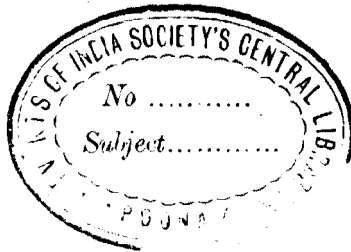


**THE
POUND STERLING**

THE
POUND STERLING
A HISTORY OF ENGLISH MONEY

BY
A. E. FEAVEAREY



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PREFACE

THIS book is an attempt to combine a history of the coinage and the paper currency with so much of the history of the Bank of England and the other banks as was required to make a complete account of the development of the monetary system. Except where it was obviously unnecessary, the author has endeavoured at all times to go back to the original sources of information, and he believes that in a few places he has been able to correct errors or misconceptions commonly found in text-books and standard works on the subject. His thanks are due to Mr. C. R. L. Fletcher, of Oxford, who read the whole of the manuscript and made many valuable suggestions, particularly on points of general history, and to Sir Charles Oman, who has been good enough to go through the proofs and make several useful criticisms on matters connected with the coinage, of which his knowledge is unrivalled.

30 *July* 1931.

A. E. F.

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ABBREVIATIONS

The following abbreviations are used in the footnotes:

- P.R. Calendar of the Patent Rolls.
- C.R. Calendar of the Close Rolls.
- F.R. Calendar of the Fine Rolls.
- R.P. The Rolls of Parliament.
- S.P.D. Calendar of the State Papers, Domestic Series.
- S.P., E. and S. Calendar of the State Papers, England and Spain.
- L. and P. Letters and Papers of the Reign of Henry VIII.
- T.P. Treasury Papers.

CHAPTER I

THE POUND IN THE MIDDLE AGES

'He was required to define what he meant by the pound. His answer was: "I find it difficult to explain it, but every gentleman in England knows it." The Committee repeated the question, and Mr. Smith answered: "It is something that has existed without variation in this country for eight hundred years—three hundred years before the introduction of gold."'

The pound a unit of account.

THUS Peel quoted in the House of Commons in 1819 the evidence of a London accountant given before the Committee on the resumption of Cash Payments. He quoted it only to ridicule it, for Peel had come to the conclusion, from which he never departed, that the pound sterling could only rightly be defined as a 'definite quantity of gold bullion'. Yet it is doubtful whether many of those who have followed the history of the pound and of other currencies between 1914 and, say, 1925, would be prepared to deny that Mr. Smith had at the back of his mind the germ of a truer notion of the nature of the pound than that of Peel. Those who use such phrases as 'the value of sterling', 'the value of the dollar', and 'the sterling-dollar rate' are conscious, though only vaguely perhaps, that they are not speaking of certain pieces of gold in England and America. The pound is based upon a gold standard, but is not, strictly speaking, to be regarded as identical with a certain weight of gold. Uncoined gold has never been legal tender or generally used in making payments; and even when sovereigns circulated they varied slightly in weight, and a fluctuating market price for gold in terms of money was always quoted. Even locally the value of gold and the value of sterling are not quite the same, and the value of sterling in England is totally different from the value of the standard weight of gold when taken to other countries. In spite of the operation of the gold standard the value of the pound in terms of commodities is a strictly local one. It will buy at any time, it is true, about the same quantity of those commodities which have a world market as its equivalent at gold par of exchange in other currencies will buy. But there is no such equality of purchasing power where commodities with

a very narrow market are concerned. Every one who travels in America upon an English income knows that the pound will not go so far there as it does in England. And most people are aware that in other European countries it will generally purchase more than in England. A series of gold standards links up the principal currencies of the world and places limits upon independent fluctuations in the value of each of them, but it does not bring their values to the same dead level.

To measure prices in terms of a unit of account is not the same as to measure prices in terms of a certain weight of metal. A unit of account begins to be used as soon as coins are accepted in payment by tale and not by weight. There need not necessarily be any paper money in use. The pound sterling as a unit of account came into existence in Anglo-Saxon times. There has been no break in the sequence of contracts in which pounds, shillings, and pence have been the consideration from those times to the present day. Though at one period based upon a silver standard, later upon a gold standard, and in two periods upon no metallic standard at all, the pound has a continuous history and has never ceased to be accepted at any period in full settlement of debts incurred in the pounds of an earlier period.

The efficiency of a metallic standard for controlling the value of money, given reasonable stability of value in the metal itself, depends upon the monetary regulations in force. To secure the maximum efficiency there must be complete freedom to exchange metal for money and money for metal at a fixed rate. There must be freedom of trade in the metal, with liberty to export and import it. If coins circulate they must be issued by the Mint of accurate weight and fineness, in exchange for bullion in unlimited quantities and without charge; and they must be protected from clipping and from counterfeiting. Steps must be taken to replace regularly worn pieces, and there must be liberty to melt the coins if it pays to do so. Until comparatively modern times many of these conditions were absent in England and, indeed, in all other countries, and the metallic standard was therefore far from efficient, and permitted considerable fluctuations in the value of the unit of account unchecked by any influx or efflux of

metal. The pound, indeed, was something quite different from the standard of the Mint.

Until the year 1666 a charge was always made at the Mint for coining. From the earliest times the King was generally prepared to coin all the bullion merchants cared to bring him; but he insisted upon deducting something from the money turned out, partly to pay the moneyers and partly as a seignorage for his own benefit. Excluding the period of the Tudor debased coinage, the charges varied in the case of silver money from 2·2 per cent. to 12 per cent. of the money coined;¹ and the official charges were often supplemented by unofficial ones exacted by the moneyers for their own benefit, either secretly or with the King's connivance. These charges, added to the long delays which often occurred before money was paid out by the Mint, made it necessary for the value of money to be considerably above the value of the standard weight of metal before bullion would be taken to be coined.

Minting charges.

Of much more importance, however, were the conditions which made it possible for the value of money to fall far below the value of bullion. In the main these were, firstly, the laws against the export of coin and bullion, and secondly, the almost continuously debased condition of the actual coins in circulation.

It was in the fourteenth century that the laws against export became a really important part of the commercial regulations of England. Beginning with the Statute of Stepney in 1299, Act after Act and proclamation after proclamation attempted to prevent the export of coin and, later, of precious metal in any form. They were supplemented by about twenty 'Statutes of Employment', spread over the period from Richard II to Edward VI, which required foreign merchants bringing goods to England to use a portion or the whole of the proceeds of sale in the purchase of English goods. For a long period death was the penalty for those found exporting good English money. Under various statutes in the fourteenth century, those who gave information leading to the discovery of metal about to be sent out received one-quarter to one-half of what was found. Edward III appointed a regular

Laws against the export of bullion.

¹ See Appendix I.

corps of searchers to form a complete chain around the east and south coasts and to search all vessels for bullion, with a promise of receiving one-third of the contraband.¹ To export gold or silver of any sort remained illegal without the King's licence until 1663, in which year an Act was passed allowing the re-export of foreign coin or bullion if entry were made of it at the custom house, by which it was hoped the better to guard against the export of English coin.² In 1696, however, another Act forbade the export of bullion unless it were stamped at Goldsmiths' Hall and an oath taken that it was not the produce of English coin.³ All unstamped bullion could be confiscated. In this condition the law remained until complete freedom of trade in the precious metals was established by Peel's Act of 1819.

Faulty
minting.

The export regulations were, however, continually evaded, and a greater obstacle to the effective working of the metallic standard was the inability of the Government to keep the coins in circulation up to standard. Until the seventeenth century the method of coining was to cut by hand from a pound weight of silver the proper number of blanks, as nearly as possible of equal weight and size, and to flatten and make them approximately circular with a hammer upon an anvil. One die was then inserted in a hole in a block of wood and the other used as a puncheon, several blows with the hammer being required to give the double impression to the blanks. Frequently the workmanship was poor. Often the stamp ran off at one side of the coin and left the other blank. Inequalities of weight and shape would have been inevitable even with the greatest care, and the moneyers were seldom to be trusted to do their best for the coinage. Until the first year of James I no standard weight was fixed for individual coins. So long as the correct number were cut from a pound of metal, variations in the weight of the single coin were disregarded. The moneyers were allowed a margin called the 'remedy', which remained for a very long period at two pennyweights in a pound of metal. Of this they took full advantage, and often they took more. From the reign of Henry I to that of Charles II

¹ Fine Rolls, 16 Ed. III, 3, and many other entries between 1338 and 1346.

² 15 C. II, c. 7, sec. 12.

³ 7 and 8 W. III, c. 19.

they were frequently accused of offences against the coinage, and many times the offences were proved. Trials of the pyx, that is to say, tests of a sample of new coins by a jury of independent persons, were held as early as the reign of Henry III, but only at irregular intervals, and there are gaps of half a century without a record of one. Thus there was no certainty that any considerable proportion of the coins would be of accurate weight and fineness even on leaving the Mint.

The efforts of the official debasers and falsifiers, however, were far outshone by those of the unofficial practitioners of all classes, who clipped, filed, washed, and sweated the good money, and filled up every gap made by the exporters of coin with newly manufactured and imported base money of every conceivable sort. Their activities were continuous from Norman times until the eighteenth century. All readers of Macaulay are familiar with his famous account of the activities of the clipper and of the efforts to suppress them in the seventeenth century.¹ Unfortunately he leaves the impression that it was a condition of things peculiar to the times of which he wrote, and that it was the chief cause of the monetary crisis of 1695-6. This impression is entirely a false one. The monetary crisis was due mainly to another and very special cause, and the coinage was in but little worse condition then than that into which it had fallen on the average about every thirty years since the Conquest. Recoinages had been found necessary in nearly every reign. The number of Acts, proclamations, and warrants either threatening, or ordering, measures against the clippers amounts to several hundreds, spread with fair evenness over the whole period from the Conquest to the year 1696. The remedy for clipping which was ultimately discovered was so simple and so thoroughly effective that we in these days find it impossible to realize the extent of a problem which remained unsolved from the very beginning of the issue of coins until the seventeenth century. It is difficult to believe, and yet it is certainly true, that there were periods when every coin in circulation had been clipped down to little more than one-half its proper weight. Clipping

Clipping
and
counter-
feiting.

¹ *History of England from the Accession of James II* (London, 1858), 1st ed., vol. iv, p. 622, et seq.

was the most persistent economic problem of all. The shortage of labour after the Black Death, the enclosure movement, forestalling and regrating, even the relief of the poor, were questions which arose and were settled, or settled themselves; but the clipper was always present.

Some attempts were made to set up machinery for the continuous purging of the worst coins from the currency. In 1205, for example, King John placed upon every one the duty of refusing coin which was more than one-eighth light, and of defacing it to prevent further circulation. He offered to supply weights for the purpose of checking coins tendered.¹ But this system, although it continued in use until 1889, never worked properly. Apart from the injustice of charging individuals with the cost of upkeep of the coinage, it always caused too much ill-feeling amongst the people and too much hindrance to trade to be efficient. Yet for the King to have made himself responsible for keeping the currency up to standard by offering to buy back light coin at face value would, at any time before the milled edge was invented, have placed a premium upon clipping.

Thus the minting charges, the export regulations, and the clipper and counterfeiter, combined to render the metallic standard extremely inefficient until the seventeenth century. The pound in the Middle Ages was as much a unit of account as it is to-day, with a value varying with considerable independence of the value of the metal. Debts were settled by tale with coins of an infinite variety of weights and finenesses. Often for many years the Mint did not function and the Mint price of silver had no significance at all. The prices which we find quoted for goods in ancient manorial and other documents were not silver prices or gold prices, but sterling prices.

Origin of
the
pound.

The history of the English pound begins with the history of the English penny. Apart from doubtful coins the earliest English pennies which have come down to us are those of Offa, King of Mercia, issued perhaps about 775, and copied

¹ R. Ruding, *Annals of the Coinage of Great Britain, &c.* (London, 1840), 3rd ed., *sub anno* 1205. Subsequent references to this work will be made by quoting the year under which the information is to be found.

probably from those of Pepin, issued in France a few years earlier. Within a hundred years they had spread to all the Saxon kingdoms and were being paid and accepted by tale, 240 of them always being called a pound.¹ It is not clear what their exact standard weight was intended to be, and probably it varied a little in the different kingdoms. A statute of 1266 enacted that the penny should weigh 'thirty-two wheat corns in the midst of the ear', and there is evidence that this statute merely recorded an old tradition. Another statute of 1280 laid it down that the penny should weigh 24 grains, which by weight then appointed were as much as the former 32 grains of wheat. Thus 24 grains came to make a pennyweight; and this scale was continued in the fifteenth century when troy weight began to be used in the Mint, though pennies had long ceased to weigh as much as 24 troy grains. The Saxon coins still in existence vary in weight from 18 to 24 troy grains, those of Alfred and his immediate successors being mostly of the higher weight. Possibly therefore Alfred used a pound which was about equal to the troy pound.

There is no doubt, however, that whatever the early pound weight may have been, the intention was that the pound weight of silver and the pound of money should be the same, and that the pound of silver should be minted into 240 pennies. Until the fourteenth century the words *denier* and *denarius* were used in official documents to mean a pennyweight as well as the coin by tale; and when silver was weighed in mass it was reckoned in pounds, shillings, and pence, not in pounds and ounces.² Domesday Book distinguished between the pound *ad numerum*, or by tale, the pound *ad pensum*, or by weight, and the pound *ad scalam*, which was a pound by tale with an allowance of six pennies extra to make up for loss of weight of the coins.³ But this distinction was

¹ C. J. Shive, 'Weights of English and Northern Coins', *Numismatic Chronicle*, 1871; T. Hodgkin, *The History of England from the Earliest Times to the Norman Conquest* (London, 1906), p. 233.

² See the Calendars of the Patent Rolls and Close Rolls generally for the thirteenth century.

³ Sir H. Ellis, *A General Introduction to Domesday Book* (London, 1833), vol. i, p. 161; Madox, *The History and Antiquities of the Exchequer*, 2nd ed. (London, 1769), vol. i, p. 274.

drawn merely in recognition of the fact that many of the coins in circulation were lighter than they should have been. It was not an admission that there was any difference between a pound of money fresh from the Mint and a pound of silver.

The Conqueror established his principal Mint in the Tower of London and adopted a pound weight which had probably been used before the Conquest, but which he named the Tower pound and which later proved to be $6\frac{1}{4}$ per cent. lighter than the troy pound. His full-weight pennies should therefore have weighed 22.5 gr. troy. At the same time, or perhaps even earlier, the money began to be coined from a silver alloy containing 925 parts of pure silver in 1,000, or 11 oz. 2 dwt. in the pound weight. Baser coins were afterwards sometimes circulated, but Norman and English kings always returned to the old standard, which came to be known as the 'ancient right standard of England', the maintenance of which was jealously watched by English merchants, and which did not finally disappear from the coinage until the year 1202. Early in the twelfth century the penny was called a 'sterling'. The origin of the word remains doubtful,¹ but the coins very soon gained a wide reputation on the Continent for their consistent fineness, and 'sterling silver' ultimately became the silver of commerce in a great part of the world.

If we neglect one or two efforts to issue small coins or groats and one attempt to circulate gold, the penny was for at least five hundred years the only coin, cut by the people themselves into halves, quarters, and even smaller fragments for use in petty transactions. The pound, however, had other subdivisions for accounting purposes. The name 'scilling', meaning 'a piece cut off', was perhaps given by the Saxons to pieces of broken silver which it was the practice to throw into the scale to make up the loss of weight of the coins where payment was made by weight. When later their value was regularized they were made equal to a definite number of

¹ The derivation thought to be most likely is that it comes from *steorra*, a star, some of the early coins having borne a small star. Another suggestion is *staer*, a starling, the stamp of some of Edward the Confessor's pennies having contained four birds. The view that the coin was named after the Easterling moneyers is now regarded as untenable.

pennies—in the early period four, later five, and amongst those who had had most dealings with the Franks, twelve. The Danes brought with them a weight called the *ora*, which they grafted on to the Saxon system, making fifteen *oras* of 360 gr. each equal to the Tower pound. The Conqueror brought with him from Normandy the later Roman scale. He divided his pound into twelve ounces, and identified the ounce with the *ora*. The monetary *ora*, therefore, became twenty pence. Another Danish unit, the *mark*, was fixed as a money of account at 160 pence or 13s. 4d. William moreover preferred the shilling of twelve pence to the 'English' shilling of four pence, and although the latter lingered on for a time, in a short while after the Conquest the Roman monetary system, favoured of the Norman ruling classes, supplanted both *ora* and English shilling and also for most purposes the *mark*, and the *libra* of twenty *solidi*, and the *solidus* of twelve *denarii*, became the official units of account.¹

The standard weight of the penny was reduced a little about the year 1275, when the Mint commenced to cut 243 pennies from the Tower pound.² But this change was of no great significance, and neither indeed was the earlier reduction of weight, if such it was, involved in the introduction of the Tower pound in place of the earlier Saxon pound. The fact is that the administration and methods of the Mint were such that from the eighth century to the year 1343 pennies might weigh, on being issued, anything between 18 and 24 troy grains, there being naturally a strong tendency for them to be on the lighter side. During the whole of this period the pound sterling was represented by these pennies and such others as the counterfeiters could pass into circulation.

There was a continuous tendency for the value of the unit of money to depreciate by reason of the debasement of the coins. The coinage was clipped continuously, but clipping alone cannot usually reduce the value of money, so long as that money continues to be received as such. The value

The cycle of debasement and reform.

¹ C. J. Shive, *op. cit.*

² C. G. Crump and A. Hughes, 'The English Currency under Edward I', *Economic Journal*, vol. v.

depends upon the quantity in use, and the clipper, although he takes metal from each coin, does not alter the number of coins. As population and trade increased the value even of clipped money rose. When it had risen sufficiently, silver would flow to the Mint and new money would be coined and put into circulation. Gresham's Law, as popularly understood, might be quoted to show that the new money could not live in circulation alongside the old, but so long as both had a value above their bullion value Gresham's Law would not apply. The new coins were soon clipped, and therefore they stayed in circulation even after the value of money had fallen again; and thus the quantity of money was permanently increased to meet the increased demands of trade.

When, however, the pound rose in value to its highest limit, there was strong temptation to produce counterfeit sterlings and save the seignorage, and it was not even necessary to make them very base or very light, to reap considerable profit. And although the clipper did not reduce the value of the unit the counterfeiter did, for he added to the circulation; and the more worn and clipped the money became the greater the ease of imitating it and the greater the profit. Thus it came about that as the coins were clipped down more and more, so the activities of the forgers increased, until they began to make coins so fast that the supply went ahead of the demands of commerce. The quantity of money became inflated, prices rose and silver ceased to go to the Mint. Then the King would take steps to get rid of the clipped and base money. A portion at least would pass out of circulation. The value of the pound would rise, and the moneyers would become busy once more. The technique of coining, however, did not improve, and the new coins were as easily clipped as the old; so the whole process would at once begin over again. Between the years 1100 and 1300 at least seven such recoinages occurred.¹

Recoin-
ages of
1279 and
1299. The method adopted in these recoinages varied a little, but the basic principle was always to put the loss upon the holder of light or counterfeit coin. Sometimes the coins were merely

¹ Ruding. The dates were 1108, 1156-9, 1181, 1205, 1247, 1279, and 1299.

proclaimed no longer current, and holders were left to get rid of them as best they could. At other times exchanges were set up in various parts of the country where the light coins were bought in by weight. In 1279, for example, William de Turnemire of Marseilles set up an exchange in nearly every town and bought in clipped coin at the Mint price by weight, less 14*d.* per Tower pound. Severe punishments were meted out to all persons found with clipped money after a certain date. Turnemire is said to have dealt with about £400,000 worth of silver.¹ Nevertheless by the end of the century money had seriously depreciated again; and this was due to large quantities of base coins known as pollards and crockards having been introduced, it was suspected, by the Italian merchants and bankers who were beginning to do extensive business in London. In 1299, therefore, another recoinage was carried out. Fifty moneys were sent for from the Continent, a new building was erected in the Tower, and branch mints were opened in several provincial towns. In all, £250,000 worth of pollards and crockards were brought in and recoined in a few months and the value of the standard was once more restored.²

In all the recoinages down to this date little difficulty was experienced in obtaining the silver required to make the new money. The demonetization of the bad coins necessarily involved some deflation of prices, but until a pronounced rise in the value of silver had set in the hardships occasioned by returning to the old standard were not severe. The recoinage of 1299, however, was the last in which it was found possible to return to the pre-existing standard until the year 1696.

By the middle of the thirteenth century a serious shortage of silver was beginning to make itself felt in northern Europe. With the decline of the Roman Empire the mining and refining of the precious metals had become almost a lost art. Practically the only revival which is known to have occurred during the Dark Ages was in Spain under the Moors. In the tenth century some new mines were opened in the Hartz Mountains and in Bohemia, and in the eleventh century some alluvial silver was discovered in Portugal; but the production

The supply of silver.

¹ Crump and Hughes, *op. cit.*

² *Ibid.*

from these sources can hardly have made up for the wastage.¹ Nevertheless, although the quantity of the money metals in the world as a whole decreased, Europe was for a long while able to augment its supplies by plunder from the hoards of the African and Asiatic peoples. The centres of civilization were moving northwards, and the acquisition of more silver and gold has always been one of the characteristic signs of progress in civilization. It was inevitable that at a time when the stocks of precious metal in the world were limited they should move northwards too. From the date of the first crusade, which began in 1095, this went on continuously. Throughout the twelfth century campaigns against the Moors and Jews of Spain and the infidels of the Holy Land projected a steady stream of gold and silver into the money-chests of France, Germany, and Flanders, whence merchants came with well-laden purses to purchase the tin, hides, and above all the wool, of England.

By the reign of Edward I these sources of supply were beginning to run dry. The value of silver was commencing to rise. England continued to attract the metal from the Continent for some time, because her raw wool had become necessary to the Continental weavers, and she imported but little in exchange. In the fourteenth century, however, the position changed. A new spirit of luxury and pleasure-seeking arose amongst the nobility of England. Tournaments, banquettings, and pageantry provided frequent occasion for ostentatious display. Every ship that entered the ports brought jewellery, robes and armour, wine and parti-coloured cloth, the silk of Sicily, the furs of the Baltic, or the rich fabrics of Caen. A transition was in progress from a condition of things in which a nearly one-sided trade necessarily brought silver to our shores, to one in which a nearly balanced trade used silver or gold to pay differences. When Edward I recoined the pollards he knew that there was a strong tendency for silver to flow in. The Exchequer in his day was a real store of silver, which provided the capital necessary to coin sufficient good money in advance for

¹ A. Delmar, *History of the Precious Metals* (London, 1880), pp. 35-43.

replacing the pollards as they were withdrawn. Edward III had no such capital. The Exchequer had ceased to contain a hoard, and expenditure was generally ahead of revenue. Moreover he was far less sure of his supply of silver than his grandfather had been. The constant stream had ceased. It came now only fitfully, and there were periods when it flowed outwards. The value of silver in England as well as in the rest of Europe was rising.¹

By the year 1335 the coinage had slipped back into its old debased condition, the Mint had ceased to work, and there was a continuous tendency for the heavier coins to be exported and replaced in circulation by counterfeit ones. In that year a Statute was passed at York to put a stop to the export of good money and of bullion and the import of bad money.² It forbade, under heavy penalties, the export of precious metal in any form, either coin or plate, and also the melting of coin. It was one of the first attempts to mitigate the effects upon the currency of that scramble for silver which was beginning amongst the nations of Europe, and which continued until the discovery of America provided a new and plentiful supply. Complaints in Parliament began to be frequent that good money was scarce, that none was made at the Mint, and that the price of silver, both in the market and at foreign mints, was above that offered by the English Mint. The King realized that a recoinage was overdue, but how to attract to England the silver necessary to restore the old standard he could not see. The value of silver was rising, and the value of all moneys based upon silver tended to rise also. So far, in England, debasement by the clippers and counterfeiters had obscured this; but if the old standard were restored there would inevitably be a serious fall of prices, to the great loss of the wool producers and all who sold their goods for money. They would find it difficult to support the growing burden of fixed charges.

In 1337 the Hundred Years' War broke out, and Edward found himself faced with the necessity of maintaining an

The coinage in 1335.

¹ Crump, Hughes, and Johnson, 'The Debasement of the Coinage under Edward III', *Economic Journal*, vol. vii.

² 9 Edward III, St. 2.

army on the Continent and of subsidizing his allies. In the first year he obtained a large part of the necessary funds by making a royal monopoly of the wool trade. He purchased about three-quarters of the whole crop at prices fixed by himself, and sold it in Flanders. In 1338 and 1340 the operation was repeated. In 1339 the tenth lamb, fleece, and sheaf were granted him by Parliament as a subsidy, and in 1341 the ninth lamb, fleece, and sheaf for two years. In 1340 the ancient customary export duty upon wool was raised from 6s. 8d. to 40s. od. a sack.¹ Between 1337 and 1342 not less than a million pounds must have been spent upon the war out of the proceeds of wool alone, including profit, subsidy, and export duty, and a great part of the expenditure was made abroad.² The effect was to set the balance of trade heavily against England and destroy all hope of an influx of silver with which to restore the coinage.

In 1343 a Parliamentary inquiry was held at which certain merchants, goldsmiths, and moneyers were asked to tender their advice.³ As a result it was decided, amongst other things, to require every merchant exporting wool to bring back to England two marks of silver for every sack of wool exported.⁴ There is some reason to suppose that the question of raising the Mint price of silver and reducing the standard weight of the penny was considered; but ultimately Parliament rejected this remedy and affirmed that 'good sterlings, of the weight and alloy of the old sterlings, should be current in England and should not be carried out of the kingdom in any manner or for any cause whatever'.⁵

Reduction of the standard weight. The King, however, thought otherwise. He evidently had come to the conclusion that there was no chance whatever of restoring the old standard. He determined to accept the lower standard which was in fact in existence. No one could say that he himself was lowering the standard, for that had

¹ Statute 11 Ed. III, c. 1; Calendar of the Close Rolls, 11 Ed. III, pt. i, 3 d and 12 Ed. III, pt. i, 15 d; Prynne's Abridgement of the Records in the Tower, 14 Ed. III.

² C. R. 11 Ed. III, pt. i, 3 d shows that the King received £200,000 as the profit upon one year's wool crop alone.

³ Rolls of Parliament, ii. 127.

⁴ Statute of Westminster, 17 Ed. III.

⁵ R. P. ii. 137.

been done already by the clippers. The people were using lighter coins. So far from the lighter coins being of less value they were of greater value than before. More money was needed to prevent the value from rising further. It was far better for the Mint to provide it than the counterfeiters. Even if silver could be obtained it would be absurd to put heavy coins in circulation along with the light ones, for they would probably be melted or exported at once. The wisest course was to mint coins as light as those in use, which would circulate alongside the old ones, without risk of being melted or exported. At the same time the Mint would be able to give a price for silver which would once again induce merchants to bring some in. In 1343, therefore, an indenture was made with the moneyers which provided that new sterlings should be minted, of the alloy of the old sterlings. The indenture mentioned no specific weight. 'They shall be as good and of the weight of the sterlings current in the land, or better', it said.¹

Thus the first serious reduction of the standard weight of the pound was made, brought about largely by the struggle amongst the nations for a dwindling supply of silver, the effect of which was aggravated in the case of England by the burden of the war. In July 1344, a more definite provision for the new coinage was made. A fresh indenture required the moneyers to coin 22s. 2d. from a Tower pound of silver, of which they were to keep 8d. for themselves, pay the King 6d., and the merchant who brought the silver 21s. 0d.² The theoretical weight of the penny was thus reduced to 20·3 gr. troy. In the next year the market price of silver seems to have been still above the Mint price, and the quantity of money coined from a pound of silver was therefore increased further to 22s. 4d., the weight of the penny becoming 20·15 gr.³ In 1346 yet another change was made, when the moneyers were required to make 22s. 6d. from the Tower pound, and the penny fell in weight to exactly 20 gr.⁴

The reduction of the standard achieved very little. Between 1344 and 1350 about £47,000 of new silver came to the Mint

Effect of
the re-
duction.

¹ C. R., 17 Ed. III, pt. ii, 4 d.

² C. R., 18 Ed. III, pt. ii, 19 d.

³ C. R., 19 Ed. III, pt. i, 5 d.

⁴ C. R., 20 Ed. III, pt. ii, 23 d.

and about £139,000 of the old coins were recoined.¹ These latter were probably heavy ones which came out of hoards. The actual circulating currency remained much as before. The vast majority of the people could have known nothing of what had happened. There were many complaints that money was scarce, that money was not coined often enough, that good money was exported and bad money brought in, but never a single one that the King had debased the coinage. Only one feeble protest was made by Parliament against the rather underhanded manner in which the King, by the Mint indenture of 1343, had run counter to their wishes plainly expressed a few months before. The complaint took the form of a petition, in 1346, that the money should not in future be changed without the consent of Parliament.² This was all that was said—which appears very remarkable when we remember that no previous important change had been made in the official standard weight for 350 years. A reduction of 10 per cent. in the weight of the penny would scarcely have been noticed by the majority of the people, even if many new coins had gone into circulation, but it must have been noticed by merchants dealing with large quantities. The King's reply to the petition was evasive, and the fact that no greater protest was made shows clearly how little effect the reduction of the standard had upon the value of money and upon the relationship between debtors and creditors and between taxpayers and the Exchequer.

The
Black
Death.

The series of changes in the coinage which ended in 1346 was separated from that of 1351 by the Black Death. The last reduction has usually been grouped with the others, but in point of fact the circumstances in which it was made were fundamentally different. Inconceivable as it is to us who live in conditions so very much less precarious than those of the fourteenth century, it is now fairly generally accepted that at least one-third and possibly one-half of the population perished of the Black Death in eighteen months. During the greater part of 1349 commerce was at a standstill and the towns deserted by all who were not bound to stay. Every

¹ Crump, Hughes, and Johnson, *Economic Journal*, vol. vii.

² R. P. ii. 160.

occasion for calling people together was avoided, markets and fairs were abandoned, and buying and selling almost ceased. Those who had a surplus of commodities found them un-saleable, for, apart from the difficulty of marketing, there were in the first year supplies for a whole population, and nearly one-half of that population was sick or dead.

This, however, was only while the plague lasted. Very soon afterwards there was a great change. The supply of labour had been halved, but so had the number of mouths to be fed. Capital, such as it was, remained as before. There was only one reason why, after a short period, the economic life of the nation should not have continued much after the old fashion, and that was the fact that while the quantity of labour, and therefore the quantity of goods and services, had been sadly reduced, the coinage had remained unchanged. The effect was obviously to render a considerable portion of the currency redundant. Instead of scarcity of money there was now superabundance. It is well known how prices and the wages of labour rose immediately, in other words, how the value of money fell. No further explanation is needed for the increase in the export of coin which set in at once.

Parliament met for the first time after the plague in February, 1351. One of the first problems to be faced was the export of coin, which was supposed to be draining the kingdom of its wealth. The King had called Parliament together, he said, 'because the peace was not well kept, because servants and labourers would not work as they should, and because treasure was carried out of the kingdom and the realm impoverished and made destitute of money'. One of the first measures taken was to re-enact the law against export. But the matter was not left there. Edward determined to attempt to put a stop to the efflux by actively competing with the foreign mints, in other words, by offering a higher price for silver and reducing further the weight of the coins. He would make the coins so light that no one could possibly make a profit by exporting them. To do so he required the moneyers to coin 25*s. od.* from the Tower pound, thus making the penny weigh only 18 troy grains. The Mint charges remained at 1*s. 2d.* and the effective Mint price was

Reduction of
1351.

therefore 23s. 10d.¹ The King was so confident that this would stop the outflow that he made the export of the new coins legal. It was proclaimed everywhere that no one should take gold or silver in plate or money out of the realm, 'except the King's money . . . newly made'.²

These measures did not entirely put a stop to the efflux of coin, but they did attract a great deal into the Mint, and much of the clipped money was recoinced. No further changes in the coinage were made for over half a century, for this time the reduction of the standard was not accepted without complaint. There appears to have been considerable murmuring amongst the people against William de Edyngdon, Bishop of Winchester, to whom the responsibility was attributed. Whether the people were in the right or the King it is difficult to judge. The far-reaching economic effects of the rise of prices and of wages have been enlarged upon many times, and the harsh measures taken to meet them had serious political consequences as well, culminating in the Peasants' Revolt. Undoubtedly the reduction of the standard did something to perpetuate these higher prices, and to render necessary a painful readjustment of fixed payments. Had the old standard been maintained, the export of coin would have tended to bring prices back again to the former level. Who can say what the ultimate consequences would have been? The power of the King and the Lords, and the strength of the feudal system depended largely upon the stability of value of the pounds, shillings, and pence in which so many of their dues were by now fixed. It was the merchants who had clamoured in former days against the shortage of coin and against falling prices. If the rise of prices had been rapidly counteracted, feudalism might have received a new lease of life.

¹ C. R., 25 Ed. III, 15 d.

² *Ibid.*, 20 d.

CHAPTER II

THE STRUGGLE FOR BULLION

FROM Saxon times to the eighteenth century the pound was based upon a silver standard. During more than one-half of that period no gold coins were used at all; and, although from the middle of the fourteenth century they were a regular issue, we must avoid the error of supposing that the currency was ever based upon a double standard. A bimetallic standard needs for its efficient working certain definite conditions. It is a system in which the movement in or out of the country of an appreciable quantity of either metal can affect the value of the monetary unit, and in which, when one metal moves out, the other automatically moves in. The unit of currency must be exchangeable for both metals, and both metals must be exchangeable for the currency, at fixed rates and in unlimited quantities. If coins are used the technique of coining must be sound, and there must be complete freedom of trade in bullion of both kinds and freedom to convert the currency into bullion. A charge for minting, a seignorage, a restriction of export, or of the exchange of bullion for money, will seriously interfere with the working of a double standard.

The silver standard and gold coins.

A single example will suffice to show the complete absence of these conditions in England at any rate until the reign of Charles II. In 1346 a Tower pound of gold was minted into £14 worth of nobles at 6*s.* 8*d.* each, and a Tower pound of sterling silver into 22*s.* 6*d.* worth of pennies. The gold used at that period was intended to be fine gold, which means that it was as near to fine gold as the imperfect methods of refining would allow.¹ According to the indenture weights of the coins the Mint ratio between gold of this kind and sterling silver was 12·4 to 1. A person, however, taking a Tower pound of gold bullion to the Mint, received only £13 8*s.* 4*d.* of coin, and even if he could change this at once without loss into full-weight silver coins, the ratio was no more than 11·9

¹ Ruding, 1343, gives the fineness as 23 carats 3½ gr. This was introduced a little later. In 1346 the moneyers were granted ½ carat or ½ gr. remedy, which Ruding appears to have assumed (probably correctly) that they always took.

to 1. A person taking a Tower pound of silver to the Mint received 21s. 4d. in coin; and if he could change this for full-weight gold coins the ratio was 13·1 to 1. This neglects any possible unauthorized minting charges, it neglects the delay in minting, and it neglects the clipped condition of the coins which would be received in exchange. All of these factors tended to widen the margin between the two ratios. If all the coins were clipped only to the very modest extent of 5 per cent. of their full weight, the two ratios would be 11·3 and 13·7 to 1 respectively. There is little doubt that many if not most coins were generally clipped to a greater extent than this. King John, it will be remembered, had legalized coins not more than one-eighth light. Henry VII long afterwards gave a definition of clipped money which leaves no doubt that a coin only 5 per cent. lighter than full weight would have been regarded by most people as uncommonly good.¹ And when we consider also the activities of the searchers, the heavy penalties for exporting silver money, the risks from pirates, and the ordinary cost of transport, it seems clear that the ratio on the Continent would have needed to fall to something like 10 to 1 before gold would have been imported to exchange for silver, and to rise to at least 15 to 1 before silver would have been imported to exchange for gold. There were often differences between continental ratios and the English ratio, but seldom, if ever, so much difference as this; and it seems unlikely that in these early days merchants ever thought of importing one metal in order to export the other. We read nothing of movements of this sort; but we read a great deal of the export of both metals simultaneously, when continental mints were setting a higher value upon both.

Apart, however, from all questions concerning the ratio, there is one essential requirement for the efficient working of a double standard, which is often overlooked, and which has always been absent in England since gold coins were first introduced. It is necessary to a true bimetallic currency that each of the two metals shall be fully capable of taking over if required, in person, so to speak, or by deputy, the major portion of the 'money work'. If a bimetallic system were

¹ See page 44.

instituted in this country at present, all the notes and other paper money would be made directly or indirectly convertible into both metals at fixed rates; an efficient token coinage convertible also into both gold and silver would be used for small payments; and the Bank would be required to buy all bullion of either kind offered to it, at certain minimum prices. The currency edifice would carry every one's transactions efficiently, whether its base for the moment consisted of gold or of silver; and if a change-over occurred, the one prop would be slipped away and the other substituted without so much as a quiver passing through the framework. The vast majority of the people would not know or care whether the reserve against their pence and half-pence, their currency notes and bank notes, their cheques and drafts, was gold or silver.

When, however, credit currency does not exist, the gold and silver themselves must circulate; and they must be fashioned into coins which the people will accept, and which they can use. Generally speaking, after a certain point has been reached, the more valuable the coin the fewer the number of people who can use it. Five-pound notes are never used by the vast bulk of the people because they are too valuable for the everyday transactions of the majority. Therefore they are not a very important part of the currency system, and have little to do with determining the value of the unit. So it was with gold coins at any time before the end of the sixteenth century. The smallest gold coin which circulated for any length of time in the fourteenth century had a face value of 1s. 8d. This represented at least a week's wages for an agricultural labourer, and at least four days' wages for a carpenter, at a time when all labour was paid by the day. It would have purchased on the average about three bushels of wheat, about five bushels of salt before the Black Death and two after, a sheep of a sort, or from five to seven gallons of ale. Seldom did the ordinary man spend so much all at once. Most villages were nearly self-supporting, and had little use for a coin so valuable; and most men were very reluctant to accept one in payment. Holinshed, speaking of the sixteenth century, says the farmers 'cared not for gold because it was

not so ready payment, and they were often enforced to give a penny for the exchange of an angel'. The gold therefore, did not provide a real alternative standard. It could never have performed more than a small fraction of the monetary transactions of the people, and silver coins remained the principal representatives of the sterling pound. The value of the pound depended chiefly upon them, and the gold coins were often appraised in sterling according to their bullion contents, their face value being ignored. To Shakespeare, 'gaudy gold, hard food for Midas', was the symbol of great wealth and the money of the merchant and the usurer; but silver was the 'pale and common drudge 'tween man and man'.¹ And this remained the relationship between them until the development of a credit currency and a token coinage made it possible for gold to take on by deputy the function of a medium of exchange for the whole of the people.

The first
gold.

Gold coins were first introduced in England for the purposes of international trade. As the export trade in tin, hides, and wool grew after the Conquest, the coins of Byzantium, known as 'besants', which formed an international currency throughout Europe, found their way here in large quantities. The later issues of besants were much debased, and few of them were minted after the year 1204. By the middle of the thirteenth century they were growing scarce, and the merchants of Florence therefore, in 1252, put into circulation a gold coin of their own which came to be known as a florin. In 1257 Henry III, possibly following their example, minted a gold penny, of the weight of two new silver pennies, that is to say, of 45 troy grains, which he proclaimed current for 20*d.* This was in accordance with the conventional idea that gold was ten times as valuable as silver.² It is probable that such a ratio at that time slightly undervalued gold, although markets were so imperfect and trade so restricted that it is quite erroneous to suppose that there was anything in the nature of a single world value for either metal. However, it soon became clear that at 20*d.* the gold penny was certainly

¹ *Merchant of Venice*, Act III, Sc. ii.

² *Liberate Rolls*, 21 H. III, 12; 23 H. III, 23; 24 H. III, 6 and 9.

undervalued in England. In the first place silver pennies were not as fine as the new gold ones, and so the ratio adopted was not 10 to 1 but about 9.29 to 1. Secondly, a monetary penny was not equal in value to the metal in a silver penny of full weight. Within three months the city of London protested against the gold pennies so much that their acceptance was made optional. The ground of the protest seems to have been that those who were compelled to take them in payment found it difficult to get rid of them because few would change them for silver. They were of too high a denomination for convenience. Later, when it was found how much the gold they contained was worth, their value rose, and in 1265, their current value was raised by proclamation to 24*d.*, at which price they continued to circulate for about fourteen years amongst the small number of people who could use them, and then all trace of them is lost.¹

The gold penny failed because there was but little use for it in England. The florin of Florence succeeded because it was issued and used by those very merchants into whose hands an ever-increasing portion of the large transactions of Europe, financial and commercial, was now falling. By the end of the thirteenth century the Italian merchants had formed a commercial oligarchy dominating the trade of Europe. In 1308 there were three hundred wool factories in Florence alone, drawing supplies from all parts of Europe. The output of cloth in that city in one year was worth 1,200,000 florins. The Florentines had factories also in France, Flanders, and England, and they sent out the finished material to every quarter. With manufacture and commerce went banking and money-changing. In 1348 they had banking establishments at Avignon, Paris, Sienna, Perugia, Rome, Naples, Barletta, Constantinople, and Venice.² Under the King's protection they settled in London, opened their shops and set up their exchange tables. They financed the wars of Edward I, farmed his customs and controlled his exchanges. They purchased the wool crop from Edward III and sold it in

The
Italian
mer-
chants.

¹ Ruding, 1257.

² Pasquale Villari, *The Two First Centuries of Florentine History* (London, 1908), p. 331.

Flanders; they bought the ninth lamb and fleece, and advanced money upon the security of the export dues. For the better part of a century whenever there was foreign business to be done, goods to be disposed of abroad or money to be found, the merchants of Lucca, the Friscobaldi, the Bardi, or the Peruzzi were generally the people to do it. In 1300 their influence was so great that, though they were suspected of counterfeiting, the King protected them. Whether or not they invented the bill of exchange, or as it was then called, the letter of exchange, may be doubtful. But there is no doubt that they familiarized the whole of Europe with its use. A bill upon the merchants of Lucca or of Florence had something of the universality of demand which now attaches to a bill upon London; and indeed those merchants achieved a financial despotism which London has never had, for during a considerable period they seem to have been able to fix quite arbitrarily their own exchange rates.

English
mer-
chants.

It was during the reign of the first Edward that an overseas trade and a shipping industry conducted by Englishmen commenced to grow. To that period we can trace back the regular traffic in coal from Newcastle to London. In 1294, a Dutch ship attacked by pirates off the Norfolk coast is carrying wool belonging to merchants of Berwick.¹ In 1304 two ships are driven by bad weather upon the coast of Norway and detained by the King of Norway. Both of them and also their cargo belong to Ralph Gedge and John de Pycheford, burgesses and merchants of Scarborough.² Throughout the reign of Edward II this infant commerce struggled against the attacks of pirates and the jealousies of foreign rulers. This was the period of probation and apprenticeship for the English merchant; and it was during this period that he began to acquire a knowledge of international finance. By the early years of Edward III a regular rate of exchange was quoted in London between sterling and Flemish currency.³

The
French
écu and
florin of
Florence.

Gold coins began to be issued in France in 1255 by Louis IX. In 1337, Philip of Valois introduced a coin called a florin de l'écu, minted at the rate of 54 to the mark of Paris,

¹ C. R., 22 Ed. I, 8.

² C. R., 32 Ed. I, 7.

