, Gladstone’s reading must be seen as part of both his public and private life. The books he read offer us a new way to examine the history of this evolving man and give us insights into lesser known influences on his life. The societies he belonged to, his book sellers, the authors he read, all contributed to his growing knowledge and expertise.

Political and Social Contacts

Gladstone was a public man. Recluse students reading history in the twenty-first century this term may not completely understand this concept. Gladstone recorded

¹¹⁴Ibid., 4:17/3/53, n.4; PRO, T 25/551, f. 414.

¹¹⁵Frank Whitson Fetter,

¹¹⁶Gladstone certainly read Latin and Greek. More important to his financial studies was his ability to read French, as illustrated by his ability to read *Revue des Deux Mondes*, as well as German and Italian, used in correspondence with prominent economists in those lands. See the Readings lists at the end of chapters 3-7.

whole days when he attended an assembly; went to church; rode with his children; dined in one large party; and attended another party, play, or opera later in the evening. If he had done no public business during the day, he would still be allowed to have time off. When we consider his reading, the letters he wrote and received, and the political contacts he may have made during such a day, his day could hardly be described as a waste of taxpayers' money. Members of parliament were expected to be members of society, learning about the latest fashions, hearing the latest music, attending the latest plays, discussing the latest books and scandals, and mingling, talking, and considering together.¹¹⁷ Weddings and business deals (often equally important) were arranged at social gatherings. Proposed bills were whispered, introductions to useful people accomplished, clothes and hairstyles criticized, opera stars lionized, paintings deplored, and all in an aura of diamonds, satins, champaign, music, and dancing.

Gladstone paid close attention to his political and social responsibilities and opportunities. His first appointment as Chancellor of the Exchequer appears to owe something to his work with the Prince Consort on the 1851 Great Exposition. His regular visits to various palaces during his first chancellorship cemented his friendship with the Prince. He regularly attended the Lord Mayor's dinner (where he gave thanks on behalf

¹¹⁷Gladstone, *Diaries* 14:788-790. Matthew records three and a half columns of visits to political hostesses, including Lady Molesworth Andalusia; Charlotte, Duchess of Beaufort; Charlotte, Duchess of Buccleuch; Constance, Lady Battersea; Emily, Lady Palmerston; Frances, Lady Londonderry; Frances, Lady Salisbury; Frances, Lady Waldegrave; Georgina, Lady Salisbury; Harriet, Duchess of Sutherland; Ishbel [sic], Lady Aberdeen; Lady Ashburton; Lady Cararvon; Lady de Grey/Lady Ripon; Lady Granville; Lady Jersey; Lady John Russell; Lady Spencer; Louisa, Lady Landsdowne; Louise, Duchess of Manchester; Maria, Lady Grey; Mary, Lady Salisbury; and Mary Ann Disraeli, Lady Beaconsfield. These contacts included evening parties, day excursions, weekends, and longer visits. The opportunities for political exchanges and discussions of economic problems seem endless. Matthew is correct to list these as political hostesses of political meetings. In a society where rank, money, and position meant too much to so many, it would be hard to credit that these were simply social gatherings of people who merely liked each other.

of the government),¹¹⁸ opened of museums paid for with taxpayer money, took himself to political breakfasts and meetings of the Cabinet. He met most of the most important people in London. The deputations have already been mentioned. There were also meetings with individuals and endless letters to write, often in return for letters he received. When he did not have a book in his hand his life was an endless flow of people.

Dramatis Personae lists these people, the mayors, bishops, guests, friends, bankers, merchants, booksellers, wine merchants, economists, young ladies who married, guests, hosts, painters, singers, musicians, travelers, foreign politicians, military officers, and crown princes with whom the Gladstones hobnobbed on an increasingly regular basis. Given a man who read much and questioned much, it would be unwise to assume that he did not pick the brain of every one of these people who might add to his education.

Hansard's Parliamentary Debates as Sources

Hansard's Parliamentary Debates provides major speeches verbatim, and reported debated in the third person. Thus, Gladstone's budget speeches are presented in total and in the first person. Debate that followed is presented in a manner similar to modern newspaper reporting. "Mr. Jones said he thanked the Right Hon. Gentleman for his comments and ... " Thus, it is possible to follow much of the debate clearly and to identify debaters who agreed with a speech, those who did not, and those who wished

¹¹⁸ibid., 3:22/4/46 provides an example.

to ask questions, and even those who wished to quibble over definitions, scheduling, or minor details.

Much systematic analysis and many comments have been made about Gladstone's budget speeches—the words he said and the way he delivered specific lines. The 1853 speech is hailed as a triumph, as is the 1860 speech in a different vane. *Hansard's* reports what was said during open debate in the House of Lords and the House of Commons where Gladstone spent most of his adult life. In these responses, for example, we find substance for the relationship between Gladstone and Disraeli. Disraeli almost always had a response to the budget speech. We also find the friends and other foes who rose to thank, criticize, or cross-examine the chancellor on some point or other.

There are some things *Hansard* cannot show us, such the panic in the Aberdeen cabinet meetings of 1853 when Gladstone's budget proposals, including an increase of the income tax and extension of the income tax to Ireland. In these debates, Edward Ellice recommended that the cabinet plan for dissolution.¹¹⁹ For these problems, one needs the *Diaries* and the notes of various cabinet members.

Hansard's is published in volumes, several volumes to each yearly session. Each volume carries a title page which shows the inclusive dates of the debates presented in the volume. Thus, it is possible and desirable in the case of Gladstone's parliamentary life to compare the dates in the *Diaries* with the dates of the debates, to understand the context in which Gladstone either thundered into action, often speaking for more than two hours at a stretch, and those times when he sat silent. In the chapters that follow,

¹¹⁹*Ibid.*, 4:20/8/53 ff. Ellice was a liberal MP.

references to these volumes include the volume number and the *column number*, not the page number, of the speech or debate.

The improvements made to *Hansard's* reporting format over the period of Gladstone's four chancellorships deserve comment. In 1853 *Hansard's* presented the whole of deliberations of the House of Lords first of each volume, while the dealings of the House of Commons trailed after. By 1863, the text for each day's proceedings in one house was interleaved with that of the other, allowing the user to see how the Lords responded to Commons on key issues and how both houses responded to a crisis, such as the Trent affair. Changes in the table of contents are also very useful: in addition to faithfully presenting the interleaved meetings of Commons and Lords, the table of contents was expanded several times during the period of interest for this thesis to note motions, debates, and the entire Supply list with estimated or approved pounds, shillings, and pence, for both the proposed funds and the amounts that were finally passed. In short, a researcher who uses *Hansard's* Series 3 would, by 1866, be able to use the tables of contents to learn a good deal and would be more efficient in picking out the relevant material in the actual columns of debate in interior pages.

Hansard's is thus a contextual work of great interest. The government, the speaker of the House, the party whips, and the schedule show us how bills were managed in the House of Commons. *Hansard's* is also a useful tool in the scholar's attempts to understand how Parliament worked in the nineteenth century. As future chapters will show, *Hansard's*, read in conjunction with the *Diaries*, give us a far more rounded view of the trials that Gladstone survived.

Gladstone as Autodidact

The term autodidact was often used in the nineteenth century to describe a young person who must make his or her way to make in the world, and who chose a course of reading accompanied by the occasional lecture or night-school course to further her or his education. Gladstone had no need to make his way in the world, and when he came down from Oxford, he had the education that many men expected to live on for the rest of their lives. And then he read continually for the next sixty-five years, always in an effort to inform himself.

As a political economist in government service, seeking to finance that government, Gladstone appears to have felt he was required to learn as much as he could about banking, money, coinage, prices (such as the cost of naval ships or tents for the Crimea), and interest. History and the scale of nineteenth-century non-fiction publishing were on his side. One cannot fault him for his tireless efforts to fill his bookshelves and to learn from the books that went into those shelves. The chapters that follow include tables of Gladstone's readings on specific economic topics, such as the Corn Laws, the Bank Act of 1844, the Bank of England, and generally financial other topics. In a few cases, I have also included descriptions of meetings with bankers, economists, statisticians, government officials, and others whose contributions to Gladstone's advanced education cannot be gainsaid.

I have described Gladstone as an advanced autodidact, a man whose learning carried him far forward of the young mechanics and clerks anxious to move up in their professions, gain a good salary, and be able to marry. Gladstone was at another level altogether. His social and financial position would have allowed him to live a

comfortable and careless life if his mercantile and gently evangelical upbringing would have allowed it. But he was driven; this thesis does not deny that fact. That he was sometimes angry, sorrowful, or dispirited is also not denied. What is apparent, however, that he used books, contacts, and his work, not only to carry him through the day, not only as coping strategies, but as a way up and onward. Though he rarely mentions the idea in the *Diaries*, his idea seems to have been that he could do more if he only knew more.

CHAPTER 3

LIFE WITH PEEL, 1833-1846

Introduction

The period 1833-1846 provided Gladstone with the groundwork for his entire political career, gave him important parliamentary and cabinet experience, exposed him to the working process of turning bills into acts, and trained him in drafting major bills. Historians of this period tend to focus on what Gladstone learned as an aide to Peel, as well as Gladstone's authorship of a reactionary work on the rights of the Anglican Church, his pettifogging on a vote of money for an Irish seminary, and his Puseyism in church matters. They have failed, however, to notice how a young man of high moral standards was finding his legs in the cut and thrust of parliamentary life. Nor do they notice how Gladstone's resignation over Maynooth while he remained in the House of Commons while at another he served in the cabinet but held no seat in the House, and how these two experiences may have changed his view about parliamentary life.

This knowledge is crucial. Gladstone's ability to draft a bill, his increasingly clear understanding of parliamentary politics, his improving notion of his own strengths and weaknesses, and his implacable notion of what was right as well as possible, made him a strong and often formidable leader throughout his life.

Reading and Peel

This chapter begins the examination of Gladstone's political and economic life as it was informed by the books he read, the social contacts he made, and the political discourse around him. Two main sources of change entered his life when he came

down from Oxford: Sir Robert Peel and a new course of reading, not directed by tutors but Gladstone's own instincts. This chapter begins where it must, with Gladstone's relationship with Sir Robert Peel and the men who came to be known as the Peelites. The relationship usually friendly but often strained; it exhibited some of the character of a parent to child rather than a strictly political one. This relationship had a strong financial component, as both Biagini and H. Theodore Hoppen have explained: a collection of policies that came to be known as "Peelitism."¹

Peel saw promise in Gladstone. Peel also thought him too precious, too much of a snob, and far too self-interested for his own good. Peel believed it was entirely possible that Gladstone would ruin a fine career if he continued on the solemn course the younger man pursued in the 1830s.² For Peel to judge Gladstone in this critical way exposes us to the problem of Sir Robert himself. Considered cold by many, Peel could be passionate, and was sometimes deluded or easily fooled, as he was over his inability to control a young queen whose preference for ladies in waiting was tempered by her Whig upbringing.³

In choosing the men for his cabinets, Peel depended on the loyalty of old allies and friends, but he also had an appreciation for and an interest in helping the new man.

¹See Asa Briggs, *The Age of Improvement, 1783-1867* (London and New York: Longman, 1979), 332. According to Briggs, the Peelite platform comprised three components: restoring and reforming national finance, legislation to redress social and economic problems, and governmental administrative reform. Briggs believes Peel was not good at solving social problems directly, but used his economic reforms to help ensure a better life for British workers. He writes that Peel accomplished his first goal, and part of the third, and that in the long run he also accomplished some second-component goals. Gladstone became one of his most ardent and accomplished subalterns in the fight.

²Gash, *Life of Peel*, 1972), 186. Also see Boyd Hilton, "Peel: A Reappraisal," *The Historical Journal* 22, no. 3 (September 1979): 585-614; and Terrance Andrew Jenkins, *Sir Robert Peel* (Houndsmill: Macmillan Press, 1999); Gladstone, *Diaries 2: 1/3/38*. Peel's reaction to Gladstone's book, *The State in its Relations with the Church*, puzzled Gladstone, who expected praise and was greeted with silence.

³Gash, *Life of Peel*, 220 ff.

In 1829, Peel told Wellington that his [Peel's] preference in public life was for working with "what the world would call young men."⁴ Gladstone was such a man. The younger MP began to mention Peel in his *Diaries* in 1829, 1830, and 1831 while he was still at Oxford.⁵ He first recorded dining with Peel in June, 1833, the same year as he made his maiden speech in parliament on the slave trade and sugar plantations.⁶ He was invited to meetings at Peel's House in the same year, and continued to attend Sir Robert regularly until just before Peel's death. Gladstone was struck by Peel's warmth.⁷ On Peel's side, this regard could be better described, perhaps, as tolerant. Peel, whose double first was in the same two schools as Gladstone's, drew Gladstone into political matters that far exceeded Gladstone's mandate as a junior official or even cabinet member. In response, Gladstone read copiously on trade and the Corn Laws, and made his first excursions into the banking literature, with the aim of being able to participate in cabinet discussions.

But it was not Peel who started Gladstone reading and learning. Gladstone began very early to educate himself. On April 26th, he wrote in his *Diary* that "Mr. Finley here. I kept him long, and got an admirable lecture on currency and manufacturing."⁸ On June 11, he recorded "reading Huskisson on currency again."⁹

Peel's adoption of the youthful Gladstone may have been a problem for Peel's

⁴Ibid., 92.

⁵Gladstone, *Diaries* 1:5/2/29, 1:5/10/30, 29/11/30, and 7/7/31.

⁶Gladstone recorded dining with Peel at least sixteen times between 1833 and 1850 in addition to the meetings he attended at Sir Robert's house in London and a visit to Drayton in 1836. Ibid., 14:782.

⁷Gash, *Life of Peel*, 123.

⁸Gladstone, *Diaries* 2:26/4/33, 2:18/5/36. Finley seems to have been one of his teachers: he appeared again in May, 1836, on the Factory Bill.

⁹Ibid., 2:21/6/33; 2:14/6/33; 2:5/6/33. Gladstone recorded the fact that he had indeed finished reading Huskisson on currency.

other adherents. His coterie already contained men of distinction, responsibility, education, position, and experience: the Duke of Wellington, “the Lords” Aberdeen, Ripon, and Ellenborough, as well as the numerate Sir James Graham. Gladstone, W. M. Praed, and Sidney Herbert, all taken into the 1834 government, were a generation younger than Peel, and far younger than Wellington and Graham.¹⁰ Gladstone worked hard to improve, to make himself worthy of notice in his first and subsequent appointments. As this chapter will show, reading was one of his many sacrifices to his hope of advancement with Peel.¹¹

Peel attempted to teach Gladstone a good deal about parliamentary life: how to pace himself during debate, how to deliver a convincing speech,¹² how to work with other members of the government, how to remain courteous during debate, how to resign gracefully, and (sometimes by encouragement and sometimes through resistance) how to get his way on a topic of vital importance. “Getting his way” with grace was the most difficult lesson Gladstone had to learn. He was considered priggish, a perfectionist, and self-important; he had trouble giving way to others, a problem he would have to some extent for the rest of his life. Gladstone’s opinions, threats of resignation, arguments, and pettishness appear again and again. One example was his disagreement with others in the government on the export of opium to China, a decision

¹⁰Gash, *Life of Peel*, 92.

¹¹See the *Diaries* January 1835 entries, esp 2:9/1/35. Gladstone’s appointment as a junior lord of the Treasury and then as an official of the Colonial Office sets the trend. He immediately started attending meetings and reading papers about and by the Treasury. On January 9 he recorded a meeting with Peel on Treasury business. His tenure at Treasury ended when Peel made him vice president of the Board of Trade.

¹²See, for example, Morley, *Gladstone* 1:228-229. When Peel asked him to speak on suspension of the Jamaican constitution. Gladstone did not take this as unvarnished complement. He wrote that “the longer I live, the more I feel my own (intrinsically) utter powerlessness in the House of Commons.” His book, *The State in its Relationship with the Church*, had just come out, and Gladstone finally surmised that Peel was embarrassed, and yet was still willing to support Gladstone by setting him up to speak.

that for Gladstone was moral, and nothing else.¹³ Another was his much maligned resignation over the Maynooth grant.¹⁴

While Gladstone's book, *The State in its Relations to the Church*, was published outside the government, the Maynooth grant problem was fought in the cabinet over a period of eleven months with Gladstone alone on one side. Matthew wrote that Gladstone found the cabinet wanting in steadfast principle, and that the Maynooth grant may have been more important symbolically than practicality. Gladstone's book had committed him to opposition of Irish Catholicism in the 1830s. Maynooth appears to have been the last time Gladstone fought for that idealism that Matthew had identified in the 1830s, and the last kick that sent him into the realities and practicality of the 1840s. To Matthew, Gladstone believed his battle was to defend a national religion, but in the mid 1800s, with so many non-conforming churches and a resurgence of Catholicism, a national religion was a bog in which "Gladstone's model for State and Church sank to its axles."¹⁵ The battle between Gladstone and the rest of the cabinet took eleven months.

Jenkins wrote that Gladstone's act was practically unconscionable: He therefore spent the whole of 1844 plaguing his colleagues with his conscience. As at that time the Conservative Party was racked by the issue of whether it would allow Peel to usher in the much more stable and prosperous Britain of the third quarter of the nineteenth century or whether it would respond to what became the atavism of Disraeli, Stanley and Bentinck, and as on the big issue Gladstone was wholly on the side of Peel, his obsession was totally lacking in proportion. Peel's comment that 'I really have great difficulty sometimes in

¹³ *Gladstone, Diaries*, 3:18/3/40, 3:24/3/40, 3:8/4/40, 3:14/5/40, 10:10/4/81, 10:21/4/81. Also see idem, 14:772. Opium would haunt Gladstone throughout his career.

¹⁴ See Jenkins, *Gladstone, a Biography*, 69. Gladstone, *Diaries* 3:11/2/44 ff, 3:1/3/44, 3:2/3/44, 3:25/11/44, 3:9/1/45. The British government had made a payment (subvention) to the Roman Catholic Seminary of Maynooth since the Act of Union in 1800. In *The State in its Relations with the Church*, Gladstone had blasted this action as cowardice, and an insult to Dean Swift and other Anglo-Irish divines of the previous 150 years. Peel proposed to raise the grant to £30,000 per year and to make the grant permanent.

¹⁵ Matthew, *Gladstone, 1809-1874*, 68.

comprehending what Gladstone means' seems in the circumstances remarkably restrained.¹⁶

Nonconformists, Tories, and churchmen applauded Gladstone. They hoped to find in him an alternate to Peel to lead a party in opposition to Disraeli. But it was Gladstone's last resignation on a principle which he could not in truth base a convincing constitutional argument.¹⁷ It was not the last time he would confuse his critics. His letter to Peel, recommending himself for the position of British envoy to the Vatican, was coldly rejected by Peel in July 1845.¹⁸

Travis Crosby makes clear that Gladstone did not understand Peel's efforts to use resuscitation of Maynooth to "encourage a friendlier Catholic hierarchy." Peel wanted to raise faculty salaries and make much-needed repairs to the infrastructure. When Gladstone stood on his book, Peel told him no one would remember his former pledges. Gladstone resigned on 4 February, 1845, and then astonished the House of Commons on 11 April by saying he had changed his mind.¹⁹ Matthew says this reversal was "perplexing and casuistic" and "idiosyncratic and perverse." Crosby says these comments do not seem too strong. He calls Gladstone's resignation a coping strategy of withdrawal, and his change of vote was a strategy of engagement.²⁰

In general, however, Gladstone often became Peel's "go-to" man on money matters: when Peel sent Gladstone into action, the older man was not usually dissatisfied. In one debate Peel asked Gladstone to speak for the government.

¹⁶Jenkins, *Gladstone*, 69-70.

¹⁷Matthew, *Gladstone, 1809-1874*, 69.

¹⁸Jenkins, *Gladstone*, 70.

¹⁹Crosby, *Two Mr. Gladstones*, 1997), 42-44.

²⁰Matthew, *Gladstone, 1809-1874*, 69; quoted in Crosby, *Two Mr. Gladstones*, 44, n.49. These are strong words for Matthew to have used, possibly the strongest criticism of Gladstone in all Matthew's work on the topic.

Gladstone asked, "Shall I be short and concise?" Peel responded, "No, be long and diffuse. It is all important in the House of Commons to state your case in many different ways, so as to produce an effect on men of many ways of thinking."²¹

Yet the two men clearly had a strong bond; Peel respected Gladstone as a hard worker and devastating speaker. When the Free Trade legislation passed, Peel wrote Gladstone's father (certainly knowing that the old man was against free trade), praising the younger man's performance. Peel mentioned William's manner "throughout those discussions and all others since his appointment to office." Peel noted the combination of "ability, extensive knowledge, temper and discretion" and called attention to his "purity of heart and integrity of conduct."²²

The elder Gladstone responded that he had read Peel's "kind letter of yesterday" with tears in his eyes. He would later harangue William nightly about his support for free trade and his apostasy in supporting it. Nevertheless, John Gladstone wrote of his pride in all his sons, but wrote of William, "He excels his brothers in talent, but not so in soundness of principles, habits of usefulness, or integrity of purpose," a dig at his son's support of free trade and thus of the praise from Peel. Then the gallant old gentleman sought of his new friend help in securing employment for his third son, a naval officer probably on half-pay, in his efforts to get into parliament as well:

Whenever we may succeed, I shall consider my cup to be filled, for the second is honourably and usefully engaged as a merchant in Liverpool, occupying the situation I held there for so many years.²³

²¹Gladstone, *Diaries* 3:8/5/83, quoted in Morley, *Gladstone* 1:192, quoting Peel's advice.

²²Peel's letter, dated Whitehall, 16 June, 1842, to John Gladstone; in John Morley, *Gladstone* 1:257-258. The Peel letter and John Gladstone's response may or may not be quoted in their entirety; thus, we cannot be sure that Sir Robert said anything about free trade or whether he tactfully avoided it; he would have been prudent to do so, given John Gladstone's opinions.

²³Morley, *Gladstone* 1:258.

How Gladstone drifted into free trade is problem. Matthew says that in Gladstone's case, this drift may be seen as part of a tendency to realize "the beauty, joy and technical satisfaction of departmental work" and a "life-long passionate effort of 'working the institutions of the country'."²⁴ This is consistent with Matthew's later assertion that Gladstone was an executive minister—a wonderful turn of speech to express a difficult concept. William Ashworth's evidence on trade and customs problems before the 1840s overhaul is overwhelming and makes the transition for Gladstone seem far easier: the customs and excise taxes of Britain before the 1844 reductions comprised an a pair of institutions—the Customs Office and the Excise Department—that had failed catastrophically.²⁵ Thus, Gladstone seems to have viewed quite rationally the complete chaos in this area of revenue; saw the mathematical pitfalls related to basing dependable government revenue on a complex set of rules; sternly disapproved of losses resulting from smuggling; and regretted the high costs associated with collecting the revenues. In support of Peel's free trade initiatives, Gladstone streamlined collection, reduced the numbers of tariffs to end smuggling, and set up conditions where revenue collection yielded higher revenues. Gladstone was later to say that this type of effort led to a recovery of revenues at the higher level in about three years.²⁶

Working for Sir Robert

Sir Robert Peel (1788-1850) served her majesty as prime minister in 1834-1835,

²⁴Matthew, *Gladstone, 1809-1874*, 67.

²⁵William J. Ashworth, *Customs and Excise: Trade, Production, and Consumption in England, 1640-1845* (Oxford: University Press, 2003), 1.

²⁶Gladstone, *Diaries* 3:3/4/44. Gladstone records reading a partial report on customs frauds.

1841-1845, and 1845-1846.²⁷ Gladstone entered the Treasury Board in 1834 under Peel,²⁸ served as under secretary for the Colonies in 1835,²⁹ became vice president of the Board of Trade 1841-1843,³⁰ and succeeded to the presidency of the Board of Trade, 1843-1845.³¹ He served as secretary for War and the Colonies in 1845-1846 (where he held office in the cabinet without having a seat in the Commons).³² In all, Gladstone served his first five appointments to her majesty's governments under Sir Robert Peel.

Gladstone might have lost the chance to serve in the Board of Trade if his own stubbornness, his "ability to see three sides to every question and insist on discussing them all" had succeeded in tiring or overwhelming Peel. Francis Bonham, Storekeeper to the Ordinance and a Peel supporter, had made a list of ministerial appointments for Peel in 1841, and had then filled in many of the lower positions with possible names. Gladstone was on this list. When Peel summoned Gladstone, the younger man argued his own unfitness "for the mundane post" while Peel argued that Gladstone's understanding of finance made him perfectly fit—for the post and as representative of the Board in the House of Commons. Gladstone's letter of acceptance next day covered seven pages. Peel thanked him in one.³³

Yet the Board, like all his other appointments, led to an increased scope of command and understanding on finance—introducing him to the customs collectors, the

²⁷He resigned and was recalled in 1845.

²⁸Ibid., 2:20/12/34.

²⁹Ibid., 2:26/1/35 ff.

³⁰Ibid., 3:31/8/41 ff.

³¹Ibid., 3:13/5/43, 3:15/5/43.

³²Ibid., 3:22/12/45 ff.

³³Gash, *Life of Peel*, 277.

Revenue Commission, bankers such as John Brocklehurst, a liberal MP and silk manufacturer. His new position informed him on “rough rice” and the many types of sugar imported into England. Less than six months after he took office, he was writing a finance report for Peel, arguing for a house tax to replace the income tax, studying the export of machinery, recasting a draft on a treaty with Brazil and sending up his own paper on corn.³⁴

Important legislation appears to have been the trigger for enormous upsurges in Gladstone’s reading. Morley had called the Peel government of the 1840s “one of the four or five most memorable administrations of the century.”³⁵ Gladstone later wrote that the Peel government was notable for

purity in patronage, financial strictness, loyal adherence to the principle of public economy, jealous regard to the rights of parliament, a single eye to the public interest, strong aversion to extension of territorial responsibilities and a frank admission of the rights of foreign countries as equal to those of their own.³⁶

To prepare himself for the work on customs and excise reduction planned by Peel and organized to a sizeable extent by Gladstone, the vice president of the Board of Trade read parliamentary reports and the records of the board. He also read a good deal of other material as well, such as *Chimney Sweeping Described, with a View to the Emancipation of Climbing Boys* (1816)³⁷ and J. E. Tennant’s *A Treatise on the Copyright of Designs for Printed Fabrics* (1841).³⁸ In 1842, when the first tariff reforms

³⁴Gladstone, *Diaries* 3, October and November, 1841; Morley, *Gladstone* 2:253. In the debates of February, 1842, Gladstone found communication with Peel difficult and offered to resign. After this affair Gladstone realized that Peel was not good in managing personal and sectional dilemmas, and cites this problem as the cause of difficulties with the sugar duties and the Factory Act 1844.

³⁵*Ibid.*, 247.

³⁶Gladstone, undated fragment of a letter to the Queen, quoted in Morley, *Gladstone* 1: 247.

³⁷Gladstone, *Diaries* 3: 1/2/41.

³⁸*Ibid.*, 3:9/2/41.

were presented in Parliament, Gladstone had done most of the work, reading the sources, interviewing deputations, running numbers, and feeding Peel the papers of reference he needed during the debates.³⁹

When he came to work on the Corn Laws, however, the materials he found to read was far more public, for the topic had been under debate for some time. Gladstone read Frederick John Robinson's *The Influence of Taxation on the Price of Corn Considered* (1815) and thirteen other books that are clearly identified with the Corn Laws in 1841 alone.⁴⁰ In 1842, he included Sir James Robert Graham's *Free Trade in Corn the Real Interest of the Landlord, and the True Policy of the State. By a Cumberland Landowner* (1828), and four other books clearly associated with the Corn Laws. He continued to read on the Corn Laws until 1846.

To accompany his readings he used his position in the government to sound out people whose opinions he valued:

Yesterday evening at the Palace I had some conversation with Molesorth on the Corn Laws and the state of parties. He said 'We who do not really belong to either the Whig or Tory party in the House of Commons are in a most painful position. For my part, I do not consider that I have given an independent vote since I voted with you in 1839 on the Jamaica Bill.'⁴¹

Tariff reduction and renewal of the charter of the Bank of England were both enacted in 1844. Tariff reduction was Gladstone's bailiwick. The Bank Act was not.

³⁹Gash, *Life of Peel*, 326. Gash says the man who had done the most to enhance his own reputation was Gladstone. It was Gladstone himself who answered Russell on corn and Miles on cattle, using "knowledge and authority" with what Peel called "signal ability." There were to be four tariff reductions: 1842, 1845, 1853, and 1860. Gladstone managed all of them, and would later say that the first one cost six times as much trouble as the other three combined. He spoke one hundred and twenty-nine times during the session. Morley, *Gladstone* 2:255

⁴⁰A list of books and pamphlets Gladstone read on the Corn Law and those connected with the Bank Act of 1844 appears at the end of this chapter.

⁴¹Gladstone, *Diaries* 3:4/6/41.

Gladstone was, by 1844, completely *au courant* with the workings of the Board of Trade and its numbers. His was a rational mind, and we cannot forget the old urge not to take a stand but to work for “what was right,” a legacy of the 1830s that Matthew has described. He saw, for example, that the poor should be able to keep clean, and thus saw that taxes on soap went against this ideal. He saw also that food, warm drinks, and sugar warmed the heart as well as the belly. In learning the details of the more than one thousand imposts placed on imports and internal manufacture, he must have been confused more than once. If an Oxford man with a double first could be confused, then it was highly likely that first-time customs inspectors could be confused while a wily man could work the system to his own benefit and profit. The system desperately needed simplification.

The Bank Act of 1844 is entitled “An Act to Regulate the Issue of Bank Notes, and for Giving to the Governor and Bank of England Certain Privileges for a Limited Period. Various authors refer to the Act by other names, such as “Currency Act of 1844,” and as “Peel’s Act.” It was, to be sure, Peel’s agenda, not Gladstone’s. And although Gladstone attended meetings at Peel’s house about the Bank Act, he attended by sufferance, not because he was expected to make a contribution on the same scale as he had on the tariff reform, free trade, or the Corn Laws. Gladstone is widely accepted as Peel’s greatest disciple, and by far the youngest (thirty-six). A man still young could be expected to carry on the program that Sir Robert had instigated, continually increasing freedom of trade and improving the conditions under which the growing manufacturing base would continue to prosper. History shows that Gladstone did just that. Theoretically, with their family backgrounds in trade, their Oxford

educations, and their identical double firsts, Gladstone should have been a carbon copy and historic follower in the Peel tradition. Such is not the case. If we look for places where Gladstone went astray, they were not in administrative and analytical performance. Gladstone followed where the numbers led him. As this thesis will show, the power of the Bank of England, as evidenced in the passing of the 1844 Bank Charter Renewal, is one of the places where Gladstone eventually pulled away from Peel.

Hilton says Peel was a consummate politician, capable of getting what he wanted in parliament. Hilton writes that in the bullion problem of 1819, Peel relied on his books far more than he did on the advice of the two most prominent financial wizards of the day, Herries and Huskisson.⁴² The 1819 secret committee, chaired by Peel, had been directed to determine whether the Bank could resume gold payments suspended in 1797. Peel wrote to his brother that he approached the problem with an open mind.⁴³ But the political atmosphere was strained in 1819 and there was great pressure for the committee to report a decision that would cure all ills. Hilton has shown that the Bullion Report, written by Peel, states almost a complete antithesis to the testimony taken in committee and thus appears to have been based on his pro-bullionist reading.⁴⁴

Between restructuring the customs and excise charges and strengthening the

⁴²Hilton, "Peel, A Reappraisal," 589-590.

⁴³Ibid., 589.

⁴⁴Ibid., 590. Hilton quotes Peel's letter to his brother: "there are facts apparently at variance with their theory." For a partial list of books concerned with Bank of England currency issue and the problems perceived in the process, see T. A. Stephens, *Bibliography of the Bank of England* (London: Effingham & Co, 1897; reprint New York: Augustus M. Kelley, 1968), 32-48. The battle began in print as early as 1802 with Henry Thornton's *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (1802); and T. Fortune's *A Concise and Authentic History of the Bank of England, with Dissertations on Metals and Coin, Bank Notes and Bills of Exchange, to which is Added their Charter* (3rd ed., 1802).

Bank of England's monopoly on bullion and paper issue, Gladstone somehow veered off Peel's line of thinking and developed one of his own. Gladstone was continually curious, asking questions of everyone about everyone. Stafford Henry Northcote called Gladstone the patron saint of the coal whippers for his constant attention to the longshoremen who worked in coal.⁴⁵

Peel often worried about Gladstone's youthful indiscretions. Biographers are divided: Crosby and Shannon believe these petty arguments and miscalculations, such as his Maynooth resignations, as great problems—shadows that hung over Gladstone his entire life. Morley and Matthew prefer to point to the numerous times Peel asked Gladstone to speak on a specific topic, the faith Peel put in Gladstone's assessment of the Board of Trade and its problems, and the amount of time the two men spent in each other's company, talking, consulting, and working their agenda. In the end, Peel decided to keep Gladstone despite the distractions. In a letter to Gladstone on May 13, 1843, Peel wrote:

If it were not for the occasion of the vacancy I should have had unmixed satisfaction in thus availing myself of the earliest opportunity that occurred since the formation of the government, *of giving a wider scope to your ability* to render public service, and of strengthening that government by inviting your aid as a minister to the crown.⁴⁶

For once, Gladstone gave in without a fight, and succeeded Ripon at the president of the Board of Trade.

An important source of education was the committee work he performed in the 1830s and 1840s. In 1836 he joined a committee on aborigines, a member on the

⁴⁵Gladstone, *Diaries* 3:26/7/43 lists a coal whippers' deputation, one of many, and shows that he spoke in parliament for one hour on coal whippers on 1/8/43. Sir Stafford became a private secretary to Gladstone in 1842.

⁴⁶Quoted in Morley, *Gladstone*, I:263.

committee for land disposal in the colonies, and the committee meeting on negro apprenticeships.⁴⁷ In 1837, he found himself on a committee for colonial accounts; in December he served the committee for the education of poor children. In 1839, he suddenly found that he had ten committee memberships simultaneously: Milbank [penitentiary], Society for the Propagation of the Gospel, Church Building Metropolis, Church Commercial School, National Schools, Upper Canada, Clergy, Additional Curates Fund, Carlton Library, and the Oxford and Cambridge Club.⁴⁸

Two other opportunities for education presented themselves to Gladstone in the 1840s—the Political Economy Club and the Statistical Society of London. The Political Economy Club had been founded in the 1821 by Robert Torrens as a method of giving the floor to other economists, including himself, and to break David Ricardo's dominance in debate. It was a powerful organization, including economic writers, economists, bankers, government officials, and others who understood economics and wished to have a forum of debate. Thomas Tooke spoke on tariffs in December 1842⁴⁹ and Walter Coulson spoke on duties in April of 1843.⁵⁰ Gladstone's membership in the Royal Statistical Society, as it came to be called, must have begun in the 1840s, because in 1852 he served on the council of the society, and he became president in 1868-69.⁵¹ Research on the impact of these two organizations on Gladstone's maturity and sense of belonging might pay the careful researcher. Here were two organizations

⁴⁷For a list of the cabinet committees on which Gladstone served, see Gladstone, *Diaries* 14: 631-632.

⁴⁸Gladstone, *Diaries* 2:1/2/39. Also, Morley, *Gladstone* 1:219. Morley calls the period 1839-1841 the end of Gladstone's apprenticeship.

⁴⁹Gladstone, *Diaries* 3: 1/12/42.

⁵⁰*Ibid.*, 3:6/4/43 n.

⁵¹*Ibid.*, 14:788.

that dealt primarily in numbers, not primarily in political expediency. If Gladstone felt the frictions of party politics and the problems he encountered in understanding his place in government, he may have had fewer insecurities about attending one of these non-political meetings. In economic and statistical debates, he may have felt safe and respected, a feeling he did not always record in his parliamentary and cabinet work. He read what the other members read; in meetings he could express himself as a mathematician on technical economics without fear of recrimination by his non-economic government colleagues. Even when speakers in these two gatherings disagreed with Gladstone's policies or theories, they were forced to produce highly technical arguments, far above the level of expertise that the publishing clergymen, phrenologists, and back-benchers could produce in economic debate.

Given their close relationship, historians worry about the relatively cool response Gladstone gave in public to Peel's death, the sense that he had come out from under Peel's wing to be his own man. Gladstone continued to pay homage to Peel, at unveilings of statues and busts, in his readings of biographies and histories, and in his retention of fellow Peelites as friends and consultants, all the good actions of a good protégé. Gladstone's track record shows a movement kicked off by Peel and then taking Gladstone further than Peel was willing to go himself: toward a far more liberal stance on many topics, including reform, foreign policy, and Ireland. Peel's effect on Gladstone was to shock him out of his conservative, protectionist, slave-holding past, a past based on Gladstone's father's loving support and general assurance of the right t; and to push him toward a new understanding of nineteenth-Britain. It was Peel who was thought to

be a conservative, and yet fostered positions that were to kill the old conservative coalition.

The Bank Act of 1844

A new Bank Act was a much desired thing in 1844. The Bank's charter was generally renewed on an eleven-year cycle; the previous renewal had been in 1833.⁵² There had been commercial and economic crises in 1835-6 and again in 1838.⁵³ At the beginning of the 1844 parliamentary session, however, industry was improving and the Chartist Movement, that great movement of the 1830s, was relatively silent, although they would agitate again in 1848.⁵⁴ The 1842 Corn Law, a technical adjustment that stopped short of repeal, seemed to be holding the price of corn steady, and the cabinet was distinctly unready to discuss any more changes to the protective tariff.⁵⁵ With

⁵²Gash, *Life of Peel*, 431. The 1833 charter, allowing joint-stock banks to operate in London, gave the Bank and the government an option for renewing the chart after it had run for eleven years or more (twenty-one years in total). Gash notes that parliament rarely met before February 1 and often stayed in session past August 1, giving the government an opportunity to renew the charter over the course of a session. Gash argues that Peel saw the 1844 as fortuitous, a chance to repair the nation's economic faults and leave Peel's name writ large in subsequent histories.

⁵³A commercial crisis does not necessarily lead to a financial crisis, unless several conditions are met: multiple industries are affected, the crisis goes on for so many months that merchants and industrialists fail to pay their debts, and the level of bankruptcies rises above average. In 1860 and 1861, Britain did not suffer a general financial or economic crisis because the American Civil War only affected the cotton industry, the mill owners did their best to keep the mills operating in some fashion, no extraordinary financial resources were needed to avoid panic in other industries.

⁵⁴The Chartists were a labor movement who took their name from a list of reforms they wished to see enacted, called the Charter. Theodore Hoppen says that however much the Chartists made an impression on the government, they were never big enough or broadly based enough to generate wide-scale changes in working class life that they are sometimes credited with. Hoppen, *Mid-Victorian Generation*, 66. Nevertheless, the government took Chartist meetings and marches seriously, and the year 1844 was remarkably quiet. They would agitate again in 1848, the year when revolution swept Europe. See idem, 129-131. Also see Briggs, *Age of Improvement*: 286. Briggs quotes a witness before a Select Committee in 1833 who said that when times were good it was difficult to get the working classes to "talk of politics." 1844 was such a year.

⁵⁵Gash, *Life of Peel*: 429.

industry improving, there was a perceived need for new investment, but the previous growth periods had often led to over-stimulation⁵⁶—in the modern parlance, crashes.⁵⁷

Gash believes that Peel had a personal stake in renewing the Bank Charter, intending that the new Bank Act would finally control the economy and put a stop to commercial crises.⁵⁸ Peel's position was still as solidly bullionist as it had been in 1819. The bullion theory states that the precious metals, gold and silver, are the only true measures of value, and that paper money has no meaning unless it can be used directly and exactly in exchange for gold. Yet the experience of the Napoleonic Wars had shown that the price of gold varied dramatically:

That the note circulation of the Bank of England had expanded from an average of about 10 to 11 millions in 1795 to nearly 20 millions in 1809. Specie payments having been suspended in 1797, and the paper circulation having been increased, the foreign Exchanges became unfavourable to this country, and the paper circulation was depreciated in comparison with gold (average depreciation of value of currency 13.5 per cent 1810); gold in bars being at the price of from £4 10s. to £4 12s. per ounce in the early months of 1810, at that date about 15-1/2 per cent above the mint price ...

⁵⁶Ibid., 431, 432. Gash notes that the crashes of 1825, 1832, 1835-6, and 1838-9 had all exhibited the same symptoms: high prices, export of gold from England, and continued high levels of currency issue by the private and joint-stock banks. With the economic situation uncertain, and excess amounts of currency being issued by the banks, inflation must have been a consequence: inflation would have driven gold out of its fixed price of £3 17s 10-1/2d, and hence would have wrecked the gold standard on which England's economy was based.

⁵⁷In his 1833 speech introducing the Bank of England Charter Bill, Lord Althorp referred to the conditions that would cause a crisis: the international markets had "turned against England." The turn of the markets was based on the fall of the British pound against European currency, purchase of cheap pounds on an international market such as the Bourse of Amsterdam, and purchase of British gold with British pounds at the fixed rate of £3 17s. 10-1/2d. Gold purchased at the fixed British price was sold on the European market at the higher price. The speculator took the profits. This situation would continue, Lord Althorp argued, until the European gold markets were saturated, the price of gold fell, the value of the English pound improved, and the Bank of England was able to purchase gold again. This happened several times during the nineteenth century. But there were also times during the century when European notes were seriously devalued against the price of gold, and English speculators performed the same trick, buying gold wherever the price was fixed by fiat. *Hansard's* xviii, 169 ff. The resulting Act is 3 & 4 William, c.98.

⁵⁸An economic description of The Report of the Bullion Committee appears in Palgrave, *Dictionary* 3: 191-192.

The directors of the Bank of England clung stubbornly to their “doctrine” that there could not be a possible excess in the issue of Bank of England paper as long as issues were made on the basis of this doctrine: convertibility.⁵⁹

Hilton says that in 1819 Peel leaned on the government’s most influential advisors, William Huskisson and John Charles Herries. In turn, they looked to Peel to provide them with “practical information as to the practical workings of the monetary system.” Hilton insists that Peel relied far more heavily on his books, which were strongly bullionist, than on the testimony of the men who appeared before the committee. The testimony was anti-bullionist. The experts wanted the currency released from the bondage of gold. Peel seemed wedded to the bullionist theory.⁶⁰ Consequently, the Bullion Report became an obsession, and the obsession became law. Two years later, Huskisson was trying desperately to have the subsequent Act overthrown and the gold standard replaced with bi-metallic currency.⁶¹

Orthodox politicians and financiers followed David Ricardo and the Currency School in believing that the amount of paper currency circulating in the marketplace must be less than or at most equal to the amount of gold in the Bank of England’s vaults. They argued that any additional circulation past the value of the gold supply would lead to yet another crisis. Their opponents, the Banking School, argued that the problems all lay in the relationship among Bank of England note issue, bullion reserves, deposits, and securities, and this relationship could be summed up in one word—prices.

Peel’s bullionist beliefs followed the Currency School.⁶² Gash notes that Peel

⁵⁹Palgrave, *Dictionary* 1: 191.

⁶⁰Hilton, “Peel, A Reappraisal,” 590.

⁶¹*Ibid.*, 591.

⁶²The official price was £3 17s. 10-1/2d. The person who wished to purchase gold was required to

may have felt some attraction in bracketing his time in government with a matching “Peel Bank Charter Act” in 1844 to match his 1819 Act.

The Act of 1819 had put the currency back on the gold standard but that in itself had not ensured that there would always be enough bullion to cover the note issue. The Bank of England had come to accept its role as guardian of the currency, custodian of the gold reserve, and ultimate source of loans to the economy. But these different functions were not always easy to reconcile. There was no legal restriction on its issue of paper and the situation was further complicated by the existence of over four hundred private and joint stock banks entitled to issue their own notes.⁶³

Bullionists argued that the only security was gold, that the only gold that mattered was in the Bank’s vaults, that the only notes that mattered were issued by the Bank of England, and that the other four hundred private and joint-stock banks that issued their own currency had no say in the matter. This stance had offended many manufacturers, merchants, farmers, and others, some of whom were proprietors of or stockholders in those four hundred banks. In part, this was a geographical problem: the Bank of England was centered in “Lunnon” and its notes rarely circulated in the far reaches of the country. When they did, the high denominations (ten and twenty pound notes) were of no use to the working and middling classes. The Bank began opening branches in various large towns, such as Manchester and Exeter, but was likely to close them if business did not meet the profit levels expected by the Bank’s directors and stockholders. The branches that remained in operation were seen more as a threat than an

pay the Bank exactly that much in coin and paper currency for every ounce purchased, except, at a discount of 1-1/d. As one MP argued during debate, the price of gold was fixed at £3 17s. 12. When gold became scarce, as it had been during the Napoleonic war, and would be again when an international crisis required payments in gold to be made outside the country, the gold purchaser was not, by law, required to pay any more than the stated price; nor, if gold was plentiful, as it was after the Australian and Californian strikes, did gold become any cheaper. The inflexibility of the price of gold made raising prices for goods in trade somewhat difficult, unless other methods of exchange—tokens, small coins, small-denomination paper currency, or credit—could take up the slack.

⁶³Gash, *Life of Peel*, 431-432.

ally by the smaller banks, and closing a branch suggested that the Bank was only interested in larger blocks of currency and operations. Closing a branch also thwarted the Bank's attempts to expand its currency circulation, to capture the hearts and depositors of those other banks, and to gain intelligence about the operations of those banks.⁶⁴ Another problem was that Bank advocates refused to acknowledge the good repute, high profit levels, or vaults full of assets enjoyed by the owners of many English, Scots, and Irish banks. The third problem was the assets themselves. Ricardo's and Peel's followers believed that the only asset was the Bank's gold, ignoring the assets tied up in factories, exports, land, infrastructure, foreign securities, patents, buildings; and the knowledge and skills of the British manufacturers, bankers, and farmers—in short, the working stuff of the Industrial Revolution.

Writing in 1951, H. Mitchell believes that the Bank's problem was far more fundamental:

It seemed as if there was something seriously wrong somewhere and nobody quite knew what was the matter... What was wrong was that the Bank of England was trying to impose the single standard, gold, upon a world that had not enough gold to make it effective. In 1816 the Bank had, against the advice of David Ricardo, adopted gold as the single standard and ever since had been struggling with no great success to maintain it.⁶⁵

Mitchell's argument is sound, showing how right Malyns had been about prices: if the amount of gold rose, then the amount of currency being issued would rise, and then

⁶⁴ See T. A. Stephenson, *Bibliography of the Bank of England* (London: Effingham Wilson, 1897; reprinted New York: Augustus M. Kelley, 1869), 175-177. The Bank of England opened branch banks in Manchester, Gloucester, and Swansea in 1826, the same year in which joint-stock banks were allowed for the first time if they operated outside the sixty-five mile radius of London. The Bank opened five more in 1827 (Birmingham, Liverpool, Bristol, Leeds, and Exeter). The Newcastle branch appeared in 1828. In 1829 the Bank opened branches in Hull and Norwich. The Exeter branch closed Exeter was closed. The Gloucester branch closed in 1849. More branches were closed in the 1850s.

⁶⁵H. Mitchell, "The Gold Standard of the Nineteenth Century," *The Canadian Journal of Economics and Political Science* 17, no. 3 (August 1951), 369-376, 370. These are Canadian dollars.

prices would rise. This spiral would bring them face to face with the problem of inflation, a condition that neither bankers nor the Currency School wished to acknowledge. Peel's Act of 1819 had made gold interchangeable with Bank of England notes at the fixed rate of £3 17s. 10-1/2d. per ounce of gold (the gold standard). Mitchell says the reasons for the crises that followed are not difficult to find. The production of gold and silver, two precious metals, peaked in the years 1781-1800 (twenty-year total) at \$1,011,000,000 or \$50,550,000 per year.⁶⁶ He says that the great, far-reaching war with Napoleon cut gold production and certainly cut gold shipments (some of it probably is still at the bottom of the Atlantic). Gold production for the period 1811-1830 fell to \$170,000,000, or \$8,000,000.

And it was on the monometallic gold standard [that England] was trying to rule the commercial markets of the world. What was the consequence? In 1810, wholesale prices in Great Britain had touched the all-time high [indexed] of 235. In 1850 they had fallen to 92.⁶⁷

The governor, deputy governor, directors, and stock-holders of the Bank of England, however, saw the problems differently, and believed the time had come to establish a more muscular control on English banking. The health of the economy in 1844 seemed to preclude a slump that might have occurred if the Act were passed during a less stable time. Interest rates were moderate, the Bank had a high stock of bullion, and government securities were selling at a premium. The government's position was also very good. Henry Goulburn, Chancellor of the Exchequer, asked

⁶⁶Ibid., 370, n.1. Figures from the United States Mint with the value of gold calculated at \$20.67 per fine ounce, and the value of silver calculated to be 1/15 of that of gold, or \$1.38 per fine ounce. This makes the conversion between the pound and the dollar based on the price of gold at the United States Mint on the order of \$5 per British pound (£).

⁶⁷Ibid., 370. Mitchell has used A. A. Bowley's revision of Jevons index numbers (to 1885) and Sauerbeck to 1900; with the two series equated for 1856-9.

parliament for permission to refinance £250,000,000 in consols at 3-1/2 per cent. The government's Consolidated Fund bonds (the "consuls) stood at 102-1/2 (100 being par) at the beginning of the year. They would be replaced with 3-1/4 per cent consols that saved the government £625,000 per annum in interest payments per year. The House agreed to the proposal and the conversion took place.⁶⁸

Goulburn's April budget was expected to produce a surplus of £4.1 million; deducting the deficit of £2.7 million encountered in the previous year, the net surplus was £1.4 million. Income tax and customs were expected to be meeting their estimates in 1844 as they had in 1843. With the income tax due to expire in 1845, the government offered no new expenditures or sweeping deductions in taxation. A third of a million was to be set aside for reductions in duties on coffee, currents, vinegar, glass, marine insurance, and wool. Peel felt confident that the budget would succeed as a holding operation.⁶⁹

When the Bank Act was introduced, however, it encountered stiff but disorganized opposition. The country, private, and joint-stock banks were not ready to bow to the Bank of England. They pinned their hopes on their local MPs and the rising Banking School. They argued that the gold standard was not a question.⁷⁰

Gash has written that the Banking School's arguments were modern and sophisticated, that the Banking Schools' arguments looked at the many transactions

⁶⁸Gash, *Life of Peel*, 430. The importance of this move is that lowering the interest rate on a large block of consols (Consolidated Fund) was a strong indicator that the economy was in good shape. For a clear and useful description of the introduction of the Consolidated Fund, see "Percents and Sensibility: What did Early 19th-Century Literary Characters Live on?" *The Economist* 377, no. 8458 (December 24, 2005), 104-105.

⁶⁹Gash, *Life of Peel*, 430-431

⁷⁰Hilton, "Peel, A Reappraisal," 592.

taking place daily without resort to gold or paper currency. Workers, many of whom were paid less than a pound a week, required small coins. Tradesmen to the middling and upper classes ran accounts for purchases; these classes paid with cheques written on their banks. Banks credited these payments to the tradesmen's accounts.

Tradesmen and manufacturers, cathedrals and churches, universities and towns paid with checks or with other credit instruments.⁷¹ But there were problems: the Banking School required a central bank with clairvoyance and efficient bookkeeping to maintain limits on all the issued currency in the kingdom. The central bank was required to study prices and adjust currency issue accordingly. The Banking School could not then define a mechanism and procedure showing how a central bank was supposed to maintain control over the entire banking system in England and Wales, let alone the complex and legally different rules of banking in Ireland and Scotland.

When Gash says the Banking theory was "highly modern and sophisticated," he may mean one of two things: either that the Currency School and its pettifogging relationship between gold and paper currency was already hopelessly out of date, or that the Banking School was far ahead of its time in terms of information transfer and bookkeeping methods. Whatever the cause, Peel's contempt for the Banking School is obvious: he failed to attend any committee meetings in 1840 where members of the Banking School were being questioned.⁷²

Peel's decision on the Bank of England run counter to everything he had so far attempted to do in his only long term as prime minister. While Palgrave and others have

⁷¹Gash, *Life of Peel*, 432.

⁷²*Ibid.*, 437; Hilton, "Peel, A Reappraisal," 593.

celebrated Peel as a great economist while failing to mention Gladstone, Gash has redefined Peel in less generous terms. Gash writes that in 1822 Peel had established himself as a liberal economist; in 1842 his stance was to attack poverty and restore social stability, and that the only way the government could do that was to “re-prime the economy with increased consumption and demand.”⁷³ Nevertheless, Gash argues, Peel believed in the quantity theory of financial control promulgated by James Mill, David Ricardo, and the Bank of England. He failed to see the dichotomy in his opposing stances between fair trade with the concept of a single, controlling bank.⁷⁴ In pressing for a new Bank charter, Peel merely proposed what many still believed to be a realistic answer to repeated crises.⁷⁵ It was also the plan promulgated by the Bank.

The resulting bill, that set limits on Bank of England issues of currency based on a fixed amount of reserve in the vaults of the Issue Department of the Bank (approximately £25,000,000), is often referred to as “Peel’s 1844 Bank Act,” usually as a criticism of Sir Robert Peel.

Hence the botch which he [Peel] made of the 1844 Bank Charter Act, his proudest achievement and one which has been greatly admired by political historians though not by economists. Peel saw it as ‘the complement and defence of the Act of 1819’, and trusted that it would enable him to ‘outlive the abuse which was once so fully lavished on that Act and its proposer’. He failed to see that by 1844 the debate on banking was not longer about the merits of bullionism.⁷⁶

⁷³Gash, *Life of Peel*, 328.

⁷⁴R. F. Inglis Palgrave included Benjamin Disraeli and Sir Robert Peel in his *Dictionary of Political Economy*, but refused Gladstone a place. For a critical view of Peel and the Bank, see Norman Gash, *Life of Peel*, 431-436.

⁷⁵Crises occurred at least four times during the period from 1800 to 1844. Perhaps the most spectacular was that of 1826 when the Bank of England was forced to borrow £25,000,000 in gold bullion from the Rothschild Bank to protect its reserves and maintain business stability. Clapham, *Bank of England 2* mentions the following: 1810 (25-26, 29, 33), 1816 (59-60), 1825 (80, 89, 95-102, 109-110), 1839 (166 seq.). For a description of the Rothschild’s loan to the Bank, see Niall Ferguson, *The House of Rothschild, Money’s Prophets, 1798-1848* (New York: Viking, 1998), 133-138.

⁷⁶Hilton, “Peel, A Reappraisal,” 592.

Gladstone's part in the Act was very small, but his observations are to the point, such as these, written on Saturday, 13 January 1844:

Meeting at Sir R. Peel's on the Bank question with the Gov[ernor] and & Deputy Gov[ernor]. Sir Robert Peel is very great on the question of the Currency & Bank Charter. He inclines to an approximation by gentle and voluntary means to a final system of one Bank of issue.⁷⁷

The meetings in January 1844 led to an agreement on the Bank's plan: splitting the Bank completely into two departments—Banking and Issue.⁷⁸ The Bank of England wanted single issue, and Peel was said to be in favor. But the political reality was that the more than four hundred banks of issue scattered across the country might set their representatives in parliament against the entire deal. Thus, Peel wanted some process by which he could eliminate these issuing banks, continually narrowing issue until it was down to one Bank. The safeguard lay in the clause that if a bank ceased issue, even for one day, it ceased forever, and the bank's currency bought with Bank of England notes.

