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The politics of last resort lending and the Overend & Gurney crisis of 1866

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Summary

News of the insolvency of Overend, Gurney, & Company on 10 May 1866 generated a scramble for funds in the City of London and urgent appeals to the Bank of England. The banking panic triggered by the collapse of the prominent British discount house became one of the Bank's most tumultuous modern crises. This article investigates the politics of the Bank's liquidity provision during the 1866 crisis, and in the ensuing months of financial stringency. By assessing the correspondence, speeches, and publications of Governors, City figures, and financial journalists, the article finds that the Bank's evolving approach to crisis lending was decisively shaped by its commercial objectives and a prolonged struggle to preserve its autonomy. When confronted with the 1866 crisis, the Bank adopted a pragmatic stance towards the market, which accommodated the credit needs of the City without sacrificing either its privileged legal status or its shareholders' interests. Its Governors' rhetorical pursuit of 'constructive ambiguity' during the post-crisis months succeeded in both limiting moral hazard and consolidating the Bank's discretionary powers.

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