³ C. R., 16 Ed. III, pt. i, 25.

and weighing therefore just over 71 troy grains.¹ Very soon écus and florins of Florence came to form the principal medium of exchange between the merchants of England and those of the Continent. The écu was quoted in London in sterling at a varying rate of exchange, generally about 3s. 4d. or a little above.² The merchants of Italy, however, were able to protect their currency from the operation of the ordinary laws of exchange. They tariffed the florin against other currencies and insisted always upon paying in florins at the tariff rate. Its price in sterling was 3s. For five years from 1339 this price never varied. During those years, war with France being in progress, Edward III borrowed hundreds of thousands of florins from the bankers of Florence and Lucca and repaid them, or promised to repay them, in sterling at 3s. each; and he sold to them thousands of sacks of wool at a price fixed in sterling and converted to florins at 3s.³

English merchants soon began to express their dissatisfaction at being dependent in their international transactions upon foreign gold coins, the prices of which in sterling were beyond their control. In 1339 it was suggested in Parliament that these gold coins should be made legal tender in England for payments of 40s. upwards, at the price placed upon them by merchants.⁴ This would give the English merchants an outlet for those they received abroad. The suggestion was not adopted, but in the Parliament which met at Easter, 1343, complaints were again made of the high prices at which florins were paid out by the Italian merchants in Flanders, and an inquiry was held.⁵ It was decided that certain goldsmiths and others 'skilled in melting gold into bullion' should melt 'one or two florins of each sort commonly current amongst merchants', and give them a price in sterling according to the value of their bullion contents. Also an attempt should be made to negotiate a monetary union with the Flemings, under which a new gold coin, minted in both

¹ The mark of Paris was about equal to two-thirds of the troy pound.

² C. R., 15 Ed. III, pt. iii, 23.

³ The Close Rolls for the period give full details of these transactions.

⁴ R. P. ii. 105.

⁵ *Ibid.*, 137, 143.

countries, should be legal tender amongst the merchants of both countries. All other gold coins were then to be forbidden in England and Flanders. These measures were aimed against the Florentine tariff rates.

The
English
florin.

Before the end of the year, however, the King had determined upon a course of action of his own. The florin of Florence weighed 54 troy grains. If the écu was worth only 3s. 4d. the Florentine coin was worth no more than 2s. 6½d. Edward was undoubtedly by now aware of this, and he appears to have determined to try whether he could not issue a gold coin and give to it an artificial value as the Italians had done. They had circulated a piece of gold worth about 2s. 6½d., and had persuaded the world, including himself, to give them, or agree to give them, 3s. od. for it. Why should he not do the same? At any rate he resolved to make the experiment. The indenture of December, 1343,¹ therefore, provided that a gold coin called a florin, of the weight of two florins of Florence, to be current for 6s. od., should be minted; and also two others, of one-half and one-fourth this weight, to be called 3s. od. and 18d. respectively. The Tower pound of gold was to be coined into £15 by tale, of which the King was to take 20s. od. for seignorage and 3s. 6d. for expenses. The gold was to be fine gold, but a remedy of ½ carat or ½ gr. in the pound weight was allowed, and later the indentures provided for gold of 23 carats ¾ gr., which remained the only standard gold until the reign of Henry VIII. The heavy seignorage suggests that Edward fully realized that he was greatly overvaluing this money. But he did not take all that he might have taken. The merchant who brought gold to the Mint was left with £13 16s. 6d. in coin, which was still considerably above the market price of gold as denoted by the sterling price of the florin de l'écu.

The full weight of an English florin was therefore 108 gr. troy. Specimens in existence now are very rare, but there is

¹ C. R., 17 Ed. III, pt. ii, 4 d. There has been some confusion amongst writers as to the sequence of events at this period, and as to the exact date of the issue of florins. (See Ruding, 1343, 1344, and footnotes.) Careful comparison of the dates of the meetings of Parliament with the dates of documents in the Close Rolls leaves very little doubt that the order as given above is correct.

one in the British Museum weighing 106.3 gr. and a quarter-florin of the full 27 gr.¹

No restriction was placed upon the currency of these coins; in January they were made full legal tender in London, and in March throughout the country.² Against this Parliament petitioned at their meeting in June, praying that 'as the King had ordered gold money to go in payment at a certain price, no one should be bound to take it for a sum less than 20s. *od.*'³ The petition was granted. But there is little doubt that the new money met with resistance everywhere, and particularly from those very merchants who were at that time the only people who could use gold coins to any extent. To them the almost obligatory acceptance of the Florentine florin had been bad enough, for it had strengthened the Italian monopoly against them by compelling them to return with their money to buy goods from the Italians, or suffer serious loss. But the compulsory acceptance of the English florin was worse. The Flemish user of wool would not take it. French merchants certainly would not take it at 6s. *od.*, while the *écu* was at 3s. 4d. The English wool grower had been told by the King to take it, but had wriggled out of the obligation through the action of Parliament. The Florentines would not take it, for it was not of their coining, and bore no sacred image of St. John the Baptist to give it a 'managed' value. It looked as though English merchants, having sold all their wool for florins, would be left to take in one another's washing. There is little doubt that it was they who appeared before the King and his Council and found 'great fault' with the coin.⁴

Within six months of its inception the King had realized that his scheme was a failure. It had taught him that neither he nor the merchants of England were strong enough to circulate a gold coin at a value so much above the market value. But it may also have engendered within his mind a determination, which he certainly acquired from somewhere about this time, to have nothing more to do with the florin

¹ H. A. Grueber, *Handbook of the Coins of Great Britain and Ireland in the British Museum* (London, 1899), p. 47.

² C. R., 18 Ed. III, pt. i, 28 d, 12 d.

³ R. P. ii. 149.

⁴ C. R., 18 Ed. III, pt. ii, 18 d.

of Florence. In 1345, as is well known, he repudiated his debts to the Florentines, and it is obvious that he could scarcely have borrowed from them again for some time. But it was early in 1344 that the loans from them ceased; and not the loans only, but the wool-selling transactions as well. From that time onwards the King's business was done with the merchants of Flanders, of Brabant, and of England, and the consideration was in florins de l'écu. It seems curious that this change should have coincided with the abortive attempt to circulate a 3s. *od.* coin in England of the weight of the Italian florin. Can it be that one reason, or perhaps one excuse, for the repudiation of debts to the Florentines, was that Edward regarded the 3s. *od.* florin as a gigantic fraud?

Issue of
the noble.

The next move was a very natural one, and one to which the King and the Council were perhaps almost driven by those who had advised against the first measure. It was a safer move at any rate, and consisted in copying as closely as possible for a new coin the conditions under which the écu circulated in the London market. Those who framed the indenture of July 1344¹ appear to have argued somewhat in this manner:

'The florin de l'écu, unlike the florin of Florence, circulates freely at a sterling price which cannot vary much from the price of an equal quantity of gold bullion. About 76 écus fresh from the Mint are equal to a Tower pound of gold, and at the most usual price of recent years, 3s. 4*d.* each, they would be worth in sterling £12 13s. 4*d.* When therefore merchants in London sell écus at 3s. 4*d.* they are really selling gold at £12 13s. 4*d.* the Tower pound. If they sell it at this price amongst themselves, they will sell it to the Mint. We shall not be able to mint gold coins quite at this rate because the King must have his seignorage and the Master his expenses, but if we keep the seignorage a moderate one, the coins will not be easily distinguishable in weight from écus which have been circulating for some time and are a little worn.'

It was therefore ordered that gold nobles at the rate of 39½, or £13 3s. 4*d.* by tale, to the Tower pound should be minted, to circulate at 6s. 8*d.*; and half-nobles and quarter-nobles in proportion. The King was to take 5s. *od.* for his seignorage,

¹ C. R., 18 Ed. III, pt. ii. 19 d.

and the Master 3s. 4d. for his expenses. So the merchant would get £12 15s. 0d. for his pound of gold, a trifle more than he would receive in the market for a pound of écus; and the half-noble at 3s. 4d. would weigh 68·4 gr., or perhaps 2½ gr. less than a full-weight écu, worth at that time about 3s. 4d.¹ The florin was to be no longer a legal tender.²

Not a very great deal of gold was dealt with at the Mint under these regulations. The burden of war, as we have seen in the first chapter, drove the exchanges against England. Little gold came in, for the market price soon rose above the Mint price. In 1346 the King, knowing of no way to raise the value of sterling, decided to reduce the weight of the noble. From the Tower pound 42 pieces were now to be minted, or £14 by tale, and the weight of the coin became 128·6 gr. The seignorage was increased to 10s. and the expenses to 1s. 8d., so that the merchant now received £13 8s. 4d., which was about equivalent to 3s. 6¼d. for the écu.³ The price was still probably too low, and in spite of threats of punishment for those who refused them, there was still considerable difficulty in persuading people to use the unfamiliar gold coins.

Such were the conditions which prevailed when the Black Death descended upon the land. Its effect upon the value of money we have already noticed. Gold and silver alike became undervalued, and began to leave the country rapidly. The indenture of 1351 reduced the weight of the gold as it did of the silver, though not to the same extent. The noble was to be minted at the rate of 45 to the Tower pound, that is to say it was to weigh 120 troy grains. The seignorage was to be

¹ The noble weighed 136·7 gr. troy. Ruding, in compiling his table of the weights of the gold coins (see pp. 13 and 14 of vol. i), unfortunately divided a Tower pound of 5,400 troy gr. by 39 instead of 39½, and therefore gave the weight of the noble as 138⅔ gr. He has been copied in most of the handbooks and catalogues of the coins.

² C. R., 18 Ed. III, pt. ii, 18 d. It is interesting to notice that a similar sequence of events was followed elsewhere. In Aragon in 1346 coins of the same weight and price as the florin of Florence were circulated, but were found to be overvalued. Three years later they were withdrawn and a copy of the French écu issued. W. A. Shaw, *History of Currency*, 2nd ed. (London, 1896), p. 23.

³ C. R., 20 Ed. III, pt. ii, 23 d.

7s. 3d., and the expenses 2s. od., which left the merchant £14 10s. 9d.¹ It was under these regulations that the first really important issue of gold was made.

The silver
coinage
after 1351.

We must now return to the silver coins. After the reduction of the penny to 18 gr. in 1351, Parliament frequently endeavoured to persuade the King to restore the old standard,² and Edward repeatedly promised to do so as soon as it became possible; but he probably had little hope of keeping his promise. He did, however, consent to a clause in the Statute of Purveyors of 1352, making it illegal for the weight of the coins to be reduced any further without the consent of Parliament.³ The existence of this Statute and the fear of causing serious discontent prevented any further reductions of weight for over half a century.

For about ten years after 1351 the coinage remained in a satisfactory condition. The Mint price being temporarily a little above the market price of both metals, most of the old coins were recoined. In 1355, when the market prices rose, the seignorage and expenses were reduced slightly and the Mint prices increased. Also steps were taken to avoid delays and unauthorized charges at the Mint. Under this encouragement activity continued at the Tower for several more years.⁴

Meanwhile, however, the old cycle had begun again. The clipper and the counterfeiter were at work and large quantities of bad coins were being imported, in particular on this occasion from Scotland. The rise in the value of silver throughout Europe, to which the Black Death had given temporary pause, commenced again. A further reduction of the seignorage in England in 1363 was of no avail. In 1367, we read, "The money of England of the King's coinages of gold and silver is much impaired, and is constantly drawn out of the realm by reason of divers moneys of less price, weight, and value which have long been and yet are current in England."⁵ But nothing was done while Edward III remained alive. The fortunes of war had turned against the Black Prince, and

¹ C. R., 25 Ed. III, 15 d.

² 25 Ed. III, Stat. 5, c. 8.

³ C. R., 41 Ed. III, 4 d.

⁴ R. P. ii. 240, 253, 260.

⁵ C. R., 29 Ed. III, 6 d.

England was suffering many severe losses in France. The Council was split into two parties by the attack of the baronage upon the Church. The King had sunk into dotage and devoted his time to Alice Perrers.

With the accession of Richard II Parliament at once began to act with renewed assurance and confidence in its powers, and many complaints regarding the coinage and suggestions for its reform were brought forward in the first few years of the new reign. They all ruled out as unthinkable any alteration of the standard. The last reduction, in 1351, was still blamed for the rise of prices which followed the Black Death. Some other method of getting good money into circulation must be adopted this time. The first effort was made in 1379, when an ordinance was issued laying down that for every pound's worth of cloth of gold, silk, jewels, and other luxury goods imported, and for every pound's worth, according to the last sale in England, of wool, hides, and woollens exported, bullion of gold or silver to the value of 12*d.* was to be brought to the Tower.¹ As we have seen, an attempt of this kind had already been made in 1343, when silver to the value of two marks was ordered to be brought to the Mint for every sack of wool exported. That attempt had soon been abandoned, and subsequently the King had relied for obtaining his supplies upon offering something above the market price. Now, however, the new policy made its appearance, of directing foreign trade in such a manner as to compel the importation of bullion. In addition to the regulations mentioned above, which were to hold good as an experiment until the next Parliament, it was laid down that during a similar period no person whose income was less than £40 a year should wear any of the luxury apparel mentioned. This was the first definite measure taken to discourage imports in order to secure an influx of bullion.

The results of this measure being poor, in 1382 a formal inquiry was held into the currency question. Five goldsmiths and merchants of London, whose names were Richard Leicester, Lincoln, Crantren, John Hoo, and Richard

The
inquiry
of 1382.

¹ C. R., 2 R. II, 2; R. P. iii. 66. Although this ordinance was determined upon in Parliament, it was not enrolled as a Statute.

Aylesbury, were apparently asked to furnish answers to the following questions:

1. Why does no gold or silver come into England, and why is the metal which is already in England carried out?
2. What is the best remedy for the clipped condition of the gold coins?
3. What should be done to remedy the lack of halfpennies and farthings?
4. What is the best action to take to make the gold agree with the silver?
5. How can the importation of bad money from Flanders and Scotland be prevented?

Their answers to questions 2-5 are not of much importance. The gold in circulation, they said, should pass only by weight, and no one should be compelled to accept a gold coin by tale unless it were of just weight. Gold having appreciated more rapidly than silver they were inclined to favour calling up the gold coins or reducing their weight, but they were not very definite upon this point owing to the very general disapproval with which every suggestion for altering the coins was received. The lack of halfpennies and farthings could only be remedied by compelling the officers to make some, and bad money must be kept out by stringent enforcement of the regulations.

Their answer to the first question, however, is far more important. They were unanimously in favour of a strict regulation of foreign trade, so that the value of merchandise coming in should not exceed the value of that going out. Every individual merchant, whether native or foreign, who brought goods into England, should be compelled to export goods produced here of equal value. The tribute paid to Rome should be sent in goods and not in money, and to assure this it would be well if the Pope's collector were English. Transactions of any kind by letter of exchange should be forbidden.¹

The last suggestion was perhaps not so impossible as it sounds. The modern organization of international trade is

¹ R. P. iii. 126.

such that almost all payments are made with some kind of 'letter of exchange'. But late in the fourteenth century the same merchant was still for the most part exporter as well as importer, and used the monetary proceeds of his imports to pay for his exports. What we call foreign exchange transactions were necessary for only a minor portion of the total business performed. To those who advised the King at this time it did not seem an impossible task to abolish the use of bills of exchange, and they probably felt that it was necessary if they were to secure complete regulation of the balance of trade.

The advice tendered by these experts makes it clear that although at this time there was some disposition to consider a change in the weight or value of the gold coins, a change which would affect only a few people, the vast majority of the people were still not prepared to contemplate for a moment a change in the silver. In 1343, after hearing the advice of merchants and goldsmiths, Parliament had declared against an alteration of the sterling, and had framed regulations designed to force silver bullion into England and into the Mint. The King had ignored this and had reduced the weight of the coins. The second considerable reduction, in 1351, had caused great discontent and had left a deep impression upon the minds of the people. The attempt to outbid the foreign mints was regarded as a failure, and therefore opinion turned in the direction of the policy of regulating trade in such a manner as to prevent an efflux, if not to enforce an influx, of bullion. This was clearly the main recommendation of the merchants in 1382, their one great hope of a better supply of metal and of a more efficient coinage. There is little doubt that the lowering of the silver standard in 1351, the great rise of prices which had occurred simultaneously, and the subsequent relapse of the coinage, after all that had been done, into its old 'feeble' condition, did much to encourage the growth of bullionist doctrines. The inquiry of 1382 provided an opportunity for the expression of those ideas, and there began a struggle between the bullionists, who were on the side of a sound internal currency, and the merchants engaged in foreign trade, who were opposed to bullionist

Bullion
regula-
tions.

restrictions. The role of the King and the Council seems to have been to attempt to please both.

For the next twenty years the struggle continued. At first every foreign merchant who brought goods into England was to find surety before the customs officials at the port to buy English goods to the value of one-half of the goods imported.¹ Then it was ordained that an ounce of gold should be brought to the Tower for every sack of wool, every half-last of hides, and every 240 woolfells carried out, or that, in default, payment should be made of an additional customs duty of 3s. 4d.² This regulation was difficult to comply with owing to the risk involved in smuggling gold out of other countries, and in the early years of Henry IV some modification was secured by the merchants. In 1402, however, the bullionists returned to the attack with an Act which required the whole of the proceeds of the sale of imports to be used in purchasing English goods for export³; and in 1404 with another Act which laid down that merchants should sell the goods they brought within three months, during which time they should live only at such houses and with such hosts as the mayor, sheriff, or bailiff of the town should appoint.⁴

Reduction of standard in 1411.

Needless to say these measures brought no real solution to the problem of the coinage. In the end the old dilemma had to be faced. While the value of silver rose there was no chance of any good coins being minted under the existing indenture. If counterfeit coins were successfully kept out prices would fall continuously, and trade would suffer from the increase in the burden of fixed charges; but on the other hand, if counterfeit coins came in, the country would continue to experience all the evils of a clipped and base currency without hope of remedy. People must have begun to feel that however beneficial a regulation of the trade balance might be with a satisfactory coinage in use, it would not in the existing conditions replace a 'feeble' currency with a 'strong' one. As early as 1385 Michael de la Pole, the Chancellor, in declaring the causes for summoning Parliament, said that English money was in greater estimation and of higher value in all other

¹ 14 R. II, cc. 1 and 2.

³ R. P. iii. 502; Stat. 4 H. IV, c. 15.

² R. P. iii. 340.

⁴ 5 H. IV, c. 9.

places than in England, and that the chief and greatest remedy was to increase the value or price of the said money.¹ We hear, however, nothing more of this suggestion in Parliament until 1411, when it was suddenly put into effect. A reduction of the standard weight was made, and was made on this occasion in Parliament. For the King to alter the weight, alloy, or denomination of the coins was illegal by the Statute of Purveyors. The ordinance now made therefore declared itself to be made at the request of the Commons, and it took the form of a Statute, though it was never enrolled as one. Some fear of the possible consequences of changing the money showed itself in the fact that the measure was to be experimental for two years, at the end of which period it should cease to have effect if the change were not satisfactory. It reduced the weight of the noble by 10 per cent. to 108 gr. troy, so that 50 were coined from the Tower pound of gold; and the weight of the penny by $\frac{1}{8}$ to 15 gr., so that 30s. *od.* worth were coined from the pound of silver. The seignorage on the gold was placed at 3s. 6*d.* and on the silver at 3*d.*, and the expenses at 1s. 6*d.* and 9*d.* respectively, so that the prices offered by the Mint for gold and silver became £16 8s. 4*d.* and 29s. *od.* per Tower pound. Silver coins in circulation, whether clipped or counterfeit, which contained as much as 16 gr. troy of sterling silver, would have shown a profit upon recoinage. Yet in the two years which followed only 5,582 lb. Tower of silver was coined at the Mint, or £8,373 of the new money.² It is clear that this reduction of the standard weight, like the earlier measures of Edward III, merely brought the Mint standard down to something approaching the weight of the actual coins in circulation.

At the same time, however, there was a considerable recoinage of gold. Within two years 17,321 lb. Tower was brought in. A good deal of this was old coin of nearly full weight, which probably came out of hoards.³ In 1421, however, a complete recoinage of the light gold was carried out, and the King actually bore some part of the cost, receiving

¹ R. P. iii. 658.

² Sir James Ramsay, *Lancaster and York* (Oxford, 1892), vol. i, p. 154; P. R., 2 H. V, pt. i, 29.

³ Sir James Ramsay, *ibid.*

nobles which contained 5s. 8d. worth of gold or more for the full face value of 6s. 8d. The new coins of 108 gr. issued in place of the clipped ones were already undervalued at 6s. 8d., and within a very few years those which had not become clipped again had been exported.¹

For nearly forty years from this point the history of the currency is almost blank. A little gold and a little silver seem to have been coined in most years, probably from the bullion brought in by merchants in accordance with the various Statutes mentioned above. Most of the new coins were exported, clipped or hoarded, although the prosecution and punishment of the clippers continued. The actual currency appears to have remained in a stagnant condition during the whole of the period. In the fifteenth century Parliament lost all control or influence over the coinage as over most other matters. The Parliamentary machine was captured by the greater nobles and became a mere assembly of themselves and their nominees. To the student of monetary history the Rolls of Parliament become almost useless. The King's ordinances and indentures stand by themselves, making, as time went on, far more serious changes in the money of the people than ever before, apparently without a word of discussion or comment in Parliament.

Reduction of
1464.

We pass at once to the accession of Edward IV. His reign is always dated from the battle of Towton in 1461, although it was not until 1464 that he occupied the throne with any degree of security. One of the first measures taken as soon as his position was assured was to make a greater change in the weight of the coins than had ever been made before at one time. The quantity of money coined from a pound of metal was increased, both for the silver and the gold, by 25 per cent. Little explanation is to be obtained of this action beyond that which is furnished by the official documents. Parliament appears to have accepted it without comment. The people were told that it was made necessary by the rise in the value of gold and silver, or, as the proclamation expressed it, by the fact that those who should have brought bullion to the Mint were able to get more for it at foreign mints. The

¹ R. P. iv. 151, 252.

remedy was to raise the Mint price. Whereas he who brought a pound of silver had formerly received 29s. *od.*, he should 'now receive clearly of every pound weight of such silver . . . 33s. *od.* sterlings of the same fineness and alloy, so clearly and more than he had before in every ounce by 4*d.*, and, in great, in the pound 4s. *od.*' The proclamation apparently did not mention that this relatively small rise in the effective Mint prices, together with the much larger change in the quantity of money coined from a pound, enabled the King to increase the minting charges, including the seignorage, from 3·3 per cent. of the silver money coined and 1·5 per cent. of the gold money to 12 per cent. of the money of both metals.¹

The weight of the gold coins remained unaltered, but the noble was priced at 8s. 4*d.* The mintage became 2s. 4*d.* and the seignorage 47s. 8*d.* per Tower pound; and so, out of £20 16s. 8*d.* coined, the person bringing bullion received only £18 6s. 8*d.* From a Tower pound of sterling silver 37s. 6*d.* in groats, half-groats, pennies, halfpennies, and farthings was minted, of which the King took 3s. 4*d.* and the Master of the Mint 1s. 2*d.* The weight of the penny thus became 12 troy grains. A proclamation issued subsequently called up the price of all the nobles in circulation to 8s. 4*d.*²

So far as the gold coins were concerned the measure was a failure, and it is not difficult to understand why. Unless 8s. 4*d.* was considerably above the sterling value of a noble of 108 gr. no one who was not compelled by the bullion regulations to do so was likely to sell gold to the Mint and pay 12 per cent. of it in Mint charges. On the other hand, if 8s. 4*d.* was much above the value of the noble, all the merchants to whom money was owing had a grievance when the noble was called up to that price. There certainly was some grumbling at the outset, but it is said to have been due merely to the difficulty of reckoning nobles of 8s. 4*d.*³ It seems likely that in view of the rapidly rising value of gold the noble was by now not very greatly overvalued at 8s. 4*d.*, and that therefore neither new

¹ This proclamation is recited in a subsequent one. See Ruding under date 1464.

² C. R., 4 Ed. IV, 20, quoted by Ruding, 1464.

³ *Gregory's Chronicle*, Camden Society New Series, xvii, under date 1464.

gold nor old nobles were sent to the Mint. The unfruitfulness of the heavy seignorage was probably the reason why a better plan was sought.

Within twelve months a new indenture was made which, while it left the regulations for the silver as before, effected important changes in those relating to gold.¹ Two new gold coins were to be minted, one a 'ryal' or 'ryal noble' weighing 120 troy gr. and passing for 10s. *od.*, the other an 'angel' of 80 gr. passing for 6s. 8*d.* A Tower pound of gold was to make £22 10s. of coin, and as the seignorage was reduced to 18s. 6*d.* the effective Mint price became £21 9s. 2*d.* At this price, assuming the old noble to be really worth as much as 8s. 4*d.*, there was a profit upon recoinage if it weighed more than 105 gr.; and if the sterling price was only 7s. 11*d.*, all coins of more than 100 gr. could be sold to the Mint at a profit. The King, however, saved the people these calculations by proclaiming that he would give at the royal money exchanges 8s. 6½*d.* for an old noble of the full 108 gr. and for lighter ones in proportion.² He coined the full-weight ones into 9s. *od.* of the new money, and thus took at the exchanges the full Mint charges plus about ½*d.* extra for each noble.

The
King's
profit.

The effect was to attract to the Mint a very considerable portion of the gold coins in the country. Between September 1465 and September 1466, 137,875 old nobles were purchased at the London exchange alone. In the two years ended Michaelmas 1466, 12,489 lb. weight of gold, worth in new money £281,002 10s., was coined at the Tower, upon which the King made a profit of about £12,000.³ In 1467 the old nobles continued to come in, but not so rapidly. Only 60,000 were purchased. The King therefore, having skimmed the cream of the profit, determined to attract those that remained and get what he could from them by raising the price to 8s. 8*d.* At the same time he reduced the seignorage to 12s. *od.*, increased the mintage to 2s. 6*d.*, and so increased the Mint price to £21 15s. 6*d.* the Tower pound.⁴ This brought in another 33,000 by the following Easter; and then the influx

¹ P. R., 8 Ed. IV, pt. iii, 1 and 2.

² R. P. v. 634.

³ R. P. v. 634; Sir J. Ramsay, *op. cit.* vol. ii, p. 313.

⁴ P. R., 9 Ed. IV, pt. i, 20.

began to diminish again. At Easter 1471, therefore, the seignorage was further reduced to 5s. *od.* and the Mint price increased to £22 2s. 6*d.*

With regard to the silver a similar course was followed. The profit was, however, much less, and it was more difficult to attract the coins into the Mint. There had been no effective recoinage since 1351 and the circulation still contained a large proportion of the coins of Edward III, worn and clipped, and mixed with earlier coins and counterfeit pieces of less than sterling fineness. Even though the standard weight was now only two-thirds that of 1351 a good deal of collecting and sorting was necessary in order to separate the coins which would pay for reminting. Those selected were mainly groats, the percentage loss of weight of which was lowest.¹ The groat showed a profit under the indenture of 1464 if it weighed more than 56 gr. The groats of Edward III were issued at 72 gr., but those of 1412 and after weighed no more than 60 gr. on leaving the Mint. It is not surprising, therefore, that the King soon found his seignorage too heavy to bring him much profit. Troy weight was beginning to be used for silver in the exchanges. In the early part of 1465 the King's exchange was offering 2s. 10½*d.* per ounce troy for 'old groats and silver as fine as old groats'; which was about ¾*d.* less than the Mint paid. In September of that year the price was increased to 2s. 11*d.* At Michaelmas 1466, it was further increased to 3s. *od.* and the seignorage at the Mint reduced to 2s. *od.* Thus the Mint price became £1 14s. 4*d.* the pound Tower, or 3s. 0¾*d.* the ounce troy. At Michaelmas 1467 the seignorage was reduced to 1s. 6*d.*, the exchange price raised to 3s. 1*d.* an ounce and the Mint price to £1 14s. 10*d.* or 3s. 1¼*d.* At Easter 1471 the seignorage became 6*d.*, the expenses 1s. *od.*, and the Mint price, £1 16s. *od.* or 3s. 2¼*d.*²

In the two years ended September 1466, 55,334 lb. of silver were brought into the Mint, making £103,758 15s. *od.* of new money, the seignorage being at least £5,500.³ From

¹ The groat or 'great sterling' of fourpence, became a regular issue in 1351.

² P. R., 9 Ed. IV, pt. i, 20; 11 Ed. IV, pt. ii, 2 and 3.

³ Sir J. Ramsay, *op. cit.*, vol. ii, p. 313, states that the total profits upon

the revenue point of view the results were most satisfactory, but as a recoinage the operation was by no means complete. Any estimate of the quantities of gold and silver coins in circulation at this period would obviously be purely speculative, but while perhaps most of the gold coins passed through the Mint, it is difficult to believe, upon comparing the above figures with those for previous recoinages, that much more than one-half of the silver was dealt with. Immediately after the operation was carried out it appears to have been possible to pass with ease counterfeit coins and base coins from Ireland; which suggests that not by any means all of the currency was new.

Effect of the reduction. What then was the effect of this apparent debasement of the coinage upon the value of money and upon trade? The data supplied by Thorold Rogers in *History of Agriculture and Prices* indicate that at the end of the fourteenth century commodity prices were still reacting from the great rise which followed the Black Death, and that the movement during the first half of the fifteenth century was distinctly downwards.¹ In the second half they remained almost stable and were lower therefore at the end of the century than at the commencement. There was a complete absence of violent change following the changes in the money, and there was also an almost complete absence of murmuring when those changes took place. Gregory, it is true, says that in 1464 there was some grumbling when the noble was raised to

the recoinage in 1464 and 1465 were £15,428. This is low in comparison with the quantities of bullion brought in. Probably the moneyers were unable to keep pace, and some of the profits came in a later year.

¹ J. E. Thorold Rogers, *History of Agriculture and Prices* (Oxford, 1866-87). The averages for a few commodities not directly affected by good and bad harvests are:

1401	100.0	1446	80.4	1491	75.6
1402	115.3	1447	77.3	1492	73.2
1403	105.9	1448	88.0	1493	—
1404	101.2	1449	80.0	1494	85.9
1405	108.6	1450	79.1	1495	67.2
1406	93.2	1451	78.9	1496	—
1407	104.3	1452	85.6	1497	76.8
1408	92.9	1453	—	1498	68.8
1409	85.3	1454	89.6	1499	63.7
1410	96.8	1455	78.9	1500	76.8

8s. 4d.,¹ but another chronicler, Fabyan, although recording the changes, says nothing of any complaints, and in the Stonor Letters, the Plumpton Letters, and the Paston Letters there is no mention of the coinage alterations at all. Their effect upon prices and upon trade seems to have been negligible. Adam Smith remarks that from the 25 Edward III, that is from 1351, to the beginning of the reign of Elizabeth the increase in the value of silver so far compensated for the diminution of the quantity of it contained in the same nominal sum, that during the whole period 6s. 8d. a quarter was regarded as a fair average price for wheat.² In 1464 the Mint weight of the silver was reduced by one-fifth, and between that date and 1471 a portion of the circulation was recoinced. The remainder had already been clipped down to something approaching the new legal weight and the recoinage did not affect it. Probably many of those coins which were brought in were clipped to some extent, so that the number re-issued was not greatly in excess of the number melted. If all the coins had been of full weight and had been reminted, the increase in the total nominal value of the circulation would have been only 20 per cent. As it was it was probably less than 10 per cent. Moreover, since it was the heavier coins which were brought in, they came, in all probability, largely from hoards, and the new coins given in exchange went back into those hoards. It therefore seems unlikely that the actual recoinage did much to inflate the currency.

These considerations may perhaps explain why there was no sudden rise of prices after 1464. Had the value of the precious metals been stable a rise would have been inevitable sooner or later; but in the second half of the fifteenth century gold and silver were probably rising in value more rapidly than at any previous time. In spite of the Wars of the Roses the development of English commerce was proceeding at a great pace. The shock of the Black Death had passed away. Wealth was increasing again, and the demand for money growing fast. Edward IV's reduction of the standard was

¹ *Gregory's Chronicle*, sub anno 1464.

² *Wealth of Nations*, McCulloch's ed. (London, 1837), p. 82.

made partly, as he said, because other mints were successfully competing with the English Mint for the supply of bullion; but mainly for the King's profit. The rapidly rising value of the metals enabled him to take that profit without depreciating the pound.

During the period in 1470-71 that Henry VI again occupied the throne, an indenture was made which adopted the coinage regulations of Edward IV.¹ In 1483 another was made upon the same lines on behalf of Edward V,² and in the same year Richard III adopted these regulations as well and granted the Mint to Brackenbury.³ In 1485 Henry VII executed an indenture with the same provisions.⁴ Thus the lower standard weights were made permanent.

¹ Ruding, 1470; P. R., 49 H. VI, 19.

² P. R., Ed. V, 5.

³ P. R., 1 R. III, pt. v, 2 and 3.

⁴ P. R., 1 H. VII, pt. ii, 10 (16) and 11 (15).

CHAPTER III

THE GREAT DEBASEMENT

HENRY VII's management of the coinage appears in a very favourable light when compared with that of most of his predecessors. In 1489 he minted the first gold piece of 20s. and in 1504 the first silver shilling, a testimony to the growing commerce and wealth of the country. The gold piece was to be called a 'sovereign', was to be coined at the rate of 22½ to the Tower pound, and two were to be made in every pound weight of gold coined.¹ Of the shilling there is no official record. Fabyan, who was contemporary, says it was introduced by the Parliament which met in January 1504,² but there is no mention of it in the Rolls. However, an Act passed by this Parliament provided for an entire change of the design of the coins; and, as a few shillings of 144 gr. exist of a design very similar to that of the new groats issued in accordance with this Act, the date is probably correct.³

Sovereigns and shillings.

In 1492 the seignorage was reduced to 8*d.* for the gold and 2*d.* for the silver, and the expenses to 1*s.* 10*d.* and 10*d.* respectively.⁴ Thus the Mint prices became £22 7*s.* 6*d.* and £1 16*s.* 6*d.*, and the percentage of Mint charges fell to the lowest level it had ever reached. It is to Henry's credit that, fond of money as he was, he reduced the tax on the coinage almost to nothing.

In 1504 an Act was passed for the recoinage of clipped and light money. All clipped groats and half-groats were to be cut by any one to whom they were tendered, and the holder was to have the option of bringing them to the Mint or melting them himself and making what he could of them.⁵ An exchange was set up in Leadenhall, and it was proclaimed that clipped money would be purchased there at 3*s.* 2*d.* the ounce troy, which was a penny less than the Mint offered. A considerable amount of clipping was to be tolerated before

¹ P. R., 5 H. VII, 6 (30) d.

² *Fabyan's Chronicle* (London, 1516), edition of 1811, *sub anno* 19 H. VII.

³ E. Hawkins, *The Silver Coins of England* (London, 1887), 3rd edn., p. 273.

⁴ P. R. 8 H. VII, pt. ii, 1 and 2 (21, 20).

⁵ 19 H. VII, c. 5.

a coin was declared no longer current. If it had 'three points of the cross whole on the one side and the most part of the scripture [legend] whole on the other side' it was not to be refused. Probably as much as 20 to 25 per cent. loss of weight was possible before it would be challenged.¹ There is a record of 11s. 4d. being lost in the exchange of £2 13s. 4d. of clipped money.² The new coins were to remain current only so long as they were unclipped and the inscriptions on both sides were clear, and for many years afterwards a few 'refuse' groats appear to have been brought in each year. It seems to have been an earnest attempt to get rid of the evil of clipping, but in the absence of some better method of stamping the coins it could not succeed.

Bullion
from
America.

The discovery of America meant the opening of vast new sources of supply of the precious metals. Gold began to come to Europe as early as 1494, and within twenty years was finding its way in considerable quantities into the English Mint. Silver came later, but when the silver mines of Potosi were opened in 1545 the quantity became very large. From that time all need or excuse for periodical reductions of the standard weight of the coins vanished, although those reductions did not immediately cease.

Henry VIII, in the first sixteen years of his reign, did not alter the Mint regulations. An indenture made soon after his accession was merely a copy of the last one of his father; and so long as his financial position continued satisfactory Henry maintained a scrupulously correct attitude towards the coinage. He contented himself with the very low seignorage his father had introduced, which, in spite of the heavy coinage of gold, yielded him an average of only £100 a year.

Ducats
and
French
crowns.

It was once again a war with France which first of all drew the King aside from the straight path in this matter. When the Emperor Charles V came to England in 1522 to negotiate an alliance with Henry against France, it was decided, for the convenience of the visitors, to make continental gold coins legal tender in England. The gold coin in use at this

¹ Ruding, 1504.

² *Archaeologia*, vol. x, Accounts relating to the building of Louth Steeple, 1500-18.

period throughout the Empire was the ducat coined in 1475 by Ferdinand and Isabella, of gold of $23\frac{3}{4}$ carats fineness and weighing 54.9 gr. troy. The French *écu* of the time of Edward III had been followed in 1384 by an *écu à la couronne*, of fine gold weighing 64 gr., which came to be known in England as a crown. Its weight was changed many times during the fifteenth century, until in 1473 it was coined of gold of $23\frac{1}{8}$ carats, and weighed 53.3 gr. In 1475, however, when Ferdinand coined the new ducat, the old French crown was superseded by an *écu au soleil*, or crown of the sun, weighing 54.9 gr. like the ducat, but coined from gold of only $23\frac{1}{8}$ carats. In 1519 the fineness was reduced to 23 carats and the weight to 54 gr.¹ In 1522 ducats were proclaimed current in England at 4s. 6d., crowns of the sun at 4s. 4d., and the older French crowns at 4s. 0d., all of them being undervalued a trifle in relation to English gold.²

War with France was duly declared in 1523, and during the next two years large sums were sent abroad, partly in actual metal and partly by exchange arrangements made through Flemish and Italian bankers, to support the army on the Continent. The exchange went heavily against England, and by April 1525 the Italians were demanding from 4s. 9d. to 5s. 2d. in London for a ducat in Venice. Several attempts were made to regulate the rate of exchange and keep the ducat down to 4s. 6d. but in vain, and at last, in August 1526, the King decided to accept the depreciation of the pound as irremediable and alter the coins accordingly. The ducat was raised to 4s. 8d. and the crown of the sun to 4s. 6d., and the prices of all the English gold coins were increased by one-tenth, the angel becoming 7s. 4d.³ This rise proved to be insufficient, however, and in November the prices of the gold coins were increased further, to make a total rise of one-eighth, the angel becoming 7s. 6d. At the same time the groat was reduced from 48 to $42\frac{2}{3}$ gr.⁴

Reduction of 1526.

The pound Tower was now finally banished from the Mint

¹ W. A. Shaw, *op. cit.* pp. 334-5 and 410-12.

² Letters and Papers of the Reign of Henry VIII, iii. 2283.

³ Stow, *Annals of England* (London, 1615), p. 527; L. and P. iv, pt. i, 2467.

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and troy weight substituted.¹ The Mint charges were altered very little. For gold 2s. 9d. per pound troy was taken and for silver 1s. 0d.; and the effective Mint prices became 44s. 9¼d. and 3s. 8d. per ounce respectively. No new price was fixed for ducats. They could be dealt with as bullion at these rates.

Gold of
22 carats.

Gold of the fineness of 23 carats 3½ gr. had been used for so long in the Mint that it was beginning to be known, like sterling silver, as the 'ancient standard of England'.² For the first time a coin was now minted of gold of a lower fineness. Crowns and half-crowns of the double-rose, to be current for 5s. 0d. and 2s. 6d., were coined from metal of 22 carats, the crown weighing 57·3 gr. The Mint charge was 3s. 0d. per pound troy, which made the effective Mint price for gold of this fineness 41s. 7½d. per ounce. Neglecting the cost of the alloy, this was equivalent to 45s. 2½d. for gold of the old fineness, or 5¼d. more than was being paid to merchants who had the other coins minted. At first sight this appears to have placed a fairly heavy premium upon the coinage of crowns, but actually the premium was whittled down to nearly nothing by the moneyers. They saw to it, apparently, that the merchant did not get the full 41s. 7½d. for crown gold, this being well above the market price. In 1528 we find them giving only 41s. 3d. an ounce and in the next year one of them actually sells some crown gold at 41s. 4d.³ Moreover the supply offered to them at 41s. 3d. was so great that they were able to keep people waiting two or three months for their money, using it in the meanwhile in their own private businesses. The reduction of the standard weights had had the usual result of bringing in a large quantity of heavy coins of the old standard to be reminted. The moneyers therefore took the opportunity offered them by the relatively high price at which they coined the crown, to make a good profit for themselves.

¹ S. M. Leake, *Historical Account of English Money*, 3rd ed. (London 1793), p. 189, concluded from certain weight calculations, that there had been an earlier change of the standard in Henry VIII's reign than the one mentioned above. He reached this conclusion, however, by confusing the Tower and troy pounds.

² P. R., 16 Ed. IV, pt. ii, 3 and 2. L. and P., v. 919.

³ L. and P. iv. 3867, 5341.

The influx of gold soon ceased, but during the next ten years the Mint was kept busy turning into coin for the King's use the silver plate produced by the exactions of Cromwell and by the suppression of the monasteries. This new silver coin forced into circulation by the King became largely redundant. There are distinct signs of a rise of commodity prices for some years before any base coins were issued.¹ Sir Thomas Gresham, in a letter written many years later, mentions that the Flemish exchange turned against the pound sterling 'before any fall of money passed in England'.²

In the year 1542, however, in spite of all the expedients which had been resorted to for obtaining funds, the Exchequer was still in need; and someone (it was not Cromwell, for he had been executed in 1540) devised a new and ambitious plan for using the Mint in the King's interest. While Parliament was sitting in the early months of 1542, it leaked out that a scheme was afoot for altering the coinage.³ Nothing definite was made public, but the rumour probably came from the Mint, where the officers had received a royal warrant authorizing them 'to coin, whenever they should be so commanded by the Privy Council, the value of one pound weight of troy of gold or silver, of every sort and print, of such like fineness, alloy, number, and print as should be devised by the said Council, any act, statute, ordinance, or provision made to the contrary notwithstanding'. The King, said the warrant, had determined to have certain approofs and trials made both of gold and silver.⁴

The plan
for
debase-
ment.

In 1540 a baser silver than sterling had been tried upon Ireland. Sixpences had been minted in London and issued there, weighing 40 gr. and containing 9 oz. of silver in a pound.⁵ On 16 May 1542 an indenture was made reducing the weight of the English groat to 40 gr. and raising the denomination of the angel of 80 gr. to 8*s.* *od.* The same document provided for the minting of the silver from an alloy containing 10 oz. of sterling silver to the pound, and

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Debase-
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These changes, however, were not announced to all and sundry for a very good reason. The Mint price of sterling silver under the old indenture was 3s. 8*d.* an ounce, and of standard gold, 23 carats 3½ gr. fine, 44s. 9¼*d.* Sterling silver could be purchased now in the open market for 3s. 8½*d.*, and fine gold for 45s. *od.* The King, intending as he did ultimately to raise the prices of the metals to 4s. *od.* and 48s. *od.* respectively, determined to be as big a 'bull' of the market as he could, before letting in the general public. Money was beginning to come in from the loans and benevolences. Sir Edmund Peckham, Cofferer of the Household, newly knighted apparently for the occasion, was ordered to deliver £3,000 of it to the officers of the Mint for the provision of gold and silver bullion, which was to be coined and redelivered to him. He was then to deliver 'other £3,000 to be similarly dealt with, and so continue delivering and receiving until further direction was taken'.² Between 4 July 1542 and 20 March 1543 Sir Martin Bowes, Master of the Mint, received from Peckham £27,652 18s. 9*d.*, and purchased with it 127,566¾ oz. of sterling silver at 3s. 8½*d.*, and 1,777¾ oz. of fine gold at 45s. *od.*, which was turned into coin and stored by Peckham in the Jewel Chamber of the Palace of Westminster. At the same time 34,043¼ oz. of gilt plate, 38,697¾ oz. of 'white plate', and probably about 4,000 oz. of gold were received from private persons in payment of loans and other exactions, coined into the new money, and stored in the same way. The tenderers of this plate received credit at the market price.³

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The silver money was not coined according to the indenture. Work did not begin until July 1542, and it seems clear that after 16 May an amendment was made in the instructions. The accounts speak of silver 'of the standard of 10 oz.', but they show clearly that to make 22,053 lb. of coin 5,513 lb. of alloy were used, and were added to sterling silver and not to fine silver. The actual fineness of the coins, therefore, was only 8·3 oz. in the pound. This enabled the King to take 8*s. od.* seignorage of every pound of coin, and still to leave the moneyers sufficient to cover expenses. The gold was duly coined at 23 carats according to the indenture, but the King took the full 24*s. od.* of every pound represented by the alloy, the moneyers being charged with fine gold at 48*s. od.* The expenses of coining gold, therefore, must have been borne by the coinage of silver.