Separation was intended to eliminate Bank of England issue from purely banking operations such as deposit and check writing: The Banking Department would continue its normal banking procedures. The Issue Department would continue its normal procedures, printing money, issuing it to people who wished to purchase notes, and recycling notes as they were turned back in to the Bank. Each department was to report separately on its assets and transactions in a public journal on a weekly schedule. Reporting was especially important for the Issue Department because it was the only source of public information related to the exact relationship between currency issue

⁷⁷Gladstone, *Diaries*, 3:13/1/44, n.11-15, 3:12/1/44. Gladstone reported two hours of conversation on the Bank Charter with his father on the previous evening.

⁷⁸Gash, *Life of Peel*, 434.

and the gold reserve. But the problem with the theoretical operation of the Bank of England was its actual practice. Many speakers and writers referred to the “bullion supply” without stating whether that supply lay in the Issue Department or in the Banking Department.

The supply in the Issue Department was the only gold bullion that could, theoretically, be used to back the issue of Bank of England Notes. The bullion supply in the Banking Department allowed merchants and manufacturers to use their banking accounts or securities to purchase gold for foreign business and manufacture of jewelry and plate. Although there is every suggestion that the Banking Department could transfer gold to the Issue Department, in fact, there appears to have been only one vault and one source. This was one of the problems that clouded debate. When a question in the House of Commons, or a bill was introduced that affected the Bank, those who spoke about a Bank reserve of gold generally did not show whether the bullion they referred to resided on the Issue side or the Banking side. And if the Banking side were properly managed, its own reserve would have stood at the service of its depositors and business associates, not at the service of the Issue Department.⁷⁹

Hilton maintains that the 1844 Act was a fine example of Peel’s ability to mix political pragmatism with doctrinal rigidity. Peel delivered the bill for its first reading on May 6 in what Gash calls a long and lucid speech. Peel emphasized the dangers of

⁷⁹“A Statement of the Affairs of the Bank, Feb. 29, 1832,” in Gilbart, *History and Principles of Banking*, 73. This is the only balance sheet I have seen for the Bank of England. The debit side includes a statement, “To bank notes outstanding[,] £18,051,710.” On the credit side, one would expect to see some combination of coins and bullion totally a good deal more than £18 million that is the reserve backing the issue of the notes. In fact, I can find no total of Exchequer bills, advances, City bonds, loans on mortgages, or ownership of a London dock company that matches or exceeds the value of the outstanding notes.

over-issue. During the debates that followed, he managed to steer his bill through competing groups and prejudices and circumnavigate the incompetence of some and the self interests of others.⁸⁰ The final bill gave both the ministry and the Bank most of what they wanted. The Issue Department was to maintain a gold reserve on which the gold issue would be based. In addition, the Issue Department would receive £14 million in government securities to provide the basis for a “fiduciary issue,” a last-ditch source of security for issues of paper in the event of an emergency. To use the Fiduciary Issue, the Bank was required to report to the government the total of the remaining gold bullion in the vaults and show how quickly it was falling. Three ministers of the Crown were required to sign the permission letter. The Act limited the currency issue of private and joint-stock banks to an amount equal to the average of the previous six months of issue, and could not be increased. Banks of issue that suspended issue, or were purchased by other banks, must cease issue forever. If an issuing bank ceased issue, closed its doors, or forced out of issue by economic circumstances, the Bank was authorized to increase its issue by the amount surrendered by the failing bank.⁸¹ These were the gentle and voluntary means that Sir Robert expected to occur.

Although several speakers during the debate predicted that if enacted, the Act would ruin English banking, it is unclear that any of the speakers understood the bill's

⁸⁰Hilton, “Peel, A Reappraisal,” 595. This is an interesting estimate of the debate. Whether the members were prejudiced, incompetent, self-interested, or merely disorganized, the problem of a lack of concerted opposition was to haunt attempts to change either the gold standard or limit the Bank's privileges for the next ninety years. This is especially apparent in the debates of the 1857-1858 when a commercial crisis, a Banking Act, and an Act to indemnify the Bank for over-issue during the crisis all blossomed in November and December of 1857, and every evil of past Bank Acts and Bank behavior was rehearsed but the debate failed to stop the Charter Act and the Indemnity Act from passing.

⁸¹Clapham, *Bank of England* 2:417 ff. The last bank of issue other than the Bank of England finally ceased issue in the 1920s. The Bank Act of 1844 was finally nullified by later legislation.

true ramifications, the sources of many publications in the years to follow. After the Act passed, the Bank was expected to use its discretion when it responded to normal business and to periodic crises. By raising its discount rate, the rate paid by borrowers who used bills of exchange as collateral on loans from the Banking Department, the Bank discouraged companies with poor performance or limited managerial skills from borrowing; in the meantime, the Bank favored its more affluent and successful customers with loans that carried them through the crisis.

On the currency side, the Bank had two types of control: the sale of gold through the redemption of Bank of England notes or government securities; or, the sale of Bank notes in exchange for gold.⁸² Until the Bank Act of 1844 was passed, the Bank used its discretion, in both the Banking Department and the Issue Department, when it sold either gold or currency. After the Bank Act was passed, the Bank's discretion on the Issue side was replaced with strict rules about the amount of currency the Bank could issue in normal practice or in a crisis.

The Bank governor and deputy governor often let the discount rate run for months, or might change it on a week-by-week or day-by-day basis. The Bank continued to lend to the best protected, best managed firms, most canny business men and least endangered banks just when the less protected, less well managed firms, lesser business men and most endangered banks needed the support most. Thus, the idea of the Bank being the banker of last resort (a fundamental requirement of a central bank) was negated by its lending rules. The Bank Act was suspended in 1857 and 1866

⁸²Clapham, *Bank of England 2*:170-184. The Bank crisis of 1839 triggered this act when the stock of gold coin, silver coin, and bullion fell dramatically.

to restore order by allowing the Bank to lend money, at rates as high as ten per cent, to those who were best able to make use of it. As later chapters will show, the first Palmerston government with George Cornewall Lewis as Chancellor allowed the Bank to suspend the Charter Act in 1857 in the depth of the crisis. In 1866, Gladstone performed the same function under Russell's second government, not in response to a general crisis but in response to the failure of one large bill brokerage, simply to restore confidence to the street. H. Mitchell remarks that when the first suspension took place in 1847, the economy was far from the rosy state it had enjoyed in 1844. The increase in spending on railroads, that would rise to £240,000,000 on the railroads and largely cause the demise of the great canals and some of the great roadways on which large amounts of money had been spent earlier in the century, was simply money wasted.⁸³

The relationship between the country banks and the Bank of England was already tenuous. In 1826, the Bank began to open branches in the larger cities of England.⁸⁴ There can be little doubt that the Bank intended to increase its reputation and extend its control into these cities, and no doubt that branch managers were expected to gather information about the private and joint-stock banks doing business there. Gash states that Peel "exaggerated the inflationary effects of country bank notes," but that he made the same mistake many others did.

The Act should have converted the Bank of England from lender to the

⁸³Mitchell, "The Gold Standard," 370, 371. This of course is not entirely true if the roads and canals had been properly amortized (depreciated and their value written down in the balance sheets) over some multi-year period. In all likelihood, however, they were not amortized, but simply allowed to decay without maintenance. If this is the case, then Mitchell's analysis, while requiring explanation, is entirely likely. Mitchell also mentions the building, or rebuilding of a great merchant marine and the conversion of shipping from sale to steam. The Bank's insistence on a gold economy placed serious limits on the country's ability to expand. Mitchell calls the demands for capital continuous and imperative.

⁸⁴See Stephenson, *Bibliography*, 175-177.

government, and *primer inter paris* in the business and banking communities, into the British central bank. The Bank obviously wished to control currency unconditionally, and the Bank Act tied currency issue by private and joint-stock banks to the limits set by their circulation in 1844.⁸⁵ However, the Bank refused to accept what modern historians see as the corollaries of the Act: the movement into the role of all-knowing and *all-responsible* central bank, guarantor of all banks and controller of interest rates, issue, and business success in Great Britain. This was not a rate that the profit seekers on the Bank's board of directors wished to see.⁸⁶

In 1843, Robert Torrens, formerly a Ricardo fan, but now drifting toward a more independent view of English finance, published *A Letter to Sir Robert Peel ... on the Condition of England, and of the Means of Removing Distress*. Gladstone read this work on the first of February. In that same year, T. E. Banfield published *Six Letters ... to Sir Robert Peel Being an Attempt to Exposes his Dangerous Theory of the Rent Advocated by Mr. Ricardo and his School* (1843). Gladstone read it as well.⁸⁷ These titles stop short of being scurrilous, and without a close reading we cannot be sure that they present the same arguments. However, in such cases, the title may have been enough to cause public reaction, especially when the name of the prime minister was mentioned in each. These titles show that at least some writers who were not directly connected

⁸⁵The Bank may have become nervous about government business, watching its Chancellors of the Exchequer convert relatively high-yield securities to new consols at lower rates. Nicholas Vansittart converted £153,000,000 of securities paying 4 percent to 3.5 per cents in 1822. See Stephens, *Bibliography*, 178.

⁸⁶The Bank was, above all, a for-profit organization, with a responsibility to directors and shareholders. The totality of the role of central bank must have looked like a very dangerous and possibly unprofitable undertaking for the Bank. See Elmer Wood, *English Theories of Central Banking Control, 1819-1858* (Cambridge: Harvard University Press, 1939).

⁸⁷Gladstone, *Diaries* 3: 1/2/43; 3/2/43.

with Thomas Tooke and the Banking School had taken Peel's measure and were convinced his proposed policies were dangerous. When we add these, the number of publications appearing after the passage of the 1844 Act, we begin to see the force of the publications that may have turned Gladstone away from Peel on the subject of the Bank.⁸⁸

The Problem with Gold

The Irish famine should have taught bankers and politicians a lesson: if England suffered a cattle plague (which reoccurred several times in the nineteenth century) or grain blight before it was harvested, higher than normal corn prices caused poor people to starve. Starvation could lead to civil unrest. If foreign exporters sensed a profit, they demanded gold. If England exported gold, the amount of currency issue was restricted. In such a case, England itself might be driven to the edge of bankruptcy. These were the assumptions, but they were dangerous, and no way had been found around them.

Supporters of the Bank Act and many critics of the Bank Act and the Bank spoke, wrote, and operated on the belief that gold was the only asset that could be used to purchase foreign grain, in spite of the massive history of international credit deals that had been made for hundreds of years. Every speaker in parliamentary debate seemed to understand that British business could not sustain itself without continued currency issue, but none could see a way around a strict relationship between gold and currency

⁸⁸A list of the banking and currency documents that Gladstone read from 1833 to 1846 appears at the end of this chapter.

issue. Thus, every famine or problem in the harvest set Britain teetering on the brink of a massive commercial crisis.

Historians might ask why. The argument in favor of gold is Mercantilist. The best known Mercantilist was Sir Thomas Mun, author of *England's Treasure by Forraign Trade*. Mun, writing nearly two centuries earlier, exactly supported Peal and the bullionists. Mun argued against excessive controls on foreign trade and foreign exchange (free trade), provided always that England maintained the advantage in foreign trade and the quantity of gold bullion in her vaults.⁸⁹ The answer may be psychological: the only trade item acceptable for the sale of food might be the most basic of trade items—gold. Food is a basic human need. Gold is the good that people understood best when they thought in terms of wealth. Such thinking may have been the source of the primitive urge to trade the best good for the most valuable commodity.

The most likely explanation for the Bank's insistence on the bullion argument in the 1844 Act was that it was playing a far more complex game aimed at putting the smaller issuing banks out of business by raising the barrier to banking in general until none but the really big houses could plan. The Act made it illegal for new banks to open for business as currency issuers, and the smaller banks were put on notice that their good credit was open to scrutiny. Each time a bank closed—several did during every crisis—competition was reduced. In the meantime, however, the Bank of England failed to understand the working of other market forces on banking.

The Bank Act of 1844 was to be the basis of English currency for another eighty years after its passage, and as such it was to be Gladstone's friend or enemy based on

⁸⁹See Chapter 2.

how Gladstone reacted. Until the twentieth century, Gladstone remained the only Chancellor of the Exchequer to shake the Bank. But his work was slow, and it sometimes seemed that he had given up completely.

Conclusion

In the chapters that follow, three things are evident about Gladstone. First, he might read on currency and gold, but he was not about to challenge the Bank on the Gold Standard. Second, he rarely thought about gold as a commodity in itself. He bought railroad stocks but not stock in gold mines. He wrote checks. He was scrupulous about his private and public accounts, but thought in terms of ledgers and journals, balance sheets, and budgets, but hardly every day did the availability of gold enter into his budget calculations. In fact, Gladstone represented what was then modern about Victorian England and its finances. Railroads, improvements in farming, the growing number of factories, and the growing number of colonies were Britain's wealth, not gold. Third, his ultimate break with Sir Robert Peel's philosophy over banking came not from the Bank Act of 1844 *per se*, but rather over the growing sense of power that the Bank seemed to enjoy in its dealings with the government. Peel had given that power to the Bank, and by his legislative abilities, had swept away the opposition that might have coalesced in a differently led parliament. It was the power of the Bank, and its opinion of the government, not the problem of gold, that Gladstone would fight when he rose to the Exchequer. It was the power of the Bank that became Gladstone's target when he finally attacked the Bank.

Gladstone's Reading, 1833-1846

Table 4 lists the books Gladstone read during his training period with Sir Robert Peel. If we eliminate Gladstone's reading in the classics, in religion, and in church management and finance, the power of Peel's leadership becomes apparent. The heavy concentration on the Corn Laws under the heading of Accounting and Trade suggests that Gladstone became a free trader very early, and later attempts of his father to separate him both from free trade and from Peel would be to no avail. The links between the Corn Laws and farming, currency, industry, and other topics began to lead Gladstone to those topics. We should not be surprised that in this period, when Gladstone was graduating from idealist to practical politician, and was immersed in the numbers of the Board of Trade in Peel's 1840s government, that he should begin to explore the topics related to the Corn Laws and free trade, and to expand his learning wherever possible.

Reading David Ricardo's Plan shows that Gladstone was at least willing to consider an alternative to the Bank of England. His reading on currency and general banking suggest that he preferred to develop a well-rounded understanding of currency problems instead of following the bullionist position of his chief, Peel.

Finally, the lack of reading in government finance—taxation, budgets, and the national debt—suggests that he had not yet come to understand the very real links between what the government did with its money and the effects that government finance could have on the country. Nor had he then explored the more fundamental area of political economy as a whole, with its fledgling but nevertheless rising understanding of the ways in which one facet of an economy was linked to all the

others. His study of the cost of war would not become important until Great Britain was actually at war in the 1850s, and when the British government assessed its relationship with one of its strongest trading partners, the United States, in the 1860s.

Compared to, for example, a graduate student anxious to gain a degree and move on, Gladstone's progress was painfully slow. But Gladstone was not seeking a degree. He was seeking a way to remain in office and to be of service to the country. He had no need to travel fast, but he did demonstrate a need to travel only as fast as the booksellers, authors, and publishers allowed, by making books available to him. Compared to the other politicians of his time, Gladstone's intensity and achievement are certainly far above average for the Victorian age, both because he collected a library, which many people did, but because he recorded his progress in reading.

Table 4: Gladstone's Reading, 1833-1846

Topic	Author	Title	Reading Date ^a
	Sir James Robert Graham	<i>Free Trade in Corn the Real Interest of the Landlord, and the True Policy of the State. By a Cumberland Landowner</i> (1852)	8 Jan 1842
	H.B.T. (J. D. Hume)	<i>Letters on the Corn Laws, and on the Rights of the Working Classes</i> (1834)	3 Feb 1842
	J. Pennington	"A Letter to K. Finlay...on Importation of Foreign Corn and the Value of Precious Metals in Different Countries to which are Added Observations on Money and the Foreign Exchange" (1840)	30 Dec 1841
	Frederick John Robinson	<i>The Influence of Taxation on the Price of Corn Considered</i> (1815)	20 Jan 1841
	G.F. Muntz	<i>Letter upon Corn and Currency</i> (1841)	8 May 1841
	R.N.B.	<i>Corn and Wages; of a few Propositions and Remarks on the Variations in the Price of Corn... and Wages</i> (1841)	17 Jun 1841
	Richard Page (D. Hardcastle)	<i>Action of the Corn Laws</i> (1841)	22 Sept 1841
	Thomas Jevons	<i>The Prosperity of the Landholders not Dependent on the Corn Laws</i> (1840)	23 Sept 1841
	John Ramsey MacCulloch	<i>Statements Illustrative of the Policy and Probable Consequences of the Proposed Repeal [of the Corn Laws]</i> (1841)	12 Oct 1841
Accounting and Trade	B.W. Noel	"A Plea for the Poor, Showing how the Proposed Repeal of Existing Corn Laws will Affect the Interests of the Working Class" (1841)	13 Oct 1841
	A. Merchant	<i>The Cost of Producing Foreign Corn, by a Merchant</i> (1841)	16 Oct 1841
	Edward Rudall	<i>The Complaints of the Manufacturers Against the Corn Laws Considered... in a Lecture</i> (1840)	18 Oct 1841
	Sir David Salomons	<i>The Corn Laws; Their Effects on the Trade of the Country Considered, with Suggestions for a Compromise</i> (1841)	11 Dec 1841
	Sir James Robert Graham	<i>Corn and Currency; in an Address to Land Owners</i> (1826)	13 Dec 1841
	James Wilson	<i>Influence of the Corn Laws, Commerce and Manufacturers Referable to the Corn Laws</i> (1839)	17 Dec 1841
	James Wilson	<i>Fluctuations of Currency, Commerce and Manufactures Referable to the Corn Laws</i> (1840)	21 Dec 1841
	William Wolryche Whitmore	<i>A Letter on the Corn Laws to the Manchester Chamber of Commerce</i> (1839)	22 Dec 1841
	Christopher Neville	<i>Defense of Free Trade in Corn</i> (1841)	28 Dec 1841
	Edward Stillingfleet Cayley, the Elder	<i>Corn Laws, A Speech</i> (1839)	1 Jan 1842
	Parliamentary Paper, 1842, x1.275, Cp. 28, J. Meek	<i>Information Concerning the Cost and Supply of Various Articles of Agricultural Produce... in Several Parts of Northern Europe</i>	6 Jan 1842
	John Richie	Speech... [on] the Injustice and Immoral Tendency of the Corn and Provision Laws (1842)	26 Jan 1843

(table continues)

Table 4 (continued).

	Topic	Author	Title	Reading Date ^a
	Corn Laws	J. Hays	Pamphlet on the Corn Laws (1843) ^b	22 Feb 1843
	Corn Laws	<i>Edinburgh Review</i>	Anti-Corn Law Prize Essays, Vol. 77 (1843)	22 Feb 1843
	Corn Laws	J. Almack	<i>Character, Motives, and Proceedings of the Anti-corn Law League</i> (1843)	25 Feb 1843
	Corn Laws	Richard Griffiths Welford	<i>How Far Will Free Trade in Corn Affect the Farmer</i> (1843)	23 Mar 1843
	Corn Laws	Thomas Spring-Rice, 1 st Baron Monteagle	<i>Corn Laws. The Consequence of the Sliding Scale</i> (1843)	8 May 1843
	Corn Laws	George Game Day	<i>A Letter to Richard Cobden, Esq., M. P., in Reply to Remarks Contained in his Speech, Delivered at Covent-Garden Theater on Wednesday, March 20, 1844</i> (1844)	22 Aug 1844
Accounting and Trade (continued)	Corn Laws	A.H. Wylie	<i>American Corn and British Manufacturers</i> (1845)	25 Jan 1845
	Corn Laws	Unknown	<i>An Address on the Corn Laws; by a Protectionist</i> (1844)	13 Feb 1846
	Corn Laws	Anonymous	<i>A Few Words on the Corn Laws, by a Landowner</i> (1844)	3 Feb 1846
	Corn Laws	Robert Torrens	<i>Essay on the External Corn Trade</i> (1815)	30 Mar 1846
	Corn Laws	Christopher Neville	<i>Corn and Currency, in a Letter to A. Alison</i> (1846)	7 Mar 1846
	Corn Laws	Unknown	<i>Sir Robert Peel and the Corn Law Crisis</i> (npd)	7 Mar 1846
	Corn Laws	Anonymous	"A Letter to the Queen in behalf of her Suffering People by the Poor Man's Friend (favoring the Corn Law Report)" (1841)	15 Jan 1842
	Corn Laws	<i>British and Foreign Review</i>	Corn Laws 12 (1841)	19 Jan 1842
	Corn Laws	H. Thompson	<i>Speech on the Corn Laws, 1842</i> (1842)	28 Jan 1842
	Corn Laws	John Gellibrand Hubbard	<i>Vindication of the Fixed Duty on Corn: to Which are Added Remarks...[on] the Speech of R. A. Christopher... at Lincoln</i> (1842)	6 Jan 1842
	Corn Laws	Anonymous	<i>Conversation on the Corn Laws</i> (npd)	20 May 1846
	Bank of England and the 1844 Bank Act	David Ricardo	<i>Plan for the Establishment of a National Bank</i> (1837) ^c	9 Mar 1837
	Banking	Anonymous	<i>Review of the Banking System of Britain</i> (1821)	25 Jun 1833
	Banking	Thomas Joplin	<i>An Examination of the Report of the Joint Stock Bank Committee</i> (1836)	22 Feb 1837
	Banking	John Horsley Palmer	<i>The Causes and Consequences of the Pressure upon the Money Market</i> (1837)	7 Mar 1837
Banking and Currency	Banking	Samuel Jones Loyd	<i>Reflections Suggested by ... Palmer's Pamphlet on the Causes and Consequences of the Pressure on the Money Market</i> (1837)	7 Mar 1837
	Banking	John Horsley Palmer	<i>Reply to the Reflections of Mr. S. Jones Loyd on ... Causes... of the Pressure upon the Money Markets</i> (1837)	7 Mar 1837
	Banking	Anonymous	<i>Reasons on Behalf of Country Bankers</i> (npd)	16 Apr 1844

(table continues)

Table 4 (continued).

Topic	Author	Title	Reading Date ^a	
Banking	Anonymous	<i>Two Letters to Sir Robert Peel on his Proposed Banking Measures; by an ex MP</i> (1844)	8 Jul 1844	
Currency	Mercator (John Gladstone)	<i>Letters to the Liverpool Standard</i> [against paper currency] (1833)	25 Jan 1833	
Currency	William Huskisson	<i>The Question Concerning the Depreciation of our Currency</i>	23 Apr 1833	
Currency	PP 1840 iv	Report of the Select Committee on Banks of Issue	11 Mar 1840	
Currency	W. Leatham	<i>Letters on Currency Addressed to C. Wood, Chairman of the Committee of the House of Commons Sitting Now</i> (1840)	14 Jul 1840	
Currency	Ichabod Charles Wright	<i>Thoughts on Currency</i> (1841)	28 Dec 1841 17 Jan 1844	
Banking and Currency (continued)	Currency	John Gellibrand Hubbard	<i>The Currency and the Country</i> (1843)	23 Jan 1843, fin. 27 Jan 1844
	Currency	Nicholas Carlisle	<i>Correspondence on the Mint: Memoir of William Wyon... Chief Engraver of the Royal Mint</i> (1837)	17 Apr 1843
	Currency	James Whatman Bosanquet	<i>Metallic Paper and Credit Currency, and the Means of Regulating their Quantity and Value</i> (1842)	17 Oct 1843
	Currency	Thomas Joplin	<i>An Examination of Sir Robert Peel's Currency Bill of 1844, In a Letter to the Bankers of the [U.K.]^d</i>	22 Feb 1844
	Currency	Sir William Clay	<i>Remarks on the Expediency of Restricting the Issue of Promissory Notes to a Single Issuing Body</i> (1844)	25 Apr 1844
	Currency	Thomas Tooke	<i>Inquiry into the Currency Principle, the Connecting of Currency with Prices, and the Expediency of a Separation of Issue from Banking</i> (1844)	2 May 1844
	Currency	Anonymous	<i>Theory of Money: Being an Attempt to Give a Popular Explanation of it</i> (1844)	8 Jun 1844
	Currency	Thomas Tooke	<i>History of Prices and the State of Circulation</i> (1838)	14 Nov 1846

Notes:

^aAll date references are to Volume 3 of the *Diaries*. Within a Topic, the publications are listed in the order in which Gladstone recorded reading them (right-hand column).

^bNot found.

^cPublished posthumously in 1824; possibly republished in 1837. See Stephens, *Bibliography*, 62.

^dListed in the Diary entry as *Currency Reform: Improvement, not Depreciation*, 1844.

CHAPTER 4

PEEL IN DECLINE, 1846-1852

Introduction

This period was critical to Gladstone's development, because, although he maintained his allegiance to Peel until the older man's death in 1850, he was becoming his own man. In these years he became independent from his father and brother, independent from Peel's increasingly petulant attitudes, more interested in finding his own way, and free to read many books, particularly those that supported his growth and allowed his imagination to go free. One outcome of this period was his performance in the critical years 1852-1855, his first tours as Chancellor of the Exchequer. In these years (Chapter 5) he was ready and able to take charge of British government financial policy, and then use it to reshape a new national political and social policy based on his financial principles.

This chapter continues the examination of Gladstone's attitudes and performance in parliament, sometimes under the guidance of Sir Robert Peel and often in concert with other Peelites. The political and doctrinal disagreements that took place between Gladstone and Peel soured their relationship. These problems did not include the Bank of England Charter Act of 1844 or the Bank in general, but were based primarily on Peel's attempts to keep the Russell government in power to continue Britain's commitment to Free Trade. As bewildered as the rest of the still loyal Peel men, Gladstone clung to his friends and worked to find his own way. It opened up, as demonstrated at the end of this chapter with Gladstone's attack on Disraeli's December

1852 budget, an act that led to a Peelite coalition government under Lord Aberdeen. In that government, for the first time, Gladstone became Chancellor of the Exchequer.

This chapter also covers the first suspension of the 1844 Bank Act in the general financial crisis in 1847. Free Trade and the Bank Act of 1844 were antithetical—a the end of protection on the one hand, granting all merchants free access to markets, and a monopoly on the other, limiting the access of merchants and manufacturers to loans. Free Trade exacerbated banking problems because British merchants who traded abroad were often required to export gold to pay for goods, notably in China. From the parliamentary debates in *Hansard's* debates on a motion to create a committee to look into “Commercial Distress,” this chapter shows how the Russell government failed to protect Peel and the Bank from loud but disorganized criticism. Although the Russell government got through the crisis of 1847 without punishing the Bank, ministers nevertheless allowed many critics of Peel and the Bank Act to voice a good deal of acrimony in the debates.

When he resigned Peel was still personally powerful, and the Peelites were still numerous and gifted. The government of Lord John Russell that followed was not a favorite of the Peelites, but Peel sided with Lord John Russell and personally foreswore any future interest in taking office.¹ The Peelites, as they called themselves, claimed sufficient numbers to swing a vote for or against the government.² But for the still-young

¹Gash, *Peel*, 617.

²Norman Gash has not been uniformly kind to Peel. Nor was Gladstone at the time. Nevertheless, Gladstone's biographer, John Morley, has been. Morley routinely referred to Peel as a hero, a man of high courage. Morley did not emphasize the other side of the relationship—the periods of distrust, the times when Peel questioned Gladstone's judgment, and the Gladstone's growing distrust of Peel's. Morley thus shows us that however much Gladstone worried, fretted, and even hated Peel's behavior, in his old age Gladstone preferred to remember Sir Robert as courageous heroic, and a first-rate legislator. See Morley, *Gladstone* 1:289.

Gladstone, there was now a life of reading, finding a new constituency to represent, tending his family, and waiting. Gladstone did not openly attack the Bank, nor did he pressure Peel. Yet the inclination must have begun to emerge. Both Gash and J. B. Conacher show convincingly that Peel warned off his followers when they wished to attack Russell's government. Having refused to join the Russell government, the Peelites had nowhere else to go, and one by one they began to abandon Peel. Gash tells the story of Russell's attempts to invite Lord Lincoln, Dalhousie, and Sidney Herbert to join his government, using identical notes to all three. Lincoln wrote to Peel, "A new mode of beating up for a cabinet—a circular!"³ Gladstone surely knew about the offers, did not receive one himself, and did not record his reaction to not being selected. Graham was offered the Governor-Generalship of India, which he turned down, but Dalhousie accepted the position. The early collapse of Russell's scheme to attract first Graham, and then Lincoln, Cardwell, or Herbert left Gladstone without an offer, but did leave him with friends.⁴

Gladstone fostered these friendships, regularly consulting with Lord Aberdeen, Sidney Herbert, and Sir James Graham.⁵ His reading on the 1844 Bank Act was light, as was his entire reading effort in the areas of finance, trade, and politics.⁶ His most concentrated effort was in the area of taxation and revenue, reading fourteen books in this area between 1846 and 1852. This was a strange period in Gladstone's life: he was

³Gash, *Peel*, 618-619; Gladstone, *Diaries* 3:10/7/46, n.6. Gladstone wrote a political memorandum in July in which he mentioned hearing from Lord Aberdeen about Lincoln's and the others' refusal of Lord John's offers. The memorandum also discussed Peel's speech about Cobden, which Gladstone and Aberdeen deemed unfortunate but an indicator of Peel's determination never to lead the conservative party again. Gladstone commented on the singular approach Sir John had used, attempting to attract the Peelites first and, on their acceptance, to "fix upon a policy."

⁴Gash, *Peel*: 636-637.

⁵See Gladstone, *Diaries* 3:10/7/46. He became estranged from Sir James Graham when Graham continued to side strongly with Peel in Peel's later years.

⁶The reading list for this period appears at the end of this chapter.

active in parliament (now elected by Oxford University), gregarious, and fairly certain he would again attain office. He was once more involved in family life: the salvaging of the Hawarden estate, attending his father now in failing health, fussing about his sister, and tending personally to the health and welfare of his immediate family.

During this period Gladstone read intensively. He was out of office and had time to read. He read widely on taxation and government finance, and began to come to grips with the national debt. He also listened and learned, while speaking little. His continuing attendance on Peel became less and less aimed at maintaining his relationship with the great man and more and more about maintaining contact with his friends, the other Peelites. This hardy group of men was determined to maintain their solidarity in spite of what they felt as Peel's abandonment.

Gladstone was strongly conflicted on the one hand by his love for Peel the man and on the other by his growing dislike of Peel as financier and politician. Gladstone accepted these problems. Gladstone accepted, studied, and determined his actions upon them. Again, Peel was the key: at the beginning of this period Gladstone was still completely loyal to Peel and thought he had been mistaken to lead his government in resignation. By the end of this period, Gladstone thought Peel had lived too long.⁷ Nevertheless, Gladstone remained loyal to Peel, remembered the older man's mentorship, training, and precepts. These were the foundation upon which Gladstone built his newer economic theory, maintaining what he accepted of Peel's ideas, and modifying the rest.

His reading suggests that he was preparing himself for greater responsibility. He

⁷J. B. Conacher, "Peel and the Peelites, 1846-1850," *The English Historical Review* 73, no. 288 (July 1958): 431-452.

was a rising and powerful man residing in a network of powerful and knowledgeable friends. In this period he was a man with an anchor chained to his leg, Peel, and a life vest made up of the remaining Peelites. While Peel lived and abjured office, all remaining Peelites were attached to the same anchor. They would either drown with Peel or find a way to swim away.⁸ Those who criticize Gladstone for his coldness on Peel's death fail to see that the Peelites had effectively been men without a leader for several years, but men unable to choose another as long as Peel lived.

Peelitism was, of course, an untenable political position although its economics held up well for another half century.⁹ To associate a political theory with the name of a man who had foresworn government, and who had been generally disliked when he left office was not a recipe for success. British politics already had its parties, such as the failing Whigs, the weak conservatives, and the Radicals, and its party wings, such as the ultra-conservatives. The House of Commons did not really need another party, especially one with waning power, such as the Peelites. Privately, Peel swore to keep Russell in power as a way to protect free trade. When Gladstone complained that he would be isolated in Commons because of Peel's decision, Peel muttered that it would be better for Gladstone to get out of parliament.¹⁰ The remaining Peelites would again be sought and would again serve, but on their own merits, not on Sir Robert's coattails.

⁸J. B. Conacher, *The Peelites and the Party System, 1846-52* (Hamden, CT: Archon Books, 1972), 220, 233. Conacher used the voting records of free trade conservatives in parliament 1847-52 and election of free trade conservatives in 1852 to determine the numbers and fates of these men. Looking at his data in Peelite versus Derbyite votes, the only clear statement that can be made is that the number of Peelites who voted *pro-Peelite* varied from vote to vote. Conacher has given us his list of votes, showing that he used a variety of topics including Jewish disabilities (1847-8), supply for Canada (1849), official salaries (1850), and redistribution of seats (1851 and 1852). The highest number of men who voted *pro-Peelite* in 1847-8 was 74; 1849: 45; 1850: 58; 1851-2: 55. It appears the Peelites were swimming away.

⁹"One of the most interesting and significant splinter groups in the history of British party politics." Conacher, *Peelites and Party*, 7.

¹⁰Gash, *Peel*, 617, n.2.

Although Gash says the Peel and his followers refused a formal alliance with Russell, J. B. Conacher says that Charles Wood, Russell's Chancellor of Exchequer, routinely used Peel as a consultant on matters of finance, and that Russell used Wood as a conduit to Peel. Conacher also argues that in Peel's efforts to maintain free trade, the former prime minister hoped to make the Russell government strong enough to stave off the rise of a conservative government and a return to protection.¹¹ In return, Wood defended, as much as he could, both Peel and the 1844 Bank Act during the debate over the 1847 commercial crisis.

But the mixture was deadly. By demanding that his loyal followers support Russell, while gradually abandoning them, Peel set off a chain reaction that further weakened his own diminishing strength and that of the remaining Peelites.

Peel Out of Office

In 1846, the Peelites were nominally conservatives. J. B. Conacher has described them as "the cream of the conservative party that had been rebuilt so laboriously under Peel's leadership."¹² Their strength lay in their quality, not their quantity,¹³ and he says there was not a dandy or a coxcomb among them.¹⁴ The solid core consisted of about eight men, in two groups: Peel, Aberdeen, Goulburn, and Graham in their middle fifties and early sixties; and Lincoln, Dalhousie, Herbert, and

¹¹J. B. Conacher, "Peel and the Peelites, 1846-1850," *The English Historical Review* 73, no. 288 (July 1958), 431-452, 442, 445; Gash, *Peel*, 623.

¹²Conacher, *Peel*, 7.

¹³Conacher, "Peel and the Peelites," 431.

¹⁴Conacher, "Peel and the Peelites," 432, n.2. Part of Conacher's analysis comes from a 20,000-word, unpublished paper (British Museum, Add. MS. 44745) entitled "Party as it was and as it is," fols. 173-222, written in 1855). Conacher calls this a "strange piece," some of which Gladstone used in his article for the *Quarterly Review* entitled "The Declining Efficiency of Parliament."

Gladstone in their middle thirties.¹⁵ To these younger men, Conacher adds three more junior men who were not in the core—Sir John Young, Lord Canning, and Edward Cardwell. The seven younger men would hold high office again, and would continue to operate under the label of Peelite for some time. In 1847, Gladstone records a meeting at his house with Lincoln and Henry Goulburn, Lincoln, Herbert, Cardwell, and Young on how they should use their remaining influence: they sent out the customary pre-session letter asking that all known Peel supporters attend the opening session of parliament.¹⁶ Goulburn called it a party of observation. Peel said such a party would fail. Nevertheless, the Peelites took their position on the opposition bench between the red box and the Speaker's chair. Peel sat with them in spite of his prognosis.¹⁷ The young Peelites hoped for both a following and, if possible, some strength. To do what is not clear. To defy Peel and attack Russell were out of the question unless the Peelite rump intended to vote with the conservatives. The government depended on Peel. If the young Peelites hoped for the strength to oppose both Peel and Russell, they were mistaken.

The commercial crisis, coming later in 1847, was debated loudly and long in December of that year. Gash cites three causes for the crisis: railroad expansion,¹⁸ the continuing crisis in Ireland, and the Bank of England's inflationary practice of lending "cheap" money on low interest rates.¹⁹ The continuing food crisis in Ireland required

¹⁵Conacher, "Peel and the Peelites," 431.

¹⁶Gash, *Peel*, 619-620.

¹⁷Gash, *Peel*, 620-621.

¹⁸For a discussion of railroad investment, see Hirst, *Gladstone as Financier*, Chapter 8, "Railways and Companies," 86-91. Gladstone was a keen supporter of the railroads, as has been mentioned elsewhere, and in his railroad Act of 1844 he worked to ensure safety, inspections, and the government's ability to purchase the railroads as needed. The bill did not control continuing expansion through private bills, often duplicating lines between large cities. Low interest rates encouraged railroad expansion.

¹⁹Gash, *Peel*, 621. This is one case where a historian must give way to an economic historian. Sir John Clapham, *Bank of England 2*: Appendix B, 429 shows the bank rates for 1856, 1857, and 1858. The

food imports. Instead of using goods or credit to pay for food, British entrepreneurs apparently chose to pay with gold. Speculation in grains led to high food prices before the spring planting. Foreign suppliers were, perhaps, encouraged by England's supplies of gold to demand coin instead of notes or credit. Food speculation collapsed on reports of a good harvest, and the commercial world paid the penalty for greed and good rains.²⁰ The crisis occurred when the harvests began to come in and the speculators, depending on a bad harvest found themselves committed to paying high prices. They found themselves seriously over-extended. In addition, suspicions circulated that the Bank had exacerbated the crisis by maintaining a low interest rate (encouraging speculation) and speculating in gold on its own behalf.

On October 21-22, Peel was traveling to Windsor Castle when Sir Charles Wood, Russell's Chancellor of the Exchequer, intercepted him. They met for two hours that night and three times the next morning. Peel told Wood to talk to the Bank men—Jones Loyd, Cotton, and Norman—but warned Wood not to talk to representatives of the money market or northern industrialists. After Wood's four conversations with Peel, the government "advised" the bank to raise its interest rate to "not less than eight per cent."²¹ Peel's involvement in this proceeding cannot be denied. There was argument about who should state the Bank rate and how long it should be continued.²² The broker

lowest rate in 1846 was 27 August when the Bank rate was 3%. In 1847, well before the crisis forced excessive bankruptcies, the rate began to rise: 3.5% on 14 January, 1847; 4% on 21 January; 5% on 8 April, 5.5% on 5 August; 6% on 30 September; 8% on 25 October; after which it fell to 7% and then 6% by the end of the year. The Bank's target rate appears to have been 3%, but it often fell to 2.5% and 2%. The range 2 to 3.5% can safely be classified their "cheap-money" range. As the debate in 1847 demonstrated, the continental and American rates were in the range of 6-8% (*Hansard's* xcv: 401-402). If Gash refers to the rates at which railroad entrepreneurs were borrowing, the answer lies in the fact that these men, believing "big profits" to be around the corner, thought nothing of borrowing at the higher rates, and believed they could manage the payback problems that would arise.

²⁰Gash, *Peel*, 627-628.

²¹Gash, *Peel*, 628-629.

²²Clapham, *Bank of England* 2:209.

was Peel. A box arrived for Peel at Windsor Castle on Monday containing all official papers concerning the crisis and Russell's official note that Peel should be given access to all correspondence.

To say that Peel had engineered the temporary suspension of his own Act in order to save it and the Bank may be an exaggeration. But we cannot ignore the fact that Peel steered Wood away from three groups of men who had a major interest in stemming the crisis by putting pressure on the Bank of England and the 1844 Act—Scottish bankers, northern English bankers, and industrialists. This problem would surface during the selection of committee members for a select committee to look into the crisis, a standard tactic used in parliament to help forestall criticism. Many claimed the Bank had contributed to the failure of businesses. The Bank had exported gold to pay for food when it might have done more to protect the nation's gold supply (by using credit instruments for example), and thus to have done more to protect marginal businesses operating in a rapidly shifting economy. The Bank had made money cheap when it should have been raising the interest rate to forestall speculation in the railroads and foodstuffs. Questions asked during the debate suggested that the government either was or should have been investigating into the operation of the Bank's parlour, the room where the directors met. Peel recommended that Wood "soften the directive on the bank rate" to "not less than eight per cent."

Gash refers to the Bank's management as "the cool-headed men of Threadneedle Street" and the hope that "the panic would exhaust itself without the need of government interference." Gash cites Clapham. In fact, what Clapham said was:

They were cool in the Bank Parlour, over confident their critics said. Gold was coming in to earn the high rates; there was no doubt of that: £40,000 in

sovereigns had arrived from Liverpool ... and another ship with £200,000 [was] signaled. For each of the two coming weeks they [had] a million and a half “going off”—good paper that [would] bring in cash. They believed they could do it, and to the last they never asked for relaxation, or even suggested any such thing.²³

In other words, the bankers were not cool because of their management of the crisis, but because gold was finally flowing back into their coffers after a period of drain. The market was correcting itself automatically.²⁴ Sir Francis Baring, the former Whig Chancellor of the Exchequer, recommended a select commission to look into the causes of the crisis, and also to look at the ways in which Peel’s Act had influenced the crisis. Far from casting doubt on the Act, Baring insisted that it was simply a forestalling measure necessary to deflect parliamentary criticism. The results of this innocent maneuver were catastrophic, and should be considered one of the steps in the downward slope of Peel’s influence. Parliamentarians returned to London for a special session on 18 November and stayed until December 20, 1847, and the primary topic was the commercial crisis.²⁵ The call for a select committee simply slowed proceedings further than they might have been slowed already.

On 24 November, Lord George Bentinck, a constant critic of Peel, asked Wood whether the government intended to give an explanation about the infringement of the

²³Clapham, *Bank of England* 2:208.

²⁴When Sir John writes that gold was flowing into the Bank and that management heads were cool, we may reasonably ask at what point in the crisis did the gold begin to flow. If the European banks had just completed one of their self-regulations of the market, the Bank could congratulate itself for surviving the crisis of 1847 without having lifted a finger. If the Bank joined in the speculation, then a serious question still arises as to the Bank’s fitness to have so much power over English business and investment. See *Hansard’s* xviii, 172.

²⁵The crisis of 1847 and the crisis of 1857 are alike primarily in three ways: each was triggered by an expansion of commercial and industrial activity that caused an overextension of credit; each was blamed, reasonably or unreasonably, on the Bank of England for failing to act soon enough to stave off the crisis; in each case, the Bank Charter Act of 1844 took additional blame because it did not help the country banks which were trying to finance the expansion, but which needed protection that the Bank of England failed to give. For the debates on commercial distress, the Bank of England, the Bank Act, and the so-called currency crisis, see a question on the Bank Charter Act, *Hansard’s* xcv:150; for the motion by Mr. Hindley for the Production of Papers, 210; for a question on the Bank Charter Act, 228; and for a motion by the Chancellor of the Exchequer (Wood) for a select committee, 228. The debate on the select committee lasted three nights: 30 November, 374 - 477; 2 and 3 December, 531-597 and 604-606.

Bank Act. Wood responded with a promise to take the problem up on the following Tuesday. On the 25th, Hindley moved for a return to the Bank's minimum discount rate "charged by the Bank of England since the Act of 1844." On the same night Francis Baring, who had been Chancellor of the Exchequer under Melbourne's second ministry, suggested that if the Bank were to be discussed, papers should be produced. On that following Tuesday (30 November), Sir Charles gave the government's view of the crisis: it was a well-argued and moderate presentation of the crisis as the government saw it. His motion was for a select committee "to inquire into the Causes of the recent Commercial Distress, and how far it has been affected by the laws for regulating the usage of Bank notes ..."²⁶

Wood's carefully crafted speech suggested that blame should be shared by all sides.²⁷ He stated that the government believed in the principle for regulating the circulation of banking. He said that the extension of commercial credit during the period leading to the crisis had been unparalleled.²⁸ To Gash's list of reasons for the crisis, Wood added the government's construction of permanent works.²⁹ Then he rehearsed the various ideas for systems that had been presented when the Bank's charter had been renewed in 1844, neatly separating the principles of the Bank charter from Tooke's theory of prices. He also correctly recited the changes in the Bank rate over the course of the year.³⁰ In discussing the problem of whether the Bank's policies or business mismanagement had led to many of the failures, Wood quoted Sir John

²⁶ *Hansard's*, xcv:374.

²⁷ *Ibid.*, 375.

²⁸ *Ibid.*, 376.

²⁹ *Ibid.*, 377.

³⁰ *Ibid.*, 383.

Gladstone, who blamed mismanagement and lack of capital far more than he blamed the banking industry.³¹

In total, Wood's speech was impressive, so much so that one might miss the problems this speech raised. One important problem in the speech and the debate that followed was the elasticity of time between crises. Wood described the period 1844-1847 as a long period, and said the period could just as easily have been fifty years. But to him, the period 1839-1847 was a relatively short time, and the period from 1819 (the date of the Bullion Report) to 1844, later suggested by Gash as a bookmark set of dates, shorter still. In describing the crisis of 1847, Wood compared it to the crises of 1826 and 1837 as if they were caused by the same problems and brought to the same conclusions.³² This may have been an attempt to exonerate the Bank Act of 1844 from guilt. A more astute economist would have argued that the Bank Act of 1844 changed the situation, by placing such heavy limits on currency issue where before the Bank had acted entirely within its discretion.

The debate lasted three nights; a virtual symphony of Bank, banking, and bank-related topics emerged: convertibility of paper into gold and vice versa, the Bank of England's needs or obligations to protect its gold supply,³³ the confusion between circulation of money in whatever form with capital,³⁴ the question of whether metallic or bi-metallic currency would have solved the problems encountered in the crisis,³⁵

³¹Ibid., 391. "Go over the list of East India failures, or of foreign traders, and point out one who has not been long without adequate capital or means."

³²Example, *ibid.*, 381. These debates exposed the problem of comparing the crises of 1837-1839 with that of 1847. The could not, of course, be rationally compared because according to politicians, the crisis of 1847 had happened in spite of the Bank Act of 1844.

³³*Ibid.*, 405.

³⁴*Ibid.*, 407.

³⁵*Ibid.*, 410-411.

whether the Bank of England required reorganization, and whether the Bank was finally to become a banker's bank through the control of capital.³⁶

The first MP to follow Wood was James Wilson, founder and editor of *The Economist*. Wilson's attack showed his grasp of the problem on points that Wood could not defend. He noted that many MPs would wish to add to the list of problems to be considered by the committee. He noted how many gentlemen had been shaken badly in their views by comparing the events of the previous few months against the events of the past. Wilson affirmed that the situation had been changed by the operation of the Act of 1844.

Then Wilson raised a theme which would be repeated for the next several nights: the contributions of "the right hon. Baronet the member for Tamworth" to the current crisis. Wilson used the term repeatedly, never referring to Peel by name, forcing *Hansard* editors or typesetters to insert the phrase "(Sir Robert Peel)" for clarification in line after line of Wilson's speech. Referring to the Bank Act of 1844 and the committee that met in 1841, Wilson quoted the committee's own findings that there had been too little time and too much evidence to report appropriately; he also reminded House attendees that the hearings on banking had stopped when parliament was dissolved in 1841 and not repeated in 1843 or 1844, previous to the passage of the Act.³⁷

Wilson was one of the best educated and most articulate speakers in the House. He well remembered the outcome of the Bullion Committee report and the restoration of the gold convertibility or gold standard settlement at the restoration of gold payments in 1823. Thus he remembered Peel's contribution to the original problem, and also Peel's

³⁶Ibid., 412.

³⁷Ibid., 416.

success in pushing the Bank Charter Act through parliament in 1844. Wilson's speech is noteworthy because everything he said was either completely true or at least defensible on reasonable theoretical or interpretive grounds. As founder and editor of a journal that followed and commented on economic problems, Wilson was in an excellent position to demonstrate how Peel, Wood, and Samuel Jones Loyd had changed their published hopes for and opinions on the Bank Act of 1844. He showed that the end of the usury laws in 1846 had made greater economic growth possible because men could now borrow when they wished at any profitable rate the lender cared to name. Under the Bank Act and the end of usury laws, good managers had believed they could accept higher interest rates, expand their businesses, pay the interest and the loan from profits, and celebrate their growth. Many men in the City of London believed themselves safe:

I have heard some of the most eminent men at the head of some of these great houses which have failed recently during the last crisis, console themselves by the belief that from its self-acting principle, the Bill would save them from the revulsions which had formerly happened, so that they did not think it necessary to exercise the same degree of care and discretion that they would otherwise have felt bound to observe.³⁸

Peel had warned Wood not to talk to people like Wilson. Thus, the arguments Wood used, and those struck down by Wilson and others, were based on Peel's and the Bank's beliefs. When Wood proposed a select committee on 13 December, 1847, his list was heavy with professional parliamentarians and bankers, but was notable for its lack of representation of north England industrialists and bankers, Scottish bankers, and writers on economics.³⁹ The proposed lack of representation by those who had suffered most by the Act of 1844 was the first problem that went unanswered in 1847. The

³⁸Ibid., 422.

³⁹What follows is based on the debate of those three nights in November.

second problem was the proposed scope of the investigation. Wood's original motion limited the committee to the recent crisis and the problem of currency. To the honorable members, however, the crisis had antecedents: the Bank Act with its currency limitations was flawed; the legislative thinking and procedures leading to the act were weak; and the railroad interests, the Corn Laws, and the gold supply at the Bank were all problems which needed additional attention. Thus, the members argued, cogently, that the whole thing would have to be gone into all over again.

This led to the third problem: the hearings of 1840 and 1841 had included approximately 8000 questions, many of which received incomplete or inconclusive answers, or were linked to other questions unasked or unanswered. Some members admitted the problem but sought better answers. Other members argued that if the answers had not be found in earlier hearings, there was little use in recreating this recital.

A fourth problem was that the Bank of England was seen as the center of the crisis. Parliamentary expectations projected onto the Bank at various times, conflicted with the Bank's own stance: that it was either private and for profit and therefore acting only in its own best interests, or that it had refused to take on the responsibilities of a central bank. In each Bank Act, members had attempted to solve mercantile problems by assuming that a fix on the Bank of England would sort out the problems of the rest of the country. Lord Althorp's presentation in 1833 had been the most cogent presentation of this argument: Althorp argued that England's trade was international; international trade required gold and high-value international credit instruments. The Bank of England was the main gold repository for the country, located at the center of

international trade, London, and in touch with both bankers and manufacturers all over Britain wishing to do business with the rest of the world. Therefore, the Bank was best suited to serve as the gold respiratory, arbiter of prices, and vendor of trade services to the business community. The Bank, in Lord Althorp's opinion, and in the opinions of many others inside and outside the government, was the ideal center of the money universe. The Bank was willing to be the center of the world-wide money universe, but refused to take responsibilities for that universe.

Sir Francis Baring and Baron Rothschild would have disagreed with this analysis of the Bank's responsibility. So would proprietors of Bank of Scotland, the Royal Bank of Scotland, the Bank of Ireland, the Linen Bank or a host of others. Allowing for the Bank of England's undoubted centrality, the legal status of its currency, and the large reserves of gold (although Rothschilds in England held or had access to far greater reserves), these men would have argued that the Bank of England was powerful and rich, but subject to the same problems as any other bank or large company on the planet.

Three questions had been raised by the Motion of the right hon. Baronet the Chancellor of the Exchequer: first, as to the causes of the pecuniary embarrassment of the country and of the late panic; secondly, whether that embarrassment or that panic had been produced or aggravated by the provisions of the Bank Charter Act or the conduct of the directors of the Bank of England; and thirdly, whether Her Majesty's Ministers had deserved praise or blame for the advice they had tendered to the Directors of the Bank of England.⁴⁰

David Urquhart thought he spoke for the entire assembly when he stated that it was an "awkward time" to attempt to grant indemnity to the Bank and the ministers for an infraction of the law.⁴¹ He said he spoke for Scotland and Scottish banking when he

⁴⁰Ibid., 453.

⁴¹Ibid., 531. See clause 5 of the 1844 Act (Power to increase Securities in the Issue Department

told the assembly that the end of England's problems in banking would be at last to adopt Scotland's banking law instead of trying to apply English law to Scotland. In addition, he argued that in the 1844 Act Peel had done the Bank a disservice in relation to the foreign markets and had interfered disastrously with England's foreign relations.⁴² Edward Ellice attacked the bill because it jeopardized the relationships among the government, the Bank of England, and the provincial banks.⁴³

Sir Charles Newdigate quoted Samuel Jones Loyd again, and raised what was perhaps the most puzzling problem of the entire history of the Act of 1844: when a merchant applied to the Bank for a loan, the Bank did not set up an account from which the merchant could write a check or withdraw paper currency (like a modern line of credit), nor did the Bank send a letter of credit to another British bank or foreign bank on the merchant's behalf. Instead, the Bank handed paper currency to the merchant. This paper currency was then entered into an account that matched currency issue with the amount of bullion that remained in the vaults. In addition, the Act of 1844 required the Bank to reduce the amount of currency still available for loans. The practice of handing currency to the businessman instead of creating a line of credit was not prescribed in the Bank Act. It was Bank policy, and a very bad one in times of crisis because the Bank artificially limited its ability to respond further.⁴⁴ Newdigate's opening words suggest that he believed the government had forced the Bank into an indefensible position with the 1844 Act, perhaps not understanding that Peel had accepted the bill

and issue additional Notes). The Bank had temporarily exceeded the limits of normal issue during the crisis when it finally moved to stem the crisis (far too late, according to its critics). The debates on two bills (Bank charter renewal and Bank indemnity) were interspersed with debate on the commercial crisis.

⁴²Ibid., 544.

⁴³Ibid., 557.

⁴⁴See Charles Newdigate's speech, *ibid.*, 580.

from the Bank, fully developed. Newdigate's concerns both for the Bank and for the country centered on the 1819 Act as well as the 1844 one; he joined a long line of speakers who quoted, derided, and taunted Peel about the bill.⁴⁵

The attacks on the Bank, Wood, the government's policy, Peel, and the 1844 Bank Act took so many directions, and raised so many relevant and irrelevant problems, that by their very attack methods, they created an environment in which they could not win. Wood got his committee, diluted the criticism, and allowed public opinion to settle. The problem in all this is that by opening up the problem for debate, Wood opened the door for a great many direct and indirect attacks against Peel, recalling 1819 and the bullion report, and opening him up to a long list of complaints about complicated and unhelpful national policy, befouled international relations, lack of care and concern for the "other" banks, lack of control over the Bank of England, and a general misunderstanding of banking principles that was ruinous to the country.

Gladstone listened and learned from this debate. He later told John Morley that no man should attempt to revamp the Bank Act and British banking in general unless he was a very strong chancellor in a very strong government, and was personally very popular with the country.⁴⁶

Whether or not the Bank Act had caused the crisis of 1847, Gash says Russell's government and Peel were tied together. From his speech on November 30, Wood made clear that the government was intent on protecting Peel. Peel was intent on protecting the government. But Peel was the captive. Wood's budget of 1848 was a disaster. When the Chancellor got caught between Disraeli and Cobden, Peel defended

⁴⁵Ibid, 568.

⁴⁶Morley, Gladstone 1: 518-519.

