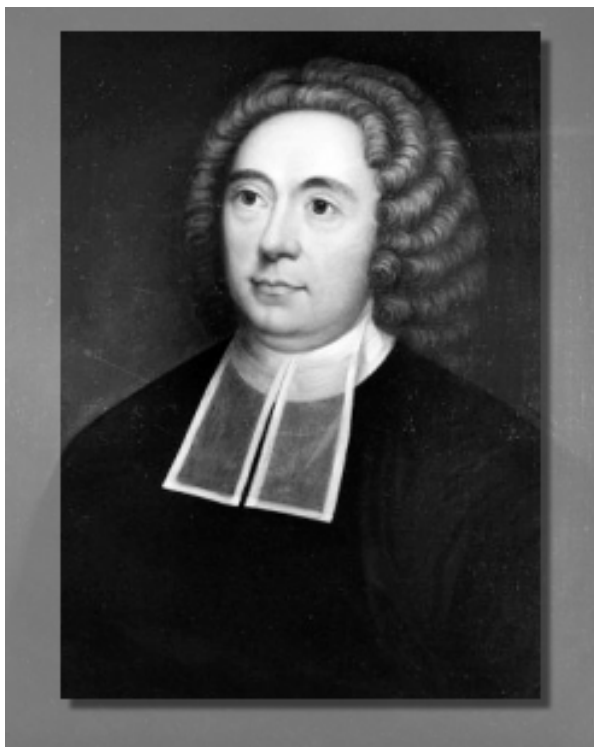


Echoes from the past, a voice for the future: Berkeley's Public Banking Solution

George Berkeley (1685 – 1753)



“The Plan or Sketch of a National Bank”

“A Bank wherein there are no Shares, would be free from all the Evils of Stock-jobbing [Speculation]. A Bank, whereof the Publick makes all the Profit, and therefore makes good all Deficiencies, must be most secure. Such a Bank prudently managed, would be a Mine of Gold in the hands of the Publick....The Advantages of such a bank in restoring Credit, promoting Industry, answering the Wants, as well of the Publick as of private Persons, putting Spirit into our People, and enlivening our Commerce, will, I suppose, be evident to whoever shall consider the Queries of late proposed to the Publick”

George Berkeley, 1737.

George Berkeley was born in Dysart Castle, Thomastown, near Kilkenny in 1685 and is perhaps one of Ireland's best-known philosophers and empiricist. He is accredited with an IQ of 190 and ranks as a genius with the likes of Aristotle, Newton, and Pascal. His education started in Kilkenny College in 1696 and he entered Trinity College at age 15 and graduated with a B.A. in 1704. He was elected a fellow of Trinity College in 1707 the same year he earned his M.A..

Apart from his writings, his name lives on having been chosen in 1866 as the name for the town and new site for the College of California now Berkeley University and by its extension the city of Berkeley, as well as in Trinity College, Dublin where a library bears his name.

From a historical perspective Berkeley lived during a time when the “invention of the banking system” or “modern banking” had recently emerged in Florence, London and Amsterdam in the 14th, 16th and 17th century respectively. The main function of this system was to create and disburse credit lending into the economy, and Berkeley used his empirical observations to understand such banks and how they affected economies particularly the Irish economy. In many cases he was able to make such observations first hand as he travelled extensively on the Continent from his London base in the period from 1713 – 1721. The theories he developed on money and banking have led to Berkeley being called the most original and insightful economist of the eighteenth century, and his works were widely reprinted and circulated at this time. Although in modern times he is better known as a

philosopher, Berkeley is considered by some to be a precursor of Adam Smith, cited as the “father of modern economics”.

Perhaps Berkeley was overlooked because he did not present his ideas as a unified theory of economics. Berkeley’s ideas on monetary philosophy instead were presented in a series of questions or queries called **“The Querist”**, printed in three parts published in 1735, 1736 and 1737. This work was designed to make people consider the economic problems the country faced at the time and some remedies to these, central to which was the setting up of a state-owned national banking system which reflected a public mandate as an alternative to the then failing private banking system.