In this way throughout 1542 and the early part of 1543 bullion was purchased and coined, as money became available. So far as the public were concerned the old indenture still held good, and small quantities of gold and silver were brought in and minted according to the regulations of 1526.¹ In the later months of 1543 the minting of the new coinage was suspended, presumably because money and plate ran out. Early in 1544 it began again and went on until the end of March. Then on 16 May the mine was sprung. A proclamation was issued stating that the valuation of money had been so enhanced in France and Flanders that coin was continually being exported from England, and there seemed to be no remedy but to raise in a similar manner the rating of gold and silver in England. The King, therefore, by the advice

the preface to volume xix, pt. i, of L. and P., and they will be referred to here as Mint Accounts, L. and P. xix.

The figure of 127,566½ oz. of sterling silver quoted above is given as 227,566½ oz. in the accounts, but it is clear from the other figures that this is an error. Other errors of a similar character have crept into these accounts and sometimes make them difficult to reconcile one with another.

There is an interesting entry in the Rutland accounts under date 1543-4: 'Delivered to the Tower of London toward the payment of the debt owing to the King's Majesty: A collar of gold with garters, weighing 26½ oz. at 45*s. 4d.* the oz. . . . £60 12*s. 8d.*' (Rutland MSS. iv. 349.) The cofferer of Belvoir takes credit for these ornaments at 4*d.* an oz. more than the price at which they appear to have been charged to Bowes in his account.

¹ L. and P. xix, pt. i, 267.

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² L. and P. xix. 513 (6).

³ See a series of Mint accounts prepared for a commission appointed by Patent 1 Ed. VI, pt. iv, m. 29, to inquire into the working of the mints during the last few years of Henry VIII. These accounts are printed after

The silver money was not coined according to the indenture. Work did not begin until July 1542, and it seems clear that after 16 May an amendment was made in the instructions. The accounts speak of silver 'of the standard of 10 oz.', but they show clearly that to make 22,053 lb. of coin 5,513 lb. of alloy were used, and were added to sterling silver and not to fine silver. The actual fineness of the coins, therefore, was only 8.3 oz. in the pound. This enabled the King to take 8s. *od.* seignorage of every pound of coin, and still to leave the moneyers sufficient to cover expenses. The gold was duly coined at 23 carats according to the indenture, but the King took the full 24s. *od.* of every pound represented by the alloy, the moneyers being charged with fine gold at 48s. *od.* The expenses of coining gold, therefore, must have been borne by the coinage of silver.

In this way throughout 1542 and the early part of 1543 bullion was purchased and coined, as money became available. So far as the public were concerned the old indenture still held good, and small quantities of gold and silver were brought in and minted according to the regulations of 1526.¹ In the later months of 1543 the minting of the new coinage was suspended, presumably because money and plate ran out. Early in 1544 it began again and went on until the end of March. Then on 16 May the mine was sprung. A proclamation was issued stating that the valuation of money had been so enhanced in France and Flanders that coin was continually being exported from England, and there seemed to be no remedy but to raise in a similar manner the rating of gold and silver in England. The King, therefore, by the advice the preface to volume xix, pt. i, of L. and P., and they will be referred to here as Mint Accounts, L. and P. xix.

The figure of 127,566½ oz. of sterling silver quoted above is given as 227,566½ oz. in the accounts, but it is clear from the other figures that this is an error. Other errors of a similar character have crept into these accounts and sometimes make them difficult to reconcile one with another.

There is an interesting entry in the Rutland accounts under date 1543-4: 'Delivered to the Tower of London toward the payment of the debt owing to the King's Majesty: A collar of gold with garters, weighing 26½ oz. at 45s. 4d. the oz. . . . £60 12s. 8d.' (Rutland MSS. iv. 349.) The cofferer of Belvoir takes credit for these ornaments at 4d. an oz. more than the price at which they appear to have been charged to Bowes in his account.

¹ L. and P. xix, pt. i, 267.

of his Council, now fixed the price of an ounce of fine gold of 24 carats at 48s. *od.*, and of an ounce of sterling silver at 4s. *od.* The ryal of 120 gr. should henceforth be current for 12s. *od.*, the angel of 80 gr. for 8s. *od.*, and so on; and the King had caused a new sovereign piece to be made to pass for 20s. *od.*, and a silver 'teston' to be current for 12*d.* Gold and silver brought to the Tower would be paid for at the above prices.¹

The hoard of money in the Jewel Tower, which must have amounted to nearly £70,000, unless some had already been secretly disbursed, was now brought forth and put into circulation.²

Silver of
9 oz.
fineness.

On 28 May a new and extended organization was set up to deal with the rush of bullion which was expected now that the higher prices were announced. Branch mints were established at Bristol, York, and Canterbury, with undertreasurers to account for the seignorage.³ A new indenture was made which, read in conjunction with that of 1542, appears to have further debased the English silver standard, but which, in view of the alloy actually used in 1542 according to the Mint accounts, really improved it a little. The standard was now rounded up to 9 oz. fine, that is to say, three-fourths of the whole was fine silver. Allowing for the cost of the alloy this mixture was valued at a trifle over 39s. 3*d.* a pound, which was about equivalent to 48s. *od.* for sterling silver, and the King took just over 8s. 8½*d.* for every pound weight coined, out of which he paid the expenses. The gold continued to be dealt with as before except that the King bore the cost of minting.⁴

In the next ten months nearly £150,000 worth of silver coin and £166,000 worth of gold were turned out, and the King's net profit was over £30,000. This, following upon the

¹ Ruding, 1544, dates this proclamation 16 May 1544 on the strength of statements by Stow, Cooper, and Holinshed, and an account in the Stafford MSS. That this date is not incorrect by many days is clear from other contemporary transactions. See L. and P. xix, pt. i, 528, and xix, pt. ii, App. 7.

² L. and P. xvii. 267, *sub anno* 1544; P. R., 1 Ed. VI, pt. iv, m. 24 d.

³ P. R., 1 Ed. VI, pt. iv, m. 29.

⁴ Mint Accounts, L. and P. xix.

comparatively small rise in the price of the metals, together with the fact that in the previous two years Bowes had been able to buy silver at 3s. 8½*d.* and gold at 45*s. od.*, makes it clear that there was no justification for the excuse that the enhancement of money in France had made the debasement necessary. Such an enhancement there had certainly been, of the Mint price of both metals, in 1540;¹ but silver coin had been flowing out for two years before that, due without doubt to Henry's coining of the spoil from the monasteries.

It should be mentioned, however, with regard to the King's motives for beginning the debasement, that, extraordinary as it may appear, he and the Council apparently thought that they could persuade continental nations to accept the bad coins at their face value. In July 1544, no more than two months after the new groats were first issued, the merchants of the Low Countries had discovered their baseness, and were offering a lower price for them. And letters were sent to Mary of Hungary, regent in the Low Countries, and to the petty rulers of Flanders requesting them to decree that the English coins should pass at their old values.²

Henry, in alliance with the Emperor, was now once again at war with France. He was also conducting a campaign against Scotland, and some of the first of the debased coins were sent northwards to pay the troops.³ After besieging and capturing Boulogne in 1544, he was deserted by the Emperor, and France was able to send help to the Scots and threaten England with invasion. In 1545 it was necessary to keep 120,000 men under arms in England during the whole

War with
France.

¹ W. A. Shaw, *History of Currency*, App. VI. This work is invaluable for reference upon the subject of changes in foreign currencies. Many of the author's views regarding the history of English currency, however, differ considerably from those set forth above. He says, for instance, with reference to the period now being dealt with: 'The coinage measures, therefore, of the year 1544, when justly considered, do not possess the aspect which has been generally attributed to them. It is incorrect to look upon them as the tentative beginning of that debasement of the coinage which disgraced the later years of the reign of Henry VIII and the days of his son Edward VI. The measures of 1544 were simply acts of justifiable self-defence and currency safe-guard' (p. 121). This statement cannot be squared with the facts given above.

² L. and P. xix, pt. i, 654, 763, 766, 836, 869.

³ *Ibid.*, 528.

summer, and ruinous hostilities continued until May 1546. In September 1545, Lord Wriothesley, one of the King's principal secretaries, said that Henry had spent in that year and the previous one about £1,300,000, of which the benevolences, and a subsidy granted by Parliament in January 1543, had contributed but £300,000.¹ The King was driven into the most desperate straits. Money was borrowed at 12, 14, and even 16 per cent.² The lands taken from the religious houses and the Church were sold. Commissions were signed for the sale of prizes taken in war, manumissions of bondmen, wardships, and marriages, and for the mortgaging of the royal domains to the citizens of London. Money was even squeezed from the Frenchmen living in England by ordering them to quit the country or become registered denizens at a high fee. Finally all the lead in the kingdom was seized and transported to the coast to be sold for export. It is little to be wondered at that, having started at such a time upon the debasement of the coinage, the King should have worked the Mint for all it was worth.

Silver of
6 oz.

By the end of March 1545 the increase in the quantity of money had begun to raise prices, including the price of the precious metals, and the flow of bullion to the Mint was beginning to diminish. On 27 March, therefore, the Mint price of fine gold was raised from 48*s. od.* to 50*s. od.* an ounce, and of fine silver from 4*s. 4d.*, the equivalent of 4*s. od.* for sterling silver, to 4*s. 8d.*³ At the same time the fineness of the gold was reduced to 22 carats, and of the silver to 6 oz., that is to say it became half silver, half alloy. The weight of the silver coins was allowed to remain as before, but the denomination of the gold was raised, so that a pound troy was coined into £30 of money. Sovereigns of 20*s. od.* weighing 192 gr., half-sovereigns, crowns, and half-crowns were minted.⁴ The King was able to take as his profit 50*s. od.* of every pound weight of gold coins, and 20*s. od.* of every pound of silver coins, out of which the expenses of coining were

¹ L. and P. xx, pt. ii, 366.

² *Ibid.*, xix, pt. ii, 30, 108, 159.

³ No proclamation of this is traceable, but it is clear from Mint Accounts, L. and P. xix, that these were the prices paid.

⁴ Lowndes, p. 43.

paid. The Mint bought a pound of fine gold for £30, substituted an ounce of alloy for an ounce of gold, and coined the mixture into £30 of new money, leaving the King his ounce of gold at 50s. *od.* It bought also a pound of fine silver for 56s. *od.*, added a pound of alloy, and coined the mixture into 96s. *od.* of new money, making a gross profit of 20s. *od.* a pound. The new price for gold was not high enough to keep up the supply for more than a few months, and consequently, in January 1546, it was raised to 51s. *od.*, which reduced the gross profit to 39s. *od.* a pound. The new price for silver, on the other hand, was so high as to cause an unprecedented rush to the Mint.

Whether or not the King deliberately raised the price of silver more than would have been necessary merely to keep the Mint busy it is impossible to say; but it is certain that his doing so furnished him with a new borrowing-power. There had been complaints at an earlier date of the masters of the Mint using the money of those who had brought bullion to be coined in their own businesses, and delaying the issue of it. The King himself now began to do this upon a grand scale. As the coins were produced, instead of merely taking his seignorage and allowing the balance to be paid out, he borrowed the whole upon the security of seignorage to come, without letting the owners know he had done so. It was a desperate proceeding. The whole net amount of profit due to him from the Mint in the year which ended 31 March 1546, was just over £84,000. By the beginning of November 1545 more than half of this profit had been received, and in addition a further sum of nearly £70,000 had been borrowed from the money turned out. Deliveries were three or four months and even longer in arrear. Summing up the financial position in September, Wriothesley said: 'Though the King might have a greater grant than the Realm could bear it would do little to the continuance of these charges this winter, most of the subsidy being paid, the revenues received beforehand, and more borrowed from the Mint than will be repaid these four or five months.' 'I send herewith', he wrote to Paget, 'the state of the treasurers. . . . Show them to the King, but keep that of the Mint to yourself, for if it should come

Borrowing from the Mint.

out that men's things coming thither be thus employed, it would make them withdraw, and so bring a lack. That office hath marvellously served the King's Majesty.' Again in November he warned Paget: 'Of the Mint, if you take a penny more these three months (within which they shall pay half the debt) men will withdraw their resort thither. . . . By forbearing three months . . . we shall be able to shift there again for £10,000 a month for four or five months.'¹

Yet, amazing as it seems, men did not 'withdraw their resort' from the Mint, even at the end of 1545. Although the King had declared that he must enhance the prices of the metals or the nation would lose its coin, and although the price of silver had been raised by no more than one-sixth and the price of gold by little more than one-ninth, yet the Mint was kept working at top pressure for eighteen months, and moneymen were sent for from Antwerp to help.² Merchants found it profitable to have their bullion minted into a debased coinage at the prices offered, even though compelled to wait three or four months for their money. Some were even prepared to pay heavy bribes to secure the exchange of bullion for coin at the Mint price immediately. The King, we learn, proposed to grant one Martin Pirry the privilege of bringing £2,000 worth of bullion to the Mint every month for four years, and of receiving coin for it within four days. Just what Pirry had done to deserve this privilege is not clear, except that he had offered the King a piece of advice. He had reminded Henry that Kings of England, heretofore, when they had captured a foreign town, had generally set up a mint there, so that the coins stamped might be a perpetual memento of the capture of the town by an English king. Henry therefore, he suggested, should signalize the capture of Boulogne by opening a mint and issuing coins, making them, incidentally, of a much baser metal than he had yet dared to circulate in England, so that the inhabitants might have something by which to remember the occasion. Wriothley opposed the grant of the licence, and it was withdrawn. 'If the King would venture great loss by so preferring one man', he said, 'he may have for such a licence 2,000 marks.'

¹ L. and P. xx, pt. ii, 366, 453, 769.

² *Ibid.*, pt. i, 930.

Wriothesley himself had been offered £100 to get a man the exchange of £500 a month for six months, paid within six days, and he was sure 'that Mr. Cofferer¹ had been tempted that way too'.²

By March 1546 the stream of bullion flowing to the Mint was thinning a little, but even then the King did not find it necessary to raise the Mint prices any further. He determined merely to use to better advantage the smaller quantity of good metal which came in. On 1 April, therefore, the fineness of the groat was reduced to 4 oz., and of the gold to 20 carats. With fine silver at 4s. 8d. an ounce and fine gold at 51s. od., there was then a gross profit of 29s. 4d. upon every pound weight of silver alloy minted, and £4 10s. upon every pound of gold.³ More than half of the silver coins turned out were taken as seignorage. Though much less silver was used the total gains were for a time as large as before; but they could not continue. A rise in the Mint price was overdue. The inflation of money was making itself felt. Silver and gold were becoming dearer. Soon the springs of metal ceased to flow, and in September the Council declared that the Mint was drawn dry.⁴

On 1 October an attempt was made to revive the influx of gold by raising the price another shilling and reducing the seignorage to £4 a pound; but the result was small. Considerable profits might still have been reaped without further debasing the standard of either metal if appreciably higher prices had been offered for bullion. But the game finished abruptly so far as Henry was concerned with his sudden death on 28 January 1547. The Council, faced with the debt to the Mint and the necessity of making issues of coin sooner or later to pay for bullion left there, abruptly raised the price of silver on 5 April to 5s. 4d., and the price of gold to 58s. od. The profit was thus reduced to 26s. 8d. and 20s. od. a pound respectively, but so far as silver was concerned the rise was not sufficient, and in the next six months only a small

¹ Sir Edmund Peckham.

² L. and P. xx, pt. ii, 729, 746, App. 16. Martin Pirry was subsequently appointed Master of the Irish Mint, where he was able to experiment with base money to his heart's content.

³ Mint Accounts, L. and P. xix.

⁴ L. and P. xxi, pt. ii, 19.

quantity was issued. Gold came in in large quantities, but now that Henry was gone the soundness of his policy began to be questioned. In June a pathetic attempt was made to get back to good money by coining gold of 23 carats and silver of $10\frac{1}{2}$ oz.; but it was abandoned before any coins were issued, 'by reason of the King's urgent affairs'. At the end of September, however, the coinage of 4 oz. silver and 20 carat gold was suspended, and for a time the Mint relapsed into idleness. The first stage of the Great Debasement was complete.¹

Summary
of Henry
VIII's
debase-
ment.

Let us then make a general summary of the coinage transactions of this period down to the point we have reached. In the first place it may be noticed that, while at no time between 1542 and 1547 was it possible to sell to the Mint at a profit the silver from any of the better kinds of silver coin except those issued under the old indenture of 1526, many of the gold coins issued at the commencement were certainly recoined later. The best silver coined in the period was 9 oz. fine. In that issue an ounce of pure silver circulated at 5s. 4d. The highest price offered for pure silver at the Mint was 5s. 4d., beginning on 5 April 1547. It was still unprofitable, therefore, to remint even the 9 oz. coins. On the other hand an ounce of fine gold was given a denomination in the 23 carat coins of 50s. 1d., in the 22 carat coins of 54s. 6½d., and in the 20 carat coins of 60s. 0d. From 1 January 1546, when the price of fine gold went up to 51s. 0d., it became profitable to sell full-weight coins of the 23 carat standard to the Mint; and from 1 April 1547 when the price rose to 58s. 0d. it became profitable to sell 22 carat coins as well, always assuming, of course, that these coins were still passing at their face value and not above. This probably explains the considerable coinage of gold in 1547. It was largely a re-coinage of the earlier issues.

In the previous chapter it was suggested that when Edward IV made his drastic reduction of the weight of the groat in 1464, not more than one-half of the total amount of silver coin in circulation was dealt with in the resulting re-coinage. If this is true the circulation was then perhaps

¹ Mint Accounts, L. and P. xix.

£250,000 to £300,000. In the five years which followed the reduction of weight in 1526 a total of just over £300,000 of new coin was issued, and it is safe to say that on this occasion also, although the value of silver was no longer rising rapidly, and therefore a larger proportion of the old coins probably came in, some were again missed. While Cromwell was in power a large amount of silver was minted, but most of it, being redundant, was exported. Allowing, however, for the slow but steady growth of trade and industry, it will not be unreasonable to suppose that in 1542 there was in circulation in England at least £400,000 worth of silver coin.

The table on p. 58 gives the main figures of the coinage operations between 1 July 1542 and 30 September 1547. The silver alloy was coined throughout at the rate of 48s. *od.* to the troy pound. The gold was coined at £28 16s. down to 31 March 1545, and then at £30. The profit shown in the table is taken from the accounts. It is in excess of the bare seignorage, charged according to the rates laid down, because the King took full advantage of the various remedy allowances, and, in fact, made the coins somewhat worse even than the nominal weight and fineness.

It is fairly certain that by the end of 1547 none of the silver coins of the standard of 1526 remained in circulation. If clipped of 25 per cent. of their weight they might still have been sold to the Mint at a profit. Therefore the net effect of the Mint's activities since 1542 seems to have been to substitute about £526,000 of bad coin for about £400,000 of good. The increase of quantity was moderate, and the fall in the value of the pound was, at the death of Henry VIII, moderate also. According to the lists of Thorold Rogers prices had risen only about 20 or 25 per cent. by the end of 1547.

The period from the death of Henry VIII to the accession of Elizabeth is one of good resolutions, of vain attempts to put the coinage to rights, and of backslidings into the old vice of debasement. Owing to the incompetence of ministers and the crushing burden of debt, amounting to more than £1,200,000, which Henry had bequeathed to his children, no really successful effort of reform was made.

STATISTICS OF THE DEBASED COINAGE, 1542-1547

<i>Date.</i>	<i>Metal.</i>	<i>Fineness.</i>	<i>Total Face Value of Coins.</i>		<i>Gross Profit.</i>			<i>Expenses of Coining.</i>			<i>Net Profit to the King.</i>		
			£	s.	£	s.	d.	£	s.	d.	£	s.	d.
1 July 1542 to	Gold	23 carat	15,595	4	649	16	0	137	16	6	511	19	6
31 Mar. 1544	Silver	8·3 oz.	52,927	4	8,821	4	0	22	10	11½	8,798	13	0½
1 June 1544 to	Gold	23 carat	165,931	4	7,922	1	3	886	13	0	7,035	8	3
31 Mar. 1545	Silver	9 oz.	149,287	4	28,179	16	10	4,872	1	6½	23,307	15	3½
1 Apr. 1545 to	Gold	22 carat	206,085	0	17,209	18	3	1,485	2	10	15,724	15	5
31 Mar. 1546	Silver	6 oz.	176,155	4	75,538	15	6	6,952	16	0	68,585	19	6
1 Apr. 1546 to	Gold	20 carat	107,580	0	16,527	17	0	1,987	5	7	14,540	11	5
31 Mar. 1547	Silver	4 oz.	120,240	0	75,074	11	8	4,078	13	8	70,995	18	0
1 Apr. 1547 to	Gold	20 carat	107,190	0	4,702	11	8	1,915	3	3	2,787	8	5
30 Sept. 1547	Silver	4 oz.	27,872	8	15,871	15	8	781	12	9	15,090	2	11
TOTAL GOLD			602,381	8	47,012	4	2	6,412	1	2	40,600	3	0
TOTAL SILVER			526,482	0	203,486	3	8	16,707	14	10½	186,778	8	9½
GRAND TOTAL			1,128,863	8	250,498	7	10	23,119	16	0½	227,378	11	9½

The whole country was by now fully aware of the debased condition of the money. The coins of all degrees of fineness, beginning with those of 9 oz., had been 'blanched' before being issued; that is to say they had been coated with silver to improve their appearance. Blanching was of little use, however, when the money was only one-third silver. It required very little wear to make the copper show through. A rhyme of the period runs:

These testons look red, how like you the same?
 'Tis a token of grace: they blush for shame.¹

The Mint price of fine silver had been raised in April 1547 to 5s. 4d. an ounce; but even this soon ceased to attract metal. From September 1547 until June 1549 the Mint was inactive, and a show was made of an intention to reform the money. Testons, being the largest silver coins, were the most liable to be counterfeited. In April 1548, therefore, a proclamation was made calling them into the Mint, where they were to be exchanged for small coins at face value.² No real effort seems to have been made, however, to enforce this.

In the summer of 1549 all pretence of carrying out a reform was abandoned, and it was decided that the Mint should be set to work again to help to pay the King's debts. The plan was to make coins containing as little silver as before, but to improve the fineness by reducing the weight. Presumably it was hoped that finer and smaller coins would be less easily counterfeited. The indenture provided for testons of 6 oz. fineness, weighing 80 gr., but groats and smaller coins remained of the old weight and of 4 oz. or at best 5 oz. fineness; and the new testons contained no more silver than the old ones of 4 oz., for these weighed 120 gr.

Silver for the coinage was purchased in the market at the current price of about 6s. 6d. an ounce. As it circulated in the coins at 12s. 0d. an ounce the gross profit was 9s. 2d. upon every £1 of money. Thus it was once again from the silver that most of the profit for the Exchequer came, although gold coins were minted as well. Their fineness was raised to

Edward VI's debasement.

¹ John Heywood's *Epigrams*. Quoted by Ruding, 1546.

² R. Grafton, *Proclamations of Edward VI* (London, 1550).

22 carats, but the weight of the sovereign was reduced from 192 to 169·4 gr.; and fine gold circulated at 61s. 10d. an ounce, instead of 60s. 0d. The price actually offered for an ounce, however, was raised to 60s. 0d., and the gross profit remained as before at £1 per pound weight of coin, though this was £1 in £34 of money instead of in £30. The smaller coins were not quite in proportion, the half-sovereign weighing 86·0 gr., the crown 42·4, and the half-crown 21·2.¹

The rise of prices now began to be serious. In July 1549 the peasants of Norfolk, Devon, and Cornwall rose in revolt, complaining of the price of victuals as well as of the enclosures and the religious changes.² The Merchant Adventurers appeared before the Council to give their views upon the decay of the coinage.³ Maximum prices were fixed by proclamation for grain, butter, cheese, poultry, and many other commodities.⁴ Nevertheless the mints began pouring forth base coin again as rapidly as ever. Edward's advisers fed them with material by robbing the churches of the remnants his father had left. A considerable portion of the 400,000 crowns paid by France for the return of Boulogne was used to buy silver in Flanders for the English mints. No exact figures of the issues are available, but it seems clear from the accounts relating to Elizabeth's recoinage that between the summer of 1549 and the summer of 1551 about £1,000,000 of this money was minted. The old gold coins circulated at fancy values. The few 9 oz. testons that remained passed for 2s. 0d. The price of silver rose, and the masters of the mints, who had contracted to supply it for the coinage at 6s. 6d. an ounce, began to make losses. From 1 April 1550 it was necessary to pay them 7s. 2d., and from 1 October, 10s. 0d. Thus the gross profit upon the coinage fell, first to 8s. 0½d. in the £1 of money, and then to 3s. 4d.⁵

¹ P. R. 3 Ed. VI, pt. iii, 22 d; *The Journal of Edward VI* (Clarendon Historical Society's Reprints, New Series, No. 1), 8 July and 10 October 1549; Ruding, 1549; Lowndes, p. 46.

² Ket's Rebellion. See the report of a conversation between the Emperor's Ambassador and the Protector, State Papers, England and Spain, 19 July 1549.

³ Acts of the Privy Council, 28 April 1550.

⁴ The King's Journal, 19 Oct. 1550.

⁵ *Ibid.*, 1 Mar. 1551; Acts of the Privy Council, 12 Aug. 1551.

While the profits from the mints diminished however, the King still remained in debt; and the discontent aroused by the rise of prices and by the condition of the coins made it more and more necessary to give some sign of an intention to reform. The Earl of Warwick, afterwards Duke of Northumberland, was now at the head of the Council. The scheme that was devised, and for which he seems to have been mainly responsible, was a most remarkable one. 'It was appointed', says the King in his Journal, 'to make 20,000 lb. weight for necessity somewhat baser, to get gains £160,000 clear, by which the debt of the Realm might be paid, the country defended from any sudden attempt, and the coin amended.' The idea, in short, was to debase the coinage still further in order to reform it.

A plan
for
reform.

In view of the general financial condition both of the Exchequer and of the whole country, the plan was obviously an ambitious one. The Council proposed to mint £160,000 worth of coin of 3 oz. fineness, to use a part of it for paying some of the King's debts, and the balance for purchasing a reserve of treasure. This reserve would serve in an emergency, and would also allow the system of making all payments by warrants upon future revenue to be abolished. Thus the Exchequer would be brought back into the happy position of really possessing a war chest, a position in which it had not been since Henry VIII squandered his father's hoard—nay, hardly for any length of time since the days of Edward I. Further, a part of the hoard at the outset was to be in silver bullion with which to commence a recoinage.

When the £160,000 of 3 oz. coin had been disbursed, the whole of the money in circulation, new and old, was to be called down, at first to two-thirds and then to one-half of its face value; and the stock of bullion was to be coined into money of a finer sort, and used for purchasing old coins at the lower proclaimed value. It was hoped that, as these coins came in, sufficient fine silver would be obtained from them to enable the Mint to continue purchasing base money at half its face value, with new money of a purer metal, until the whole of the coinage was reformed.¹

¹ That the Council really hoped to do all this seems clear from a letter of Warwick to the Council on 16 June 1551. (Salisbury MSS., pt. i, 358.)

The new testons which were to be issued to provide the necessary funds to carry out this plan were to be of the reduced weight of the 6 oz. coins of 1549, and of only 3 oz. fineness. To 3 oz. of fine silver, purchased at 10s. *od.* an ounce, the Mint was to add 9 oz. of alloy; and from the resulting pound weight of metal to coin 72 testons of 80 gr. each. The profit would be 11s. 8*d.* in every £1 of money. This was about 6*d.* less than Henry VIII had made upon his first 4 oz. coins; but never at any other time has an English shilling contained so little silver.¹

The money called down. The scheme was devised in April 1551. On 30 April a proclamation was issued announcing that on the last of August the shilling would become 9*d.* and the groat 3*d.*² At about the same time the new coins began to be issued. Their appearance caused something of a panic, of the sort which we should nowadays call a 'flight from the pound'. Commodity prices gave a sudden leap. The exchanges fell at once by several points. Murmurings and protests arose everywhere, and the people stubbornly refused to believe that this further debasement could be the first step to reform.³ In the middle of June the Council wavered a little, and gave orders, when £80,000 had been coined, to cease minting the 3 oz. silver and hold in reserve the remainder of the bullion which had been provided.⁴ Three days later, however, the need for further expenditure upon fortifications at Berwick and Calais caused a resumption of the issue, and brought the total up to £130,000 before it finally ceased in July.⁵ On 8 July a new proclamation was made putting into force at once the lower denominations of the coins, in view of the sudden increase of prices; and on 17 August the shilling was called down to 6*d.*, the groat to 2*d.*, and the smaller coins in proportion. At the same time the people were scolded for not appreciating the praiseworthy intentions which lay behind the Council's actions.⁶

See also the King's Journal, 15 April, 30 May 1551; S. P., E. and S., June 1551.

¹ Lowndes, p. 47; Ruding, 1551.

² P. R., 5 Ed. VI, pt. iv, m. 26.

³ S. P., E. and S., June 1551.

⁴ Acts of the Privy Council, 15 June 1551.

⁵ The King's Journal, 18 June 1551; Acts of the Privy Council, 17 July 1551.

⁶ P. R., 5 Ed. VI, pt. iv, m. 26.

It was in the summer of 1551 that the value of the pound touched the lowest point reached during this period of depreciation. It is not easy to give any satisfactory statistical measurement of the changes which occurred, but it may be useful to set down the facts which are available.

The pound at its lowest.

One symptom of the fall of the pound was the rise in the price of the gold coins. As early as 1547 we read of the diversity of the rating of angels and other gold pieces, but what the rates were is not stated.¹ In April 1549, when the lighter sovereigns were issued, the angel, which weighed 80 gr., and had been 7s. 6d. until 1544, was officially called up to 9s. 8d.; and to buy and sell gold coins at a price above their proclaimed value was forbidden upon pain of forfeiture of ten times the amount.² In August 1550, the French crown, which ten years before had been worth 5s. od., and which weighed 54 gr., was proclaimed current at 7s. od.; and this was equivalent to about 10s. 5d. for the best angels. In December the crown was called down again to 6s. 4d., it being supposed that the high official rating had affected adversely the foreign exchanges; but in spite of this the French coin was bought up unofficially at 7s. 3d. and 7s. 4d. and exported at a profit.³ After this we hear no more in Edward's reign of the prices of the gold coins, and the reason is made clear in several contemporary documents: they had all been melted, hoarded, or exported. Thus yet another of the common features of currency inflation was present on this occasion: the disappearance of gold.

Alongside the price of the coins we may notice also the price of the metals. In 1542 fine gold had been 45s. od. an ounce. In 1544 the Mint offered 48s. od.; in March 1545, 50s. od.; in January 1546, 51s. od.; in October 1546, 52s. od.; in April 1547, 58s. od.; and in June 1549, 60s. od. There is no doubt that this last price did not attract metal, and soon the coinage of gold ceased. At what price it was dealt in during the next two years it is impossible to say, but there can be no doubt that the level was much higher than 60s. od.

¹ Ruding, 1547.

² Grafton's Proclamations, fol. xxx.

³ Grafton's Proclamations, and William Lane to Cecil, S. P. Domestic, xiii.

Fine silver in 1542 was 4s. *od.* an ounce in the open market. In 1544 the Mint offered 4s. 4*d.*; in March 1545, 4s. 8*d.*; in April 1547, 5s. 4*d.* In June 1549 the Master of the Mint could not purchase at less than 6s. 6*d.*; in April 1550 the price was 7s. 2*d.*; and in October 1550, 10s. *od.*

A few facts are also available regarding the exchange. In the early part of the reign of Henry VIII a pound sterling in London would purchase as much as 32s. *od.* Flemish in Antwerp. The war with France which began in 1522 caused a depreciation of English money which was perpetuated by the reduction of the weight of the coins in 1526. Afterwards the exchange fluctuated around 26s. 8*d.* By April 1547, we learn, there had been a fall of 20 per cent., presumably to about 21s. 4*d.* Gresham states that the lowest point reached was 13s. 4*d.*, probably about June 1551, when the worst coins of all were being issued. Later in that year there was a slight recovery to 15s. *od.* or 16s. *od.*¹

A rough measure of the changes which occurred in commodity prices may be obtained from the lists of Thorold Rogers. The following table gives a series of index numbers for the prices of thirteen commodities during the period we are considering, as compared with the average for the four years 1538-41. The data upon which they are based are insufficient to give them any pretence to great accuracy, but they will serve to illustrate the principal changes.²

COMMODITY-PRICE INDEX NUMBERS

Year.	Index No.	Year.	Index No.	Year.	Index No.	Year.	Index No.
1538-41	100·0	1547	116·4	1553	173·6	1559	191·8
1542	103·4	1548	141·5	1554	194·3	1560	195·2
1543	109·5	1549	163·0	1555	212·9	1561	205·0
1544	108·8	1550	168·8	1556	213·5	1562	192·9
1545	124·6	1551	202·3	1557	185·2	1563	211·0
1546	119·2	1552	191·8	1558	185·5	1564	194·9

¹ S. P., Calais, Ed. VI, 103; Burgon, *op. cit.*, vol. i, App. XXI.

² The commodities chosen are: wheat, oxen, muttons, boars, stock-fish, Gascony wine, salt, candles, charcoal, laths, lime, tiles, and board nails. The index numbers are simple averages without weighting, the average price for the period 1538-41 being taken as 100.

Considered together, the movements of commodity prices, the prices of the metals, and the exchange are found to be in much closer agreement than perhaps might have been expected. It seems fairly safe to summarize the effects of the debasement and inflation of the coinage down to June 1551, by saying that at the death of Henry VIII the depreciation was only about 20 per cent.; that by the end of 1549 money had lost perhaps one-third of its value; that during 1550 and the first half of 1551 the fall was much more rapid; and that at the worst, just before the coins were called down, the pound would purchase probably a little less than one-half of the commodities obtainable in 1542.

Several earnest deliberations were now held as to the best method of conducting the recoinage. There were still circulating a few coins of 9 oz. and 8 oz. fineness, the teston being called *2s. od.* or more. There was an enormous number of lighter ones of 6 oz., some of 4 oz., and £130,000 worth of 3 oz. In October 1551, it was decided to mint new ones of 80 gr., but of 11 oz. fineness, and offer them in exchange for the old ones, which, whatever their fineness, were to be purchased at *6d.* each.¹

North-
umber-
land's
attempt
at reform.

The response was not satisfactory. In the following March, therefore, it was decided to offer better coins still for the bad ones. A new standard, 11 oz. 1 dwt. fine and of increased weight, was ordered. The pound troy of this alloy was made into £3 worth of money. The teston of *12d.* thus weighed 96 gr. instead of 80, and fine silver was rated at just over *5s. 5d.* an ounce. At the same time a new gold coinage was introduced. Sovereigns were minted of the old standard of 23 carats $3\frac{1}{2}$ gr., weighing 240 gr., to be current for *30s. od.*; and angels of 80 gr. to be current for *10s. od.* Also sovereigns of crown gold, that is to say, of 22 carats, weighing 174.5 gr., were issued at *20s. od.*, with crowns and half-crowns in proportion. Fine gold was thus rated at practically the same price as before: *60s. od.* an ounce.²

¹ The King's Journal, 6, 20 Sept., 1, 13 Oct. 1551.

² Ruding, 1552, and Lowndes, p. 48. See also the address of Humphrey Holt to the Council, Harleian MSS., 660, quoted by Froude, *History of England*, 1875 edn., vol. v, p. 250.

As an attempt at a reform of the coinage the scheme was a failure; but as a measure of deflation to raise the value of money it achieved more success than has generally been recognized. Early in 1551 fine silver was 10s. *od.* an ounce. The testons of Henry VIII of 9 oz. fineness were worth as bullion at this price, 1s. 10½*d.*; those of 8 oz., 1s. 8*d.*; those of 6 oz., 1s. 3*d.*; and those of 4 oz., together with Edward's lighter 6 oz. coins of 1549, 10*d.* Who then was likely to sell any of them to the Mint at 6*d.* each? The only persons likely to do so were those who wished to get the new coins to melt down. With silver at 10s. *od.* an ounce new sixpences were worth 11*d.*, or 1*d.* more than the 4 oz. testons for which the Mint offered to exchange them. Henry's 9 oz. and 8 oz. coins had been disappearing rapidly for some time before August 1551. The calling-down of testons to 6*d.* drove out the remainder, together with most of Henry's 6 oz. coins and some of the 4 oz. pieces as well. A few of the last named perhaps went to the Mint and were exchanged for new ones, which immediately disappeared; and so the general effect of calling down the money was to get rid of all but the 4 oz. and 3 oz. coins, and the smaller ones of 6 oz. of Edward's minting. The volume of currency was reduced and commodity prices began to fall.

At the same time the Council adopted other measures of deflationary policy. A campaign of strict economy in state expenditure was initiated. All the officers responsible for collecting and disbursing revenue were called upon to render accounts forthwith, with a view to discovering leakages. The mounted artillery that was costing £20,000 a year was disbanded. Foreign ambassadors were no longer provided with lodgings, and were told that in future they must provide their own. The King, to set a good example in economy, reduced the standard of hospitality at his table. A proposal was mooted for taxing those foreigners who had an English domicile 6*d.* a week, and those who had none, 1s. *od.* Another raid was made upon the churches, even the bells being taken and sold. Sir Thomas Gresham was allowed to put into operation a scheme of his own for supporting the exchange; and, as a result of all these measures, as much coin as possible

was collected together and stored in the Tower and the Jewel House at Westminster.¹

Some people thought the whole scheme had been devised by the Duke of Northumberland to serve his own ambitious ends. Some believed that a further debasement of the coinage was afoot, and that the better pieces in circulation were being collected for that purpose. 'Others opine', wrote Jehan Scheyfve, the Emperor's Ambassador, 'that the operation is intended to raise the price of exchange as a consequence of the scarcity of coin; and that the price of victuals may fall as a result'. There seems to be little doubt that the plan was an honest attempt by the Council, in consultation with merchants and others with expert knowledge, to reform the currency; and that the prime movers were the Duke and Sir William Cecil, with the advice and assistance, in matters of external finance, of Sir Thomas Gresham. No account of the monetary history of this period would be complete without some details of the activities of Gresham.

Gresham was about 32 years old in December 1551 when he received his first official appointment as Royal Agent in Flanders, an office which, with the rise of Antwerp to financial pre-eminence, had become of considerable importance. Henry VIII had borrowed large sums from the Flemish bankers, and Edward VI had failed so far to free himself from these debts. The loans were generally for six months, the rate of interest being 14 per cent.; and Gresham's principal task was to secure the renewal of this accommodation when the period elapsed; or, failing that, to borrow from one banker to pay another. Every attempt to discharge the debts sent the already depreciating exchange down more rapidly; the King's credit in Antwerp was steadily getting worse, and the mere fact that his difficulties were common knowledge upon the bourse lowered the price of sterling as the six-monthly periods came round. Moreover the Emperor was borrowing in the same market at 16 per cent.

In August 1552 the amount owing was about £110,000, and Gresham, who was preparing for a renewal at the end of September, told Northumberland plainly that unless some

Gresham
and the
exchange.

¹ S. P., E. and S., vol. ii, Letters of Jehan Scheyfve, Nov. 1552-May 1553.

other method of meeting these liabilities was devised the difficulties would soon become insurmountable. Gresham saw plainly the serious effect which a depreciating exchange was having upon the value of money at home, and the very great assistance it would be to the measures which were being taken at home, if the movement could be turned upwards.

'As it rises,' he said, 'the commodities in England fall, and vice versa; and if it rises, it will be the right occasion that all the precious metals shall remain in England, and the mean that all other rulers should bring in gold and silver as heretofore they have done. The consideration of this fluctuation is one of the chiefest points in the Commonwealth that his Grace should attend to.'¹

Gresham's suggestion at first was that £200 or £300 should be placed at his disposal daily, to sell for Flemish currency in Antwerp. It would not be sufficient to affect the exchange, and in less than two years at this rate the debts would be cleared off. The plan was adopted for a while, but it soon became merely subsidiary to a much more heroic scheme.

The trade with Antwerp was in the hands of the Merchant Adventurers and the Staplers, who were in the habit of collecting their vessels into a fleet and sailing to reach the Flemish port in time for the periodical marts. In strictness they were bound to bring back either goods or bullion equal in value to their exports, for all exchange transactions were now forbidden.² Gresham received secret information from all the exchange brokers, and could inform against any English merchant who transgressed. During the autumn of 1552, when the exchange was at 16*s. od.*, and the merchant fleet was about to sail, he arranged with the Council that they should bargain with the merchants to pay to him the equivalent of £60,000 in Antwerp out of the proceeds of their cloth, in return for a payment of that sum in London at a somewhat later date. The rate was to be 15*s. od.*, which would be for the merchants a little better than the ruling rate, and for the King also a trifle better than the rate he was likely to get if he took up so large a sum all at once through the ordinary channels.

¹ S. P., Foreign, Ed. VI, 655.

² An old statute of Richard II forbidding the use of bills of exchange was revived in 1551.

At the same time it placed in Gresham's hands a fund which he appears to have used forthwith to raise and peg the exchange somewhere in the neighbourhood of 19s. *od.*, aided no doubt by the other deflationary measures which were being taken at home. When the rate tended to fall, he refused to allow any English merchant to sell sterling in Antwerp on pain of being denounced to the King, and he himself set all the brokers selling Flemish. In April 1553 a second operation of the same kind was carried out, and this time the merchants were given no advantage. They received permission to sail only upon agreeing to pay to Gresham in Antwerp the equivalent of £70,000 at 22s. *od.*, although the market rate had so far not gone above 20s. *od.*; and this money Gresham used as before to raise the exchange to 23s. *4d.* In the meanwhile he had succeeded in securing a sufficient surplus of Flemish money at rates varying from 15s. *od.* to 22s. *od.* to pay off the whole of the King's debts.¹

Edward VI's efforts to reform the currency are generally compared unfavourably with those of Elizabeth. He certainly failed to remint the base money, and his failure was due to three causes. Firstly, the price of silver was much too high to permit coins as fine and as heavy as his new ones to stay in circulation. Secondly, he offered the same low price for the better coins as for the worse. Thirdly, he did not fix a date for the termination of the legal currency of base money, nor take vigorous action to get it brought in. But nearly all of the other measures which have been detailed above are those with which we in modern times are familiar as essential for raising the value of money towards its old level; and this has usually been regarded by old-fashioned theorists as the only sound and honest policy. In 1553 prices fell, according to our table, to only 74 per cent. above the basic level. In September of that year Jehan Scheyfve, commenting upon the reforms, said the people were beginning to perceive their utility, 'the prices of victuals and marketable commodities generally having diminished already by more than one-third'.²

¹ For Gresham's exchange operations see Burgon, *op. cit.*, vol. i, App. VII; S. P., Foreign, Ed. VI, 653, 655, &c.; Salisbury MSS., pt. i.

² S. P., E. and S., 9 Sept. 1553.

The exchange had risen above 20s. *od.*, and was remaining steady at that level. The whole of the external debt had been paid off. The price of silver was falling; and if it could only have been brought down to about 6s. *od.* an ounce it should have been possible, with a special effort, to sweep the major portion of the base money into the Mint and to recoin it without expense to the King.

Edward died on 6 July 1553, and the Duke of Northumberland was executed on 22 August. Who shall say that had they both lived a little longer they would not, with the aid of Cecil and Gresham, have completed in as notable a manner as Elizabeth did, the work they had begun?

The reign
of Mary.