Wood, the income tax, and the motion to reduce income tax to one-year renewals.⁴⁷

Gladstone was one of few men who actually understood the problem that Peel had taken upon himself, saying that of all the MPs, Peel was the one with the smallest amount of freedom in supporting the government.⁴⁸

Oak Farm, Hawarden, and John Gladstone

In 1846 Gladstone took financial control of Oak Farm and the Hawarden Estate on behalf of his wife, his sister-in-law, and his mother-in-law. Oak Farm contained coal and iron mines. Oak Farm went bankrupt during the commercial crisis 1847. Sir Stephen Glynne, Catherine Gladstone's brother, was not financially minded, and there is evidence that the mines had been mismanaged.⁴⁹ Glynne had mortgaged the Hawarden estate to invest more money in the mines. When Gladstone married Catherine in 1839, Stephen had given a tenth share in the Oak Farm works to each of his two brothers-in-law (George Lyttelton married Catherine's sister). Gladstone was already helping Stephen out of his money muddles. Problems had begun as early as 1844, but the panic of 1847 left a burden of £250,000 and little income for Stephen to live on.⁵⁰ At one point in 1848 Gladstone wrote that Stephen's affairs were desperate but not hopeless.⁵¹ At another point in the spring, Gladstone was examined in bankruptcy court about the Oak Farm case.⁵²

⁴⁷Gash, *Peel*: 631.

⁴⁸Gash, *Peel*: 640.

⁴⁹Morley, *Gladstone* 1: 337.

⁵⁰*Ibid.*, 338.

⁵¹Gladstone, *Diaries* 4: 13/3/48.

⁵²*Ibid.*, 17/5/48; see also *The Times*, 18 May, 1848, 7d.

Matthew has argued that Gladstone's work on Oak farm soured him against the banks and has used this argument to explain Gladstone's attacks on the Bank of England.⁵³ I believe this argument cannot be sustained. Gladstone was proud of his ability to save the estate, move Oak Farm out of bankruptcy, and reestablish his brother-in-law with a reasonable income. It was exactly the kind of financial problem he would enjoy from time to time for the rest of his life. The Oak Farm and Hawarden troubles may have saved Gladstone from a chafing insanity of inaction and a stronger and perhaps damaging response to Sir Robert's strange political behavior. The work Gladstone did to understand the "masses of accounts," coils of "interests and parties," and "legal intricacies"⁵⁴ were sufficient, he wrote to his father "to disqualify me for my duties in the House of Commons." However, in a letter to his wife, he showed just how valuable the Oak Farm had been in helping him through troubled times:

Do not suppose for a moment that if I could by waving my hand strike out for ever from my cares and occupations those which relate to the Oak Farm and Stephen's affairs I would do so... It has evidently come to me by the ordinance of God; and I am rather frightened to think how light my lot would be, were it removed ...⁵⁵

Gladstone worked closely with his father to improve the finances of his wife's family. From 1847 to 1852, Morley says Gladstone's political life was in partial abeyance. Hawarden had fallen onto his shoulders—"my daily and continuing care, while parliamentary action was only occasional."⁵⁶ The turning point was the sale of £200,000 of Hawarden estate land. Gladstone, with his father's backing, took two-thirds. His brother-in-law, George Lyttelton, took one third, with Lord Spencer as his financier.

⁵³Matthew, *Gladstone* 1809-1874, 118.

⁵⁴Morley, *Gladstone* 1: 338.

⁵⁵*Ibid.*, 339.

⁵⁶*Ibid.*, 356.

Gladstone worked so hard on Oak Farm and the refinancing of Hawarden (closed in 1847), that by 1852, just when he was about to catapult himself and some of his friends into a new, post-Peel government, Hawarden was reopened and Stephen's allowance was "rather more than doubled."⁵⁷

In addition to his five children, including a new baby, and his new role as Latin tutor to his oldest son, Gladstone filled in the year 1849 with the care of his father, whose health was deteriorating. The old man's favorite theme was the disaster of free trade.⁵⁸ Gladstone lamented that he could not use his vacation months in the production of some great work, but admitted that God had taken over the management of his time, and was putting it to His use. Victorian fathers are not known for their kind and tender regard to their wives and offspring, especially when the number of children began to climb and wives began to have "women's troubles." Nevertheless, Gladstone allowed himself to be dragged away from parliament or a great work and set to work in "a discipline though God only sees if it has done its work" of caring for his family and for his father.⁵⁹

This type of grounding was important to Gladstone. Between the work he did on Catherine's family's estate, and the patience with which he listened to his father, his learning in finance increased. It was not now just theoretical. The Oak Farm disaster was real and men's jobs in the mines depended on Gladstone's ability to save the mine. His father's carping on free trade gave Gladstone time to think. In his thinking in this period, his father's complaints had the opposite effect that the old man wished. When

⁵⁷Ibid., 341.

⁵⁸Gladstone, *Diaries* 4:5/10/49, on 9 October he wrote "not one evening do I escape without a Free Trade lecture."

⁵⁹Gladstone, *Diaries* 3:1/10/47.

Gladstone became Chancellor, he moved forward on parts of Peel's initiatives that he believed needed completion. The fact that he was willing, night after night, to listen to his father on free trade, demonstrates a kindness and rationality that may have been more of a benefit to his sanity than all the cathedrals he could visit and all the china he could purchase. He admitted in January of 1840 that he had forgotten his wife's birthday and chastised himself for it.⁶⁰

Gladstone in Opposition

In the period 1846-1852, Gladstone was in opposition against two factions: the Peel faction and the Russell faction. He did not at first understand his opposition to Peel. He began to understand his opposition to Russell's government early enough, when he took exception to Sir Charles Wood's plan to borrow money for Irish famine relief. Gladstone had emerged from the Peel government with a good deal of experience: he had grown out of his idealistic shell of the thirties and had sometimes argued for compromising a position or remaining in office against great odds, even when others were in favor of withdrawal and resignation. Both he and Peel had used the term "personal honor" as if it had some overwhelming, inarguable meaning that should sway a government. He now understood the word "compromise" and its political applications . He had threatened to resign, had resigned, and had been taken back in good grace. He had been praised, and it was not idle or empty praise, for the good work he had done on the railroads, the tariffs and customs, and a dozen other projects. He had gained an almost inexhaustible repertoire of experience in colonial business and

⁶⁰Gladstone, *Diaries* 4:1/6/48.

exports. He had contributed to the national revenue. He was, in fact, a well trained if slightly eccentric man in search of another job.

When Gladstone left office in 1846, his political career was still tied to that of Peel. No one could know that the great man would die four years later; there was a possibility that the Queen would summon him again to form a government, and Peel might say yes. Peel might also nominate a new “Peel” to lead the party—Graham or another of the elder generation steeped in the Peel tradition. If Peel would not accept one of these roles, then the Peelites themselves would be required to take over and lead the party. If that happened, why should not Gladstone have a leading hand in the effort.

Gladstone had resigned his Newark seat on 1 January, 1846. When the government fell, Gladstone did not hold a seat to which he could return for re-election. He was forced to re-invent himself somewhere else. On June 30, perhaps to bolster his spirits, he made a list of the major speeches he had made from 1839 through 1845: on sugar, Corn Laws, the inevitable coal whippers, and commercial treaties.⁶¹ On July 9 of that year he wound up his affairs at the Colonial Office, saw Peel, delivered his seals to the Queen, and had dinner with George Hudson. Hudson praised Gladstone, and expressed the wish that the younger man could lead the government. This conversation shows Gladstone’s dilemma very well:

He said I wish you had been in Parliament & out of the Government: then you would have been ready to lead us. I said, had I been in Parlt. & out of Govt. I must still have been more actively implicated in these measures than I now am: for from my former concern with such subjects I must have constantly engaged in debate & partaken of the feelings that attended them.⁶²

⁶¹Gladstone, *Diaries* 3:547-548.

⁶²*Ibid.*, 9/7/46.

In 1847 he was forced to find himself another parliamentary seat. His luck fell in with Oxford's need for a man to represent the university. It was to be a slightly uncomfortable fit. Gladstone was to describe his personal adherence to Peel as having "opinions ... more akin to those of the liberals" but cherishing "personal sympathies and lingering wishes which made them tardy, perhaps unduly tardy, in drawing toward that party."⁶³ He was elected for Oxford because of his personal sympathies and lingering wishes, not his opinions, and found himself returned to the floor of the House of Commons where he listened, and evaluated Peel almost as a stranger. Peel's assistance to the Russell government, and to Sir Charles Wood, Russell's Chancellor of the Exchequer, in particular, may have given Gladstone his first step on the ladder to the chancellorship and his first talking point when he entered the chancellorship. He opposed Sir Charles Wood's 1847 plan to borrow £8,500,000 for Irish famine relief and to pay for it with a three and a half per cent loan. On 24 February he read the financial statement and debate on the budget: "I know nothing but I lament the loan: at least as to the permanent charge, we should pay our way."⁶⁴

Gladstone began to vote his conscience and thus to vote on occasion against Peel in 1847. To the astonishment of his querulous father, most of his friends, and many of his new Oxford constituency, he favored removal of Jewish disabilities. Removal would allow Jews, notably Lionel Rothschild, who had been elected for the City of London, to sit in Parliament.⁶⁵ The Church was indignant, but Morley argues that

⁶³Morley, *Gladstone* 1:351.

⁶⁴Gladstone, *Diaries* 3:24/2/47. This appears to be his first comment on the use of loans versus taxes.

⁶⁵Stanley Weintraub, *Charlotte and Nathan, a Rothschild Love Story* (New York: Free Press, 2003), esp. Chapter 5, "The Jew Bill." Lionel Rothschild was one of the richest and most powerful men in Europe and one of the least recognized in his chosen city, lumped together with minor tradesmen and workers as a Jew, lower-cased. In 1865, at the time of a great loan to the Austrian government (when

Gladstone saw removal as the final emancipation, the third step in a chain that had given the franchise and the magistracy to Jews already. In that light, Morley believes Gladstone saw the state for what it was and for what it was going to be.⁶⁶ Gladstone kept his own counsel, apparently, for which he was accused, as he would many times later, of unwarranted secrecy. Keeping his own counsel was essential to Gladstone in his ability to work his way through large questions carefully. Not knowing this, or knowing and deploring his secrecy, his father attacked him:

I shall certainly read your speech to find some fair apology for your vote: *a good and satisfactory reason I do not expect*. I cannot doubt you thought you withheld your opinions from me under the undecided state you were in, *without any intention whatever to annoy me*. There is, however, a natural closeness in your disposition, with a reserve towards those who may think they may have some claim to your confidence, probably increased by official habits, *which it may perhaps in some cases be worth your inquiring into*.⁶⁷

One thinks immediately of Lady Catherine de Bourgh: "I am almost the nearest relation he has in the world, and am entitled to know all his dearest concerns."⁶⁸ But Gladstone's father's meaning is more sinister: suggesting a personal character flaw, or, in the twentieth century, a psychological fault, which might require prayer and possibly of a doctor's attendance. It was, of course, the flaw of over-possessiveness, the behavior of what we would now call a "control freak," in the father, not the secretiveness of the son that was at fault. Early in Gladstone's married life, he made an agreement with Catherine that he would either tell her nothing about his political life or tell her everything. When she chose everything, he stipulated the only *quid pro quo* would be

Lionel had finally been admitted to parliament) the seven powers of Europe were said to be Britain, France, Austria, Prussia, Russia, Barings, and Rothschild. See Lawrence D. Steefel, "The Rothschilds and the Austrian Loan of 1865," *The Journal of Modern History* 8, no. 1 (March 1936): 27-39; 27, n.2.

⁶⁶Morley, *Gladstone* 1:375-376.

⁶⁷*Ibid.*, 376, *italics mine*.

⁶⁸Lady Catherine de Bourgh to Miss Elizabeth Bennett; in Jane Austen, *Pride and Prejudice*, Norton Critical Edition, 3rd Edition (New York, W. W. Norton, 2001), 231.

that she share nothing.⁶⁹ He needed a sounding board and burden-sharer, and his experience of his father was that the elder Gladstone would do nothing but criticize and demand. The younger Gladstone's ability to share with his wife the problems he faced and the torturous decisions he sometimes reached was probably the best antidote he could have had for his over-controlling father.⁷⁰ If there was secrecy in government, Gladstone was not the first either to use it, or to suffer from it. In any event, Gladstone voted for in favor of "the Jew Bill" on its third reading in May 1848 "with a very clear conscience."⁷¹

Gladstone's father was not done. Perhaps in a last-ditch effort to separate his son from free trade, the already ill man recommended that his son withdraw his loyalty from Peel. Gladstone admitted his sorrow "that the present course of events tends to separate and disorganize the small troop of the late government and their adherents." Further, Gladstone told his father that he had voted against Peel on the West Indian question in 1848, and on Lower Canada. "However painful, then, it may be to me to differ from him, it is plain that my conduct is not placed in his hands to govern."⁷² He later wrote to his wife:

I cannot form to myself any other conception of my duty in parliament except the

⁶⁹Battiscombe, *Mrs. Gladstone*, 37.

⁷⁰It appears, from hints in Morley and other sources, that Gladstone's letters to his wife contain important clues to his work as Chancellor of the Exchequer, his opinions of the Bank of England, and other financial work that they remain an important sources that has not been explored appropriately.

⁷¹Gladstone, *Diaries* 4:4/5/48. Baron Rothschild appears to have been one of Gladstone's advisors.

⁷²Morley, *Gladstone* 1:353. It is strange that Gladstone's father should have attempted to remove Gladstone from Peel at the same time that Gladstone was accomplishing that task by himself, but on his own terms. In the elder Gladstone's mind, Peel and free trade were combined as one evil. The younger Gladstone's beliefs were more complex, and more precise: he believed in and would continue to fight for free trade his whole life, and for Peelite economics. However, his differences with Peel were based on Peel's all or nothing stance, keeping the Whigs in power when they did not deserve the courtesy. Gladstone might have defended free trade without defending Peel to his father, but with his father two years from death, it was not a loving road to take, and would only have heightened the younger Gladstone's frustration.

simple one of acting independently, without faction, and without subserviency, on all questions as they arise. To the formation of a party, or even of the nucleus of a party, there are in my circumstances many obstacles. I have been talking over these matters with Manning ... and I found him to be of the opinion which is deliberately mine, namely, that it is better that I should not be the head or leader even of my own contemporaries; that there are others of them whose position is less embarrassed, and more favourable and powerful.⁷³

Gladstone was, more than once, tempted to withdraw. But he conceived himself as a politician and parliament as his place of profession. His famous “the way to make parliament profitable” quote was embellished by adding it could hardly be advantageous to withdraw for years with the uncertainty of resumption.⁷⁴ His letter to his wife is confirmed by Morley in his comment that in 1850 Gladstone had not yet gained the parliamentary authority to take a leading role.

But the beast was stirring. His first speech on foreign policy (Don Pacifico) identified him as a man capable of debate on problems of European politics and territorial borders.⁷⁵ So far was the beast stirring that Gladstone disagreed with Peel about keeping the protectionists out of office.⁷⁶ Like others, he felt that letting the protectionists have the government would show their true character to British voters and perhaps put an end to the protectionist wing of the conservative party. Gladstone shrugged off a plan for him to take leadership of the conservative party:

People feel, I suppose, that Sir Robert Peel’s life and continuance in parliament were of themselves powerful obstacles to the general reorganisation of the conservative party, and as there is great annoyance and dissatisfaction with the present state of things, and a widely spread feeling that it is not conducive to the public interests, there arises in men’s minds an expectation that the party will be in some way reconstituted. I share in the feeling that it is desirable; but I see very great difficulties in the way, and do not at present see how they are to be overcome.⁷⁷

⁷³*Ibid.*, 357.

⁷⁴*Ibid.*, 353.

⁷⁵*Ibid.*, 370-371. Also see Gladstone, *Diaries* 4: 27/6/50.

⁷⁶*Ibid.*, 373.

⁷⁷*Ibid.*, 373-374.

This is a very fine example of a man-at-the-crossroads speech. Gladstone does not show us a man in despair, nor a man who was angry. He shows us a calm and analytical man. His former mentor has become a powerful obstacle to achievement of one of his own original goals—party reorganization.

Parallel with his concerns about the possible damage Peel had done to the party, Gladstone recorded the debate on the 1844 Bank Charter that took place in February, 1848, in the aftermath of the 1847 crisis. This crisis was critical and personal to Gladstone because Oak Farm had failed and his brother-in-law was nearly penniless, while the Hawarden estate was in jeopardy.⁷⁸ Further, Gladstone was becoming intensely concerned about the government's budget. On 24 January he had written to the secretary of the National Debt Office, Samuel Higham.⁷⁹ On 21 February he tried to examine revenue papers, but was distracted by Oak Farm business. On 25 February he recorded a meeting that included Goulburn and Cardwell, at Peel's house, for discussion of the budget and income tax. In this budget, expenditures exceeded revenue. Expenditures included Ireland, at £1,525,000; the Kaffir (Caffre) War, at £1,100,000; and an additional £245,000 for the Navy. Peel announced that had he been responsible, he would have borrowed money and would have renewed the income tax at three per cent, pledging the government to reduce the expenditure. Peel thought the country could abide an addition of one penny to the postage, raising it to two. This meeting was followed by a session at the House of Commons on the budget.⁸⁰ On the 26th Gladstone worked on revenue and trade tables.⁸¹ On the 29th, Gladstone talked to

⁷⁸Gladstone, *Diaries* 4:17/2/48; also see *Hansard's* xcvi: 803.

⁷⁹*Ibid.*, 24/1/48.

⁸⁰*Ibid.*, 25/2/48; also see *Hansard's* xcvi, 1334.

⁸¹*Ibid.*, 26/2/48; also see "Tables of the Revenue, Population and Commerce of the United Kingdom ... 1846," Parliamentary Paper 1847-8 lxii, 1:131.

both Graham and Goulburn, noting that Graham agreed with him about the penny postage, and considered it a great mistake that the government did not introduce it.

These notes suggest that by February 1848, Peel was heavily embroiled in his double game, trying to bring his followers around to support for the Wood budget with its loans in support of wars and Ireland while separating them from their own best interests and beliefs. Gladstone's apparent first reference to the deficiency bills, those forced loans from the Bank of England to the government made on a quarterly basis, appears in February 1848.

Between 1848 and 1850, Gladstone still spoke at Peel's request, as on 10 March, 1848, when Peel asked Gladstone to follow Disraeli in debate. Speaking after midnight, a precursor of the 1852 budget debate in which Gladstone unseated Disraeli, he spoke for an hour and a quarter, destroying many of Disraeli's assumptions and conclusions, but given the hour and the mood of the House of Commons "had to throw over the chief part of my cargo of figures"—that is, he had to abandon many of his prepared remarks. Gladstone noted in his *Diary* that Peel was gratified.⁸² But Gladstone and other Peelites were no longer willing to follow Peel implicitly. The June 1848 vote on sugar duties split the Peelites: Gladstone, Cardwell, and Herbert voted with the opposition. Peel and Graham voted with the Russell government. From then on, the former ministers and their leader appear to have dealt with each new situation as it appeared.

⁸²Gladstone, *Diaries* 4: 10/3/48.

Preparation for Office

The year 1850 seems to have been the turning point for Gladstone. The death of Sir Robert Peel in that year left the Peelites with a residual loyalty to each other; this loyalty made itself apparent in finance. Many Peelite meetings after Peel's death centered on Russell and Derby government finance. On 15 May, 1851, Gladstone recorded a meeting at Cardwell's house where the Peelites decided to stay out of the parliamentary committee then being formed on the income tax.⁸³ On the 24th he met with Lord Aberdeen and Sydney Herbert on finance.⁸⁴ He was also working on his own on the government's finances, such as army and navy estimates⁸⁵ and the hop duties.⁸⁶ On 22 April, the Peelites debated a resolution to repeal paper duties, a problem Gladstone would solve several years later.⁸⁷ On 30 April, he spoke on the budget.⁸⁸ These cautious maneuvers, seen against the backdrop of a weak Derby government, suggest that Gladstone knew which way the wind would blow next, and prepared for it. In 1851 and 1852 he had read, marked, and inwardly digested.

On 4 October 1851, Edward Cardwell delivered to him a completed manuscript of "Sir R. Peel's Memoirs on Emancipation & Corn Law Repeal." He read from seven in the evening until five the next morning. "They were deeply interesting: & infinitely suggestive" but of what, Gladstone is not clear.⁸⁹ Gladstone's memorandum of the 4th says only that he continued to believe that he and Wellington had been correct in

⁸³Ibid., 15/5/51.

⁸⁴Ibid., 24/5/51.

⁸⁵Ibid., 19/3/52.

⁸⁶Ibid., 23/3/52.

⁸⁷Ibid., 22/4/52; *Hansard's* cxxi:983.

⁸⁸Ibid., 30/4/52; *Hansard's* cxxi:51.

⁸⁹Sir Robert Peel, *Memoirs*, Edward Cardwell, Lord Mahon, Eds. (MS version, published in 1856); in Gladstone, *Diaries* 4: 4/10/51. This is one volume of the Peel letters and memoranda. Gladstone was attempting to get to the bottom of what Sir Robert was doing in some of his more abstruse political maneuvers.

arguing that Peel should not have resigned. Gladstone also acknowledged, however, that Peel was probably very tired.⁹⁰

Not all the conversations were financial. While Gladstone felt he was solidly placed in reference to the financial problems of the country, he saw his political ground slipping away. On 25 February, when the Derby government was beginning its short term in office, Gladstone made a round of the old reliables: Aberdeen, Graham, and Newcastle. Aberdeen spoke kindly of Derby, seeing him as “friendly to a liberal policy.” Sir James Graham thought he might join Sir John Russell and “the liberal party as such.”

Sir James Graham said the question of Free Trade would be lost in that of Reform & the Constitution: for the people, if their bread were taxed afresh, would lay the blame on the present constituency & demand new institutions.⁹¹

In a chance encounter with Lord Hardinge, a former Peelite, Gladstone learned that the lord had taken the title of Master of Ordnance as a military office under Derby’s government, and that the Duke of Wellington (an earnest supporter of Peel) had approved. This move of Peelites toward Derby seemed to Gladstone a clear indication that his own political ground was shaky. Gladstone’s reserve of conservative thinking made him wish for a quiet and graceful way to return to the conservative party. With defections like Lord Hardinge’s move to the Derby government, however, Gladstone saw that he must soon make an effort to remain a conservative, or take the road which his inclinations set before him, a move to the liberal party. In any case, his days as a Peelite were numbered. He needed to seek an office if he was to offer himself for office in any new government.

⁹⁰Ibid., 3/10/51.

⁹¹Ibid., 25/2/52, and political memorandum, 399.

To Gladstone's preparation for office, it is imperative to add his membership on the select committee on the Constitution and Management of the Board of Customs in 1852 where he continued his independent defense of free trade. The Peelites still worried about free trade. With Derby in office, the worry increased, because now the government under Derby might introduce a motion to return to protection on a broad scale and put an end to some of Peel's program. On the same day that Gladstone recorded a two-and-a-half hour meeting of that committee, Sir James Graham told him that Lord Russell had urged Mr. Gladstone and others to act together to save free trade.⁹² Another meeting on 31 March brought Aberdeen, Newcastle, Goulburn, and Gladstone together. Newcastle reiterated their need to stick together and "do nothing to mark their separation [from Graham]."⁹³

The prelude to the budget crisis that brought down the Derby government appears in a motion prompted by Lord Aberdeen's encouragement, to force the government into stating what they intended to do about free trade.⁹⁴ The free trade problem resolved itself because the conservatives were no longer interested in killing free trade; they found free trade more profitable than protection. For the time being the Peelites and the conservatives were one. On 27 November Gladstone attended a party

⁹²Ibid., 12/3/52. In the memorandum that accompanies the *Diary* entry, Gladstone wrote that Sir James Graham had hoped that Derby "would take a manly & explicit course & bring the question of Free Trade to issue with all reasonable dispatch."

⁹³Ibid., 26/3/52, 31/3/52. "Apart from the witcheries, Graham was ready to take his place in the Liberal ranks" Gladstone identified four flavors for Peelites at this point: first, Graham, who had sided so strongly with Peel in the face of Peelite opposition to Peel's maneuverings during the Russell administration; second Cardwell, Fitzroy, and Oswald, whom Gladstone thought would follow Graham; third, the great bulk of the men, "more or less undisguisedly anticipating junction with Lord Derby and avowing that Free Trade is their only point of difference"; and fourth, Gladstone himself with Lord Aberdeen and Sidney Herbert. But the comment about marking their separation from Graham is suggestive of something slightly more difficult: during Peel's years of support for the Russell party and government, Graham was Peel's only staunch supporter, following him closely and never voting against Peel during the Russell government's service. The remaining Peelites had felt somewhat estranged from Graham, and were now anxious to regain their former friendship and solidarity.

⁹⁴Ibid., 11/11/52.

at Lady Derby's where her noble husband took Gladstone aside and thanked him for the level tone of his speech during the free trade debate. Derby said his great object was to collect men of similar views on the government and organize them to get things done. Gladstone responded that he spoke for Herbert, Goulburn and others, that their opinions had not changed since spring, and that the next thing they expected to see was the budget as an indication of the government's intentions.⁹⁵ And thus the Peelites sat outside the government, secure that they had managed to protect free trade, or at least to outlive the conservative urge to return to protection, and secure that they could still bring pressure on a government whenever they needed to.

If one pauses to consider the question of Gladstone's madness or perspicuity in political matters at this time, his understanding of politics, his standing with politicians, his intelligence, and his ability to act in a conciliatory manner must be admitted. He was taking his own course. He was reading steadily on taxation and revenue. He now acknowledged Aberdeen as his leader. He was still surrounded by Peelites who could and would pressure any government with which they did not share complete confidence. Gladstone was not alone, and he sat out because his primary friends and colleagues sat out. The tense months in which the Peelites waited for Derby to declare his government's position on free trade may have been the very months in which Gladstone finally saw his way clear as to his political direction.

He believed in free trade. He owed a great debt to Sir Robert for Peel's support of Gladstone in government. He believed in, fought for, and still paced restlessly around

⁹⁵Ibid., *Diaries* 4: 2/11/52. Gladstone was being boxed in. Much as he might wish to return to the conservative party, much as he shied away from the crisis Peel had caused in the old conservative party over free trade, he could not join with other men to get things done unless one of the things left undone was destruction of free trade.

the battlements waiting for the conservative attack on free trade. Although he still failed to see what Peel had accomplished in destroying the old conservative party through his battle for free trade, further aid to Ireland, and other issues, what Gladstone now saw was a clear distinction: Peel had been in many ways either a new conservative or a budding liberal. Derby had another problem: he was trying to rebuild a party that Peel had destroyed. This was not an enviable position. Nor, did he have the right men to do the job. This is why he talked to Gladstone about finding men to do great things. This is why he wanted Gladstone. The problem for Gladstone, vis-à-vis Derby, is that without a full Derby agenda, Gladstone might find among the great things he might accomplish the destruction of free trade.

Gladstone still wanted office, but office was not a benefit to be conferred by a superior. It was his right. One wonders why the Prince Consort had to steer Aberdeen toward Gladstone as chancellor, unless Aberdeen was afraid of Gladstone and his forthright manner. Derby and Palmerston had both wanted Gladstone in their government. The favor bestowed in by Lord Derby of addressing Gladstone publicly at a Derby party must have been noticed. The conservatives were courting Gladstone. Disraeli conceded that he agreed with the Peelites on free trade. One element of Peel's legacy was safely reserved. Meanwhile, in demanding from Derby a budget that the Peelites could use to judge the government, Gladstone unfailingly put his finger on both the weakness of Derby's government, and his own most precious ability to serve a government—finance. On 26 November he spoke to Lord Aberdeen about what he called "ministerial contingencies."⁹⁶

⁹⁶Ibid., 27/12/52.

Conclusion

In October, 1849, Gladstone took a twenty mile drive in Lord Aberdeen's pony cart while they discussed Peel. Gladstone again spelled out his belief that Peel was in a false position—"false and in the abstract almost immoral." "In this Lord A. agreed," citing a case in which the government had lost a motion on foreign policy because of the scandalous manner by which the bill was introduced, and suggesting treachery to those who listened.⁹⁷ To critics, this continual carping on Peel's position and its falsehood might sound as if Gladstone was attempting character assassination, trying to overthrow a government, or trying to create a government of his own. In fact, he and other Peelites were defending their own reason and reputations. Gladstone's comments in this case were addressed to another Peelite, Aberdeen, whose age and wisdom Gladstone respected. Gladstone still relied on the older men to guide him, and to act as his friends. He was not a fool. He was a man of considerable penetration, one who was aware of shifts in public opinion and purpose, and a man so unset in his ways he could respond to each new political and social reality as it presented himself. This chapter has shown that he was a man whose previous mentor had done him a lot of good, but had also demonstrated a great many false and dangerous positions and actions.

Gladstone was still reporting dutifully to his father, but, perhaps tired of the continued harangue and also conscious of the older man's failing faculties, Gladstone was not anxious to enter into time-consuming and irritating debates with the older man. The encounters with his father may have increased Gladstone's reluctance to tangle

⁹⁷Ibid., 19/10/49. The referenced bill is in *Hansard's*, cvii:616 (20 July, 1849).

with Peel over matters in which the Peelites had no direct power to intervene, and were led by a man who refused to do so.

It is a very singular effect in two ways for first on account of his eminence he has lost the privilege which even much meaner men think essential to their position that of judging & voting freely; & the Govt. gains the benefit of this on account of its weakness since if it were strong enough to hold its own way the restraint would cease to operate.⁹⁸

And so we find Gladstone still finding his own way, not yet sure of the positive direction but far more sure than he ever had been of the negative directions he wished to avoid. He wanted any government in which he served to be honest, forthright, devoid of parliamentary manipulation, and predictable. He had not yet invoked the people in his thinking, but he would soon see that if his government was to be honest, it was the people it had to be honest to.

Gladstone's Reading

This chapter had examined Gladstone's life as a post-cabinet Peelite. He came down from office admiring and following Peel, but he soon learned to distrust Peel, refusing to help save the Russell government to protect free trade in the way that Peel decreed. When one encounters Gladstone's adventures in adult education, and his phenomenal habits of buying books even when fully engaged on a mission of mercy, one might expect that the books he was reading had something to do with his behavior.

First, his reading of *The Diaries of Samuel Pepys*, 5 Vols. (1828 edition) may have given him a beneficial model of the useful civil and government servant.⁹⁹ Pepys

⁹⁸Ibid., 6/3/49, n.3,4, but dated 15 March, 1849; see also Add MS 44777, f.283. Gladstone wrote this memorandum on the same day Peel, Graham, and Cardwell voted with the government on the Irish poor law and Gladstone, Goulburn, Lincoln, and Herbert voted against it: *Hansard's* ciii:314.

⁹⁹Ibid., 25/6/49. He returned to Pepys on 6/4/78.

worked hard to become a successful secretary of the navy, and his self education was prodigious: beginning with the multiplication table, he learned ropes and cables, the parts of a ship, and the ways that ships were built. He talked to seamen, ship-builders, and owners of the rope-walks. He read the histories of various battles. He kept his accounts in such good order that not even Parliamentary audits could catch him out. Like Gladstone, Pepys eventually overhauled an important branch of the government to make it more efficient. Pepys is fondly remembered by those who followed him in the Navy.¹⁰⁰

The largest portion of Gladstone's financial reading during the period 1846-1852 was on taxation. The approach taken by each author refers us to the eternal question, whose ox is being gored by each form of taxation? One of his most useful studies may have been Sir John Sinclair's *The History of the Public Revenue of the British Empire, 1784-1790*. 3 Vols. (apparently the first volume only, 1784).¹⁰¹ Other documents pitted land tax against income tax, direct taxes against indirect taxes, and cheap sugar against highly taxed sugar. Gladstone appears to have begun a study of national statistics in the proceedings of the Statistical Society of London, later the Royal Statistical Society.¹⁰² Mid-Victorian statistics were not yet sophisticated, although statisticians were beginning to use more complex formulae in attempts to describe various phenomena. The government's statistical reports were farther behind, relying primarily on narrative accounts of births, deaths, weddings, food production, rail and canal lines and other

¹⁰⁰Arthur Herman, *To Rule the Waves: How the British Navy Shaped the Modern World* (New York: Harper, 2004), 182-207, contain the chapter, "Mr. Peyps's Navy."

¹⁰¹Gladstone, *Diaries* 4: 2/12/52.

¹⁰²*Ibid.*, 3/4/52, when he first recorded an interest in the Royal Statistical Society. Also see Gladstone, *Diaries* 6:18/2/68, the entry that records his presidency of the 1868-9 season. For the history of the statistical societies, Royal and London, see Victor L. Hilts, "*Aliis exteendum*, or, the Origins of the Statistical Society of London," *Isis* 69, no. 1 (March 1978), 21-43.

information. Gladstone continued his reading of statistical proceedings and occasionally attended meetings.

Reading competed with his time as a friend, husband, father, son, politician, man of religion, savior of coal heavers, investor in railroads, and man of all seasons.

Nevertheless, a close study of Gladstone's reading suggests that books gave him an anchor and sense of centrality for his other activities. On at least forty-nine occasions between 1847 and 1866, he read or at least dipped into a book on banking, the Bank of England, currency, currency issue, gold, or the commercial crisis. Table 5 shows his reading during this period, organized by topic.

Table 5: Gladstone's Reading, 1846-1852

Topic	Author	Title	Reading Date ^a	
Accounting and Trade	Trade	Anonymous	<i>Abolition of the Navigation Laws</i> (npd)	25 Mar 1847
	Trade	George Frederick Young	<i>Free Trade and the Navigation Laws</i> (npd)	5 Mar 1849
	Trade	Charles Newdigate	<i>A Letter to the Right Hon. H. Labouchere on the Balance of Trade ... During the Last Four Years</i> (1849) ^b	24 Mar 1849
	Trade	William Wolryche Whitmore	<i>Plain Thoughts on Free Trade</i> (1849)	17 Dec 1849
	Trade	Anonymous	<i>Finance and Trade of the United Kingdom</i> (1852)	11 Feb 1852
	Trade	W. S. Lindsay	<i>Letters on the Navigation Laws Reprinted from the Morning Herald</i> (1849)	27 Feb 1852
	Trade	F. C.	<i>Free Trade: Its Moral, Commercial, Agricultural, and Social Results ... by FC</i> (1852)	24 Sept 1852
Bank of England and the 1844 Bank Act	John Francis	<i>History of the Bank of England, its Times and Traditions</i> (2 vols.)	19/11/47 12/5/48	
Banking and Currency	Banking	George Taylor	<i>Treatise on the Joint Stock Act of 1847</i>	12 Oct 1847
	Banking	Alexander Baring, Lord Ashburton	<i>Financial and Commercial Crisis Considered</i>	24 May 1847
	Currency	Benjamin Sharp	<i>Plan for the Extension of the Currency</i>	26 Nov 1847
	Currency	G. F. Matheson	<i>On the Mint</i>	24 Feb 1849
	Currency	Charles Enderby	<i>Our Money Laws the Cause of National Distress</i> (1847)	29 Nov 1847
Government Finance (taxation, budgets, national debt, Indian finance)	Finance	Henry Goulburn	Financial Statement ... (1846)	4 Jul 1846
	Finance	David Mure	<i>The Financial Policy of Pitt and Peel</i> (1847)	19 Jun 1847
	Finance	Arthur Young	<i>An Enquiry into the Legality and Expedience of Increasing the Royal Navy by Subscriptions for Building County Ships</i> (1783)	12 Apr 1848
	Finance	Samuel Pepys	<i>The Diary of Samuel Pepys, 5 Vols.</i> (1828)	25 Jun 1849
	Finance	<i>North British Review</i> , Edward Cardwell	Finance 10 (1848)	9 Nov 1852
	Taxation	Anonymous	<i>An Argument in Defense of the Exclusive Rights Claimed by the Colonies to Tax Themselves</i> (1774)	10 Feb 1846
	Taxation	<i>Blackwoods Edinburgh Review</i>	Taxation 61 (1847)	16 Feb 1847
	Taxation	W. B.	<i>The Comparative Merits of Direct and Indirect Taxation</i> (1846)	20 Mar 1847
	Taxation	Matthew Higgins (Jacob Omnium)	<i>Cheap Sugar ... First Letter</i> (1847)	6 Nov 1848
	Taxation	Matthew Higgins (Jacob Omnium)	<i>Cheap Sugar ... Third Letter</i> (1848)	6 Nov 1848
	Taxation	Henry Goulburn	<i>Financial Statement</i> ^c	3 Mar 1848
Taxation	Anonymous	Property Tax Versus Income Tax, in a Letter to the Representatives of the United Kingdom (1848)	6 Mar 1848	

(table continues)

Table 5 (continued).

Topic	Author	Title	Reading Date ^a
	Taxation John Ramsay MacCulloch	"A Treatise on the Succession to Property Vacated by Death" (1848)	7 Mar 1848
	Taxation Publius	<i>Thoughts on Finance and the Colonies</i> (1846)	28 Apr 1848
	Taxation John Scott	Letter to the Chancellor of the Exchequer on his Proposed Sale of the Land Tax (1798) ^d	12 Jun 1848
	Taxation John Scott	<i>Letter to the Chancellor of the Exchequer on his Proposed Sale of the Land Tax</i> (1798)	12 Jun 1848
	Taxation Alexander Gibbon	<i>Taxation: Its Nature and Properties. With Remarks on the Incidence and the Expediency of the Repeal of the Income Tax</i> (1851)	1 Jan 1851
Government Finance (continued)	Taxation Laurence Heyworth	On Economic Fiscal Legislation (1845) ^e	7 Jun 1851
	Taxation John Gellibrand Hubbard	<i>How Should Income Tax be Levied? Considered in a Letter to ... D'Israeli</i> (1852)	12 Nov 1852
	Taxation William Pitt the Younger	<i>The Speeches of ... William Pitt in the House of Commons</i> , 4 vols. (1806) ^f	15 Jun 1832 15 Mar 1852
	Taxation PP 1852 ix. 1: 463	First and Second Parts of the Select Committee Report on Income and Property Tax (1852)	25 Nov 1852
	Taxation Sir John Sinclair	<i>The History of Public Revenue of the British Empire</i> , 3 Vols. (1784-1790)	2 Dec 1852
	Taxation John Gorham Maitland	<i>Property and Income Tax. The Present State of the Question</i> (1853) ^g	8 Dec 1852
	Taxation John Gellibrand Hubbard	<i>Reform or Reject the Income Tax. Objections to a Reform of the Income Tax Considered, in Two Letters to the Times</i> (1853)	30 Dec 1852
	Political Economy Richard Whately	<i>Introductory Lectures in Political Economy</i> (1843)	19/1/48
	Political Economy Frederick Hill	<i>National Force. Economical Defence of the Country from Internal Tumult and Foreign Aggression</i> (1848)	6/3/48
	Political Economy W. Ellis	<i>Outlines of Social Economy</i> (1846)	16/3/47
Cost of War	War Finance Josiah Tucker	<i>Cui Bono? What Benefits can Arise from the War?</i> (1781)	10 May 1849

Notes:

^aAll date references are to Volume 3 of the *Diaries*. Within a Topic, the publications are listed in the order in which Gladstone recorded reading them (right-hand column).

^bLabouchere was then president of the Board of Trade.

^cProbably that of 1845, Hansard's, 3 lxxvii, 573.

^dMarked "probably."

^eMarked "probably."

^fPitt is included because of his speeches on finance.

^gAdvanced copy.

CHAPTER 5

FIRST CHANCELLORSHIP, 1852-1855

Introduction

In 1854, Great Britain entered its first major war since the end of the Napoleonic war. The importance of this war has received due notice from historians. Less well understood were the attempts of Gladstone and his successor, Sir George Cornwall Lewis to finance the landing and subsequent battles, the prolonged siege of Sebastopol, and the drawn-out conclusion of hostilities. Gladstone got his fingers burned over finance, being driven away from his public stance that taxes, not loans should pay for the war, and being made aware that governments must pay fairly for the money they borrow. To his everlasting credit, this is the period in which Gladstone not only accepted a major cabinet position but redefined it, rewriting a portion of the British Constitution along the way, and beginning the work of redefining the Treasury for the next half century.

The Bright Hope

This chapter examines Gladstone's first and periods of service as office of Chancellor of the Exchequer, from December 1852 to February 1855. These were his appointment in Lord Aberdeen's first and only government, and his three-week membership in the first Palmerston government. It should have been a successful run in office. Gladstone had read and thought about the government's responsibilities to the people, and theirs to the government. His bookcases bulged with works on taxation and finance. He was also in close communication with the men leading the effort toward

government reform. Stafford Henry Northcote had been Gladstone's private secretary. In 1853, as one of his first acts in office, Gladstone signed the order that launched the Northcote-Trevelyan research and report on reform of government civil service. He won his first two battles with the Bank of England. Gladstone was set for glory. But when war erupted in the Crimea, Gladstone's was forced to pit his partisanship against his penury. While he preached taxes, he practiced borrowing, not always successfully. He hated war, but he was forced by his alliance with the Peelites that formed the 1852-1855 government and by the determination of the British people to fight the war, to support it, and then study war for the rest of the period of this thesis.

Three items are of interest to this thesis from this period: The first is the body of political and economic philosophy embodied in the Gladstone's first three budgets with his intention of refinancing the national debt and using taxes to pay for the war. The second is his relationship to the Crimean War as a source of failure on his part. The third is his effort to redefine the government's relationship to the Bank of England. He later wrote:

The expenses of a war are the moral check which it has pleased the Almighty to impose upon the ambition and lust of conquest, that are inherent in so many nations... The necessity of meeting from year to year the expenditure which it entails is a salutary and wholesome check, making them feel what they are about, and making them measure the cost of the benefit upon which they may calculate.¹

This is an important combination of interests. Britain was regularly fighting small tactical engagements in its colonies and in China. But no British government had fought a strategic war since Waterloo. Crimea was to be a strategic war, not a tactical skirmish. Britain's standing army was small compared to continental armies, and Crimea was to

¹Gladstone, undated fragment, in Morley, *Gladstone* 1:513.

show that French artillery, manpower numbers and training, ordnance, supply chains, and medical support all were far superior to those of Britain. In addition, Britain's navy had experimented with iron cladding and steam engines, but the Navy was by no means converted to the then modern standards of iron cladding. When the Aberdeen government was forced into a war that Britain felt it must win, it committed itself and future governments to a long-term problem that would not be solved until well after 1900—to create a standing army and staff, and to enable training for all ranks, especially in tactical maneuvering, signaling, and command decision-taking. All this would have cost a great deal of money, money that had not been included in the budgets of the previous forty years.

As late as 1997, Gladstone has been described as “notoriously niggardly and cautious in matters of public finance.”² The problem with calling him *niggardly* is that it creates a context for the word *cautious*. Caution is generally accepted as a good thing in budgets and in budget planners. Having been in parliament for twenty years, Gladstone was aware of the importance of caution: that a poor harvest or a sagging economy could ruin a Chancellor of the Exchequer's expectations for revenue. In addition, little wars in the colonies continued to flare up. China was particularly sensitive because in China Britain confronted her major European neighbors and the United States. While they all acted as allies in China, they must always have been sizing each other up in case war erupted in Europe or North America.

The 1853 Gladstone budget contained expenditures for the small colonial wars as well as the standard fare of government responsibilities. This budget has been

²David Newsome, *The Victorian World Picture: Perceptions and Introspections in an Age of Change* (New Brunswick: Rutgers University Press, 1997), 38.

documented, in its entirety, in terms of its overall concept and its massive reorganization of taxes, customs, and excise revenues. Our interest is directed to the ease with which Gladstone presented his budgets and had them accepted. Gladstone's budgets were received in 1853 and 1854 (a stop-gap budget and a war budget) almost without criticism. The commercial crisis of 1847 had opened the floodgates for criticism about government policy, banking law, and the behavior of the Bank of England operating under a new Bank Charter that Peel had promulgated. By contrast, Gladstone appears to have carried no negative political baggage, and was generally well received.

Held back until Peel's death, Gladstone emerged into a Peelite administration, still slightly timorous (he asked Aberdeen what his powers as Chancellor were) but among friends. His knowledge of government operations increased; his beliefs in parsimony, paying off the national debt, and peace if possible were intact; and his need for secrecy in financial matters was left unshattered by the presentation of his first budget to the full cabinet. This last item requires discussion. Gladstone was later to instruct the young chancellors who served in his governments never to let their colleagues into the secrets of the budget until the plan was complete and formally presented to the full cabinet. His father had blamed him for his secretive behavior over the vote on Jewish Disabilities. In developing and presenting the budget of 1853, Gladstone was to have his own strictures on secrecy enforced. If he trusted his colleagues with part of the budget or partial reasoning on a key point, they could, all too easily, misunderstand details, and start a panic. Gladstone's what-they-don't-know-they-can't-start-a-fight-over rule shows that while he might have the numbers safely stowed in his mind, he wished to have the budget reviewed first in its entirety only when he

could defend it in its entirety. Therefore, he reasoned that the Chancellor's responsibility was to keep the secret as long as possible, and to present the clearest possible picture of the entire budget to the cabinet before letting them have their voices.

When he entered office, however, he entered with a good deal of energy. At the beginning of 1853, Gladstone was reading voraciously (including a book on wine duties), writing to at least one Italian economist, reading poetry, and managing walks by himself and with Catherine. On February 26, he read R. Hamilton's *Inquiry concerning the Rise and Progress, Redemption ... and the Management of the National Debt* (1813), an attack on Vansittart and his use of a sinking fund.³ In addition, he was meeting with and writing to large numbers of clergy, who may have been petitioning for preferment from the new and very church-minded Chancellor of the Exchequer, and fielding other requests for pensions and positions.⁴

Deputations, Princes, and Governmental Contacts

Gladstone learned from nearly everyone he met or corresponded with. A review of the *Diary* for Gladstone's first chancellorship brings to mind the image of a duck, serenely floating on the surface and paddling like mad underneath. To those who celebrate the success of Gladstone's budget speech of 1853, the record in the *Diary* may be of secondary value, but the fact remains that every day of his chancellorship, Gladstone created and benefited from a whirlwind of meetings, letters, memoranda, speeches, deputations, House of Commons appearances, and conversations. Nor should we forget the previous twenty years, when an MP growing from novice to

³Gladstone, *Diaries* 4:26/2/53.

⁴*Ibid.*, 4:20/2/53. He was beginning to feel the broad range of his responsibilities.

accomplished politico sifted his way down through endless layers of economic minutiae to get to the bottom of dozens of financial problems, and each time emerged with a better understanding about how Great Britain and its colonies were run.

The following paragraphs describe the first two full months of 1853, a period when Gladstone was learning his job, preparing a budget, and moving into Downing Street. It is by no means extraordinary, except that it contains very little in the way of social contact, but does include his preparation for Lent: he believed that the press of work would make it imperative that he did not stint on food.⁵

He had two or three conversations with the Prince consort, the man who had recommended him for the job, and at least one of which was on finance.⁶ He recorded deputations on products for which excise or duties were still being charged: chicory,⁷ hops,⁸ coaches,⁹ post horses,¹⁰ malt spirits,¹¹ and wine.¹² The soap delegation was led by John Bright and Richard Cobden, the two radical reformers.¹³ To collect and verify the estimates he saw Sir James Graham “with his myrmidons on the Navy Estimates preparing for debate on the Navy estimates.”¹⁴ Gladstone saw Edward Cardwell at Home office on the Ordnance estimates as well.¹⁵

To understand more about revenues, he met with “Mr. Reynolds,” joint solicitor to

⁵Ibid., 4:9/2/53.

⁶Ibid., 4:1/2/53; 1/3/53; 4:16/2/53.

⁷Ibid., 4:2/17/54.

⁸Ibid., 4: 15/2/53, 4:2/17/53.

⁹Ibid., 4:5/2/53; he saw a delegation of coach makers.

¹⁰Ibid., 4:26/2/53.

¹¹Ibid., 4:28/2/53.

¹²Ibid., 4:7/2/53.

¹³Ibid., 4:22/2/53.

¹⁴Ibid., 4:8/2/53; *Hansard's* cxxiii: 997. For a discussion of the way the estimates were managed, see Sir Norman Chester, *The English Administrative System, 1780-1870* (Oxford: Clarendon Press, 1981): 185-186, 194-197.

¹⁵Gladstone, *Diaries*, 4: 9/2/53.

the Treasury from 1852, Charles Litchfield, senior treasury clerk, Charles Goulburn (Chancellor of the Exchequer in Peel's last government), and William George Anderson (Mr. Anderson), assistant paymaster, all in February. He also wrote Edward Hall Anderson, Baron of the Exchequer on 18 February.

The memoranda Gladstone wrote during his early months in office were numerous, and a review suggests he acted as *aides de memoire* in the preparation of his budget speech. On 4 January, Gladstone recorded correcting his paper on Income Tax *again*, suggesting that he had already worked on it more than once. He returned to it on the fifteenth of that month.¹⁶ On 1 February he reported conversations on income tax. On 2 February he wrote a minute on the estimates of gross revenue.¹⁷ Matthew looked for but failed to find an "untraced" memorandum following a meeting with Sir Charles Trevelyan on the consolidated annuities.¹⁸ His notes from a meeting on wine duties appear both in manuscript and in a report appeared in *The Times*.¹⁹ He recorded memoranda with the outline of a plan on Customs Duties;²⁰ a visit from an advertisement duty deputation;²¹ and a two-and-a-half hour stint with Sir Charles Wood's paper on income tax and other sources of revenue.²² In early March he took time from his budget plans to have a meeting with the National Debt Committee. "We changed the form of dealing with the Surplus."²³

¹⁶Ibid., 4:4/1/53, 4:15/1/53.

¹⁷Ibid., 4:1/2/53, 2/2/53, n.10. On this date he wrote a minute on the estimates of gross revenue; Add MS 44636, n.10, f.1

¹⁸Ibid., 4:3/3/53, n.5.

¹⁹Ibid., 4:7/2/53; Add MS 44741: f.68; *The Times*, 8 February 1853, 4f.

²⁰Ibid., 4:11/3/53; Add MS 44741: f. 115.

²¹Ibid., 4:12/3/53; Add MS 44741: f. 122.

²²Ibid., 4:12/3/53; Add MS 44572, f. 122 and 141.

²³Ibid., 4:4/3/53. This comment deserves to be investigated.

This brief account of the period from the first of January to early March suggests that the budget speech was no miracle, but the product of what others might see as a miracle, Gladstone's relentless days and nights, his nearly endless meetings, composition of as many as twenty-three letters a day,²⁴ and numerous memoranda. His work on the Income Tax and his prognostications that it could be discontinued in 1860 have been noted, as has his inability to accomplish that goal. Less exciting, Gladstone put an end to a hundred-year-old public scandal by winding up the South Sea company (not without great cost to the government)—paying off, finally, those who had been swindled.²⁵ One needs only to read the 1853 budget speech, all four hours of it, to see what the Gladstone whirlwind had planned for its first year in office. It may be safe to say that part of what rescued Gladstone from obscurity after the Crimea, and delivered his reputation for probity and genuine talent, was the near verisimilitude of the 1853 budget.

The Budgets

Historians have taken Gladstone's 1853 and 1854 budgets as the first indications of his ability to manage numbers. To a certain extent, they have followed the reasoning of learned people at the time, that Gladstone might have some little spark or understanding that others had not, and that Gladstone had taught them to think differently about government finance. Gladstone's budgets were good, and only Jenkins, the former Chancellor of a twentieth-century Exchequer has been able to poke holes in them. Jenkins confirms the weaknesses that Gladstone himself found. Shannon

²⁴Ibid., 4:15/3/53.

²⁵Ibid., 4:16/3/53; Gladstone wrote to the sub-governor of the South Sea Company.

and Crosby have excused Gladstone's budgets from a general theme of madness strategies because his budgets do not fit the patterns these critics were attempting to establish. Nevertheless, the budgets brought Gladstone well into the public eye, and made him, for a time, a hero; for the long term they made him into a man with whom to be reckoned. Historians generally agree he was bringing new thinking to the budget and the budgetary process:

In 1854 it was still agreed that the cardinal sin of the Younger Pitt and his immediate successors in financing the Revolutionary and Napoleonic Wars was their vast expansion of the National Debt. For thirty years 'the funding system' had been a favourite target of a country convinced as never before that financial problems lay at the root of all the nation's evils.²⁶

The 1853 Budget

In 1853, Gladstone coveted only one cabinet position: Chancellor of the Exchequer. It is prudent, therefore, to ask about the constitution of this ancient office. The medieval Exchequer had been both a revenue collection agency and a court of law.²⁷ Until 1787, the great reservoir of taxes, customs, excise, income from the sovereign's lands, and other fees and dues, was called the Exchequer. The Exchequer's entire function was to collect debts, punish and fine defaulters, make the money available to the government and king to spend and try those who failed to pay their obligations. The Act of 1787 separated the office from the fund. Under this act, the moneys collected by the great revenue departments (Inland Revenue, Customs and Excise, Post Office, and others) became the Consolidated Fund. When Gladstone came

²⁶Olive Anderson, *A Liberal State at War: English Politics and Economics During the Crimean War* (New York: St. Martin's Press, 1967), 190.

²⁷Its court of law survived until 1880 dealing with tax cases.

to office, his rights as chancellor depended partially on the ancient role of the Exchequer, and increasingly on the rising nineteenth-century demand for stable financial governance. The role of the Chancellor of the Exchequer had originally been to ensure the safety of the revenues collected by the nation's tax collectors and make it available to the king to spend. Gladstone had taught himself that as chancellor he was responsible for much more, namely, the entire financial health of the government and of the country.²⁸

Gladstone wrote three budgets as chancellor in this period: a regular 1853 budget, a preliminary 1854 budget, and the 1854 war budget. His job was not easy, as Morley has written:

[Whig finance] not only bewildered parliament, but had filled merchants, bankers, ship owners, manufacturers, shopkeepers, and the whole array of general taxpayers with perplexity and dismay. Peel recovered a financial equilibrium ..., but Peel was gone. The Whigs who followed him after 1846 had once more laboured under an unlucky star ... They performed the unexampled feat of bringing forward four budgets in a single year ... By 1851, floundering had reached a climax. Finance had thus discredited one historical party; it had broken up the other. It was finance that overthrew weak governments and hindered the possibility of a strong one.

Morley argues that the finance of the United Kingdom was so complex that it required a man with "powers of a different order" than that of earlier chancellors—that the position required nothing less than a paradigm shift in thinking about the entire way the budget was managed, the kingdom envisioned, and the chancellor acted.²⁹ Jenkins, supporting Morley, says Gladstone needed not so much a budget for the year of 1853 as system of finance for the third quarter of the century.³⁰ Gladstone's new system of

²⁸Edward Ettingdene, Lord Bridges, *The Treasury* (London: George Allen, 1966), 29.

²⁹Morley, *Gladstone* 1:458-459.

³⁰Jenkins, *Gladstone, a Biography*, 149.

finance consolidated several important trends: the use of the income tax as that powerful engine that could drive the country; a long view of finance, replacing the hand-to-mouth existence of previous governments; beneficial reorganization of the tariffs and improvement in collection; efforts to put British industry on an even keel so as to avoid crises and business downturns and their concurrent reductions in tax collection.

Gladstone's grasp of what was required in a budget or financial statement must have been nearly absolute when he sat down to write his first draft. He had listened to at least twenty budget speeches. He had dealt with parts of the budget practically since his entry into the government, and understood much of the revenue side in extreme detail.³¹ On the purely economic side, he seems to have seen his job in 1853 as a swatting up exercise to refresh his memory and thus to produce a fiscally sound, turn-around budget. He also was required to replace old financial constructs with new and intelligent ideas: putting down the continued resistance to the income tax, placing excise and customs on an increasingly solid foundation, and linking the budget with the new social structure emerging in Great Britain.