His monetary views were very much influenced by two stock market crashes that occurred in 1720 namely the South Sea Bubble and the Mississippi Scheme, that exposed a web of deceit, corruption and bribery and led to the wide scale prosecution of the major players and government officials. Both these crashes, similar to Ireland’s recent banking crisis (without wide scale prosecutions), led to a severe lack of credit and a general distrust of the private banking sector. Berkeley referred to the Mississippi Scheme and the South Sea Bubble respectively as **“the late ruinous schemes of France and England”** and identifies **“the true evil”** of such schemes as being the circulating of paper **“without industry” (Part 1 Q250)** i.e. speculation without real economic activity behind it.

Berkeley also acknowledged the likely resistance from the private banking sector to a scheme to establish a national bank noting in **Part 3 Q 40: “But, whether though a scheme be never so evidently practicable and useful to the public, yet, if conceived to interfere with a private interest, it be not forthwith in danger of appearing doubtful, difficult, and impracticable?”**

To further draw attention to what Berkeley saw as the clear logic behind setting up a state owned bank he asks: **“Supposing there had been hitherto no such thing as a bank, and the question were now first proposed, whether it would be safer to circulate unlimited bills in a private credit, or bills to a limited value on the public credit of the community, what would men think?” (Part 1 Q429)**

Berkeley also took pains to distinguish his idea for a national bank from the recently set up Bank of England (established 1694) that was privately owned. He asks **“Whether by a national bank, be not properly understood a bank, not only established by public authority as the Bank of England, but a bank in the hands of the public, wherein there are no shares: whereof the public alone is proprietor, and reaps all the benefit?” (Part 1 Q222)**

In this query he also highlights the important idea that if the bank is publicly owned that all the profits will accrue to the national coffers. He asks directly **“Whether the public may not as well save the interest which it now pays?” (Part 1 Q209)**

Unfortunately Berkeley’s efforts to bring about the establishment of a state owned National Bank did not bear fruit, despite him travelling from his home, as Bishop of Cloyne, to reside for some months in Dublin during 1737 and actively lobbying members of the legislature. In frustration he published a series of queries called **“Queries upon Queries”** subtitled **“Whereby it is made manifest that a National Bank is utterly inconsistent with the**

rights, privileges and interests of Ireland". This is a rather sarcastic series of queries that highlight what Berkeley saw as the legislature's shortsightedness in not considering his proposition. In the light of what happened in Ireland in 2008 one query has a prescient quality to it:

"Whether, to remedy the fear of bankruptcies in private banks, and at the same time to avoid jobs and influence, it would not be the wisest way for the parliament to engage itself once for all to make good the deficiencies of all particular bankers [aka Irish Government Bank Guarantee and bailout], and whether this simple engagement may not do better than any new schemes whatsoever?" (Q33.)

Berkeley was not completely forgotten about in this regard. In the Irish Senate in 1952 Senator and Professor Joseph Johnston, Chair of Applied Economics in Trinity, quoted Berkeley during one debate on a particular finance bill. He noted that **"over 200 years ago, Bishop Berkeley was advocating the national ownership of a national banking system"** and exhorted the Finance Minister of the time (Fianna Fail's Sean McEntee) to consider Berkeley's proposition for a state owned National Bank. Such calls unfortunately again fell on deaf ears. Professor Johnston continued to write about Berkeley's monetary philosophy and indeed he devoted his submission for his Doctor of Letters to Berkeley, which was published in 1970 as **"Bishop Berkeley's Querist in Historical Perspective"**

Now in the 21st Century the challenge for Public Banks is greater, and we must once again try to promote the benefits of Public Banks in our country, as the private banking is failing not just individuals but whole countries. Banking in the late 17th Century had many of the elements of our modern banking system as well as exhibiting similar problems, examples of which Berkeley highlighted in **"The Querist"** Surely what is most powerful in Berkeley's queries is his obvious belief in the ability of the Irish people to effect the changes to the system, while at the same time recognizing the tendency of people to criticize and find fault in the state of the country's economy without providing a real solution

"Whether it would not be more reasonable to mend our state than to complain of it; and how far this may be in our own power?" (Part 1, Q 106)

Part II: Ireland's Banking Crash and current options

"What would happen if two of our banks should break at once? And whether it be wise to neglect providing against an event which experience hath shewn us not to be impossible?" Q210

"Whether it may not now be hoped that our patriots will be as forward to examine and consider the proposal of a Public Bank calculated only for the public good?" Q252

"Whether any nation ever was in greater want of such an expedient than Ireland?" Q201

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