Of the reign of Mary there is not much to be said. She made no attempt to reform the coinage, but she issued little, if any, base money.¹ Her new coins, indeed, were a little worse than the last ones of Edward, being of the same weight but of 11 oz. fineness only; but the mints were inactive during most of the reign.² Gresham was re-employed as agent and sent to Flanders again to borrow money. The value of sterling soon began to slip back. In 1554 and 1555 there were two exceptionally bad harvests, which quadrupled the price of corn, and which account for the rise in 1555 and 1556 of the index numbers of our table above the level of 1551. Except in these years prices did not rise again quite to the peak of 1551; nor apparently did the exchange fall as far as before. One thing was happening, moreover, which was of the utmost importance in the future when Elizabeth came to effect her reform. The full flood of silver was by this time pouring into Europe from America. The annual average production of the metal in the period 1545-60 is estimated to have been 3½ times as great as in the preceding period of twenty years.³ This undoubtedly helped to improve the exchange between England and the Continent and also to reduce the price of silver in England.

¹ Froude, *History of England*, vol. vii, p. 454, accuses Mary of 'pouring out a fresh shower of money containing but 3 oz. of silver'. Except for a few pence and smaller coins of this fineness issued in 1554, there is no record of any such issue in England. In Ireland during Mary's reign, as during many other reigns, base money was several times issued.

² Ruding, 1553; Lowndes, p. 49. ³ W. A. Shaw, *History of Currency*, p. 65.

CHAPTER IV
RESTORATION AND REFORM

WHEN Queen Elizabeth came to the throne in 1558 the bulk of the active circulation consisted of testons of the 1549 issue, most of which weighed 80 gr. and were of 6 oz. fineness. In total there was probably about half a million pounds' worth of these. Then there was about £75,000 worth of testons of 4 oz. fineness, weighing 120 gr., which were mainly of Henry VIII's stamp. These, like the others, contained 40 gr. of fine silver. Next there was £65,000 worth of Edward's 3 oz. coins of 1551, which weighed 80 gr., but contained only 20 gr. of silver. They were of the same stamp as the 80 gr. coins of 1549, and could be distinguished from them only with difficulty. Their denomination, like that of all the other testons, was 6*d*. Lastly there was an uncertain quantity of counterfeit money which could not be distinguished from good, and of small coins of varying weights, finenesses, and denominations; and the grand total of all the silver was perhaps £900,000.¹

Position
at Eliza-
beth's
accession.

During the last two years of Mary's reign something approaching stability seems to have been established. The quantity of currency was sufficient to maintain prices at about 100 per cent. above the pre-debasement level. What the price of fine silver was there is no direct evidence, but it seems likely that by now markets were adjusting themselves so that the bullion value of even the best coins was not above their face value. In that case the price of silver must have come down to about 6*s. od.* an ounce; a fall which could only have been due to the increased supply.

Elizabeth began by granting a commission on 31 December 1558 to Sir Edmund Peckham, who was now over 60 years old and had completed 40 years almost continuous service for the Crown, to make the same coins as her sister

¹ See the figures given on pages 58, 60 and 62, and the accounts in the Lansdowne MSS., 4, 25. The official estimate of the total was £1,200,000, but this was clearly shown to be too high by the figures of the recoinage. In comparing the figures above with those of the issues given in the last chapter, it must be remembered that all the coins had been called down by one-half.

had made. With him was joined Sir Thomas Stanley as Master of the Mint. Silver of 11 oz. fineness was to be minted at 5s. *od.* an ounce, gold of 23 carats $3\frac{1}{2}$ gr. at 60s. *od.* an ounce, and gold of 22 carats at 55s. *od.*¹

Plans for
the
restora-
tion.

This measure was quite ineffective, and very soon the possibility and method of effecting a recoinage became a question for earnest consideration. Cecil was now back upon the Council and had become its leader. As soon as possible he turned his attention to completing the work of Northumberland which had been so rudely interrupted. Secrecy being of the greatest importance he seems to have quietly approached a few judicious and discreet persons early in 1559 for their suggestions. In June 1560 a small commission, which included Peckham and Cecil, was formally appointed to inquire.² The Queen herself wrote a memorandum proposing to reduce the ounce of silver to its old denomination of the early days of Henry VIII, which was 3s. *4d.*, and to ordain that all coins should be current at this rate according to the silver they contained.³ Another scheme, by one Bumsted, submitted to Cecil by Paget, appears to have proposed once again that a sudden issue of base coins should be made in order to get funds to pay the costs of a recoinage. It is not surprising to find that Paget, who had been a member of the Council in 1551, 'liked not the device of Bumsted'.⁴ A Mr. William Humfrey submitted a lengthy dissertation upon troy weights, upon standards in general, upon the various coinages of Europe, and upon the rate at which silver was circulating in the base coins.⁵ A certain Fitzherbert, who may have been one of the sons of Sir Anthony Fitzherbert, author of the *Book of Husbandry*, sent in a scheme for calling down the coins, together with some calculations of the cost of reminting.⁶ Sir Thomas Stanley, Master of the Mint, put forward three plans, one of which resembled closely that which was ultimately adopted.⁷

All the proposals had one thing in common : they studiously

¹ Ruding, 1558.

² S. P. D., Eliz., xii. 67.

³ Froude, *History of England*, vol. vii, p. 456.

⁴ Salisbury MSS., pt. i, 567, 578.

⁵ Harleian MSS., 660, 25.

⁶ Lansdowne MSS., 4, 19.

⁷ S. P. D., Eliz., xiii, quoted by Froude, *op. cit.*, vol. vii, p. 458.

sought to save the Queen from all expense or loss. Most of them proposed to make the holders of base money bear, in addition to the loss due to baseness, the expenses of recoinage. Stanley alone, in one of his plans, would have relieved them of this. He suggested that the charges might be covered by dumping the worst coins upon Ireland.

Paget pressed the view that the new coins should not weigh less than those of Mary.¹ Sir Thomas Smith, one of the Secretaries of State and author of *The Commonwealth of England*, is said to have been responsible for the advice that the new silver should be, not 11 oz. or 11 oz. 1 dwt. fine, but of the old sterling standard of England, 11 oz. 2 dwt.² Gresham, who later rendered much practical assistance, seems to have confined his suggestions to advising strongly that the exchange should be supported by 'practising upon the merchants' commodities', as had been done before. There is no support whatever for the notion that it was he who persuaded a perplexed Government, by enunciating the principle known as Gresham's Law, to withdraw the base coins as the new ones were issued.³ In point of fact Gresham is hardly likely to have mentioned to the Council, except incidentally, this simple and elementary principle, which must have been well understood by Cecil and all who had any dealings with financial matters. The practice of sorting out and exporting or melting the better pieces had been carried on in England by merchants and goldsmiths for over two hundred years.

The great problem, indeed, was not how to get rid of the base coins, but how to get rid of them without expense to the Queen. If the Exchequer was to be saved from loss without making the new coins worse than those of Mary, the silver of which they were to be minted could only come from the base money in circulation, which somehow or other had to be swept into the Mint. It would not be sufficient merely to

¹ Salisbury MSS., i. 567.

² Cunningham, *The Growth of English Industry and Commerce*, 5th edn. (Cambridge, 1922), Sec. 178, footnote.

³ The principle was first called 'Gresham's Law' by Macleod, *Theory and Practice of Banking*, 5th edn. (London, 1892), vol. i, p. 152. Macaulay, *History*, vol. iv, p. 623, footnote, says that the first writer to notice that bad money drives out good was Aristophanes.

'Gresham's Law.'

declare the base coins no longer current and to drive them out of circulation, for silver could not be purchased in the market at a price which would permit of its being minted into good shillings of 96 gr. with the expenses covered. Further, if the base coins were to be recoined without loss, it was clear that the expenses could only be paid by making certain that every pound weight of base money brought in contained more pure silver than the money given in exchange for it.

The plan
adopted.

The upshot of all the discussion was a decision to restore the old sterling standard of 11 oz. 2 dwt. of fine silver in the pound, and to mint coins at the rate of 5s. *od.* from an ounce of sterling silver, the shilling to weigh 96 gr. Fine silver was thus rated at 5s. $4\frac{3}{4}d.$ an ounce, the better kinds of teston in circulation being worth at this rating nearly $5\frac{1}{2}d.$, and the 3 oz. ones of 1551, $2\frac{3}{4}d.$ To allow for wear and for clipping, and to cover the expenses of reminting, these coins were to be called down to $4\frac{1}{2}d.$ and $2\frac{1}{4}d.$ respectively.

It was realized from the first that the calling down of the money below its real Mint value would make it worth while to buy up the coins for export, and that if great secrecy were not maintained the whole scheme would thus be defeated. Also, once embarked upon, the recoinage must for the same reason be carried through as rapidly as possible. Therefore the ordinary workers of the Mint needed to be reinforced, and a quantity of new money prepared in readiness to pay out for the first base coins brought in. Gresham was once more busy between England and Flanders upon financial and other matters. In January 1560 he borrowed in Antwerp 200,000 crowns, a portion of which he was commissioned to smuggle across in bullion; but the Flemish merchants grew suspicious and for a time he went in danger of his life. It is probable, however, that he succeeded in shipping the bullion, for shortly afterwards he was sending over at great risk, secret cargoes of gunpowder and arms. In July he recommended to the Queen the German firm of Daniel Wollstat and Company to assist in the recoinage. They possessed facilities for refining 60,000 lb. weight of money a month, and were prepared to work for $6\frac{1}{4}$ per cent. of the fine silver dealt with, plus the copper that was not required. The

Queen accepted their services, though possibly not on these terms, and three months later all was ready.¹

On 27 September 1560 was published the famous proclamation 'for the valuation of certain base monies of this Realm called testons'.² It began by enlarging upon the evils of base money, and by setting forth the reasons for which the Queen had decided to abolish it. The first step, it said, was to reduce the base coins 'as nigh their value as might be'. Therefore, from the date of the proclamation, the penny should pass for three farthings, the twopence for three halfpence, and the teston for $4\frac{1}{2}d.$; except the baser sort of teston marked with a lion, a rose, a harp, or a fleur-de-lis, which was to be current for $2\frac{1}{4}d.$ This last kind was estimated to form not more than one-sixth part 'of the whole base testons coined within this Realm', and was to continue current for another four months only.³ Further the Queen offered to exchange new money for old at these rates at the Tower Mint, and to pay a bonus of $3d.$ for every $20s. od.$ worth of base money brought in.

The
procla-
mation.

The proclamation, which was followed almost immediately by a more elaborate memorandum explaining fully the reasons for the action taken, is sometimes said to contain the statement of Gresham's Law prompted by Gresham. There are several equally good statements of the principle in petitions presented to the Parliaments of Edward III and Richard II.⁴

In anticipation of attempts to buy up the base coins and melt them, the proclamation reminded people of the laws against melting and export. The fears on this score were not groundless, for enterprising persons began at once, and bought up large quantities. The success of the scheme being thus endangered, the Council took prompt and vigorous action. On 9 October it was proclaimed that any person who

¹ Burgon, *op. cit.*, vol. i, pp. 286, 289, 354 et seq.

² H. Dyson, *Proclamations of Queen Elizabeth* (London, 1618), 25.

³ Froude, *History of England*, vol. vii, p. 456, quotes from the Lansdowne MSS. a suggestion made to the Council for estimating the quantity of each coin by persuading the butchers to analyse their day's takings, telling them, in the interests of secrecy, that it was to settle a wager. The above wording, however, suggests that the estimate was made from the Mint Accounts.

⁴ See particularly R. P. iii. 126.

broke or melted even one single coin, or exported more than he could take in his purse, should be guilty of felony and should be punished, not merely according to the existing laws, but with the 'greatest and most severe pain that may well be devised'. And if the Queen found it necessary to punish any of the merchant strangers in this way, she hoped that, although the punishment might seem severe, the others would not in the special circumstances complain. This was a hint to those most likely to transgress. Moreover, she offered to any one who informed against persons contravening this ordinance, all the money those persons had collected, with a minimum of £40.¹

On 8 October the indenture for the new coinage was sealed. Gold was to be minted of both finenesses and of the same weight as before. Sterling silver was to be coined at 5s. *od.* an ounce of all denominations; and some new denominations such as 1½*d.* pieces and ¾*d.* pieces were to be tried.²

Another difficulty, however, arose at once. The lion, the rose, the harp, and the fleur-de-lis, which distinguished the 3 oz. testons from the others, were small mint marks only, and were not easily discernible. It was said that these coins could be told from the better ones by reason of the fact that, on the latter, Edward had been given 'a short neck and a round face', and on the former, 'a long neck and a lean face'; but nevertheless confusion arose.³ To meet the situation officers were appointed throughout the country to sit in a public place and stamp all testons brought to them, the better ones with a portcullis before the face of the King, and the others with a greyhound behind the head of the King.⁴

The moneyers were slow in getting to work. The officers who had been appointed to receive the base money in the provinces could not get sufficient new silver to pay for it. People who brought in their coin were turned away. Unrest and rumours that the plan would be a failure began to spread.

¹ Dyson's Proclamations, 28.

² Ruding, 1560; Lowndes, p. 49.

³ S. P., Foreign, 7 Oct. 1560.

⁴ Dyson's Proclamations, 28. See also a letter quoted by Cunningham, *op. cit.*, Sec. 178, on the stamping.

Gradually, however, the organization improved. The services of some London goldsmiths were enlisted to assist in refining. Two separate mints were established at the Tower. The output increased. Goldsmiths throughout the country acted as agents for collecting together the base coin. In February 1561 people were assured that the initial difficulties had been overcome, and that they could now exchange old coin for new, in small sums at sight, and in larger sums in eight, ten, or at most twenty days. Furthermore after 9 April the old testons would cease to be current. They would be received at the Tower until 20 May, but after that date the Queen would receive them no longer. Also the people were asked to bring in the old base groats and half-groats, now valued at $1\frac{1}{2}d.$ and $\frac{3}{4}d.$, as it was intended shortly to recoin them also.¹

On 12 June the Council proceeded with this. People were reminded that the only base coins now lawfully current were these two pieces. It was thought, however, that there might still be in circulation some small quantity, 'scarcely worth consideration', of coins formerly minted for a penny, a half-penny, and a farthing. From 20 July all base moneys were to be taken as bullion; but the coins of $1\frac{1}{2}d.$ and $\frac{3}{4}d.$ would be exchanged at these prices until 20 September, and the smaller coins at proportionate prices according to silver contents. By September 1561, the recoinage was complete.²

The total amount paid out in exchange for base money was £638,113 15s. 6d. As we have seen, base testons of full weight were worth at the new Mint price $5\frac{1}{2}d.$ and $2\frac{3}{4}d.$ respectively, and not $4\frac{1}{2}d.$ and $2\frac{1}{4}d.$, which were the prices paid for them. The total sum at Mint price, if the coins had all been of full weight, would have been £779,916. Actually they produced £733,248 of new money, the difference being the loss due to wear and clipping. The gross profit was thus £95,134 4s. 6d. The cost of collection and the premiums amounted to £45,357 15s. 3d.; the cost of refining and reminting to £35,686 15s. 6d.; and the Queen therefore had a net profit of £14,089 13s. 9d.³

Figures of the recoinage.

¹ Dyson's Proclamations, 31.

² *Ibid.*, 55.

³ Lansdowne MSS., 4, 58, quoted by Froude, *op. cit.*, vol. vii, p. 459.

In this manner did Queen Elizabeth 'achieve to the victory and conquest of this hideous monster of the base moneys'.¹ There has been much misunderstanding of the nature both of the debasement and the reform. Henry VIII carries most of the blame for the former; but if we could forget that he certainly began it as a deep-laid scheme in time of peace, we should be compelled to point out that he did no more than inflate his currency at a time when England was engaged in a serious war, when the country was threatened with invasion, when foreign troops actually landed on our shores, and when the Exchequer was empty. Moreover it is but just to remember that under Edward VI Somerset did at least as much as Henry had done, and that their joint efforts were very moderate compared with some modern instances.

Elizabeth's reform, too, was little more than stabilization of money at the existing value. She succeeded where Edward failed because her attempt was made when silver had fallen considerably in price; because under Cecil's guidance she profited by past experience; and because she commanded a more efficient administration. She built up an organization throughout the country to deal with the base coins; she took her people into her confidence, explaining what she was doing and getting them as far as possible on her side; and she was not afraid to punish severely any who acted contrary to her intentions. Elizabeth put 'good' coins into circulation alongside 'bad' ones just as much as her brother and her sister had done, but by vigorous action she saw to it that instead of the 'good' coins going into the melting-pots of the goldsmiths, the 'bad' ones went into the melting-pots of the Mint. She restored the fineness of the metal but she did not restore the value of the money, for prices were as high in 1564 as in 1558. An immense amount of confusion and uncertainty had been removed, and for this every possible credit should be given; but in 1542 fine silver circulated in the coins at 4s. 0 $\frac{3}{4}$ d. an ounce, in 1558 at 6s. 0d. an ounce, and in 1562 at 5s. 4 $\frac{3}{4}$ d. an ounce. This was the extent to which Elizabeth 'restored' the coinage.

¹ Dyson's Proclamations, 35.

For many years after the recoinage the Mint was kept busy by the great influx of silver from the New World. Prices rose, and reached a level probably about 50 per cent. higher at the death of Elizabeth than in 1558. The Queen took at first 4*d.* on each pound weight of silver as seignorage and in addition allowed the Master 1*s.* 2*d.*; which made the effective Mint price £2 18*s.* 6*d.* per lb. or 4*s.* 10½*d.* an ounce.¹ In 1583, however, taking advantage of the plentiful supply of silver, she increased the seignorage to 8*d.* a lb., so that the Mint price became little more than 4*s.* 10*d.*

In 1578 the Master of the Mint was discovered to have been making about 6¼*d.* more from a pound of silver than the standard permitted. His excuse was that he was unable to cover his expenses out of the charges allowed; which excuse was accepted, and he was granted a commission permitting him in future to coin the silver at 6*s.* 3*d.* a lb. and of 11 oz. 1 dwt. fineness only. The gold was to be minted at £36 1*s.* 10½*d.*² This reduction of the standard was a minor one, amounting to only half a grain in the weight of a shilling, but Elizabeth was to make another and a more serious reduction before her reign was ended, the last, indeed, while silver remained the standard.

The Queen had not found a method of defeating the clipper and the counterfeiter, and in spite of the various Acts of Parliament³ which made their offences treason, they continued as active as ever. By the end of the century they had once more driven the value of money below the value of the standard weight of silver, and the Mint had again lapsed into inactivity. In 1601 a Royal Commission inquired into the matter and reported, very much upon the old lines, that the other mints offered more for silver than the English Mint, that England imported more goods than she exported, which drove money out, and that the Mint ratio between gold and silver was incorrect. A new Mint indenture was therefore made, by which sterling silver was coined at 5*s.* 2*d.* an ounce,

Reduction of
1601.

¹ T. Snelling, *A View of the Silver Coin and Coinage of England* (London, 1762), Table of the Mint Charges, p. 52.

² Ruding, 1578; M. Folkes, *A Table of English Silver Coins* (London, 1745), p. 55, footnote; S. P. D. cclxiv. 127, cclxi. 66.

³ 5 Eliz. c. 11, 14 Eliz. c. 3, 18 Eliz. c. 1.

gold of the old standard at 60s. 10*d.*, and crown gold at 55s. 10*d.* The shilling was thus reduced from 96 gr. to 92·9, the angel of the ancient standard, passing for 10s., from 80 gr. to 78·9, and the sovereign of 22 carats, passing for 20s., from 174·5 to 171·9.¹

This measure moved the ratio between gold and silver in the wrong direction. Silver was now coming to Europe in far greater quantities than gold, and was depreciating more rapidly, but the new indenture moved the ratio from 11 to 1 back towards 10 to 1, and very soon the undervaluation of gold became apparent. By January 1603 it cost 10s. or 12s. to change £20 in silver for 20 sovereigns.

The
union
of the
Crowns
in 1603.

While on his way from Scotland to London, James I proclaimed the Scottish six-pound piece, which contained 80 gr. of 22 carat gold, current for 10s. sterling.² This gave the Scottish coin the same denomination as an English coin of lower weight, and to remedy this, in 1604 the issue was announced of an entirely new 22 carat coin of 20s., to circulate in both countries, to be called a unite, and to be minted at £37 4s. to the pound.³ Angels of the ancient fineness passing for 10s., to be coined at the rate of £40 10s. the pound weight, were provided for in the next year.⁴

Now the unite weighed 154·8 gr. and the crown gold of which it was made was rated a little higher even than in the Scottish coins. The angel weighed 71·1 gr. and angel gold was rated at about 6s. 4*d.* per pound weight more than the price corresponding to the rating of crown gold. Ever since crown gold had first been introduced it had been usual to make its Mint price lower in about this proportion than that corresponding to the Mint price of angel gold. Such a difference was probably necessary owing to the difficulty and cost of refining the angel gold. But James had raised the denominations of both sorts a good deal more than at the moment he need have done. He had found the gold about 3 per cent. undervalued, and he had reduced the weights of

¹ Lowndes, p. 52.

² Proclamations, Chron. Series, James I, 8 Apr. 1603.

³ *Ibid.*, 16 Nov. 1604. In this proclamation for the first time the weights of individual coins are set out.

⁴ Lowndes, p. 52; Ruding, 1603.

both coins by 10 per cent. Moreover he showed that he realized this by increasing the seignorage to 23*s.* 7*d.* and 24*s.* 0*d.* a pound for angel and crown gold respectively; and the brassage to 6*s.* 5*d.* and 6*s.* 0*d.*, making the Mint prices only £39 and £35 14*s.*, or 65*s.* 0*d.* and 59*s.* 6*d.* an ounce.¹

The introduction of the unite marks the definite change-over from angel gold of the ancient standard of 23 carats 3½ gr. to 22 carat or crown gold. The Scottish Mint had long used 22 carat gold. The unite was intended to join the gold coinages of England and Scotland as James had united the crowns. It was made current throughout Great Britain. The indenture of 1605 providing for the coinage at the Tower of gold of the old standard seems to have been an afterthought, to meet the wishes perhaps of some conservative Englishmen. Rose ryals, spur ryals, and angels were never made current in Scotland. In Elizabeth's reign about £800,000 of gold altogether had been coined, of which £440,000 was angel gold. During James's reign the Mint must have shown great reluctance to supply angel gold, for out of a total of over 3½ million pounds' worth of gold coined, only £32,000 was of the ancient standard. In the reign of Charles I the proportion was even lower, and subsequently no provision was made for the coinage of anything but crown gold.²

The appreciation of gold in terms of silver continued very rapidly, and when the profit from the high seignorage fell off, James in 1611 raised the prices of all the gold coins by 10 per cent., and began to mint new ones reduced in proportion, the angel being 64.7 gr. and the unite 140.8 gr.³ At the same time he endeavoured to maintain the high Mint charge of 45*s.* 0*d.* per pound of coin, but failed, and in 1612 was compelled to reduce the charges to 31*s.* 6*d.* for angel gold and

¹ Ruding, 1603; Snelling, *op. cit.*, Table of the Mint Charges, p. 52.

² Snelling, *A View of the Gold Coins and Coinage of England* (London, 1763), p. 37.

³ Proclamations, Chron. Series, James I, 23 Nov. 1611. Angels were minted, according to Lowndes, at £44, and according to Snelling at £44 10*s.* Folkes says the price was £44 11*s.*, a rise of exactly 10 per cent. The matter is of little importance, as few were issued. The unites were coined at £40 18*s.* 4½*d.*, a rise of exactly 10 per cent.

26s. 4 $\frac{3}{4}$ d. for crown gold.¹ In 1619 they came down to 21s. 5d. and 21s. 0d. respectively, and slight modifications were made in the weights, angels being coined at £44 10s. and unites at £41.²

Meanwhile the great influx of silver into the Mint which followed the reduction of the standard in 1601, amounting to a million and a half in ten years, came to an end. From 1611 to 1630 the Mint was almost completely inactive so far as silver was concerned, and the actual coins circulating grew worse and worse. All kinds of remedies were suggested, none of which are of much interest until we come to one actually adopted in 1630, which is of great importance.

The
treaty
with
Spain.

Spain was now engaged in fighting at one and the same time a holy war against Protestantism in every corner of Europe, and a desperate losing battle to maintain her influence in the Low Countries. Internally her finances were rotten, and she was hopelessly in debt to the bankers. She could only pay the cost of the administration of the Netherlands with the silver which came from Mexico. It was the one great export which she had to offer. The silver, however, was not shipped direct to the Netherlands. During the reign of Elizabeth it was difficult enough to get it safely across the Atlantic. It would have been madness to attempt to bring it up the English Channel. Spain preferred to defend it against the Barbary pirates. It was sent up the Mediterranean to Genoa, and the Genoese merchants and bankers in return put the Spaniards in funds at Antwerp. James I, however, made peace with Spain and struck up a friendship. The feeling of the large majority of the people against the Catholics compelled him to break it in the last year of his reign, and for six years a fresh war was carried on, but in 1630 peace was again restored and the treaty which James had made was renewed.

The ambassador who negotiated this peace on behalf of England was Sir Francis Cottington, and he made at the same time a subsidiary agreement which was of the utmost importance to the affairs of the Mint. This agreement provided

¹ Ruding, 1612; S. P. D. lxix. 8.

² Proclamations, Chron. Series, James I, 31 July 1619.

that all the money required by Spain for financing her operations in Flanders, instead of going to Genoa, should be brought to England in English ships. At least one-third of it should be taken to the Tower and coined, being paid for with bills upon Antwerp, and the remainder either disposed of in like manner in England in exchange for Flemish money, or shipped on to Flanders. The advantage to Spain of this arrangement lay in greater safety for the bullion. The English vessels were better armed than the Portuguese caravels which had hitherto carried it, and the Dutch, who were now Spain's greatest enemies, would hesitate to attack them for fear of offending England.¹

The plan worked well for many years. Not only the King of Spain's silver but also that of the merchants of Madrid began to be disposed of in this way. The Genoese merchants, who hitherto had purchased Spain's surplus bullion to send direct to Genoa, from whence they had financed their business in London and Antwerp, found it worth while to secure safe transport by falling in with the arrangements made by the King, and buying Flemish money from London. One account says that from 1630 to 1643, 10 million pounds' worth of Spanish silver was coined at the Mint. This is probably an exaggeration, but more trustworthy figures suggest that during the reign of Charles I the total coinage of silver was over 8½ millions, which was nearly twice the amount coined during the whole of Elizabeth's reign including the recoinage. In 1636 the Dutch Ambassador complained that the help given to the Spaniards by England in transporting their silver 'did his masters more hurt than the arms of their enemies'.²

Yet this immense influx of silver into the Mint did little to help the English currency. As fast as it was stamped and mixed with the halt and the lame coins in circulation, the merchant and the goldsmith sifted it out again and sent it abroad. In 1634 a London goldsmith named Thomas Violet

¹ S. P., Venice and N. Italy, vol. xxii. 636, vol. xxiii. 460; Thomas Violet, *An Appeal to Caesar* (London, 1660).

² Violet, *An Appeal to Caesar*; Snelling, *Silver Coins*, Table of Quantities Coined; S. P., Venice and N. Italy, vol. xxiv. 35, vol. xxv. 86.

was imprisoned for twenty weeks for exporting gold and silver. He was released on payment of a fine and upon a promise that he would in future use his best efforts to bring like offenders to justice. Forthwith the converted Violet threw himself into this work with the energy of the unconverted Saul. In 1637 he was responsible for dragging a dozen persons together before the Star Chamber for 'culling out the weightiest coins, for melting down His Majesty's money into bullion, and for giving above the prices of His Majesty's Mint for gold and silver'. The evidence showed that they had maintained a regular organization for collecting large quantities of coin for the purpose of sorting out the heavy ones; that they had paid two and sometimes three per cent. to other persons for the right of sifting their money; and that the profits even then were considerable.¹ In the face of efforts such as these the heavy mintings of Spanish silver could do nothing to improve the condition of the current money; and, moreover, by giving the King a good profit from the Mint they removed the one inducement which might have led him to undertake a recoinage. In 1639 the sheriff of Monmouthshire, collecting ship-money, gives us some notion of the state of the silver coins at that time.

'I have lately received the rest of the money, lacking £20 or thereabouts,' he says, 'which I expect every hour, but it is in such ragged pieces as broken groats, quarter-pieces of thirteen-pence half-pennies, ten-pence half-pennies, harpers, and four-pence half-pennies, that I have had much labour to number the same, the which I intend to change into good money or gold and to send up the same way speedily into the office.'²

Even the King's officer was thus an instrument for the working of Gresham's Law. In 1652 the current coins were said to be on the average 20 or 30 per cent. light.³ In 1660 Violet admitted that in spite of all his efforts to carry out his promise the Spanish silver had been almost all transported away.⁴

¹ Rushworth, *Historical Collections* (London, 1659), pt. 2, vol. i, p. 350.

² S. P. D. ccccxxi. 73.

³ See Peter Blondeau's *Humble Representation*, in Violet's *The Answer of the Corporation of Moneyers in the Mint* (London, 1653).

⁴ Violet, *An Appeal to Caesar*.

Meanwhile, in 1640, the Spanish silver was the cause of an incident which must be noticed. Charles I, being at his wits' end for money, discovered at the end of June of that year that there was at the Mint about £100,000 or £120,000 worth of silver, left there by the Genoese merchants of Madrid or their London correspondents to be coined, in accordance with the terms of the Spanish treaty. There does not seem to have been at that time any silver belonging to the King of Spain. On Saturday 27 June the King ordered that nothing should be paid out upon this bullion, and that merchants calling for their money should be told to repair to the Exchequer, where they would receive security for their principal and for the payment of 8 per cent. interest. In short, in the language of the time, a 'stop' was put upon the issues of the Mint.

Charles I
and the
silver in
the Mint.

The City heard of the King's action on the Sunday evening after Charles had left Whitehall for Oatlands. The Spanish ambassador immediately sent off a special courier to Spain with the news, no doubt suggesting that his master might deem it wise in the circumstances to send no more silver. Whether the courier got through or not is uncertain, for the King attempted to prevent word of the affair from getting abroad by stopping the foreign post; which seems to suggest that from the beginning he intended to strike some bargain with the merchants as he could not have hoped to keep the matter quiet indefinitely. In any case a bargain was made. The merchants came forward at once with a protest, pointing out the loss which would ensue if silver ceased to come to the Mint, and the detrimental effect which the locking up of their capital would have upon trade and upon the exchange. There was prolonged discussion; but ultimately the King allowed them to have two-thirds of the total at once, and they agreed to leave with him the other one-third for six months upon the security of the customs at 8 per cent. Both the interest and principal of this were duly paid.¹

This incident has often been misrepresented. It is sometimes said that the merchants of London had formed the habit of depositing their surplus cash in the Tower for safety,

¹ S. P. D. cccclix. 36, cccclxi. 104, 105; S. P., Venice and N. Italy, vol. xxv. 86; Ruding, 1640.

and that Charles simply appropriated their deposits. This is an error. Charles merely did what Henry VIII had done nearly a century before, and indeed what several masters of the Mint had done for their own profit and without authority on various occasions; that is, he delayed the ordinary issues of the Mint. There is no doubt, however, that the affair caused great consternation amongst the merchants. It was long spoken of as proving how unsafe a great national bank such as the Bank of Amsterdam would be under a monarchy.¹

Invention
of the
milled
edge.

During the Commonwealth period attention was directed to a new machine for improving the method of coining. As early as 1553 a Frenchman named Mestrell had been allowed to set up in the Tower a machine for stamping coins with a design around the edge, but later his method had been reported defective and its use abandoned.² Other efforts had been subsequently made to replace the hammer, but without success, until Pierre Blondeau, a French experimenter who had received the protection of Richelieu, perfected a relatively cheap and practical method of giving an impression to the edge of coins. In 1636 Louis XIII began to use this machine, and in 1645 banished hammered coins from his mint for ever.³ In 1649 Blondeau arrived in London and placed his process before a Parliamentary committee, who reported favourably upon it; but for seven years the Council of State continually delayed their decision regarding its adoption. Meanwhile Blondeau had to face the uncompromising hostility of the moneyers. He published a pamphlet accusing them of making the coins of different weights, some heavy and some light, so that their confederates outside the Mint might take out the heavy ones and share the spoil with them. They replied by attempting to have him arrested for counterfeiting when he struck off specimens of his workmanship. At last, in 1656, Thomas Symon, a renowned engraver, prepared some dies for coins with the Protector's head, and these Blondeau was permitted to stamp in the Mint. But Cromwell decided, probably for political reasons, not to issue them, and

¹ Violet, *An Appeal to Caesar*; Pepys, *Diary*, (edn. of 1904, London), 17 Aug. 1666.

² Ruding, 1561, 1572.

³ J. Boisard, *Traité des Monoyes* (Paris, 1692), p. 158.

Blondeau seems to have returned to France in disgust. The success of his machine in that country was, however, so well known that early in Charles II's reign he was sent for again and given a pension and the title of 'Engineer of the Mint'. Opposition continued in the Tower for a time, but nevertheless Blondeau set up his machines, and in February, 1663, coins with the milled edge began to issue from the Mint. The clipper had at last been circumvented.¹

During Charles I's reign Thomas Mun, a director of the East India Company, had on more than one occasion advocated the removal of restrictions upon the export of bullion.² His ideas spread, and by the early years of Charles II licences to export were being freely granted.³ A few weeks after the mill commenced working Parliament passed a comprehensive Statute entitled 'An Act for the Encouragement of Trade', one section of which permitted the free export of any kind of foreign coin or bullion of either gold or silver which had been imported into the country, provided that entry were made of it at the custom house.⁴ It was the second important step in one year towards a purely automatic monetary standard. A third occurred four years later.

Partial
freedom
of export.

The introduction of milled money did not of itself reform the currency. Between 1601 and the Restoration there had not been even a partial recoinage of the silver, and during most of that time the value of money had been below the value of the standard weight of silver, so that no metal flowed freely to the Mint. The only silver which went to the Tower was that which was driven there by artificial regulations such as those contained in the treaty with Spain, and that which was sent there by the Government itself. Cromwell went to war with Spain, and Spanish galleons were captured. Their cargoes of bullion were brought to the Mint. France presented Dunkirk

Abolition
of the
Mint
charges.

¹ T. Violet, *The Answer of the Moneyers*; Pepys, *Diary*, 18 Feb., 30 Nov. 1661; and also many of the Domestic State Papers between 1649 and 1663.

² See McCulloch's Introduction to his edition of the *Wealth of Nations*, p. xx, footnote. Mun's book, *England's Treasure by Foreign Trade*, in which he elaborated his views on the export of bullion, though written probably in the time of Charles I, was not published until 1664.

³ That this was so is clear from the returns of the quantities exported, S. P. D. lxxiii. 58.

⁴ 15 C. II, c. 7, sec. 12.

to Cromwell, and Charles II sold it back to France. The purchase money was brought over in French coin and reminted at the Tower. The coins with the Protector's head designed by Symon and executed by Blondeau in 1656 were made of silver captured from the Spaniards.¹ Blondeau's mill at the outset had nothing to work upon but French coin, the proceeds of the sale of Dunkirk. We read in a paper written about 1663 that not £100 in silver had been brought to the Mint for coining since the Restoration.²

There had now grown up in the minds of most responsible persons, and particularly of merchants and goldsmiths, a strong feeling that the Mint charges should be kept as low as possible, if not abolished altogether. With the merchants it arose out of the simple mercantilist notion that the prosperity of trade varied in direct proportion with the quantity of money in the country, and that high Mint charges prevented the coinage from being increased. With the goldsmiths there is a strong suspicion that the desire for plenty of heavy coin to melt down was uppermost. In 1666, however, an Act was passed 'for encouraging of coinage'.³ It provided that from 20 December 1666, any person who brought bullion to the Mint should have it assayed, melted, and coined, and for every pound weight of standard metal should receive a pound weight of coins without charge, and for baser or finer metal in proportion. The proprietors of the bullion must still wait for it to be coined, but they should be paid out in strict order without favour; and the officers of the Mint were made subject to penalty if any favour were granted. Moreover, for the benefit of those who still remembered the action of Charles I in 1640, the Act declared that in future no 'stop' should be put upon the issues of the Mint for any reason whatever, but metal brought in should be coined and paid out with all convenient speed. To meet the cost of minting an import duty of 10s. *od.* a ton was placed upon wines, vinegar, cyder and beer, and 20s. *od.* upon spirits. The Act was to last until the end of the first session of Parliament after 20 December 1671, but the main provisions were continued by subsequent statutes and remained

¹ S. P. D. cxxix. 72.

² *Ibid.*, cix. 88.

³ 18 C. II, c. 5.

the authority for the free assay and coinage of bullion at the Mint for all comers until they were repealed by the Gold Standard Act of 1925.

Thus in the few years which had elapsed since the Restoration three great steps had been taken towards the establishment of a completely decontrolled and automatic metallic standard. Three more measures were required to link up the value of money as closely as is possible with the value of metal: firstly, a recoinage; secondly, the removal of restrictions upon the export of English coin; and thirdly, the establishment of some machinery for regularly withdrawing from circulation and reminting old and worn coins.

The appreciation of gold in terms of silver had slackened off in the reign of Charles I, and the latter had made no alteration in the rating of gold. During the Commonwealth, however, the price of gold had begun to rise again and the metal had almost ceased to be coined. In 1661, therefore, the gold coins were raised about 6½ per cent., though not all of them quite equally. The old unites, minted before 1611, which had already been raised to 22*s.* *od.*, now became 23*s.* 6*d.* The later unites, circulating legally at 20*s.* *od.*, became 21*s.* 4*d.* The rose ryals of the earlier weight, which were of angel gold and had been called up in 1611 from 30*s.* *od.* to 33*s.* *od.*, now became 35*s.* *od.* The later ones, going for 30*s.* *od.*, now went up to 32*s.* *od.*¹ No arrangements were made immediately for a new issue of gold, but on Christmas Eve, 1663, a warrant was issued to the officers of the Mint requiring them to stamp all the gold and silver which might be brought to them by the African Company to be coined, with a little elephant, the mark of the Company.² This was the fourth company which had been formed to trade with Africa. It had been established less than two years before, and the reason for this special favour accorded to it was to give it encouragement and advertisement. The oppor-

Issue of
the
guinea.

¹ Ruding, 1661.

² S. P. D. lxxxvi. 50. Ruding, although noticing the issue of guineas in 1663, places the reduction of the weight of the gold coins in 1670. Other authorities have followed him. There can be no doubt, however, that guineas were first issued in 1663 at £44 10*s.* to the pound, and that their weight was never altered.

tunity, however, was taken to issue a new 20s. piece of crown gold. Since the proclamation of 1661, which had raised the price of the unite of 140·5 gr. to 21s. 4*d.*, the price of gold had risen further. A 20s. piece minted in proportion to this unite would have weighed 131·7 gr. The new piece was minted at £44 10s. to the pound or £3 14s. 2*d.* to the ounce, and therefore weighed 129·4 gr. At a time when so many different coins were circulating, the gold pieces with the little elephant¹ were soon distinguished, from the place of origin of the metal, as 'guinea pieces'. Thus there came into circulation one of the most important of our coins, whose advent was the beginning of a new chapter in the history of English money.

¹ The stamp became later an elephant and castle.

CHAPTER V

THE GROWTH OF CREDIT

THE seventeenth century witnessed several important advances towards a free metallic standard; but it witnessed also the development of a new kind of currency made of paper and dependent upon credit, a currency subject to such vagaries of fluctuation that the problem of freeing the coinage became overshadowed by the problem of controlling the paper. It is with the growth of this new money that we must now deal.

The beginning of banking.

Credit currency depends for its acceptance, not upon containing within itself a substance with a value apart from its value as money, but upon people's belief that a promise to exchange it for other money will be honoured. Its history in England begins with the period of the Civil War. Excepting an issue of token coins under James I, no one before that time had succeeded in persuading people to use as currency in any considerable quantity, coins or instruments which clearly would become valueless in the event of the insolvency of the promisor. Bills of exchange had been used in foreign trade since the thirteenth century. With the localization of industries, and the consequent growth of internal trade, they became widely used in internal transactions also. But it seems clear that their function was simply to bridge the distance between buyer and seller, and not to circulate in place of coin. The landowner sent his cattle to London and drew a bill for the price upon the dealer. The town sent him wines and silks and the bill of exchange came back in payment. This avoided sending coin into the country and back again; but the bill was no addition to the currency any more than a postal order is to-day.

Fiduciary currency began with banking. Most people now know that the first English bankers were goldsmiths. London goldsmiths, along with other merchants, had lent money to the King when he required it at least since the reign of Edward III, but they had lent their own funds. For three hundred years the desire to borrow had nearly always been present; but the very effective practice of gathering together the funds of a

number of people into a bank to lend does not seem to have started until the Commonwealth period. It will be interesting to discover why it began then and what gave it the initial impulse.

The cash-keepers of the 16th century.

During the sixteenth and early seventeenth centuries most of the book-keeping of the merchants was done by professional scriveners, who acted as cashiers for one or more merchants, kept their coffers, brought in their receipts, made their payments, and rendered them strict account of every transaction.¹ The scrivener was an agent. His principal's money was not lent to him, but was merely in his charge. In a similar manner from early times the great landowners had employed a steward or cofferer, whose business it was to keep the household accounts and have charge of the treasure-chest. When my lord went to court, one of his attendants carried the purse and was impressed by the steward with sufficient money to cover expenses. When household bills came in the person in charge of the department, which had received the goods, examined the bill and affixed his signature if it was in order. Upon the authority of the signature the cofferer paid. When my lord bought land or horses, or lost money at cards or dice, he wrote a note to his treasurer instructing him to pay.²

Effect of the Cottington Treaty.

Now we have noticed in the last chapter that after the conclusion of peace with Spain, under Cottington's treaty there was thrown upon a depreciated currency an enormous mass of full-weight coin. Between 1630 and 1640 something like 7 millions of good silver must have issued from the Tower, which may be compared with the $4\frac{3}{4}$ millions issued during the entire 45 years of Elizabeth's reign, and which made an annual average as great as the whole amount issued in Elizabeth's recoinage. There was a profit to be made upon the export of every penny of it. Small wonder that the goldsmiths, who had carried on the trade as a side-line for generations, now set up a special organization for collecting and

¹ *The Life of Edward, Earl of Clarendon* (Oxford, 1857), vol. ii, p. 218 et seq.

² For an example of this system in working see the Household Accounts in the Rutland MSS., vol. iv (Historical Manuscripts Commission, 1905).

sorting coin. They paid the scriveners *4d.* per cent. per day to leave their money with them to be sorted. Wherever possible they supplanted the scriveners and took upon themselves the keeping of the merchants' cash. We have seen that in 1637 when Violet brought a dozen of them before the Star Chamber, they were paying 2 and 3 per cent. for the right of sifting money. In a document written in 1652 in Amsterdam we read:

'It is the goldsmiths, especially those in Lombard St., who are the greatest merchants and London cashiers, and who will receive any man's money for nothing, and pay it for them the same or the next day, and meantime keep people in their upper rooms to cull and weigh all they receive, and melt down the weighty and transport it to foreign parts. . . .'¹

Here was the beginning of banking in England.

The same developments occurred in Holland nearly half a century earlier. Until Cottington made his treaty only a small quantity of the silver of Spanish America was turned into English full-weight coins, but a great deal of it found its way to the Netherlands, where the current coins were also clipped and depreciated. Even after the Cottington treaty, it will be remembered, two-thirds of the Spanish silver brought here was allowed to go on to the Netherlands. The goldsmiths of Amsterdam soon began to sort out the heavy coins and take measures to have as much money passing through their hands as possible. A decree of the States-General in 1606 forbade all money-changers to keep money or cash for merchants, or to receive money for their account from any person, or to pay by bills of exchange, or to make remittances, or in any way directly or indirectly to make settlements for others. The reason given was that 'money-changers and other people daily attempt to keep either money or cash for merchants, to receive and repay their debts by drafts, bills of exchange, remittances and other means, and thus give occasion to fraud and cause the replacement of

Similar
develop-
ments in
Holland.