To these ends, he set himself to learn all the details of the full range of budgetary items quickly, draw up a complete state that could not be challenged on lack of detail, and present it early in the parliamentary calendar as a sign his government was taking firm control. His budget statement required a thorough demonstration of adequate

³¹Hirst, *Gladstone as Financier*, has discussed Gladstone before and during this period in three chapters: financial and political beliefs from repeal of the Corn Laws to 1852, 112-137; Gladstone in his first chancellorship, 138-154; and his war finance 155-166. This is a useful study, but precious pages are given over to foreign policy and politics which had been covered, by 1931, in other places. The examples are often useful and even illuminating, but do not provide the types of analysis that Sidney Buxton does. It appears from both Buxton and Hirst that Gladstone was sure of his numbers but unsure of his political position, and that this insecurity if anything hampered him in completing his duties as chancellor as far as he might have been able to do.

revenues, sensible spending policy, accuracy, and sympathy for various factions. These were matters in which his ability to gather information without sharing conclusions prematurely supported his work: before he announced his plan, he hoped to get each item as clear and accurate as possible.

The plan was so large and complex that Gladstone broke his own rule and explained it to Cardwell, then president of the Board of Trade. Cardwell was astonished, and Gladstone asked himself if he had the right to involve the cabinet in the plan. Gladstone then showed the full plan to Aberdeen, who frowned. The Chancellor of the Exchequer went away and next day brought back a mutilated form of the budget, with the question about his rights as chancellor. Aberdeen asked him to bring his original plan to the cabinet.³² Aberdeen was granting him full rights in his new position.

Those who read Gladstone's 1853 budget speech and who exclaim over its breadth and courage may not be aware that this same budget terrified his fellow cabinet members.³³ To Gladstone, the Peel protégé, cutting many of the most onerous taxes and reorganizing the rest seemed to be good sense, and his presentation to the cabinet cleared away many of his colleague's fears.³⁴ Argyll wrote that he had never heard such a speech (in cabinet) and said it had riveted his colleagues.³⁵ Apparently, his colleagues

³²Gladstone, *Diaries* 4:9/4/53 when he presented the budget to the full cabinet for the first time.

³³*Ibid.*, 4:12/4/53. Not surprisingly, the battles between Gladstone and Palmerston seem to date from this year and the budget: In a memorandum of 12 April, Gladstone noted that Palmerston drew a distinction between the goodness of a plan and the practicability of implementing it, and said that he had always thought that Disraeli's budget was a very good plan, but that he [Palmerston] did not believe it could be carried out.

³⁴Gladstone would have liked to remove the detailed line-item wrangle from early cabinet meetings but to fight the details out in the House of Commons. In the 1860s, Gladstone was forced to fight the budget out line by line in the cabinet, but he still claimed the privilege of secrecy until he was ready to fight the whole thing as a single document. Every time he made preliminary comments he deeply regretted having done so. See Chapter 7.

³⁵*Ibid.*, 4:8/4/53.

came unriveted as they sweated out the cabinet meetings of 11-12 April (Monday and Tuesday of the following week):³⁶

Lord Aberdeen said you must take care that your proposals are not unpopular ones & I replied that it was after applying the test of popularity that I was convinced the Budget would be damaged and weakened by the withdrawal of these two points [income tax continuation and extension of the tax to Ireland].³⁷

Aberdeen later became known for his dithering over decisions about the Crimean War, and this early behavior gave Gladstone pause. Like the rest of the Peelites Aberdeen favored peace—in Europe and in his cabinet.³⁸ The cabinet's response to Gladstone's proposed budget nearly convinced Aberdeen that Gladstone could not succeed, but the prime minister had the grace to believe that no chancellor could be expected to succeed. The idea of a proactive chancellor, one who made policy through a budget, was not an accepted until Gladstone stood up in April 1853 and made it acceptable. Problems had often previously arisen about the competence and numeracy of those who took the job, and in the fact the belief was that no man had the competence and numeracy to deal with the entire job. Britain's finance was supposed to have gotten out of hand.

Gladstone was sure of his numbers; he was also sure of his plan; yet he could be hesitant. Why? First, his prime minister encouraged him one day and attempted to rein him in the next. Second, Palmerston had commented that Disraeli's 1852 budget had a

³⁶Ibid., 4:18/4/53. This was his first budget speech.

³⁷Ibid., 4:11/4/53.

³⁸Paul Schroeder, *Austria, Great Britain, and the Crimean War: The Destruction of the European Concert* (Ithaca: Cornell University, 1972), 12. Sir James Graham, now back in the fold after his heroic and single-handed defense of Peel, was first lord of the Admiralty; the Duke of Newcastle was Colonial secretary and secretary for War; the Duke of Argyll was Lord Privy Seal; and Sidney Herbert was secretary at War. This was the peace party. Lord Palmerston, Home Secretary, led the war party in the cabinet.

good plan, but he [Palmerston] could not see how the plan could be achieved.³⁹ The problem for Gladstone was simply whether he would be granted the constitutional right to present the plan to legislators and the people on behalf of his cabinet colleagues and endanger the government. MPs might throw the government out on the same night that the budget was presented. The people might set up a clamor the next day and accomplish the same thing.

Palmerston's comment about Disraeli's plan shows us one element of Gladstone's problem: good money sense (assuming a budget demonstrated that attribute) might not make good political sense. In this, Palmerston and Aberdeen agreed. When Gladstone presented his budget in 1853, cabinet disagreements focused primarily on the income tax, extension of the income tax to Ireland, and the soap tax, whether it should be cut completely or only in half. Gladstone had a good plan, but its magnitude, its paradigm shift, and the very numbers presented to a new cabinet made that cabinet shaky. Edward Ellice, a Peelite MP, thought the cabinet should consider dissolution; in doing so he showed how finance changed an economic problem into a political problem in an instant and demonstrated how a stampede into the purely political arguments could be accomplished. The government was "notoriously weak" and had already been beaten three times in a week with the budget speech four days off.⁴⁰

³⁹Gladstone, *Diaries* 4:12/4/53, 515 (second page of the memorandum).

⁴⁰Edward Ellice (1810-1880) was MP for forty-two years. He was generally liberal in his politics, supporting abolition of the corn laws and the navigation laws as well as the principles of free trade. One of his biographers notes that Ellice "felt a growing want of confidence in Mr. Gladstone" but suggests that this want of confidence dates from the 1860s, not 1853. *The Oxford Dictionary of National Biography* 6 (Oxford: University Press, 1917), 666.

But when Gladstone stood up, he was Robert Peel's protégé, and for the next four hours dispelled a good deal both of his own trepidation and the House's. In the discussion that follows, it is useful to remember that the budget speech is not a bill in its own right. It is a report to the House of Commons, sitting as a committee of the whole. Gladstone's purpose was to help House members understand the current state of the economy, the need for changes in the way the government conducted its fiscal business, and the bills that required passage to turn the budget into a reality. The speech, despite all the prognostications of failure, was a triumph.⁴¹ Jenkins says that Gladstone's speech gave the impression of having brought a large ship into a constricted harbor with unusual deftness controlling latent power. He also says Gladstone's speech probably got at least as many things wrong as Disraeli:

... the centre-piece of his presentation was just as much of a rabbit out of a hat as anything which Disraeli had produced. What Gladstone indisputably did, however, was to set his proposals in a schematic framework, and to argue for them from first principles, as well as with a wealth of historical and comparative fiscal analogy.⁴²

Of the mistakes that Jenkins alluded to, the most egregious seem to be those that Gladstone himself later identified: the attempt at new finance through Exchequer bonds paying two and a half per cent, and the general state of the economy. Exchequer bonds were sold directly by the Exchequer to banks and individuals at a par value of £100.⁴³ They paid interest, stated in percent per pound. They traded openly on exchanges, and after their sale, their prices fluctuated above or below par. Price

⁴¹Gladstone, *Diaries* 4:14/4/53. Gladstone reported that Herbert and Cardwell favored dissolution on 14 April. However, after Gladstone's four-hour speech on the 18th, Sidney Herbert and wife ("the Herberts") were one of the couples invited home with Gladstone to join in soup and Negus.

⁴²Jenkins, *Gladstone, a Biography*, 149.

⁴³For the creation of the debentures, see Add MS 44742, f.11. For permission to float this debenture, see *Diaries* 4:10/3/54 and *Hansard's*, cxxxi:618.

fluctuations depended on the markets' opinions of the value of these securities. These opinions were based on the ability of the government to pay the interest, the general financial situation, comparisons to other investments, and, in this case, the desirability of a bond that paid two-and-a-half per cent interest guaranteed by the government.⁴⁴ Regardless of market price, the percentage paid on them did not vary. The government paid the same interest quarter after quarter for the life of the security.

In 1861 Gladstone was to write that the rates of interest paid on them was "wholly incompatible with the sound state of things," and that he had not been quick enough in reading the signs of the times. Gladstone said he had sailed too close to the wind in his estimates. He suggested that this problem was due to his experiences with the financing of Oak Farm and Hawarden, where he also felt he had sailed near the wind (although with his father's financing).⁴⁵ Nevertheless, the story is quickly told: the rate was too low to attract investors who sought higher rates for their investments elsewhere.⁴⁶

The state of the economy is also quickly told: cautious. In a cautious economy investors have a great need to balance risk with return. There were already storm clouds over Russia and the Ottoman Empire in 1853. Investors who feared the risk would invest in government bonds at the traditional yields, but not in a new, low-yield

⁴⁴ Olive Anderson, "Loans vs. Taxes: British Financial Policy in the Crimean War," *Economic History Review* xvi, 315-316; Gladstone, *Diaries* 4: 2/5/54. Gladstone opened his tenders on 2 May, 1854. "A failure: I shall have rough weather."

⁴⁵ Letter to W. R. Farquhar, 8 March, 1861; quoted in Morley, *Gladstone* 1:473-474, n. This comment may have been the source of Matthew's comment that Gladstone's distrust of the banking system stemmed from the Oak Farm problems. See Matthew, *Gladstone, 1809-1874*, 118.

⁴⁶ Clapham, *Bank of England* 1:252. Sir John says Gladstone asked the Bank to take the offers up or to see if there was interest in one of the continental exchanges. His timing was unwise: he was then involved with the Bank over the deficiency bills; in addition both the Bank of England and the continental exchanges were looking for higher interest rates to offset the risks of a continental war.

investment. Investors who believed war was coming understood the risks, but expected higher yield to balance the risk.

The response to the financial statement was, nevertheless, loudly positive. The “no one has ever talked to us like that before” response underscored the need that Gladstone had identified and that Morley and Jenkins have understood. Gladstone might have used his new-found public image as support in his effort to confront the Bank of England in 1853. In fact, he did no such thing. For the rest of 1853 his speeches bristle with plans for improving English business and international trade. He spoke often and earnestly about individual customs rates, drawbacks, collection points and dates, and other arcane information on his various types of sugar, rice, timber, molasses, raisins, currents, and French wine. Tax collection—revenues, tax collectors, and revenue delivery dates—was a huge topic when the war with Russia was beginning to emerge from the vapor. Gladstone talked little of paying off the national debt. Matthew says that compared to Wood and Disraeli, the nation classified Gladstone as “in peacetime first, foremost, and almost always a *safe* chancellor.”⁴⁷

The 1854 Budgets

Olive Anderson says that Gladstone used loans to fund the Crimean War far more than historians realize. The 1854 speech used what she calls references to Pitt’s War finance “in reality stale.” She argues that although Gladstone cited Pitt, he thought Gladstone, with borrowing thrown in. Six weeks after his 1854 temporary budget speech, the Treasury offered £6 million in Exchequer Bonds, repayable in three series

⁴⁷Matthew, *Gladstone, 1809-1874*, 83.

of £2 million in 1858, 1859, and 1860 (placing hostages in the hands of fate and other chancellors).⁴⁸

To understand what kinds of reaction his speeches could generate, it is useful to examine the second budget of 1854.⁴⁹ The budget of 1853 had been lauded. His first budget of 1854 was workmanlike but was widely understood to be a holding operation while the government studied the likelihood of war. The second budget, however, gives opportunity to examine the types of debate that could arise when Gladstone spoke. It is encompassed in a day like most other Gladstone days:

Wrote to Master of Pembroke--Rev Mr Ralwinson--and minutes. Cabinet 2-3-1/2. Rode in forenoon. House 4-1/2-11. Budget Sp. 2 hours: subsequent debate & *passage of arms with Mr. Disraeli*. Saw Ld Chancellor--Sir A. Spearman--Mr Wilson *cum* Messrs. Wood Pressly and Timm. Read Pulling on City of London--Parier on Attornies.⁵⁰

Gladstone's speech opened with a foreign policy edge. Denying that his government meant to be extravagant, Gladstone set the groundwork for the point he wished to make vis-à-vis other nations:

... we believe it well that foreign countries should see that the earnestness of the nation in the course upon which it has embarked may be measured by the promptitude with which the country proceeds to supply the means necessary for carrying out the course.⁵¹

⁴⁸Anderson, *Liberal State at War*, 195. In fact, Gladstone did not believe in financing the government with taxes alone. He was not against borrowing. He was against what is known as unfunded debt: loans for which no method of repayment had been identified.

⁴⁹Hirst, *Gladstone as Financier*, 159-162. Hirst says that Gladstone's planning was correct: he spoke in 1854, it was far from certain how long the war would last and how much it would cost. Gladstone believed that the "war economy" would stimulate manufacture of war materials thereby raising wages and workers' ability to pay taxes. In truth, this was a bit like working a sinking fund: much more is invested in the purchase of war materials than is ever recovered by taxation. William Newmarch and George Cornwall Lewis thought it was better borrow money to pay for a war, but no one knew how long the war would last or how high interest rates would climb.

⁵⁰Gladstone, *Diaries* 4:6/3/54, n.6-8, emphasis on "passage of arms" mine; *cum*, Gladstone's. In note 6, Matthew says Gladstone's second budget met a deficit of £2,854,000 by doubling the income tax in the first half of the year. It was a policy he could not maintain.

⁵¹*Hansard's* cxxxi:358.

Like all money speeches, this one brought out problems that were not directly attached to the budget problem, including his recent failures to finance government expenditures with two-and-a-half percent securities and the size of the unfunded debt (£17,750,000).⁵² He also discussed comparative rates for loans in Paris. This was Gladstone sailing close to the wind. The unfunded debt was very high already and Sir T. F. Baring had accused him of attempting to use Exchequer bonds as a loan without calling them a loan. The speech was vulnerable on a number of other problems as well, but his hearers failed to grasp most of them. The troubles, questions, and jibes offered in the subsequent debate were, in fact, minor.

Ball thought the instant increase in the income tax was unfair, since it was payable in April.⁵³ Gladstone responded that the assessment was made on a yearly basis, that it was collected in two moieties, and that an adjustment could be made for falling income.⁵⁴ Hume demanded more relief from indirect taxes.⁵⁵ Willoughby and Williams attacked the Chancellor on his numbers and the additions to the national debt.⁵⁶ In all, twelve men rose to speak once, while Hume, Williams, and Willoughby spoke twice (the house was in committee where speakers were not limited to one outing). Sir Francis Baring reminded Gladstone that it was “a wise and proper power— of converting the unfunded debt into funded debt, which has repeatedly been done.” Gladstone responded, somewhat hotly, “No, never with deficiency bills.”⁵⁷

⁵²Ibid., 385. Gladstone said disingenuously that he did not propose to more than fill up the margin of missing funds except perhaps to the amount of £10,000 to £20,000 and add it to the unfunded debt. This is another “youthful indiscretion” since adding to the unfunded debt added debt at a higher interest rate than funded debt.

⁵³Ibid., 388.

⁵⁴Ibid., 388-389.

⁵⁵Ibid., 389

⁵⁶Ibid., 390-392.

⁵⁷Ibid., 408. For deficiency bills, see a later section in this chapter.

The “passage of arms” with Disraeli referred (*Diary*), followed. Gladstone’s temperature may have risen for a moment: Disraeli, complaining that he had been silenced on several occasions when he would have spoken, now took his chance. It was a prepared speech covering some fourteen columns in *Hansard’s*.⁵⁸ Disraeli thought he saw a discrepancy in the numbers. Gladstone showed him the correct piece of paper with the corrected number. In retrospect, it appears that Disraeli was miffed by the apparent acceptance of Gladstone’s budgets. If one reads Disraeli’s two long speeches in this debate, one finds faulty mathematics, risky assumptions, and one contradiction, demanding a view into the future and then admitting that it is impossible for any human being to see into that future:

The Bank of England sooner or later must charge you the market rate of interest [instead of allowing the government to set an interest rate for the security], and I want to know what the market rate of interest is likely to be in the course of time. We are now involved in circumstances the result of which it is impossible for any human to see. Suppose you have a long continental war, and a great drain of the precious metals; are you going then to sanction the attempt to carry on the service of the country by the systematic aid of deficiency bills, and not by real balances in the Exchequer?⁵⁹

In this passage, Disraeli correctly insisted that the war might drag on, and that the interest rate charged for all new funded debt would increase as the war progressed. Gladstone ignored this possibility and simply refused to prognosticate on future discount rates. Disraeli was wrong in assuming that the government set the interest rate as Gladstone’s tenders had proven. The Court and governors of the Bank of England set its rates for loans of its own money and could if asked advise the government on the probable acceptance of a new tender at any specific interest rate. Gladstone had

⁵⁸Ibid., 408-421.

⁵⁹Ibid., 420. The assertion that the Bank could increase the rate of interest on existing loans was not true; the assertion that the government would have to pay the market rate for new loans was true, and had been underscored by the debacle of the Exchequer Bonds.

already shown that he preferred low interest rates, but seems to have accepted the fact that war raised the risk and thus the demand for higher rates. The Bank of England did not stand alone in setting the market rate for government securities because the government also sold securities in the bill and bond markets; those markets either bought or failed to buy if the interest rates suited them. Therefore, no chancellor could predict a future interest rate, but Gladstone might have made some educated guesses if he were willing to share them with Disraeli. In addition, the Napoleonic wars had demonstrated that any government would have to borrow money to continue fighting. He knew he depended on the markets, the state of business, and the psychology of business people. He would later admit that he had been on dangerous ground.

Disraeli did call attention to Gladstone's reduction of interest on Exchequer bills, on which Gladstone anticipated a saving of £65,000 per year, and which unfortunately led to a loss of £36,000. While Gladstone denied the attack on the grounds in which it was stated, he did admit to a loss of the gift of prophecy. He also demanded that Disraeli examine the state of trade to understand what had changed in the country.⁶⁰ In the end Gladstone was able to put down Disraeli's attack, and it did not fuel a more general one, possibly because Gladstone turned one of his responses to Disraeli into a small filibuster of his own loaded with numbers.⁶¹

⁶⁰Ibid., 421-422. Also see Jonathan R. T. Hughes, *Fluctuations in Trade, Industry and Finance: A Study of British Economic Development, 1850-1860* (Oxford: Clarendon Press, 1960), 28-29. Hughes says the 1848 depression was offset somewhat by importations of gold from California which triggered a recovery and boom until 1853. A bullion drain did occur beginning in 1854, but it was being offset by continued imports of American gold and new imports from Australia (where gold was discovered in 1851). A slump in exports made gold more difficult to buy (since exporters were not purchasing British manufactured goods). But war spending—in munitions, woolen cloth for uniforms, ship-building, and other areas—maintained employment and wages.

⁶¹Ibid., 423-433, commencing with "To the fall of the Consol!" and ending with an offer to return to the subject with Disraeli at any future time.

Then Disraeli counter-attacked with a line-item joust that might have gone on for some time. Mr. G. A. Hamilton, seemingly willing to join Disraeli, found errors in Gladstone's statement for the previous session, which Gladstone rebutted.⁶² Sir Fitzroy Kelly called attention to the time, and then made a three-column speech.⁶³ Mr. Hillyard said he hoped the government would avoid the errors made by previous administrations;⁶⁴ Mr. Drummond hoped the government would not tamper with the currency;⁶⁵ Colonel Dunne asked how the Irish tax had been arrived at. The bills that would support the budget were introduced and received their first readings.⁶⁶

From this brief account, it may be safe to say that it was not the faint-of-heart who attacked Gladstone in debate. Members of Parliament might snarl. They might question the numbers. They might demand still more for the Army, the Navy, or the poor. They might carp about the income tax. But to stay on the floor with Gladstone, they had to find some reason to stand, and the ability to stand up to Gladstone's response. And thus, in two tumultuous years, with war looming and war present, Gladstone began to make his mark as a man of numbers well able to lead the government's financial government.

Fighting the War

Gladstone's involvement in the war began when war clouds began to rise in eastern Europe, and was more moral than political. He sided with Aberdeen in refusing

⁶²Ibid., 438.

⁶³Ibid., 436-438.

⁶⁴Ibid., 438-439.

⁶⁵Ibid., 439-440.

⁶⁶Ibid., 440.

to make early commitments to Turkey.⁶⁷ Gladstone was neither a moral or physical coward. He had been passionately interested in the welfare of eastern European Christians. He may have learned far more about the territories than most of his colleagues through his reading. He certainly sided with Argyll in the belief that if Britain were to be pulled into war, she should “at least first consider the costs, dangers, and incalculable consequences of fighting a European war for the sake of Turkey.”⁶⁸ Later, Gladstone was to ignore the fact that Russia had earlier been in the wrong, and insisted on asking who now was in the right.⁶⁹

From his *Diaries*, we learn that Gladstone was doing a great deal of other work, and paying little attention except for budgetary business in attending to the war. He noted the beginning of “active assistance” to Turkey on 27 March, 1854.⁷⁰ In May, aside from his supplementary budget speech, his only contributions were to write a long memorandum pressing for the use of Swedish mercenaries.⁷¹ In June he helped settle Lady Glynne’s estate.⁷² In June, he wrote another memorandum urging that Britain send enough troops to the Crimea to capture Sevastopol.⁷³ He continually wrote to and met with Bank of England officials.⁷⁴

⁶⁷Schroeder, *Austria, Great Britain*, 88.

⁶⁸*Ibid.*, 89

⁶⁹*Ibid.*, 132.

⁷⁰Gladstone, *Diaries* 4:25/3/54; *Hansard's*, cxxxi:1352; Olive Anderson, “Great Britain and the Beginnings of the Ottoman Public Debt, 1854-55,” *The Historical Journal* 7, no. 1 (1964): 47-63.

⁷¹Gladstone, *Diaries* 4:23/5/54; Schroeder, *Austria, Great Britain*, 170. Prince Albert sat in on the discussions of bringing Sweden into the war, and argued that Sweden would not enter the war unless Austria did. The prince suggested extending the mercenary principle beyond Sweden to include Austria or any other country that would fight along side the British army. Schroeder says Gladstone thought using Swedish mercenaries was more honorable than the alternatives.

⁷²Gladstone *Diaries* 4:3/6/54, 4:6/6/54, 4:18/6/54.

⁷³*Ibid.*, 22/6/54, n.3.

⁷⁴See the following section of this chapter.

As the following chapters will show, however, the Aberdeen government's failure to execute the war in a satisfactory manner would haunt Gladstone for a long time.⁷⁵ Charges that he strangled or starved the war must be returned to their origins: the secretary for War and the Colonies (later secretary for War), and the Admiralty. Military men in parliament also underestimated the Russian military, miscalculated the use of Turkish and French troops, and overestimated the field commanders' abilities to win a war with the support they were given.⁷⁶

In fact, Olive Anderson says that Gladstone did not finance the war, but his successor, George Cornwall Lewis, did. She calls Lewis "a distinguished scholar with strikingly independent financial ideas ... no hot gospeller for war taxes, or indeed for any other policy." She says that Lewis was not a follower of any popular theory of economics, and did not regard a budget as a great instrument of political ideals but "merely as a series of practical expedients for making ends meet from year to year."⁷⁷ This may be the way some members of parliament felt as well, happy that Gladstone, or Lewis, Wood, or someone had things in hand. It is likely that many members understood expedients from their management of manors and farms, law practices, great factories, or shaky banks.

⁷⁵Morley, *Gladstone* 1:495. He a Gladstone conversation in 1881: "I never can admit that divided opinions in that cabinet led to hesitating action or brought on war."

⁷⁶For a short description of the historiography of this war, see Ann Pottinger Saab, *The Origins of the Crimean Alliance* (Charlottesville: University Press of Virginia, 1977), 1-2. For a discussion of the themes used to describe discussions of Crimean finance, see Anderson, *Liberal State of War*: 185-186.

⁷⁷Anderson, *Liberal State at War*, 197. Also see Theodore Hoppen, *The Mid-Victorian Generation, 1846-1886* (Oxford: Clarendon Press, 1998), 118, 121 and Table 4.2. Hoppen shows that Lewis's 1857 budget was innovative, but that Gladstone hated it because Lewis had "utterly reversed" fifteen years' labor to draw down expenditures and taxation. Peel and Gladstone had been wed to free "free trade, balanced budgets, low taxation, sound banking, and a self-regulatory currency" —and, one might add, diminished borrowing. These practices were perpetuated until the First World War. Hoppen believes the efforts of Lewis, Disraeli, and others who believed in borrowing left no lasting legacy. Further, Hoppen cites the gentle rise in the cost of civil services, brought on to some degree by testing and improved salaries, as well as increases in staff, that raised government expenditure somewhat but which nowhere approached the expenditures of policed states in continental Europe.

The Government's Relationship to the Bank of England

The Aberdeen government was already in a downward slide when Gladstone challenged the Bank of England to a duel. In fact, the decision of a rising financial cabinet minister to challenge the Bank of England may have been based on a growing realization that if Britain were going to fight at all, the government would have to borrow even more money from the Bank of England. If Gladstone was going to be forced into borrowing money, he certainly was searching for better ways to manage the debt. The fight was real. While Sir John Clapham failed to credit the seriousness of the conflict, John Morley did not.

In the autumn [of 1854] he had a sharp tussle with the Bank of England, and displayed a toughness, stiffness, and sustained anger that greatly astonished Threadneedle Street.⁷⁸

From this tussle depend other actions involving the Bank of England, parliament, the Exchequer, and Gladstone: Gladstone's plan to overhaul the financial operation of the government and national part of the Bank, written in 1856; the renewal of the Bank Charter in 1857, during which Gladstone sat stubbornly silent; the failure of the Bank Notes Bill in 1865; and passage of the Exchequer and Audit Act in 1866.

This thesis has considered the "false position" that Gladstone believed subsisted between the Bank of England and Her Majesty's government when he entered parliament. This false position informed his growing knowledge of government finance. In his reading, which is documented, and in his social, political and economic conversations, we have a resume of the adult-learning course that Gladstone pursued during his parliamentary career: on the Corn Laws, money, banking, trade,

⁷⁸Morley, *Gladstone* 1: 518.

manufacturing, and a host of related topics. Vital to his education, for example, were his conversations and exchanges of letters with Sir James Graham, whom Morley identifies as the finest financial expert of the Peel and Peelite era.

Gladstone's interest was not in rewriting the 1844 Bank Act in 1854. He focused on restraining the Bank of England's management of government finances. It was risky. Gladstone's attack could have been labeled obstinate and wrong-headed because the government needed bank financing, as Olive Anderson has noted, to fight the war. In changing the financing operation, Gladstone effectively served notice that if he had a chance he would do more to change the relationship between the Bank and the government. His intention was part of his tactical advantage. Saving money for the government money by changing the way principle and interest payments were paid was his tactical goal. His strategic goal was to change the operational relationship between government and Bank by removing the Bank's command over the government. This strategic intent set the stage for his great 1866 Act on finance.

Palgrave's Dictionary of Political Economy defined deficiency bills as special loans required to make good deficiencies in the Consolidated Fund from quarter to quarter. These loans were authorized by an Act of parliament in 57 George. III. c.48, sects. 6-14. These sections considered the problem of the quarterly payments made by the government to various creditors, including vendors and contractors, and the thousands of people and organizations who held government securities paying quarterly interest. The money for these payments came from the Consolidated Fund, a single fund that received the income or taxes, duties, and loans, and made these quarterly payments. The Bank of England was the depository for the Consolidated Fund.

Nearing the end of the quarter, both the Bank and the Treasury examined the state of the Consolidated Fund to determine whether the government could make its required payments. If the government lacked the sufficient funds, the Bank advanced the required money in unfunded loans on which the government paid interest until the advances were paid off. The Bank also took its payments directly from the Treasury without authorization, and without giving the government a chance to prioritize its payments from the Consolidated Fund or to change the amount and way they paid the bills.⁷⁹ The authorization for the loan was a Treasury Warrant and the government gave the Bank Deficiency bills in exchange. While this device eased the government's cash-flow problems, the Deficiency did not require or receive parliamentary approval. The interest to be borne by the bills was not to exceed the rate of "three pence halfpenny per *centum per diem*." This rate of interest shows why the Bills were intended to liquidated at the end of the subsequent quarter.⁸⁰

Times had changed, however, since George III. Revenue collection had improved. The economy, even in bad years, was producing more revenues. If quarterly payments on budgetary expenditures and the interest on the National Debt were correctly calculated, a careful Chancellor of the Exchequer like Gladstone would be able to anticipate a deficiency well ahead of time and take appropriate measures to keep ahead of the Bank and the bills. Nevertheless, the complexity of the problem suggests a reason for Gladstone's frustration and the acrimony generated on both sides by his battle with the Bank of England.

⁷⁹Clapham, *Bank of England* I:251.

⁸⁰Palgrave, *Dictionary* 1:533.

In his first spell at the Exchequer, Gladstone got across the Court [of the Bank of England] over the payment of dividends on the National Debt. It had been usual to credit the Bank by Treasury Warrant with the whole dividend on each class of stock on the first day of the quarter on which the payment would fall due—26 March for the April dividends—and for the Chancellor, whose funds were [thus] depleted by this large payment, to issue interest-bearing Deficiency Bills for the full amount. Until paid out, this dividend money was “reckoned as part of the monies of the Bank.” Gladstone’s view—the Treasury view—was that public monies continue to be public monies until ... disbursed.⁸¹

Gladstone’s efforts to correct the management of the deficiency bills seem to stem from the monetary problems at the beginning of the war. Exchequer balances were low because Exchequer Bond funding had failed in the previous year. The Exchequer had been making good use of deficiency bills in purchasing and preparing ships and men for the war. In April, 1854, bullion was also draining from the Bank, and Gladstone wrote to James Pennington, a writer on currency and banking whom Peel had often consulted. The problem from Gladstone’s point of view was whether the government could borrow money or gold to fight a foreign war when gold was already draining from the Bank. Gladstone asked Pennington about the drain of bullion caused by the war to be fought on foreign soil. He also wrote to Henry Goulburn, a Currency School advocate, who believed the only way to stop the gold supply from contracting was to contract the circulating medium, and advised Gladstone against adding to the fiduciary fund by depositing extra government securities in the Issue Department.⁸²

George Arbuthnot, Peel’s former private secretary, showed Gladstone a mistake in his thinking by telling him to look at the bullion held in the Banking Department of the Bank of England, not the Issue Department. In his March 6, 1854, statement to the House of Commons, Gladstone was forced to agree that the failure of his earlier

⁸¹Clapham, *Bank of England* 1:253.

⁸²Gladstone to Pennington, 21 April, 1854, Add. MS. 44529, f. 86; Goulburn to Gladstone, 5 May, 1854, Add. MS. 44162, f. 115; cited Anderson, *Liberal State at War*, 231, n.1.

financing scheme and the demands he was making on the Bank as well as imports of corn were putting heavy pressure on the Bank. On May 5, The Bank responded by raising its discount rate to five per cent. The price of government consols (par = 100) fell to 87.⁸³

Olive Anderson calls attention to a paper read by John Elliot Cairnes in 1853 in Ireland and published in 1854. Cairnes took drains of gold for granted, while assuming that convertibility of paper into gold was now also taken for granted. He struck at the contraction of circulation under the Bank Charter Act, which was now taken place through the rise in the Bank's interest rate. He repeated a common theme in his writing that war had a disturbing impact on banking, with assertions that the 1844 Bank Act was unable to control the impact.⁸⁴ It was a useful assertion, one that many people accepted, especially after casualty numbers began to come in: no one but the commanders in the field could have an effect on the loss of men, materials, and weapons, and the need to finance more if the battle were to be won.

To the non-economic historian, a reasonable question is what practical use can be made of this information. Why, with a need for Bank financing, did Gladstone begin a fight with the Bank over the Deficiency Bills? To understand why Gladstone persisted, it

⁸³Ibid., 232.

⁸⁴John Elliot Cairnes, *An Examination into the Principles of Currency involved in the Bank Charter Act of 1844* (Dublin: Hodges & Smith, 1854; reprint, Fairfield: Augustus M. Kelley, 1989). Gladstone did not read this book, although he had read three other works by Cairnes—a book on slavery and America, the logical method of political economy, and a *Fortnightly Review* article on political economy and the land, all after 1854. See Gladstone, *Diaries* 14:324. Anderson, *Liberal State at War*, 232-233, n.1,2, cites Cairnes, *An Examination*, 3, 5, 40, 76 for the disturbance of war quote. Anderson refers to a lecture by Edmund Taunton (5 July, 1854) which states that the Bank Act in effect had cut off the government's right hand in its ability to fight a war. She also cites Hamer Stansfield, *A Few Reasons for the Immediate Reconsideration of the Bank Act of 1844* (1855); Anderson says that otherwise there was an important *lack of discussion* of the Bank Act during the war. Gladstone does not seem to have read Taunton (*Diaries*, 14: 575). Matthew does record Hamer Stansfield's *A Letter to Richard Cobden ... on our Protective and Restrictive Currency Laws* and his *The Currency Act of 1844, the Cause of the Panic in October* (1854) (*Diaries* 14:565). See the table of Gladstone's Reading at the end of this chapter.

is necessary to look at the technical aspects of the deficiency bills and the ways in which they were issued. To do this, we must return to Palgrave: First, the deficiency bill was given to the Bank of England or the Bank of Ireland in return for cash which is placed in cash boxes of the Tellers of the various the government offices that had been in need. Under 57 George III, 6-14, the Treasury was empowered to request the funds and issued the bills when Treasury clerks decided that the consolidated fund had insufficient moneys to pay the Bank its quarterly payments (transferring government funds held in the Consolidated Fund account to the Bank of England's accounts). The bills given to the Banks took the form of Exchequer Bills. The funds given to the Exchequer were in the form of moneys, or currency.

The first problem that Gladstone faced was to stop the automatic advance of money authorized or rubber-stamped by the Treasury without Gladstone's approval. The automatic transfers inflated the national debt in a way that surprised Gladstone every quarter. Another problem was to identify the source of the "moneys" advanced to the cash boxes at the Exchequer: if the Banking Department of the Bank of England dispersed the currency, then the government was competing for funds with private industry also gearing up for war. If somehow the Issue Department began dispersing money to the government, then the government was running into the limits of the Bank Act by taking currency issued against a diminishing reserve. No one had addressed this problem satisfactorily, and it is a point crying out for appropriate research. Arbuthnot's recommendation that Gladstone watch the bullion supply in the Banking Department, not the Issue Department may solve this problem. The Issue Department was not allowed to lend money, only to exchange gold for paper currency.

The final problem was the interest rate of “three pence halfpenny per centum per diem.” This rate puts the interest payment on each £100 per year at 5.3%.⁸⁵ While this rate is not excessive, it is, as every credit card holder knows to his or her peril, the kind of charge that can be run up excessively with interest charged on the previous unpaid interest as well as principle. Finally, we should remember that the Bank of England was charging management fees on the outstanding loans.

Gladstone’s aversion to deficiency bills was not, therefore, an aversion to borrowing; it was an aversion to the creation of unfunded debt. Borrowing through Exchequer bonds and annuities guaranteed by revenues were part of the funded debt, and were therefore acceptable. Olive Anderson has shown that Gladstone was borrowing a good deal of money in one way or another; other sources have shown us that bankers such as Baring and Glyn knew and understood his borrowing. The problem was technical, and therefore to be solved by administrative fact-finding and legislative changes. There is no doubt that Gladstone wrote a good many letters to the Bank in the first half of 1854. Without the Parliamentary Correspondence, however, it is not possible through the use of the *Diaries* alone to determine whether all the letters applied to the problem of the deficiency bills. Sir John Clapham has provided some hints:

⁸⁵A deficiency bill was technically an unfunded debt: that is, a debt for which no source of funds, such as a tax or fee) had been allocated to repay it directly. Therefore, it was what government economists and lenders had long considered the most dangerous type of debt. The unfunded debt during this period already stood at approximately £14,000,000, and was destined to grow larger before Gladstone and the Treasury got control of it. I have used the following method to calculate the interest rate based on a payment of 3.5 pence per day per hundred pounds: the number of pence in a pound was 240. Therefore, the total number of pence in a £100 loan was—24,000. The 3.5 pence per day multiplied by 365 days per year amounts to 1277.5 pence. This value, divided by 24,000 pence suggests a simple interest rate of 5.3%. The loans were supposed to be self-liquidating at the end of the quarter, and thus, the interest was intended to run for only five or six days. Nevertheless, the danger existed that a deficiency bill would not be paid because of lack of government funds, and that deficiency bill loans would self-replicate at the end of another quarter, driving the government deeper into debt.

The Treasury, where Gladstone *had long spells of service in the fifties and early sixties*, was revising some of its methods and reconsidering some points in its relations with the Bank. The traditional Exchequer Bill had long since lost importance. The Bank took from the Treasury direct the Deficiency Bills, self-liquidating each quarter, and not many of these... Bankers also turned away from the Exchequer Bill as its narrowing market became uncertain ... The last funding operation for Exchequer Bills was undertaken in 1858 ...⁸⁶

Claiming that public money was public money until it was paid to the investor, Gladstone changed the way this deal was made, first by fiat, and then by legislative action. In April, 1854, he announced he was assimilating dividend payments to the Consolidated Fund and paying dividends when they were needed. Thus, in October of that year, when the Bank believed the government owed £6,540,000 Gladstone authorized a warrant of £4,718,000. The Bank then made a tactical error, claiming that Gladstone had acted outside the law, and threatened that they would take the opinion of law officers of the Crown. Gladstone later recorded that if the Crown's lawyers had agreed with the Bank, Gladstone would have agreed with the decision. However, the law officers sided with Gladstone. The Lord Chancellor said that the dates mentioned in the Acts were "merely directory quote."⁸⁷

With the problem involving both the Solicitor General and the Lord Chancellor, Gladstone could hardly keep the problem out of the ken of the cabinet. But there is no question that Gladstone held the high ground when he stated that no Bank had the right to come between the fund holders and the government.⁸⁸

⁸⁶Clapham, *Bank of England 2*: 251-252. Italics mine.

⁸⁷Ibid., 253-254.

⁸⁸Morley, *Gladstone* 1:518 and Appendix F; cited in Clapham, *Bank of England*, 2:254. Clapham complained about the language Gladstone used, calling his private letters to Governor Hubbard "pungent." Clapham quoted Gladstone: "I do not study diplomacy in letters of this kind and there is no sort of doubt that I am very angry." In return, Clapham said that "Hubbard had written without anger and with dignity."

Clapham notes that when Gladstone was succeeded by Cornwall Lewis in 1855, Lewis refused to return to the former state of affairs despite the Bank's urgent appeal. Reform had reached the Treasury and Exchequer. Lewis was not about to give up the advantages gained by small battle that his competition had fought and won.

Gladstone introduced the Public Revenue and Consolidated Fund Charges Bill on 2 June, 1854. The primary effect of this Act was create a report of gross revenue and expenditure items to the house for a vote, instead of allowing the Treasury or some other department to spend money without authorization.⁸⁹ In addition to the Treasury warrants used for deficiency bills, the main culprits were the revenue collection departments. Before the revenue departments sent their collections to the Exchequer, they had been in the habit of withdrawing their operating expenses and thus reducing the amount of the funds they turned into the central government.⁹⁰ The Public Revenue Bill ended this practice.

The bill categorized expenditures in schedules. All items listed in the first schedule were to be paid automatically from the Consolidated Fund. Items in other schedules were allowed with various levels of parliamentary control and a yearly vote. Thus, the bill allowed the government to prioritize its payments without help from the Bank of England. If Customs, Inland Revenue, and the Post Office were forced to estimate the these charges ahead of time, both they and parliament might find better ways to manage property, wages and salaries, and other expenses.⁹¹

⁸⁹Henry Roseveare, *The Treasury, The Evolution of a British Institution* (New York: Columbia University Press, 1969), 137. Roseveare states that in 1822 radical backbenchers caused "a first-class row" over this problem. An Act of 1829 required the Treasury to submit quarterly reports based on a unified fiscal year. In 1832, Lord Althorp redefined the fiscal year to begin in April. The Gladstone bill forced the parliamentary and revenue years to coincide, ending on 31 March.

⁹⁰*Hansard's*, cxxxiii:1258.

⁹¹*Ibid.*, 1259.

The reason for this change was cash flow. As the budgets show, the revenue departments' costs of doing business were approximately £4 million, money that until 1854 had never reached the Consolidated Fund. Withholding these funds lowered the balance in the Consolidated Fund and failed to collect interest in the government's account. By addressing the revenue collection expenses directly, Gladstone found an additional £4 million to use for a short term each quarter. The £4 million had also, in Gladstone's words, "been exempted from control of the House." Although he did not wish to add materially to the time spent in the House on votes of Supply, he felt the House ought to have a chance to say so.⁹² His actions also had a preventive component: he believed that in previous times the House had been a trifle lax in that they preferred to lay charges off on the Consolidated Fund, which was funded debt, than to find new sources of funding for new charges.

The practical consequence of their doing so was, that these charges were placed, in some measure, beyond the control of the Treasury, they were forgotten by this House, and there was a great deal of neglect and abuse connected with this part of the public service.⁹³

Gladstone's distinction between the use of the Consolidated Fund without further intervention by either the House or the Treasury and parliamentary oversight is an important one for students of government financing. As has already been suggested, the Consolidated Fund was a unified general fund, the balance of which resided in one or more accounts in the Bank of England and the Bank or Ireland, funds that earned interest during eighty-nine days of the quarter and used to pay bills and credit payments on the ninetieth day. If a particular government project was placed on the Consolidated

⁹²Ibid., 1260.
⁹³Ibid., 1261.

Fund list, it was required to be paid for at quarterly intervals from the Consolidated Fund.

If, however, a project was “voted” as part of the annual supply list, each parliament had the opportunity to approve, disapprove, increase or decrease the expenditure. One such example was the courts. In English government tradition, court expenses were paid for by the courts themselves, primarily through collections of fines and fees.⁹⁴ Gladstone used the example of the courts, allocating judges’ salaries to the *consolidated fund* but allocating all other fees to votes, thereby placing them under control of the House of Commons.⁹⁵

Reform

In 1853, Gladstone had signed the order that launched the Northcote-Trevelyan inquiry into the operation of the civil service.⁹⁶ The Northcote-Trevelyan report introduced civil service examinations, increased Treasury control over qualifications, salaries, and dismissal, and changed the way the permanent service served their elected cabinet officials. This was an enormous change in government operation.⁹⁷ It is not a coincidence that the rise of Treasury control of expenditure, Gladstone’s ability to

⁹⁴Bryce Lyon, *A Constitutional and Legal History of Medieval England* (New York: Harper & Brothers, 1960), 264.

⁹⁵*Hansard's* cxxxiii:1262.

⁹⁶Jenkins, *Gladstone, A Biography*, 166. Palmerston informed Gladstone that he was against reform and that he wished Gladstone would not go ahead with it.

⁹⁷Roseveare, *The Treasury*, 80, 163, 165-166. In the early days of the eighteenth century the Treasury was misunderstood and often blamed for financial problems. In 1713 a standing order gave control of the Treasury to the House of Commons. Roseveare says the Treasury continued to be demoralized until Sir Charles Trevelyan became assistant secretary of the Treasury in 1840. Trevelyan set to work to learn the operation of the Treasury and showed that the Treasury was anxious for reform. Trevelyan was a serious reformer. He believed in the division of labor, one of the pillars of civil service reform, and he castigated the “redundant chief clerks, dispirited junior clerks, and grossly overworked principal officers.”

rewrite the relationship between the government and the Bank of England and his demand for improved accounting should be joined. Hugh Coombs, John Richard Edwards, and Hugh Greener have traced the development of public accounts and public accounting from 1822 to 1856, and have shown that the major problems with government accounts were based in part on a serious flaw identified by Charles Trevelyan's testimony in 1848—lack of division of labor—and in part by the lack of proper accounting and money management methods. In their study of the introduction of double entry bookkeeping in the British government, Coombs, Edwards, and Greener identified numerous documents that advocated improved methods of keeping accounts, recommendations for forms to be used in reporting to higher authorities, and other improvements, including what we know call “best in practice” departmental operation. For example, their work shows that in 1822 or earlier, a standing committee on public accounts reported yearly to parliament.⁹⁸ Reports continued in 1829, 1830, 1831, 1837, 1844, and 1845, but little action had been taken. But when Gladstone signed the warrant enabling Trevelyan and Stafford Henry Northcote to perform a comprehensive study of the entire government, reform began to take hold. The “First Report of Her Majesty's Civil Service Commissioners for Conducting the Examination of Young Men so Proposed to be appointed to any of the Junior Situations in the Civil Establishments” presented a plan for change that gained impetus when Gladstone returned to Exchequer in 1859.⁹⁹

⁹⁸BPP 1822, vi: 293, Report from the Select Committee on Public Accounts of the United Kingdom, Annually Laid Before Parliament, 31 July, 1822; in *Double Entry Bookkeeping*, 1.

⁹⁹John H. Fisher, “Chancery and the Emergence of Standard Written English in the Fifteenth Century,” *Speculum* 52, no. 4 (October 1977), 870-899.

In its quiet way, the Public Revenue and Consolidated Fund Charges Act is the second contribution Gladstone made in the long process of government reform. He was, to be sure, calling the House of Commons to heel for earlier careless behavior. In the debate that followed Gladstone's 1854 speech on his bill, Hume said he was glad the present government had yielded to the opinions of the House. Glyn said he had always been surprised that the Treasury had not made this move before. Glyn, a banker, explained that he thought the financial advances made to the government had been exaggerated, and that "the possibility of any advance being required could only arise from the want of adjustment between the receipts and expenditure of the country." He reminded the House that previous to 1844 or 1845, the payments to the Bank were made twice a year, but that Mr. Goulburn had changed them to four times a year without any great alteration in the amounts required to make the payments.¹⁰⁰

Williams stated that the measure before the house was one of the most important financial reforms ever submitted to Parliament, pertaining as it did to fifty-seven departments "hitherto the expenditure in them had been entirely without the sanction or even the cognizance of the House." Now, for "the first time in the history of Parliament the House would have a control over the whole expenditure with the exception of the interest on the debt and some other charges, which amounted to about £2.5 million per year."¹⁰¹

The Public Revenue and Consolidated Fund Charges Act is staid and apparently insignificant when compared to the majestic Exchequer and Audit Departments Act of 1866 with its creation of a true Audit Departments, allocation of salary decisions, and its

¹⁰⁰ *Hansard's*, cxxxiii:1264.

¹⁰¹ *Hansard's*, cxxxiii:1265.

harnessing of all estimating processes and departments to a single budgetary plough.¹⁰² Nevertheless, the Public Revenue Act became a pillar of Gladstone's overall economic policy, and pragmatic enough to satisfy MPs uninterested in economical punditry. It was a practical and useful bill that failed to generate outrage, references to law officers, or three-night debates that entailed far-reaching unsolvable economic problems. As Chapter 7 will show, it was part of a long-term process by which the money men at the Treasury got control of the government, if not of the Bank, and held onto it until the World War I.

Conclusion

In a letter to his wife, Gladstone quoted a comment by George Cornwall Lewis, the man who succeeded him in 1855. Gladstone had been told that Lewis said, "It is a pity Gladstone puts so much heat, so much irritability into business. Now I am as cool as a fish." To which Gladstone commented:

The worst of being as cool as a fish is that you never get great things done, you effect no improvements and you carry no reforms, against the lethargy or selfishness of men and the tyranny of old custom.¹⁰³

Gladstone put heat into his battle with the Bank in order to convince the governors and directors that he was serious about reform. Clapham has admitted that the cool fish Lewis took advantage of Gladstone's heat to maintain the new relationship between the government and the Bank that Gladstone had created. Gladstone, who always refused a baronetcy or higher title, who lost his temper on occasion, and who

¹⁰²The bill was read for the third time and passed on Monday, 3 July 1854; *Hansard's*, cxxxiv:1027.

¹⁰³Morley, *Gladstone* 1:519.

claimed he was no diplomat, had begun to claw away some of the confines in which earlier governments had placed themselves. In doing so he had found new freedom of government action in finance. His efforts would bear fruit, but the small successes he claimed in Aberdeen's government only whetted his appetite to achieve more. As the next chapter shows, his frustrations of being out of office and being held partially accountable for the failure of the Crimean War were to become a double goad to force him back into office again, and, to challenge the Bank of England again.

Gladstone's Reading

This thesis has already mentioned a few of the books Gladstone read during this period, such as the Colt manual that gave Jenkins such problems. The year 1853 shows us a continuation of the reading he had already begun on taxation and finance. The table that follows lists books on accounting, the Bank of England, the budget, the civil service, currency, the national debt, and other topics we would expect to find in Gladstone's library. He also did extensive reading on war. The list that appears here, however, is but a small percentage of his reading during his first chancellorship: he read novels, plays, and a good deal of religious literature. Given his reading list, his family life and travel, his continuing interest in Oxford education, and other problems, it becomes harder and harder to isolate two minds of Gladstone: he either operated out of one large, fully integrated mind, or bounced back and forth among several very small and loosely related ones. He rubbed his wife's breasts to help her milk flow after every birth. He taught Tasso to his eldest son and daughter. He corresponded with dons and bishops. He began overhauling government finance.

As this chapter has shown, one could hardly call the financial operations of a strong European nation to be one-dimensional or simple. The spirit malt duties are only one example of a problem that went on from year to year and involved several aspects, such as import duties, distilling, cattle feed, transportation, and foreign policy. The soap duties became a national crusade. After Crimea, Gladstone could have taken the Peel approach and settled down on the opposition bench in silence for the rest of his life. If the idea ever occurred to him, it occurred in the gap between one book and the next.¹⁰⁴ He would be chancellor again, through his own efforts and those of his growing public: forgiven for his follies, excused for sailing too close to the wind, and uncondemned for expecting revenues where none had appeared. His reading seems to have helped him weather the storms.

¹⁰⁴A selection of the books he read on war is included because of implications for the cost of war.

Table 6: Gladstone's Reading, 1852-1855

Topic		Author	Title	Reading Date ^a
Accounting and Trade	Accounting	William T. Thompson	<i>Tables of Interest</i> (1853)	12 Jul 1854
	Accounting	John Caldecott	<i>A Practical Guide ... to Bookkeeping by Double Entry</i> ^b (1851)	17 Nov 1855
Bank of England		Anonymous	<i>Two Letters to Sir Robert Peel on his Proposed Banking Measures; by an Ex MP</i> (1844)	25 Apr 1853
		<i>Hansard's xxxiii, 264</i>	Bank Debate of 1816 on Secrecy and Political Partiality of Directors,	12 May 1854
		<i>Hansard's</i>	Original Charter of Bank Act of 1694 (1694)	16 Nov 1854
	Banking	James W. Gilbert	<i>The Elements of Banking</i> (1852)	30 Mar 1854
	Banking	<i>The Economist</i>	<i>Capital, Currency and Banking; Being a Collection from The Economist</i> (1847)	29 Nov 1854
	Banking	<i>Revue des Deux Mondes</i>	Banking (Vol. 18)	14 Dec 1854
	Banking	Anonymous	<i>The Bank in 1847</i> (ndp)	1 May 1854
	Banking	Parliamentary Papers, xxxii. (1816),264	On Secrecy and Political Partiality of Directors	12 May 1854
	Currency	<i>New Quarterly Review</i>	Gold (review of publications on gold) 1 (1852)	31 Mar 1853
	Currency	William Newmarch	<i>The New Supplies of Gold: Facts and Statements, Relative to their Actual Amount; and ... Effects</i> (1853)	29 Mar 1854
Banking and Currency	Currency	A. Milward	<i>The Decimal Coinage. A Letter to Gladstone Advocating the Issue of the Five Farthing Piece</i> (1853)	5 Dec 1853
	Currency	Henry Thornton	<i>An Enquiry into the Nature and Effects of the Paper Credit of Great Britain</i> (1802)	30 Mar 1854
	Currency	William Thompson	<i>Decimal Numeration and ... Coinage</i> (1854)	17 Jul 1854
	Currency	Hamer Standfeld	<i>The Currency Act of 1844, the Cause of the Panic of October 1847</i> (1854)	5 Oct 1854
	Currency	William Frederick Spackman	<i>The Commercial Barometer from 1845 to 1853, Showing the Operation of the Present System of Currency</i> (1853)	10 Dec 1853
	Currency	A. Millard	<i>The Decimal Coinage. A Letter to ... the Chancellor of the Exchequer</i> (1853)	5 Dec 1853
	Currency	C. W. Paisley (Sir)	<i>Observations on the Expediency and Practicability of Simplifying and Improving the Measures, Weights, and Money used in this Country</i> (1834)	28 Dec 1853
	Currency	E. Ryley	<i>Decimal Coinage. A Brief Comparison of the Existing Coins and Money on Account, of that Proposed by the Decimal Committee, and Against Another System</i> (1853)	6 Jan 1854
Government Finance	Budget	<i>Quarterly Review, Croker</i>	Disraeli's Budget xcii (1852)	11 Jan 1853
	Budget	C. T. Trevelyan	Manuscript on the Permanent Civil Services and Public Accounts (nd)	26 Jan 1853
	Budget	J. M. Bineau	"Rapport fait au nom du comite de finances sur le projet du budget rectifie des despenses et des recettes de l'excite" (1848)	10 Feb 1853

(table continues)

Table 6 (continued).

Topic	Author	Title	Reading Date ^a
Budget	<i>Hansard's</i>	Henry Goulburn's Financial Statement (1846)	4 Sept 1854
Budget	<i>Hansard's</i>	Parliamentary (Budget &c.) Debates (1793-6)	20 Mar 1854
Budget	Spencer Perceval	<i>Perceval's Correspondence with the Bank (1809-1810)</i>	19 May 1854
Nat. Debt	R. Hamilton	<i>Inquiry Concerning the Rise and Progress, Redemption ... and the Management of the National Debt (1813)</i>	26 Feb 1853
Nat. Debt	J. J. Grellier	<i>The History of the National Debt, from 1688 to the Beginning of 1800 (1810)</i>	15 Apr 1854
Taxation	C. Babbage	<i>Thoughts on the Principles of Income Tax</i> , 3rd ed. (1852)	5 Jan 1852
Taxation	John Ramsay MacCulloch	<i>A Treatise on the Principles and Practical Influence of Taxation and the Funding System (1843)</i>	26 Jan 1853
Taxation	John Gorham Maitland	<i>Property and Income Tax. The Present State of the Question (1853)</i>	27 Jan 1853
Taxation	Jelinger Cookson Symons	<i>A Scheme of Direct Taxation for 1853 (1853)</i>	11 Feb 1853
Government Finance (continued)	<i>The Economist</i>	Income Tax 97 (1853)	29 Mar 1853
Taxation	Sir J. Kingsmill	<i>Taxation in Ireland in Connection with the Extension of the Property and Income Tax Acts to that Kingdom (1853)</i>	7 Mar 1853
Taxation	<i>The Economist</i>	Newspaper Stamps 98 (1853)	25 Mar 1854
Taxation	James Emerson Tennent	Wine, its Use and Taxation. An Inquiry into the Operation of the Wine Duties on Constitution and Revenue (1855)	25 Apr 1853 [sic]
Taxation	Henry Court (Major)	<i>A Review of Income Tax in its Relation to the National Debt (1853)</i>	10 Jun 1853
Taxation	John Ramsay MacCulloch	<i>Historical and Critical Remarks upon the Tariff (1787)</i>	24 Jun 1853
Taxation	A Citizen of Westminster	<i>The Land Tax, its Origin, Progress, and Inequality Stated in a Letter to the Chancellor of the Exchequer, ... by a Citizen of Westminster (1837?)</i>	23 Jul 1853
Taxation	William Taylor	<i>History of Taxation of England (1853)</i>	21 Jul 1854
Taxation	William Wolryche Whitmore	<i>The Wine Duties (1853)</i>	19 Jan 1853
Taxation	<i>Blackwood's Edinburgh Review</i>	Income Tax Reform lxxiii (1853)	18 Feb 1853
Political Economy	John Ramsay MacCulloch	<i>An Essay on the Circumstances which Determine the Rate of Wages and the Conditions of the Labouring Classes (1837)</i>	10 Mar 1854
	James Mill	<i>Elements of Political Economy (1837)</i>	7 Jan 1853
	Leon Faucher	<i>Dictionnaire de l'Economie Politique (1855)</i>	12 Jan 1855
	John Ramsay MacCulloch	"Life of Adam Smith," Introduction to the MacCulloch edition of <i>Wealth of Nations (1828)</i>	11 Jul 1855

(table continues)

Table 6 (continued).