¹ S. P. D. xxiv. 21; and see also the well-known pamphlet published in 1676 entitled *The Mystery of the new-fashioned Goldsmiths or Bankers discovered*. It is quoted at length by Gilbart. *History and Principles of Banking*, 3rd edn. (London, 1837), p. 22.

heavier coins by lighter ones'.¹ Thus banking began in Holland in the same manner as in England but somewhat earlier, and our writer from Amsterdam quoted above gives us a picture of the relative position in 1652:

'Many of our bankers here have a great trade with your goldsmiths and merchants in London, for English gold and heavy English silver. Your Mint will never go until this be discovered, for these men are the sluices that drain all your money and destroy your Mint. On a longer stop of the Mint great damage must follow, especially to England, which has no considerable mines to supply you with treasure, as have Spain and other countries, nor can you do as we do in Holland, make money a merchandise, having so much; I believe there is at this day 40 times more gold and silver in the Low Countries than in England.

'You have a compass of land and stock, which they have not, but then they are so subtle in their banks, which you are not, that they can bring in money and let it out again as they list. When you have as much money as they then do as they do.'

There had been bankers in Italy since the Middle Ages. In the sixteenth century the bankers of Genoa possessed a highly developed credit system and made great use of paper currency. When they met the other merchants and bankers of Europe four times annually at the fairs of Lyons, mutual indebtedness was disposed of as in a modern clearing house.² When the centre of gravity of European finance shifted to Antwerp there grew up a banking system there of a similar kind, which collected the funds of the merchants and lent them to all the needy potentates of the Continent, and also, as we have seen, to Henry VIII. Gresham and every other English merchant must have been well familiar with the central principles of banking. So also must the Dutch merchants of the period. It may seem surprising that they did not return from the marts of Flanders and establish banks in England and Holland. The only reason for their not doing

¹ Decree of the States-General, 21 Mar. 1606, Art. 37, quoted by Dr. R. Van der Borcht, *History of Banking in the Netherlands*, contained in *A History of Banking in all the Leading Nations* (New York, 1896), vol. iv, p. 194.

² See a very interesting account of this by M. Vigne, *La Banque à Lyon du XV^e au XVIII^e Siècle* (Lyons, 1903), p. 110 et seq.

so must have been that without some unusually favourable opportunity of making profit by borrowing other people's money they could not hope to compete with the Fuggers and the other houses of Antwerp. Large banks tend to grow larger: small ones to grow smaller. But when the great influx of silver came from America, and when the governments of Holland and England forced as much as they could of it into their mints and turned it into a coin whose value in circulation was much less than its bullion value, then those governments virtually gave a subsidy to any one who could establish a bank.

Gradually, during the Civil War and the Commonwealth period, the landowners and merchants transferred their liquid cash from the care of the stewards and scriveners to the care of the goldsmiths. They needed some inducement to make the change. The scriveners were small men with little capital and of no great repute in the City; but they were agents, bound to keep their employers' money safely, and criminally liable if they used it for their own purposes. The goldsmiths had large capital of their own, and were often aldermen and lord mayors, but the money was lent to them as principals, and if they employed it for their own ends and lost it, there was only a civil remedy. Fear for the safety of their treasure no doubt helped to induce many of the landowners, especially those on the side of the Parliament, to send their funds to London during the Civil War, but generally speaking, the goldsmiths had to pay interest upon all the money deposited with them.¹

The growth of banking in England.

Once they had accustomed people to leave money with them, however, they soon found fresh uses for it when heavy coins were few. We read of small sums being borrowed from the Lombard Street men in a document probably written in 1645;² but they began to receive real encouragement in this new business only when the Government began to borrow.

The early goldsmith-bankers.

¹ Owing to a misunderstanding of the nature of that transaction it has often been said that the borrowing by Charles I in 1640 of the bullion in the Mint drove merchants to place their money with the goldsmiths. It is difficult to see that there was any connexion, although that event did have the effect of discouraging the formation of a large national bank.

² S. P. D. dxi. 109.

The first large transaction of that kind was in 1656. Ships had put into Portsmouth with about £150,000 worth of silver captured from the Spaniards. Cromwell badly needed the money to meet current expenditure. The two leading goldsmiths, Sir Thomas Viner, a former lord mayor, and Alderman Edward Backwell, joined together to purchase the bullion at $\frac{1}{2}d.$ an ounce below Mint price, paying £50,000 immediately and £10,000 weekly until the full value was paid, one condition of the contract being that they should take all of the bullion to the Mint.¹ The price paid gave them a gross profit of about $\frac{3}{4}$ per cent. upon the coining of the metal, but the arrangement placed in their hands £150,000 worth of new coin, and there can be little doubt that this soon went into the melting-pots and greatly swelled their profit. Immediately after the Restoration Backwell, in company with Sir John Shaw, became joint Treasurer and Paymaster for Dunkirk, and lent considerable sums and carried out all the exchange transactions for financing the garrison there.² When that port was sold back to France, he was commissioned to go to Paris and bring the money to Calais, where it was placed aboard the King's ships. The price was 4,500,000 livres, to be paid in 'true and current' French coin in Paris, and 254,000 livres to be paid in London; and out of it Backwell received 100,000 livres to cover the cost of transport and his profit.³

The money reached London in December 1662 contained in 100 chests of 5,000 French silver crowns each, the whole being worth about £375,000. The intention was for Blondeau to get to work upon it at once, but the King was short of money and could not wait. One of the chests had to be pledged as security for a loan of £1,000 to buy the very machinery with which to start coining. Twenty more of them went to Backwell as cover for a loan of £20,000 for the Navy, and a further twenty for a loan to the Household. Gradually the boxes, sealed with the Lord Treasurer's seal, were

¹ S. P. D. cxxx. 79, 87, &c.

² Harley Papers in the Portland MSS. (Historical Manuscripts Commission, 1894), June-Dec. 1660.

³ S. P. D. lxi. 77; Pepys (1904, Braybrooke edn.), vol. ii, p. 367, footnote.

distributed around the City, chiefly to Backwell, Viner, and Meynell, another alderman-goldsmith who was coming into prominence, until only a small amount was left in the Tower to be turned into new coin to redeem that which had been pledged. Viner's chief clerk stated afterwards that his master alone advanced £100,000 on the Dunkirk money and, before it was redeemed, received £10,000 from the King in interest. Moreover, there can be little doubt that the milled money which these goldsmiths received in payment went into their melting-pots almost as fast as it was coined.¹ In February 1663 Backwell was given yet another such opportunity. The King offered him $5\frac{1}{2}$ per cent. upon all the Commonwealth money he should take to be recoined at his own charge.²

These pieces of profitable business, followed as they were by almost continuous borrowing by Charles during the next ten or twelve years from nearly all of the goldsmiths, made the latter more and more anxious to secure from the merchants and the nobility every deposit of money they could, and definitely established the business of banking in London, with Backwell and Viner as its leaders. It was now that the smaller fry amongst them began, as Macaulay says, to haunt the arcades of the Royal Exchange and solicit the merchants with profound bows to be allowed to keep their cash. From this time onwards their system of credit and credit currency began to develop.

They kept two distinct kinds of account, bearing some superficial resemblance to the deposit and current accounts of the present day, but really differing from them in most important particulars. In the first place you might deposit a lump sum with a goldsmith and be given a receipt, or a number of receipts of convenient amount but equal in total to the sum deposited.³ An account was opened in your name and you had an agreement, which might or might not be on the face of the receipt, as to the interest you were to get and the

The first notes.

¹ Treasury Books, 11, 13, 15 Dec. 1662; Pepys, 29 Nov. 1662, 11 Dec. 1665.

² Treasury Books, 9 Feb. 1662-3.

³ See a letter of Lady Carteret, 1715, quoted by F. G. Hilton Price, *The Marygold by Temple Bar* (London, 1902), p. 38.

length of notice you were to give before withdrawal. Your account remained credited until the receipt was presented, and you were periodically credited with interest. Moreover you could if you wished draw a portion of the sum deposited, a note of the withdrawal being made on the back of the receipt, which you retained until you drew the balance.

The form which the goldsmiths' receipts originally took, being simply a promise to pay the named person, on demand, or at so many days' notice, suggests that at first they played the part merely of deposit receipts of the modern kind. Certainly, however, as early as 1668, and probably some time before this, they had become negotiable, for on 29 February of that year we find Pepys mentioning casually that he had sent his father Colvill's note for £600 for his sister's portion. Colvill was one of the three goldsmiths with whom Pepys did most of his business, and the document which he used on this occasion seems to have been Colvill's own promise to pay and not an order upon him drawn by Pepys. This appears to be the earliest definite case recorded of the use of a goldsmith's note for making a payment.

Very soon after this the receipts began to be spoken of generally as cash notes or bills. At first they were made payable only to the depositor or his order, were invariably endorsed, and the endorsement often witnessed by a third party. Gradually, however, the practice of making them payable to a named payee 'or bearer' increased, and by the year 1729, when Child's Bank first used printed notes, a space was left on the form for the name of the payee, and also for 'order' or 'bearer' to be inserted in manuscript as required, showing that at that time bearer notes had become common.¹ Notes payable simply to bearer, without any payee's name appearing at all, were not used in England until the end of the eighteenth century, and Bank of England notes of the older form, with a payee's name on the face, though during the latter part of the time the name was that of the Chief Cashier, were issued until 1855.²

¹ F. G. Hilton Price, *op. cit.*, plate XI.

² J. B. Martin, *'The Grasshopper' in Lombard Street* (London, 1892), p. 127.

The practice of crediting the account of the person to whom a note was issued and debiting it only on payment of the note seems to have survived nearly as long, and when a note was lost or stolen it was the practice also to stop payment of it at the goldsmith's, just as one might stop a cheque at the present day. In 1758 it was decided that the holder of a note who had given value for it in good faith had a valid claim upon the banker, although a previous holder might have stolen it, and from that time it became unsound book-keeping to leave the original depositor in credit after he had been given notes which might pass through many hands before coming in for payment; for the banker's liability was to the holder of the note and not to his customer. It was not until the Bank Restriction period, when bearer notes for small sums became common, that general note accounts were credited on the issue of notes instead of special depositors' accounts.¹

The other kind of account used by the goldsmiths from the very commencement was a current account called a 'running cash'. Into such an account sums were paid and interest credited as in the first case, but no receipt or cash note was given. Instead the depositor simply drew upon the goldsmith in writing as and when he wished, handing the draft to his creditor, who called for the cash, or paid the document into his own account often with another goldsmith. At first the banker sometimes required some token such as a signet ring, in addition to the written draft, before he would pay.² Early in Charles II's reign the goldsmiths adopted the practice of keeping accounts with one another, and many of the smaller ones with Backwell, who had outstripped Viner and now stood out as the foremost banker. They merely settled balances periodically in coin, or in Exchequer tallies and assignments, or later on in Exchequer bills and Bank of

'Running
cashes'
and
cheques.

¹ See an advertisement in the *London Gazette*, 11 Sept. 1708, and the evidence before the Committee on the Resources of the Bank, 1797.

² Wycherley's *Love in a Wood*, Act IV, Sc. i (written 1659-60). Gripe: 'Pray have me in excuse. Indeed, I thought you had a share of the five hundred pounds, because you took away my seal-ring, which they made me send, together with a note to my cash-keeper for five hundred pounds. Besides, I thought none but you knew it was my wonted token to send for money by.'

England notes.¹ Instead of using a pass-book the depositor called at the goldsmith's shop occasionally and checked his account in the books, inscribing across it 'I allow this account', and signing his name. Pepys found his banker's book-keeping none too accurate, and frequent reconciliations were necessary.² The use of pass-books began early in the eighteenth century.³

Running cashes were more convenient than the other form of account, and were used by the nobility and landowning classes, whose signatures were widely known and accepted. They did not use printed forms for their drafts, but just wrote a personal note to their goldsmith directing him to pay as required. It was a natural development of the old system. They had been in the habit of sending a note to their cofferer when a payment was to be made. Now that the goldsmith held their money they continued to give their creditor a note to the man who 'kept their cash'. Less well-known people used cash notes because they found the goldsmith's promise to pay more acceptable than their draft upon him. In the early days the terminology of banking did not draw a sharp distinction between the goldsmith's note and his depositor's draft. The word 'note' was used indiscriminately.

Tallies as
money.

In Charles II's reign occurred the first issue of Government fiduciary currency. From Norman times it had been the practice for revenue officials and farmers of taxes, when paying money into the Exchequer, to receive a piece of notched wood known as a tally. The notches were cut in the side of a wooden stick, and varied in size, the largest denoting a thousand pounds, smaller ones a hundred, smaller ones still ten, and so on. In this way any broken amount could be represented by notches, and the stick was split through its thickness so as to make two tallies with exactly similar notches, which could at any time be fitted together to show that they were fellow to one another. One piece was given in receipt

¹ F. G. Hilton Price, *A Handbook of London Bankers* (London, 1876), under Hoare & Co.

² *Diary*, 5 Apr. 1667.

³ F. G. Hilton Price, *The Marygold*, p. 38; *Signs of Old Lombard Street* (London, 1887), p. 144.

for the money, while the other remained at the Exchequer, and the officer paying in kept his tallies until such time as he was called upon to render an account. Tallies were also issued to persons who made advances to the King, giving them the right to obtain repayment by intercepting money on its way to the Exchequer and handing their tallies in exchange for it to the taxgatherer. Charles II made use of this practice to such an extent that expenditure was often many months ahead of revenue; and sometimes, although he might be paying 8 and 10 per cent. for his money, no more tallies could be placed. He therefore adopted the practice of actually making payments for supplies with tallies, promising to redeem them later, with interest, and they became negotiable, and passed current by endorsement.¹

Tallies, however, as currency were inconvenient because of the difficulty of writing legible endorsements upon them. In 1667, therefore, when Parliament granted Charles an Additional Aid, a new plan was introduced. Paper orders or assignments of revenue were issued to those who advanced money or supplied goods, and these were registered in a Treasury book in the order of issue. They were exchanged for cash in strict rotation according to the book as the taxes came in, and meanwhile they were negotiable, and passed current by endorsement. In a short while they completely supplanted tallies as a device for anticipating revenue.² They were issued to the head of each department, who was left to raise money upon them at the goldsmiths', or to use them for making payments, at his own discretion; and they were made out for such sums as suited his convenience, orders for £1, £2, and £5 becoming common.³ They formed the first issue of Government paper money in England, and as Dr. W. A. Shaw points out,⁴ had the finances of the country

The Exchequer orders.

¹ Pepys, *Diary*, 30 May, 13, 16, and 18 June 1666; 17 June 1667; 26, 27, and 28 Nov. 1668.

² Thomas Turnor, *The Case of the Bankers and their Creditors* (London, 1675), p. 7.

³ See several entries in the Treasury Books, 1668.

⁴ For the history of these Exchequer orders and of the King's finances generally at this period I have made full use of Dr. Shaw's Introduction to the Volumes of Treasury Books in the State Papers, Domestic Series, and of his essay on the subject, *Economic Journal*, vol. xvi, pp. 33-40.

been in good order so that the subsequent stoppage of payment could have been avoided, the whole history of English currency might have been different, and we might have had permanently a State note issue. As it was the stoppage in 1672 merely confirmed the commercial world in their view of the 'unsafe condition of a bank under a monarchy', as Pepys expressed it, and when the much-needed central bank came to be formed it was put into private hands.

When war was declared against Holland in 1672 expenditure was about two and a quarter million pounds ahead of revenue, which amounted to less than eighteen months of the King's income from all sources. This does not seem to us a very serious condition of affairs, and it would not have been so then had not the general state of credit been exceedingly bad. The maximum legal rate of interest was 6 per cent., but there was always a way of paying something more under another name, and even the more important goldsmiths often had to pay a higher rate for money deposited for quite short terms. In 1666 Pepys, for example, received 7 per cent. from Viner for money left at two days' notice.¹ The public were not at all disposed to trust the goldsmiths except at short notice and at high rates, for many of them had already failed, the largest were known to be deeply involved in the King's affairs, and the City did not put much trust in the King's good faith. A run upon the bankers which occurred in 1667 was due partly to a rumour that Charles proposed to stop payment at the Exchequer, and in order to allay the panic he published a proclamation denying that such a measure had been contemplated.² In 1664 Pepys was 'doubtful of trusting any of these great dealers because of their mortality, but then', he said, 'the convenience of having one's money at an hour's call is very great', and on these terms he was expecting to receive from Backwell 6 per cent.³ Backwell was the greatest of the goldsmiths. His wealth was known to be immense and he was fond of displaying it. Yet in 1665, when he was sent by the King upon a secret mission to Flanders, there were whispers in the City that all was not well with him. A run

¹ *Diary*, 30 May 1666.

² Turnor, *The Case of the Bankers*, p. 14.

³ *Diary*, 12 Sept. 1664.

upon his bank developed in his absence, and he was saved only by the timely assistance of the Exchequer.¹

From this it is clear that the goldsmiths themselves at this period found it impossible to obtain deposits except by paying at least 6 per cent., and that therefore they could not well charge the King less than 8 or even 10 per cent. And in view of the fact that much of the money deposited with them was at call, and the remainder at comparatively short notice, there came a time when they could not possibly purchase any more long-dated orders upon the revenue, whatever rate of interest might be offered.² The King found it so difficult to obtain money that he borrowed in fifties and hundreds from any one who would lend, and, in addition to the interest, paid an address commission of 2 per cent. to the person who introduced the lender.³

This was the position when war broke out in 1672. Immediately heavy expenditure was necessary for the service of the fleet. Where the money was to come from no one could tell. Paper had been paid to contractors and suppliers of stores as far as possible, but there was a limit to the quantity they were able to take. It could not be used by them in paying wages, without causing great hardship, for small shop-keepers would only accept it at considerable discount. The state of credit was such that no one was prepared to use a fiduciary currency except at high interest. Interest-bearing notes of small amount for rapid circulation in petty transactions are almost out of the question at any time; and at that time the common people had had no experience of, and did not understand, paper money. Had it not been for these considerations Charles might have partly financed the war with an inflationary issue of the ordinary type. It was an interesting example of how a restriction upon the issue of small notes can limit the degree of inflation, though it may cause bankruptcy.

It is uncertain who suggested the solution of the difficulty which was adopted on 2 January 1672, but that solution was,

¹ Pepys, 6, 21, 22, 26 July 1665; Harley Papers in Portland MSS., June to Dec. 1660; Treasury Books, 21 April 1662, 18 Aug. 1665; S. P. D., 1663-5.

² Pepys, 21 June 1665.

³ Treasury Books, 1668.

The
'stoppage'
of the Ex-
chequer.

to postpone for twelve months further payments according to the book of a large portion of the outstanding Exchequer orders, and to divert the growing produce of the taxes to the satisfaction of present needs. This was the famous stoppage of the Exchequer. On 20 January letters patent were issued, the effect of which was to exempt from the stoppage most of the paper which had been paid out directly to contractors, suppliers of stores, and servants for wages and salaries, unless such orders had been assigned to a third party. Consequently the bankers and other persons who had made direct advances of cash upon the security of the orders were the chief sufferers.¹ The paper immediately fell to a heavy discount, where people could be induced to accept it at all, and there was a run upon all the bankers who were known to be involved and upon many of the others as well. They stopped payment at once, and a serious crisis developed in the City. Bills of exchange were sent back to their country of origin unpaid, and ships were held up in the ports for want of a customs clearance. Most of the bankers resumed payment when the King promised to pay their assignments at the earliest possible moment and to pay them 6 per cent. upon the principal in the meanwhile, but none of those who held considerable quantities of paper ever really recovered from the shock to their credit, and there was widespread ruin amongst their depositors. At the end of the twelve months the stoppage was extended for a further four months, and then it continued automatically, because the orders had become cancelled by effluxion of time, and the officers of the Exchequer refused to pay them. The exact amount outstanding in 1672 is doubtful, but the portion affected by the stoppage must clearly have been in the neighbourhood of a million.² There were other debts of the Exchequer as well amounting to

¹ S. P. D., 17 Jan. 1671-2; Treasury Books, 20 Jan. 1671-2.

² The amount of over £1,300,000 often quoted was the principal sum in 1677 with compound interest at 6 per cent. for three years included, and it may have included also some debts contracted after 1672. The King at the date of the stoppage owed Viner more than Backwell, the respective amounts in 1677 being £416,724 and £295,994. To a goldsmith named Whitehall £248,866 was due, and all the remaining amounts were below £100,000.

over another million, but the stoppage was confined to the paper.

Nothing was done for the holders until 1674. In July of that year 6 per cent. compound interest at half-yearly periods upon the principal sum as it stood in January 1672, was allowed down to the end of 1673 and paid. In 1677 compound interest at 6 per cent. from January 1674 was added to the capital, and an annuity of 6 per cent. upon this augmented principal made a permanent charge upon the revenue. Tallies upon the excise were regularly given for the interest until April 1681. By this time, however, the actual payment of cash for these tallies was so much in arrear that instructions were given for no more to be issued until those outstanding had been redeemed.¹ In January 1683 tallies were issued for the interest due to Michaelmas 1681, and in December 1686 for the interest to Lady Day 1683.² No further tallies were issued. Charles in 1684 and 1685 paid a round sum of £1,000 a week towards the redemption of the outstanding tallies, which was insufficient to prevent the arrears of interest increasing. James suspended payment altogether until August 1687, and then paid only £500 a week. It seems probable that all the tallies to March 1683 were ultimately paid, but nothing more until 26 December 1705, when by an Act passed in 1701³ annuities of 3 per cent. upon the capital sum began to be paid regularly, and ultimately became part of the National Debt Charge.

The
bankers'
losses.

The stoppage was the end of the Exchequer assignments. After their disappearance tallies regained their old position, and from 1672 onwards until the end of the century were widely used as security for loans in anticipation of the revenue, and in making direct payments for goods and services. It is a curious fact that the stoppage of the Exchequer marked the beginning of a period of trade expansion and improved credit. The customs and excise were so fruitful in 1674 that, although it is difficult to disentangle the accounts for a single

After the
stoppage.

¹ Treasury Books, 25 Apr. 1681.

² *Ibid.*, 13 Jan. 1682-3; 7 Dec. 1686.

³ 12 W. III, c. 12. This Act was passed after the bankers had sued in the courts for twelve years, and had finally won an appeal to the House of Lords.

year, Charles for that year seems to have had a small surplus. For a time borrowing ceased. The group of bankers who had had so many eggs in one basket disappeared. Colvill had died in 1670 and the blow fell upon his dependants.¹ Viner and Backwell continued to hold various offices for some years, but their banking business never revived. A new group of goldsmiths, holding themselves almost entirely aloof from State affairs, and gaining greatly thereby in credit with the City, came to the front. The ascendancy of Sir Francis Child and Sir Richard Hoare had its beginning in the prosperous years which immediately followed the stoppage of the Exchequer. Francis Child was certainly doing banking business before 1677, and that business continued to flourish and increase from that time, but it is difficult to trace any loan by him or his partners to the King. James Hoare, the founder of Sir Richard Hoare's business, was a Commissioner of the Mint throughout Charles's reign, but he lent no money to the Government. These bankers kept the accounts of many famous people, and they no doubt made judicious advances upon good security to their illustrious clients, but the stoppage of the Exchequer had taught most of the goldsmiths the danger of having the King as their one great debtor, and the bulk of their funds were employed in discounting bills and financing the rapidly growing commerce of London. The one single exception was Charles Duncombe, whose firm, which ultimately became Martin's Bank, was the only one in the City that did banking business of any importance with the King after 1672 until the foundation of the Bank of England.²

The
improvement of
credit.

Although between 1676 and 1679 Charles borrowed heavily again from private persons, the period from 1679 to the end of his reign was one of comparative financial rectitude, economy, and debt reduction, and the accession of James II saw a complete change in the financial situation. James's subservient Parliament promptly voted him money to pay most of the ordinary debts left by his brother, and

¹ The amount due to them in 1677 was £85,832.

² See the Treasury Books and Dr. W. A. Shaw's Introduction. Also Mr. F. G. Hilton Price's *Handbook*, &c., under the names of the various bankers mentioned above.

granted him at once a substantial increase of income. In spite of the political troubles the national budget balanced during the four years 1685-8, and a remarkable improvement of credit resulted. We are usually told of the great extension of credit which followed the foundation of the Bank of England, and of that there is no doubt, but credit had been improving for many years before the Bank was founded. At the worst period of Charles's reign, from 1665 to 1672, the goldsmiths, as we have seen, were paying 5 and 6 per cent. for money at call. But soon after the Revolution merchants trusted the goldsmiths for the mere convenience of using paper money, and paid and received goldsmiths' notes freely and without interest. One of the early grievances against the Bank was that its notes bore interest, and that this attracted money away from the goldsmiths.¹ The same was said later of Exchequer bills. Credit had improved so much by this time that so far as London was concerned all payments of any size were made with paper money, and every merchant had his running account with a banker, receiving no interest thereon. The position of credit currency in the national economy was established.

(The earliest English fiduciary currency consisted of instruments which were primarily interest-bearing securities and only secondarily currency) It is uncertain whether the first deposit receipts of the goldsmiths carried the interest along with them when they were passed on, but certainly the balance they represented bore interest, and so in the early days did the balances of running cashes. Tallies and Exchequer orders carried interest, and, as currency, had two disadvantages (firstly, they were not payable on demand and therefore circulated often at a heavy discount, and secondly, they were generally for large and inconvenient amounts) At one time there were at least 8 millions' worth of tallies outstanding, but although they were negotiable, the volume of transactions performed with them was probably small because of these disadvantages. With the improvement of credit after the death of Charles II, a division of function

¹ Michael Godfrey, *A Short Account of the Bank of England* (London, 1695), p. 10.

occurred. The interest-bearing security became separated from the currency instrument. The convenience of paper money began to be a sufficient inducement for people to use it. The adjustments necessary to allow for accrued interest and the inevitable fluctuations of value discouraged the use of securities as currency. The issue of Bank of England notes bearing interest was a retrogressive measure which was soon abandoned. The use of Exchequer bills as currency and the issue of interest-bearing notes by some private banks lingered on to the end of the eighteenth century and then died out. Commercial bills of exchange were the last instruments to retain the dual function, but by the end of the first quarter of the nineteenth century they too had almost ceased to circulate, being discounted for ready money early in their career and held as an investment until maturity.

CHAPTER VI

THE FIRST CREDIT INFLATION

THE Act of 1666 which abolished the Mint charges undoubtedly to some extent achieved its object of encouraging coinage. The quantity of silver brought freely to the Mint under the Commonwealth was very small. One return puts the amount for the period between 1649 and the Restoration at no more than £204,000. From June 1660 to December 1666, although a total of £970,000 of silver coin was issued, £350,000 of this came from the Dunkirk money and about £490,000 from recoinng Commonwealth money; so that only £130,000, or an average of about £20,000 a year came to the Mint in the ordinary course of trade. On the other hand, from 20 December 1666, the date at which the Act came into force, until 31 December 1689, a total of £3,331,000 of silver was dealt with, an average of nearly £145,000 a year, most of which was undoubtedly brought in by merchants.¹

Effects of
the Act
of 1666.

The market price of silver seems to have varied, during the whole period from the later years of James I to about the middle of the year 1694, between 5s. 2d. and 5s. 4d. an ounce. For ten years from 1621, we learn, the goldsmiths were offering '5s. 3d. per ounce, and 5s. 3½d., and sometimes more'.² In 1634 a proposal was put forward for increasing the coinage by raising the Mint price to market price, which was 5s. 4d.³ In 1660 Thomas Violet said the merchants regularly outbid the Mint by 1d. or 2d. an ounce.⁴ In 1693 and the early part of 1694 Houghton shows the price as fluctuating between 5s. 2d. and 5s. 4d.⁵

The Mint price from 1601 to 1604 was 5s. 0d.; from 1604

¹ S. P. D., 21 Dec. 1675, 31 Dec. 1689; Folkes, *op. cit.*, pp. 112 and 114; Pepys, 11 Dec. 1665. All of these authorities are in substantial agreement upon the figures.

² One of the informers against the goldsmiths prosecuted for exporting silver in 1638, quoted by W. A. Shaw, *History of Currency*, 2nd edn. p. 144.

³ S. P. D., cclxxv. 44.

⁴ *An Appeal to Caesar* (London, 1660), p. 23.

⁵ J. Houghton, *A Collection for the Improvement of Husbandry and Trade* (published weekly in London from 1692 onwards).

to 1626, 4s. 11½*d.*; and from 1626 to 1666, 5s. *od.* again. The Act of 1666 increased it to 5s. 2*d.* by abolishing the charges. Generally speaking, even after this, market price seems to have been a trifle above the Mint price and the money therefore slightly depreciated in terms of metal. But there were periods when the balance of trade brought the price of bullion down to the Mint price, and during such periods a certain amount of metal went to the Mint. The Act, therefore, did encourage coinage, and it was renewed in 1672.¹

The very trifling degree to which the money was depreciated throughout the reign of Charles II is remarkable when we realize the condition of the actual coins in use. 'Most part of that which is current now is clipped and will be yet more and more', said Blondeau in 1652. He estimated the weight of the average coin at from 70 to 80 per cent. of the correct weight.² Pepys in 1663 tells of a workman of the Mint who made a profit of 50 per cent. upon his out-turn by stamping groats like old groats, as good as, or better than, those that commonly went in payment. Indeed he was discovered because he made his forgeries too good. 'He was neither hanged nor burned', said Pepys,³ 'the cheat was thought so ingenious, and being the first time they could ever trap him in it, and so little hurt to any man in it, the money being as good as commonly goes', he was let off. We have described in a previous chapter how the currency gradually became lighter in the first half of the century. There is no doubt whatever that the process continued steadily until 1696.

Price of the guinea. Yet the price of the guinea did not rise. There were fluctuations, but they were no greater than the fluctuations in the price of silver. The guinea never did go for 20s. *od.* It was undervalued by the Mint at the outset. In January 1665 it was priced at 21s. 4*d.* in circulation, and in April 1667 at 21s. 10*d.* By June 1669 it was down again to 21s. 6*d.*, and by April 1670 to 21s. 2*d.* Later in the same year it rose to 21s. 4*d.*, and then to 21s. 6*d.* again, and at the latter price it

¹ 25 C. II, c. 8.

² *Humble Representation.*

³ *Diary*, 19 May 1663.

seems to have remained fairly steady until the early years of William III, when it rose once more to 21s. 10d.¹ And during the whole period the Government was struggling with the clippers, and hanging them by the half-dozen;² while the silver coins in circulation were being gradually reduced to little more than half their proper weight. Nothing could have shown more clearly that the value of the unit of account did not depend primarily upon the quantity of silver in the coins.

The fact that the inevitable recoinage was put off for so long seems to need some explanation. Blondeau in 1652 had warned the Government that they would have to face it sooner or later, and that the longer it was deferred the greater the loss.³ Louis XIII had recoined his clipped money in 1640, immediately after the reintroduction of the mill. The Dutch in 1609 had established the Bank of Amsterdam, and had introduced the use of 'bank money' into commerce, valuing clipped coins according to their bullion contents; and when milled money was issued in Holland it gradually superseded clipped money because the latter was passing only at bullion value. In England there had been no recoinage of the silver since 1601. It was the longest period which had elapsed since the Conquest without one.

The explanation appears to be a twofold one. In the first place it had begun to be felt by the middle of Charles I's reign, that the people, in their struggle with the Crown were in no mood to allow the Government to call down the clipped money to bullion value and deprive many of them of a large part of their capital. The days had gone by when a recoinage could be made to show a profit, like that of Elizabeth. A part at least of the expense must fall upon the Exchequer, and the Exchequer of the Stuarts, and indeed of Cromwell, was in no state to bear much extra expense. Secondly, the clipped money for the greater part of the time caused little inconvenience. The counterfeiting, which always accompanied clipping, served only to add to the circulation the quantity

¹ Accounts in the Rutland MSS.

² See many entries in the S. P. D.

³ *Humble Representation*.

needed to meet the increasing demands of trade, for the milled coins would not stay in circulation. The value of money fell very little. A fluctuation which was no greater than that measured by the variation in the price of guineas from 21s. 2d. to 21s. 10d. could do little harm. As Pepys said, at this period the clipper and the counterfeiter did 'little hurt to any man'. And so the Stuart Kings procrastinated, and hoped against hope that at first the Cottington treaty, and then the introduction of the mill and the abolition of the Mint charges, and lastly the execution of clippers and counterfeiters, would solve the problem.

Disappearance
of milled
money.

The milled coins, into which all the silver that came to the Mint from 1663 onwards was made, could not be clipped; but they could be melted, and since the price of silver was more often than not above the Mint price, they did not stay in circulation long. As to who did the melting there is little doubt. The goldsmiths, who, because they were equipped with melting-pots, had become the first bankers, had not yet given up their melting-pots in spite of the profits they reaped from banking. An Act of Edward III had made it illegal to melt pennies and smaller coins, and one of Richard II had extended the provisions to groats, which were then the largest coin.¹ It was regarded as still legal to melt the pieces, subsequently issued, of greater value than a groat. Parliament in 1662 remedied this by an Act which made it illegal to melt any of the current silver coins, and added some special clauses to prevent persons who were freemen of any city or corporation escaping from penalty.² This was clearly aimed at the goldsmiths, many of whom were aldermen. Nevertheless there is little doubt that they continued to use their melting-pots as before, probably with the connivance of the King, who found them, as did Edward I the Italian bankers upon a similar occasion, too useful to be interfered with.

The position of the Mint was almost ludicrous. In order to obtain even a small supply of silver to work upon it had had to forgo its profit upon the coinage. It now turned out

¹ 9 Ed. III, Stat. 2 (Statute of York, 1335); 17 R. I, c. 1 (1393).

² 13 and 14 C. II, c. 31.

fine new milled pieces, of the best design obtainable, only to find that they would not stay in circulation, but disappeared into the melting-pots of the goldsmiths. Meanwhile its workmen made copies of the old clipped groats, and issued them, at a good profit, to people who apparently accepted them freely and used them.¹ Nobody troubled to counterfeit milled money, for there was no profit in it.² Small wonder that most of the best thinkers of the period looked upon free coinage as a curse, and that Sir Dudley North regarded it as 'a perpetual motion found out, whereby to melt and coin without ceasing, and so feed goldsmiths and coiners at the public charge'.³

By the middle of the reign of William III the currency consisted, according to Lowndes, firstly, of the half-million or so of hammered coins of the first three years of Charles II, all more or less clipped; secondly, of a moderate number of the half-crowns, shillings, and sixpences of James I and Charles I, all badly clipped, the crowns and the smaller coins of those reigns having disappeared; and thirdly, of a fair number of the shillings and sixpences of Queen Elizabeth, her other coins having entirely gone. Any one who looks at a sixpence in circulation to-day bearing a date fifty years ago can perhaps imagine the condition to which wear and tear alone would have reduced those of Elizabeth by the year 1695, apart from clipping. It is said that there were also a few oddments dating back even to Plantagenet times; but, however that may be, it is certain that, mixed with the coins which had at some time or other issued from the Mint of standard weight and fineness, there were some which had

Position
in 1695.

¹ Pepys's example was not an isolated one. There are several complaints in Charles's reign of irregularities in the Mint, in which apparently the highest officials were involved.

² 'I verily believe', said Lowndes, 'for every single piece of milled money that has been counterfeited or rather been attempted to be resembled, there have been more than one thousand of the hammered moneys not only counterfeited, but actually imposed upon the people'. *Essay*, p. 98.

³ *Discourses upon Trade* (London, 1691), Preface. These are not North's own words, but a very apt summary of his views by his publisher. Locke agreed with him (*Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money* [London, 1692], p. 147).

been made of lower weight within the Mint, and there were many which had been made of both lower weight and lower fineness outside the Mint. Mixed silver amounting to £57,200, received in the ordinary course at the Exchequer over a period of three months, weighed 51 per cent. of the standard weight. Milled silver, of which over 4 millions had been issued, formed in 1695 about one-half per cent. of the total circulation, which seems to have been about 7 millions.¹

Financial
effects of
William's
policy.

The war with France which broke out in 1689 would have involved grave financial difficulties even had the coinage been in a sound condition. When the Exchequer stopped payment in 1672, its debts amounted to $2\frac{1}{4}$ millions and the annual revenue to about £1,600,000. At the end of Charles's reign the revenue had risen to about $1\frac{3}{4}$ millions a year. James, to maintain his standing army, increased the total expenditure, and his docile Parliament increased the annual revenue, to over 2 millions.² William by 1694 was spending $2\frac{1}{2}$ millions a year upon the army alone,³ and by 1697 had incurred debts amounting in all to over 20 millions. The state of credit in the middle of Charles's reign had been bad. We have already described the devices to which he was put in order to borrow. James, during his short reign, in spite of his increased expenditure, contrived to pay his way and achieve a reputation as a good payer. In the early years of William's reign the state of credit was infinitely better than it had been twenty years before, yet his grandiose policy involved such a vastly increased expenditure that the King's creditors were soon sighing for the return of the good days of James II, 'when the King's pay was much better than it was then'.⁴

The measures which William's government took to raise money are well known. They increased taxation as far as they dared. They raised in the City ordinary personal loans from every one who would lend. They issued tallies upon the excise and upon other revenues until there were several

¹ Lowndes put it at £5,600,000 (p. 105), but the quantities dealt with in the recoinage show that it was larger.

² W. A. Shaw, *Introduction to the Calendar of the Treasury Books*, vol. iv, p. xix; vol. viii, I, p. xix, &c.

³ Macaulay, *History*, 1858 edn., vol. iv, p. 489; S. P. D., 1696, 6, 120.

⁴ T. P., xxi. 81.

millions of pounds' worth outstanding and payments were two years in arrear. They raised a million upon a tontine which provided for the payment of 7 per cent. interest upon the whole sum to the surviving contributors until only seven were left, after which each annuity went on as it was until the death of the holder. They issued a lottery loan of a million, with large prizes for the drawers of lucky numbers in addition to 10 per cent. interest upon the principal.¹ Finally, and almost as a last resource, they founded the Bank of England.

It is no part of our purpose to incorporate in this book a history of the Bank. We are concerned with that institution only in describing its relationship to the standard of value. The Bank was given its charter under the authority of the Tonnage Act passed early in May 1694.² It was to lend £1,200,000 to the Government at 8 per cent.—an extremely moderate rate having regard to the straits the Government were in—and to receive in return the privilege of incorporation as a joint-stock company. There is no doubt that the intention from the commencement was that the Bank should do an ordinary banking business, that is to say, that it should receive deposits and create a credit currency. It cannot be made too plain that it was the Bank and not the original subscribers to the Bank who lent the money to the King. Most of these would not have been attracted by the offer of 8 per cent. They were attracted by the opportunity which the foundation of the first joint-stock bank in England provided of taking a hand in the business of banking, a business which in the last fifty years had raised up more junior clerks and scribes to be wealthy aldermen than had any other in treble the time. Most of the subscribers, in short, were speculators, men of 'quality' and men of business, who saw a chance of big dividends.

The Bank from the first was essentially a bank of issue and not merely of deposit. The Tonnage Act, under which it was granted its charter, clearly anticipated that it would accept deposits or issue notes at least up to the amount of its capital, re-investing the funds so obtained for its own profit.

¹ Macaulay, *History*, vol. iv, p. 326.

² 5 and 6 W. and M. c. 20.

The section of the Act which provided for this, however, said also:

'And it is hereby enacted, by the authority aforesaid, that the said corporation so to be made, shall not borrow or give security by bill, bond, covenant, or agreement under their common seal for any more, further or other sum or sums of money, exceeding in the whole the sum of twelve hundred thousand pounds, so that they shall not owe at any one time more than the said sum, unless it be by Act of Parliament upon funds agreed in Parliament.'¹

Now whether or not this section was intended to restrict rigidly the Bank's liabilities to an amount of £1,200,000 is not clear. There were some people at the time who thought, or pretended to think, that the Bank could not legally owe upon its notes more than £1,200,000. It is certain, however, that the Bank did not keep its liabilities within that amount, as will shortly be seen.

The first
issue of
Bank
notes.

Although the whole of the Bank's issue of capital, £1,200,000, was rapidly subscribed, only 60 per cent. of it, or £720,000, was called up immediately. As soon as it was clear that the issue would be successful, preparations were made for printing off note-forms. The loan to the Government was made by instalments beginning on 1 August 1694, £720,000 being paid in cash, partly no doubt in drafts upon other banks, and £480,000 in notes under the seal of the Bank, which became known as 'sealed Bank bills'. These the Government paid out in all parts of the country for supplies for the army, and soon they were accepted at par in payment everywhere, taking the place to a large extent of inland bills of exchange for remitting money across country.² Here was where William III had the advantage of Charles II. Charles's credit in 1672 was utterly bad. His paper orders were payable, not on demand, but eighteen months hence. He could not have issued notes payable on demand even if people would have accepted them, for he had no reserve. William and his Government were themselves in no better position. But the Bank was an institution newly floated in triumph in the face of all opposition. At least half the City of London believed in

¹ 5 and 6 W. and M. c. 20, sec. xxvi.

² Michael Godfrey, *A Short Account of the Bank of England*, p. 3.

it. The King's 'pay' was bad; but where his tallies would no longer go he could place with ease the Bank's 'bills', sealed with the common seal of the corporation, and engraved with the figure of Britannia seated upon a bank of money. Thus the King's immediate difficulties were surmounted by an inflation of credit of the simplest order. 'The Bank', said Michael Godfrey, the first Deputy Governor, 'have called in but £720,000. . . . They have paid into the Exchequer the whole of the £1,200,000 before the time. . . . The rest is left to circulate in trade'.¹ Godfrey foresaw no ill effects.

The exact amount of the tallies outstanding at the date of the foundation of the Bank is not certain, but it may be roughly estimated at 5 million pounds. Some fell due and were paid every week, but the longest-dated of them had two years to run. They were struck upon all the different branches of the revenue, and the degree of probability of their being paid at the due date varied with different branches. Interest was in most cases 7 or 8 per cent., but the City was no longer satisfied with so low a rate and would take tallies only at a considerable discount, amounting to as much as 25 or 30 per cent. Those who supplied goods for the public service could not wait two years for their money, and they were bound to sell the tallies which they received in payment, upon these unfavourable terms. Naturally they defended themselves by raising the price of their supplies. At last the King found it impossible to place any more tallies until some of those outstanding had been repaid and a certain amount of capital released. The officers of the Ordnance Department reported the disgust of those they dealt with at the arrears of payment of tallies. The gunmakers complained that they had been promised ready money but were offered tallies, upon which they could not raise money. The Admiralty desired the Treasury to pay money instead of tallies or work at the dockyards would cease. The commissioners for the sick and wounded complained that none would advance money on tallies at any rate of interest, and prayed for ready cash, or 'the seamen as they were landed must starve in the streets'.²

The Bank buys up the tallies.

¹ *Op. cit.*, p. 8.

² T. P., xxi. 81; xxii. 22; xxii. 30; xxiv. 14.

The Bank had a margin of £480,000 of sealed 'bills' which it could issue before the stated amount of £1,200,000 was reached. It began to look around for a suitable investment. The loan to the Government was a long-dated security. Something of shorter tenor was required to make up the assets side. Under the Act the Bank had the right to discount bills of exchange; but it was far easier to discount tallies. Tallies nearing maturity upon the Post Office or other of the more certain funds, carrying 7 per cent., and purchased at a discount, were an attractive investment for an institution with £480,000 lying idle. And so the market found itself relieved of a considerable quantity of tallies.

Credit
inflation.

Then the Court of Directors met to discuss the exact meaning of the section of the Act which has been quoted above. Were their outstanding liabilities limited absolutely to the amount of £1,200,000 or could they by any means go ahead and increase their indebtedness further? What view they took of the legal position is not recorded, but the upshot of the discussion was that they decided to limit the notes issued under seal to a total of £1,200,000, and to go ahead and issue notes beyond that amount merely signed by the chief cashier. These were called cash notes or cashier's notes, and were nicknamed 'Speed's notes' from the name of the cashier. During the latter part of 1694 and the early part of 1695 more and more tallies were purchased. The discount upon them diminished. At last they rose to par and even to a premium. Money which had been locked up in these depreciated wooden securities began to circulate freely in the shape of the Bank's sealed 'bills' and cash notes. The Government was able to place more tallies. A million pounds' worth were struck as early as August 1694 for the service of the army. As the discount disappeared the prices charged to the Government for supplies came down. In September a considerable sum was sent, with the aid of the Bank, to Admiral Russell in the Mediterranean for the pay of the fleet, and throughout the winter, if one may trust Macaulay, the ships were better provisioned than ever before. The Ordnance Board were able to make munitions for the spring campaign upon a scale never before attempted. In January 1695 the arrears of pay in the

dockyard at Chatham were cleared off; and in May William sailed for Flanders to lay siege once more to Namur with the knowledge that the financial situation at home was much easier. Some of this relief had been effected with the aid of the lottery money, and some out of the proceeds of taxation; but much of it had been rendered possible only by a considerable measure of credit inflation.¹

As we have already seen, during the greater portion of the seventeenth century sterling silver had fluctuated between 5s. 2d. and 5s. 4d. an ounce. Within a week or two of the Bank's first payment to the Government it rose to 5s. 4d. In November 1694 it was 5s. 5d. In March 1695 it went to 5s. 6d., in April to 5s. 7d., in June to 5s. 9d., and then it proceeded to rise more rapidly until in September it touched the peak price of 6s. 5d. Gold had been generally between 80s. 0d. and 81s. 0d. since the first issue of guineas. At the end of August 1694 it went to 81s. 6d. In January 1695 it was 82s. 6d., in February, 86s. 0d., in April, 92s. 0d., at the end of May, 103s. 0d., and in the middle of June, 109s. 0d. The exchange with Amsterdam, the silver mint par for which was 37 $\frac{1}{2}$ Dutch shillings to the pound sterling, seems to have begun falling about the middle of 1694, though quotations are not available. In January 1695, however, it was down to 32s. 7d., in April to 31s. 3d., in June to 29s. 1d. In August it reached the lowest point of 27s. 0d., recovering a little in September and October, only to fall back again to 27s. 5d. in November.² Houghton's *Collection for the Improvement of Husbandry and Trade*, a contemporary publication, shows that commodity prices, on the average, followed much the same course.

Gold,
silver, and
the
Dutch
exchange.

The inflation was accompanied also by a fever of gambling in the stock market. Company promoters flourished.

¹ See the pamphlet entitled *The Trial and Condemnation of the Trustees of the Land Bank at Exeter Exchange, for murdering the Bank of England at Grocers' Hall* (London, 1696?); Michael Godfrey, *A Short Account of the Bank of England*; Thorold Rogers, *First Nine Years of the Bank of England* (Oxford, 1887), pp. 19-26; John Francis, *History of the Bank of England*, 3rd edn. (London, 1848), pp. 55-70; Luttrell, *A Brief Historical Relation of State Affairs* (Oxford, 1857), under date Aug. 1694.

² Prices taken from a table compiled from Houghton by Thorold Rogers, *First Nine Years*, p. 165.

Numerous fraudulent flotations were foisted upon a public eager to double and treble the profits which easy credit, rising prices, and the appreciation of tallies had already given. For twelve months the City had a foretaste of the experiences which befell it in greater measure later during the South Sea Bubble.

The
price of
guineas.

In addition, however, to all these phenomena, which are the usual accompaniments of currency inflation, there was one which was perhaps the most spectacular of all. From their first issue guineas had fluctuated between 21s. 2d. and 21s. 10d. In March 1694 they rose to 22s. 0d., and at this price remained unchanged until the end of November. Then a steady rise set in. From 22s. 0d. they went to 22s. 3d. on 23 November, to 22s. 6d. on 21 December, to 22s. 9d., 22s. 10d., and 23s. 0d. in January 1695, to 23s. 4d. and then to 25s. 0d. in February. This last jump followed an announcement by the Bank that they would lend another 2 millions to the King upon the security of the taxes as soon as Parliament had voted the money. The rise was rather premature, and with gold at 86s. 0d. an ounce there was a profit of about 8 per cent. upon the coinage of guineas. The result was a considerable importation of gold, followed by heavy issues from the Mint, and so the price rose no further until May. In the first week of May, however, there was a rapid rise to 26s. 6d., which seems to have been followed by a wild burst of speculation, which carried the price by the beginning of June up to 30s. 0d. Another rush to bring gold to the Mint followed and raised the price of gold to 109s. 0d. an ounce, at which figure there was no longer much profit upon minting guineas. The price of the latter fell away a little and for some months fluctuated generally between 29s. 0d. and 30s. 0d., though at one time in September there was a panic and they were sold down to 27s. 6d. for a day or two. They soon rose to 30s. 0d. again, but the refusal of the officers of the excise to accept them at this price in payment of taxes seems to have prevented a further rise.¹

The gamble in guineas was one of the most curious

¹ Houghton, *A Collection for the Improvement of Husbandry and Trade*, Issues for the period; Luttrell, 26 Feb., 6 June, 8 Aug., 20 Aug., 21 Sept., 24 Sept. 1695.

features of this inflationary period. One result was that £750,000 of gold was coined in 1695 as against only £65,000 in 1694, and £54,000 in 1693.¹ While the price of silver and the price of Dutch currency rose only 25 per cent. and commodity prices on the average to about the same extent, the price of guineas and of gold went up by 40 per cent. This was partly due to the demand for gold which resulted from the talk of calling down the clipped silver, partly to the demand from the banks for reserve purposes in the face of increased liabilities, and partly to speculation. Most people at the time, however, regarded the clipper as the sole cause, and there is no doubt that the spectacular jump from 25s. *od.* to 30s. *od.* in May 1695 turned the earnest attention of the Government towards the condition of the silver coinage.

Throughout the century there had been no lack of quack proposals for amending the coinage and helping the Mint. Few of the pamphlets which had been written had contained much sound doctrine save that of Blondeau, until Sir Dudley North published anonymously in 1691 his *Discourses upon Trade*. At that time, although inflation of credit had not yet commenced, it had become clear that the problem of a re-coinage could not be put off much longer. 'There is a great fear', said North, 'that if clipped money be not taken there will be no money at all. I am certain that so long as clipped money is taken there will be little other.'² He did not think the Exchequer could be made to stand the cost of recoinage the bad money, and he recommended the time-honoured method of calling it all down to bullion value and placing the loss upon the holders.

About the same time John Locke entered the field of discussion. The Mint had ceased to work again, and the old proposal had once more been mooted of raising the Mint price of silver and the denomination of the coins by 5 per cent. Locke could not agree with the suggestion of 'calling that a crown now which yesterday was but a part'. It would 'rob all creditors of one-twentieth of their debts, and all landlords of one-twentieth of their quit rents for ever'.³

¹ House of Commons Papers, 1810-11, vol. x.

² p. 19.

³ *Op. cit.*, p. 141.

Proposals
for
reform.

John
Locke.

Parliament had begun, immediately after the Revolution, to concern itself with the condition of the coins, but to little purpose. In 1689 a committee had been appointed to inquire into the matter, but no report is recorded. In the next year another committee reported the facts which every one knew regarding the export of bullion, and a Bill was introduced to prevent it, but was not passed. In 1691 another Bill with the same object was lost. In 1692 a third one was also laid aside.¹ It was not indeed until 1695, when the depreciation of money which has just been described was beginning to be noticed, that either the Government or Parliament really took serious action. At the instance of Montague a Parliamentary committee was appointed to inquire. They reported in March, their principal recommendations being that all the money should be called in and recoinced and that the new coins should be raised 10 per cent. in denomination. The report was shelved, but in May there came the sudden rise of guineas, and the Government then took a step which, at any rate from the point of view of the historian of the currency, was a far more useful one. They called upon William Lowndes, Secretary of the Treasury, to inquire what action had been taken on similar occasions in the past, and to give his own views upon what should be done now.

Lowndes. Lowndes had entered the Treasury at the age of 27, and in April 1695, when he was made Secretary, had been there for sixteen years. On 12 September 1695 he issued his report in the form of *An Essay for the Amendment of the Silver Coins*. It began with a brief summary of the history of the coinage, setting forth all the changes which had occurred in the weight and fineness of the coins since the Conquest; and its author proceeded to draw the conclusion that it had been a policy 'constantly practised in the mints of England (the like having indeed been done in all foreign mints belonging to other Governments) to raise the value of the coin in its extrinsic denomination from time to time as any exigence or occasion required'. Such an occasion, he thought, had clearly now arrived. The Mint price of sterling silver was 5s. 2d. an ounce, the market price 6s. 5d. The coins should be called up

¹ Ruding, 1692.

25 per cent., that is to say approximately in proportion. He set forth at considerable length his arguments in favour of this course. He had made a careful inquiry into the condition of the clipped money, and had come to the conclusion that to recoin it at the old standard would cost 2 millions, and at his suggested new standard, $1\frac{1}{2}$ millions. The cost, he thought, should be borne by the public, and he had framed a very detailed and complete plan for carrying out the reform.

Lowndes's views must not be confused with those of the many people who had suggested raising the denomination of the coins on previous occasions. The purpose of those people had been merely to increase the activity of the Mint at a time when money was only slightly depreciated, and their intention had been to compete for metal with other countries which had raised the denomination of their coins. Lowndes, on the other hand, knew that English money was now much depreciated, that it would buy much less silver, much fewer guineas, and much less in commodities than before. The clipped coins were to be reminted into milled money which could not be clipped; but the milled money would represent the same sterling pound as the clipped coins, and it was only reasonable to provide that a pound's worth of coins should contain no more silver than a pound would now buy. Lowndes could not see that a recoinage upon these lines would harm anybody. The harm indeed was already done. 'It is freely submitted to impartial judgments', he said, 'whether the proposed advance of silver in the coins can infer a real loss upon any persons, other than such as can propose to themselves particularly the receipt of moneys in weighty or unclipped pieces only, and the conversion thereof to an advantage which law or reason would not allow them.'

He had discussed his views with Locke while preparing the *Essay*, and had found him in disagreement. Locke was in frequent touch with Sir Isaac Newton upon the subject; and after Lowndes's work had been published, Somers, the Lord Keeper, invited both Locke and Newton to give their opinion. Newton is known to have been in substantial agreement with Locke, but whatever he may have written at this time is no longer in existence. The invitation, however, drew from

Locke his famous pamphlet entitled *Further Considerations concerning Raising the Value of Money*.¹

The keynote of Locke's position is given in the Dedication of his book to Lord Keeper Somers. 'Westminster Hall is so great a witness of your Lordship's unbiased justice and steady care to preserve to every one their right, that the world will not wonder you should not be for such a lessening our coin as will, without any reason, deprive great numbers of blameless men of a fifth part of their estates beyond the relief of Chancery.' He stood, in other words, upon the argument he had used in 1691, namely the injustice to the creditors of reducing the bullion contents of the unit. He supported it with a great deal of purely deductive reasoning much of which is little more than truism. He denied, for instance, that an ounce of standard bullion had ever sold for 6s. 5d. 'of the lawful money of England'; which was quite true but of little importance when 99½ per cent. of all the silver money people were using was not strictly lawful money.² The only true pound, in his view, was 3 oz. 17 dwt. 10 gr. of sterling silver, and justice could be done only by 'recoining all the money at this rate.

Montague and Somers and most of the Court party and the landed interest accepted Locke's reasoning with enthusiasm. On the other side the goldsmiths and bankers and many commercial men ranged themselves with Lowndes. The issue between the two parties became the simple one of stabilization at the existing value or a return to the old standard. Nobody understood why the value of money had fallen. Lowndes thought that because the war had necessitated the making of so many payments abroad silver bullion had been exported in large quantities to meet the adverse balance, and had become scarce in England, with the result that the price had risen. Locke thought the depreciation of money was entirely due to clipping. He did not attempt to explain why it had occurred suddenly, while clipping had been going on for half a century. Actually it is true that if the money had

¹ London, 1695.

² By 'lawful money' he meant money of the Mint weight. It is doubtful to what extent clipped money was at the time strictly legal tender.

not been clipped, the over-issue of notes and the consequent depreciation of the unit would have been made impossible by the rapid export of coin; but the inflation of credit was nevertheless the immediate cause of that depreciation.¹

Nor did either of the protagonists foresee the crisis which would follow upon the first efforts to recoin at the old standard. They do not seem to have realized what a rapid deflation would mean.

In November 1695 the King, in his address to the Houses, informed them that he proposed to leave the method by which the coinage should be reformed for their decision. Montague immediately introduced some resolutions for returning to the old standard, and issue was joined between the two parties in the House of Commons. It was hotly contested for several days, but the Court party finally won and an address to the King was agreed upon between the Houses. On 19 December the first proclamation was issued. After 1 January 1696 no clipped crowns or half-crowns were to pass current except in payment of taxes and loans to the King. Shillings might pass until 13 February and sixpences until 2 March. Crowns and half-crowns would not be received even in payment of taxes after 22 February, nor shillings after 2 March, nor sixpences after 2 April; so that on this last date clipped money would cease to be current in any payment whatsoever.² This caused something of a panic. It was not everybody who had taxes to pay within the next month or two, and those who had not, refused to take clipped coins in payment. There were arguments in every shop and serious mumurings amongst the common people, which ended in rioting.³ The Government found it impossible to get the necessary recoinage Act passed without extending the time during which clipped money would be received.

Parliament and the coinage.

¹ The authors of the Bullion Report of 1810 appear to have been the first to diagnose correctly the position of the currency in the period 1694-8, when they stated that at that period 'the effects of a depreciation of the coin by wear and clipping were coupled with the effect of an excessive issue of paper'. Macleod, *Theory and Practice of Banking*, c. IX, pars. 49 and 50, attempted to destroy this theory, but most of his reasoning upon the point was fallacious, and the account given in the Bullion Report is an admirable summary of the events as they occurred.

² *London Gazette*, 19 Dec. 1695.

³ Macaulay, *History*, vol. iv, p. 643.

The first
measures.

On 21 January this 'Act for remedying the ill state of the coin' was passed. It provided that all receivers of revenue should take in payment of taxes at any time before the 4 May clipped coins, 'being sterling silver, or being silver moneys of a coarser alloy than the standard, . . . at the same rate or value as if such moneys were unclipped or diminished', so long as these coins did not 'evidently appear to be made of copper or base metal plated over or washed with silver only'. Further, they were to take clipped money in the same manner in payment of loans at any time before 24 June. All clipped coins were to be passed into the Mint by the receivers to be recoinied, and the milled money they produced was to be passed back to the Exchequer and a record kept of the loss thereby resulting upon each fund. Not less than four provincial mints were to work under these regulations to deal with money received by local collectors. With regard to the unclipped hammered money any person who possessed any which had 'both rings or the greater part of the lettering appearing thereon', was to punch a hole through it before the 10 February, after which date any person accepting punched coins which had been clipped became liable to penalty. Of the new money coined 40 per cent. by weight was to be shillings and 10 per cent. sixpences.¹ Another Act permitted people who had been assessed to the four-shilling land and property tax to pay twelve months in advance in clipped money before 24 June,² and a third allowed those who had already purchased annuities to extend them or add to their holding by a further payment of clipped money before that date.³

These measures restored confidence. There was now plenty of time, people thought, in which to get rid of their light money, and they began to use it again freely. The Government in a leisurely manner commenced to prepare for the recoinage. It was decided to raise the necessary funds to pay the cost by means of a tax upon windows.⁴ The tax, however, would take some time to assess and collect, and for the general purposes of the year it would be necessary to borrow

¹ 7 W. III, c. 1.

² Proclamations, Chron. Series, 17 Apr. 1696.

³ 7 W. III c. 2.

⁴ 7 and 8 W. III. c. 18

something like 2 millions. There were long debates regarding the method of doing this. It was decided not to ask the Bank of England to furnish the money. A State Bank was suggested, but the proposal was put aside.¹ Finally the famous scheme for the Land Bank was evolved, about which all that need be said here is that it was a plan to start a new corporation which was to lend money, in the form of inconvertible notes, to private persons upon mortgages, and at the same time to lend 2½ millions to the Government.

Meanwhile the clipped money was coming in, and the mills at the Tower, somewhat augmented, churned away as rapidly as possible, attempting to keep pace. It was a part of the theory that as milled money increased in circulation the price of guineas would come down, and so Parliament took the bull by the horns and decreed that after Lady Day they should not pass for more than 26*s. od.*, and after the 10 April for more than 22*s. od.*² Also from 2 March the Mint was closed to the coinage of gold, and it was made illegal to re-import guineas.³ The result was simply confusion. Houghton quotes no price for guineas from 14 February to 17 April, when he seems to adopt the legal price of 22*s. od.* Moreover, as the 4 May approached the confusion spread to the silver coins. Many people began to be afraid of being left with a quantity on their hands. They would accept them only at a discount, while those who had taxes to pay freely purchased them at anything below face value and paid them to the receivers.⁴ The collectors accepted bribes to pass clipped money through the accounts and pay the equivalent out again in milled money.⁵ Many of them, finding that some of the people who were assessed to land tax were unable to pay twelve months in advance, advanced it in clipped money themselves, and later distrained upon the debtors for payment in milled money.⁶ In the last week of April it was announced definitely that in no circumstances would clipped money be accepted in payment of dues after Saturday, 2 May. Immediately there was a rush by all those who could claim

The re-
coinage.

¹ Luttrell, 11 Feb. 1695-6.

² 7 and 8 W. III. c. 13.

³ T. P., lix. 5.

⁴ 7 and 8 W. III, c. 18 and c. 19.

⁵ S. P. D., 28 Aug. 1696.

⁶ S. P. D., 2 July 1696.

the right to unload upon the Exchequer at face value. During the whole week the clerks attended to a continuous stream of people bringing in the 'narrow' money. On the Saturday the Exchequer was surrounded, and the guards had to be brought out to keep order amongst a surging mob, who pushed and fought and broke each other's heads, clamouring the whole day and up to the stroke of midnight to be allowed to pay their taxes.¹

Much
clipped
money
shut out.

When the Exchequer finally ceased to take the light money at face value it was apparent to every one that not by any means all of it had been brought in. On 24 June, when it ceased to be accepted at par in payment of loans, the quantity which had been received, according to Luttrell, was £4,706,003 18s. 6 $\frac{3}{4}$ d.² It was clear that the estimate of Lowndes had been at fault, for there were large quantities still about. Early in June the promoters of the Land Bank were still pressing to be allowed to pay one-fourth of their loan, or over £600,000, in clipped money.³ This was refused, for the Government was becoming frightened at the amount of the loss they might be compelled to shoulder. The Land Bank scheme failed, and Montague was driven back upon the project of Exchequer notes, but he postponed the issue until after Midsummer Day lest more of the clipped coins should be paid to the Exchequer in exchange for them.⁴ Against all appeals for an extension of time, and for the purchase of light money at face value at the Mints, a deaf ear was turned. The Exchequer was finally closed to the old money at its nominal value on 24 June 1696.

Who then were the people who suffered? It is easy to be certain who were not. The landowners with land and property tax to pay, the merchants with customs and excise duties to pay, the tax-collectors, the bankers, the stock-jobbers, and the well-to-do middle-class people of the towns who could subscribe to loans and annuities—these had not only been able to unload upon the Exchequer any stock of bad money they possessed, but in many cases, no doubt, had

¹ Macaulay, *History*, vol. iv, p. 697.

² 18 July 1696.

³ S. P. D., 5 June 1696.

⁴ Godolphin to the King, S. P. D., 12 June 1696.

made a nice profit by purchasing clipped money at a discount from less fortunate persons. The people who were left with it were the wage-earning and poorer classes, who found that the shop-keepers at an early stage refused to take it at par, and who had no chance of getting it into the Exchequer before the time.

Early in June there were riots at Kendal and at Halifax. The citizens of Norwich sent a petition through the Duke of Norfolk begging that in the interests of the King's peace the clipped money might be changed without loss to the holders. The justices of Staffordshire wrote saying that they feared serious disturbances 'owing to the state of the coin'. Other authorities wrote in the same strain.¹ They were told that those of them who were in Parliament knew what had been resolved in order to amend the coin, and that what had been so settled could not be altered except by the same authority.² The Lords Justices were informed of the serious danger of insurrection amongst the miners of Derbyshire when their clipped money was refused. 'An evil without remedy', they said, 'but the best care should be taken for suppressing tumults.'³ A proclamation was issued saying that in view of the difficulty in the exchange of money, which might occasion a 'great hardship upon the labourers and poorer sort of people', the justices were to meet frequently, in the first place to administer the poor law, but above all to keep the peace.⁴ It may be doubted whether Elizabeth's method of calling down all the bad money to a little less than its bullion value, let the holder be peasant or landlord, labourer or merchant, shop-keeper or goldsmith, did not deal out a greater measure of even-handed justice than this plan of Montague's, which gave the rich full compensation and the poor very little.

It seems to have been the intention at first to do nothing more with regard to the remainder of the light money, but merely to allow it to find its way out of circulation or come into the Mint at 5s. 2d. an ounce. Warnings, however, of the danger of serious trouble which came from all parts of the

The
resulting
unrest.

¹ Treasury Books, xxxviii. 3; xxxix. 64; xl. 20.

² S. P. D., 16 June, 21 July 1696.

³ S. P. D., 24 May 1696.

⁴ Proclamations, Chron. Series, 2 July 1696.

country, induced the Government to make some concession. In July an Order-in-Council was issued permitting people to pay their clipped money into the Exchequer as a loan at 5s. 8d. an ounce, or 6d. above the Mint price. It began to come in at once.¹ Shortly afterwards this price commenced to be given for clipped money taken to the Mint to be re-coined; and in September an order was issued by which it was to continue to be so given until 4 November.² In November an 'Act for further remedying the ill state of the coin' was passed, by which hammered money was to be received at the Mint until 1 July 1697 at 5s. 4d. an ounce, and in payment of taxes and loans until 1 June at 5s. 8d.³ That this included clipped coins of all kinds and not merely the punched ones is made clear by a provision which permitted broad hammered pieces to be received by tale for taxes until 18 November.

The £4,700,000 of clipped coins taken at face value had all been turned into milled money by about November 1696.⁴ They cannot be supposed to have contained more than £2,500,000 worth of silver at the Mint price, and this was about the total quantity of new coins minted in 1696. Now the whole amount of milled silver issued during the three years that the recoinage lasted was £6,800,000.⁵ An Act of November 1696 required the Mint to give 5s. 4d. an ounce for silver plate during the greater portion of 1697, and this certainly provided some of the silver which was minted, for the market-price had now fallen to 5s. 2d., and large quantities of bullion and plate were brought in to reap the 2d. profit.⁶ But there cannot be the slightest doubt that a very large portion of the balance of 4 millions or so of milled money which was issued before the end of 1698 was minted from hammered money, more or less clipped, punched and unpunched, left on the hands of the people at 24 June 1696, and purchased, not as has been generally supposed, at par value, but at 5s. 8d., 5s. 4d., or 5s. 2d. an ounce.⁷ The recoinage is

¹ Luttrell, 7 July 1696; T. P., xxxix. 12. ² Luttrell, 26 Sept. 1696.

³ 8 W. III, c. 2.

⁴ Luttrell, 29 Sept. 1696.

⁵ House of Commons Papers, 1810-11, vol. x.

⁶ Luttrell, Apr., May, and June, 1697.

⁷ Davenant, *Discourses on the Public Revenues, &c.* (London, 1698), pp. 50 and 51, gives some figures which amply confirm this.

said to have cost the State £2,700,000.¹ There seems to be no doubt that at least another million of loss fell upon the holders of clipped coin; mostly the poorer people.²

The whole scheme of the recoinage was badly muddled. At the outset the London Mint could not keep pace with the receipts of clipped money. Not until 2 May 1696 did real preparations begin, when Newton took the oath as Warden. At one time there was over 2 millions by tale of light money waiting to be dealt with. The provincial Mints at Exeter, Bristol, Norwich, York, and Chester did not begin working until June. It seems clear that the bulk of the £1,800,000 of milled money which they issued came from clipped money purchased at the Mint price plus, for a part of it, the 2d. or 6d. 'recompense'. The market price of silver being at the outset still above the Mint price, many of the new coins disappeared immediately. Lowndes had recommended that the light money should be called in, and that negotiable bills upon the Exchequer, bearing interest, should be given in exchange for it, to take its place in circulation. Actually nothing was given in exchange except an acquittance for taxes. The tallies which should have been redeemed with those taxes were only partly redeemed, because the mills worked slowly and because of the loss upon coining. Deficiencies were allowed to pile up upon all the funds. It had been intended that the loan by the Land Bank should prevent these deficiencies from increasing, but the Land Bank scheme was a failure and was abandoned early in July. It seems incredible that in the face of the detailed and workable plan

The
scheme
mis-
managed.

¹ Lord Liverpool, *A Treatise on the Coins of the Realm in a Letter to the King* (Grenfell & Birch's edn., London, 1880), p. 85.

² Macaulay's account of the recoinage (c. XXII) leaves an entirely false impression. He neglects altogether to mention the fact, of which there is overwhelming evidence, that for a large portion of the clipped money the State paid only 5s. 8d. an ounce or less. He could not ignore the serious disturbances which occurred amongst the poorer people, but the explanation he gives is ridiculous. 'In one place', he says, vol. iv, p. 708, 'a crowd of poor ignorant creatures, excited by some knavish agitator, besieged the house of a Whig member of Parliament and clamourously insisted on having their short money changed.' The 'poor creatures' were probably not ignorant of the fact that the richer people, including, no doubt, the Whig member of Parliament, had been able to get rid of their short money at par.

with which Lowndes had provided them, apart altogether from his proposal of devaluation, the Government should have adopted this crazy scheme for withdrawing and withholding from circulation a considerable portion of the everyday currency without putting anything in its place.

During the second half of 1696 and the first half of 1697 there was a great shortage of metallic money for retail transactions, due to the fact that so much of it was in the Mints, and a considerable shrinkage of the amount of credit currency available for large transactions, owing to deflation. In the first week in May 1696 the crowds which in the previous week had clamoured at the Exchequer to be allowed to pay hammered money in, besieged the Bank of England in order to get milled money out. Sir John Houblon, Lord Mayor and Governor of the Bank, made a soothing speech, paid them a little, noted the payments on the back of their notes, and promised to pay the rest later.¹ Bank notes therefore became partly inconvertible. They immediately fell to a discount, which soon reached 16 per cent., and in February 1697, upon the proposal to enlarge the Bank, increased to 24 per cent.² To strengthen its position the Bank called up another 20 per cent. of its capital, and increased the interest payable upon its notes from 2*d.* to 3*d.* per cent. per day. The Land Bank scheme naturally did not help its credit, but when that scheme failed the Lords Justices were compelled to appeal very humbly to the Bank of England to help them. Houblon took the opportunity of pointing out the good service the Bank had done for the public and the bad treatment it had received in return.³ A week later, however, a general court agreed unanimously to call up the remaining 20 per cent. of their capital and lend another £200,000 to the King.⁴ About the same time the Bank borrowed £300,000 from Holland at 5 per cent., which was also lent to the Government.

The
Bank's
balance
sheet.

In November 1696, when the Commons were considering what should be done to meet the deficiencies on the funds, that is to say, to meet the outstanding tallies, which now

¹ Luttrell, 7 May 1696.

³ S. P. D., 5 and 6 Aug. 1696.

² *Ibid.*, 20 Feb. 1697.

⁴ Luttrell, 15 Aug. 1696.

THE FIRST CREDIT INFLATION 133

amounted to £8,700,000,¹ a return of the position of the Bank was presented to them. From it the following rough balance sheet may be drawn up.²

BANK OF ENGLAND

Balance Sheet as at 10 November 1696

LIABILITIES		ASSETS	
	£		£
	s. d.		s. d.
Capital	1,200,000	Loan to the State	1,200,000
Profit and Loss Account	125,315	Half-year's remuneration due on above	50,000
Sealed 'bills' outstanding	893,800	Tallies on Parliamentary Funds with Interest	1,784,576
Interest on the same	17,876	Mortgages, pawns, other securities and cash	266,610
Notes for running cash ('Speed's notes')	764,196		
Borrowed in Holland	300,000		
	£3,301,187		£3,301,187
	13 5		13 5
	£3,301,187		£3,301,187

Nothing could show more clearly how completely the Bank had been, up to that time, a mere machine for inflating the currency. Its advances for ordinary commercial business were almost negligible. Its advances to the State formed nearly the whole of its assets; and more than half of these advances had been made by issuing sealed 'bills' and cash notes all of which were negotiable and had been added to the pre-existing paper currency.

The position at the date of this return was probably somewhat healthier than it had been earlier in the year. The recoinage had been in progress for some months, and every week the Government had passed over to the Bank in payment of tallies £25,000 of milled money with which the Bank had cashed some of its notes.³ This was how deflation was brought about. At first the machinery of credit was almost paralysed by the shortage of coin. It was suggested by the Bank and

¹ S. P. D., 6, 120.

² Thorold Rogers, *First Nine Years*, p. 82; also the pamphlet entitled, *The Arguments and Reasons for and against engraving upon the Bank of England with tallies . . .* (London, 1700).

³ Luttrell, 28 May 1696.

by others that the Bank's sealed 'bills' and cash notes, and even good goldsmiths' notes, should be made legal tender in payment of bills of exchange; but to this the Government would not agree.¹ In July 1696, however, the situation was eased to some extent by the issue of Exchequer 'bills'.² These 'bills' were not of the modern kind, issued merely for raising money, and held, in the main, by the subscribers as an investment. They resembled the Bank's sealed 'bills', were payable to bearer, bore interest at 3*d.* per cent. per day, passed current quite freely, and were issued for amounts as low as £1. They should have been issued about three months sooner.

Deflation.

The result of the shortage of coin and the shrinkage of credit was a rapid deflation. In May and June markets collapsed. The exchange with Amsterdam commenced to rise as soon as the withdrawal of clipped coin began, and continued to do so until, by the end of 1696, it had reached par. The price of silver came down to 5*s.* 2*d.* by July of that year, and the price of gold to 82*s.* 0*d.* Commodity prices fell considerably during the autumn.³ In November the Mint was once again opened to the coinage of gold.⁴ By the beginning of 1697 therefore the currency was well on the way towards being put upon a new and sounder footing, with milled money as its basis. It remained only for the Government to provide for the cost of the transaction, to put its finances generally in better order, and to complete the recoinage of the hammered money. The comprehensive Statute of February 1697, which provided, amongst other things, for the enlargement of the Bank, went a long way towards straightening out the financial position.⁵ The recoinage occupied the better part of 1697 and 1698, but gradually, throughout 1697, the discount upon Bank 'bills' diminished, and by the end of that year the Bank was able once again to pay them on demand at par. In 1698 an Act was passed which made it lawful for any person to whom

¹ S. P. D., 28 May 1696.

² Luttrell, 23 July 1696; 8 and 9 W. III, c. 6.

³ Luttrell, 8 Oct. 1696.

⁵ 8 and 9 W. III, c. 20.

⁴ 8 W. III, c. 16.

silver money was tendered any piece of which was diminished 'otherwise than by reasonable wearing', or that he should suspect to be counterfeit, to deface the same.¹ If it turned out to be really a bad coin the tenderer must bear the loss, but if not, the person who had defaced it in error must take it at face value. The Act proved a failure, but it was intended to round off the measures for the restoration of the silver coins and prevent them from ever getting into so bad a condition again.

And so for the first time since the great recoinage of the pollards in the year 1299, a recoinage was effected which restored entirely the standard that had existed before the debasement; and for the first time in English history a considerable portion of the cost was borne by the Exchequer. The injustice to the poorer people and the general muddle must not be allowed to prevent us from appreciating what Montague and Somers did, in facing such a transaction at such a time. The magnitude of the effort, carried out when the finances of the country had been so sorely strained by the war, and while the war was still in progress, can scarcely be overrated. It has been looked back to ever since as a sterling example to be kept in mind at any time when there may be a temptation to alter the standard of the Mint. Locke's *Further Considerations* have been almost a gospel for 'sound money' men. Lowndes has seldom been given his due as the leader of those who saw that, once a currency has been allowed to depreciate, there is something to be said for stabilizing it at the existing value.

Macaulay is very unfair to Lowndes. 'He seriously believed,' he says, 'incredible as it may seem, that, if the ounce of silver were divided into seven shillings instead of five, foreign nations would sell us their wines and their silks for a smaller number of ounces'.² There is not a tittle of a suggestion anywhere in the *Essay* that Lowndes believed any such thing. He saw that a pound is something different from a definite weight of metal, and he did not believe that its value should be tied slavishly to that of any definite weight of metal. The weakness of his position lay in the fact that

¹ 9 and 10 W. III, c. 21.

² *History*, vol. iv, p. 634.

Locke
and
Lowndes.

he could suggest no alternative method of stabilizing the value of money. Had the crown been raised to 6s. 3d. in December 1695, it might, for all he could say, have been necessary to raise it to 7s. 0d. a month later. Moreover money was not at that time so depreciated as to make a return to the old standard the serious matter it might have been in other circumstances; nor had it been long depreciated. A larger measure of justice as between debtors and creditors was probably meted out by recoinage at the old denomination.

This indeed was Locke's strongest argument. A new era of Parliamentary government was attempting to establish itself, and large sums had been borrowed by the King upon the authority of Parliament. 'It will weaken, if not totally destroy the public faith', said Locke, 'when all that have trusted the public and assisted our present necessities upon Acts of Parliament in the million lottery, Bank Act, and other loans, shall be defrauded of 20 per cent. of what those Acts of Parliament were security for.' In arguing thus he did much to instil into the minds of those who came after him a clear idea of the kind of dealing they had a right to expect when the public faith was pledged, and also a strong feeling that the standard of the Mint should not be altered by the Government upon any pretext whatever, whether for its own ends or in the interests of the Exchequer.

This sanctity which Locke attached to the Mint weights was something new. Before his time few people regarded the weights of the coins as in any way immutable. The King had made them; he had altered them many times; and doubtless if it suited him he would alter them again. It is true that from the Conquest down to 1342, when a pound of silver and a pound of money, if not actually the same, were regarded as such by the people, not only the fineness of sterling silver, 'the ancient right standard of England', but the weight of the coins, was regarded as sacred. Edward III, out of dire necessity, reduced the weight, but Parliament protested so loudly that, for half a century, no one dared whisper of further reduction. In the fifteenth century, however, the idea that the Mint weights should not be changed entirely disappeared. They were regarded as within the prerogative of

the King, who might do as he pleased with them; and when he altered them few peopled grumbled. The alloy, indeed, still retained its sacredness, which was one reason why Henry VIII's base coins were detested so much; but the weights, particularly of gold coins, might be changed without complaint.

Since 1696, however, the old sacredness has been restored to the standard. Peel, both in 1819 and 1844, stood firmly by the doctrine, which he obtained from Locke, that the unit was a definite quantity of bullion, which must not be altered. All the best-known writers of the nineteenth century praised the settlement of 1819 by which, after the currency inflation of the Napoleonic period, the old standard was restored. Largely as a result of Locke's influence, £3 17s. 10½*d.* an ounce came to be regarded as a magic price for gold from which we ought never to stray and to which, if we do, we must always return. Since gold has been the basis of our standard, its value, except for a few short periods, has been constantly falling, and the long-period creditors and mortgagees have been the people to suffer. The burden of debts has been lightened and producers have received encouragement. We have therefore, in security from Government tampering with the money, gained far more than we have lost from Locke's reasoning. Moreover, in modern times the serious effect of a change of standard upon the nation's credit must be added to the arguments of Locke.

Nevertheless there may come a time when we and all the other gold-standard countries will have to face, over a long period, a sustained rise in the value of gold; and then the sacredness of the Mint weight may become as embarrassing as it was to Edward III, and we may realize more clearly the truth that lay at the back of the argument of Lowndes.

CHAPTER VII
THE GOLD STANDARD

The East
India
trade.

THE most important feature of commercial progress in the second half of the seventeenth century was the development of trade with the East. The East India Company, which was granted its charter in the last years of Elizabeth's reign, began, after the Restoration, to reap a magnificent harvest as the reward of its early struggles. Before the death of Charles II a taste and fashion for the luxuries of the East were widespread amongst the wealthy classes. The value of the imports of all commodities from India was multiplied thirty-fold in the reigns of the last two Stuarts. The Company, whose capital at the outset amounted to £370,000, paid a bonus of 100 per cent. in 1676, and nevertheless, a few years later, found its stock quoted at 360.

The East India trade was the cause of a temporary pause in the depreciation of silver in terms of gold. In the reign of Henry III a piece of gold in northern Europe was worth rather more than nine times as much as a piece of silver of the same weight. On balance, silver during the next three hundred years depreciated rather more rapidly than gold; but even in 1601 Elizabeth worked on a ratio which was barely 11 to 1. In the first half of the next century, however, the great influx of silver from America drove the ratio in England and the neighbouring countries up to more than 15 to 1, and necessitated the frequent changes in the weight and denomination of the gold coins which have been noticed in an earlier chapter. Then for nearly a century the relative fall in the value of silver ceased. Guineas during their first thirty years remained, as we have seen, remarkably steady. It was not that the stream of silver from America to Spain had dried up. It flowed as fast as ever; and, although gold came as well and there were new supplies of that metal from Africa and the East, this could by no means have neutralized the influx of silver. It was the discovery of a new outlet which steadied the ratio and, for a time, even allowed silver to regain some ground.

One of the earliest quarrels which the other merchants and the manufacturers of England had with the East India Company was that its trade offered but a poor outlet for English goods, particularly woollen cloth. The latter was still by far the most important article of export, and the natives of India wanted little of it. Moreover there was nothing that they would accept so readily in exchange for their goods as silver. Thomas Mun, in the time of Charles I, had argued that if the Company were allowed to export a little silver in the first instance they would establish a trade the profits of which would assure for England in the long run a much greater accumulation of the precious metals. It is probable that Mun sincerely believed this, and taking the two metals together he was probably correct; but there is no doubt that in actual fact the bulk of the silver that went to the East never came back. There was still no single world-value or world-ratio for the two metals. In Spain the mint ratio at the end of the seventeenth century was about 16 to 1. The market ratio varied, as the galleons brought in silver or gold. When a ship arrived with more gold than silver the ratio would perhaps for a time be as little as 14 or 15 to 1. When a vessel arrived with a silver cargo it went up to 18 to 1 and silver flowed out. In Eastern countries, however, where the demand for silver was high, the ratio was only 9 or 10 to 1, and the East India Company played the leading part in the inevitable movement of silver eastwards. When their vessels were fitting out in the port of London, silver in the London market rose 2*d.* or 3*d.* above the Mint price.¹ The outflow of the metal from Europe counterbalanced the excess of silver imports over gold imports, and for nearly a hundred years the value of silver in Europe more than held its own with that of gold.

This change in the direction of movement of the ratio coincided with the completion of a series of most important changes in currency administration. For a few years from the end of 1698 the monetary regulations and conditions approached more nearly than at any other time to those

¹ Sir Isaac Newton, *Memorial concerning the proportion of gold and silver in value* (London, 1701).

required for the working of an automatic double standard. It is true the embargo upon the export of coin had not been raised, but bullion produced from English coin might now be passed through the customs by the simple expedient of swearing that it was not so produced. Gold, owing to its high value in relation to the incomes of most of the people, could not yet do the business of the country so well as silver; but it was able to do it much better than at any time in the past. Wages could still not be paid in gold, but a considerable part of production had passed into the hands of large capitalists who, unlike the small wool-growers, agriculturists, and artisans of the Middle Ages, could use gold in their dealings with the merchant. The Mint charges had been abolished, and it was now possible to obtain, in exchange for bullion, a supply of coins of either metal at precisely the rate at which they were minted. Further, and most important of all, though no adequate provision had yet been made for repairing the wear and tear of the coins, which in course of time hampered the working of both standards, for a while there were in circulation plenty of full-weight coins of both kinds, and therefore it was possible to obtain from them bullion of either sort at nearly the Mint price. So long as most of the coins were clipped the standard had been very far from a perfect silver standard and the debased silver coins had taken a great deal of driving out. With the replacement of clipped coins by full-weight milled ones it became very much nearer to a perfect silver standard, and for the first time there was a possibility, given a slight fall in the relative value of gold, of the gold coins driving out the silver ones and establishing a gold standard. The demand for silver from the East brought about the necessary narrowing of the ratio. By the end of the eighteenth century silver was falling again more rapidly than ever, and in our own time the ratio has reached 80 to 1. Had the gold standard not established itself automatically in the eighteenth century it could only have been established by some deliberate act of legislation, probably much later and after a great deal of controversy, as happened in Germany and France.

The price
of the
guinea.

While the recoinage of William III was in progress

guineas were called down, as we have seen, to 22s. *od.*, and the Government refused to take them in payment of taxes at a higher price than this. There was some confusion at first, but soon plenty of gold was imported to be turned into guineas at this price. Towards the end of 1697 there were complaints that gold was being imported for the sole purpose of obtaining silver for export. This is the first definite notice we have of the double bullion transaction being carried out, probably because only under the new currency regulations, and with plenty of heavy coins in circulation, did it become profitable. Several times during 1698 it was suggested that guineas should be reduced in price, and on 14 February 1699, after a debate in the Commons, the Treasury ordered all tax-collectors to refuse to accept them at more than 21s. 6*d.*¹ This had the effect of reducing a little, during the next two years, the quantity of gold imported, but in 1701 there was a record influx of £1½ millions.² The relative value of gold was still falling and silver coin was becoming noticeably scarcer.

In December 1699 Newton, who up to now had been Warden, was made Master of the Mint.³ In September 1701 and July 1702 he issued reports dealing with the influx of gold and the displacement of silver. He showed that at ruling rates of exchange a guinea's weight of gold was priced at from 9*d.* to 1s. *od.* higher in England than in all the other countries of Europe, and he recommended, as the only means of saving the silver coin, the reduction of the price of guineas by whatever amount was necessary up to 1s. *od.*⁴ The outbreak of war with France, however, in 1702, postponed further discussion of the matter, for gold ceased to flow in, and during the period of the war the mintings of both gold and silver were insignificant.

After the conclusion of peace in 1713 the influx of gold began again in larger quantities than ever. During the next three years over 4 million pounds' worth was minted.⁵ In

¹ Luttrell, 9 Oct., 12 Oct. 1697; 16 Apr., 20 Sept., 22 Sept., 1698; 14 Feb. 1699.

² House of Commons Papers, 1810-11, vol. x.

³ Luttrell, 26 Dec. 1699.

⁴ Sir Isaac Newton's Mint Reports, in W. A. Shaw's *Select Tracts and Documents illustrative of English Monetary History* (London, 1896).

⁵ House of Commons Papers, 1810-11, vol. x.

The
guinea at
21s.

1717 the East India Company alone exported 3 million ounces of silver, much of which undoubtedly came from the coinage.¹ In the same year Newton was once again asked to report upon the matter, and this time he produced a very full and carefully-reasoned memorandum, which was published and widely read at the time and which has since become famous. Two months later, in December, a debate took place in the Commons, in which there was general agreement that guineas should be reduced, and accordingly a proclamation was issued on 22 December forbidding any person to pay or receive guineas at a higher price than 21s. *od.*, and reducing, in about the same proportion, the rating of the other gold coins which survived in circulation.² Even at this price gold was still somewhat overrated, and the imports, although much lower for a few years, were still heavy. There was, however, no further reduction; indeed a further reduction was never discussed. For about thirty years the heavy issues of gold coins, and the complete disappearance of all full-weight silver coins, were quietly accepted, and then, by the middle of the century, it came to be recognized that gold had definitely supplanted silver as the standard, upon the basis of a guinea weighing 129.4 gr. at 21s. *od.*, or a Mint price of £3 17s. 10½*d.* per standard ounce, arrived at by adding one-twentieth to the old Mint price of £3 14s. 2*d.*

Gold as
the stan-
dard.

England did not establish the gold standard by any conscious and deliberate act, and it is doubtful whether any one foresaw that it would establish itself. That Newton in 1717 did not foresee it is clear from the following extract from his paper.

'If things be let alone', he said, 'till silver money be a little scarcer the gold will fall of itself. For people are already backward to give silver for gold and will in a little time refuse to make payments in silver without a premium as they do in Spain and this premium will be an abatement in the value of gold. And so the question is whether gold shall be lowered by the Government or let alone till it falls of itself by the want of silver money.'