Topic	Author	Title	Reading Date ^a
	C. J. B. Ridell	<i>Remarks on the Organization of the British Royal Artillery</i> (1852)	7 Dec 1852
	J. Ferguson	"The Peril of Portsmouth; or, French Fleets and English Ports" (1852)	4 Feb 1853
Cost of War: War	Richard Cobden	<i>How Wars are got up in India: The Origin of the Burmese War</i> (1853)	18 Aug 1853
	<i>Quarterly Review</i>	The War 21 (1855)	17 Jan 1855
	<i>The Economist</i>	Army Reform 101 (1855)	3 May 1855
	<i>The Economist</i>	The War 101 (1855)	17 Jan 1855

Notes:

^aAll date references are to Volume 3 of the *Diaries*. Within a Topic, the publications are listed in the order in which Gladstone recorded reading them (right-hand column).

^bDouble-entry book-keeping was an important topic in nineteenth-century reform. See *Double Entry Bookkeeping*. Also see Bruce G. Carruthers, Wendy Espeland, "Accounting for Rationality: Double-entry Bookkeeping and the Rhetoric of Economic Rationality," *The American Journal of Sociology* 97, no. 1 (July 1991): 31-69. The authors argue that accounting is a form of rhetoric in which the writer (or accountant, manager or chancellor of the Exchequer) attempts to convince an often hostile audience of the correctness of findings or plans.

CHAPTER 6

OUT OF OFFICE AGAIN, 1855-1859

Introduction

For four years after he left Palmerston's first government, Gladstone thought about, worried about, and almost tasted another term in office and another chance to work on finance. To say he fretted is to put his mental anguish mildly. Yet having left Palmerston behind over a perceived lack of policy, he refused to join Lord Derby's conservative government with its promise of a gathering of good men to get things done.

It was during this period that Gladstone wrote his financial "plan," noted by Matthew. Matthew suggests that Gladstone accomplished every step of this plan when he next came into office, but I disagree. I contend that this plan was as important for the things that Gladstone did not accomplish as it is for the things Gladstone did.

A Statesman Out of Office

The period between the Aberdeen government and the second Palmerston government, the period described in this chapter, marks the effective end of Peelite power, the end of Whig power, the continued weakness of the remaining conservatives, and the rising importance of the liberals; thus, it is a period in which every government was required to be a coalition, and therefore potentially weak. Several problems haunted Gladstone: The first was the damage done to himself and his friends by the continued publication of books blaming them for the Crimean War. The second was the damage which the Palmerston and Derby governments did to finance in their efforts to

pay off the costs of the war and the remaining debts of the war. The third was whether any party or government would have both the political strength and economic acuity to reintroduce fiscal reform. The fourth was whether he (Gladstone) would be part of that party or government.

Torn by all these considerations, Gladstone became his own man at last. The sweet dreams of Peelite power eroded rapidly in the face of competition between almost equally weak governments. He felt himself slipping into the liberal party, almost as if the Peelites were pulling him along, but with no actual desire to return to the conservative or Tory party. Gladstone has been described as fretful and confused, but so were the nation, and the two governments that served in this period. In fact, he was emerging not as a good party member, but as a strong, numerate politician around which a party might coalesce. When that party did coalesce, some of the mottoes on its banner would be ideas from the Peel legacy, and some that were purely Gladstone in origin.

The parties of the later 1850s, led by Palmerston on the one side and Lord the fourteenth Earl of Derby on the other, courted Gladstone. Palmerston's first government in 1855, immediately following Aberdeen's, included Gladstone as Chancellor of the Exchequer for nearly three weeks before he and two of his friends resigned in 1855. Derby also wanted Gladstone, but Disraeli stood in Gladstone's way at the Exchequer, the only office either of them wanted.¹ Some of his angst during this period stemmed from his fear that George Cornwall Lewis and Benjamin Disraeli, Chancellors of the Exchequer for Palmerston and Derby respectively, would return to the borrow-and-

¹Shannon, *Gladstone* 1:305, n.3. When Gladstone resigned from Palmerston's first government in 1855, Robertson Gladstone took over his father's job of criticizing William. "It does not appear, admitting you had some cause, you were fully justified in going out of office ..."

spend habits of former administrations, kow-tow to the Bank of England, and drive the country deeper in debt.

In February 1856, a year after he resigned from Palmerston's government, Gladstone wrote a plan for reorganizing the economic and financial government of the nation.² It was barely a plan, incompletely expressed, more of a wish list, with no recommendations for the ways in which items of the plan should be carried out. He also wrote a memorandum to Aberdeen, stating that the Peelite power was primarily financial and recommending that the Peelites as a whole stay out of any potentially weak government unless they could bring their financial knowledge and management to bear on that government.³ These two documents support the general historiography of the Peelites and Gladstone in this period. Gladstone was still, in his heart, a Peelite, with nowhere to go, unless he went nearer to Palmerston. Matthew is correct: Gladstone literally ached to be back in office. Matthew characterized this as an uncharacteristic mid-Victorian attitude. Though he was courted by both sides, Gladstone could find no leverage point from which to vault himself into office, especially the Exchequer.

The Palmerston and Derby Governments

The period from 1855 to 1859 was for Gladstone an aloof, ascetic period in which he attended Parliament, managed to get himself elected when necessary,⁴ and spoke

²Gladstone, *Diaries* 5:16/2/56; Matthew, *Gladstone, 1809-1874*, 106. Matthew calls it a "great programme of measures to be passed through when next in office." The program is anything but. Gladstone knew very well that each item on the list required a change in Treasury operation, negotiation, carefully written legislation, or ...all three, and that some items might meet extensive opposition.

³Letter to Aberdeen, Gladstone, *Diaries* 5:13/3/56. During the crisis over a replacement for the Aberdeen government, Gladstone often maintained that the Peelites would only enter the government if Aberdeen led it, or if a place were found for him. When neither of these eventuated, Gladstone mourned, "how can we have an Aberdeen government without Aberdeen?" and later, "you are still our spiritual leader."

⁴Jenkins, *Gladstone, A Biography*, 163. Gladstone was defeated at Oxford in 1865 after serving

on the topics that interested or irritated him. These were few, most notably the problems associated with married women, their property, and divorce. With circumspection, he avoided trouble or public notice whenever possible, wrote on Greek classics, publishing his study of Homer, traveled with his family, gathered with Peelite friends, and apparently lay in wait. He rebuffed both parties. Jenkins says that Palmerston was terrified of Gladstone out of office because of his power to bring down a government.⁵ Gladstone's brief membership in Lord Palmerston's government in 1855 came after a good deal of mental anguish. "Was the Aberdeen Cabinet without Lord Aberdeen one in which I could place confidence? I answer no."⁶ He later changed his mind, with Aberdeen's help, writing:

I repeated again that Lord Aberdeen's declaration of confidence enabled me to see my way to joining. I hoped also that the formation of the Cabinet in this manner on the strength and by the means of his expressed judgment would tend to place him [Aberdeen] before the public eye in the high position he deserves to hold.⁷

Gladstone's notes on cabinet selection and meetings for the Palmerston government are detailed. Matthew rightly decided that reproducing these notes in or near their entirety would explain the tangled thoughts not only of Gladstone but of Aberdeen, Argyll, Graham, Herbert, and even Palmerston. From Gladstone's notes Palmerston appears to have been panicked over the twin problems of taking over the war and running a country at the same time. Gladstone did what he could. During the two-and-a-half weeks that he was in office as Palmerston's Chancellor of the

for nearly twenty years.

⁵Jenkins, *Gladstone, A Biography*, 207

⁶Gladstone, *Diaries* 5:5/2/55. The quote is from a political memorandum he wrote on that day. The letters (numbered 25-35) are in Philip Guedalla, *Gladstone and Palmerston, Being the Correspondence of Lord Palmerston with Mr. Gladstone, 1851-1865* (New York & London: Harper & Brothers, 1928).

⁷Gladstone, *Diaries* 5:6/2/55.

Exchequer, Gladstone introduced the supplemental ordinance estimate and attended “a small and very pleasant party” at Lord Overstone’s. Then,

Yesterday we had our first Cabinet. It did not relieve the gloom of my impressions. Though it was a first Cabinet we were as I reported to Graham in the evening more Acephalous than ever; less order, less unity of purpose: Charles Wood had twice cried ‘Will the Cabinet decide something upon some point?’ Palmerston, though he had appeared more *eveille* [attentive or sprightly] than usual, had taken no lead. He introduced to the Cabinet three subjects: one the recal [sic] of Lord Raglan, which he tossed among us, without clear broad or strong views of his own, as if for what change might bring ...⁸

After three weeks of apparent wrangling without purpose, the three Peelites resigned. When they did, Gladstone lost his chance to further reform in government and to further his plans for reform in the relationship between the government and the Bank of England.

As the Palmerston government grew away from Gladstone, finance was not the only thing that slipped out of his hands. Administrative reform was taking place without him. Where it had taken place under his auspices (as when Gladstone authorized the Northcote-Trevelyan study in 1852 that the Russell government had previously turned down), George Cornwall Lewis allocated praise away from Gladstone and the Peelites. “One of the great state papers of the nineteenth century,” the Northcote-Trevelyan Report was produced for Gladstone and delivered to him in November 1853, two months before he left office. Gladstone read it while he trained his daughter Agnes in Tasso and did Latin with his second son Stephy. At the same time he was also reading a work on decimal coinage, a selection of Horace Walpole’s letters, and some chapters of *Pride and Prejudice*. The Northcote-Trevelyan recommendations—competitive examinations and a central board for recruitment—seemed very sensible to Gladstone

⁸Gladstone, *Diaries* 5:9/2/55.

but frightened the Queen. Conscious perhaps of the fright the report might give to legislators, the authors recommended that Customs, Inland, Revenue, and the Treasury should be let off from the full requirements of the paper. Gladstone had overridden this suggestion and from his chair at Exchequer had ruled that Customs, Inland Revenue, and the Treasury should be treated to the same rules as all the other departments in the government.⁹

Yet when Lewis spoke on reform during the debate of 15-18 June, 1855, he listed the accomplishments of non-Peelites, and other governments than Aberdeen's. Lewis focused on the work of 1848 and 1849 (Russell government) when Sir George Grey was Home secretary, Lewis was undersecretary, and Sir Charles Trevelyan was assistant secretary of the Treasury. In 1849 the Treasury had been reorganized under Trevelyan and Gibson Craig; revisions were made at the Colonial Office, both with good result. Under Lord Derby, in 1852, changes were made in several government offices in Dublin. Between 1852 and 1855, more changes took place in the War Office, Board of Trade, Poor Law Board, and Privy Council Office, Copyhold Enclosure and Tithes Commission, Board of Ordinance, Office of Works, Post Office, and the Board of Register General, but did not mention Peelite contributions. Lewis described civil service testing as a product of the Privy Council, not the Peelite government. The government, Lewis suggested, had survived and flourished without Gladstone.¹⁰

⁹Gladstone, *Diaries* 3:30/6/42; Jenkins, *Gladstone, A Biography*, 165. Sir Stafford Henry Northcote had been Gladstone's secretary in 1842. In 1853, Gladstone recorded "Much conv. with Northcote" and discussions with either Northcote or Sir Charles Trevelyan or both in the period 17-22 November. The draft report reviewed by Gladstone suggested that Treasury, Customs, and Inland Revenue be exempted from using examination grades. Gladstone wrote, "Pray let this disappear." *Diaries*, 4:3/12/53.

¹⁰*Hansard's*, cxxxiii:2131-3133.

The Continuing War

In searching for something else to do, Gladstone spent much of his time reading. Instead of soothing soothe his soul they seemed to fire it. He read William Newmarch's *Should the Money Required to pay the Expenses of the War be Raised by Loans or Taxes?* (1855)¹¹ and *On the Loans Raised by Mr. Pitt ... 1793-1801* (1855);¹² reports of the war; and the monthly Bank of England bullion reports.¹³ In 1855 he both attended the hearings of the House of Commons committee on the war and read the reports.¹⁴ He read two books by John William Crowe in the same day: *Shadows of War* (1856) and *Our Army; or Penny Wise and Pound Foolish* (1856).¹⁵

The Aberdeen government had been brought down by a motion by a radical named Roebuck to have a commission examine the work of the Aberdeen government in managing the war. Roebuck's tone had been clear: he intended to pillory the government, naming names and dishing out as much punishment as possible. Olive Anderson says the Peelites had an obvious reason for opposing Roebuck's insistence on a House of Commons Committee. Newcastle, Graham, and Herbert had been heads of departments directly responsible for the war while Aberdeen led the government. She believes, however, that Gladstone took a rather different view. Rather than saving individual reputations, Gladstone worried more about separation of powers between the legislative branch of government in the House of Commons and the executive branch in the cabinet. She says Gladstone was already deeply involved in a patronage dispute

¹¹Gladstone, *Diaries* 5:12/2/55.

¹²*Ibid.*, 5:12/2/55.

¹³*Ibid.*, 5:6/3/55.

¹⁴*Ibid.*, 5:14/5/55, n. 8. He attended hearings on the 14th and 15th of May to hear testimony. He read Sebastopol evidence again 5:22/5/55.

¹⁵*Ibid.*, 5:29/4/56.

(over the summary dismissal of a Russell relative, J. T. Kennedy, from his position as commissioner of Woods and Forests) and the Whigs were attempting an uprising. To Gladstone, the encroachment of the legislative branch into an executive [cabinet] operation—the war—while the war was still being prosecuted by the executive branch, was a breach of the constitution; that through the cloud-screen of relations with the French dating back to 1792 and threats of parliamentary fact-finding groups sent to the war zone, the real problem was whether a government conducting a war should be immune from legislative enquiry.¹⁶

Whatever the overriding reasons, the immediate aftermath of the war (1855-1856) drove the Peelites back into each other's arms, creating a fairly solid and consistent band of seven to ten men with enemies all around. Gladstone recorded meetings with Aberdeen and the rest of the Peelites and others all through May, 1855.¹⁷ On June 5, 1855, he celebrated the fact that his eyes were becoming stronger when he traveled from Hawarden to London, by reading *The Times* and more minutes of the Sebastopol hearings.¹⁸ On the twenty-third, he again read evidence from the hearings and made a copy for Mrs. Herbert.¹⁹ On the twenty-fourth he recorded "Saw Lord Granville (2)—Sir J. Graham—E. Cardwell—Ld Aberdeen & conclave," and then spoke "with my whole heart in the sense of peace, 10-12" and, "Read Sebastopol Evidence."²⁰

¹⁶Anderson, *Liberal State at War*, 223-225.

¹⁷Gladstone continued to be saddened and puzzled about the war throughout his life, a point we can see from his references. See Gladstone, *Diaries* 5:14/7/59, 6:26/8/63, 7:15/5/70, 8:21/12/74, 9:6/11/76, 9:29/4/79, 9:13/12/77. Gladstone dealt pretty crisply with the remnants of the War in the 1850s, rereading his own speeches of May and August 1855, but, to some extent, still reliving Crimea in the 1870s, perhaps triggered by reading Sir Theodore Martin's *The Life of His Royal Highness the Prince Consort ... with Portraits and Views* (1875-1880). See idem, 9:25/11/78 when he wrote of his dislocated frame of mind and noted a letter of an apology to Tennyson for a misreading of "Maud" (*Maud, and Other Poems*, 1855), claiming distraction by the Crimean War.

¹⁸*Hansard's*, cxxxviii:1438.

¹⁹Gladstone, *Diaries* 5:23/5/55.

²⁰*Ibid.*, 5:24/5/55, n.1. Heathcote had made an amendment to Disraeli's motion on negotiations.

The drama continued in parliamentary debate. On June 15, Gladstone returned to London after a short trip to Hawarden to find himself and the other Peelites accused of treason. Gladstone voiced his objection under parliamentary rules, and A. J. Otway, who had made the charge, was ruled out of order.²¹ Gladstone spoke later the same night on administrative reform.²² On 20 June, Gladstone read the final report of the Roebuck committee. It exonerated the army, but blamed the cabinet for failing to demonstrate sufficient foresight and planning.²³ Still there was no end. In July, Roebuck entered a motion that the entire war cabinet (Aberdeen's) be criticized for their handling of the war. On 16 July, Gladstone reported a conclave at Lord Aberdeen's to work on "Eastern Papers." On July 17, after what appear to have been lengthy negotiations, "We finally decided to oppose [Palmerston] Govt."

Parliament entered a new round of debate on the war over the Ottoman Loan in 1855. The government supported it, but Gladstone did not, researching the problem of the 1854 convention signed by Britain, France, and Turkey,²⁴ and speaking against it the following night.²⁵ When the suggestion of the loan rose to the surface in 1855, Olive Anderson says many people began to remember sufficient numbers of Turkish blunders to restart earlier (1853-1854) the debate over Turkish credit. But she reports that the public and press now believed the war would last a long time, and the Turkish army was dissolving because they had not been paid. The Palmerston cabinet, buoyed by the loss of the foot-dragging Peelites in the cabinet, preached war at any cost. The foot-dragging

See also *Hansard's*, cxxxviii:1036.

²¹*Ibid.*, 2036.

²²*Ibid.*, cxxxviii:2098.

²³Parliamentary Paper ix, part 3:387.

²⁴Gladstone, *Diaries* 5:20/7/55, n.6.

²⁵*Hansard's*, cxxxix:1226; Anderson, "Beginnings of Ottoman Debt," 55.

Peelites, led by Gladstone, opposed them on the floor of the House of Commons whenever possible. The final, positive vote on the loan to the Ottomans took place in a “thin house” on July 20, nearly beaten by a combination of Peelites, conservatives, Manchester pacifists, and doctrinaire radicals. Anderson argues that the debate was not based on finance alone, but on old distrust of the French, and the high-handedness of the new government when compared to the incursions made by parliament into the operations of the previous one. Gladstone went further: lecturing the house on probable diplomatic and legal problems which he had thrashed out with the solicitor general. But the House, by a three-vote margin, and *The Times* with its implacable sense of right, won the argument. Once again, Gladstone had to be content.²⁶

By October 1855, some Peelites were reaching for closure. On the nineteenth, Gladstone recorded: “Milnes arrived [at Hawarden]: talks thunder & conflagration but gives up the War on its old grounds. Planned new bookcases for London.” Sidney Herbert arrived on the twentieth. Between sermons, children’s plays, and dinners, “Conv. with Herbert on War. We seem to be at nearly the same point to my great satisfaction ... With Milnes on the War.”²⁷

The 1856 Gladstone Financial Plan

Out of government, Gladstone nevertheless appears to have believed he would return to government and also to the Exchequer. In February he wrote and later amended a financial plan, or wish-list. This list caught Matthew’s attention, and, it appears, his imagination: “Even more uncharacteristic [than Gladstone’s wail of agony

²⁶Anderson, *Liberal State at War*, 225

²⁷Gladstone, *Diaries* 5:19-22/10/55.

to Wilberforce about wasting the best years of his life] was Gladstone's action in drawing up in opposition (in February 1856) a great programme of measures to be passed through when next in office."²⁸ Gladstone's memorandum comprises a host of somewhat related but unequal tasks that, if completed, would have required coordination from the Treasury, Inland Revenue, Customs, the cabinet, and the House of Commons, performing as a single team. The major victim of the plan would have been the Bank of England, and in this we see that Gladstone was not through fighting the Bank. The list is complex and appears to be internally contradictory. We can understand parts of it immediately, in its calls for redress in taxes. But it contained three basically constitutional changes: destruction of the Exchequer, creation of a new minister and "ministry of finance," and nationalization of one half of the Bank of England. Gladstone was far from finished either with reform or with the Bank of England.

The First List

To understand this list and its importance, I have thought it best to reproduce it in Gladstone's words and punctuation.²⁹ The sentences in italics are Sir James Graham's comments, written later in the year:

- 1 To abolish the Exchequer, at the same time strengthening and accelerating the Audit? *Yes, reorganise audit.*

Gladstone did not record his reasons for wishing to abolish the ancient Exchequer, but they are not difficult to find.³⁰ He had been reading on French finance

²⁸Matthew, *Gladstone, 1809-1874*: 106. Unfortunately Matthew did not say why he found this list uncharacteristic.

²⁹Gladstone, *Diaries* 5:19/10/55 to 5:22/10/55 and n.18, "Memorandum of Finance." Every item in the original list ends in a question mark.

³⁰Roseveare, *The Treasury*, 27-29, 42, 74-75, 112, 140. The Exchequer was *reformed* for the first time in the thirteenth century; in the nineteenth century it was well known for its resistance to change and

and recognized in it a more modern scheme of organization than the British system. Reform in the British government outside the Exchequer was taking place rapidly, but the Exchequer almost seemed immune from change: it continued to breathe the air of moth and mildew. Gladstone had attended many Exchequer meetings, and, dismayed with clutter, delay, and elderly supernumeraries, wandering vaguely through the halls. The fact that he always attended Exchequer meetings and sat on the court at one time speak for his attention to detail and tradition, but did not lessen his interest in reform.³¹

- 2 To bring the Chancery and all other accounts for which the public are virtually liable under the controul of the Finances Department? *Yes. Expect Chancery opposition.*

This operation was already in train. Government reorganization had proceeded to the point of evaluating each department, examining its personnel needs previous to establishing civil service examinations, and producing a list of exam topics that would provide the departments with the men and procedures they required, including double-entry bookkeeping, languages, letter writing, and other skills.³²

- 3 To apply to the miscellaneous Estimates the same rules of voting and revoting as have already been applied to the Military Estimates? *Important-- should not be delayed.*

This requirement was an extension of Gladstone's Public Revenues and Consolidated Funds Act of 1856. It would require the House of Commons to spend even more time on the estimates than had been required by the 1854 Act.

its lack of accountability to parliament. Eventually, the Exchequer was required to give up control of loans to the government, and to subsume itself into the Audit Office. In 1834, the burning of the last set of Exchequer tallies, long planks of wood with notches representing Exchequer borrowing, and used until the sixteenth century, led to the destruction of the Houses of Parliament by fire. Roseveare suggests playfully that the Exchequer tallies took revenge on the House of Commons for earlier reforms.

³¹Gladstone, *Diaries*, 4:25/2/53, 4:7/6/53. Gladstone took his duties seriously.

³²*Double Entry Bookkeeping*, 301-314.

- 4 To define the position of the Bank as the agent of the State with respect to Dividends and management of the Debt? *Yes. But Bank will resist[,] rallying the money Interest to its aid.*

This item was to be one of the great sticking points in Gladstone's next chancellorship. To change this relationship would require an overhaul of the Bank's charter and possibly a restructuring of the Company of the Bank of England by its own profit-intent Court of Directors. The Bank of England had been formed in the same period as the British East India Company, and after the fall of the BEI Company in 1857, was to remain the only remnant of the great Company era.³³ To turn a private corporation into an "agent of the government" (and presumably subject to government control) would require a very public overhaul of the charter, and possibly years of wrangling, with all the old faults and promises of the Bank dragged out for yet another re-enactment. Gladstone later told Morley that only a strong chancellor with a solid government majority could afford to change the government's position vis-à-vis the Bank of England.³⁴ One problem was always the Bank's loans to the government. Another was the fact that even when others took up the loan in the form of purchase of annuities, bills, and bonds, the Bank of England managed the payment of interest on these loans and government buy-outs when the government terminated a specific type of loan. Gladstone's intent to turn the Bank into an "agent of the State with respect to Dividends and management of the Debt" has not been defined.

- 5 To make further provision for true periodical statements of the Debt of the country on Saving Bank and other like accounts and for the liquidation of the same in case of need? *Yes, think Legislation may be needless, administrative authority sufficient.*

³³Between 1833 and 1855, the Bank Charter had been renewed twice, in 1833 (3 & 4 William IV, c.98) and in 1844 (7 & 8 Victoria, c. 32).

³⁴Morley, *Gladstone* 1:518-519, 650-651.

The Bank of England was not the only government creditor. The savings banks, Scottish banks, joint-stock banks, some private banks, and many individuals were also creditors. A report of this type would have kept the government's debt information in front of all interested creditors as well as the general public.

- 6 To regulate and limit the powers of the Minister of Finance in regard to the use of Deficiency Bills and Consolidated Fund Bills and the monies of the Commissioners for the redemption of the national debt? *'I doubt the policy of stringent legislative prohibitions. Unforeseen circumstances may render the prompt exercise of these powers necessary: but when exercised early publicity with its attendant responsibilities should be enforced by law.'*³⁵

This item became an element in the Act of 1866.

- 7 To make further provision for efficient departmental aid and counsel to the Minister of Finance and for the compilation and continuance of proper Financial Records? *Is against Bureaucratic Wishes the C. of E. [chancellor of exchequer] to have aid of 'efficient subordinates'.*

The reforms of the mid-Victorian period that gave the chancellor efficient aid and council led to what Henry Roseveare calls the great days of the Treasury, a period that would last fifty years, and which was generally considered an unfortunate excursion into alternate approaches to civil service management.³⁶

- 8 To investigate the question [of] what nearer relation should be established between the British Govt. and the management of Indian Finance. *'Indian receipt and expenditure virtually British in the last resort and should be so regarded and controlled.'*³⁷

This problem was directly faced after the Mutiny.

³⁵Matthew does not explain why this one item is opened with a single quote, but closes it anyway. Gladstone, *Diaries* 5:105-106.

³⁶Roseveare, *Treasury*, 125. Henry Roseveare asserted that "What was needed was something more fundamental than Exchequer reform; nothing less than a complete re-planning of national accounting ..." The result was a plan, slow to begin but gathering momentum throughout the nineteenth century, that led to total Treasury control over all departments. Roseveare argues that one of the highest expressions of this is in the Exchequer and Audit Act of 1866.

³⁷This was written before the Indian Mutiny of 1857. After the Mutiny, the British Government removed the British East India Company and replaced it with government officials and government budgeting, moving its finances into the mainstream of the British budget. See the budgets in Chapter 7.

- 9 To provide for the extension of the existing (3-1/2 and ?) 2-1/2 per cent Stocks? *If without serious shock to credit 3% cd. be converted into 2-1/2, the advantage wd. be very important: especially as the present tendency of money to increase in quantity and to decrease in value.*

Given Gladstone's problems in 1853—those of issuing new bills at two and a half per cent—he would have been wise to test the feeling of the market, perhaps by talking to his correspondents among the bankers or his dining companions Lord Overstone³⁸ or Baron Rothschild before he did so.³⁹

- 10 For the abolition of the Paper Duty? *Desirable.*

This item depends entirely on what Gladstone meant by paper duties. The Stamp Duty was repealed in July 1855 and replaced with a postage charge based on weight (which affected *The Times* because of its bulk, more than it did other papers). Repeal of the newspaper duty occurred in 1861.

- 11 For the reduction of the Wine Duty? *If reduction small, the effect will be insignificant: if large, malt and Spirits revenue will be affected. Wine will be for this generation the luxury of the rich: does not feel the necessity urgent.*

- 12 For the reduction of the Malt Sugar and Coffee Duties? *[No comment.]*

- 13 For the reduction and equalisation of duties of Insurance and other Stamp Duties? *Cries aloud for immediate cons[ideratio]n.*

- 14 For the increase of Income Tax 1857-60 but with descent and extinction in the latter year? *'To insure a pacific policy and an economical Expenditure, the early cessation of the Income Tax is for the best security the most powerful lever for operating on the public mind in this direction. If we are not involved in a fresh war this will be a grand subject for debate in the approaching Session'.*

³⁸Gladstone, *Diaries* 14:159, 14:460. Gladstone read several works of Samuel Jones Loyd, Lord Overstone. Jones Loyd first appears in the *Diaries* in 1853. It is, however, strange that neither Buxton, who had a good deal of interest in all Gladstone's financial thinking, and Morley, who paid close attention to Gladstone's friendships, should never have mentioned Loyd. Buxton had no interest in currency, and his references to the Bank of England focus on suspension of the 1844 Bank Charter Act in 1857, and changes in accounts with the Bank of England. See Buxton, *Finance and Politics* 1: 88, 165; 2: 17. Morley mentions only the Bank Charter Act of 1833: Morley, *Gladstone* 3, 300; and conflicts with the Bank 1: 518-519, 650-651.

³⁹See Gladstone, *Diaries* 14:221. Gladstone appears to have met Baron Nathan de Rothschild for the first time in 1847.

15 For the extention and increase of the House Duty [house tax] upon the determination of the Income Tax?' *If the Inc. Tax be remitted a duty on H[ouses] to a larger extent is a fair substitute. Graduation in an I. T. is the incline wh. hurries to spoliation. Graduation of an H. T. is self imposed acc. to the means of the occupant and a tax on the dwelling acc. to valuation within moderate limits is fairest and best mode of getting at "the means and substance" of each head of a family[']*

16 To make further provision for the absorption of the Private Note Circulation? '16-19 bear on the double question of Banking & Currency. I am disposed to think that the time has arrived when a new settlement with the B. of E. is necessary and the whole of these questions must be duly consd. and determined. A strong Govt. would legislate without a Commn of Inquiry. A weak one will seek for time.⁴⁰

17 To authorise at certain rates of interest the issue of Notes upon the deposit of Govt. Securities in lieu of the deposit of bullion.

This item refers to the relationship between the issue of notes backed by bullion and issue backed by government securities. Legislation would have been required to change the operation of the 1844 act.

18 To pay off the Bank Debt by the issue of Notes and to put an end to the privileges of the Bank in regard to issue, retaining its agency and machinery for the public issue?

This paragraph also requires a good deal of definition. First, it should be restated in the order in which legislation and government action would be required: 1) to put an end to issue by the Bank of England entirely, and possibly by all other banks of issue; 2) to purchase the agency and machinery used by the Bank for currency issue, hire the workers, and set up production of notes backed by government securities, not gold; 3) to pay off the debt owed by the government to the Bank by issuing sufficient currency to pay the Bank of England. Second, for the Bank to accept payment, an Act revoking the

⁴⁰In fact, the Bank Charter came up for renewal in 1857, and although a significant amount of debate called for drastic changes to Bank operation and the law as expressed in 1844, no significant changes were made to the Bank's privileges and responsibilities. See Chapter 7.

use of Bank notes as legal tender and instating the use of government notes as legal tender would be required. The Bank would thus find itself holding millions of pounds in government notes as the only recompense for decades of patient lending and inspired coercion against the government. The uproar involved, the dangers both to internal commerce and international commerce, and the strongly held belief in gold as real money, would have to be overcome by strong government action.

Further, the question must be raised as to how this clause relates to item 4, making the Bank an agent of the state. One wonders which alternative Gladstone preferred.

19 To authorise issue of notes for the public account to a certain limit beyond the present one without deposit?

20 To investigate the practicability and economy of resuming the issue of notes below £5 convertible into gold at the Bank and its branches, and to be legal tender in payment of taxes?

Gladstone's earlier item, number 18, suggests that the government should take over the machinery and possibly the personnel of the Bank related to issue. To do this, the government would have had to confiscate and melt the Bank's note plates. The government would also create its own plates, and could easily create £1 and £5 notes, possibly to huge public delight.

21 To approximate to an equalisation of the issues at the different periods of the year as far as may be by relieving the ends/beginnings of each quarter.⁴¹

⁴¹This is the most 'technical' of the technical issues to which Matthew refers. Accounts were paid quarterly. Those owing money to the government paid in legal tender: gold or Bank of England notes. The government paid in a variety of ways. The result was always a drain of gold and Bank notes paid into various accounts. Several authors, including Thomas Tooke, *An Inquiry into the Currency Principle* (1844), 121-122, recommended staggering the payments to control the temporary currency and gold drains. Tooke saw two specific problems. First, he wrote that promoters of the Currency Principle thought any person who held a Bank of England note would be anxious to get rid of it, by turning it in to the Bank at the earliest moment. Second, that the amount of notes held by the public was determined by the specific purposes for which the public intended use the notes. Neither argument held true in practice. Many people held Bank of England notes as a convenience, a thing of value easily hidden and less likely

This item appears to refer to the periodicity of cash flow in the nation.

Professional salaries were paid and tradesmen's accounts were paid at the end of the quarter and taxes were also due. Salaries could be paid in cheques, gold coins, other coins, or paper currency. Taxes could not: by law taxes were paid in legal tender, and for most of Britain that meant Bank of England notes (or notes from an Irish or Scotch bank allowed to issue legal tender). Taxes were deposited by regional banks into the Bank of England or Bank of Ireland to the credit of the consolidated funds.

The Second List

On the following Wednesday (20 February), Gladstone rephrased his memo, in a more unified version:

- 1 To complete the construction of a real department of Finance.
- 2 To determine and define the position of the Bank as the Agent of the State with regard to public account Loans and dividends.
- 3 [Numbered 3 in the draft] To determine the rules of issue.
- 4 To readjust taxation--especially with reference to the juncture of 1860.
- 5 [Also numbered 3 in the draft] To bring all really public accounts under the controul of the Treasury.
- 6 To make further provision for the custody and management of monies in the hands of the public: and for the security of depositors in Savings Banks and the like.

Permanent advisors. 1. Master of the Mint. 2. Comptroller of the N. D. [National Debt] Office. 3. First Clerk (hereafter Sec. or A[ssistant] Sec.) Revenue Room.⁴²

to theft or pilfering than an equivalent amount of gold, and easy to use in an emergency. Second, Bank notes were the only legal tender in Britain, and therefore much needed when quarter day arrived with its tax, mortgage, and other payments and the settlement of accounts with high-ticket vendors such as tailors, drapers, carriage makers, and other suppliers of luxuries.

⁴²Gladstone, *Diaries* 5:107.

The Categories

Five categories of change emerge from the memoranda: (1) taxation and tax collection, (2) repeal of more customs and excise duties, (3) constitutional changes to the Exchequer and Treasury, (4) alterations to the management process of the National Debt, (5) changes to the organization and management of the Bank of England.

Taxation and Tax Collection

Gladstone wanted to end the income tax in 1860—The “juncture of 1860.”⁴³ He wished to replace the income tax with another, equally dependable, and easily collectable tax. Sir James Graham’s comments suggest that he agreed on the house tax as a levy that represented actual wealth and taxability, relieving the poorest, and presumably all renters, from paying. A canon in emerging liberalism, however, was that payment of taxes should be direct and that people should understand the costs of war, the poor, and other problems faced by the government.⁴⁴

Repeal of More Customs and Excise Duties

The lists of taxable and dutied items had already been dramatically reduced. Here, Gladstone was taking the next logical step. Taxes on alcoholic beverages and the duties on hops and malt became political problems in Gladstone’s later administrations.

⁴³Buxton, *Finance and Politics* 1:189-217, “1860.”

⁴⁴C. F. Bastable, “The Rule of Taxation for Revenue as a Canon of Public Finance,” *The Economic Journal* 13, no. 52 (December 1903), 505-510; Leone Levi, “On the Distribution and Productiveness of Taxes with Reference to the Prospective Amelioration of the Public Revenue of the United Kingdom,” *Journal of the Statistical Society of London* 23, no. 1 (March 1860), 37-65; Leone Levi, “Statistics of the Revenue in the United Kingdom from 1859-82, in Relation to the Distribution of Taxation,” *Journal of the Statistical Society of London* 47, no. 1 (March 1884), 1-33.

All fell foul of various temperance organizations; in addition, legislation on malt was particularly difficult because it could also be used to feed cattle.⁴⁵

Constitutional Changes to the Exchequer and Treasury

This group of changes encompasses both the cabinet and the House of Commons. The designation of “Finance Minister,” used to distinguish it from other offices such as “chancellor,” “first lord,” and “secretary,” suggests a massive overhaul of positions, offices, and public opinion. One sees how “a real department of Finance.” would reshape people’s expectations both of the way money was collected and the way it was spent. In a relatively small kingdom a centralized taxing agency would have streamlined tax collection, reducing costs, while making revenues more secure through consistent estimation, delivery, and audit. A reorganized finance department might even have been ordered to pay close attention to agricultural and manufacturing downturns with a view toward readjusting expenditures to match revenue expectations. The House of Commons would have been required to change its own procedures to allow for changes in the way that money bills are voted.

On the other hand, the budget process would have required far more parliamentary debate, compromising other bills, especially those private bills which increasingly clogged parliamentary arteries. In the 1840s and 1850s, Gladstone already worried about the time required to process bills. In the 1850s and 1860s, the supply lists

⁴⁵Temperance workers paid strict attention to customs and excise laws on drink. They saw taxation as a reasonable way to remove liquor from the hands of working men and to end the evils caused by drink. See A. E. Dingle, “Drink and Working Class Living Standards in Britain, 1870-1914,” *The Economic History Review*, new series 25, no. 4 (November 1972), 608-622; Henry Higgs, “Workmen’s Budgets,” *Journal of the Royal Statistical Society* 56, no. 2 (June 1893), 255-294; J. E. Williams, “The British Standard of Living, 1750-1850,” *The Economic History Review*, new series 19, no. 3 (1966), 581-606.

expanded dramatically, and ministers attempted to throw out private bills as sessions lengthened. When Gladstone became prime minister, his cabinet regularly cut out bills that could not be passed in a normal session.⁴⁶

Changes in National Debt Management

These changes would have limited or ended unauthorized government loans. When Gladstone first ascended to the Chancellor's chair, the national debt was already a nine-digit problem, ranging from some £700,000,000 to (at times) £900,000,000.⁴⁷ Sidney Buxton, whose study of the national debt traced it from 1789 to 1886 and provided balance sheets for the years 1866 to 1886, has shown how the debt grew, leveled out, and even, sometimes, contracted (typically when Gladstone was in office).⁴⁸ Since its founding in 1694, the Bank had lent more than half this money to the government and had brokered security purchases by the City and individual investors. As the government's biggest lender, the Bank was vitally interested in the credit-worthiness of the borrower, as were the thousands of individuals, other banks, stock-jobbers, and companies that held government bonds. The government had its own National Debt Commission, but the real work of management was performed by the Bank for a management of the debt.⁴⁹ Gladstone managed to cut the debt fee during his

⁴⁶See J. A. Thomas, "The House of Commons, 1832-1867: A Functional Analysis," *Economica*, no. 13 (March 1925), 49-61; William Taylor, "A Statistical and Historical View of the Statute Law of the Realm, and of the Number of Statutes passed in Each Reign from the Earliest Recorded Period to the Present Time," *Journal of the Statistical Society of London* 17, no. 2 (June 1854), 143-158.

⁴⁷In addition to the sources cited above, see, E. L. Hargreaves, *The National Debt* (London: Edward Arnold, 1930); Jones, Nevin, "The British National Debt, Part 1," 205-224; Leone Levi, "On the Progress and Economical Bearings of National Debts in this and Other Countries," *Journal of the Statistical Society of London* 25, no. 3 (September 1862), 313-338.

⁴⁸A discussion of the differences between Gladstone's and Disraeli's budgets appears in H. C. G. Matthew, "Disraeli, Gladstone, and the Politics of Mid-Victorian Budgets," *The Historical Journal* 22, no. 3 (September 1979), 615-643.

⁴⁹Clapham, *Bank of England* 2: 255-6.

administrations, but the Bank continued to collect both its management fees and the interest on the portion of the national debt which it held in its own right.

In retrospect, no matter whether the changes suggested in these plans were completed, the plan itself is both comprehensive in some areas and unfortunately inadequate in others. Gladstone was challenging the Bank on its strong side where it had a good deal of support. Without some thought to enabling actions, it was a plan doomed to fail.

Missing Items

Gladstone's plan of reform was also inadequate in areas where he must have known problems to exist, pressing problems where British government action might have led to more security and fewer crises. These problems include the other banking systems operating in Great Britain (Scotland and Ireland), the effects of changes in British banking on international markets, and the public information efforts required to ensure that the changes did not cause a crisis in the money markets.

He ignored the first item for the time being. He made no reference to the Scottish banks, the country banks, and the rising number of joint-stock banks, especially those that issued notes.⁵⁰ At various times questions had been raised in the House of Commons about the relationship of, for example, the Act of 1844 to the Irish and Scottish banks.⁵¹ More than one chancellor was forced to rise and state that he had

⁵⁰See David J. Moss, "The Bank of England and the Country Banks: Birmingham, 1827-33," *The Economic History Review*, new series 34, no. 4 (November 1981), 540-553; J. W. Gilbart, "The Laws of Currency, as Exemplified in the Circulation of Country Bank Notes in England, since the Passing of the Act of 1844," *Journal of the Statistical Society of London* 17, no. 4 (December 1854), 289-321; idem, *History and Principles of Banking*; Pressnell, *Country Banking*.

⁵¹Gladstone, *Diaries*, 4:1/7/1853, 6:6/2/64, 6:8/2/64. He appears to have known about the Scottish banking problem, these are the only entries in the *Diaries*.

taken these problems under review, but that he had no plan at present to apply changes to the operation of the outlying banks. More to the point, constant references to Scottish banking in parliament and in the press suggested that the Scottish system was indeed more flexible, and far less likely to cause a deep crisis.⁵² The union of Scotland and Ireland with England had made little change to the banking in these two countries. Scottish banks were already well established, less likely to failure, and highly profitable. Many issued their own currency, and special provisions had been made for them to clear (exchange currency) through London.⁵³ Several had deposit accounts with the Bank of England. If the British government were to take over currency issue, the Scottish and Irish banks would require accommodation, or at least rules that limited circulation.⁵⁴

The country banks seemed to puzzle most lawmakers, who saw them as a problem but not as a solution to the areas of commerce that the London banks refused to touch. The country banks issued smaller notes than the Bank of England. They knew their customers well, and were less likely to fail because of speculation or bad loans. Some private bankers were as sophisticated as London bankers, reading the bullion

⁵²For descriptions of the Scottish banks in detail, see Charles A. Malcolm, *The History of the British Linen Bank* (Edinburgh: T. & A. Constable for the bank, 1950); Richard Saville, *Bank of Scotland, A History, 1695-1995* (Edinburgh: University Press, 1996); L. M. Cullen, "The Exchange Business of the Irish Banks in the Eighteenth Century," *Economica*, new series 25, no. 100 (November 1958), 326-338; Frank Whitson Fetter, "Legal Tender During the English and Irish Bank Restrictions," *The Journal of Political Economy* 58, no. 3 (June 1950), 241-253.

⁵³For an overview of Irish currency, see Cormac O Grada, "The Irish Paper Pound of 1797-1820: Some Cliometrics of the Bullionist Debate," *Oxford Economic Papers*, new series 45, no. 1 (January 1993), 148-156; J. W. Gilbert, "On the Laws of Currency in Ireland, as Exemplified in the Changes that Have Taken Place in the Amount of Bank Notes in Circulation in Ireland Since the Passing of the Act of 1845," *Journal of the Statistical Society of London* 15, no. 4 (December 1852), 307-326.

⁵⁴*Hansard's*, cxviii:452. This problem was raised in the House of Lords on 10 December, 1857, when Lord Monteagle wished to know what effect bullion withdrawal from the Scotch and Irish banks had on commercial pressure in Great Britain and on the Bank of England.

reports and adjusting their lending patterns accordingly, and being very careful that sufficient cash in their vaults exceeded deposits.⁵⁵

These banks required a thorough legal appraisal, one that protected all their rights and interests, and gave them legislation separate from vague references to joint-stock banks and joint-stock banks of issue. Private and “country” banks would have benefited by a uniform set of laws that specified their operating limits, requirements for capitalization, and guarantees of safety in periods of down-turn. Because these laws failed to materialize, individual banks fell victim to one of two types of liquidation in the nineteenth century—bankruptcy and buy-out. Luther A. Harr has published a penetrating and useful study of bank consolidation in the nineteenth and early twentieth century in which “the Big Five” purchased banks, including banks that had purchased other banks.⁵⁶

The second problem that Gladstone failed to include was that of international exchanges. When Lord Althorp introduced his plan for rechartering the Bank of England in 1833, he spoke of European markets turning against the British.⁵⁷ The problem was based on the actual price of an ounce of gold in the unregulated world market compared to the set price of £3 17s. 10-1/2d. established by law in 1819. To understand this problem, it is necessary to compare the relationships among three prices: the price of

⁵⁵Pressnell, *Country Bankers*, 6, 134, 409, 444, 460, 490, 511. An association of country bankers was formed in the 1790s, and operated throughout the nineteenth century to maintain communication, voice concern over government measures, and provide aid to members. Pressnell has shown that country bankers worked closely with the mints over the production of coinage. In addition, some banks were known to carry out their own gold trade with the continent.

⁵⁶Luther A. Harr, *Branch Banking in England* (Philadelphia: University of Pennsylvania Press, 1929), Appendix A-1 through A-4. The Big Five were Barclays, Lloyds Bank, Midland Bank, National Provincial Bank, and Westminster Bank. The appendices provide “family trees” for the banks, showing how they acquired smaller banks.

⁵⁷*Hansard's*, xviii:169. This is Lord Althorp's introduction of the bill to renew the Bank Charter, May 31, 1833.

an ounce of gold in pounds, shillings, and pence compared to the price of an ounce of gold in livres, dollars, German, Italian, or Spanish currency; the price of an English pound when presented at a European bank; and the price of a British-made good, such as calico, iron, or butter, in a local market. The principle in question was called convertibility: the ability of anyone to walk into the Bank of England or one of its branches and pay a fixed value in notes to receive an ounce of gold.

When the market went against Britain, these ratios gave continental money dealers the ability to use their local currencies to purchase Bank of England paper currency cheaply. The small-scale broker might purchase English pounds from Continental banks where Gladstone and other English tourists cashed their pounds to buy local currencies. The large-scale broker bought English pounds paid for European goods and raw materials, such as corn. The merchants paid for their goods at a disadvantageous rate in Bank notes, bullion, or bills of exchange, or were required to pay in gold. Brokers holding English notes took them to Britain where they purchased English gold at the fixed price, transported the gold back to a country where they sold it at a profit.

English bankers and business men apparently refused to see the danger, and after 1833 thought they were safe under the Bank Act of that year. As James Wilson was to state during the 1847 debate, many had been complacent, and had been bankrupted because they had not been safe. They looked to the times when their gold supplies provided them with extra credit in terms of favorable exchange rates, not at the times when the exchange rates turned negative. They failed to see that negative exchange rates could make their own transactions more expensive and could drive their

neighbors and colleagues to bankruptcy in a crisis. This blind-sidedness tended to turn them against any attempt to disrupt the fixed rate of pounds and gold in the British market, a strangely short-sighted view of men whose primary trading partners were European and American.⁵⁸ The diversity of trade suggests that a merchant might argue that trade was all right if his trade was all right, even if all the firms and mills around him were crashing and suspending business.

The End/Beginning of Another Plan

Matthew was fascinated with Gladstone's two versions of a financial reform plan, and wrote that Gladstone gained all or most of these goals when he again began Chancellor of the Exchequer. This is an optimistic claim; as Chapter 7 will show, it cannot be supported in fact through use of Gladstone's legislative initiatives from 1859-1866. The research for this thesis has shown that Gladstone's plan never advanced in the specific state we have been privileged to see because he soon recognized several weaknesses in it, and gained a better understanding of his own strengths and weakness. Income tax was one of his strengths. His ability to write legislation, as demonstrated in his 1840s railroad bill and his 1854 Public Revenues and Consolidated Funds Act, was one of his strengths. Organizing and leading public debate on a banking problem was one of his weaknesses . As the following chapter will show, Matthew's

⁵⁸News items in *The Times* suggest the complexity of the banker's problems in dealing with exchanges. It was a form of "good news, bad news" communication. See idem, Friday, 30 October, 1857, 5 reporting that most departments of business had enjoyed a "quiet and satisfactory day" with "an improved feeling . . . generally observable." A letter to the editor on the same date reported data on recent railway collisions and the danger of the railroads, placed on the same page with "Railway and Mining Shares," and a report on the meeting of the East Indian Railway at the London Tavern at which the directors felt deep regrets over consequences of the mutiny in India. The mood of the paper followed the mood of the country. See idem, Monday, 9 November (4c), when Messrs. Dennistoun & Co., one of the largest firms connected with the American trade, suspended trading.

suggestion that Gladstone accomplished most of his goals in the 1856 list by his actions from 1859-1866 is a bit more complicated than that. Gladstone did not accomplish all of it, but in accomplishing what he did he primarily played from his strength.

Gladstone's letter to Lord Aberdeen, spelling out what the Peelites should and should not do in relationship to government formation presents with a curious "other half" of the Gladstone plan for financial government.⁵⁹ While Matthew emphasizes a man crying out for office, and ready to enter financial office with a manifesto for change, Gladstone's letter to Lord Aberdeen shows why Gladstone might never have entered office again. He introduced his topic by saying he was trying to give "a practical consideration to political contingencies before they arrive, especially as they may never arrive at all."⁶⁰ This is either Gladstone seeing to far into a program, or inviting by Aberdeen or others to see into "ministerial contingencies," as Aberdeen apparently invited him to do in November, 1852. Gladstone wrote that the situation is not normal because the country was returning to peace, a "great civil juncture," with all establishments—army, navy, and other—returning to normal after being expanded uncontrollably. Gladstone followed this with a condemnation of the fashion "of laying the blame of all our evils on parsimony." While parsimony has killed tens, other causes had killed thousands. Britain had spent the money. Gladstone noted that state expenditure has tripled in less than three years, but that the department of finance was very

⁵⁹Gladstone, *Diaries* 5:13/3/56. The letter covers three pages in the *Diary*.

⁶⁰This is the type of Gladstonian "in and out" statement that confuses historians. Gladstone may have meant that he accepted the fact that he was borrowing trouble, but his "especially" clause could have been better phrased. It certainly underscores the state of mind in Gladstone that was unsettled and anxious.

backward and that much should be done to modernize it. To do this required a strong government, but a strong government was not to be found.⁶¹

Strong governments have failed to form, said Gladstone, because certain strong men would not serve in them, and would only wrangle if they did. Gladstone believed that in 1855 no combination of men existed who could create a strong government. Gladstone quoted Canning's "men not measures" statement and said it was out of date, but his alternative lacks logic: "the present moment is one that calls for measures, and that will estimate men chiefly with reference to measures." But Gladstone had seen parliament in action: the desperate goals of one moment were the ideas to be forgotten, by men, at the next: men might pass measures, but men of courage, tenacity, and eloquence were required to keep these measures in place. This is why civil service reform was so important: beyond men and measures had to stand the methods, forms, and memories that maintained the new, turned old, rules and the willingness of civil servants to police themselves.

To an aging but still feisty Aberdeen, this may have sounded like more of Gladstone's thinking too deeply about a subject to be useful. But we cannot overlook the possibility that Aberdeen might have been called again to the palace (if Russell, Palmerston, Derby, or Disraeli failed), nor the fact that Gladstone was attempting to distance all the Peelites from the aftermath of the Crimean War:

In all that has preceded, I have been suggesting rather than removing difficulty. And I must confess that it is not diminished, when we pass from the abstract to the concrete. For, so far as I am able to judge, when we look at the names of those persons, who would be publicly regarded as most likely to be at the head of an administration after the crisis we have supposed, I am very doubtful whether they are men, whose ready and cordial adoption of such a policy [of

⁶¹Gladstone, *Diaries* 5:13/3/56.

measures?] & and whose adherence to it as a matter of life or death for their Cabinet, could be safely taken for granted.

Gladstone concluded that liberals were effective champions of public reform and economy when not in office, and spendthrift in office. He confessed he did not see how it could be the duty of the Peelites, or of Gladstone himself, to take office with the liberals. Instead, it would be more advantageous to the country (and less of a headache to the remaining Peelites) if they stood out of line when a weak cabinet was being formed. He concluded:

To whatever cause these speculations & inclinations may be due, let me assure you they are not owing to any mere antipathies in any direction whatever. I find it one of the chief comforts of public life, amidst many discomforts, that, as years pass away, antipathies also and resentments if they have existed, disappear; and one of the chief comforts of the present time in particular, that all the motives and considerations, bearing upon personal conduct, are so evidently and directly summed up in the answer to the one question, What do the public interests require?⁶²

The 1857 Bank Charter Debate⁶³

That part of the public interest that required restructuring of British finance, banking, and currency received another airing in 1857 when George Cornwall Lewis moved the renewal of the Bank Charter.⁶⁴ The debate reproduced most of the same

⁶²Gladstone, *Diaries* 5:13/3/56.

⁶³*Hansard's*, cxv-cxviii: various entries. The debate with respect to the Bank Charter Act of 1857 really is the debate over two bills and an overwhelming problem: the bills were a renewal of the Bank charter, the Bank Issue Indemnity Act, and the Joint Stock Banks Limited Liability Act. The overwhelming problem was Commercial Crisis. The relevant bills, committees, and debates appear in

⁶⁴ See Clapham, *Bank of England* 2: 226-227. It was an unfortunate time to be rechartering the Bank of England. Clapham calls the commercial crisis of 1857 the first truly world-wide crisis, felt as far away as South Africa, South America, the Far East, and central Europe. British attention was focused on India, where Delhi had not been retaken. Britain was estimated to hold £80 millions in United States stocks and bonds, and many United States firms held open credits in English banks. Between the 25th and the 29th of September, one hundred and fifty banks in Virginia, Pennsylvania, Maryland, and Rhode Island stopped payment. Sixty-two of the sixty-three New York banks suspended payment. In October, no fewer than 1415 U. S. banks stopped payment. The shock hit Liverpool first, and then the rest of the country, spreading to Amsterdam and Berlin.

arguments that Gladstone had participated in and read about, and much that is familiar to modern historians: the lists of authorities who had written against the 1844 Act and the quotations from their works; the lists of authorities who had written in favor of the Act; the vituperation expressed in all the debates on topics such as Bank notes, gold, and commercial distress. The debates show that Sir James Graham was right when he thought the time to act upon the Bank and its Charter had come, but wrong to believe that anything could be done.

For those unfamiliar with nineteenth century parliamentary debates and the ballet routine of bill introduction, readings, amendments, committees, reports, further readings, votes, divisions, passage, rejection, adjournment, or royal assent, the legislative process of nineteenth century England seems arcane if not archaic. Gladstone well understood that a Bank Act opportunity stood before him in February, 1857, although he was deeply immersed in Italian affairs.⁶⁵ He was also aware that as a former Chancellor of the Exchequer with extensive dealings with the Bank in his resume he was likely to be called to be a member of the committee, and he was.⁶⁶ He saw Edward Cardwell and the Chancellor on 5 February with reference to a committee on the Bank Charter. He attended the House on the sixth when the Bank Act was introduced.⁶⁷ He spoke to Lewis about what Gladstone called the Currency committee, and which was really Lewis's first attempt to name those who would serve on the select

⁶⁵Gladstone, *Diaries* 5: 5/2/57, a memorandum of a meeting with Lord Derby of three hours duration on Italy.