¹ Lord Stanhope in the House of Lords, 23 Jan. 1718.

² *Parl. Hist.*, 21 Dec. 1717.

He realized that the two metals would not continue to circulate side by side at the existing ratio, and that if both were to remain in circulation either gold must come down or silver go up. But he did not realize that there was a vital difference between these two contingencies. If, without any action on the part of the Government, guineas, by the ordinary working of supply and demand, came down, first to 21s. *od.*, then to 20s. 6*d.*, then to 20s. *od.* and perhaps lower, while shilling-pieces continued to pass for 12*d.* the money was still based upon a silver standard. But if guineas remained at 21s. 6*d.* while the shilling-pieces went to a premium and were taken for 1s. 1*d.*, 1s. 2*d.*, or 1s. 3*d.*, then the country had changed over to a gold standard, and the value of 21s. 6*d.* in money was tied to the value of the gold in a guinea and not to the value of the silver in twenty-one and a half shilling-pieces.

It has never been satisfactorily explained why the latter contingency happened, that is to say, why, after the last official reduction to 21s. *od.*, guineas did not continue to fall in price with the value of gold and so prevent the displacement of silver. For ages the gold coins had been priced in money based upon silver, according to the market value of the gold they contained. It is true the relative value of gold had always been rising, and it had therefore always been a question of a rise in the price of the gold coin and not a fall. But why should not the price fall as well as rise? Edward III in 1343 had rated his florin far above its bullion value and there had been no great influx of gold to displace the silver, although even after the heavy seignorage was paid there was a profit to the importer of gold bullion.¹ Had the country been ripe for it, Edward's plan would have established a gold standard, although the seignorage would have made it a very imperfect one. Nobody had made the attempt subsequently, and the change of the ratio in favour of gold, a very slow change until the end of the sixteenth century but a very rapid one in the first half of the seventeenth, had driven out the gold coins continuously, or raised their price. Now, however, the tendency was reversed. Gold was falling in terms of silver. How was it that while the City of London

¹ See page 26.

refused to make use of Edward's overvalued florin it was content to use guineas at 21s. *od.* which were worth, according to Newton, only 20s. 6*d.*?

The answer is to be found in a comparison of the parts played by gold coins in the business of the country in the two respective periods. Edward III introduced florins and afterwards nobles to provide the growing body of English merchants with a currency for use in foreign trade which would make them independent of foreign gold coins. There was no question of using gold in domestic transactions except perhaps amongst the nobility, and between the nobility and the money-lenders or the merchant-purveyors of foreign luxury-commodities. The business of the common people was done for silver. They sold their wool and their corn for silver and paid their taxes to the King in silver. And so much did they object to having gold coins thrust upon them that the King at Parliament's request fixed 20s. *od.* as the minimum amount which could be legally tendered—more than two months' wages for most kinds of labour.¹ The guinea, however, during the reign of Charles II, had become a popular and important coin. The value of the metal had steadied down, and the heavy milled pieces, of consistent weight and fineness, contrasted sharply with the clipped and debased silver, over which there was constant wrangling in all business dealings, and which might at any moment be called down to bullion value. The guinea therefore had come to play a prominent part in the transactions of every industry and trade. It soon formed a considerable portion of the reserves of the bankers. The collectors of taxes preferred it to bad silver. When its market price rose, very early in its career, the officials accepted it at that price, for most of the taxes were now collected only to be paid over to those who had advanced money upon tallies, and so guineas came in and went out on the same day at market valuation.

Thus by the time the recoinage had been completed the country was prepared for using the guinea as the standard coin. 'This day', says Luttrell on 22 September 1698, 'the goldsmiths that went to receive money out of the Exchequer

¹ See page 27.

were offered guineas at 22s. *od.*, who refused to take them but at 21s. 6*d.* (by reason of the clerks of the customs and excise yesterday would take them for no more) upon which they were told there was no silver for them: so the goldsmiths went without their money.' They refused them at 22s. *od.*, it should be noticed, not because they were not worth that, but because the Government had taken them in at 21s. 6*d.* In short the market was now ready to accept the guinea as a standard coin at 22s. *od.*, if the Government would permit it to do so, to tie the value of the pound to the value of gold at that rate, and let silver vanish if it would. There was no tendency whatever for the price to fall, in spite of the fall in the value of gold. When the Government forced the price down to 21s. 6*d.* there was considerable opposition,¹ and when the proclamation making it 21s. *od.* was issued there was so much general concern that the Commons forthwith passed a resolution declaring that they would not alter further the standard of the gold and silver coins 'in fineness, weight, or denomination'.² The great volume of public financial transactions which resulted from the enormous increase of the National Debt as a result of the war with France compelled the market to follow the Government's valuation of the coin. But a change in the denomination of gold was no longer the trifling matter it was when silver was the standard, and although for some years after 1717 the mintings of gold continued heavy and silver still disappeared, no further reduction was made.

A few figures will perhaps serve to illustrate the completeness of the change-over from silver to gold. From the accession of Queen Elizabeth in 1558 to the foundation of the Bank of England in 1694 the total amount of gold coined at the Mint did not amount upon a liberal estimate to 15 millions, and nearly a half of this was in guineas coined after 1663. From 1695, however, until 1740 the amount of gold turned out was over 17 millions. On the other hand, while in the former period the amount of silver coined was over 20 millions (much of it, it must be admitted, forced artificially

The disappearance of silver.

¹ Luttrell, 16 Apr., 20 Sept. 1698; 16 Feb. 1699.

² *Parl. Hist.*, 13 Jan. 1718.

into the Mint), during the latter period the quantity dealt with, after the recoinage was completed, even if we include £320,000 issued in 1707 in a recoinage at Edinburgh, amounted to barely a million. An absurd attempt was made in 1708 to encourage the minting of silver by setting aside £6,000 to pay a premium of $2\frac{1}{2}d.$ an ounce upon silver brought to the Mint.¹ This amounted to nothing less than a bonus to the East India Company, and when the money was exhausted the metal ceased to come. For all practical purposes the Mint was closed to the coinage of silver during the greater part of the eighteenth century. The market price was never less than $1\frac{1}{2}d.$ an ounce above the Mint price.² In thirty-seven out of the hundred years no silver was coined at all; in ten others the amount was less than £1,000; and the total for the whole of the century was only £1,254,000.³ It seems clear that a great proportion of the heavy silver coins issued by William III had disappeared before the death of Queen Anne, while on the other hand so persistent was the influx of gold that most of the heavy issues of that metal must have been added to the circulation or to the reserves of the bankers.

Progress
of credit
currency.

Meanwhile the several different kinds of credit currency were competing with one another for supremacy. To baffle the forger, engraved and watermarked bank-notes were developed, and being safer than manuscript documents they tended to supersede both the written note and the customer's draft upon his banker. Indeed the most common form of paper money in the early part of the century was the banker's promissory note to his client, made out upon the standard engraved form, payable either on demand or after a certain date to order or to bearer. The practice of drawing a portion of the amount and having it 'endorsed off' upon the back of the note was common, and even after several such withdrawals the note might be negotiated for the balance by endorsing it to another party. An Act of 1704 gave the

¹ 7 Anne, c. 24.

² House of Commons Papers, 1810-11, vol. x.

³ Figures partly from Ruding, Table of the Quantity of Money Coined, vol. i, pp. 86 and 87, and partly from House of Commons Papers, 1810-11, vol. x.

holder-in-due-course the same protection as he had in the case of bills of exchange.¹

The notes of the private bankers were supplemented by drafts, or cheques as we should call them (for these never entirely disappeared), by Bank of England 'bills' and notes, by Exchequer bills, by malt tickets and lottery tickets. A tax upon malt was voted by Parliament, and the Government immediately issued to the public tickets bearing interest in exchange for a loan to be repaid out of the tax. The tickets passed current. In the same manner tickets in the various lotteries, which had become a common method of raising money for State purposes, were negotiated, those which had drawn blank at one price, undrawn ones at a higher price. Exchequer bills had become a regular method of raising short-term loans. They were made payable on demand at the Bank of England² and for long they passed current quite freely in the same manner as Bank of England notes. Indeed so popular did their ready convertibility make them for currency purposes that at one time the interest was reduced to 1*d.* per cent. per day or 1½ per cent. per annum.³ They competed seriously with the note issues of the private bankers, who complained loudly of this competition; but later in the century the short-term requirements of the Government became so great that the Bank was not prepared to circulate a sufficient number of bills payable on demand to satisfy them, and it became necessary to offer higher rates of interest and to make the bills payable upon a definite date only. They then ceased to pass current.

How long the distinction between the Bank of England's sealed bills and its cash notes was maintained is uncertain. We know that the cash note form, with the signature of the chief cashier, ultimately prevailed, and it seems likely that the sealed bill became the Bank post bill, which was certainly in use before 1765.⁴ It has often been stated that at the outset the Bank issued no notes of less than £20. It is clear, however, from several notices which appear in contemporary newspapers that very early in its career the Bank was issuing

¹ 3 and 4 Anne, c. 9.

² 9 Anne, c. 7.

³ 3 G. I., c. 1.

⁴ 5 G. III, c. 49.

notes for smaller amounts than this and that the notes of other bankers for quite small sums were in use. Nevertheless, although a certain quantity of small notes undoubtedly did get into circulation, it is true in the main to say that in the first half of the eighteenth century credit currency was confined to large business transactions. There was no counterpart of the modern small bearer note used for paying wages and in making retail purchases. Roughly speaking, paper money of all kinds in the first half of the century stayed within the sphere occupied by cheques to-day. Outside that sphere coin alone was used.¹

Cross-country payments. Banking in the first century of its existence south of the Tweed was almost completely confined to London. The reason for this is to be found mainly in the fact that London was nearly a century ahead of the rest of the country in developing capitalist and large-scale trade. The producers in such manufactures as there were, even in the woollen industry, which was the most important of all, were still small-scale domestic workers, who brought their wares to market once a week just as the small agriculturist brings his poultry and dairy produce to-day.² The buyers were merchants who travelled the markets and fairs and carried away the goods by pack-horse or wagon. They redistributed throughout the country the manufactured produce of specialized areas, in most cases by way of London. They drew off supplies through London of the articles which went abroad, and they brought down to the country from London to sell to the retailers the spices and wines and calico which came in from abroad.³ They were the capitalists and London was their centre. The landowners, from the period of the Civil War, sent their rents to the London bankers. The London bankers financed the capitalist organizer of domestic production and the merchant. Until power-driven machinery tied the large-scale producer and employer of labour to his

¹ There is much information to be gleaned as to the use made of paper money at this period from advertisements of notes and drafts lost, which appear in the *Daily Courant* and *London Gazette* between 1697 and 1716.

² L. W. Moffit, *England on the Eve of the Industrial Revolution* (London, 1925), c. viii.

³ Defoe, *Tour*, 1738 edn., p. 92.

provincial town, and intensive agriculture required the services of a capitalist farmer, there was no call for banks in the provinces. The country banks were in the main the offspring of the Industrial Revolution.

It was the merchants, with their chapmen travelling the country and their factors or agents in the London markets, selling for London consumption or for export, who created the inland bill of exchange. This was becoming the more usual method of making payments between the country towns and London by the early part of the seventeenth century.¹ At first when so many districts merely had remittances to make for rents or taxes and received nothing in return, the rents being spent by the landowners in London, it was difficult to purchase a bill, and it was necessary to wait until one was available or risk sending coin. The following extract from the Treasury Books of Charles II throws much light upon the position as it then was.

The
inland
bill of
exchange.

“The Treasury to Sir William Dily and the other Commissioners for Exchanges:

“Finding by experience that divers of His Majesty’s Receivers have turned to His Majesty’s loss and prejudice what we had ordered in the matter of exchanging money . . . and that instead of bringing in His Majesty’s money sooner than by the wagons the Receivers of the counties of most trade, where returns (by means of bills) may be had quickest and with greatest facility, do under pretence of returning the money detain it . . . longer than if the same stayed for the wagons: for prevention thereof for the future we have thought fit to direct you that you strictly in our names require all our Receivers under your inspection and correspondence that whensoever they return any of His Majesty’s money they make the bill payable to yourselves . . . that so their private correspondents here may not detain the King’s money in their hands and that at the time of the drawing of the bill they send you advice of it and upon what payment to place it and that either with it or the next post they send you the bill itself; that they draw no bills but what shall be payable within 20 days after signing thereof: and that where any Receiver shall neglect to follow these and such other instructions as you shall give him in this matter that you reckon the money in his hands and draw bills on him

¹ S. P. D., 2 Mar. 1640-1, 17 Mar. 1653-4.

accordingly which if he shall fail to pay you are then to acquaint us with his neglect."'¹

As trade increased the number of bills increased, and soon bill-broking became a separate business in London as well as an important part of the business of the London bankers. In provincial towns the farmers and merchants who received bills upon London in payment for goods sent up were still for some time compelled to seek out some one who wanted to make a payment in London. With the development and growth of permanent shops, in place of the periodical markets and fairs, the shopkeepers retailing goods which came to them from London or by way of London provided the readiest market for bills. Gradually they became regular dealers in bills, purchasing any that might be brought to them so long as they were confident of finding a buyer, and sometimes undertaking for a commission to procure a bill for a person who wanted one if they had none on hand.² There was but one more step needed to turn these shopkeepers into bankers.

Develop-
ment of
country
banks.

The first purpose for which the inland bill was used, as also the foreign bill, was to bridge the distance between places having a reciprocal trade, in order to avoid the risk and cost of sending coin. Gradually, however, it acquired the function of a credit instrument by being drawn for a period longer than was necessary for mere remittance purposes, and being either passed from hand to hand as money, or discounted with some person who had funds available. This development was evidently proceeding apace at the date of the Treasury's complaint against the Receivers which has been quoted above. Those officers had clearly been drawing long-dated bills and using the King's money in the meanwhile for their own profit; and the limit of twenty days laid down by the Treasury was barely sufficient at that period to enable the bill to do the double journey between distant parts of the kingdom and London.³ When the capitalist

¹ Treasury Books, 3 Dec. 1667.

² C. H. Cave, *A History of Banking in Bristol* (Bristol, 1899), p. 2.

³ In 1711 the Bank of England complained to the Government that the majority of the Receivers of revenue transacted their business through private bankers. The Bank had agreed to pay Exchequer bills in cash on

organizer of industry ceased to be a nomadic merchant travelling the markets of the country with London as his base, and settled down to build his factory in some provincial town, the demand for short-term credit became localized as well. The factory-owner was not in direct touch with the metropolis. To get his bills discounted he found it necessary, like the farmer, to resort to the local purveyor of London goods. Moreover the great increase in industry which resulted from the invention of machinery created a demand for more discounts than the London bankers, holding only the spare cash of the merchants and the rents of the landlords, could supply. It was necessary to tap the agricultural areas. The farmer's production was upon an annual basis. When he threshed and sold his corn he had available the major portion of a year's revenue. It was easy for the shopkeeper who discounted his London bills to persuade him to leave the money on deposit at interest and draw as required when he came to town on market day. The shopkeeper could then discount more bills for local manufacturers or, through the agency of his London correspondents, draw off a supply of bills from the manufacturing districts. When he commenced this practice he had definitely become a banker.

There can be no doubt that by the middle of the eighteenth century there were many local shopkeepers who had become regular dealers in bills. One or two can be identified as having already become bankers. The one which perhaps has the best claim to be considered the first was Abel Smith of Nottingham, who in William III's reign was a draper of that town and who contrived to leave to his son the beginnings of a flourishing banking business combined with the drapery. By 1759 the firm had given up drapery and under the name of Smith and Payne had established a house in London as well as branches at Hull and Lincoln. They continued as a separate establishment well into the nineteenth century.¹ The Gurneys of Norwich, Wood of Gloucester, and John demand, and yet a great many public balances were held in other banks. The Treasury promised to put the matter before the Receivers, but said they were unable to do more. T. P., cxl, 4.

¹ F. G. Hilton Price, *Handbook of London Bankers* (under Smith, Payne, & Smith).

Vaughan, a goldsmith of Bristol who occupied premises afterwards used by Stuckey's Bank, may perhaps also have carried on true banking as distinct from mere bill-broking in the first half of the century, but there were few others.¹ Undoubtedly dozens of country tradesmen acted as bill-brokers in that period, but in the strictest sense Burke's oft-quoted remark is certainly true, that when he came to England in 1750 there were not twelve bankers' shops outside London. By the year 1793 there were nearly 400.

Lending
counties
and
borrow-
ing
counties.

To meet the requirements of the Industrial Revolution the country banks sprang up everywhere, and in the space of forty years the use of credit currency in commerce spread over the whole country. As manufacturing industry shifted to the Midlands, the West Riding, and Lancashire, and the industrial population of those districts grew, so the agricultural counties of East Anglia, Sussex, and the West Country were called upon to produce the necessary supplies of food. But food was not the only thing which these latter districts sent into the industrial areas. The profits and rents of the new agriculture could not find employment in their own counties, and the industrialists were able to draw upon them for a considerable portion of both their fixed and their working capital. The country became divided in a rough way into lending and borrowing counties, and for about half a century there was a corresponding distinction between the kinds of credit currency used in the respective areas. In the agricultural districts the bankers followed much the same course as the London goldsmiths of Charles II's day. The farmer deposited his surplus cash and received in return a cash note made out to him by name and payable to his order or to bearer, on demand or at some period up to twenty days after sight. The depositor received interest up to 3 per cent. according to the terms of the note, and the notes were negotiable, the smaller ones having a fairly rapid circulation. The bankers of the industrial areas, on the other hand, began as lending bankers. They drew upon their London corre-

¹ W. H. Bidwell, *Annals of an East Anglian Bank* (Norwich, 1900); C. H. Cave, *op. cit.*, p. 6; C. M. Collins, *History, Law and Practice of Banking* (London, 1882), p. 67.

spondents at two months' date and issued the London bills to their customers, or allowed their customers to draw other bills upon them of similar tenor. The party to whom the bill was originally issued placed the banker in funds to meet it on the due date, and was also responsible for interest upon the face value from the day it was issued to him. In the meanwhile, however, it circulated by endorsement through many hands, just as cash notes circulated in the other districts. These bills formed the only paper currency of the West Riding and Lancashire, for no country bank notes circulated in those parts, and while in the agricultural counties the user of credit currency was paid interest in order to induce him to use it, in the industrial areas he had to pay for the privilege of using it.¹

Now it is clear that the difference between the financial position of the banks in the agricultural counties and that of those in the industrial areas, the one having funds to lend and the other being anxious to borrow, made it essential from the start that there should be some link between them, for they could scarcely have lived without one another. Moreover it was perfectly natural that that link should be supplied by the London bankers, whose position was well established and who had had a century of experience behind them before Burke came to England. The surplus funds of the banks of Norfolk, Suffolk, Essex, Sussex, and Somersetshire were deposited in London. The farmer sent his corn and his cattle to the London markets and received the acceptance of a London merchant or grazier in return. The bill was purchased by a local banker, who paid for it with his notes and sent it to London for collection by his London correspondent. The proceeds were held on deposit in the London bank, and enabled that bank to accept the bills at two months or so which were drawn by its Lancashire correspondents. Gradually this kind of business came to form the major part of the activities of the London bankers. They

The
Bank as
keeper of
the
reserve.

¹ Commons Committee on the Outstanding Demands of the Bank, 1797, Evidence of Thomas Thompson; Bullion Committee, 1810, Evidence of T. Richardson; Peel's Committee, 1819, Evidence of Lewis Lloyd.

found that their country correspondents who were depositors had no use for their notes, and preferred to transfer their balance when necessary by draft or cheque. They therefore left the field of note-issue in London and within a radius of thirty miles to the Bank of England. By the end of the century no notes except those of the Bank circulated in that area, though many country bank-notes were payable at London banks. At the same time the interest upon country notes had driven Bank of England notes from circulation outside the London area. Almost every country bank, whether in Lancashire or elsewhere, was practically compelled to keep an account with a London bank, and the London banks either held Bank of England notes as their reserve or (and this practice was a growing one) kept an account at the Bank. Had each district been able to supply itself with just sufficient capital for its own purposes, and had the agricultural areas been able to find employment at home for their surplus cash, the country banks might have lived unto themselves and kept all their operations within their own district. (As it was, the localization of manufacturing industry and the division of the counties into borrowers and lenders set up at a very early date the framework of the modern banking system, and placed the Bank of England, whose notes and deposits formed the reserves of the London bankers, and whose stock of guineas was the final reserve against all credit issues, in a controlling position)¹

The Act
of 1708.

The country banks in the first three-quarters of a century of their existence were all small-partnership concerns. A clause in an Act of 1708 had provided as follows:

'From 29 Sept. 1708, during the continuance of the Governor and Company of the Bank of England it shall not be lawful for any body politic or corporation whatsoever erected or to be erected other than the said Governor and Company of the Bank of England, or for other persons whatsoever united or to be united in covenant or partnership, exceeding the number of six persons, in that part of Great Britain called England, to borrow, owe, or take up any sum or sums of money on their bills or notes, payable

¹ Committee of 1797, Evidence of Walter Boyd, Sir Richard Carr Glyn, Henry Thornton, and George Ellison.

at demand, or at any less time than six months from the borrowing thereof.¹

It has often been argued that this did not prevent the formation of joint-stock banks, provided they did not issue notes or bills payable on demand or at any less time than six months, and that deposit banking might well have been carried on by such banks by the use of cheques after the modern method. This may have been true. But the clause was merely inserted to supplement one which had appeared in an Act of 1697, laying down that during the continuance of the Bank of England no other banking corporation would be established or countenanced by Act of Parliament.² In spite of this clause certain chartered bodies had begun to do banking business. The clause of 1708 was repeated in 1716,³ and the two clauses were combined in an Act of 1742;⁴ and although even then some doubt remained as to whether joint-stock deposit banking was really illegal, there can be no question whatever that the intention was to give the Bank of England a monopoly of joint-stock banking, and that had any other institution of more than six partners attempted to carry on banking in England in any manner whatever at any time during the first half of the century it would have been suppressed.

When the country banks began to increase it was assumed that they were limited to six partners in all circumstances, as they undoubtedly were if they issued notes. This postponed the natural linking-up of the partnerships one with another into large branch-banking corporations as the system which has already been described developed. In Scotland, to which the Act of 1708 did not apply, three chartered banking companies were formed in the eighteenth century and many private banks sprang up alongside them. They all issued notes and the chartered banks opened branches, so that by the early years of the nineteenth century banking was about equally divided between joint-stock and private banks, although the latter were rapidly being swallowed up by new

¹ 6 Anne, c. 22.

² 8 and 9 W. III, c. 20.

³ 3 G. I, c. 8.

⁴ 15 G. II, c. 13.

companies.¹ Thus banking in Scotland acquired very early a unity and a strength which were absent in England.

Recoin-
age of
1774.

Meanwhile difficulties were arising again in connexion with the coinage. No effective provision had yet been made for the continuous withdrawal and replacement of light coin, and the gold coins were becoming noticeably light. All new ones were exported as soon as issued, and the market price of standard gold sometimes went as high as £4 1s. per ounce.² The Act of 1698, which provided that any one to whom deficient silver coin was tendered might deface it, did not apply to gold and was ignored in any case. By the year 1773 the whole of the coinage in circulation was appreciably lighter than the standard weight. In that year the Act of 1698 was extended to gold coins, and orders were given that all receivers of taxes were to deface the coins if they were less than certain minimum weights.³ Arrangements were made with the Bank of England to purchase defaced coin by weight at the Mint price. Thus the worst of the light coins were removed, and in the following year the remainder were dealt with at public expense, tellers and receivers all over the country buying them in at face value. Altogether about £16½ millions of gold was recoinced, and the cost was £517,000. The Act which provided for this recoinage, not merely permitted, but made it the definite duty under penalty of every one to whom gold coins lighter than the least weight allowed to be current were tendered, to cut or deface them.⁴

State of
the silver
coins.

The silver coinage was by now in a lamentable condition. The Mint as we have seen produced practically no new coins, and as the market price of silver seldom fell below 5s. 3½d. all the full-weight ones disappeared. The law which gave every one the right to cut light silver was universally ignored, and the bulk of the circulation was so bad that it was impossible to distinguish whether it was English or foreign. Considerable quantities of foreign and counterfeit pieces were imported and passed off as English.⁵ In point of fact,

¹ Committee of 1819, Evidence of Ebenezer Gilchrist.

² House of Commons Papers, 1810-11, vol. x.

³ 13 G. III, c. 71; *London Gazette*, 31 July 1773 and 25 June 1774.

⁴ 14 G. III, c. 70; *Parl. Hist.*, 10 May 1774.

⁵ See the preamble to 14 G. III, c. 42.

so long as the Government was unable to find a method of providing the country with a sound and adequate coinage, the importation and issue of counterfeit or light silver was a good thing. The coins in circulation were now definitely tokens, and the only disadvantage of the Mint's neglect to produce them was that it created a shortage. The counterfeiter tended to fill up the void, and he could do no harm to the standard.

The failure for the best part of a century to make adequate provision for fractional payments in spite of all the profound discussion of economic matters which went on may seem to us somewhat remarkable, accustomed as we are to a well-managed token currency which, while being useful, and indeed indispensable, to the public, brings in the long run a good profit to the State. From the earliest times there had been great difficulty in getting an adequate supply of small coins into circulation. In the absence of a banking system there was no channel through which the public demand for coins of each denomination could make itself felt at the Mint, and in any case the moneyers were never anxious to make small coins because of the extra cost. In the sixteenth century tradesmen began to supply the need which the Mint neglected to supply by issuing tokens of lead, and by the reign of James I these had become essential for the conduct of petty retail transactions, at any rate in London.

James made the tradesmen's tokens illegal and granted a patent for the coinage of copper farthings to Lord Harrington. This continued until 1644, when the patent was abolished by the Long Parliament. Some kind of small money was, however, now indispensable, and about the year 1648 tradesmen's tokens reappeared, as well as money issued by cities and towns. After the Restoration a great deal of discussion occurred regarding the renewal of the patent for a copper coinage, but nothing was done until 1672, when all privately-coined tokens were forbidden and an issue of farthings and halfpennies containing nearly their face value of copper was made from the Mint and proclaimed current in all payments up to 6d.¹

History
of the
token
coinage.

¹ S. P. D., 16 Aug. 1672.

In 1684, however, to help the Cornish tin industry, the Mint issued tin farthings at 20*d.* the pound avoirdupois, upon which there was a profit of about 40 per cent.¹ They were easily counterfeited and there was soon a great glut of them, so that, in response to many petitions, the issue was abandoned in 1693. In their place a new issue of copper tokens was made, but they were soon counterfeited also, so that shopkeepers began to complain of the vast quantity of small money left on their hands.² In 1701 this issue, in its turn, was suspended, and in 1703 Newton advised that whenever a new coinage should be thought desirable it should be of halfpennies and farthings containing their face value of copper and 'should be done in such small quantities as Her Majesty should appoint, to supply the decrease and loss of those already coined, without danger of new complaints of overstocking the nation'.³

Difficulties of regulating the tokens.

Here we have a picture of the difficulty which persisted almost down to modern times. So long as the coins contained much less than their face value of metal, there was a great temptation to copy them. The technique of coining was still not sufficiently good to give to the money a stamp which it was beyond the skill of the forger to imitate even upon a scale large enough to make it worth while in the case of halfpennies and farthings, and the machinery for the detection of crime was bad. Consequently in a few years the counterfeiters created a glut however much the official coiners might be restricted, and any attempt to regulate the circulation to the public need by taking back surplus coins merely put a premium upon counterfeiting.

In 1717 copper began to be coined again and continued on and off until 1754.⁴ Against illegal coining the Government was powerless the whole time. In 1741 an Act was passed offering a reward of £10 for the conviction of counterfeiters,⁵ and in 1751 a proclamation was made in the old medieval style, calling upon people to observe this Act. In

¹ Treasury Books, 1682-4.

² T. Snelling, *A View of the Copper Coins and Coinage of England* (London, 1766), p. 39; T. P., lxxxvi. 102.

³ T. P., lxxxvi. 102.

⁴ T. P., cxc. 22.

⁵ 15 G. III, c. 28.

1753 one-half of the small money was said to be false, and there was so much of it that once again petitions were sent in asking that the issue might be suspended.¹ This was done in June 1754, and for the next forty years scarcely any copper coins were issued.

Thus by the last quarter of the eighteenth century the copper money was getting into as bad a condition as the silver, and no one seems to have been able to make satisfactory proposals for dealing with either. There was a shortage of silver coins because the Mint made them too heavy. There was an excess of copper ones because the Mint made them too light. So long as it was beyond the administrative capacity of Government to put down counterfeiting, the remedy for the position clearly lay in making the copper coins much heavier and the silver ones a trifle lighter. The lesson which Locke had taught had, however, been well learned, and there was still a sacredness attaching to the metal which had been for so long the standard. Public opinion was strongly in favour of raising the weight of the copper coins so that they should contain their full value of metal, but there was no willingness as yet to see the silver coins degraded to mere tokens.

Adam Smith, writing just after the recoinage of gold in 1774, suggested with some hesitation that the silver money should be deliberately overrated and made legal tender only in payments up to a guinea.² The provision of a limited legal tender was necessary because he did not contemplate closing the Mint to the free coinage of silver. No one seems to have entertained for one moment the idea of giving the Mint the right to buy silver as required at market price, to issue the coins definitely as tokens in just sufficient quantities to meet the demands of the public, and to withdraw at face value any excess. When this is done a limit upon legal tender is of little importance except to prevent creditors from having large quantities of small change dumped upon them.

The Government, however, was not prepared even to experiment with an overrating of silver. They were content

Silver a
limited
legal
tender.

¹ Snelling, *op. cit.*, p. 44.

² *Wealth of Nations* (McCulloch's edn.), p. 20.

in 1774 with a measure which set the customs officers to search for light or base silver being imported and to forfeit it, and which limited the legal tender of silver by tale to £25. Above this amount it could only be tendered by weight at 5s. 2d. an ounce.¹ Thus the door was partially closed against any return of the silver standard, but no remedy was found for the shortage of silver coin.

¹ 14 G. III, c. 42.

CHAPTER VIII

THE BANK RESTRICTION PERIOD. I

IN the half-century during which country banks were springing up everywhere there commenced the series of commercial and financial crises which continued throughout the nineteenth century. The first, in 1763, was caused by the fall of commodity prices which followed the termination of the Seven Years' War. Many Dutch and Hamburg firms, as well as some London houses, found themselves with credits 'frozen' in unmarketable goods. The Bank of England, however, gave liberal assistance both on the Continent and at home, and England suffered but little.¹ The second crisis, in 1772, followed a wave of stock market speculation. A partner of Messrs. Neale, James, Fordyce, and Down, bankers in London, absconded, leaving debts amounting to £300,000. A panic followed in which many banks stopped payment, including Messrs. Douglas, Heron, and Company of Ayr, whose liabilities were very large. When, however, both the Bank and the East India Company came to the assistance of houses in difficulty the crisis passed, and the Ayr Bank in the end paid its creditors in full.²

The first
credit
crises.

It was in 1765 that the first measure was taken for the regulation of credit currency, though the object in view was not as yet to control the value of money. The intention was merely to protect the public from the worst abuses of the power of note issue. A practice, for instance, had grown up in Scotland of issuing notes payable, at the option of the banker, either on demand or at six months' date with interest. When money was tight payment on demand was refused and the notes went to a discount, as did those of the Bank of England during the partial stoppage of 1696.³ Paper money of very small denomination was also becoming common. The shortage of silver made notes for as low a value as six-pence acceptable, and the ease with which such notes could

Regula-
tion of
note
issues.

¹ *Scots Magazine*, 1763, p. 566; Adam Smith, *Wealth of Nations* (McCulloch's edn.), p. 141.

² *Scots Magazine*, 1772, p. 311. Adam Smith, *op. cit.*, p. 137, gives an account of the operations of the Ayr Bank, and McCulloch, in a footnote to his edition, adds further details.

³ Adam Smith, *op. cit.*, p. 143.

be negotiated set many small and unsubstantial persons issuing them. The bankruptcy, at a period of strain, of many of the issuing parties, brought great distress to the poorer classes. An Act was therefore passed in 1765 making notes payable otherwise than on demand, and notes for less than £1, illegal in Scotland.¹ In 1775, after the second crisis, the provision regarding notes under £1 was, by another Act, extended to England. In the debate in the Commons upon this bill several notes were exhibited for a shilling or eighteenpence, and it was stated that often they were made payable only upon certain conditions, for example that the holder should bring twenty shillings' worth of silver to be changed, with the note, for a guinea. The evil was mainly confined to the industrial districts of Yorkshire, and was no doubt largely due to the shortage of small coins for paying wages.²

That this Act was intended merely to protect poor and illiterate persons who might accept small notes without being in a position to judge of the status of the issuing party is made clear by the further action which was taken after two years' experience of the measure. In 1777 an Act was passed which provided that all notes of 20s. or of any amount greater than 20s. and less than £5, should specify the names and places of abode of the persons to whom or to whose order they were made payable. Further they were to bear a date not later than the date of issue and to be made payable within twenty-one days, after which period they would cease to be negotiable. The signature to the note, as well as every endorsement thereon, was to be attested by at least one witness, and the note would be illegal unless made out in a form specified by a schedule to the Act, which provided for its being made payable to order and not to bearer.³ The effect of this Act seems to have been to restrict almost entirely the use of notes under £5 to the function of mere deposit receipts, and to destroy for all practical purposes their negotiability and therefore their character as currency. Some doubt arose later whether it really made bearer notes of less than £5 illegal,⁴ but there

¹ 5 G. III, c. 49.

² 15 G. III, c. 51; *Parl. Hist.*, 1775; Adam Smith, *op. cit.*, p. 144.

³ 17 G. III, c. 30.

⁴ See the preamble to 37 G. III, c. 28.

is no doubt that few notes of less than that amount were used in England afterwards until 1797. The Act did not apply to Scotland, where notes for a pound and a guinea continued to be common.

Of more importance to the country as a whole than the two crises above mentioned was that of 1783. By that date there was a very large number of country banks spread throughout the kingdom, all of them small concerns of less than seven partners. Their reserves were kept on deposit with the London bankers and not in Bank of England notes, which did not circulate outside the London area and would have been refused by the customers of the country banks. Many of the London bankers kept Bank of England notes as their reserves, although the number of accounts kept at the Bank was growing and the practice of settling differences with a draft upon the Bank was on the increase. The London bankers had almost ceased to issue notes themselves, being unable to compete with the Bank. Their own customers made use of cheques, and there was a well-developed deposit system, clearing facilities having existed, as we have seen in Chapter V, from the very first, and a permanent clearing-house having been established about the year 1775. In the event of a boom in trade setting up a demand for additional currency for wages and small payments, the only form which such currency could take was coin, for small notes were practically illegal. Therefore at such a time the country bankers drew upon their deposits in London, and the London bankers cashed Bank notes or drew upon their accounts at the Bank. In the event of a run upon any section of the country banks coin was withdrawn from the Bank in the same way, for Bank notes, not being legal tender, and indeed not being very acceptable to people in the country, could not be used to meet the demand.

When the American War terminated in November 1782 it was followed by a short period of great productive activity. The volume of country bills seeking discount in London went up by leaps and bounds. The quantity of London bills taken to the Bank to be discounted increased in proportion. Yet there was no increase in the Bank's note circulation, in

Crisis of
1783.

fact from the time of the opening of peace negotiations it fell continuously for six months.¹ All the notes issued by the Bank against the increased discounts were cashed by the London bankers for the purpose of sending coin into the country. Early in 1783 a loan was issued by the Government to which the Bank, as was usual and as was expected of it, made a first subscription of several millions. This sent the note issue up, and the drain upon the stock of coin increased. At the same time the greatly increased purchases of raw material from abroad, as a result of trade activity, had turned the exchanges against this country and a foreign drain set in. The Directors grew very much concerned about the position, and began to look for some remedy. It was the practice at that period, when a loan was issued, for merchants and other persons of substantial credit who wished to subscribe, to draw a short-term bill upon their bankers, who discounted the bill at the Bank of England. Thus the Bank would finance a large portion of the loan for the time being.² In May 1783 the Bank refused to do this for the loan of that year, and the remainder of that loan was therefore thrown immediately upon the resources of the market. This had the effect of tightening money and of curbing the tendency to over-speculation. The exchanges turned in favour of the country and the foreign drain ceased. Later in the year, although their reserve had fallen lower still and only amounted to £673,000, the Directors were so much more confident of the position that they freely advanced money to relieve the strain upon houses which were feeling the effects of the falling market.³

The history of this crisis is remarkable because it was the first occasion upon which the Bank definitely attempted to exercise some control of the money market. It discovered a principle which has been of great service on many occasions since, namely that when speculation is reaching a dangerous level credit should be progressively contracted until a definite fall of the market sets in; but when this occurs there need be

¹ Lords' Committee of 1797, Account No. 8.

² Commons' Committee of 1797, Evidence of Henry Thornton.

³ Lords' Committee of 1797, Evidence of Bosanquet.

no more fear, and advances may be made freely to soften the fall.

'The time at which they (the Directors) had the most ground of alarm,' said Samuel Bosanquet, who was one of them, of this crisis, 'was not when their cash was at the lowest, but about April or May when they refused to advance of the loan; and although in October their cash was lower than before yet they had such reason to expect a turn in their favour by the favourable alteration of the exchanges, that they were under much less apprehension than in the spring.'¹

In 1793 occurred a crisis of a different order. In the ten years which had elapsed there had been a further considerable increase in the number of country banks, which now totalled nearly 400. Country note issues had extended at least in proportion, and there is no doubt that many of the issuing houses had put into circulation far more notes than their resources warranted. A position of grave danger had arisen, not so much from any rapid extension of credit for speculative purposes, as from a steady increase over several years in the volume of credit in use in the country, without any commensurate increase in cash reserves or in the sense of responsibility and knowledge of banking principles amongst country bankers. From April 1792 the war on the Continent, and the growing demand in England for action against France, created some nervousness amongst the holders of country notes and caused a drain upon the reserve of the Bank. The Directors appear to have appreciated the difference between this drain, which was an internal one due to a shrinkage of credit, and that of 1783, which was an external one due to an expansion of credit. They knew that to restrict their discounts now would add to the feeling of nervousness.² When France herself, however, declared war suddenly upon England in February 1793 the credit of the country banks completely collapsed. Beginning with the stoppage of a bank at Newcastle panic spread like wildfire throughout the country, and so parlous was the condition of many of the firms that scores of them went down like houses of cards.

Crisis of
1793.

¹ Bosanquet's evidence, 1797.

² Commons' Committee Report, 1797.

Both the Scottish and the London banks shared in the panic, and they refused help and restricted their discounts. The Bank of England gave what assistance it could; and, in the month following the crisis, increased its accommodation to a considerable extent and was rewarded with an influx of bullion lasting over a year. The help which the Bank could give, however, was not sufficient to banish the financial paralysis which followed. The City appealed to the Government for assistance, and a select committee was appointed to inquire. They recommended an issue of Exchequer bills in denominations of £100, £50, and £20, bearing interest at $2\frac{1}{2}d.$ per cent. per day or about $3\frac{1}{4}$ per cent. per annum, the proceeds to be lent at 5 per cent. to approved applicants who were in difficulties. The mere announcement that this plan had been adopted was sufficient to ease the situation greatly, and the granting of loans amounting to £2,202,000 to 238 persons saved many of them from bankruptcy. The money was all repaid, and the Government made a small profit.¹

As a result of this crisis the quantity of country bank notes in circulation was reduced by the end of 1793 to less than one-half of the amount at the beginning of the year.² The credit system had suffered a shock from which even in the most favourable conditions it must have taken a considerable time to recover. The conditions, however, were the reverse of favourable, for the country had somehow to find the means of financing a European war of the first magnitude. Of necessity a great deal of the expenditure was made abroad, and the Government relied upon the Bank of England to provide a large portion of the money in the first instance, which placed a considerable additional load upon the central pillar of the credit system.

The Bank
and the
war.

It was towards the end of 1794 that the first heavy calls began to be made upon the Bank, and at the same time a loan of considerable amount was made by the Government to the Emperor. The Bank protested to Pitt against being called upon to supply money for a foreign loan, arguing that it must have a directly adverse effect upon their reserve, which

¹ Committee on the State of Commercial Credit, 1793.

² Commons' Committee of 1797, Evidence of Henry Thornton.

had not yet fully recovered from the strain of 1793. During 1795, however, in spite of repeated remonstrances from the Directors, Pitt continually increased the volume of short-term bills which the Bank was expected to discount. The amount outstanding, which in 1794 was never as much as 9 millions, reached by Christmas 1795 nearly 13 millions.¹ The Bank's stock of bullion, which in the prosperous years before the war had been for some time well over 8 millions, had fallen in 1793 to half this amount. It had, however, improved rapidly after the crisis, and during the greater part of 1794 had stood at between 6 and 7 millions. The payments abroad set the exchanges against England, and towards the end of 1794 a slow wastage set in and continued during the first half of 1795. Guineas could not legally be exported and their export did not show up in the customs returns, but every one knew that there was little difficulty in getting them away and that large quantities were going. In August 1795 another and a greater cause of drain was added to the Government borrowings. The value of France's paper currency, the assignat, which had been tumbling headlong for some months, reached zero for all practical purposes early in 1795. The French Government thereupon determined to restore the gold standard. There was immediately a great revival of confidence amongst the French people. They began to transfer their savings home again. Gold, which had been driven out by the assignat, rushed back. Metal from France which had helped the Bank to replenish its stock after the collapse of 1793 was now drained away from it. By February 1796 the reserve was down to 2½ millions.²

During this rapid drain the Directors' protests against the borrowings of the Government grew louder. At times they almost threatened to give a point-blank refusal to the next demand for money; but they never did so. Apart from patriotic considerations they lived in constant fear that some

¹ Lords' Committee of 1797, Account No. 18.

² For a full account of the drain to France see Mr. R. G. Hawtrey's *Currency and Credit*, 3rd edn. (London, 1928), p. 327. For the figures of the reserve, Report of the Committee on Commercial Distress, 1847-8, Appendix 4.

new alarm would precipitate another crisis, and they were afraid that their refusal to accommodate the Treasury might bring about that very alarm.¹

In face of the dangerous position early in 1796 Pitt could no longer disregard the Bank's warnings, and during that year he financed himself as much as possible by means of loans from the public. The temporary advances from the Bank fell by more than 2 millions. At the same time the Bank attempted to bring about a more healthy position by reducing its commercial discounts. The vacuity in France had now filled up. There followed an improvement in the exchanges, and gold flowed into England. The more careful of the country banks, however, were attempting to strengthen their position. They had begun to withdraw a part of their reserves from the London bankers and keep it in cash. Bullion came into England, but it did not stay in the Bank, indeed by August the reserve was down to little more than 2 millions. The Directors were bewildered. Theory said that to allay a feeling of nervousness within the country they should discount freely, but they had only just stopped the external drain by restricting their discounts. Rather unwisely, perhaps, the policy of reducing their commitments was continued into 1797, and the position was already becoming very difficult when the Bank's worst fears were realized and the whole system received another violent shock similar to that of 1793. This one brought about a stoppage of payment.²

The
threat-
ened
invasion.

Before Christmas 1796 it was known that a French fleet had congregated at Brest for some special purpose, and letters from France published in the English newspapers spoke of an attempt at invasion. In the last few days of the year a part of this fleet entered Bantry Bay and afterwards sailed for Northern Ireland. In addition to a number of troops they had with them a plentiful supply of army equipment, apparently expecting the Irish people to rise in rebellion against the English; but, meeting with a cool reception both

¹ Commons' Committee of 1797, Report and Bosanquet's Evidence.