⁶⁶*Hansard's*, cxlv:192, 223. George Cornwall Lewis, Chancellor of the Exchequer, moved for a select committee on 11 May, 1857. Gladstone was made a member, along with Benjamin Disraeli, Sir James Graham, Sir Charles Wood, and several members of the banking fraternity including Sir Francis Baring. It also included David Ricardo's son, John Lewis Ricardo.

⁶⁷Gladstone, *Diaries* 5:6/1/57; 5:3/2/57, n.5; *Hansard's*, cxliv:137, 259. Gladstone spoke on the renewal of the charter in his response to the Queen's address.

committee on the Bank Act.⁶⁸

When the House of Commons met in committee, they were forced to come to grips with the proposed Bank Act bill as proposed by the government: the members wanted a bill that redressed the problems they saw in the Bank and in the 1844 Act. They enumerated those problems in debate, the principle problem being that the Bank of England had issued too much paper currency during the crisis, and it was now suggested that the Bank should be brought to book for exceeding the law.

They had to deal with what the bill was not.⁶⁹ It was not about the actions, responsibilities, and attitude of the Bank of England. Clauses 1 and 2 provide a sort of universal introduction. Clause 3 shows the true intent of the Bank Act:

Provides that the second section of the Joint-Stock Companies Act, 1856, shall be repealed so far as it relates to persons [unreadable] together for the purpose of banking, subject to a proviso that no existing or future Company shall be registered as a Limited Company.⁷⁰

In other words, the 1857 Bank Charter Bill was about compromising its competition. Clause 3 passed, and for nearly six months joint-stock banks lost the protection of limited liability granted to the partners as individuals. Limited liability is now a staple of corporate law. In 1857, considerable work had gone into laws allowing creation of joint-stock companies, joint-stock banks, and joint-stock bank operation within a sixty-five mile radius of London. The Bank Act of 1857 attempted to remove the safety net for partners, making the formation of a new bank much more risky than it

⁶⁸Gladstone, *Diaries* 5:5/2/57, n.1,2; 6/2/57; 11/2/57; 14/2/57; 18/2/57. Gladstone did serve on the committee: A three-and-a-half hour conclave took place at Lord Aberdeen's on the sixth, but this may have referred to refer to Italy, not to the Bank bill. The income tax was already being hotly debated as well. Gladstone and Lord Derby were in constant communication, apparently about finances.

⁶⁹*Hansard's*, Index to the session, cxlvi:342.

⁷⁰*Hansard's*, cxlvii:121-125.

would be under earlier legislation.

Clause 3 annulled the “second section of the Joint-Stock Companies Act, 1856,” as it extended to banking and stated that no existing or future Banking Company would be registered as a limited [liability] company. As has been shown, the bill passed into law. Clause 12, appears to support a suspicion raised in clause 3, that the bill was not about the Bank of England, but about some other type of banking altogether.

Parliament, having been rushed to judgment in August of 1857, found itself rushed back to judgment in November of that year, meeting throughout December, leaving its fine Victorian Christmas in shambles, and driving to the House in the sleet of January. In the interval between adjournment of the regular session in 1857 and their return in November, the 1857 commercial crisis had reached its full force, and the government had again suspended the 1844 Bank Act Bank of England to allow the Bank to respond to the crisis. Under the unlimited liability forced upon joint-stock banks by Clause 3, joint-stock-bank partners were forced to risk their personal wealth if one of their partners defalcated on a personal loan for which he had pledged his bank shares. In fact, the Bank Act was primarily about removing joint-stock banks from the free competition they had begun to enjoy with the Bank of England. Clause 12 would allow any seven individuals, through subscriptions of only £350 each to form a joint-stock bank,⁷¹ but whether any bank could survive without limited liability was open to serious question. In short, the Bank Charter renewal act of 1857 reads almost like a trap, luring members into partnerships and then setting upon them when they were most vulnerable to attack because they faced full liability.

⁷¹Ibid., 120.

The commercial and financial crisis took place between adjournment of the regular session in 1857 and the calling of a special session in October. During this period the Bank had exceeded the issue allowed by the 1844 Bank Act, and the government had suspended the Act in order to allow the country to recover its economic equilibrium. The record of second session of the year (October-December, 1857) is one of the most interesting in the history of British banking, because it records the efforts of parliamentarians to come to grips with several aspects of banking at the same time, many of them in a contradictory state. The debate seems to have been nearly continuous. The Bank Issues Indemnity Bill led off: Sir George Lewis asked leave to bring in a bill that would indemnify the Governor and Company of the Bank of England “in respect to certain issue, of their notes.” In his oration, Lewis pointed out a difficulty in the Act of 1844, that it had limited issuance of paper currency to the extent of convertibility, that is, to the extent that these notes could be returned to the Bank of England and exchanged for gold at the legal rate. The notes were backed by gold in the Bank’s vaults and by the fiduciary securities.⁷²

Lewis reckoned that the total allowable circulation of bank notes in England, Wales, Scotland, and Ireland was approximately £88 million. The only portion of this circulation strictly covered by law through use of bullion was that of the Bank of England. Lewis recalled the statement of Sir Charles Wood, Chancellor of the Exchequer in Russell’s first government, who had said he never did see the Act as a guarantee against panics.⁷³ In total, three governments including Sir Robert Peel’s, had denied that the Bank Act of 1844 would avoid commercial distress and panics. In the

⁷²*Hansard’s*, cxlviii:146.

⁷³*Ibid.*, 149.

climate of crisis arising (the first debate on the commercial crisis would take place on December 1857), no great imagination was required to see that this indemnity bill was intended as a prophylactic against undue disturbance or legal action against the Bank of England by litigants or legislators claiming that the Bank was legally at fault.

While others argued about how and how much the Bank and the Bank Act had been at fault, Gladstone, who had been silent during the Bank Charter Act debate, entered the debate. He stated that by raising the discount rate and continuing to issue currency and loans, the Bank had enjoyed significant profit. He asked politely, and at some length, whether the indemnified Bank would feel sufficient guilt about its profits made during the crisis to share its profits with the government.⁷⁴ Gladstone's comments were quiet and to the point, far more interesting than any redress or blame against either the government or the Bank. Bank income during the crisis had risen dramatically both in London and in its branches.⁷⁵ Gladstone's point, and one which he would put into practice in his dealings with the Bank from 1859 on, was that the profit from the rising rate allowed by the government and resulting in higher income at the Bank should be consigned to or at least shared with the government.⁷⁶

While this debate continued, Headlam introduced an amendment to the Bank Act of 1857 aimed at limiting the liability of the proprietors of joint-stock banks. Headlam stated that he had not suddenly discovered that his proposal was a good idea, but that

⁷⁴Clapham, *Bank of England* 2:429. The Bank rate at the beginning of 1856, 1857, and 1858 was already high for the Bank, standing at 6% in 1856 and 1858, and 6-1/2% at the beginning of 1857. In 1857, during the months of the crisis, it rose from 6% to 10% before finishing the year at 9%. By the end of 1858, the rate had returned to 2-1/2%.

⁷⁵*Ibid.*, 433. Just how much the income rose is not possible to calculate from Clapham's data. It merely shows income from discounts, but these may include discounts on commercial paper taken during the period, but may or may not include fees charged for purchase of Bank of England Notes. To understand the real impact of the rising rate, one would need to separate the returns from the Banking Department from those of the Issue Department.

⁷⁶*Hansard's*, cxlvii:274-276

he had been thinking so since 1847, the last year of great commercial stress. He stated that when he had investigated the causes for the failures of joint-stock banks,

a conviction strengthened by subsequent observation and confirmed by the events of the recent monetary crisis—that the principle of unlimited liability of shareholders was a chief moving cause of the mismanagement of joint-stock banks; and further than that the mismanagement of these banks, by leading on to their ultimate failure, most materially aggravated and precipitated a national crisis
...⁷⁷

He demonstrated his reasoning with experience, in cases he had seen on a regular basis: one shareholder in a joint-stock bank had gambled his entire fortune in the market, which he was entitled to do under the current law, without warning his fellow shareholders. This one man's failure would be the ruin of the others, at no fault of their own.⁷⁸ Thinking that it was saving the public from the danger of a bank that speculated, the government had in fact placed every honest and prudent joint-stock share-holder at great risk, thereby ruining otherwise prudent banks, limiting competition, and in fact not saving many of the public from ruin.

The daily records of the Court of Bankruptcy told of failures of this kind. The unlimited liability of the shareholders in a joint-stock bank rendered mismanagement probable, easy, and possible, and led to fatal consequences.⁷⁹

Little attention is given to the Acts that came out of these efforts—of the Chancellor of the Exchequer to save the Bank of England, of Headlam to save a sizeable number of other banks in the nation, and of Gladstone to gain a share of the Bank's profits for the government. Yet each shows that little weaknesses around the edges of the banking industry were visible. This is not a surprise. They had been visible

⁷⁷Ibid., 360.

⁷⁸Ibid., 362.

⁷⁹Ibid., 366.

for some time. Now, however, those who saw these weaknesses were beginning to see ways of cracking into them.

Looked at realistically, the nation had too much at stake to do severe damage to the Bank of England without considering the consequences first. The nation may also have been beginning the long process of learning just how much of the business was not only performed but performed reasonably well by the hundreds of other banks that held the small towns, county seats, ports, and vast cities of the nation together and connected them with the rest of the world. Britain was a long way from understanding this phenomenon, and the Bank of England was still a long way from understanding its part in the network. There would continue to be downturns, but at least some courageous souls, not all of them economists, not all of them liberal heroes, not all of them Gladstone, were beginning to understand and work around the edges.

Conclusion

In effect, both governments of the period 1855 to 1859 and Gladstone bet each other that they could survive without one another. They did, but not well, and not for long. Palmerston's government fell on the politically unsound Conspiracy to Murder bill he brought to the House of Commons after an attempt on the Emperor of France failed, and English goods and locations were identified with the assassin. Gladstone toppled Derby's government himself with a raid on Disraeli's 1859 budget speech.

The three bills of 1857 and the commercial crisis associated with them once more demonstrated that the Bank of England was a seriously flawed institution, that its position was arrogant and supported by many of the nineteenth century governments,

and that it could and would do great damage to the banking community unless other bankers simply shrugged their shoulders and learned to live with the Bank, the currency law, and the operations of the exchanges.

Samuel Loyd Jones, Lord Overstone, was perhaps the best known and most experienced banker of the age, a man of strong beliefs about banking. Beginning in 1833 and ending in 1857, he argued for several rules which, if applied to the government, banking, and the Bank of England, would make banking and safe. First, he believed in a single issuer of currency, that being a single bank. He believed that the Bank of England should be required to make full and regular reports on the accounts of its bullion.⁸⁰ He also believed that there should be perfect convertibility between gold and paper.⁸¹ Overstone wrote that he had published his testimony from 1857 because he believed that the events of that year, if properly understood, gave no evidence of a failure in the 1844 Act.

This type of thinking, from one of the most respected bankers, speakers, and publishers on banking of the age, carried great weight. The questions directed to Overstone during the hearings of 1857 show just how far ahead of parliament he was in his thinking about banking, and how far parliament would have to travel to reach his level of understanding. For example, Benjamin Disraeli asked the banker what would happen if the Bank's Issue Department were transferred to the government. Overstone's testimony shows that the bill would probably have been too difficult to

⁸⁰Samuel Jones Loyd, Lord Overstone, *The Evidence Given by Lord Overstone Before the Select Committee of the House of Commons of 1857 on [the] Bank Acts with Additions* (London: Longman, Brown, 1858; reprint, Clifton: Augustus M. Kelley, 1973), v.

⁸¹Overstone, testimony before a Committee of the House of Commons on Issue, 1840, in Overstone, *Evidence*, vi.

frame in a way that it could have been passed.⁸²

In answer to question 4161, Overstone described the “system” by which the government and the Bank of England did business as a “variety of successive bargains between the Government and the Bank,” never “simplified into one direct payment for the whole business.”⁸³

In this climate, it is of little wonder that Gladstone wanted government in his own hands. He wanted control of budgets and governmental reform. He also wanted the variety of successive bargains to be in his own hands. He had demonstrated his mastery of some small part of the government’s business with the Bank in his work on deficiency bills and in the Public Revenues Act.

For all Gladstone’s angst during the period 1855-1859, documented by various authors, he made himself wait. He was to have a long run in the Exchequer, from 1859 to 1866. He was to accomplish several good works, although the populace at the time was more inclined to believe him a miracle worker. In hindsight, we are correct to ask what it was about the period 1855-1859 that strengthened Gladstone to the point that he was able to accomplish his good works. As the following chapter will show, his financial reform “plan” was not the stuff of government reform, lacking as it did a strategic mission statement, suggestions for enabling legislation, day one measures, and a scale by which Gladstone the reformer could write “completed” after the final item on the docket. But Lord Overstone has provided a better clue than all the items in Gladstone’s 1856 lists. Gladstone’s reading and his apparently growing ability to integrate and

⁸²See for example, Overstone, *Evidence*, 224-227, questions 4156-4165, which encompass the rules under which the Bank issued paper currency and the rules regarding the bullion held in the Issue Department.

⁸³*Ibid.*

organize his thinking may be added to this clue to show Gladstone what he could accomplish.

Gladstone's relationship with the Bank of England thus emerges as a territorial dispute between two neighboring countries, doomed to battle along the borders they shared for a long period of time. Becoming more and more cognizant of their respective strengths and weaknesses, they skirmished here and there, one sometimes winning or saving disaster by a reasonable short-term treaty. The period described in this chapter is, in my mind, an important period in the history of banking, the ability of the government to deal with banking, and in Gladstone's development as the next man who would try his hand at good works in Britain's finance.

Gladstone's Reading

While it is true that Gladstone continued his religious and church-related studies as well as his studies and writings on classical topics, he continued to read extensively on political economy, government finance, currency, foreign trade and banking. The following table shows the authors, titles of the books, publication dates, and reading dates for the period 1856-1859.

This is the most important period of his reading in the Bank and the Bank Act. It is equally important because of his reading in currency. With this reading, he met, again and again, ideas about the varieties of successive bargains that might be made with the banking industry and the Bank of England.

By far the biggest block of his reading, however, is in the cost of war. Gladstone's continuing concern about his position in financing or failing to finance the Crimean War

led him to read everything he could lay his hands on regarding the Crimean War. As the following chapter will show, his reading on the cost of war helped him in his continued evaluation of the strength of North and South in the American Civil War, and in the expenses that would be incurred if Britain went to war either in North America or in Europe.

Table 7: Gladstone's Reading, 1855-1859

Topic	Author	Title	Reading Date ^a	
Accounting and Trade: Accounting	J. Caldecott	<i>A Practical Guide for Retail Tradesmen and Others to Bookkeeping by Double Entry</i> (1851)	21 Nov 1855	
Bank of England and the 1844 Bank Act	Bank Act	Edmund Phillips	<i>Bank of England Charter, Currency, Limited Liability Companies, and Free Trade</i> (1856)	14 Feb 1856
	Bank Act	James Horsburgh (Lt. Col.)	<i>The Errors and Evils of the Bank Charter Act of 1844</i> (1855)	17 Feb 1857
	Bank Act	Samuel Jones Loyd	<i>Thoughts on the Separation of the Departments of the Bank of England</i> (1844)	10 Feb 1857
	Bank Act	George Combe	<i>Currency Question Considered in Relation to ... the Bank Restriction Act</i> (1856)	24 Apr 1856
	Bank Act	George Arbuthnot	Pamphlet on the 1844 Bank Act (1856)	28 Jul 1856
	Bank Act	Thomas Tooke	<i>On the Bank Charter Act of 1844; Its Principles and Operation</i> (1856)	8 Jan 1856
	Bank Act	Edward Norton	<i>The Bank Charter Act of 1844 Truthfully Considered</i> , 2nd Edition (1857)	12 Nov 1857
	Bank of England	William Reid	<i>The Life and Adventures of the Old Lady of Threadneedle Street</i> (1832)	24 Jan 1856
	Bank of England	J. H. MacConald	"The Errors and Evils of the Bank Charter Act of 1844 as Divulged by Lord Overstone" (1855)	17 Feb 1857
	Banking and Currency	Banking	James W. Gilbart	<i>The History and Principles of Banking</i> (1834)
Banking		John Ramsay MacCulloch	<i>Considerations on Partnerships with Limited Liability</i> (1856)	2 Apr 1856
Banking		Charles Sikes	<i>Good Times; of, the Savings Bank and the Fire-Side</i> (1854)	24 Dec 1856
Currency		Edwin Hill	<i>Principles of Currency. Means of Ensuring Uniformity of Value and Adequacy of Supply</i> (1856)	15 Jan 1856
Currency		J. Taylor	<i>A Catechism on the Currency</i> (1835)	25 Mar 1856
Currency		W. Huskisson	"The Question Concerning the Depreciation of our Currency Stated and Examined" (1810)	27 Mar 1856
Currency		J. R. MacCulloch, ed	<i>Tracts ... on Metallic and Paper Currency, 1844-1857 (Lord Overstone), especially "Letter to the Editor of The Times on the Bank Charter Act 1855-6.</i> (1857)	16 Mar 1857
Currency		Samuel Jones Loyd	<i>Decimal Association. Answers to the Questions ... by Lord Overstone to the Decimal Coinage Commissioners</i> (1857)	22 Apr 1857
Currency		J. Duncan	<i>The Principles of Money Demonstrated, and Bullionist Fallacies Refuted</i> (1849)	12 May 1857
Currency		Unknown	"Decimal Coinage. A Short and Easy Method ... " (1854)	31 Jul 1855

(table continues)

Table 7 (continued).

Topic		Author	Title	Reading Date ^a
Banking and Currency (continued)	Currency	D. Frolich	<i>Sketch of a Plan for the Reform of the Laws and Regulations Respecting Money and Currency</i> (1855)	21 Sept 1855
	Currency	Edward Norton	<i>National Finance and Currency with the Operations of Gain or Loss of Gold in Peace and War</i> (1860)	12 Nov 1857
Government Finance	Finance	William Newmarch	<i>On the Loans Raised by Mr. Pitt ... 1793-1801</i> (1855)	16 Mar 1855
	Finance	Nicholas Vansittart	<i>Outlines of a Plan of Finance</i> (1813)	7 Feb 1856
	India	Henry St. George Tucker	<i>Review of the Financial Situation of the East India Company in 1824</i> (1825)	22 Jun 1858
	Taxation	<i>The Economist</i>	Gregg on Taxation 111 (1856)	24 Jan 1856
Political Economy		Hesiod	<i>Opera (Works and Days)</i> (ancient, no specific date)	14 Jan 1856
		William Pollard	<i>Essays on Subjects of Political Economy</i> (1850)	15 Feb 1856
		Aristotle	<i>Politics</i> (nd)	14 Aug 1856
		<i>The Economist</i>	Military Expenditure 115 (1856)	25 Jan 1856
		W. Brereton	<i>The British Fleet in the Black Sea, While Under the Command of Vice-Admiral J. W. D. Dundas</i> (1856)	19 Jan 1857
		William Newmarch	<i>Should the Money Required to Pay the Expenses of the War be Raised by Loans or Taxes?</i> (1855)	12 Feb 1855
Cost of War: War		W. Filder	"The Commissariat in the Crimea" (1856)	18 Mar 1856
		Somerset John Gough Calthorpe	<i>Letters from Head-Quarters, or the Realities of the War in the Crimea</i> (1856)	21 Mar 1857
		John William Crowe	<i>Our Army; or, Penny Wise and Pound Foolish</i> (1856)	29 Apr 1856
		Parliamentary Paper, 1855, xxxiii.	"Medical Commissariat in the Crimea"	7 May 1855
		C. de Bazancourt	<i>The Crimean Expedition, to the Capture of Sebastopol</i> , 2 vols. (1856)	28 May 1854
		P. B. Maxwell	"Whom Shall we Hang? The Sebastopol Inquiry"	18 Jul 1855
		William Newmarch	<i>Should the Money for the War be Raised by Loans or Taxes?</i>	12 Feb 1855

Notes:

^aAll date references are to Volume 3 of the Diaries. Within a Topic, the publications are listed in the order in which Gladstone recorded reading them (right-hand column).

^bMarked "probably."

^cThe publication date suggests that Gladstone read an early draft, and thus may have been a friend of the author.

^dGladstone disputed Newmarch's interpretation in the House, 20 April, 1855; see Hansard's, cxxxvii:1953.

^eAdd MS 44384, f. 113; Gladstone, Diaries 5:18 Jul 1855.

CHAPTER 7

SECOND CHANCELLORSHIP, 1859-1866

Introduction

When Gladstone again kissed hands and accepted the seals as Chancellor of the Exchequer in 1859 as part of Palmerston's second office, he also accepted responsibility for living up to the opinions and hopes of his supporters and his own aspirations. He meant to make a very large name for himself and he did. Two years after he left office under the last of the old generation of prime ministers, he formed his own government for the first time. His nearly seven years as chancellor under Palmerston had made him so popular that his accession to the head of a government was required by the people he had worked so hard to serve.

Much of his popularity came from the measures that people found good—fiscal responsibility; continued cuts and reshaping of taxes, customs and excise duties; and understandable speeches that endeared him to the common man and woman. As this chapter will show, some of his popularity with bankers, money men, and the City of London, stems from what he did not do. He did not follow his 1856 plan in some of its most revolutionary aims. He did not restructure the Treasury and Exchequer and he did not nationalize the Bank of England or its Issue Department.

In Office at Last

This chapter describes the final period under discussion in this study of William Gladstone's relationship with the Bank of England: the Palmerston and Russell governments of 1859 to 1866. Matthew says that Gladstone returned to the Exchequer

a seasoned professional man with a clear-cut agenda. This may be. However, to say this is to reckon without Gladstone's opinion of Palmerston and the difficulties that Gladstone clearly perceived in joining a Palmerston government. It is also to reckon without Gladstone's continuing but now diminishing insecurities about serving, anxieties which he largely overpowered in six and a half years of working with two somewhat cranky but mostly predictable prime ministers. This chapter will show that Gladstone found strength, salvation, and meaning in two of the greatest of government quagmires: numbers and administration. By producing budgets that solved Palmerston's domestic difficulties before they happened, most of which either broke even or produced surpluses, Gladstone nevertheless managed to pay for rebuilding the Navy, erect fortifications, cut tariffs (again), and please most of the people most of the time. By pushing through the House of Commons the great Exchequer and Audit Departments Act of 1866,¹ he placed the final stamp on the authority of the Treasury to administer and control the other departments in the government, including the navy, the army, and ordnance.

The years 1859-1866 include two great Gladstone achievements—the budgets for those years and the Exchequer and Audit Department Act; the period also covers an accommodation of sorts between Gladstone and the Bank of England, demonstrated by his even-handed management of the Bank's difficulties with Overend, Gurney and

¹The proper title is the Exchequer and Audit Departments Act, 29 & 30 Victoria, c. 39. See Roseveare, *The Treasury*, 31. He places the origins of true British finance with proper tax collection and audits of accounts at 1066 when the Upper Exchequer was assigned the job of auditing the Exchequer accounts of receipt. He places the birth of modern parliamentary control of the public purse, which included audit, at 1866 when the Exchequer and Audit Departments the Act was passed. There is historical reason for confusion: an Exchequer Act was passed in 1783 and an Exchequer Audit Act was passed in 1785. See Sir Norman Chester, *The English Administrative System, 1780-1870* (Oxford: Clarendon Press, 1981), 127, 136, 140, 198. Many writers, including Matthew, have abbreviated the title of the 1866 Act by leaving out the word "Departments."

Company, the bill brokerage company. In this period, Gladstone's attempt to overturn the 1844 Bank Act through extension of currency issue to private and joint-stock banks willing to pay for the privilege failed passage. Gladstone accepted the inevitable and withdrew the bill after extensive debate and newspaper coverage.

Gladstone's real achievements were in his budgets. Many Chancellors of the Exchequer had treated the budget process as a seasonal one, working from January through March or April when they delivered their budget speeches. Under Gladstone the budget season was a year-round concern. When he was not actually writing one, coaxing it through the cabinet, or convincing the House of Commons to agree to its principles and supplementary legislation, he was watching the harvests, reading on coal production, and checking up on the actual collection of revenues. The importance of Gladstone's reforms in the budget-making process has often been overlooked:

By twentieth-century standards, nineteenth-century budgets were economically insignificant, and post-Keynesian economic historians have paid little attention to them. But Keynes himself pointed to the importance of 'the state of psychological expectation', which was subjective, as a factor in the development of the economy, and he stressed that 'the state of confidence, as they term it, is a matter which practical men always pay the closest and most anxious attention'.²

The Exchequer and Audit Departments Act was a great culmination of the drive toward reform in government operation, focused both on taxation and spending, and on the control of the great spending departments in the government—Army, Navy, and Ordnance. As such, it is a bill that could never have been passed if Palmerston had still been alive. It is also Gladstone's only recourse after the failure of the Banks of Issue Bill to control the Bank of England.

²Matthew, "Disraeli, Gladstone," 615, n.2-3.

The Overend, Gurney difficulties—their attack against the Bank of England and then their complete financial failure—focus on Gladstone’s relationship with the Bank of England. By the 1860s, Gladstone’s relationship with the Bank had been mellowed, by at least four influences: his continued contact with the Bank over government finances, his contacts with Lord Overstone, his contacts with the Rothschild family, and his readings on finance and banking. Thus, despite his uneasy and sometimes hostile feelings toward the Bank and its efforts to make the most of its government contracts in the 1850s, by the 1860s, he had grown accustomed to dealing with them.

The Banks of Issue Bill was a failed Gladstone initiative. If passed, it would have redressed some of the main problems suffered by private banks as a result of the 1844 Bank Act. In effect, the bill offered to make issue more accessible to bankers and also to reinstate some of the protection stripped from them by the Bank Act of 1844. This bill failed for a number of reasons, and demonstrated the weakness of a relatively strong and well-liked chancellor, even one who served in a strong government.

In its conclusion, this chapter will examine the validity of Matthew’s claim that in the Exchequer and Audit Departments Act, Gladstone completed the program he had presented to Sir James Graham in 1856. Matthew argued that with a prime minister interested in foreign policy, Gladstone would have a free hand in the Exchequer:

A prime minister whose chief interest was bound to be in the area of foreign policy could have advantages for a Chancellor of the Exchequer with his own programme of legislation, and a programme it was. Gladstone as Chancellor between 1859 and 1866 introduced, step by step, the items in the programme he had drawn up in 1856, the last item, the Exchequer and Audit Act [sic], being passed shortly before the government resigned in 1866.³

³Matthew, *Gladstone, 1809-1874*, 109.

This chapter will show that although Gladstone gained a good deal of what he had wished for in 1856, the resolution is neither so simple nor as complete as Matthew suggests. Thus, this chapter concludes with an assessment of Gladstone's gains and losses and assesses why he did not get all he had wished for.

The Second Palmerston Government

The Palmerston government was exceptionally strong,⁴ but as likely as any weak government to be stressed by bickering, disagreements, deceit, and trouble—money being one of the main causes. Gladstone's numeric and administrative problems in developing a working budget resulted not from a lack of funds, the threat of war, or financial crisis in industry and banking, but primarily from a lack of procedure and control in the departments outside his control. Matthew opined that with the prime minister focused on international diplomacy, the Chancellor of the Exchequer would have an easy time. Morley, Jenkins, and the *Diaries* show this statement to be false.⁵ Palmerston and Gladstone fought continually about money: Palmerston followed the Disraeli line that the government should set the budget and the people should pay for it; Disraeli, rather astonishingly, was closely aligned with the Financial Reform Association on income tax, one of the reasons he launched plans for progressive taxation on items of income and wealth.⁶ Gladstone believed in general that the government should figure

⁴Hoppin, *The Mid-Victorian Generation*, 719-720. The Palmerston government has surprisingly little reorganization and very few outright resignations, regardless of Gladstone's threats.

⁵Jenkins, *Gladstone*, 207. Jenkins entitled chapter 13 "The Hostile Partnership with Palmerston," noting that there was no doubt why Palmerston wanted him in the cabinet: Gladstone could devastate a government from the outside, but would produce a decently run office of finance. But that the last thing, Jenkins believed, that Palmerston wanted was a "moralizing, powerful, and cheese-paring Chancellor."

⁶See Matthew, "Disraeli, Gladstone," 618, 624. The Liverpool Financial Reform Association spoke for direct taxation, and, with others, recommended a "National Budget" of 1848 that included a permanent income tax and death duties, accompanied by stringent retrenchment. Debate raged for years, and when Gladstone came to the Exchequer in 1859, his 1860 budget was attacked inside the cabinet on the

out how much revenue was available and then set the budget. This fundamental difference of approach sparked many battles between Gladstone and Disraeli in debates, and between Gladstone and Palmerston in cabinet meetings and letters. Palmerston believed in reasonable taxation, but he also believed in borrowing where taxation would not bear sufficient revenue to achieve the government's policy.⁷ These continuous arguments were exacerbated by Palmerston's intermittent pleasures in teasing Gladstone.⁸

Nevertheless, the wrangling between the two men, the support that Palmerston gave to those who wanted to spend money, and his backstabbing of Gladstone to the Queen made Gladstone a truly beleaguered figure. Meanwhile, he did wish to make more cuts in customs and excise, notably in tea, sugar, malt, and imported wine and brandy. Gladstone can neither be credited nor blamed for the commercial treaty with France. That was a Board of Trade initiative, not that of the Exchequer. If the treaty succeeded in passage in both countries, Gladstone could balance the loss of customs revenue with a possible increase in revenues elsewhere. However, he still had to live with the continuing English distrust of France, the urge for fortifications to stave off a French invasion, and the temptation to raise a large standing army.

Additionally, Gladstone's 1860 budget, his first under Palmerston, was thought "too democratic." Gladstone believed the French commercial treaty would be accepted,

problem of income tax. Gladstone stuck by the Peelite maxim that policy determined the budget, but he was extremely sympathetic, Matthew says, to the idea of retrenchment in defense spending. He wrote, however, that he could not retrench on taxes until he saw how much retrenchment he was likely to achieve. With Palmerston as prime minister, the answer was very little.

⁷William Gladstone, Henry John Temple, Viscount Palmerston, *Gladstone and Palmerston: Being the Correspondence of Lord Palmerston and Mr. Gladstone, 1851-1865*, ed. Phillip Guedalla (New York & London: Harper & Brothers, 1928): for fortifications, 115-118, 123-124, 142-143, 148; for battleships, 113; for the paper duty, 57, 131-6, 138-142, 144-7; for nationalization of the railroads, 75, 291-292, 308-309, 315-320.

⁸Jenkins, *Gladstone*, 213.

and based his budget on the changes in revenue, especially import duty reduction, that would arise from this treaty. Gladstone also did not endear himself to the undemocratic members of the cabinet by asking for repeal of the paper duties, and the increase in income tax for those with income that exceeded £150 *per annum*.⁹

The U. S. Civil War (often referred to in the English media as the *American Civil War*) gave both Palmerston and Gladstone some political and economic concerns. Shutting down cotton mills and dismissing workers in the first years of the war cut government revenues and tempted the British Navy to test the Union blockade of southern ports. Britain honored the Union's blockade of southern ports for legal reasons. However, the Trent affair, in which a Union ship removed Confederate envoys traveling under a British flag, aroused a good deal of hostility and a demand for British Navy action against the Union. Finally, the problems perceived in Britain regarding British North America appear to have been based on the argument that if the Union lost control of the South, it might turn on Canada as an alternative land-mass; or, if the Union defeated the South, it might turn its military against Canada to consolidate its control of a most of North America.

Europe also seemed to be a threat. David Krein argues that Palmerston's and Russell's adventurism in Europe, involving Austria, Italy, Sweden, Denmark, and Germany, first made Britain the laughing stock of the continent and then drove the island nation into the policy of "splendid isolation" that lasted until the first world war. Gladstone, who believed in peace and peace-time economies, worried that

⁹David F. Krein, *The Last Palmerston Government: Foreign Policy, Domestic Politics, and the Genesis of "Splendid Isolation"* (Ames: Iowa State University, 1978), 26.

Palmerston's meddling and bluffing in Europe might lead a badly timed and badly fought British war.¹⁰

All these threats resulted in an urgent outcry in the cabinet for more money. In 1853 Gladstone told the House of Commons that the income tax should end in 1860. In 1859, he knew that it could not. Although the revenue budget table that follows shows us that as estimated, income tax comprised less than nine per cent of the budget,¹¹ and in actual revenue more than thirteen per cent, in fact, income tax revenue made a significant difference in several of the seven years Gladstone held office. Politically, income tax no longer seemed to be a problem.¹²

And yet it continued to be. Consider the following comments, written at a time when the income tax might have been said to be well installed in the government's budgets:

One of the chief defects of the British fiscal system is the want of a settled order for its component parts, and of a due proportion of the several parts to each other and to the whole. The absence of well-understood and generally-accepted traditions on these points has produced evils of two kinds. One is the tendency to adopt the easiest method of meeting a temporary increase of expenditure without reference to principle; the other is the capricious and spasmodic manner in which the opportunities for remitting taxation are utilised ... The history of the Income Tax is especially instructive as illustrating the absence of uniformity of design and continuity of purpose ...¹³

¹⁰Krein, *Last Palmerston Government*, 57, 148. Gladstone was not the only one who thought Palmerston was playing dangerously. Lord Clarendon thought Palmerston was foolish to fear a French war, but worried that Palmerston might precipitate it. Clarendon did what Gladstone could not in at least one case, by stopping Palmerston from taking drastic action in Denmark.

¹¹Buxton, *Finance and Politics*, 1:185-189; 2: 335. Income tax revenue for 1859-1860 was estimated at £5,600,000, while total revenue was estimated at £64,340,000, and the deficit was estimated to be £4,867,000. Income tax as estimated would have accounted for 8.7 per cent of total revenue. Gladstone wrote that in time of peace he rejected borrowing.

¹²*Ibid.* The actual income tax revenue for 1859-1860 was £9,596,606, while total revenue was £71,089,669, and a surplus of £1,587,380 emerged. Gladstone had underestimated. This may be a rookie mistake or the economy performed better than expected. Detractors of Gladstone could easily argue that he accepted the estimated deficit too readily. This is not born out by the *Diary* entries.

¹³G. H. Blunden, "The Position of the Income Tax in the British Fiscal System," *The Economic Journal* 2, no. 8 (December 1892), 637-652. It is, perhaps, the very meagerness of tax's contribution to the national budget that caused so much criticism to be heaped on it later. The policy regarding income

These words were written in 1892, while Gladstone was still alive. Jenkins' comments about Gladstone's ability to set a financial course for the third quarter of the nineteenth century take on added meaning when we examine these words. Krein says Gladstone survived because he was adept with his job while Palmerston, distracted by foreign policy, was wonderfully inept at it. If Palmerston kept the political pot boiling and encouraged British jingoism, he was able to distract the British people. But Krein argues that in spite of the problems over the cotton blockade, the economy was so stable that people had little to complain about financially. In fact, the Overend, Gurney crisis that occurred in 1866 and triggered the third suspension of the 1844 Bank Act was not caused by a generally economic crisis. It only came about because of the company's overextension and its relationships to other bill and bond brokers.¹⁴

Palmerston's private diplomacy, says Krein, was a bluff. From a military standpoint, Britain was extremely weak compared to the massive armies that continental powers could raise (only about 20,000 men on the continent in the 1860s).¹⁵ Palmerston was not fool enough to try to raise the manpower required to face Bismarck on land, and the British navy would not have been able to invade Europe deeply enough to make an impression on any capital: "continental statesmen began to treat British

tax varied from chancellor to chancellor as the parties traded places in the government. Blunden traced the use of the income tax through various governments and concluded that the tax never seemed to achieve either the promise of fulfilling the government's dreams or of relieving the people from paying other taxes.

¹⁴Roseveare, *The Treasury*, 183. Lord Salisbury offered a different interpretation 1900. Recalling all those years of "splendid isolation" he attacked the Treasury for fostering an "isolation of inferiority" and listed military prowess as one of the most devastating: no conscription, no caste of military experts, no open ladder of promotion, and no effective secret service.

¹⁵Leone Levi, "On the Progress of the Expenditure of the United Kingdom," *Journal of the Statistical Society of London* 24, no. 1 (March 1861), 55-73, 59, Table C, "Average Force of the British Army 1800-59." For the year 1859-60, Levi put the number of home and colonial armies at 132,000 men and listed another 15,000 as volunteers. He says that of the total of £15,000,000 nearly half went for pay, allowances, provisions, fuel, and clothing. About a third was spent on warlike stores, fortifications, barracks, and wages of artificers. The remaining one-sixth was used to pay rewards and pensions.

power with relative indifference.”¹⁶ In 1859, Queen Victoria told her new Chancellor of the Exchequer that he should write a very large budget.¹⁷ His budgets may not have seemed “big” by the Queen’s standards, but with domestic policy under control, seemed to give the people what they wanted, including fortifications to defend England from the French. Buxton argues that the “wilderness of figures” relieved by disquisitions on “philosophy and the principles of taxation” of Gladstone’s speeches relieved the monotony of the moribund sessions of the Palmerston 1860s. In all, Gladstone financed a Palmerstonian government in which the First Lord could dabble, tempt his queen with adventure, and avoid risking rebellion without running up the debt for an unneeded war.

Sidney Buxton wrote that aside from finance, domestic legislation was meager during Palmerston’s second government, although foreign politics were in a disturbed state. He claimed that suspicion of the French, sympathy for Italy, detestation of Russia, dislike of the “North,” and compassion for Denmark led to heated debates, but not to war.¹⁸ In this Buxton, who wrote almost a century before Krein, believed Palmerston’s foreign policy was generally successful, producing fairly moderate results, well within the limits of British power.

The United States Civil War caused great arguments, about which side to recognize and which outcome to hope for.¹⁹ Surprisingly, it was Gladstone, not

¹⁶Krein, *Last Palmerston Government*, 7

¹⁷For a thorough description of the pressures that Gladstone faced, see Roseveare, *Treasury, Evolution*, Chapter 7, “The Victorian Treasury and its Masters,” and especially 183-195 describing Gladstone’s “overthrow by the defense scare.”

¹⁸Buxton, *Finance and Politics* 2: 4.

¹⁹Kenneth Bourne, “British Preparations for War with the North, 1861-1862,” *The English Historical Review* 76, no. 301 (October 1961), 600-632; Kinley J. Brauer, “British Mediation and the American Civil War: A Reconsideration,” *The Journal of Southern History* 38, no. 1 (February 1972), 49-64. These are just two of many useful articles on this topic. Bourne has looked at the myth of the “undefended frontier” in North America used by the United States to hold Canada hostage for the good behavior of Great Britain. The Palmerston government faced the possibility of war with the Union after the Mason and Slidell incident in 1861. Bourne says that Britain was not caught flat-footed: the government

Palmerston, who was believed to tip the balance with his famous paragraph about southern achievements:

We know quite well that the people of the Northern States have not yet drunk of the cup and they are still trying to hold it far from their lips—which all the rest of the world see they must nevertheless drink of. We may have our own opinions about slavery; we may be for or against the South, but there is no doubt that Jefferson Davis and other leaders of the South have made an army; they are making, it appears, a navy; and they have made what is more difficult than either, they have made a nation.²⁰

Modern historians may look with indulgence at this part of Gladstone's speech, delivered in a northern, cotton-starved textile city. England was nearly as divided as the United States was by the war—about slavery, manufacturing in the industrial Union, interruptions of shipping, the fate of Canada, and some lingering suspicions about Mexico. In the end, the people and government of England could only agree to disagree and await the outcome. In fact, Gladstone's words can be read either as a reason to side with the South, or, as an argument for sitting out the war and letting the people of the United States settle their own problem. Gladstone is accused of threatening the delicate equipoise of British opinion. What is true is that he certainly challenged Palmerston's equanimity.

In the twenty-first century, this little "side comment" appears more as a disinterested and even expression of the political realities in North America than a signal

had the experience of two previous wars with the United States as well as plenty of evidence from investigations of the Canadian border problem and the reports of the number of troops necessary to defend Canada if war broke out. The problem of whether Great Britain would intervene and attempt to mediate a solution to the war is reviewed and new conclusions drawn in Brauer's article. He argues that the decision not to mediate occurred after the Battle of Antietam. Brauer that Antietam's real significance of Antietam was that it convinced the British government that no decision could be taken until after the U. S. elections of 1864, when Lincoln would, presumably, dig his own political grave and the peace platform would take over the government and sue for peace with the South.

²⁰Jenkins, *Gladstone, a Biography*, 237, n.11. Jenkins says Gladstone was known for his rhetorical habit of making a bold statement and then temporizing. "We may have our own opinions ... we may be for or against ..." offers the temporizing element we should expect in an extreme Gladstonian statement.

of recognition. While Jenkins believed it was a “major indiscretion, stating that the attempt of the North to uphold the Union by force was lost and implying strongly that Britain was about to recognize the Confederacy,” we might be allowed alternatively to believe that it is again a “hard-headed response of an able politician”²¹ who looked with analytical eye and cold rationality on the obvious progress made by the South. The Confederacy had won major battles. Having penetrated the North, it had forced the Union to retreat and regroup. In the textile north of England, Gladstone simply said his piece to workers and owners who wanted to hear from a government official; he, and they, were concerned about the future and their incomes. Gladstone never pursued the topic further, and withdrew from the debate. But to call this statement a blunder is to forget that the economic health of the country and that the possible and real problems of economic failures were also Gladstone’s problems to deal with.

The Budgets

In spite of Victoria’s 1859 injunction to Gladstone to write a very large budget, he determined to preach economy from the first.²² He had two reasons for this decision: to get British finances under control before Palmerston accidentally or purposefully committed Britain to a war, and then to provide Palmerston with the resources to fight a war if the war was truly Britain’s to fight.²³ Gladstone was not a pacifist, nor did he

²¹Matthew, *Gladstone, 1809-1874*, 107. Matthew used this phrase to describe Gladstone’s entry to Palmerston’s cabinet in 1859.

²²Roseveare, *Treasury, Evolution*, Chapter 7, 195.

²³Thomas F. Gallagher, “British Military Thinking and the Coming of the Franco-Prussian War,” *Military Affairs* 39, no. 1 (February 1975), 19-22. It is difficult to justify the argument that Gladstone was stingy or autocratic during his seven-year position as chancellor. His budgets generally provided Palmerston, the Admiralty, and the War Office what they needed, if not necessarily all they ardently wanted. He borrowed when necessary, preferring funded to unfunded debt. Sir Stafford Northcote’s and Sidney Buxton’s detailed studies of the budgets for these years show how and where Gladstone economized. However, the total spending packages for these years were so large some critics began to

intend to starve the Army or the Navy of the men and materials they needed to fight legitimate wars. His reading may have contributed greatly to his understanding and he was still reading about the Crimean War. In addition to the books on the suffering of the army in Crimea, Gladstone read on improved guns and iron-clad steamships with screw propellers.²⁴ He also held regular conversations with men who understood military needs, such as the Duke of Cambridge, Commander and Chief of the Army,²⁵ and Sir James Graham. Gladstone believed in invention, and read on it avidly. He could not but believe that any technological edge that Britain held over its enemies might give it the edge it needed if Palmerston did commit to a war.²⁶

Gladstone delivered his first budget speech on 18 July 1859 and required only one hundred minutes to do it. It was provisional, meeting a deficit of more than £5 million by raising the income tax from five pence to nine pence, and collecting the revenues in the first six months of the fiscal year. To say that his fiscal work for the year was finished after the budget speech is a misconception. Given the way that Gladstone worked, his job was never over. For the rest of the legislative year, he was required to answer questions about various expenditures, revenues, methods of collection, and new problems. He was also needed to nurse the Army, Navy, and Supply estimates through the House. Then, he was required to work the enabling legislation required to change malt, sugar, and other duties to new levels; he was also required to steer and

believe that he was spending far too much for a country that was not at war. The problem, of course, was Europe. Thomas Gallagher had looked at the reorganization of the Army in the period following that of this thesis, and had concluded that the reforms were made primarily to redress the unwieldy organization of the Army: to make it smaller, more efficient, better equipped, but not a behemoth that could face a mobilization of Prussian troops in the 1870s.

²⁴See the reading list at the end of this chapter.

²⁵See Gladstone, *Diaries* 4:12/1/53 and 5:2/4/59 (at Lady Waldgrave's where "the Duke of Cambridge spoke with singular freedom"); also see idem 5:6/11/59, 5:6/3/60, and 6: 22/5/61. The Duke of Cambridge was the Queen's cousin.

²⁶For Gladstone's interests in invention and technology, see Chapter 2.

speak on changes in taxation. At the end of the legislative system, he was allowed to travel, check on the progress of the harvest,²⁷ attend occasional cabinet meetings on other problems, and think about the budget before he plunged into actual estimates beginning in November.

Having delivered his speech on July 18, he spent the 19th thinking about “the future of ‘our finance’.” On the following day, he worked Indian finance, now his responsibility.²⁸ His memorandum of July 24 shows that the cabinet discussed the possibility of lending money to the Indian government “funds at our command, and on the footing of other borrowers.”²⁹

He returned to work on the 1860 budget in November, 1859. As in other years, military expenditures were at the top of the lists: the Admiralty, Army, Ordnance and their ministers were begging for Gladstone’s attention. On November 17 the cabinet met to discuss the problem of manning the Navy.³⁰ On the 26th Gladstone read Sidney Herbert’s proposal to expand the army to face the French. Herbert’s mathematics assumed the Navy could not stop a French invasion. Two days later Gladstone wrote a long paper in response to Herbert on finance, but not, apparently, on manpower. On the 30th he wrote, “very lonely on the question of Military Estimates” and read Sir C. W.

²⁷Gladstone, *Diaries* 14:714. Given the Irish famines of 1846 and 1847, which followed the removal of most of the grain duties (with increased purchases of foreign grain and the flow of gold out of the country), Gladstone was unlikely to ignore the quality of the harvest. His concerns about harvests span the years 1825-1890.

²⁸Llewellyn Woodward, *The Age of Reform, 1815-1870*, 2nd ed. (Oxford: Clarendon Press, 1962), 441. After the Mutiny, Company rule came to an end and the British government took full control. Executive power had already been in the hands of the Crown, and Civil Service examinations for Indian government were instituted in 1853. The Act of 1858 moved all Company properties to the Crown and set up a new Indian government.

²⁹Gladstone, *Diaries* 5: July, 1859; Anderson, *Liberal State at War*, 222-226; Christopher Clay, *Gold for the Sultan: Western Bankers and Ottoman Finance, 1856-1881: A Contribution to Ottoman and to International History* (London: I. B. Tauriss, 2000). Many banks including Bank of England, Bank of France, Bank de Paris et des Pays Bas, The Rothschilds family firms, and Glyn Mills & Co. participated in these loans. For the inception of these loans.

³⁰Gladstone, *Diaries* 5:1/11/59 ff.

Pasley's *Essay on the Military Policy and Institutions of the British Empire* (1810). On 3 December he read Sir A. Slade's *Maritime States and Military Navies* (1859). Two days after that, he wrote, "Stiff work ... on the Estimates: I gained some points and lost more. We are in excess and in a fever." His angst was mitigated somewhat when, on December 16th, he read Pitt's bill to fortify the Royal Dockyards, and found that Pitt's cabinet had split in much the same way Gladstone's had.³¹

The budgets have been discussed in detail in several places, most notably, Stafford Henry Northcote's *Twenty Years of Financial Policy* and Sidney Buxton's study, *Finance and Politics*.³² Gladstone appears, in spite of Palmerston's constant criticism and the post facto additions of the service departments, to have streamlined the budget process simply by making it into a process—by knowing the men who competed for money, and using whatever abilities he had ("I am no diplomat") to negotiate. Jenkins thought Gladstone's 1853 budget had pulled at least as many rabbits out of his hat as Disraeli presented in the budget Gladstone struck down. By 1860, there were fewer rabbits to be had. Gladstone was not the only man to have helped streamline the process. But he did have seven years to perfect his approach, train the House of Commons in what to expect, and deal with the cabinet.

³¹Gladstone, *Diaries* 5: November-December 1859. The timing of this comment signals the possibility that Palmerston wanted Gladstone involved while the estimates were being written by the service departments, and demonstrates Palmerston's determination to work policy and finance together, while working for the highest estimates for the Army and Navy he could squeeze out of Gladstone. This was a dangerous game. On Gladstone's 1853 budget Palmerston stated that no Chancellor of the Exchequer could create financial policy that would support the wants and needs of the government and the people. By forcing Gladstone into budget talks three or four months before he delivered the budget speech, and while the service departments were writing their preliminary wish-list estimates, Palmerston may have been trying to take away Gladstone's ability to limit expenditure.

³²See Stafford H. Northcote, Lord Iddelsleigh, *Twenty Years of Financial Policy. A Summary of the Chief Financial Measures Passed Between 1842 and 1861, with a Table of Budgets* (London: Saunders, Otle, 1862); Buxton, *Finance and Politics*; Hirst, *Gladstone as Financier*.

Nor was he the only man to learn that a budget is not just about money, where it comes from and how it is spent. A budget is a highly political instrument of domestic and foreign policy. (He had shown this himself in his 1853 budget speech, noting that the European powers would be interested to see what Britain did vis-à-vis Russia and the Ottoman Empire, and it was as well to put that information on the table as soon as possible.) The budget had become an implement of domestic policy, with its demands for taxes, excise and customs payments, postal charges, and revenues from royal lands, and its bountiful spending list of museums, roads, help for the poor, gas lighting, sanitation, soldiers, sailors, ships, harbors, and bridges. One need no more than glance through the 1862 or 1863 *Hansard Parliamentary Debates* tables of contents to see that the lists of superannuations, gifts, hospitals, schools, training facilities, and other public works that routinely required revenues to sustain them, items that had previously only appeared in the pages of the debates themselves, had worked their way forward to the first forty pages of each volume, the table of contents.³³

Unlike many of his predecessors he showed no fear of what “the people” might think of his budget, but accepted as his the need to convince the people and the parliament what was good for them from a budgetary standpoint. He did believe that the budget was either a strait-jacket for the people or a gift bag like Santa’s to provide candy and comfort to the people. He believed the budget was a contract between the people and the government, preaching that honest people, working people, deserved good food and clean living that they could afford.³⁴ Thus, he was a chancellor able to

³³In 1862 the table of contents of each volume of *Hansard's Parliamentary Debates* was expanded to show more details regarding the business of each day. See, for example, 25 & 26th Victoria clxvii, 27 May-7 July, 1862, comprising thirty-five pages, and listing actions on bills, clauses agreed to and struck out, and Supply and Civil Service estimates, line by line.

³⁴Battiscombe, *Mrs. Gladstone*, 51, 95-98, 119, 129-34, 139. Catherine was described as “the

withstand his prime minister on some things, give in on others, and ride out the scares, such as the furor that arose when he proposed his tax on charities.³⁵

Table 8 recreates the expenditure side of the British governmental budget for 1861-1862, written by Gladstone.³⁶ The numbers look neat, professional, and well thought-out. Only those who read the *Diaries*, *Hansard's Parliamentary Debates*, or other records, such as Buxton's or Northcote's, understand that behind these sanitary numbers are numerous battles, changes of opinion, dogmatic statements, and grim little promises to change matters next year.

The debates on the expenditure side of the budget began when the session began, often months before the Chancellor of the Exchequer presented his budget statement. One puzzle to new readers is how the House of Commons could debate line items in the Army, Navy, or Supply budgets long before the chancellor made his speech. The answer is that in the nineteenth century the great spending departments prepared their own budgets, top-heavy with grand expenditures, beginning in November (at the same time Gladstone began working, often using their preliminary numbers). These lists were printed and available to the House of Commons soon after the opening of the session, and introduced by the Queen's speech.

genius of charities.”

³⁵Gladstone, *Diaries* 6:24/4/63, 6:4/5/63.

³⁶The figures used in the table and text of this section are taken from Buxton, *Finance and Politics*, 2:334-343.

Table 8: Budgeted and Actual Total Expenditure, 1861-1862 (£)

	Budget, April 15	Expenditure		
		Estimate 1861 ^a	Actual ^b	Actual Total ^c
Debt	Debt Charge	26,180,000	24,304,638	
	Terminable Annuities		1,837,698	
	<i>Total</i>			26,142,606
War Services	Army ^d	15,026,000 ^e	15,134,239 ^f	
	Army deficiency from 1859-60 ^g		206,630	
	Indian establishment	230,000	230,000	
	Navy ^h	12,029,000	12,598,042	
	<i>Total</i>			28,168,911
Administration ⁱ	Consolidated Fund	1,930,000	1,945,572	
	Civil Administration	7,737,000	7,831,377	
	<i>Total</i>			9,776,949
Collection of Revenue ^j			2,568,243	2,568,243
Business Outlay	Business Outlay	4,780,000		
	Post Office ^k		2,131,338	
	Packet Service	995,000	891,921	
	<i>Total</i>			3,023,259
Total Estimated Expenditure		68,907,000 ^l		69,679,968
Other	Vote of Credit, China ^m	1,000,000	1,230,000	
	Crimean War ⁿ		53,431	
	Stade Dues Redemption ^o		153,086	
	<i>Total</i>			1,436,517
Total Actual Expenditure				71,116,485
Unbudgeted Fortifications ^p				790,000
Total Expenditure with Fortifications				72,086,485

Notes:

^aThe estimated amount in each column is the amount reported in the speech that the Chancellor of the Exchequer gives in March or April. This figure is almost always rounded to the nearest thousand pounds.

^bThis figure, or an approximation of it, is the amount reported in next-year's budget speech in the section where the chancellor reported the actual expenditure for the past year.

^cThis is the total for the major head.

^dVarious supplemental estimates this year greatly confused the accounts.

^eThe estimate for the Canadian Expedition (included in the Army and Navy votes) was: Army, £609,400; Navy, £234,340, and substantially these sums were spent.

^fThe Indian Establishment charge increased this year.

^gItems that appear in this column in italics are extraordinary expenditures for the current year, not recurring expenses. The Deficiency listed here is not a standard entry, but its inclusion indicates that Gladstone had decided to pay it off and be rid of it. It would not appear again (until the next deficiency). However, the entry for the Indian Establishment continued to appear, in italics, through the 1866-1867 budget.

^hThe Navy expenditure also includes some expenditure on the Chinese War, and £100,000 spent out of the supply estimate of £250,000.

ⁱThis is primarily the "Supply" budget.

^jThese are "cost of doing business" expenses. Her majesty's revenue collectors, local tax men, and post-office personnel were primarily engaged in collecting money. However, there was a cost of collecting money, such as office buildings and warehouses, upkeep on buildings, roads and yards, salaries, and travel. These expenses are estimated separately from revenues they generated.

^kThe budget table presented by Buxton is very clear: the Post Office expenditure was not estimated in April, and is reported by result only. However, the result, £2,131,338, does not change the budget versus actual figures for the total expenditure to this point. The saving of £25,000 (on paper duty) on the Stationary vote and on Establishment charges is reckoned in the surplus as finally estimated on April 15, but not in the "basis" surplus. In both cases, the figures as given in the Budget are not quite added up, and the surpluses are given as £1,923,000 and £408,000.

^lA £20,000,000 discrepancy exists between the total shown for the estimate of 15 April of £68,907,000 total shown in Buxton's table and the actual total for this column, which is £48,907,000. The problem lies either in the absence of an entry for Debt Charge, the first item under Debt or in a typesetting error. The figure in the Result column, £24,304,638 suggests one of four problems: Gladstone lacked the appropriate information to complete this column (unlikely, given his determination and the available information); or, he was forced into paying off more of the debt than he had planned (also unlikely given Palmerston's urge to spend money elsewhere); the typesetter missed this expense in setting the table; or the typesetter truncated the two at the entry that would have made this a seven digit instead of a six-digit number. If the typesetter is at fault, he may also be at fault for bracketing the sub heads Debt Charge and Terminable Annuities and presenting the £6 million amount for the category.

^mGladstone was forced to take a vote of credit for the war in China, although he personally objected to the government's entire China policy.

ⁿThe charges for the Crimean War may have included any number of petty charges concerned with bringing home the Army (alive and dead) and unpaid bills from previous years.

^oThe Stade Dues were a problem left over from the Hanover family possessions taken into British hands. See J. F. Chance, "England and Sweden at the Time of William III and Anne," *The English Historical Review* 16, no. 64 (October 1901): 676-711.

^pGladstone, *Diaries*, May, 1861. The total of £4,304,638 and £1,837,968 is £6,142,606, a sum near enough to the estimate to represent a reasonable variation between budget and actual. This expenditure was introduced after the cabinet had approved the budget, much to Gladstone's consternation and disapproval.

The Chancellor of the Exchequer typically delivers finance (budget) speech in March or April. In the mid-Victorian period the speech consisted of three main topics: a report of the previous year's financial performance; a plan of finance—"ways and means"; and a list of proposed bills required to enable to the plan to work. Enabling legislation, seen later as "the Malt Bill," or "the Sugar Bill," or "the Income Tax Bill," contained changes to individual sources of revenue required by the budget.³⁷ By accident or design, the debates on the three great headings—Army, Navy, and Supply—thus conformed to Palmerston's notion that the needs of the government should be understood, and the budget written to fit these needs; Gladstone's budget speech conformed more to his assertion that the government should estimate the amount of revenue available from various sources, and then distribute these funds appropriately.

In Table 8, the headings in the left-most column are the major items that Gladstone began to study each November in the year before the budget was required: debt, war services, administration, and costs of collecting the revenues; within each of these major topics are subheadings reported in the final budget. Those who read Gladstone's finance speeches do well to keep the Northcote and Buxton's books in hand both for the political descriptions in the chapters and for changes in the outcomes of specific line-items.³⁸ The line items that appear below the Total Estimated

³⁷ See Jenkins, *Gladstone, A Biography*, 225. Each resolution became a bill to be debated in its own right. The budget often required modification after resolutions had been passed or defeated. For example, the 1860 budget included a resolution to raise the rate of income tax by one penny and a resolution to end the newspaper duties. Income tax passed. Abolition of the newspaper duties was struck down in the House of Lords with the connivance of Palmerston and the Queen.

³⁸ Northcote, *Twenty Years*, Appendix A, Table of Budgets. 376-395. Buxton, *Finance and Politics* 2: Appendix C, Budget Tables, 334-362. Buxton's presentations of the budgets have the advantage of showing the major headings as well as the subheadings. Northcote has not used the major headings.

Expenditure were expenditures added after the budget had been presented to the House of Commons.³⁹ The entire account, of course, was completed after the end of the year, when all the expenditures were collected. Thus, the term “Budget” used as a title for such a table is a misnomer unless the title also mentions the word “Actual” to show how the budgeted amounts vary from the actual results.

As seen in Table 8, the expenses for the War Services—Army, Navy, and India—collectively account for slightly more than the costs associated with the government’s debt liabilities, the main one being interest payments. This is an operating budget, with no reference to the modern accounting practices such as separating the capital budget from the operating budget, amortization, or depreciation. Payments for capital improvements, such as the new houses of Parliament, law courts, and the Thames Embankment were budgeted on a year-by-year basis, and were listed under Supply.

As the notes for this table show, there were problems with bookkeeping, estimating, and spending which a subsequent financial report was expected to explain, but for which a chancellor was not expected to manage in real time. In other words, the government and the parliament accepted that during the year emergencies would occur, that money would have to be borrowed, and that surpluses would have to be sacrificed. Gladstone might act as rationally as possible in attempting to hold the government to the budget, but it was never the government’s intent to be held to the budget.

Table 9 shows the revenue half of the budget. Gladstone’s revenues estimates were based on two types of data: revenue data from previous years, and Gladstone’s

³⁹Items that appear this far down in a budget of expenditures explain why Gladstone was so anxious to bring in a surplus every year. The parliamentary argument tended to be that the nation was not at war, forgetting China, colonies, trouble over the Danish-claimed duchies, and residual charges from previous wars (such as China).

proposed alterations, changes in taxation levels (such as reduction of wine duties), elimination of some taxes (paper duties) and additions of others (Indian receipts).

Table 9: Budgeted Revenue, 1861-1862 (£)

Budget		Estimate, April 15		Actual
		Previous Years	Proposed Alterations	
Revenues From Taxes	Customs ^a	23,585,000	23,570,000	23,674,000
	Excise ^b	19,463,000	18,788,000	18,332,000
	Stamps	8,460,000		8,590,945
	House, Land, & Assorted other taxes ^c	3,150,000		3,160,000
	Income Tax ^d	11,200,000	10,350,000	10,365,000 ^e
<i>Total</i>				64,121,945
Revenue from Business	Post Office	3,520,000	3,510,000	3,510,000
<i>Total</i>				3,510,000
Crown Lands (net)		295,000		295,000
Revenues from Misc. Sources	Miscellaneous			696,534
	Army & Navy Receipts	1,400,000		1,400,000
	Army, Indian Receipts			230,000
	Chinese Indemnity	750,000		266,000
<i>Total</i>				1,747,534
Total Based on Previous Year		71,823,000		
Total with Proposed Alterations			70,283,000	
<i>Total</i>				69,674,479
Surplus		1,916,000	401,000	
Deficit				(1,442,006) ^f

Notes:

^aWine duties further reduced.

^bBuxton, Finance and Politics 2:3. Palmerston actually plotted with the conservatives to scuttle Gladstone's proposal on the paper duty. The uproar caused a constitutional crisis.

^cIndian receipts increase this year.

^dIncome Tax reduced from 10d. to 9d.

^eFor all the debate about income tax, it still only represented sixteen per cent of the revenues for the state. Customs and Excise accounted for more than sixty-five per cent of these revenues.

^fThis figure is the actual level of expenditures for the year without fortifications. With fortifications the deficit actually was larger.

The budget speech that Gladstone delivered showed that he expected a modest surplus if all the bills he proposed passed. He wished to reduce wine duties, and to end the tax on newspapers. He also anticipated that the revenues from the China indemnity would reach the level demanded of the Chinese. In fact, the revenues from income tax and the Chinese indemnities fell far short. Gladstone had allowed for the reduction in income tax: the previous year had yielded £11,200,000, but with the reduction from 10d. to 9d., Gladstone expected the yield on income tax to be reduced by £850,000 to £10,350,000. Indeed, it yielded £15,000,000 more than his estimate, and customs, stamps, and other assorted taxes yielded slightly higher than estimated revenues. Nevertheless, when the actual total expenditure figures are compared with the actual total revenues, the services and parliament had managed to outspend Gladstone. The Post Office was also expected to return slightly less revenue.

If one looks at the revenues table, showing adjustments for growth in increased anticipated revenues, and adjustments for tax reductions in lower anticipated revenues, one cannot but notice that two revenues, Crown lands and Army and Navy receipts were not expected to grow. While increments on Crown Lands (given over to parliament in the Queen Victoria's coronation oath) might not be expected to produce more revenue year to year, they might, under poor weather conditions, be expected to produce less. Army and Navy receipts, however, might be expected to grow if either service took on more guard, garrisoning, or transport services for private person or corporations. In fact, both sources of revenues appear to fill a more ceremonial purpose than a revenue purpose, and thus might be passed over in the budget without comment.

If Gladstone was deficient in preparing a budget, it was in his expectation that the world would stay the same, and that Britain would be allowed to do her business without hindrance. It was a risky expectation, and one he managed to maintain only by enormous effort. Table 10 shows the results of Gladstone's efforts. In 1859-60, Gladstone's deficit was nearly twice Disraeli's for the previous year. In 1860-61 and 1861-62, Gladstone's deficits were, for him, staggering, well in excess of £2 million each. Later years show that he had gotten the measure of Palmerston's planning, and that he achieved the surpluses he so desperately wanted.

Table 10: Governmental Budgetary Bottom Line, 1858-1869 (£)

Fiscal Year	Chancellor	Revenue (Actual)	Expenditure (Actual)	Budgeted Surplus (Deficit)	Additional Expense	Actual Surplus (Deficit)
1858-1859	Disraeli	65,477,284	64,663,882	813,402 ^a	----	813,402
1859-1860	Gladstone	71,089,669	68,644,232	2,445,437	858,057	1,587,380 ^b
1860-1861 ^c	Gladstone	70,283,674	72,842,059	(2,558,385) ^d	200,000 ^e	(2,758,385)
1861-1862	Gladstone	69,674,479	71,116,485	(1,442,006) ^f	970,000	(2,412,006)
1862-1863	Gladstone	70,603,560	69,302,008	1,301,552	1,050,000	251,552
1863-1864 ^g	Gladstone	70,208,964	67,056,286	3,152,678	820,000	2,332,678
1864-1865	Gladstone	70,313,437	66,462,206	3,851,231	620,000	3,231,321
1865-1866	Gladstone	67,812,292	65,914,356	1,897,936	560,000	1,337,936
1866-1867	Gladstone	69,434,567	66,780,396	2,654,171	450,000	2,204,171
1867-1868	Disraeli	69,600,218	71,236,242	(1,636,024)	530,000	(2,166,024)
1868-1869	Lowe ^h	72,591,992	74,972,816	(2,380,824)	525,000	(2,905,824)

Notes:

^aIn a Palmerston government a surplus was both a wonderful and a dangerous thing. Gladstone's announcement of a possible surplus before the cabinet in budget discussions in 1859 may actually have triggered the late announcement of a desire for fortifications.

^bThis surplus includes a reduction for the expenditure on the Chinese War.

^cOne state seceded April 1860. Six more seceded In January 1861. The Bank of England's discount rate for the first seven months of 1861 appears to have been sensitive to the threat to the manufacturing north, and it reached eight percent after the six states left the Union in 1861. Clapham says the scare was partly irrational, and sufficient cotton was brought in before the Union's announced

blockade to carry the northern English cotton mills for several months; blockade runners continued to supply raw cotton, although speculators drove prices up. Gold from Australia was filling the Bank's vaults. From July to October the discount rate stood at two percent. See Clapham, *Bank of England 2*: 257.

^dThe deficit in 1860-61 appears to result from a Vote of Credit for China and a repayment to India totaling £3,043,896.

^eFortifications are not included in Gladstone's budgets, although he knew they would be demanded every year after 1861. I have not been able to find evidence of a separate capital budget. The expenditure should have been included in Supply.

^fThe deficit for 1861-1862 is more difficult to understand. One would expect a reduction in customs if the Union's blockade of the South was having an effect, but the customs figures, which include customs payments on imported cotton, actually increased by a small amount. The far more likely culprits were another Vote of Credit for China, remaining expenses from the Crimean War, and a redemption of the State Dues; the three totaling £1,436,517. The deficit for that year, excluding fortifications, was £1,442,006.

^gClapham says that by 1863, investment in railways in India and Australia was driving the market. See Clapham, *Bank of England 2*: 257

^hThis is Gladstone's first cabinet, 1868-1874. Gladstone himself succeeded Lowe in 1873. See K. Theodore Hoppin, *The Mid-Victorian Generation, 1846-1886* (Oxford: Clarendon Press, 1998), 721.

In Gladstone's mind, the budgets took the guise of Gladstone versus Palmerston for the good of the British people. Palmerston never accepted what he saw as cheese-paring in his Chancellor of the Exchequer, and Gladstone ran significant risks in creating surpluses in years when Palmerston wished to become involved in North America, Europe, or both, while the British people seemed unconcerned about the level of the national debt. The battle between the two men had several interesting aspects as shown in the budgets: The first and most obvious thing is that because Gladstone never took the Palmerston's repeated demands for fortifications along the south coast of England in defense against the French for granted they failed to appear as a regular line item above the "Total Resulting Expenditure" line. Thus, his budgets were never inclusive, and his problem with fortifications was made to look, through a bookkeeping trick, like extraordinary expense for which someone else was responsible.

Second, it is clear that the problem with fortifications, such as the high level of expenditure in 1862-1863 on them, did serious damage to what would otherwise have

been a reasonable surplus of £1,301,552, reducing it to £251,552. This resistance on Gladstone's part can be seen as stubbornness. Had he been less stubborn, he could have had his surpluses far sooner, and could have applied them to the national debt.

Third, in spite of the problems with fortifications, as the country recovered from the deepest threats and layoffs caused by the United States Civil War, a decent surplus is to be seen in 1863-1864, and an even better one in 1864-65. To Gladstone, these surpluses were worth protecting because they could be used to pay down the national debt.⁴⁰

Fourth, his attempts to use the budgets to raise surpluses, and to use the surpluses to cut the national debt can reasonably be seen as his attempt to get the specter of the Bank of England with its management charges and demands for interest payments made on schedules set by the Bank, not the government. Gladstone needed maneuvering room. Putting it another way, he needed bargaining chips to use in his dealings with the Bank. From 1859 to 1866, his dealings with the Bank appear to have been far more harmonious than in the earlier period. This fact alone tends to deny the validity of the claims that he was irresponsible, quick to anger, slow to calm down, and difficult for public people to deal with. It also helps to validate general mood exhibited in Matthew's claim that Gladstone introduced the changes listed in his 1856 list step by step until he brought introduced an d gained passage for his Exchequer and Audit Departments Act in 1866. The Exchequer and Audit Departments Act could have no

⁴⁰Robert Giffen, "The Financial Retrospect, 1861-1901," *Journal of the Royal Statistical Society* 65, no. 1 (March 1902), 47-85, 64 and Table II," Amount of the National Debt, and Charge of Interest;" Jones, Neven, "The British National Debt: Part I;" idem "The British National Debt: Part II." In 1861, Giffen showed that the national debt was £824,600,000 and that the annual interest and sinking fund charges on the budget were £26,300,000. These figures included the entire amount to be paid on annuities and the interest on the permanent funded debt, as well as appropriations for repayment of various short-term debts paid from year to year.

effect on spending authorized by the government and the passage of expenditures bills that exceeded revenue. Gladstone appears to have had two goals in mind from 1859 to 1866: go meet each financial challenge head on, with sufficient surplus in the coffers to allow him to respond without borrowing, and to set the stage for a continued parliamentary life in which he must deal with the Bank of England.

The Overend, Gurney and Company Problems, 1860, 1866

Matthew has described Gladstone in 1859 as an able politician with a hard head and a program for action.⁴¹ This chapter suggests that Gladstone's hard head, and the animosity it housed, were being tempered by five factors: the Bank of England itself; Gladstone's social and political contacts with the bankers Lord Overstone and Lionel Rothschild, his growing friendship with Walter Bagehot, his work on parliamentary committees, and his reading. In 1857, Gladstone served on the Select Committee on Banking (listening to Baron Overstone assert that the only thing wrong with present banking operation was, perhaps, the currency), and allowed the Bank Act to pass without significant comment.⁴² The Overend, Gurney problem of 1860 gave him an opportunity, masterfully, to do nothing, and let the Bank reap both the turmoil and the rewards. Later, during the 1866 Overend, Gurney crisis, Gladstone again did nearly nothing, except to follow the process of his predecessors to restore confidence. His work and experience in these three areas suggest that he was not in the same

⁴¹Matthew, *Gladstone, 1809-1874*, 107. The hardness of his head is certainly supported by the many photographs and paintings produced as Gladstone grew older. His face hardened, his eyebrows jutted, and his jaw seemed to brook no nonsense. The softness and understanding so obvious in the youthful Gladstone seem all to have moved to the inside.

⁴²Overstone, *Evidence Given*.

combative mood as in 1852-1855, and that he was now aware of better tools for use in dealing with the Bank of England.

*The Overend, Gurney and Company Note-Run on the Bank, 1860*⁴³

Overend, Gurney and Company was a bill-brokerage with what appears to have been a deep-seated animosity toward the Bank of England. In 1860, both Overend, Gurney and Bruces (another London bill-brokerage) asked the Bank to relax their interest rates on bills (nearing four-and-a-half per cent). The Bank responded that there was not the smallest hope of relaxation. While Bruces took this information calmly, Overend, Gurney, prompted by “younger and ambitious hands” at the tiller, preferred to fight. They selected an interesting method. Since the passage of the 1844 Bank Charter Act, and especially after the crises of 1847 and 1857, the quantity and value of the Bank notes in circulation were closely watched numbers. In the week of 12 April 1860, the value of the Bank of England notes in circulation suddenly rose dramatically from its previous weekly levels by £1,622,000. In response, the Bank raised the discount rate to five per cent. Rumor said this withdrawal represented an Overend attempt to embarrass the Bank.⁴⁴ On 17 April, a letter with a London, E.C., postmark was received at the Bank: “Overends can pull out every note you have, from actual knowledge the writer can inform you that with their own family assistance they can nurse seven millions.”⁴⁵

⁴³Clapham, *Bank of England* 2:243. The page header on this page uses the word “putsch.” Remembering that Sir John wrote his history of the Bank of England during the World War II, we perhaps should not be surprised that he used such a term to describe the Overend, Gurney & Co. raid on the Bank of England.

⁴⁴Clapham, *Bank of England* 2:242.

⁴⁵*Ibid.*, 2:243.

The threat was apparently taken as real. The results could have been catastrophic for the City. The Bank of England tended to lend using Bank notes, not letters of credit or other credit instruments. Therefore, the Overend, Gurney threat meant that by removing all the cash from their own deposit account at the Bank and asking their partners to do the same, they could remove all the Bank of England notes from the Banking side of the Bank, and Bank of England business in withdrawals and credits in Bank notes could be brought to a halt if the threat were made good.

Alderman Salomons, an MP for the City, and a member of the London and Westminster Bank, put down a question for Gladstone in the House of Commons. Bonamy Dobree⁴⁶ was the Bank's governor at the time, having served his term as deputy governor during the 1857 commercial crisis, and was thus well trained in crisis management. Dobree and his deputy met with Gladstone on April 18.⁴⁷ Dobree told Gladstone that the withdrawals appeared to represent some sort of consortium, consisting of Barclays, Bevan, and Company, Barnett, Hoares and Company, and Shepherd Brothers. He did not mention Overend, Gurney and Company. Dobree was convinced that Barclays could never have drawn that much money on their own. A review of the Overend, Gurney account showed that they rarely held more than £700,000 in their account at the Bank under normal operation. The story Dobree told was therefore the best estimate the governor could make of the threat to the Bank.

⁴⁶See Gladstone, *Diaries* 5:3/6/59. Dobree was a connoisseur of fine china and had shown his collection to Gladstone, who was also a collector.

⁴⁷Clapham, *Bank of England* 2:242, 243.

Clapham says Gladstone listened indulgently.⁴⁸ When governor and deputy returned to the Bank's offices after the meeting with Gladstone, they found that Overend, Gurney had returned the notes, each one cut in half, with another note saying they were "sorry for what they had done."⁴⁹ I quote Clapham directly because his opinion of Gladstone is well known, and Clapham was not any more conciliatory over this passage than at any other time. From context, we can assume that Gladstone had also talked to Overend, Gurney and Company representatives.

Gladstone said in the House that they [Overend, Gurney] were most frank and had argued that their action was of the nature of a public protest against a public evil and a bad rule which tended to "throw ... their legitimate business into the Bank of England." Gladstone "gave no opinion on the existence of any such public evil."⁵⁰

Gladstone admitted, and Clapham admitted on his behalf, that the Bank had acted with "perfect propriety and prudence." Clapham finds in the *Diary* of 18 April, 1860, the private comment that Gladstone was satisfied that the Bank had not yielded to Overend, Gurney.⁵¹ Clapham says Gladstone was much embarrassed, however, wishing to consider the needs of private firms but determined to avoid use of a term that sounded like a rebellion in the money market:

⁴⁸Clapham, 242-246; Gladstone, *Diaries* 6:18/4/60, n.7. It is difficult to identify his sources from Clapham's meager footnotes. Under normal circumstances, we would assume that Clapham had full access to the Bank's archives, but his book was published in 1945. The Bank of England can safely be presumed to have moved their archives to a safer location during the war, but just how Clapham used the archives is a story yet to be told. Either he had access to the vaults where these archives were stored, or the archives had been moved back to London after the Blitz.. In either case, his use of the word "putsch" is suggestive. On the other hand, Matthew identifies Gladstone's April 18 meeting with the "Govr. & Dep. Govr. Bank" as a meeting on Overend, Gurney's 'putsch' against the Bank.

⁴⁹Gladstone, *Diaries* 6:18/4/60, n.7; Clapham, *Bank of England* 2:243-244. Matthew says that the return amounted to £1.5 million in £1000 notes, cut in half. Neither source suggests whether the notes were accomplished by a deposit slip to restore the balances in Overend, Gurney's accounts or the accounts of other banks. Nor does Clapham confirm that other banks were included in the "putsch."

⁵⁰Clapham, *Bank of England* 2: 244; *Hansard's*, clvii:2002.

⁵¹Clapham, *Bank of England* 2: 245, n.1. In the note, Clapham wrote that Gladstone's bias was against the Bank, but he found no evidence that Gladstone held any bias in favor of the market. His exact entry contains the words, "Diary, 18 April."

But with Dobree's statement before him[,] need he have opened with the ambiguous "I will not say that it was a concerted action in the natural interpretation of the word—namely an action determined on by a combination among a variety of parties"? He was pinned to the word "concerted" by Salomons' question. All the facts he could not state. But he had great ingenuity of phrase; and if a firm of bill-brokers, two—and by suggestion three—firms of bankers and one firm of stock brokers are not a variety of parties, even though most of them are Quakers, what is?

Gladstone later wrote to the Bank that he thought it had "come off on the whole winners."⁵²

The Overend, Gurney and Company Collapse

Those who castigate the Bank Act of 1844 by writing or saying that the Act caused Great Britain to suffer three great economic crises in the mid-Victorian period—1847, 1857, and 1866—require contradiction. In fact, although the government suspended the 1844 Act for a third time, the crisis of 1866 cannot be ranked world-wide, nor even Britain-wide, a problem ranking with the other two. The first two crashes affected large blocks of the commercial population, and Clapham has shown it was the first truly world-wide crisis. Both the 1847 and 1857 crises came after months of rising currency issue and increased investment stressing many companies beyond their currency and asset limits. In the Overend, Gurney crisis of 1866, only one company was stretched to breaking point—Overend, Gurney themselves.

Clapham complements Samuel Gurney's "old sound business" sense for making Overend, Gurney the solid brokerage house that it was for so long, even though he admits the firm sometimes competed with the Bank of England. Clapham quoted Walter Bagehot's obituary for the great firm, saying that in the years from 1860 to 1866 the

⁵²Ibid., 245. Clapham's biases include Quakers make his discussions sometimes difficult to understand or defend.

“immensely rich partners” lost all their wealth, sold their shares of the business to the company, and then lost all their stock in the company failure. Those young and impetuous managers who had fomented the putsch in 1860 expanded into what Clapham calls flimsy paper and “all sorts of financing.”⁵³ The company entered new fields, and was soon overextended in terms of resources and management skills.

The crash came on Thursday, May 10: Overend, Gurney and Company, Ltd. failed for five millions.⁵⁴ The panic came quickly. Friday, May 11th. City men turned to the Bank of England for support. The cash reserve in the Banking Department of the Bank of England stood at £5,727,000 on Monday, May 14 when business opened and its advances for the subsequent week are detailed in Clapham.⁵⁵ Not all the companies connected with Overend, Gurney were in desperate trouble: only those who expected to receive payments cleared through Overend, Gurney in the near term suffered unless they had sufficient funds of their own or were able to borrow on their assets. The crash came quickly, and ended quickly, when the Bank of England was once again allowed to raise their interest rates for a short time under an agreement in which they promised to share the profits of those high rates with the government.

But Gladstone did not escape embarrassment. He had made his budget speech eight days earlier --

He had spoken with exuberant confidence about economic progress and that race among nations in which “the people of the United Kingdom are by far the foremost.” He was anxious to pay off the National Debt before our [Britain’s] coal-

⁵³Clapham, *Bank of England* 2:261.

⁵⁴“Failed for five millions” means that the company owed £5 millions, debts that were called in for payment, and Overend, Gurney could not pay with their liquid. Overend, Gurney may have had assets of three or four times that amount, but if they could not liquidate their assets and pay their immediate debts, there was in those days no way to stave off the creditors until the problem could be settled without a panic.

⁵⁵Clapham, *Bank of England* 2:264. The Bank lent more than £4 million on Monday alone.

measures began to give out ... but he had hoisted no warning signals against over-trading of finance paper.⁵⁶

In retrospect, we would like to ask Sir John how he could have hoisted a warning signal unless he understood Overend, Gurney's position. In fact, his "exuberant confidence was based on the same strengths that made the crisis so short in duration and so controlled. When he rose to answer Disraeli's question on the failure on May 11 he had not received a letter from the Bank asking for help. In the two-and-a-half hours before he went to the House, however, he had received a deputation of joint-stock bankers anxious to tell him about the panic. In his answer to Disraeli he stated that in spite of the deputation he had not the slightest idea that the Bank would ask for suspension. Whether he was confident in the Bank's reserves and management, or whether he was, quite reasonably waiting on events, he had nothing to be embarrassed about. Given the rather silly problem of 1860, it is first no wonder that Overend, Gurney failed, nor that the rest of the financial world, gaining wisdom and confidence, road out the failure successfully. When the letter arrived on Friday evening, Gladstone immediately authorized the Bank to raise their rate of interest on loans without a qualm.⁵⁷

Most men at the time admitted that this crisis was not the Bank's fault, and therefore believed that strictly speaking it was not the Bank's problem to fix. The possibility exists that the Bank had begun to feel its responsibility as a bank of last resort and a banker's bank. There had been no rising tide of events that suggested a crisis, and the Bank could not be accused of acting too late to stop the crisis when it

⁵⁶Ibid., 265. W. S. Jevons, an economist, had published a book entitled *The Coal Question* (1865), in which he predicted that Britain's coal resources would give out in about one hundred years. Gladstone had read this book. See *Diaries* 6:1/2/66.

⁵⁷Clapham, *Bank of England* 2: 265.

happened. Between the 14th and the 18th the Bank had taken every action it could to protect itself and the public and it had lent more than £4,000,000 to businesses to save them from failure. The crisis was over almost as soon as it began, and was certainly settled by October 24.⁵⁸

The Banks of Issue Bill

Had it passed, the Banks of Issue bill would have acted as a direct stab at the Bank of England. There had been other stabs from 1859 to 1866. Clapham says in 1859 “Gladstone turned a formidable eye, which many years later a man who disliked him and feared him called that of a bird of prey” on the Bank.⁵⁹ This formidable eye envisaged another large reduction in the amount the government paid the Bank for management of the national debt. It also included government assumption of the entire profit from Bank issue of currency. Gladstone also wanted to end other payments to the Bank, such as “house money,” and to reduce the number of “shuttings,” i.e., days when the Bank closed for business in order to catch up on its bookkeeping. Clapham says the Court of the Bank accepted these reductions rather sorrowfully and the new rules became law in 24 & 25 Vict. c.3.⁶⁰ In 1860, he also worked on the national debt and the Bank’s profits from its management, and again worked on paying off the debt by selling

⁵⁸For the papers related to the crisis, see T. E. Gregory, *Select Statutes, Documents, and Reports Related to British Banking, 1832-1928*, 2 vols. (London: Frank Cass, 1964), Correspondence between the Government and the Bank, 124; *The Times* on the Crisis, 127; *The Economist* and the Crisis, 165; and the Report of the Provisional Liquidators, 181.

⁵⁹Clapham, *Bank of England* 2:255, n.2.

⁶⁰*Ibid.*, 255-256. It is not clear whether these moves had anything to do with Gladstone’s previous plans to change the relationship between the Bank and the government in a meaningful and constitutional way, or whether he was still chipping around the edges. None of these actions changed the behavior or ownership of the Issue Department of the Bank of England.

Exchequer bills.⁶¹ He also paid some attention to the Bank's rates on loans and currency issue.⁶²

In 1861, Gladstone returned to the attack with a meeting to reduce the Bank's profits from debt management and reduce the value of subsequent annuities.⁶³ He also prepared a series of resolutions aimed at resolving some of the tensions between savings banks and the Bank of England.⁶⁴

In 1863, Gladstone began to work on private banks of issue, perhaps based on an inquiry to the Treasury about suspension of some of the clauses in the 1844 Act (see below). His *Diary* note mentions a "Long conversation with the Gov. & Dep. Gov. on Private Issues." Admittedly, this record might be ambiguous, but it is hardly likely that Gladstone, the determined public and private financier, should take his own private money problems, if he had any, to the Bank of England. Therefore, it is more probable that he referred to the private banks of issue.⁶⁵

On February 11, 1865, the House of Commons sat as a committee to hear Gladstone announce his Banks of Issues [sic] Bill. The purpose of the Act, he said,

⁶¹See Clapham, *Bank of England* 2:255; Add MS 44591: f. 151 and 44749, f. 172; Gladstone, *Diaries* 6. Gladstone recorded a meeting with the Bank on 12/10/60, the same day he saw the National Debt commissioners. A memorandum on Bank profits appears 27/11/60. The cabinet meeting the day before had been devoted to finance and included sending the Exchequer bills to the Bank, and Bank remuneration on the National Debt. On 27/11/60 he wrote a memorandum on reducing the bank's profits from debt management by £70,000. On 3/1/60 he had a meeting with the Bank on profits. On 3/12/60 he held a meeting that included both the Bank and a Treasury committee on using exchequer bills to reduce the debt and reducing the Bank's profits. Another meeting took place on 5/12/60 on the same two topics: Add MS 44591: f.151 and 44750, f.172. Finally, a meeting on Bank of England, 19/12/60 was on the Bank's discount rates on discount rates, Add MS 44394, f. 325.

⁶²Clapham must have used Bank archives to identify these problems and raids. The archives include all the correspondence for the governors and deputy governors of the Bank.

⁶³Gladstone, *Diaries* 6:30/1/6. The purpose of the meeting on this date was to reduce the amount the government paid on debt management and the value of subsequent annuities (PP 1861, xxxiv: 177).

⁶⁴*Hansard*, clx:146; Gladstone, *Diaries* 6:7/2/61. The debate centered on savings banks and on the Bank of England. In the House, Gladstone introduced the Bank of England plan, a new method of national debt payments to the bank.

⁶⁵Gladstone, *Diaries* 6:21/11/63.

would “create a new legal position for those banks of issue which may be disposed to avail themselves of its provisions.” Then he rehearsed the present law as it applied to private and joint-stock banks of issue in England and Wales under the Act of 1844.⁶⁶ First, the Act had left the banks of issue (country, private, and joint-stock) in possession of their issuing rights, but with no guarantees of continuing for a specific period. The Bank Act had imposed limitations on the amount of the bank notes that could be issued (and thus the value of the notes in circulation, and had thus limited the available currency for use in conducting conduct business.⁶⁷ He stated that even if the lesser banks lost the power of issue, they would still be allowed to continue their other activities.

The result had been that in the early 1860s some banks had petitioned the Treasury for removal of the banking restrictions on banks of issue under the 1844 Act.⁶⁸ But Gladstone stated that the bill he proposed was not a currency measure and would not interfere with existing rules for regard bank notes themselves, nor (and this is perhaps a problem) would it “bear in may material or palpable manner upon any of the

⁶⁶Banks in Scotland and Ireland were exempt from the 1844 Act, but were covered in an 1845 Act.

⁶⁷See Pressnell, *Country Banks*, Table XI. He shows that an approximately 3:1 ratio existed between banks of issue and non-issuing banks in 1844, but that in 1884 both the number of banks and the ratios had shifted dramatically downward. In 1844, the number of provincial private banks of issue stood at 208 while the non-issuing banks numbered 65. The total circulation of the issuing private banks stood at £5,153,000. The number of issuing joint-stock banks stood at 72, while the non-issuing joint-stock banks stood at 28. The total circulation of the issuing joint-stock banks was £3,478,000. In 1884, only 172 country banks remained, both issuing and non-issuing, and their total note circulation was £1,349,000. The total number of issuing and non-issuing joint-stock banks was 91, and their total circulation was only £1,541,000. In the same period, the Bank of England’s bank note circulation grew from £20,176,000 to £25,102,000. The overall reduction in bank note circulation suggests that issue was a problem finding solution in other ways, such as the use of running accounts and cheques, while country banks faced other troubles, such as bankruptcy, amalgamation, and competition.

⁶⁸For a study of private and joint-stock bank, see Arthur Crump, *The English Manual of Banking*, 3rd. Edition. (London: Longmans, Green, 1878), esp. Ch. II, “Private Banks and Joint-Stock Banks,” and Ch. III, “Banker and Customer”; Pressnell, *Country Banking*, esp. Part I, “The Growth of Country Banking and the Origins of Country Bankers,” Part III, “The Work of Country Banks,” and Table 1, “The Numbers of Country Banks in England and Wales, 1784-1842.”

important questions connected with the issue of bank notes. It is not properly to be considered as a currency measure.”⁶⁹

The possibility of a limited corrective to the Bank Act of 1844 had come in a request from the National and Provincial Bank (Gladstone did not give a date, but it appears to postdate the request of the early 1860s petition).⁷⁰ The National and Provincial had stated they were willing to pay for relief from the restrictions of the Act. The managers of the bank were speaking only for themselves, not for other banks. But Gladstone came to the idea of asking parliament to change the law for all the banks of issue if possible, perhaps through the possibility offered by the National and Provincial—payment for a license to issue.⁷¹ The bill he proposed would have the following characteristics: Any joint-stock bank⁷² with the privilege of issuing notes would be able to open a branch in London and pay (convert) its notes in London, but not issue them there, or within three miles of London. Private banks of issue would be allowed to take on additional partners and become joint-stock banks without losing their issue privileges. Any bank could take out a license from the government issue, with the provision that if parliament decided to end the license of issues, banks with outstanding

⁶⁹*The Times*, 11 Feb. 1865.

⁷⁰Gladstone, *Diaries*, 6:3/3/64. Gladstone wrote a memorandum on Bank of England bank notes (unfortunately listed in Matthew’s index as a memorandum on country bank notes). Until 1844, the country banks appear not to have been a concern of the Bank of England. Joint-stock banks became a concern and were under legislation from the first of joint-stock company legislation of the middle 1820s, when J. W. Gilbart, finding a breach in the joint-stock company legislation, opened the London and Westminster joint stock bank over the strenuous objections of the Bank of England. Nevertheless, the careless use of the term “country bank” to stand for all English and Welsh banking outside the Bank of England should be of concern to any historian studying this area of finance.

⁷¹*The Times*, 11 Feb. 1865. Gladstone explained that the Act of 1844 forbade a bank to continue to issue if it took on more than six partners, thus becoming a joint-stock bank; transfer their privilege of issue to another bank; or if it set up a branch within the sixty-five-mile issue monopoly radius of the Bank of England’s home base on Threadneedle Street.

⁷²In *The Times*, the bill was at first referred to as the Banks of Issue Bill (without quotation marks, 11 Feb. 1865); then the “Country Banks of Issue Bill (opening but no closing quotation marks, 13 Feb. 1865); and finally the Bank Notes Issue Bill (24 Feb. 1865). *The Times* index used the third title and made the bill is easier to follow in *The Times* than in *Hansard*.

licenses would be compensated for their loss. The license, like a liquor license, would become a property of value. Under questioning, Gladstone admitted that the right would become an asset from which the creditors might benefit.

It was an ingenious plan. Gladstone, who had just worked through several Acts in which he had converted some excise payments to licenses (such as hackneys), and had managed the licensing of restaurants that served wine, may have taken the licensing part of the scheme very much to heart.⁷³ More important, however, is the fact that Gladstone no longer gave lip-service to Peel's long-ago wish for a single bank of issue throughout the country. Gladstone now saw that issue was a way for the entire banking business to grow. He may even have taken to heart Lord Overstone's comments that competition was good for banking.⁷⁴

Furthermore, there was precedent of a sort for joint-stock banks opening and doing business, including issue, in London. In the debate of February 13, Gladstone reminded MPs that the National Bank of Ireland and the National Bank of Scotland, both banks of issue, had opened banks in London.⁷⁵

Gladstone's only problem was that no one liked the entire idea. The bill became a hot topic, but there was very little pro debate and a great deal of con. Debate on 24 February included references to Bank of Scotland. Buchanan expressed disappointment that although debate on the Bank Act of 1844 had led to a promise that the banks of Scotland would have their day in parliament, this "small, and in some respects, objectionable measure" did not provide for that debate.⁷⁶ He argued that since banks

⁷³Gladstone, *Diaries* 6:20/2/60.

⁷⁴Helms, *Contributions of Lord Overstone*: 61-65. Overstone believed that competition was good, but that multiple issue was not.

⁷⁵*The Times*, 13 February 1865.

⁷⁶Saville, *Bank of Scotland*, 301, 333, 363, 364, 406, 493.

were taxed on their issue, then the government ought to take the reciprocal obligation to guarantee the convertibility of their issue.⁷⁷

After furious debate Gladstone took back the bill and redrafted it, with the help of Walter Bagehot, economic writer and editor of *The Economist* since the death of James Wilson.⁷⁸ Still the bill failed. Licensing, government guarantees of convertibility, and a host of other sticking points forced the government to withdraw it. Gladstone had lost the initiative first tentatively grasped in 1854 and 1857. He had to some extent chipped away at the Bank's power himself, by attempting to reduce its profits, lower the interest rates on bank loans, and change the payment schedules.⁷⁹ Gladstone's politics must also be considered. If Gladstone was willing to lower the high art of banking to the level of a wine license for an eating establishment, he was not merely acting as a liberal, but as a radical, with reverence for none. Clapham and Jenkins, two writers willing to embarrass Gladstone's memory on any occasion, did not even mention the bill.

The Exchequer and Audit Departments Act and Reform

An audit is an examination of accounts by an authorized person, accompanied by a statement that the audit is complete, and a report on the results.⁸⁰ Audits are typically

⁷⁷*The Times*, 24 Feb. 1865.

⁷⁸Norman St. John-Stevas, "Introduction," to Walter Bagehot, *Bagehot's Historical Essays*, ed. St. John-Stevas (New York: University Press, 1966), xii.

⁷⁹Few Bank of England *Charter Acts* of the nineteenth century were primarily about the Bank of England, with the possible exception of the restrictions on currency issue in the Bank Act of 1844, or the allowances for higher capitalization and the granting of monopoly privileges of geography and operation. The granting of monopoly powers to the Bank always resulted in the restrictions that were "granted" to other banks—limitations on their locations, on their issue activities, and on the number of partners they could have. The Act of 1833 restricted operations of joint-stock banks and issuing banks to areas outside a sixty-five miles of the Bank of England's main office, while it gave the Bank the right to set up branches in larger English cities. The Act of 1844 laid heavy restrictions on all banks of issue. The Act of 1857 laid the massive burden of full liability on the joint-stock banks until the passage of 21&22 Vict. c.91, An Act to enable Joint Stock Banking Companies to be formed on the Principle of Limited Liability (2 August 1858), was passed.

⁸⁰*The Chambers Dictionary* (Edinburgh: Chambers Harrap, 1999), 102.

used to verify accounts and to prove the honesty or dishonesty of those who have access to the funds. Audit is a British tradition. Before the 1866 Act, accuracy and accountability were not always equally traditional. The post of auditor of the Exchequer existed as early as 1314. An auditor of the receipt of the Exchequer was appointed in Elizabeth I's reign. Under William III the audit had control of Exchequer issues. In 1834 a comptroller-general of the Exchequer was appointed, debarred from sitting in parliament and removable on an address from both houses.⁸¹

Gladstone took new and sharper aim at the entire process of handing public money. In general, Gladstone coped well with the yearly round of normal estimates, budgets, bill-nursing, and monitoring the economy. He did not cope well with Palmerston's attempts to deceive him and slip additional expenditures under the radar of the budget process. In his first full year, 1860, Palmerston waited until the budget had been presented to Parliament and then demanded an additional £3,000,000 for the Navy, and tried to get Gladstone to agree to borrow money for fortifications against the French.⁸² Matthew says that Gladstone believed in measures, not men. Palmerston apparently had no use for process or measures, and Gladstone was, as the moderns say, all about process. Had Palmerston but known, he might have changed his tactics. But Palmerston was probably the chief reason why Gladstone focused on the administrative reforms that comprised the Exchequer and Audit Departments Act but did

⁸¹Palgrave, *Dictionary* 1: 71.

⁸²Jenkins, *Gladstone, A Biography*, 219-220; Guedella, *Palmerston Letters*, 115, no. 48, Dec. 15, 1859. Fortifications were forced to compete with the "expensive little war going on with China." Sidney Herbert wanted to fortify Portsmouth and Plymouth and raise Martello towers along the south coast. Gladstone estimated that to do what Herbert and Palmerston wanted would cost an enormous sum, somewhere between £10 and £110 million. Gladstone received a "formidable letter" from Palmerston on 15 December "so that we may come to a decision on the Fortifications Question." This letter sets forth Herbert's request for a cabinet on the fortification question, summarizes the main points, and states that Palmerston was most anxious to see these enacted.

not present it until *after* Palmerston's death. This thesis contends that this act was as good a bill as Gladstone could get in his attempts to put a strait jacket on the planning, budgeting, appropriation, introduction into Parliament, passage, management, and financial control of funded line items.

The Exchequer and Audit Departments Act of 1866⁸³ did not directly interfere with the Bank of England nor any other bank, except in the management, audit, and reporting of the Consolidated Fund. In this, Gladstone avoided contact with the Issue Department and focused on the Banking Department where the funds were held on account for the government. In fact, the concentration of deposits in only two banks—Bank of England and Bank of Ireland—offered a bone to each in that the revenues gave the banks extra capital with which to work during each quarter.

The Act was consistent the general movement for reform in government, and specifically set a standard for all departments to follow in managing their bookkeeping. It satisfied the House of Commons: MPs gained the right to demand an audit on any account they cared to name; if they did not like the results, they had two options: bring the problem up on the floor of the House of Commons and allow it to be resolved, or vote out the government.

Gladstone's bill concentrated full responsibility for the budget and for the entire fiscal year in three centers of activity: the Treasury's budget-writing staff, the House of Commons, and the Audit department.⁸⁴ The concentration of total government control

⁸³Bridges, *The Treasury*, 25-6, 29, 115; Roseveare, *The Treasury*, 199-200, 139-142, 218, 248. Henry Roseveare called the act the keystone of the Treasury system. The passage of the Act took place 28 June, 1866, just before the Russell government with Gladstone as Chancellor left office. The Act was well received in parliament during debates, and has been hailed in the twentieth century as one of the most important acts ever passed.

⁸⁴Trevelyan, Hughes, O'Brien, "Sir Charles Trevelyan," 53-88; idem, "Sir Charles Trevelyan (Continued)," 206-234.

in the Treasury gave primary control over the Civil Service and other departments including the War and Navy Departments, the revenue departments, and the Exchequer to the Treasury as well. As written and passed, this act does not exist to satisfy either Gladstone's 1856 plan, as Matthew suggests, or some rare burst of maniacal anger. The Act is of a different character entirely, and shows how much Gladstone had evolved in ten years, from angry man to vehement statesmen. Oddly, Jenkins did not think enough of the Act either to praise it or to condemn it.

Gladstone's Speech Introducing the Act⁸⁵

Gladstone intention in introducing the bill was to "consolidate the duties of the Exchequer and Audit Departments, to regulate the receipt, custody, and issue of public monies, and to provide for the audit of the accounts thereof." His proposed scheduling of parliamentary debate did not depend on urgency, but on expediency—as a reasonable outcome of reform he predicted quick passage. He proposed, after the second reading, to refer it to the Select Committee on Public Accounts where he thought the bill, related as it was "almost entirely relating to public accounts" would "receive a more impartial, authoritative, and searching examination before the Committee than it would in any other way." He listed the objects of the bill: first, to consolidate the departments of Exchequer and Audit; second to conform to the principles recommended by a Committee on Public Monies, some years previous; third, to harmonize all proceedings and rid the government of a great deal of unnecessary and expensive book-keeping. Finally, during the past year parliament had discovered that many branches of public receipts and expenditure were not subjected to audit,

⁸⁵*Hansard's*, clxxxi:275-276.

many were not audited at all, and that the audit system was unsatisfactory. “Some of the expenditure was audited by the [existing] Audit Board, which was quite right; some of it by the Treasury, which was quite wrong ...” The Government proposed to substitute a proper Audit Board and to perform audits on in all branches and in all steps in the budget, revenue, and expenditure year. The bill rapidly passed its first reading that very night.

The text of the Exchequer and Audit Departments Act, 1866 is, like most Victorian bills, torturous to read. It is longer than many other bills, such as the 1844 Bank Act, and encompasses many suggestions and findings of the parliamentary work that had gone before it, including the Northcote-Trevelyan report, and earlier studies. To Gladstone it answered problems that he and others had identified, such as the times and places where audit was carried out, consequences to the department for failing an audit, responsibilities to parliament and the people, and the overwhelming problem of dealing with first lords like Palmerston, who meant to force the government into intentional or unintentional borrowing.⁸⁶

The Contents of the Bill

The bill had several parts: a prologue and definitions, new positions to be created and the salaries for appointees, staffing, and dismissal the previous audit board.

Another section showed how revenue and bank deposits were to be made—in the Bank of England and Bank of Ireland exclusively—and defined requirements for use of the

⁸⁶Gladstone, *Diaries* 4:2/2/53, 4:1/2/54, 4:27/7/54, 5:23/11/55. Gladstone recorded attending meetings of an Audit Board on these dates during his first chancellorship. *Idem*, 5:8/7/59, 5:21/1/60, 6:1/2/61, 6:24/10/61. These dates identify meetings during the early days of his membership in the Palmerston government chancellorship. But see also *idem* 6:28/1/64, 6:18/7/64, 6:4/7/64 when Gladstone reported meetings of an Audit Commission.

deposit data by the Comptroller and Auditor General as his baseline for allowing the budgeted departments in spending the money. Clause 11 of the bill showed how the money was to be apportioned, first to the General Fund, and then, as appropriate to the various departments. Quarterly reports (Clause 12) were to show how the comptroller was to use the deposit details as well as the budgeted payments at the end of the quarter to determine whether or not a deficiency was expected. The Comptroller and Auditor General were to certify the deficiency, authorize a loan, and report to the Treasury.

Departments were expected to spend money according to the details of their budgets. When the Treasury asked for money to pay accounts under authorization, both the banks and the Treasury were expected to report daily on these transfers from the General Fund. This is particularly important when money was shipped away from London, either to the outer reaches of Great Britain itself or to another part of the globe for government authorized use. Clause 14 explains the many uses of money under the subheadings of Supply and the ways in which this money was managed.

Having battled with the various accounts, accounting methods, and other vagaries of the various departments in his turns as Chancellor of the Exchequer, Gladstone was anxious to consolidate not only the procedures and control of these departments, but to consolidate and make sense of their accounts as well. Clauses 18 and 19 gave the Treasury power to create accounts where needed (with stringent control upon the account owners and their heirs) and collapse all unnecessary accounts into the General Fund.⁸⁷

⁸⁷Clause 18 states that on the death, resignation, or removal of the public officer in whose charge an account was opened, his successor became responsible for the account. It also states that if the public

In clause 16, we begin to see the fruits of this more careful management. The title of this clause is “Treasury to prepare Accounts showing Surplus Income applicable to Reduction of the National Debt.” Gladstone’s hope was that careful management would have two effects: first to stop the drain on the government caused by deficiency bills, and second, to turn around the process, using small surpluses to begin paying down the national debt.

The Treasury shall cause One Fourth Part of such Surplus Income to be charged on the Consolidated Fund in the Quarter succeeding the Termination of such Account; and the Sum so charged shall be issued by the Treasury from Time to Time in the next ensuing quarter to the National Debt Commissioners, who shall apply the same, during the said Quarter, in redeeming Funded or Unfunded Debt, or in repaying to the Bank of England or to the Bank of Ireland any Advances made to them under the Provisions of this Act towards supplying the Deficiency of the Consolidated Fund during the said Quarter; and all Debt so redeemed shall be forthwith cancelled. And a Copy of every Account prepared by the Treasury as aforesaid, certified by the Comptroller and Auditor General, shall be laid before the House of Commons within Fifteen Days after the Expiration of the said quarterly Periods, if Parliament be then sitting, or if not sitting then within One Week after Parliament shall be next assembled.

The office of the National Debt commissioners is not one of nineteenth-century Britain’s best documented departments. Some would argue that the National Debt commissioners were superfluous because the Bank of England managed the debt and charged the government a fee for management.⁸⁸ Gladstone meant to make them more than a board that met once a quarter and authorized the latest statement of the national debt provided by the Bank.⁸⁹

officer died, his heirs were not to take possession of the account as constituting an asset of the deceased.

⁸⁸Clapham, *Bank of England*, 245. Sir John wrote as if the office did not exist, and pooh-poohed Gladstone’s attempts to cut the management fee.

⁸⁹Gladstone, *Diaries* 14:766. Gladstone noted numerous meetings with the National Debt commissioners from 1853 to 1866, and again in 1892.

In clause 20, the Bank of England and the Bank of Ireland became authorized agents of the state, in so far as they were allowed to open and keep accounts of government stocks and annuities, and to receive dividends paid by the stocks and annuities. To sensitive ears, the collection of dividends from government annuities sounds suspiciously like the ancient sinking funds of previous times.⁹⁰ Almost certainly, however, the government was capable of purchasing its own bonds and stocks when prices were below par, collecting the revenues like other investors. The government could also sell bonds and stocks to generate cash when needed. In doing so, they might have intended to maintain a volume of such assets for other uses.

Clauses 21-32 spell out the ways the departments were required to keep their books, provide their own quality control and error checking, and submit their books to the Audit Department for periodic audit as well as instant audits as requested by the Chancellor of the Exchequer, the first lord of the Treasury, or parliament. The Audit Department's baseline for this effort is the bookkeeping form that showed how much each department had been granted for each line item in its budget, and the amounts of money spent against each line item to date. Thus, the Comptroller enjoyed a clear view of the money situation, and also of the care and skill with which the money was being managed.

Clause 27 specifically presents a clear use of expense account management, the need for vouchers to show how money has been spent, and the outcomes of failures:

⁹⁰See Carl B. Cone, "Richard Price and Pitt's Sinking Fund of 1786," *The Economic History Review*, new series 4, no. 2 (1951), 243-251. Also see Buxton, *Finance and Politics*, 1:4, 14. *Idem*, 1: for a view of Pitt's sinking fund as an obstacle to financial reform and its abolition in 1829. *Idem*, 1:159, 165, 2:217 for Lewis's attempt to revive the sinking fund. *Idem*, 2: 209-210 for the fallacy of the sinking fund and the way Pitt was deluded. *Idem*, 2:217 for Northcote's attempt to revive it in 1875.

Every Appropriation Account shall be examined by the Comptroller and Auditor General on behalf of the House of Commons; and in the examination of such Accounts the Comptroller and Auditor General shall ascertain, first, whether the Payments which the accounting Department has charged to the Grant are supported by Vouchers or Proofs of Payment [business expense report], and second, whether the Money expended has been applied to the Purpose or Purposes for which such Grant was intended to provide; ... whenever the said Comptroller and Auditor General shall be required by the Treasury to ascertain whether the expenditure included ... included in an Appropriation Account ... is supported by the Authority of the Treasury, the Comptroller and Auditor General shall examine such Expenditure with that Object, and shall report to the Treasury any Expenditure which may appear, upon such examination, to have been incurred without such Authority ... and if the Treasury should not thereupon see fit to sanction such unauthorised Expenditure, it shall be regarded as being not properly chargeable to a Parliamentary Grant, and shall be reported to the House of Commons in the Manner herein-after provided.

This is of course *post facto* control. But its outcome could lead to several important improvements: identification of systemic errors of procedure or understanding in the departments, improved testing and training, improved communication between departments, and improved understanding in parliament of the ways in which money was handled, leading to a decreasing number of complaints about how badly some departments, operations, and wars were being handled. Reports to parliament were specifically described in clause 32 and included individual reports on the Army, Navy, Post Office, and Civil Service salaries and grants. The clause states that the reports are to be presented to the Treasury, but if the Treasury fails to deliver the reports to Parliament in a timely manner, the Comptroller was allowed to go over Treasury's head and report directly. This is an interesting reversal for Gladstone, so anxious in the 1850s to protect the executive seat of government from the legislative, but now proposing that if the executive, in the guise of the Treasury, showed any reluctance to share financial and audit data, a branch of the executive was authorized to turn whistle-blower and go straight to parliament on its own.

In all the reports, the Audit Department was enjoined to call Treasury's notice to every instance "in which it may appear ... that a Grant has been exceeded." This phrase puts the Audit Department and the Treasury on the alert for cost overruns.⁹¹ In the Revenue side of the budget table for 1861-2, for example, "A sum of £850,000 was repaid on account of savings in the last two years on Army and Navy grants, and applied to reduction of votes of credit."⁹²

In addition to expenditure accounts, the Comptroller was also authorized to audit the accounts of all revenue departments, and all accounts that received the moneys deposited by revenue departments. These were accounts at the Bank of England or Bank of Ireland, and clause 33 opens the door to audits of the receiving banks.

Specifically, the Comptroller was authorized to look into:

Accounts of all Principal Accounts, the Accounts of the receipt of Revenue by the Departments of Customs, Inland Revenue, and the Post Office, the Accounts, of every Receiver of Money which is by Law payable into Her Majesty's Exchequer, and any other Public Accounts which, though not relating directly to the Receipt or Expenditure of Imperial Funds, the Treasury may by Minute, to be laid before Parliament direct.

Clauses 34-44 show how the examinations and certifications of accounts were to be managed. These harken back to the work on examinations already described in Chapter 5.

Given Gladstone's great concern for executive versus legislative powers and rights, and his equally great concern about men versus measures, it still may at first glance be difficult to understand why Gladstone thought this Act solved all his problems. In other words, in a non-party environment, how could this Act succeed in a Disraeli or

⁹¹M. H. Port, "A Contrast in Styles at the Office of Works. Layard and Ayrton: Aesthete and Economist," *The Historical Journal* 27, no. 1 (March 1984), 151-176. Some problems were not matters of deceit but of style.

⁹²Buxton, *Finance and Politics* 2: 347.

other government without a Gladstone to make it work.⁹³ The willful act of one First Lord of the Treasury might destroy the entire effect of this Act unless parliament was there to intervene.⁹⁴ The bill signals for us a change in Gladstone's thinking, away from strong emphasis on executive rights, a stance he had learned from Peel; placing his faith in the body he had given his life to, parliament, taking leadership in auditing the performance of the Audit Department, and therefore government expenditure. Without strong party leadership, any MP—a Roebuck, Hume, or Bowring, for example—could demand a report of the performance of a specific department, thus invading what Gladstone had previously argued was executive privilege. Under the Exchequer and Audit Departments Act, a committee investigating expenditure and results to determine if money had been misspent. We are thus reminded of Peel warning his followers off when they attempted to attack the budgets of the first Russell government. But after 1866, any MP who wished to might openly challenge the government and its spending methods, and demand an audit. The Act also authorized members of parliament to challenge the Bank and its management of government moneys if they wished.

This thesis stops at 1866. The changes wrought by this Act, especially the ability to make these changes after the Russell government resigned and Disraeli took over,

⁹³Frank P. Fellows, "On our National Parliamentary Accounts, with Suggestions for Establishing a Doomsday Book Giving the Value of National Governmental Property or Assets as the Basis of a Sound System of Accounts, by which Expenditure for [the] Capital and Current Account[s] Shall be Separately Shown," *Journal of the Statistical Society of London* 36, no. 2 (June 1873): 277-302. Fellows argued that in reporting the estimates to parliament as Army, Navy, and Supply, the Treasury and the service departments were failing to complete their accounting duties by reporting the Capital and Current accounts separately, and therefore were confusing annual expenditures with long-term capital investment in buildings and other assets.

⁹⁴Gladstone, *Diaries* 5:24/6/59, n.6, where Matthew cites C. W. Halberg, *The Suez Canal* (1931), 163. Also see Lawrence James, *The Rise and Fall of the British Empire* (New York: St. Martins, 1994), 196-197. Disraeli purchased Suez Canal shares without parliamentary approval. In 1859 Gladstone had supported Britain's building of the Suez Canal but the cabinet was against it. Disraeli's purchase of controlling interest on a Sunday afternoon in 1875 was described "a feat of legerdemain."

may have taken years to become established practice. Yet Roseveare states that the Exchequer and Audit Act consolidated government operation under the Treasury and that the Treasury, with a strong hand on budgets, operations, and salaries was therefore a powerful agent of change and control. This thesis does not go past the year 1866; however, for fifty years following the Act, the Act itself put Treasury officials in control, and government historians continue to think highly both of Gladstone and his Act for a long time to come.⁹⁵

What Gladstone Wished For and What He Got

We return to Gladstone's 1856 wish list for reform, and Matthew's assertion that step by step Gladstone introduced his reforms in the 1859-1866 governments.

Matthew's assertion is that Gladstone introduced legislation on each of these points. His suggestion is that Gladstone succeeded in passing all twenty-one points in spite of the fact that some of them were contradictory. This section examines his twenty-one items on a line by line basis, to determine first if Gladstone introduced it during his time as Chancellor of the Exchequer under Palmerston and then Russell, and second to determine whether he succeeded in his initiative.

The short answer is no, to both questions, and the contrary assertion supported by this thesis that Gladstone had changed dramatically, and that the times favored a change of approach, increased understanding, and control of the Bank through indirect rather than direct methods. Here is the list.

⁹⁵Buxton, *Finance and Politics* 2: 6. Buxton says only that "in 1866, the very important Exchequer and Audit Departments Act was passed, under which the system of audit of public accounts was greatly improved."

1. To abolish the Exchequer and strengthen the Audit.

The Exchequer was not abolished, but the Audit was certainly strengthened and accelerated under the Act of 1866. Therefore, only half of this item was accomplished.

2. To bring the Chancery and other departments into the control of the Finances Department.

Sir James Graham had expected opposition. If by Finances Department we accept Treasury, than this was certainly accomplished. Coombs, Edwards, and Greener show no entry for the Chancery in the list of departments that submitted their requirements for Civil Service Examinations, but the Exchequer and Audits Act does not list exceptions such as the Chancery in its language.

Therefore, Chancery opposition appears to have been swept away in the general movement to reform.⁹⁶

3. Apply parliamentary voting on a line-by-line basis for all miscellaneous estimates to place parliament firmly in control of all expenditures, reducing the number of automatic disbursements.

This requirement was an extension of Gladstone's Public Revenues and Consolidated Funds Act of 1856. If we are to judge by the debates in *Hansard* in 1862 or after, this requirement was already being implemented. This item was accomplished.

4. Make the Bank and agent of the state with respect to payment of dividends and national debt management.

The Exchequer and Audit Departments Act contains a clause that makes the Bank the agent for government bonds, bills, and dividends. However, both the letter and spirit of the Act seem to have the opposite intention, of removing

⁹⁶*Double Entry Bookkeeping*, 308-314.

the Bank from its most annoying habits: direct management of the national debt and control of deficiency bills. Indeed, since the National Debt board was a part of the government, and the 1866 Act was intended to bring all government offices under audit control, regular audits of National Debt Commission office were likely to move control back toward the government. The Bank was not open to audit, but it remained a money-making joint-stock company.

5. Make provision for true periodical reporting of the Savings Bank portion of the national debt, and for liquidation of the debt in case of need.⁹⁷

The savings banks are not addressed in this bill. The Savings Banks Bill of 1860 passed while the Savings Banks Monies Bill was defeated.⁹⁸

6. Regulate the use of deficiency bills and limit the powers of the minister of finance.⁹⁹

This was accomplished in the 1866 Act through the quarterly payment system based on the amount of money in the Consolidated Fund account.

7. The Exchequer and Audit Departments Act places control of records in the Treasury, not in the Exchequer.

The Act of 1866 removes nothing from the Exchequer, but places the Exchequer under the same audit control as every other department.¹⁰⁰

⁹⁷Buxton, *Finance and Politics 2*: 27, 28, n.30. They were used for the creation of terminable annuities. Also see Albert Fishlow, "The Trustee Savings Banks, 1817-1861," *The Journal of Economic History* 21, no. 1 (March 1961): 26-40; T. M. Hodges, "The History of the Newport and Caerleon Savings Bank (1830-1888)," *The Economic History Review*, new series 2, no. 2 (1949): 188-199; Henry W. Wolff, "Savings Banks at Home and Abroad," *Journal of the Royal Statistical Society* 60, no. 2 (June, 1897): 278-359.

⁹⁸For the Savings Banks Bill, see Gladstone, *Diaries 5*: 5/3/60 ff., 22/6/60, 20/7/60, 15/8/60 n, 28/1/61, 7/2/61, 8/4/61 ff, 13/2/63. 25/3/63, 10/6/63. The Savings Banks Monies Bill was defeated 20/7/60.

⁹⁹Deficiency bills are explained in detail in Chapter 5.

¹⁰⁰Of the year 1870, Henry Roseveare wrote that "What was needed was something more fundamental than Exchequer reform; nothing less than a complete re-planning of national accounting ..." Roseveare, *Treasury*, 125. The result was a plan, slow to begin but gathering momentum throughout the nineteenth century, which led to total Treasury control over all departments. One of the highest expressions of this is in the Exchequer and Audit Departments Act of 1866.

8. Establish a closer relationship between the British government and Indian finance.

This was accomplished by the India Act of 1858, an Act that removed India from the rule of the British East India Company and instituted a British structure of rule uniformly over all of India. As Buxton has shown, Indian government finance was being integrated into British finance when Gladstone entered the Exchequer in 1859.¹⁰¹

9. Trade existing Exchequer bills at 3-1/2 per cent for 2-1/2 per cent bills to lower the interest payments on government loans.

In 1854, Gladstone still had not come to grips with his failures in 1853 and 1854. He proposed the unfortunately named Exchequer Bills bill in 1860, a draft of which is mentioned in November 1860.¹⁰² It was another of his failures, because he misread the market again and failed to see that the National Debt was not only accepted, but was a part of the national money and investment industry.¹⁰³ His view of investment in government securities may finally have shifted after he began to meet with and correspond on a regular basis with Samuel Jones Loyd, Lord Overstone,¹⁰⁴ Baron Rothschild of Rothschild' Bank, Walter Bagehot,¹⁰⁵ and other bankers.¹⁰⁶

¹⁰¹The Indian budget entries appear in Tables 1 and 2 in this chapter. See Lawrence James, *Raj: The Making and Unmaking of British India* (New York: St. Martin's Griffen, 1997), 293; Buxton 2: 225 and Appendix A.

¹⁰²Gladstone, *Diaries* 5: 21/11/60.

¹⁰³"Percents and Sensibility: What did Early 19th Century Literary Characters Live on?" *The Economist* 377, no. 8458 (24 December 2005), 104-105. This article discusses the fact that so many people lived on the interest paid on money invested for them. Having money in the four per cents was considered respectable and safe, since it was secured by the government. But dropping the rate to two and a half per cent would have made the investment safe but unprofitable compared to solid railroad and shipping companies, and would have seemed a good deal more profitable with only a slight rise in risk.

¹⁰⁴Gladstone read several of Samuel Jones Loyd, Lord Overstone's works. See Gladstone, *Diaries* 14: 460. Gladstone appears to have begun an acquaintance, and possibly a friendship with Jones Loyd in 1853. Gladstone, *Diaries* 14: 159.

¹⁰⁵Gladstone recorded his first meeting with Walter Bagehot in May, 1859, and mentioned him repeatedly until 1881. See Gladstone, *Diaries* 14: 10.

¹⁰⁶Gladstone appears to have met Baron Nathan de Rothschild for the first time in 1847. See Gladstone, *Diaries* 14: 221.

10. Abolish paper duties.

When it did occur, the abolition of paper duties led to one of the great social upheavals to the benefit of the middling and working classes of the nineteenth century, and helped rein in the Lords' ability to veto a popular measure.¹⁰⁷

11. Reduce the wine duties.

When he reviewed this list in 1856, Sir James Graham had worried that if the reduction in wine duties was large, the malt and spirits revenues might be affected, because drinkers would move to wine. This may have been Gladstone's secret wish, but drinking of spirituous liquors was so well established in Great Britain that the markets for both wine and spirits seem to have flourished.¹⁰⁸ Gladstone tinkered with wine duties again and again, beginning in 1853 and ending in 1885.

12. Reduce the malt sugar and coffee duties.

Coffee was not a major concern for Gladstone, but sugar certainly was. He had been involved in sugar duties since his work in the Board of Trade under Peel. The year 1844 had been a crisis year for the Peelites, who threatened to resign over sugar duties, a move Gladstone resisted. He reduced sugar duties in the 1860s.¹⁰⁹

¹⁰⁷Hoppin, *Mid-Victorian Generation*, 216. Hoppin points to various remissions of duties from 1853 to 1861 which allowed publishers to sell newspapers for a penny.

¹⁰⁸For work on his budgets regarding spirits, see Gladstone, *Diaries* 5: 5/4/53, 6/4/53, 11/1/60, 26/2/60, 27/2/60, 28/2/60; 6:3/10/61, 4/10/61. For his work on spirit duties, see 6:11/1/60, 24/2/60. Malt was more complex because it was used in cattle feed as well as brewing. For his work on the malt tax, see 5:5/7/53, 12/7/53, 7/3/63. For a deputation of maltsters, see 6:1/4/62; for a deputation on the malt credit (duties paid in bond), see 6:24/2/63.

¹⁰⁹Gladstone, *Diaries* 3:24/4/44, 15/6/44 ff. For Danish claims on sugar, see 3:28/6/44, 23/7/44, 8/11/44. The sugar debates were still a topic of debate in 1872 when Gladstone recalled the 1863 meeting (memorandum printed in *Diaries* 8:14/3/72).

13. Reduce and equalize the duties on insurance and other stamp duties.

This item apparently refers to documents that required a government stamp to be legal. Gladstone's fire insurance bill was defeated 1865.¹¹⁰

14. Increase the income tax for the years 1857 to 1860, but end the income tax in 1860.

This list was written after the Crimean War, when the national debt had again risen. The budgets for the period from 1853 to 1860 show that the income tax was never the driver of revenue that Gladstone, Peel, and others had imagined it, and therefore had little power to make or break Gladstone's other vow of paying off the national debt before Britain's supply of coal ran out. Palmerston and Gladstone were corresponding amiably about the tax 1865, discussing whether a change of one pence (five to four) might signal to the public whether the tax was being phased out entirely. Palmerston preferred to lower taxes that bore on the lower classes: tea, sugar, coffee, beer, or spirits.¹¹¹

15. Extend and increase the house duty after the outcome of income tax is determined.

A house tax was considered in 1864, but does not appear to have become a part of the budget.¹¹²

16. Absorb more of the private note circulation.

Gladstone's Banks of Issue Bill, which might have increased private note circulation, not decrease it, was dropped in the 1865 session.

¹¹⁰See Gladstone, *Diaries* 6:21/3/65.

¹¹¹See Guedella, *Gladstone and Palmerston*, 320-326, letters 257-258.

¹¹²Gladstone, *Diaries* 6:6/8/64.

17. Authorize specific rates of interest for issue of notes based on deposits of government securities.

The Bank Act of 1844 was not modified during Gladstone's tour at the Exchequer.

18. Pay off that part of the national debt held by the Bank and end the Bank's privileges of issue. Take over note issue within the government.

This did not happen.

19. Authorize issue of notes in excess of the limits set by the 1844 Act.

This item was not raised during the 1859-1866 governments.

20. Issue notes of a value of £5 that can be converted into gold at the Bank and its branches, and can be used as legal tender to pay taxes.

It is surprising that Gladstone did not attempt to turn this idea into an act. It might have been very popular given the continuing pressure for smaller notes and the quarterly demands of issue at the end of each quarter for tax and bill payments. This problem would have been solved in the Banks of Issue bill by allowing banks with issue licenses to issue in the denominations they chose for themselves.

21. Approximate to an equalization of issues to relieve the ends and beginnings of quarters.

The problem expressed in this item is quarter day and the heavy demands for legal tender to pay bills on that day. See Item 20.

Once Gladstone was in office, Matthew argued, Gladstone systematically worked through the program he "had drawn up in 1856, the last item, the Exchequer and Audit Departments Act, being passed shortly before the government resigned in 1866." In this statement, Matthew appears to believe that Gladstone accomplished his entire program,

step by step, from his entry into the Exchequer office in 1859 to 1866.¹¹³ In fact, Gladstone had done a good deal, accomplishing what no other Chancellor of the Exchequer had done by asserting assertion of Treasury control over the rest of the government. The profits of the Bank had been reappraised, but not the role of the Bank. Duties had been reduced or abolished, including that on Gladstone's favorite drink, wine.

However, if we take this list as a whole, it is difficult to maintain that Gladstone got more than half the items he listed in 1856, and whether he even intended to. It is far more likely he forgot the list, allowed himself to evolve, and took his wins where he could find him. It is not the list he is remembered for. It is the Exchequer and Audit Departments Act and his drive to continue those parts of the Peelite agenda he most loved: equalized taxation, low tariffs, and free trade. Times had changed. Gladstone had changed. The list of 1856 was not relevant. It had been swept away by larger and more complex economic developments.

Conclusion

If we view Gladstone's performance as a change agent, budget manager, process organizer, and reformer during the period 1859-1866, we see many items that show why the *Telegraph* newspaper dubbed him "the people's William." He was sensitive to paycheck and breakfast-table problems such as taxes on food and newspapers, and by extension to the encouragement of reading and education. His speeches during this period always had a flavor of the don, lecturing his hearers on the

¹¹³Matthew, *Gladstone, 1809-1874*, 109.

way things worked so that he could explain more fully how things should work, but using many examples and alternate approaches to ensure they understood what he was driving at. This was not the idealistic Gladstone of the 1830s, but an enlightened man who understood the need for a contract between a man in government and people who voted for the government. Gladstone had become a “liberal” and a man of process. He created his own process for working on the budget each year, a process he later taught to his own chancellors when he led the government beginning in 1868. The Exchequer and Audit Departments Act extended the process and provide feed-back mechanism for improving the process.

In the bills where he attempted to tinker with one reform or another, such as the Banks of Issue bill, he was not always successful, and could be remarkably maladroit. It was in the paradigm shifts, in Gladstone’s ability to recognize fundamental shifts in national agenda and national thinking where he was most successful. Thus, his 1853 budget speech, his Public Funds Act, and his 1866 Exchequer and Audit Acts are of a piece, because they showed the nation a new direction for progress.

We are forced to ask what Gladstone did in the 1859-1866 period that is different from the previous twenty-seven years since he came down from Oxford. First, he had sense enough to stay in a government, maintaining its strength. Second, he had softened his approach to expend kind words to Palmerston and his other cabinet colleagues whenever possible. By doing so he kept them as friends and gained their cooperation. Third, he found and maintained the friendships of Lord Overstone, Walter Bagehot, and Lionel Rothschild. Those friendships, combined with his reading, assisted

him to use his long run in the Exchequer to put policies into practice and judge their success or failure.

The budgetary battles of the 1860s governments also show us Gladstone achieving humility where he had not previously had it. Giving up threats of resignation early in his chancellor ship, Gladstone learned that the budget was a give and take problem that lasted the full year, and appears to have made a point of learning to live with it. Thus, the new and safer operation of the nation's finances—a system capable of supporting the Sunday afternoon legerdemain of a Suez stock purchase—was of a piece with the final graduation a competent statesman at Exchequer. This is a man who learned to work with the Bank of England, consented to pay for fortifications, and wrote some very charming letters to his prime minister, even while he may privately have been grinding his teeth. Gladstone's contribution of the sense equipoise that served Britain so well came to maturity in this period.

Gladstone's Reading

Once again we find that Gladstone's reading carried and educated him through his tour of office. Gladstone did not give up reading when he entered office. If anything, he turned up the wick on his lamp and read longer on finance banking, taxation, and technology than in the periods when he was not in office. Because it encompasses more than six years, the list for this chapter is very long, even when limited to the six core topics defined in Chapter 2—Accounting and Trade, the Bank of England and the 1844 Bank Act, banking and currency, government finance, political economy, and the cost of war.

This is a seven-year period with many journalists publishing full-length books, and more journals publishing works of substance on banking, government finance, and the problems of war. Looking at the riches appearing at his favorite bookstores and arriving in his mailbox, Gladstone was forced either to continue reading at a high rate, or to quit reading all together. He chose to read, and averaged nearly twenty books a year on these few topics during this period.

Under the heading “Accounting and Trade” the focus has shifted from accounting and bookkeeping procedures to some more fundamental problems of trade in the 1860s. The United States was one of Great Britain’s most important trading partners. Taking the threat of a war with the Union aside, the great danger to Britain was that the supply of wool on which the northern British mills relied would disappear. The books and articles on trade suggest that he was still looking for ways to advance free trade.

His reading on “Banking and Currency” reaches the highest level of his career, possibly because of the length of the period, but also because he was attempting to find a way to accommodate banks of issue. In this area, it is no surprise to find he read both *How to Mismanage a Bank* (1860) to gain a clearer understanding of bank failures, and *The History of Banking in America ...* (1861) with its comparison of practices in British and in the United States. He was also reading on exchanges: the London Clearing House, the principles of exchange, and the foreign exchanges. He must have been very interested in a book on the Bank Notes Issue Bill and its failure to become an Act. He also read widely on banking in France, and various books on savings banks. Currency and gold were on his mind: by my count he read twenty books on metallic currency, gold, paper money, depreciation, and decimal coinage.

In the area of “Government Finance” he read several books and articles on his budgets in *Fraser’s Magazine*, *National Review*, *Blackwood’s*, and *Review de Deux Mondes*. He also read Stafford H. Northcote’s book on the financial policy of Great Britain from 1842 to 1861. Since the Indian uprising on the subcontinent, Indian finance had fallen into the hands of the British Chancellor of the Exchequer. Gladstone found himself with a new budget to manage and to integrate into the British national budget. Therefore, the four books he read on India, including one by James Wilson and one by Sir C. E. Trevelyan on the 1863-1864 budget would have been of great value. He read only two books on the national debt, but his reading in taxation is exactly what we would expect from a self-trained financial specialist: books on direct and indirect taxation, the relationship between foreign policy and taxation, sugar duties, and nationalization of the railroads.

In all, he read forty-one books in government finance in this period, a consistent figure if we remember that he read twenty-four books in the years 1846-1852, years when he was not in office but working hard to learn, and twenty-two in the years 1852-1855, when he was first in office in the Exchequer.

He was also still reading on political economy: he read Richard Cobden’s recounts of three economic panics, Whewell’s lectures on political economy (lectures delivered to the Prince of Wales, and read parts of Adam Smith again.

After Crimea, Gladstone well understood that wars cost money and armed conflict removed a nation from its normal economic rhythms. Similarly, the Civil War in United States caused Gladstone to focus on a nation that was both an important trading partner and possible threat to Great Britain and her colonies—in Canada, the

Caribbean, and the Atlantic. Gladstone would have been a poor Chancellor of the Exchequer if he did not keep one eye peeled for the possibility of war and its likely costs.

Here, then, is his reading list, used at least in part to continue his training as Chancellor of the Exchequer, to expand his knowledge, to make him a better dinner partner and a more sociable man, and to help him survive the rigors of the game of government as he chose to play it.

Table 11: Gladstone's Reading, 1859-1866

	Topic	Author	Title	Reading Date ^a
Accounting and Trade (including, for this period, the US Civil War and general trade)	Trade	S. J. Loyd, Lord Overstone	<i>Speech ... on the Treaty of Commerce [with France] (1860)</i>	29 Mar 1860
	Trade	Anonymous	<i>The Social, Political, and Commercial Advantages of Direct Steam Navigation and Rapid Postal Intercourse Between Europe and America via Galway, Ireland (1859)</i>	25 Jun 1859
	Trade	Bernard de Mandeville	<i>The Fable of the Bees; or, Private Vices Public Benefits, 2nd Edition (1723)</i>	21 Aug 1859
	Trade	Henry George, Third Earl Grey	<i>Speeches . . . on the Second Reading of the Corn Law Bill ... March 9th, 1842 (1860)</i>	7 Apr 1860
	Trade	<i>Revue des Deux Mondes</i> , A. Cochut	"La politique due libre echange," Vol. xxxiii (1861)	26 Apr 1861
	Trade	H. H. Vivian	"Speech on the Commercial Treaty with France, 1860. Together with a Lecture on Coal, Delivered ... 1856" (1861)	1 Aug 1861
	Trade	F. M. Edge	<i>The Destruction of the American Carrying Trade (1864)</i>	5 Feb 1864
	Trade	Bernard de Mandeville	<i>A Modest Defence of Public Stews; or, an Essay Upon Whoring as it is now Practised in these Kingdoms (1864)</i>	28 Nov 1864
	Trade	E. H. K. Hugesson, Lord Brabourne	<i>Protectionist Parodies (1865)^b</i>	16 Oct 1865
	US Civil War	F. W. Olmstead	<i>Journeys and Explorations of the Cotton Kingdom, 2 vols.^c (1862)</i>	17 Feb 1862
	US Civil War	Anonymous	"How shall we Supply our Cotton Market? A Letter to T. Gibson" (1862)	28 Oct 1862
	US Civil War	R. S. Fisher	<i>A New and Complete Statistical Gazette of the United States of America, Founded and Compiled from Official Federal and State Returns (1863)</i>	25 Mar 1863
	US Civil War	R. A. Arnold	<i>The History of the Cotton Famine from the Fall of Sumpter to the Passing of the Public Works Act (1864)</i>	26 Jul 1864
	Bank of England		Henry Brookes	<i>The Bank Act of 1844 (1861)</i>
		John MacCay	<i>A General View of the History and Objects of the Bank (1863)</i>	17 Nov 1863
		Thomson Hankey	<i>Banking: Its Utility and Economy. A Lecture ... with ... the Working and Management of the Bank of England (1864)</i>	16 Jan 1864
		Alexander Struthers Finlay	<i>Our Monetary System. Some Remarks on the Influence of Bullion in the Bank of England on Commercial Credit and the Rate of Interest (1864)</i>	6 Feb 1864
Banking and Currency	Banking	Charles Sikes	<i>Post Office Savings Bank. A Letter ... W. E. Gladstone (1859)</i>	29 Nov 1859
	Banking	Western Bank of Scotland	<i>How to Mismanage a Bank (1860)</i>	13 Jan 1860
	Banking	Arthur Scratchley	<i>A Practical Treatise on Savings Banks, Containing a Review of their Past History and Present Condition, and of Legislation on the Subject (1860)</i>	28 Apr 1860
	Banking	Sir John William Lubbock	<i>On the Clearing of the London Bankers (1860)^d</i>	19 Oct 1860
	Banking	R. D. P Alexander ^e	"On Banks and Discount Houses" (MS, 1860)	17 Oct 1860

(table continues)

Table 11 (continued).

	Topic	Author	Title	Reading Date ^a
	Banking	James Gilbart	<i>The Elements of Banking</i> (1860)	1 Dec 1860
	Banking	James William Gilbart	<i>The History of Banking in America: With an Inquiry How Far the Banking Institutions in America are Adapted to this Country</i> (1861)	16 Feb 1861
	Banking	W. Blake	<i>Observations on the Principles which Regulate the Course of the Exchange</i> (1861)	11 Mar 1861
	Banking	E. Wilson	<i>The Theory of the Foreign Exchanges</i> (1861)	3 Oct 1861
	Banking	James W. Gilbart	<i>The History and Principles of Banking</i> ^f	10 Nov 1863
	Banking	Anonymous	<i>Reorganisation du systeme de banques--Banque de France--Banque de Savoie</i> (1863)	19 Dec 1863
	Banking	T. Hankey	"Banking: Its Utility and Economy: A Lecture" (1864)	16 Jan 1864
	Banking	A. C. V. Perier	<i>Les Societes de Cooperation</i> (1864)	26 Apr 1864
	Banking	William Paterson	<i>England's Glory; or, the Great Improvement in Trade in General, to a Royal Bank ... to be Erected</i> (republished, 1865)	9/11865
	Banking	James Stirling	"Political Considerations on Banks and Bank Management" (1865)	20 Feb 1865
Banking and Currency (continued)	Banking	L. G. L. Guilhaud de Lavergne	<i>La Banque de France et les banques departmentales, suivi d'une notice historique sur la caisse d'excompte avant 1789</i> (1865)	25 Feb 1865
	Banking	I. Pereire	<i>La Banque de France et l'organsation du credit en France</i> (1865)	18 Apr 1865
	Banking	Prince Adam Wiszniewski	<i>La methode historique appliquee a la refome des Banques et des Credit Mobiliers</i> (1865)	6 May 1865
	Banking	W. Rodwell	<i>On the Bank Notes Issue Bill, its Alterations, Amendments, and Withdrawal</i> (1865)	31 Jul 1865
	Banking	Anonymous	<i>The Broker Merchant's Complaint ... Dialogue between a Scrivener and a Banker</i> (1866)	12 Jan 1866
	Banking	W. H. Ainsworth	<i>John Law the Projector</i> , 3 vols. ^g (1866)	6 Apr 1866
	Banking	W. Lewins	<i>A History of Banks for Savings</i> ^h (1866)	5 Jun 1866
	Currency	J. Taylor	<i>A View of the Money System of England from the Conquest, with Proposals for Establishing a Secure and Equitable Credit Currency</i> (1859)	16 Nov 1859
	Currency	Charles. J. Jenkinson, Earl of Liverpool	<i>A Treatise on the Coin of the Realm</i> (1859)	28 Nov 1859
	Currency	J. R. MacCulloch, ed.	<i>Tracts and Other Publications on Metallic and Paper Currency</i> (1860)	1 Feb 1860
Currency	<i>Quarterly Review</i>	Gold 107 (1860)	19 Jan 1860	
Currency	William Ray Nee	<i>Three Letters to [Gladstone]. 1. Gold Discoveries, Silver and Gold</i> (1861)	3 Jan 1861	
Currency	Anonymous	<i>The Merchant's Bane, or Antagonism Between Gold and the Bank of England</i> (1861)	19 Feb 1861	

(table continues)

Table 11 (continued).

Topic	Author	Title	Reading Date ^a	
Banking and Currency (continued)	Currency	John Welsford Cowell	<i>Letters to F. T. Baring on the Institution of a Safe and Profitable Paper Currency</i> (1862)	26 Nov 1862
	Currency	William Stanley Jevons	<i>A Serious Fall in the Value of Gold Ascertained, and its Social Effects set Forth</i> (1863)	5 May 1863
	Currency	T. Galbraith	<i>New Monetary Theory: the Absolute Depreciation of Gold Demonstrated to the Extent of Fifty Percent</i> (1863)	11 Nov 1863
	Currency	Sir Walter Scott	<i>A Letter to the Editor of the Edinburgh Weekly Journal from Malachi Malgrowther, on the Proposed Change of Currency</i> (1863)	20 Nov 1863
	Currency	<i>Annual Register of 1845</i>	Chapter 11: Currency Debates	28 Nov 1863
	Currency	J. MacLaren	<i>Sketch of the History of the Currency</i> (1863)	8 Dec 1863
	Currency	D. Ryley	<i>Decimal Coinage. A Brief Comparison of the Existing System ... Another System</i> (1864)	6 Jan 1864
	Currency	A. S. Finlay	<i>Our Monetary System</i> (1864)	6 Feb 1864
	Currency	A. D'Eichthal	<i>De la Monnaie de Papier et des Banques d'Emission</i> (1864)	28 Mar 1864
	Currency	J. Taylor	<i>An Essay on Money</i> (1864)	25 Apr 1864
	Currency	William Rose Mansfield	<i>An Introduction of a Gold Currency in India</i> (1864)	1864
	Currency	J. H. Wainwright	"Gold, Currency, and the Funded Debt"	12 Jul 1864
	Currency	R. H. Patterson	<i>The Economy of Capital; or, Gold and Trade</i> (1864)	16 Sept 1864
	Currency	William Rodwell	<i>On the Bank-Notes Issues Bill, its Alterations, Amendments, and Withdrawal</i> (1865)	29 Jul 1865
Government Finance (budgets, national debt, India)	Finance	F. Bartholomy	<i>Simple expose de quelques idees financieres et industrielles</i> (1860)	23 Feb 1860
	Finance	<i>Fraser's Magazine</i>	<i>Levy on the Budget</i> (1860)	1 Mar 1860
	Finance	<i>Quarterly Review</i>	The Budget 107 (1860)	23 Apr 1860
	Finance	<i>National Review</i>	Budget 10 (1860)	24 Apr 1860
	Finance	A. H. Brialmont	<i>Notes sur les Budgets</i>	10 Aug 1860
	Finance	J. Edouard Horne	<i>Des Finances de l'Autriche</i>	25 Sept 1860
	Finance	<i>Blackwood's Edinburgh Review</i>	Finance 89 (1861)	21 Jan 1861
	Finance	<i>Revue des Deux Mondes</i> , August Casimir Victor Perier	Finance 31 (1861)	5 Feb 1861
	Finance	<i>Blackwood's Edinburgh Review</i> , W. E. Aytoun	Budget 90 (1861)	1 Jul 1861
	Finance	<i>Revue des Deux Mondes</i> , J. E. Horn	<i>Annuaire de Credit Public</i> (1862)	28 Jan 1862
	Finance	S. Hooper	"Speech on the Treasury Note Bill"	3 Feb 1862

(table continues)

Table 11 (continued).

	Topic	Author	Title	Reading Date ^a
Government Finance (continued)	Finance	Stafford H. Northcote, Lord Iddlesleigh	<i>Twenty Years of Financial Policy: A Summary of the Chief Financial Measures Passed Between 1842 and 1861</i> (1862)	2 Aug 1862
	Finance	Anonymous	<i>Mr. Gladstone's Finances, from his Accession to Office in 1853 to his Budget of 1862</i> (1863)	28 Jan 1863
	Finance	<i>British Quarterly Review</i>	Financial Statement xxxix (1864)	4 May 1864
	Finance	M. A. Calman	<i>William Pitt. Etude financiere et Parlementaire</i> (1865)	13 Jul 1865
	India	J. Wilson	"Financial Measures for India. A Speech Delivered ... [in] Calcutta, 1860" (1860)	28 Mar 1860
	India	T. Hare	<i>The Development of the Wealth of India</i> (1861)	22 Jun 1861
	India	Sir C. E. Trevelyan	<i>The Indian Budget of 1863-4</i> (1863)	6 Jun 1863
	India	W. N. Lees	<i>The Drain of Silver to the East and the Currency of India</i> (1863)	25 Nov 1863
	Nat'l Debt	<i>Quarterly Review</i>	National Debt Commissioners (1859)	10 Aug 1859
	Nat'l Debt	Edward Capps	<i>The National Debt Financially Considered</i> (1860)	22 Feb 1860
	Taxation	John Loude Tabberner	<i>Direct Taxation and Parliamentary Representation</i> (1859)	25 Nov 1859
	Taxation	Henry Booth	<i>Taxation, Direct and Indirect</i> (1860)	6 Jan 1860
	Taxation	Leone Levi ^j	<i>On Taxation: How it is Raised and How it is Expended</i> (1860)	21 Jun 1860
	Taxation	Henry R. Sharman	<i>The Fire Duty: The Duty on Fire Insurance: Reasons for its Abolition or Reduction</i> (1861)	11 Jan 1861
	Taxation	Henry Booth	<i>Considerations on Licensing</i> (1862)	30 Jan 1862
	Taxation	P. Francis	"Speech ... Against the Exemption of Foreign Property in the Funds from the Duty on Taxation" (1862)	26 Sept 1862
	Taxation	G. W. Norman	"An Examination of some Prevailing Opinions as to the Pressure of Taxation in this and other Countries" (1862)	20 Oct 1862
	Taxation	James Russell	<i>Sugar Duties. Digest and Summary of Evidence Taken by the Select Committee, etc.</i> (1862)	1 Dec 1862
	Taxation	Samuel Morton Peto	<i>Taxation: Its Levy and Expenditure, Past and Future; Being an Enquiry into our Financial Policy</i> (1863)	22 Jan 1863
	Taxation	Sir Roland Hill	<i>Memorandum ... on the Net Revenue of the Post Office</i> (1863)	22 Nov 1863
	Taxation	J. Russell	<i>Sugar Duties; Digest and Summary</i> (1863)	1 Dec 1863
	Taxation	Edmund Potter	<i>The Sugar Duties, A Letter to the Rt. Hon. W. E. Gladstone</i> (1864)	15 Jan 1864
	Taxation	Master of Arts	<i>The Fiscal Discrimination of the Sugar Duties Condemned on the Principles of Free Trade by ...</i> 1864)	3 Feb 1864
Taxation	George Warde Norman	<i>An Examination of Some Prevailing Opinions as to the Pressure of Taxation in this and Other Countries</i> , 4th Edition (1864)	1/21864	

(table continues)

Table 11 (continued).

	Topic	Author	Title	Reading Date ^a
Government Finance (continued)	Taxation	J. R. MacCulloch	<i>A Treatise on the Principles and Practical Influence of Taxation and the Funding System</i> (1864)	29 Feb 1864
	Taxation	Alfred Fryer	<i>The Sugar Duties. An Examination of the Letter Addressed by E. Potter to ... W. E. Gladstone</i> (1864)	16 Feb 1864
	Taxation	William C. B. Farr	<i>A System of Life Insurance Which may be Carried out Under the Control of the Government</i> (1864)	21 Feb 1864
	Taxation	Leone Levi	<i>On the Sugar Duties</i> (1864) ^k	6 Feb 1864
	Taxation	C. Neate	<i>Three Lectures on Taxation, Especially that of Land</i> (1864)	1 Mar 1865
	Taxation	J. Mitchell	<i>Plan for Lessening the Taxation of the Company by the Assumption and Improved Administration of the Railways by the State</i> (1865)	2 Mar 1865
Political Economy		James Mill	<i>Elements of Political Economy</i> (1859)	10 Dec 1859
		Richard Cobden	<i>Three Panics: An Historical Episode</i> (1862)	25 Apr 1862
		William Whewell	<i>Six Lectures on Political Economy</i> (1863) ^l	15 May 1863
		Adam Smith	<i>An Enquiry into the Nature and Causes of the Wealth of Nations</i> (1863) ^m	12 Dec 1863
		Henry Fawcett	<i>Manual of Political Economy</i> (1864)	22 Jan 1864
		John Smith	<i>An Enquiry into the Causes of Money Panics ... Letter to M. Ross</i> (1866)	28 Mar 1866
Cost of War	Financing	Nicholas Armstrong	<i>Army Purchase Question ... Evidence of the Royal Commission</i> (1860)	27 Feb 1860
	US Civil War	<i>Hansard's</i>	Debate on Fortifications (1859)	17 Dec 1859
	US Civil War	Sir William Gardiner	<i>Political and Legislative Considerations on National Defence: Addressed to the People of England</i> (1860)	23 Jan 1860
	US Civil War	Unknown	<i>The Army Purchase Question and the Report and Minutes of Evidence of the Royal Commission Considered</i> (1860)	28 Feb 1860
	US Civil War	T. E. Lesley	<i>The Military Systems of Europe Economically Considered</i> (1860)	1 May 1860
	US Civil War	Cowper Phipps Coles	<i>Spithead Forts. A Reply to the Royal Commissioners' Second Report on our National Defenses</i> (1861)	10 Jun 1861
	US Civil War	E. P. Halstead	<i>Iron-cased Ships: A Series of Lectures Delivered Before the Royal United Service Institution ... 1861</i> (1861)	3 Jul 1861
	US Civil War	<i>Revue Contemporaine</i>	French Navy (1860)	10 Jan 1860

Notes:

^aAll date references are to Volume 3 of the *Diaries*. Within a Topic, the publications are listed in the order in which Gladstone recorded reading them (right-hand column).

^bOr a later, untraced pamphlet.

^cOlmstead was extremely critical of the economic abilities of the cotton South.

^d“Clearing” is a technical term in the banking context referring to the ways in which banks exchange credit instruments, such as the currency of country and joint stock banks, bills of exchange, and other paper. For example, a London business man might pay Bank of England notes to the owner of a manor in the west country, a recommended way to pay for land. The seller then deposited his Bank of England notes with his own bank. If this private or joint-stock bank did not care to keep these specific notes on hand, if they had not relationship with the Bank of England, and if they maintained a relationship with a clearing house in London, the west-country bank sent the Bank of England notes to the clearing house. If the clearing house held notes issued by the west-country bank, it returned them to the bank in exchange for the Bank of England notes. If it did not, then it either returned some other credit instrument of interest to the bank or added the value of the Bank of England notes to the bank’s credit account at the clearing house.

^eOf the Receipt of the Exchequer, Gladstone, Diaries 5: 17 Oct 1860, n.6; Add MS 44749, f.148.

^fRead for the third time.

^gGladstone paid off the last of the South Sea Bubble investors in his 1853 budget. See Palgrave’s Dictionary 1, 182-183.

^hAn account of Gladstone’s measures in banking. Gladstone read this on the same day the government resigned over reform. See Gladstone, Diaries 6:5 Jun 1866, n.6.

ⁱGladstone, Diaries 6:16 Sept 1864, n.5. Matthew suggests that this is a reference (“probably”) to R. H. Patterson, *The Economy of Capital; or, Gold and Trade*. Unfortunately, I can find no reference to this publication in Stephens’ bibliography, which lists other Patterson works. Nor can I find references to a “City of Gold” in the works I have at hand. T. A. Stephens, *Bibliography of the Bank of England* (London: Effingham Wilson, 1897; reprinted New York: Augustus M. Kelley, 1968), who offers a chronological list of publications connected with the Bank of England, offers two indexes and a chronology of the banking period ending with 1897. Patterson may have been confused with W. Paterson, a founder of the Bank of England who wrote several publications, but I cannot find any reference to a City of Gold, surely a more seventeenth-century expression than nineteenth, in Stephens’ bibliography which provides a biography and list of publications for William Paterson. Surely this is one of Gladstone’s most puzzling reading references.

^jLeone Levi was one of the great finance and taxation statisticians of the nineteenth century. His publications include “On the Distribution and Productiveness of Taxes with Reference to the Prospective Amelioration of the Public Revenue of the United Kingdom,” *Journal of the Statistical Society of London* 23, no. 1 (March 1860), 37-65; “On the Progress and Economical Bearings of National Debts in this and Other Countries,” *Journal of the Statistical Society of London* 25, no. 3 (September 1862), 313-338; “On the Progress of the Expenditure of the United Kingdom,” *Journal of the Statistical Society of London* 24, no. 1 (March 1861), 55-73; “Statistics of the Revenue in the United Kingdom from 1859-82, in Relation to the Distribution of Taxation.” *Journal of the Statistical Society of London* 47, no. 1 (March 1884), 1-33. These publications provide us with a demonstration of how strong statistical analysis was becoming in the mid to late Victorian period. Levi also authored several books, two of which Gladstone read in the period covered by this chapter.

^kNot found.

^lThese lectures were written and presented to the Prince of Wales. Having read them, one wonders how the Prince managed to stay awake.

^mThree editions were available to Gladstone: the three-volume original (1776); the four-volume printing, ed. D. Buchanan (1814); or the four-volume printing, ed. J. R. MacCulloch (1828). Matthew does not tell us which one he read on 12 Dec 1863, but lists all three versions and the dates on which Gladstone dipped into one of them.

CHAPTER 8

CONCLUSION

In 1866, when Gladstone again kissed hands and turned in his seals of office, he packed his family off for an extended holiday in Europe. Looking back, as he must have done from the Channel boat, he was entitled to contemplate what he had learned and accomplished over the thirty-three years since he came down from Oxford. He had risen from back bench and junior lord of the Admiralty to one of the four or five most powerful men in a long-running government. He had a kind, loving, and elegant wife who had born him eight good children. He was a man rich in friends as well as money, properties, and securities. He had bought and paid for an estate for his eldest son, and had found worthwhile positions for his other three.

We cannot say which of these achievements satisfied Gladstone most. Historians are not mind readers. They typically judge great men by their greatest achievements. Often, however, they judge these men by their failure, unwillingness, or better judgment when a great man decides not to do what he has threatened, wished, or promised to do.

Thus we may judge William Gladstone.

He had accomplished a good deal. He put Britain on a new financial road. The roadbed of this road was a new approach to budgets—aimed at the prosperity, safety, health, and comfort of all British citizens. The aggregate for this roadbed was composed of sensible taxation and a reasonable control of expenditure. Yet a government's finance does not run on a once-a-year budget, but on the everyday trundling of funds to schools, museums, arsenals, shipbuilders, soldiers, pensioners, clergymen, elderly widows, children, and hundreds of thousands of others who have earned the

government's payments. The carts and barrows rode on the tarmac of Gladstone's day-to-day attention to revenues, the gold supply, the state of the currency, the nation's temperament, the fecundity of the harvests, and the stability of Europe. Gladstone had made the Chancellorship of the Exchequer a full-time technical job requiring a man's deepest attention to both the minutest detail and what we now call "the big picture."

Gladstone entered this work in 1852 as both a macro- and micro-economist in the making. A macro-economist is a person well versed in the finances of the government and the national economy, and understands relationships between, for example, taxation and unemployment. A micro-economist understands prices. Gladstone understood economics at both levels—able to see how a one-pence increase in income tax or a half-pence cut in the import duty on tea both changed the life of a family and the resources of a nation. Chapter 7 has demonstrated that even taken at the highest level, a nineteenth-century budget is a complex, three-dimensional document, which shows, over a period of time how the government intended to collect and spend money, as well as the results the government expected to achieve with both the collection and the expenditure.

We can have little doubt that in his budgets and in his other speeches, Gladstone preached the welfare of the family and of the nation. His budget speeches were bread and butter to the mill owners, beer makers, railroad magnates, merchants, vegetable sellers, barge men, teachers, lawyers, and pensioners. Would the price of food rise? Would the cost of money rise? Would Britain and her dependents suffer prosperity or famine? *The Times* and newspapers around the world printed or reported on Britain's annual budget. To these we may add the thousands of people who crowded into a city

hall, square, or train station to hear Gladstone speak. His speeches, often three to four hours in duration, covered all manner of subjects, from the budget to European peace. They heard him comment on the American South's chances of making secession good or listened while he asserted that every man not permanently incarcerated or mentally deficient ought to be given the vote.

Gladstone did still more. By associating his financial policy with a party, and by attempting to associate the party line with his financial policies, he attempted to draw a clear line between his party and the opposition. It was an attempt that did not always succeed, but he was the first chancellor of the nineteenth century to make a single economic policy, stick to it, and force the people to decide, at each election, which policy they wished to follow in the next government.

The ramifications of Gladstone's attack on the Bank of England go far beyond the restructuring of quarterly payments or some discomfort in the Parlour of the Bank of England. While Sir John Clapham has shown us his complete personal contempt for Gladstone as a man and government official, he has also demonstrated Gladstone's power by reporting how deeply the Bank of England felt its security of its position and its strength, and how badly Gladstone threatened both by a simple investigation into quarterly payments on Deficiency Bills. Chapter 5 has reported how badly shocked the Bank was by Gladstone's attack, and then, in what seems like a second wave, the vehemence of his attack, his willingness to meet law with law, and the fact that Gladstone, not the Bank, won the argument.

We must not underestimate the Bank's amazement. Secure behind its Bank Acts, which in the nineteenth century consisted primarily of solidifying the Bank's

monopolies—geographical, currency-based, and legal—the Bank was complacent. These are not my words but Sir John Clapham's, for at one point he even chided the directors for their complacency. While other Chancellors of the Exchequer had attempted to negotiate advantages in the amount of payments for Bank services and fees paid for renewals of the Charter, none until Gladstone appears to have tampered with the fabric of the contract between the government and the Bank.

Morley and Jenkins have recognized what Gladstone did for the budget-writing and -management procedures of what Jenkins has called the third quarter of the nineteenth century. Neither has recognized what Gladstone accomplished by the simple and perhaps blinding realization that the Bank could be challenged, and the recognition that it could be challenged successfully.

We return to Gladstone's 1856 list, with its multiple suggestions for dismantling and reconstructing the Bank, making it more government-friendly and stripping it of currency issue. Looking over this list we ask why, when Gladstone found the Bank was vulnerable to the law in 1854, he did not go in for the kill in the period 1859 to 1866. The answer may very well lay in his reading. Chapter 2 has summarized, and the following chapters demonstrated in some detail, that while Gladstone's reading on the Bank of England *per se* was light, his reading on general banking and currency was substantial, and in some periods phenomenal.

I have suggested that Gladstone may be fairly evaluated in some cases by what he chose not to do. Clearly, in the period 1859-1866, he chose not to attempt to dismantle the Bank. I believe that the answer is that while the Bank appeared vulnerable, and easily shaken, its real strength was a very different thing compared to

the complacency that Sir John Clapham has demonstrated so well. The strengths come from the real and virtual networks in which the Bank sat. There were three.

The first was a geographical network of manufacturing and shipping based on Britain's world-wide trade. While many other ports also shipped to Asia, Africa, North, and South America, London was the location for Lloyds Insurance Company and a host of other insurance firms, manufacturer's warehouses, and docks. Superimposed on this first network was a second virtual network consisting of money relationships some of which predated the founding of the Bank of England. These relationships included but were not limited to the Exchange built and donated to the City by Sir Thomas Gresham, the London Clearing House, the great private banks such as the Grasshopper and Liver Bird, and a host of other stock brokers, small banks, and investment firms. The Bank of England did not rest in the center of this network but slightly at a distance that was philosophical rather than geographical. For example, the Bank did not join the London Clearing House until well into the nineteenth century, well after both the Bank and the Clearing House had been established.

The Bank itself was the heart of a third network, one that disconcerted outsiders, notably theorists without money to invest. It was a network based on central banking theories and the role the Bank of England played in the banking operation. In many ways the Bank of England, viewed from the outside, looked like a central bank—issuing the only legal tender in Great Britain, serving as a depository and safety net for other banks, including the Scottish and Irish banks, lending directly to the government, serving as the government's broker, serving as a national depository for gold and silver, selling government securities to third parties, and for all practical purposes, setting the

interest or discount rate.

This network was based on the membership of the Bank's Board of Directors, largely composed of bankers, brokers, and insurance men plus interlocking strands of deposits, credits, gold, and currency transactions. Bank of England branches spread around the country operated side by side with local banks. Retinues of shippers, manufacturers, and industrialists were the Bank's clients.

The manifestations of central banking behavior in the Bank of England stem from its original charter, its Charter renewal acts, and certain natural behaviors of other British bankers, including but certainly not limited to the Scottish bankers. As this MA thesis has shown, the right to lend money to the government resides in the original charter. The role of banker's banker resides in the natural instinct of bankers to place part of their assets off-site in a safe repository and in the currency and finance exchanges of regional and local banks with the Bank of England. Control of currency issue, outside the problem of legal tender (a Bank of England monopoly) was granted *de facto* in the 1844 Bank Charter Renewal Act.

James William Gilbart, banker and prolific writer on banking, published a book on American banking which showed just how easily a central bank could be set up and how, even more easily, it could be struck down through government's refusal to renew the bank's charter. A government, presumably even the British government, could refuse to renew a charter, even that of the Bank of England. Yet few chancellors had dared even to tamper with the payment schedule or the amounts involved in money transfers between the Bank of England and the Government of Great Britain—until Gladstone. By a simple request to change a payment schedule and reduce the number

of Deficiency Bills being used each quarter, Gladstone had driven the Bank to anger and to the law. How then would the bank have responded to a threat against the Charter itself?

Gladstone recognized that although he might make many changes in the way he did business with the Bank, he could not change or revoke the Bank's charter. Canny politician that he was, he was always anxious to be on the winning side of any battle he chose to join (as witness the fact that he sat out of most of the debate over the Bank in 1857, one year after he wrote his list). Gladstone knew the real strength of the Bank, and understood that it was based not on arrogance but on network affiliations, money owed, marriages, past, present, and future deals, and the stability demonstrated by those who understood and worked within the Bank's rules. I argue that rather than believing the Bank should be overthrown, he came to believe that it could not and should not be overthrown.

We have two demonstrable clues to the Bank's probable true strength. The first clue is the failure of opponents of the Bank to muster even a semblance of coherence and unity whenever the Bank became the subject of parliamentary debate. The second is Gladstone's measurements of his own strength, possibly as a strategist, and certainly as Chancellor of the Exchequer, and finally of the strength of the party to follow him into battle against the Bank.

Left with the assurance that challenging the Bank on the scale of his 1856 list of reforms might be dangerous and ridiculous, Gladstone worked hard on his alternatives: balanced budgets with surpluses that could be applied to the national debt and acts that would expand government's privileges vis-à-vis the Bank. If possible, as shown by the

Banks of Issues bills, he hoped to help smaller banks as well. Britain's general economic health during the 1860s gave him sufficient maneuvering room in which to produce balanced budgets in spite of Palmerston's demands for fortifications against the French and a downturn in cotton manufacture stemming from the United States' Civil War. The abortive attempt to overthrow the main thrust of the 1844 Bank Charter Act by licensing issue to banks that wished to enter the business simply came too late. One of its main threads, the government's proposal to indemnify those who suffered when a licensed issuing bank went bankrupt, while modern in concept (as witness a similar measure in the formation of the United States' Federal Deposit Insurance Corporation) was politically dangerous because it seemed to give an unfair advantage to a failing bank, even creating a reason for a bank to fail deliberately.

Thus Gladstone was left with the option of legislation directed not at the Bank but at his own government—that is, any measure that could control the government's side of the relationship with the Bank of England—as the only viable method of curbing the Bank's incursions into government spending and borrowing. His 1855 Public Revenues Act showed him the way. The Exchequer and Audit Departments Act is a long, detailed, government-oriented piece of legislation as detailed in Chapter 7. Most of its clauses fall harshly on departments that had been slow to reform under the Privy Council Order that followed publication of the Northcote-Trevelyan report and the rise of Civil Service examinations. Twentieth-century historians, such as Lord Bridges, point to the fiscal and managerial control afforded to the Treasury over all other departments for the next fifty years that was established by the Exchequer and Audit Departments Act.

The mercilessness of this Act can be demonstrated by a series of clauses that

allowed a member of the government to establish an account at a local bank by which to perform his work for the government. The Act allowed the account to be in the man's own name, and all was well as well as the man who did his work and survived the audits that might occasionally fall on his accounts. Psychologically, his family might never understand the difference between the man's private accounts, if they existed, and his government account. But if the man died, the Act reserved the government's right to confiscate the account on its own behalf and make life extremely unpleasant for the man's heirs if they tried to claim the account as one of the man's assets. When we consider that thirty years before, the Post Office, the Customs Service, and various other offices and embassies had deducted their expenses before relinquishing their accounts to the government, and "kept a little on the side" as a natural perquisite of office, we can see Gladstone, the cutthroat drafter of legislation exercising government reform to its last detail, presumably based on his own previous experiences and those of others.

Far more subtle and dangerous are the clauses in the Act that affect the Bank of England and the Bank of England, designated banks for the management of government receipts deposited into the Consolidated Fund. The Act granted these two banks a virtual monopoly as holders of government deposits. Gladstone's budgets showed revenues well in excess of £60,000,000 each year—from taxes, excise and customs collections, Post Office Receipts, crown-land rents, rebates from India, indemnities paid by China, and other sources. These funds, deposited only in these two banks, added greatly to their assets and power to invest. However, these funds carried with them two problems. The first was problem was the standard banking problem: that

in bank's balance sheet a customer's deposit appears not only as an asset but also as a liability. That is, on the customer's demand, the bank is obligated to return these funds, including interest, to the customer. The second problem, built into the Act, was more insidious if used. By depositing government funds into these two banks, the government reserved the right to send auditors into the Bank to inquire into the Bank's manipulations in managing the government's money.

Given the temporal limitations of 1833-1866 reflected in this MA thesis, 1866 being the year in which this Act was passed, I have presented no evidence that the government ever made good on its legal right to put the auditors into the Bank of England. We do have evidence that despite the disorganized character of both support for and opposition to the Bank of England, when the Exchequer and Audit Departments Bill was introduced, it had little trouble in being passed into law, and the auditing clause passed with it. Gladstone may not have stopped the growth and importance and power of the Bank of England, and, on reflection, we have reason to believe he did not intend to. He did serve notice on the Bank that the wall erected against the government, behind which the Bank had thought itself inviolate in 1854, had some cracks in it. These cracks, the Act demonstrated, might be made wide enough at any time to let the auditors in.

If we think back to the 1854, when Gladstone appears to have run himself ragged trying "to get to bottom of the Deficiency Bills," we can understand the power that audit gave him. A full-out audit of government accounts held by the Bank of England would have identified the timing problem that constituted the major difficulties in the government's payments and borrowing pattern represented by the Deficiency Bills.

The Exchequer and Audit Departments Act did no damage to Gladstone's memory of his mentor, Sir Robert Peel. It did not damage the gold standard, the Bank's privilege to print legal tender, its rights to additional issue on the demise of another issuing bank, or the contradiction of the Bank's monopolies compared to Sir Robert's desperate efforts to protect free trade. Instead, Gladstone simply found another way, through internal, government-related, reform-minded legislation, both to get control of a major relationship between the Bank and the government, and also to serve notice that the Bank should see to the cracks in its wall of supremacy. It was a solution all Gladstone's own, one which the more rigid and doctrinaire Peel never would have considered.

And so Gladstone carved his own way. Or did he? As the preface of this MA thesis has indicated, much work remains to be done. But it will be done with a much larger purpose than suggested in my original research problem—that 1856 list of financial reforms so loved by Dr. Matthew. Gladstone accomplished some of his goals. The Exchequer and Audit Departments Act is an achievement that Gladstone might not have been able to consider in 1854, nor even in his years of service with Palmerston from 1859 to 1865. It is a solid piece of reform legislation in the financial arena of government management. If Gladstone had found the power under either Palmerston or Russell, to go further, had he created his ministry of finance, taken currency issue into the government, and had closed the Exchequer, tradition-loving Britain might not have withstood the shock. We can only use Gladstone's thinking, actions, and the outcomes he achieved. Bank's of Issue through licensing was a direct attack on the Bank of England's privileges—introduced, debated, taken back, redrafted, debated again—was

a failure, and has been forgotten. By contrast, the Exchequer and Audit Departments Act succeeded brilliantly, sweeping through parliament and still remembered as a highly respected piece of legislation.

This thesis has argued that we are only beginning to understand Gladstone as a political economist. In a period when fiscal responsibility was under attack, it is time to revise our understanding of what Gladstone, money man, accomplished. The evidence is available. It is large and largely available. The sifting process is the work of a lifetime, and may never be complete. It should be substantial enough, however, to help historians realize the true level of reform that took place in British government finance in the third quarter of the nineteenth century and the man who drove that reform.

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