² *Ibid.*, Evidence of R. Burdon; Sir F. Baring, *Observations on the Establishment of the Bank of England* (London, 1797), p. 43 et seq.; MacLeod, *Theory and Practice of Banking*, vol. ii, pp. 351-3; *Parl. Hist.*, vol. xxxii, col. 1518.

in the south and the north, the fleet abandoned the attempt and dispersed in different directions. This affair, though it caused no panic in England, set people discussing everywhere the possibility of an attempt against this country. The newspapers in January and the early part of February were full of invasion talk. Reports from Paris again spoke of schemes in preparation. As February advanced the rumours became more persistent and there was a general feeling that something was going to happen. The Government either had definite intelligence or shared the general alarm, for it issued orders that warships in the ports were to be in constant readiness and no officers were to go more than ten miles from their ships. Further, farm stock around the coasts was to be driven inland. Timid people everywhere began to withdraw guineas from their banks and bury them.¹

On Saturday, 18 February, it being market day at Newcastle, the farmers, apparently as the result of some local rumour, sold their cattle at knock-down prices and went off to the banks almost in a body to cash their notes. The notes in that district were payable on demand, and there was no escape for the bankers. On Monday the 20th, they agreed together to stop payment. In other districts notes were payable at twenty days and the bankers had more time, but during the week many of them arrived in London to ask for help. The wastage of the Bank's reserve became chronic. Every day a hundred thousand pounds went, and every day the Governor and Deputy Governor, with two other Directors, Samuel Thornton and Samuel Bosanquet,² were in conference with Pitt. On the 21st a report reached London from Portsmouth that a large fleet of enemy transports had been sighted off Beachy Head. It was untrue, but several English warships sailed out from Portsmouth to meet the invaders, and for a whole day the excitement in London was tremendous. On Thursday the 23rd news arrived of the stoppage of the Newcastle banks. The price of consols

The week
before the
stoppage.

¹ *The Times* and *The Oracle*, Dec. 1796 and Jan. 1797.

² Samuel Thornton was the brother of Henry Thornton, one of the authors of the Bullion Report, and Samuel Bosanquet was the father of Charles Bosanquet, who took part in the famous controversy with Ricardo.

immediately crashed and a serious crisis developed in the City. On the morning of Saturday the 25th it became known that French ships had appeared off the north coast of Wales and had actually landed about 1,200 troops. The men are said to have been convicts put into uniform, and there can be no other explanation of the affair than that it was a deliberate attempt to cause panic in England, for all of them, without any sort of fight, were immediately taken prisoner. So far as the Bank's reserve of guineas was concerned it was the last straw. On Saturday evening Pitt sent an urgent message to the King at Windsor and His Majesty came to London early on Sunday morning. At noon a council was held, to which the Governor and Deputy Governor, together with Thornton and Bosanquet, were called. There it was decided that the Bank of England should stop payment.¹

Restric-
tion of
cash pay-
ments.

An Order in Council dated Sunday, 26 February, was issued, the essential part of which was as follows: 'It is indispensably necessary for the public service that the Directors of the Bank of England should forbear issuing any cash in payment until the sense of Parliament can be taken on that subject and the proper measures adopted thereupon for maintaining the means of circulation.'² On the Monday steps were taken to induce the public to accept the situation and use Bank of England notes instead of gold. *The Times* had a leader calling upon the people to show something of the spirit of their ancestors of Queen Elizabeth's day, when much greater dangers had threatened. It felt sure the Bank was sound. A meeting was announced for twelve o'clock that day at the Mansion House, of the leading bankers and merchants of London. At this meeting a resolution was passed unanimously, and subsequently published in the press bearing the signatures of many hundreds of leading business houses, declaring that they would not refuse to receive Bank notes in payment of any sum of money to be paid to them, and would use their utmost endeavours to make all their payments in the same manner. The Directors of the Bank also published a notice assuring the proprietors

¹ *The Times and The Oracle*, 18-27 Feb. 1797.

² *Parl. Hist.*, vol. xxxii, col. 1518.

and the public that the Bank was in a most sound condition. The Order in Council was formally communicated to Parliament on the same day, and Pitt announced that he intended to move for a committee to inquire into the outstanding engagements of the Bank and the means they had of making good those engagements. The next day the committee was appointed, and by 3 March managed to issue a first report stating that the outstanding liabilities of the Bank on 25 February had been £13,770,390, and that against them the Bank had had assets amounting to £17,597,280, not including the debt by the Government of £11,686,800.

Meanwhile the Bank had begun discounting freely and making advances upon Government securities to relieve the situation in the country. The Directors soon realized that adequate relief could be given only by issuing small notes which could fully take the place of guineas, the supply of which was now cut off. An Act was therefore rapidly passed enabling the Bank to issue notes of less than £5, payable to bearer, and it began to do so on 2 March.¹ Another Act followed permitting all other persons to issue small promissory notes payable to bearer on demand.² A third followed a week or two later permitting the Scottish banks to issue notes to bearer on demand of less than 20s.³ Gradually the public in the provinces gained confidence in their local bank notes convertible only into Bank of England notes. In some places Bank of England notes began for the first time to circulate in trade alongside country bank notes. They were still not legal tender, indeed when the gold had finally gone there was no legal tender money except the exceedingly bad silver and copper coin, and the public accepted the notes because there was nothing else and because they served the purposes of trade for the time being as well as gold. Thus the pound sterling was moved from a gold to a paper basis, with only a few people realizing what the effects might be, and with no one able to see how in the circumstances it could be avoided.

Small
notes
again.

On 7 March the Committee on the Resources of the Bank issued a second report, briefly recommending that the

The
Com-
mittee's
report.

¹ 37 G. III, c. 28.

² *Ibid.*, c. 32.

³ *Ibid.*, c. 40.

restriction upon cash payments should be continued; and accordingly, on the 9th the famous Restriction Bill was introduced. After several lengthy debates it received the Royal Assent on 3 May.¹ It indemnified the Bank against the legal consequences of anything done in pursuance of the Order in Council and forbade it to pay cash to any of its creditors except in certain minor cases. The Bank might, however, make advances in cash to certain bankers in London and Scotland up to a limited amount, and might issue any cash received after the date of the Order in Council, upon advertising the fact and giving notice to the Speaker. Advances to the Government either in cash or notes were limited to £600,000 while the restriction lasted.² Since Pitt's opponents were already taunting him with the charge of forcing an inconvertible currency he hesitated to make Bank notes legal tender, but the Act provided that all payments in Bank notes which were payable on demand should be 'deemed payments in cash if made and accepted as such'. The Act was to last until 24 June, but it was extended from time to time until in December 1803 the date of its termination was fixed at six months after the conclusion of a definitive treaty of peace.³

On 21 April 1797 the Committee of the Commons produced their third and final report. They had a good deal to say about the causes of the stoppage. Concerning the immediate cause there could be no doubt. Panic due to the fear of invasion had carried away a large part of the Bank's meagre reserve and had made it almost certain that unless the doors were closed the remainder would go in a few days. But the Committee felt bound to criticize the Bank's action in reducing its discounts by one-fourth during the early part of 1797 although the foreign drain had long ceased. This action compared very unfavourably with that taken both in 1783 and 1793. In 1783 the reserve had fallen as low as £590,000, compared with £1,086,000 at the date of the stoppage, yet on the former occasion, once the foreign drain had ceased, the

¹ 37 G. III, c. 45.

² This was extended to £3,000,000 by an Act of 1800, 40 G. III, c. 33.

³ 44 G. III, c. 1.

Bank had discounted liberally. During the nine months from June 1792 to March 1793 a greater amount of cash had left the Bank than during the fourteen months from December 1795 to the stoppage of payment, yet in April 1793 the Bank had made a large increase in the accommodation granted.

In spite of these considerations, however, it is difficult to fasten much blame upon the Directors for the stoppage of payment. They had seen by the autumn of 1796 their policy of restricting discounts entirely successful in stopping the foreign drain, but when the tide turned, the small stream of gold which came in flowed straight through the Bank and the Mint into the country. And the cause of this was not commercial but political. They were not faced with a commercial crisis following a speculative boom, a crisis such as might have been dispelled by a liberal extension of credit. They were faced with a widespread loss of confidence in the country banks owing to the fear of what the effects of an attempted invasion might be upon those banks. The root of the trouble lay in the banking system itself. The mere declaration of war in 1793 had brought down scores of the country banks and had caused grave loss and even ruin to many thousands of people.¹ The banks had never really recovered. The country note issue, which had fallen in 1793 to less than one-half of the amount in 1792, was still less than two-thirds of that amount in 1796.² Because of the provisions of the Act of 1708 the country banks were all small partnerships or one-man concerns; and their customers had a vivid recollection of what had happened three years before. At the mere threat of invasion many of these shaky little houses might topple over, and when that threat came no amount of mere credit accommodation from the Bank could enable those houses to meet

Causes
of the
stoppage.

¹ Sir F. Baring, *op. cit.*, p. 13, says: 'The establishment of the country banks is of modern date and within my recollection; but I believe there was no material convulsion with regard to circulation from the Rebellion until that which happened by the failure of the Ayr Bank in the year 1772. What happened in the beginning of 1793 was however very different: far beyond anything which preceded or has followed it in magnitude, it pervaded more or less every part or place in both islands and affected every description of property.'

² Commons' Committee of 1797, Evidence of Henry Thornton.

their customers' insistent demand for hard metal. If the Bank had held its 8-million reserve of 1791 it might have been able to face such a situation. But the reserve had wasted to a shadow of its former self, a mere 2 millions, owing to the foreign payments and the French drain, and with such a credit system, standing upon such a reserve, a scare of invasion was almost bound to cause a stoppage of payment.¹

Fractional
currency.

The unfettered paper standard being duly launched, measures began to be taken to make up the deficiency of small money. In March 1797 about half a million pounds' worth of Spanish dollars, stamped with a tiny head of George III upon the bust of the Spanish king, were issued at the Bank at 4s. 9d. each. They were not a success. The little surcharge was easy to counterfeit, and there were plenty of base Spanish dollars about Europe which soon began to take upon themselves the head of the English king and find their way into circulation at 4s. 9d. In September the Bank called in all the good ones and, after giving due notice to the Speaker, exchanged them for gold. Seven-shilling gold pieces were issued in their place.²

In July a contract was entered into with Messrs. Boulton of Birmingham for the making of copper twopences and pennies. The principle was adopted of making them contain their full value of copper less the cost of minting, in order to make counterfeiting unprofitable and so avoid the chief evil which had characterized all the previous issues of copper tokens. The penny was made to weigh exactly one ounce avoirdupois, and the twopenny piece, two ounces. They were limited as legal tender to payments up to one shilling.

It was an unfortunate time for adopting the new plan,

¹ Baring says: 'The landing of a handful of French troops created an instantaneous general alarm and occasioned a demand for money to which neither gold nor silver in bullion could be applied, as nothing would be accepted but the circulating coin of the country. Persons of almost every description caught the alarm; tradesmen, mechanics, and particularly women and farmers. . . . If this event had happened before the Bank had been drained for foreign services it might have produced a temporary effect only . . .'

² *The Times*, 27 Sept. 1797. The seven-shilling pieces were proclaimed current on 29 Nov.

which might have been very successful at an earlier period when the price of copper was steadier. The pound was now just at the commencement of a period of serious depreciation, and the metal in the new pennies soon became worth more than a penny. When halfpennies and farthings were issued in December 1799, thirty-six halfpennies instead of thirty-two were cut from a pound of copper.¹

In the last decade of the eighteenth century the silver position had undergone a change. Supplies of silver had come forward upon such a large scale that its value in terms of gold had once more begun to fall. Early in 1798 the market price was so low that a small quantity was taken to the Mint to be coined. Here was a new and startling position. All the measures which had been taken in the first half of the century to get silver into the Mint had failed. Gold had ousted it almost completely. The position had been accepted, and it had come to be fairly well understood in the second half of the century that gold was the basis of the standard. Now here was silver threatening to come back again. An Act was at once passed closing the Mint to the coinage of silver until such regulations could be framed as should appear necessary.²

A committee of the Privy Council had been appointed in February to inquire into the coinage regulations generally. Amongst its members was Charles Jenkinson, the first Earl of Liverpool, a man who had spent his life in politics and had climbed from the bottom through numerous offices to become a peer and President of the Board of Trade in 1786. He seems to have made some considerable study of the history and theory of coinage, and he took an early opportunity of presenting to the chairman of the committee a memorandum setting forth the principles which he considered should be embodied in the monetary regulations, supporting them at length with arguments drawn mainly from history. Though his views were probably no more than a summary of the best opinion upon the subject at the time, he was the first man to construct a code of regulations for managing a gold-standard

¹ Ruding, 1797 and 1799; Lord Liverpool's *Treatise*, p. 222.

² 38 G. III, c. 59, 21 June 1798.

currency supplemented with token coins. The rules he laid down were as follows.¹

1. 'That coins which are to be the principal measure of property can be made of one metal only' (p. 128).

2. 'That in very rich countries, and especially in those where great and extensive commerce is carried on, gold is the most proper metal of which this principal measure of property and this instrument of commerce should be made' (p. 162).

3. 'That 'gold coins should be made as perfect and be kept as perfect as possible' (p. 171).

4. 'That no seignorage or other charge should be taken for minting the principal coins (p. 172).

5. 'That 'where the function of the gold coins, as a measure of property ceases, there that of the silver coins should begin; and that where the function of the silver coins in this respect ceases, there that of copper should begin: it is clear, therefore, that so far only these silver and copper coins should be made legal tender, and no further, at least not in any great degree: and it follows, that the coins both of silver and copper are subordinate, subservient and merely representative coins, and must take their value with reference to the gold coins, according to the rate which the sovereign sets upon each of them' (p. 173).

6. 'That the inferior coins should be made so that the value of the metal contained in them, together with the 'charge of workmanship', equals their nominal value; and the 'metal . . . should be estimated according to a fair average of what is likely to be its value in future at the market, with due attention to every circumstance which is likely to influence the price of it, and to the rate at which this metal is estimated in the mints of foreign countries' (p. 176).

The weakness of the plan lay in No. 6. Liverpool was evidently not quite clear how the value of his token coins was to be maintained. He says (p. 173):

'The charge of workmanship should be taken out of these inferior coins because there can be no doubt that they will pass in payment at their nominal rate or value provided that their intrinsic value in metal and workmanship is equal to such nominal rate or value; they will take their value according to the rate at which they can be exchanged for the several denominations of gold coins,

¹ *A Treatise on the Coins of the Realm in a Letter to the King*, Grenfell and Birch's edn. (London, 1880).

especially as they will be current only within the kingdom, where the authority of the sovereign will be sufficient to support their currency.'

Here were two quite distinct principles: (1) that the coins would pass at their nominal value so long as their total intrinsic value in metal and workmanship equalled their nominal value, and (2) that they would take their value according to the rate at which they could be exchanged for gold coins, in other words, their value would be maintained by their convertibility. It is not quite clear which principle Liverpool would have relied upon. He was in the difficulty that he must make the coins contain nearly their full value of metal or the counterfeiters would get to work; and on the other hand if he did so he would run the risk of a rise in the price of the metal and the consequent melting or export of the coins. It was only when technical and administrative facilities were available for dealing effectively with counterfeiters that we were able definitely to throw over the first of these principles and depend solely upon convertibility.

The committee could come to no agreement on the matter and issued no report until 1816. Liverpool intended to publish his memorandum in 1798, but a long illness intervened, and it was not until 1805 that the famous *Letter to the King* reached the public. He died in 1808, and it was left for his son to put his proposals into practice in the Act of 1816.

As soon as the panic which preceded the suspension of cash payments had subsided, guineas appeared again and circulated alongside and at par with the inconvertible paper. The Bank's reserve recovered from its lowest point of £1,086,170 to over 4 millions by August 1797 and continued to grow in the next eighteen months to nearly 8 millions. Confidence in the country banks was completely restored. Their number, which in 1793 had been about 400, and which had been reduced in the panic of that year by about 80, increased in the thirteen years after 1797 to over 700.¹ The Bank, in view of the great improvement in its reserve and of the extremely favourable condition of the exchanges, expressed its readiness

Management of the paper.

¹ Commons' Committee of 1797, Evidence of G. Ellison; Bullion Committee, Evidence of T. Richardson.

on more than one occasion during the first two or three years of the restriction to resume payments immediately. Had the Government permitted it at this time a great deal of trouble might have been saved. The weakness of the country banks might have caused a renewal of the stoppage in the face of subsequent invasion panics, but at any rate there would probably have been much less inflation of credit, a great part of the attendant evils might have been avoided, the crises of 1811 and 1816 might have been less ruinous, and the depression of 1816-23 much less severe. However, the Government repeatedly extended the Restriction Act, and although the pound continued without its metallic anchorage, no one in authority, either in the various Governments which took office at this time or in the Bank, seems to have regarded himself as in any way responsible for regulating its value, or indeed to have had any notion how it might be regulated.

The Bank, as the Directors said later, did not force its note issue. It merely supplied the public demand. Only those bills were discounted which the public brought to be discounted. How then could the Directors be accused of over-issuing their paper? The other banks claimed an equal innocence. Their resources increased and they were able to give increased accommodation in response to an increased demand. No individual, no class of persons, was actively to blame. The position simply was that while there was no forcing of the paper issues there was little if any limitation of them. Unrestricted credit was placed on tap, and whenever public demand ran high, either for the purpose of legitimate production or for reckless speculation, the Bank supplied it, regardless of the effect upon the value of money.

The first
inflation.

The first shock to the value of this unregulated pound occurred in 1799. The exchanges during the first two years of restriction had been extraordinarily favourable. Commodity prices had been rising slowly ever since the outbreak of war in 1793, but the value of money in terms of goods had fallen at least as far in other countries as in England, and two abundant harvests in 1797 and 1798 had brought about the influx of bullion already noticed. The harvest of 1799, however, failed badly. Wheat rose in the course of the year

from 49s. *od.* to 94s. *2d.* a quarter. Huge quantities were imported. The heavy foreign payments which resulted turned the exchanges against England. A violent speculation in corn began, with plenty of paper money to finance it. At the same time a speculative bubble was pricked in Hamburg. Widespread panic and failure occurred, followed by rapid deflation. This sent the exchanges further against England, that with Hamburg falling to 12 per cent. below par, and it became still more difficult to meet foreign payments. The Bank's short-term advances to the Government, which had been down to below 6 millions in 1797, crept up a little in 1798 and 1799 and jumped to nearly 11 millions in 1800.¹ The Bank's note issue, which for several years before 1796 had generally been about 10 or 11 millions, and which at the end of 1798, in spite of the partial displacement of guineas, was still, including the notes under £5, less than 12½ millions, rose during 1799 to over 14 millions, and jumped in 1800 to nearly 16 millions. Guineas again began to be collected for export, and Portugal gold of standard fineness rose to £4 6s. an ounce.² The price of sterling silver went up to 6s. *od.*,³ and commodity prices, which at the date of the restriction had been about 40 per cent. above the level of 1790, rose a further 20 points.⁴ The fall in the external value of the pound had, in the absence of a metallic standard, brought about a corresponding fall of the internal value.

¹ Bullion Report, Account No. 45. The Act 40 G. III, c. 33 permitted the Bank to lend an additional 3 millions in 1800, notwithstanding the provisions of the Restriction Act. The total amount was still below the high figure of Dec. 1795, £12,846,000.

² Most of the gold from America passed at this period through Lisbon and was coined there, owing to the strict monopoly maintained by Portugal of trade with its colonies.

³ Lord King, *Thoughts on the Effects of the Bank Restriction* (in Earl Fortescue's *Selection*), p. 157. The figures of the note issue are from the Bullion Report.

⁴ See a very useful table of percentage values, covering the prices of gold and silver, the exchanges, and commodity prices, for the whole of the Restriction period in Mr. R. G. Hawtrey's *Currency and Credit*, 1928 edn., p. 335. The prices of gold, silver, and foreign currencies quoted in this chapter and the next are summarized in tables at the end of the next chapter. Commodity-price index numbers are from Mr. Hawtrey's table. Most of the tables of commodity prices for this period given in older works are, as he shows, faulty.

In two years, however, the effects of the famine of 1799 and of the Hamburg crisis almost passed away. Temporary advances to the Government fell again, by the end of 1802, to below 7 millions. Gold went down to £4 1s. and silver to 5s. 6d. The exchanges went back nearly to par and there was a slight drop in the level of commodity prices. The Bank's note issue indeed did not fall, for during the crisis there had been a considerable displacement of guineas, which had been melted or exported, and the notes, particularly those under £5, which, as will be seen from the table at the end of the next chapter, had increased to a larger extent than the others, remained to take the place of gold in circulation. Nevertheless the rise in the note issue was checked. During the next six years it remained practically steady. The Government kept its temporary borrowings at around 6 or 7 millions, which was below the level at which they had stood in the period before 1795. The commercial world refrained from inordinate speculation. Monetary conditions remained quiet. And although the pound never quite reached par it remained stable at a point so near to par that those who had begun to cry out against inflation in 1802 were silenced.

The next attack upon its value came with one of those periodical outbursts of gambling in commerce and in the stock market, the causes of which are still by no means clear. The commencement of the Peninsular War created a great wave of enthusiasm and optimism in England. The long period of inactivity was to come to an end and it was felt that Napoleon's days were numbered. At about the same time, in 1808, Brazil, the trade with which had hitherto been a Portuguese monopoly, was thrown open to English merchants.

'In the course of a few weeks,' we are told, 'more Manchester goods were sent out to Rio Janeiro than had been consumed in the twenty years preceding; and the quantity of English goods of all sorts poured into the city was so very great that warehouses could not be provided sufficient to contain them; and the most valuable merchandise was actually exposed for weeks on the beach to the weather and to every sort of deprecation. Elegant services of cut-glass and china were offered to persons whose most splendid

drinking vessels consisted of a horn, or the shell of a cocoanut; tools were sent out, having a hammer on the one side and a hatchet on the other, as if the inhabitants had had nothing more to do than to break the first stone that they met with and then cut the gold and diamonds from it; and some speculators actually went so far as to send out skates to Rio Janeiro.¹

It still was largely the day of the private venture in trading, when any one with a little money might chance his arm in the export trade. Dozens of mere clerks set up as merchants with borrowed capital, and the Bank of England did nothing to discourage them. They brought their bills to be discounted and the Directors could see no reason for refusing. It was public demand. A hundred new country banks started business in 1809 and supplied a similar demand in the provinces. New companies were formed to undertake every conceivable kind of operation. Incidentally the Government, to send rapid succour to the Spanish rebels, who had risen against Joseph Buonaparte, added 2 millions to its short-term borrowings from the Bank, though this did not bring the figure above the level of 1793 and 1794, and it cannot be said that there was much official forcing of the note issue. Sheer optimism, producing a reckless expansion of business, just drew the paper into circulation for purely commercial purposes. The Bank's commercial discounts increased by many millions.²

The total amount of Bank of England notes outstanding, which from 1804 to the beginning of 1809 had fluctuated around 17½ millions, rose during the latter year to over 19 millions, and by May 1810 was more than 21 millions. Deposits at the Bank increased from an average of about 6 millions before the Restriction Act to over 12 millions in 1810. Accurate figures were not available for country bank notes, but since 1782 they had been required to bear a stamp, and it was clear from the returns of the Stamp Office that they had increased in similar proportion. Gold during the same period rose to £4 12s. an ounce and silver to 5s. 9d. The

¹ McCulloch, *Principles of Political Economy*, -2nd edn. (London, 1830), p. 330.

² Bullion Report, Evidence of Sir F. Baring and others.

price of most foreign currencies went up by at least 20 per cent., and commodity prices in England to about the same extent. Guineas almost disappeared from open circulation and there began to be signs of a secret demand for them at prices above 21s. *od.*

Appoint-
ment of
the
Bullion
Com-
mittee.

These symptoms of currency disorder soon began to trouble the minds of many people who had made some study of the theory of money. It was not so much that the depreciation of sterling had yet become very serious, as that they had constantly before them the dreadful example of the assignats, the value of which only a few years before had vanished completely. In February 1810 Francis Horner called for several returns of the quantity of Bank notes in circulation at various dates, the rate of exchange with certain countries, the price of gold, and other allied matters. Shortly afterwards, upon his motion, a committee of the Commons was appointed, with the unanimous assent of the House, to inquire into the high price of gold bullion.

The active members of this committee were Horner, Henry Thornton, and William Huskisson. One of these three men was in the chair at nearly all its meetings, and they were joint authors of the famous Report. Horner, a barrister of 32, was one of the founders of the *Edinburgh Review*, in which he had published articles on banking. Thornton was 50 years old, a banker, and the brother of Samuel Thornton, the Bank of England Director. He had published what was really the first text-book of banking theory, full of sound doctrine and containing some remarkable anticipations of subsequent developments.¹ Huskisson, who was just 40, had been associated years before with the leaders of the French Revolution, and had read a paper in one of the revolutionary clubs disapproving of the plan for the assignats.

Between February and May 1810 the Bullion Committee held thirty-one meetings and examined twenty-nine witnesses. Their Report, which was presented to the House on 9 June 1810, is one of the most important documents in English currency history. It began by dealing with the popular

¹ *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (London, 1802).

explanations of the rise in the price of gold and of foreign currencies common at the time amongst severely practical men in the commercial world and in Parliament, the men who disdained all theorizing.¹ They looked upon the rise in the price of bullion as a simple case of the rise in the price of a commodity due to increased demand. The Continent had been buying up gold and the price had naturally gone up. As for the exchanges, it was merely a question of the balance of trade. Napoleon's Continental System had damaged English export trade, and the payments made abroad for war purposes had added to the demand for foreign currencies. The Report countered these arguments by showing that in spite of the apparent unusual Continental demand for bullion the price had not risen in Continental countries; and also that, from the customs returns, there appeared to have been a favourable balance of trade for five years.

The authors then went on to show how the note issue of the Bank of England had risen since 1797, particularly the notes of less than £5. The Bank issued notes in advances to Government for the public service, and in advances to merchants upon the discount of their bills. An account had been laid before the Committee of the advances made to the Government in every year since the suspension of payments. It showed that these advances had of late years been generally less than before the Restriction. On the other hand figures of commercial discounts had been placed before them and, without disclosing these figures, they were able to say that the amount had been progressively increasing since 1796, and that in 1809 it 'bore a very high proportion' to the largest amount in any year preceding 1797.² They quoted figures of the number of country bank notes stamped at the Stamp Office to show that the amount must have increased in much the same proportion as Bank of England notes; and they expressed the opinion that the quantity of country bank paper depended upon the quantity of Bank of England paper, increasing and decreasing with it.

¹ Charles Bosanquet, the chief exponent on paper of these views, called his pamphlet *Practical Observations on the Report of the Bullion Committee* (London, 1810).

² It was, in fact, many times as great.

The great conclusion that they drew from all the facts was that the rise in the price of bullion and the adverse exchanges had been caused solely by an over-issue of Bank of England notes. They were careful to say that, in drawing this conclusion, they did not rely upon the mere increase in the quantity of notes as shown by the figures. The volume of currency required by a people might vary with the activity of trade. But there was one infallible sign that there had been an over-issue and that the currency was depreciated, and that was that the price of gold had risen. When gold coins circulated freely and notes could be exchanged for gold, the market price of gold could never be far from the Mint price. From the time of the recoinage in 1774 down to 1798 the margin between the two had been insignificant. It was only with the suspension of payments and the increase of the note issue that the market price had gone up, and the rise, coupled with the adverse state of the exchanges, was an 'unequivocal symptom' that there was an excess in the paper circulation of the country.

The Committee did not greatly blame the Bank Directors for what had happened, although those Directors who had given evidence had shown that they had not even begun to understand the most elementary principles of currency, and had repudiated all responsibility for regulating the supply of credit in any way. The Governor, John Whitmore, and the Deputy Governor, John Pearce, had pressed very strongly the view that Bank notes could not be over-issued, since they were issued only in response to public demand. And another Director, Jeremiah Harman, had made the following categorical statement which has often been quoted: 'I must very materially alter my opinions before I can suppose that the exchanges will be influenced by any modifications of our paper currency.' They had all admitted that in deciding whether to add to their discounts they never thought of looking at the state of the exchanges. Yet the Committee regarded them rather as men who had had a responsibility thrust upon them which was too great for any one to bear.

'The suspension of cash payments', said the Report, 'has had the effect of committing into the hands of the Directors of the Bank of England, to be exercised by their sole discretion, the

immediate charge of supplying the country with that quantity of circulating medium which is exactly proportioned to the wants and occasions of the Public. In the judgment of the Committee that is a trust which it is unreasonable to expect that the Directors of the Bank of England should ever be able to discharge. The most detailed knowledge of the actual trade of the Country, combined with the profound Science in all the principles of Money and circulation, would not enable any man or set of men to adjust, and keep always adjusted, the right proportion of circulating medium in a country to the wants of trade.'

This being the case, the suspension of cash payments ought not to have been prolonged as it had been, and the principal recommendation of the Committee was that the convertibility of the notes should be restored as soon as possible. It would be a difficult proceeding, and the method should be left to the Bank's discretion, but a time limit should be fixed forthwith by Parliament,

Although the Report was presented to the House early in June 1810, for various reasons an opportunity for discussing it did not present itself until the following year, and in the meanwhile there had been a further increase in the note issue by 2 millions and a further rise in the price of gold and of foreign currencies.

Bullion
debates.

At last a debate was arranged. It was agreed that Horner should move sixteen resolutions in support of the Report and that if they were lost his chief opponent, Nicholas Vansittart, should move seventeen resolutions in opposition. Horner invited the House to say that the legal money of the country consisted of gold coins of not less than a certain weight; that Bank notes were promises to pay such money, and that when Parliament passed the Restriction Act there had been no intention that the value of the note should change; that the value had in fact fallen; that the fall was due to excess of notes and the lack of control over the issues; that the unfavourable state of the exchanges was due to the same cause; that while the suspension of payments lasted the Bank ought to watch the exchanges and the price of bullion in regulating its note issue; that the only sure safeguard against over-issue, however, was convertibility upon demand of all paper

currency; and that in order to revert gradually to this condition of affairs and to enforce meanwhile a due limitation of the paper of the Bank of England, as well as of all the other bank paper of the country, the Restriction Act should be amended so as to require the Bank to resume payment two years from the present time.¹

The debate was looked forward to by members almost with excitement. The Bullion Report had aroused the greatest interest both inside and outside the House. A shower of pamphlets had descended upon the public instructing them in the mysteries of the balance of trade, the exchanges, the circulating medium, and the price of gold. Amongst them was one by Huskisson elaborating further the views of the Committee.² Ricardo, now aged 38, appeared in print for the first time with a tract³ on the high price of bullion. Public interest ran so high that a daily newspaper made a scoop by bribing a clerk at the Bank to steal a return of the Bank's discounts, not intended for publication, from a Director's table.⁴ The Report came to be regarded as primarily an attack upon the Bank, and in the debates which followed members regarded the issue as being largely that of the Bullion Committee versus the Bank.

On 6 May 1811 Horner introduced his resolutions with a speech of enormous length and of great ability, into which he packed every shred of an argument he could find to show that the notes were depreciated and how they came to be so. He was followed later by Thornton, who was full of the facts of similar periods of inflation in France, Sweden, Russia, and America, and incidentally made the important point that the longer the depreciation was allowed to continue the more difficult it would be to get back to the old standard. "The very argument of justice", he said, "after a certain time passes over to the side of deterioration . . . if eight, ten, or even fifteen or twenty years have passed since the paper fell, then it may be deemed unfair to restore the ancient value of the

¹ Hansard, 6 May 1811.

² *The Question concerning the Depreciation of our Currency stated and examined* (London, 1810).

³ *The High Price of Bullion a Proof of the Depreciation of Bank Notes* (London, 1810).

⁴ Hansard, 5 Apr. 1811.

circulating medium, for bargains will have been made and loans supplied under an expectation of the continuance of the existing depreciation.' Huskisson supported them with a speech of more moderate length but going over much of the old ground, and one or two other members of the Committee added their mite. In general they were all content with a scientific exposition of the principles of currency as they applied to the case in hand, avoiding any very direct attack upon the Bank, though Horner indulged himself a little in this direction. Speaking of the increase in the note issue since the Report was published he said: 'To me this appears one of the most wanton and unjustifiable acts that can well be conceived.' And in reviewing the evidence of the Directors before the Committee he remarked: 'It was to have been expected that the Governor of the Bank and the other Directors should be acquainted with the plainest maxim of political economy that the rise in the value of money or currency is equivalent to a fall in the prices of commodities.'

The attack upon Horner's resolutions was led by George Rose, who held a minor office in the Government. He delivered a speech which rivalled Horner's in length and in the mass of data which it handled, but it would be difficult to find anywhere a more amazing collection of muddle-headed arguments. Vansittart's reasoning was more lucid. Like many other people he was unwilling to believe that there was any depreciation of the notes until two prices were openly quoted for commodities, one for payment in guineas and the other for payment in paper. In point of fact the reason why two prices were not openly quoted was because most people thought that, under an Act of Edward VI,¹ to pay and receive gold coins at more than their face value was illegal. It was actually being done in secret by merchants and bankers in all parts of the country, but the Government had pounced upon one offender named De Yonge, a man of little substance, unable to pay for his defence, and had prosecuted him. The case was still awaiting final decision.² Amongst other speakers in the long debate Castlereagh supported Rose, and Canning, who agreed with the theories of the Bullion Report, refused

Opposition to the Report.

¹ 5 and 6 Ed. VI, c. 19.

² Hansard, 5 Apr. 1811.

to support the return to cash payments while the war lasted.

At length Horner's resolutions were put to the vote. The first one, with which the next fourteen, all dealing with theory, were linked, was lost by 75 votes to 151. The sixteenth, which contained the practical recommendation of a return within two years, was voted upon separately and was lost by 45 to 180.

A few days later a fresh debate was opened upon the resolutions of Vansittart, which denied that the notes were depreciated and opposed any return to cash payments until six months after the war. Horner tabled a series of amendments, and all the old arguments were gone over again by the same speakers as before. At last the amendments were lost and Vansittart's resolutions carried with little opposition. The great controversy ended tamely, for every one had talked himself out.

CHAPTER IX

THE BANK RESTRICTION PERIOD. II

ALTHOUGH the Bullion Committee met with defeat in the House of Commons, it must not be supposed that their voice was the first one or the only one raised against the over-issue of Bank notes. As early as 1797 warnings were uttered in both Houses of Parliament of what the results of the Restriction Act might be.¹ In 1801 Walter Boyd, a member of Parliament, published a pamphlet declaring that the notes were already depreciated. 'That the augmentation of the quantity of money or paper performing the functions of money in a country', he said, 'has a tendency to depreciate that money or paper is a principle universally recognized'.² In 1803 Lord King opposed the extension of the Restriction Act on the same grounds.³ The Bullion Committee were defeated partly because the Government were opposed to them, partly because many people, like Canning, agreed with their theories but could not support restriction of credit while the war lasted, partly because many members refused to join in an attack upon the Bank.

Other
views on
inflation.

Most people who have studied the Bullion Report have been inclined to accept the judgement of Horner regarding the behaviour of the Bank in 1810. Samuel Bosanquet, in 1797, had made it clear that as early as 1783 the Bank Directors had understood that when the exchanges were unfavourable they must cut down their advances. Yet in 1810 the three leading Directors could emphatically deny that their discounts had anything to do with the exchanges. Moreover if, as Sir Francis Baring said, they had allowed any one, even mere clerks, with no business experience, to open credits to the tune of £10,000 each, then they were guilty not merely of ignorance but of grave recklessness. Figures published long afterwards show that the commercial discounts of the Bank,

¹ *Parl. Hist.*, 28 Feb. 1797.

² *A Letter to the Right Hon. William Pitt on the influence of the stoppage of issues, etc.*, 2nd edn. (London, 1811), p. 7.

³ *Parl. Hist.*, 22 Feb. 1803. Peter, 7th Baron King, was the great grandson of the first Baron, a lord chancellor of some distinction, whose four sons had held the title in succession.

which were less than £4 millions in 1796, were over £20 millions in 1810.¹ This, for the times, was an enormous figure. On no other occasion, either before or since, except upon the outbreak of war in 1914, has the Bank supplied the money market directly with so large an amount of floating funds.

Lord
King's
proposals.

When the Bullion discussions were over Lord King, who, being in the House of Lords, had had no opportunity of taking part, dropped a bombshell amongst the supporters of Vansittart. Although, following the lead of the City merchants and bankers, people throughout the country had accepted Bank notes in place of gold and had allowed them to drive the gold out, they had never been made legal tender. Moreover, although their value had fallen appreciably in terms of gold Parliament had now refused to take any steps to remedy this, and the Bank had repudiated all responsibility for the value of its paper. The depreciation was going on. No one knew how little the money might be worth in a few months' time. In these conditions, 'for the defence of his property', King announced that he would no longer receive from his tenants in payment of their rents Bank notes at face value. He proposed to calculate, for each tenant, the quantity of gold which could have been purchased at the date of that tenant's agreement with the rent stipulated therein, and to require from him that same quantity of gold now, or the amount of paper money which would be required to purchase it at the present price. He published a pamphlet containing the speech he made on the subject in the House of Lords, and gave therein full tables to enable his tenants and any one else who cared to adopt the plan, to discover with ease what the revised payments would be. He was prepared to follow the principle consistently in all his dealings. For leases made during the period of depreciation the money rent should be reduced in proportion if money appreciated subsequently. In paying his own debts contracted at an earlier period he was ready to give his creditors an additional sum to make up for the depreciation of money in terms of gold,

¹ Report of the Committee on the Bank Charter, 1832, Appendix 59.

and he straightway proceeded to do so in settling a debt of considerable amount.¹

King was a young man to whom the neat logic of the step he was taking no doubt greatly appealed; and he was probably not above anticipating with some feeling of pleasure the consternation which would be caused amongst those who refused to do anything to save the money from further depreciation, by his repudiation of the patriotic compact made by the merchants in 1797. But his position was not entirely a logical one. 'The plain broad principle upon which I have acted', he said, 'is to require payment in a currency of the same intrinsic value which the currency possessed at the date of each respective agreement.' Now this suggests that he had in mind the fact that his tenants were all receiving higher prices for their corn to compensate them for the fall in the value of money, and that he was claiming a like compensation. But commodity prices had risen much more than the price of gold. Gold itself had fallen in value. He was not in fact claiming to be indemnified against a fall of the real value of money, but only against a fall of its value in terms of gold. So far as his oldest tenants were concerned he was acting upon Locke's dogma, that a pound was a definite quantity of bullion; and this was an entirely different principle.

Whether his logic was sound or not, however, King was successful in giving his opponents a shock. They were not prepared to allow long-standing creditors of any kind to compensate themselves for the rise in the cost of living by departing from the letter of their contracts. Nor were they prepared to accept the view that a pound was a definite quantity of gold bullion. They held to the time-honoured principle that a man who contracted to receive a pound, whether his contract were a long or a short one, must take whatever was by general consent called a pound when payment was made. This was the principle which had been followed for a thousand years in spite of all the many changes of form and value, some of them very rapid, which the pound had undergone. Lord Stanhope immediately introduced a

The
Stanhope
Act.

¹ Earl Fortescue, *A Selection from the Speeches and Writings of the late Lord King* (London, 1844), pp. 231-59.

Bill, which became law on 24 July 1811,¹ providing that no one should pay more for guineas than their face value, that no one should receive or pay Bank notes at less than their face value, and that Bank notes should be lawful tender in payment of debts. It gave the party who tendered them the costs of any subsequent action if they were refused, but he might still be compelled by the court to pay in guineas. As King put it, paper was made legal tender out of court. In 1812 another Act provided that where a court made an order for the payment of money the officers were to accept payment on behalf of the judgement creditor in Bank notes.² This virtually made the notes fully legal tender.

Condi-
tion of
the coin-
age.

The currency by this time was getting into a condition which should have given the most obtuse person grave cause to doubt. In 1804 the Bank had issued silver dollar tokens of 5s. each, minted, with Government consent, by Boulton's. In March 1811 it was necessary to call these up to 5s. 6d., or they would all have been lost. In 1806, the price of copper having gone up so much as to drive out all the copper coins of the 1799 issue, a new coinage had been made at the rate of 24d. to the pound. This was now all disappearing, and with it, owing to the high price of silver, even the worn silver coins. Not only was the country losing its gold, but it looked as though it would lose all its other metallic money as well, except counterfeit. In July 1811 the Bank issued tokens of 3s. and 1s. 6d.; and in August traders' tokens for 6d. and 1s. began to appear.³ A year later the Government decided to put a stop to these, and an Act was passed fixing a date after which they should cease to circulate; but so great was the outcry that the period had to be extended. It was, indeed, extended again and again,⁴ for in the complete absence of the official silver coins the tokens served a useful purpose, and the Government had not the remotest idea how to provide a silver coinage which would work satisfactorily as a subsidiary

¹ 51 G. III, c. 127.

² 52 G. III, c. 50. The Act was passed for one year only, but was continued by 53 G. III, c. 5 until 25 Mar. 1814, and by 54 G. III, c. 52, until the Bank should resume cash payments.

³ Ruding, 1805-11.

⁴ 52 G. III, c. 157; 53 G. III, c. 19, c. 114; 54 G. III, c. 52.

to the inconvertible paper. Every new issue of Bank tokens was copied within a week by the counterfeiters, and for this reason a proposed issue of 1s. and 6d. tokens was never made. The best the Government could do was to fall back upon the old medieval measures, issuing threats of dire punishment to counterfeiters, and offering rewards to informers.¹ In 1811 the courts decided that, since there had been no paper money in the reign of Edward VI, De Yonge could not have been guilty of an offence under the Act of that king in buying guineas for paper at more than face value. The decision was universally applauded, for nearly every one was doing it. Early in the same year bar gold and Portugal gold, for which there had been no trustworthy quotation during the preceding two years, began to be quoted regularly at rapidly rising prices.²

The bubble which had followed the opening up of South America, and which had been accompanied by the great increase of credit and depreciation of money, burst at the end of 1810. The effects were most severely felt in the cotton industry and in others which had expected too much from the new openings and which had increased their production far beyond market demands. They found themselves unable to meet their obligations, and the bankers of Lancashire and Glasgow, finding that so much of the credit they had injudiciously extended to their customers had become 'frozen', were placed in equal difficulties. Many failures occurred in those districts, and early in 1811 a Committee was appointed to inquire into the position. They recommended the remedy which had been applied in 1793, namely, the issue of Exchequer bills of small denomination to fill the place of the paper of those country banks which had disappeared, and a total of 6 million pounds' worth was issued.³

Crisis of
1811.

This crisis, though severe in the export industries and amongst merchants while it lasted, soon passed away. An inconvertible currency, since reserves need not be considered,

¹ 51 G. III, c. 110; 52 G. III, c. 128.

² See the table on page 215.

³ Report of the Committee on the State of Commercial Credit, 1 Mar. 1811.

is always very elastic; and the country bank paper of the early days had the quality of elasticity in a very high degree. It is remarkable how, time after time, a crisis would bring down a considerable number of the country banks and cause their total circulation to shrink by one-third or even by one-half, and how, within a year or two, both their numbers and their issues would be greater than ever. The shrinkage in 1811 was not so large as one-third. It is possible that the issue of Exchequer bills prevented a wholesale collapse of credit and a rapid deflation of note issues. The opponents of the Bullion Committee accused the latter of inconsistency in condemning the Bank for inflation while they raised not the slightest protest against this issue of Government paper. After all, the Exchequer bills were issued in March 1811 to counteract a shrinkage of credit, and a shrinkage of credit was just what the Bullion Report had recommended in 1810. It may be that, had the crisis been allowed to take its course, the collapse of credit would have carried the value of the notes nearly to a par with gold, and then the Bullion debate of July 1811 would have been upon very different lines.

As it was there was only a temporary pause in the fall of the value of money. The Bank's discounts dropped in 1811 to £14,355,400 and continued to shrink until, after the war, they reached a very low figure. Except at a time of crisis the Bank has never since taken a hand in the commercial discount market upon the same scale as in 1810. Its note issue, however, did not shrink. Other securities were substituted for commercial bills. Within twelve months production and trade had completely recovered. The year 1813 was a boom year. Commodity prices fell back a little in 1811, but turned upwards again in 1812 and reached the peak figure in 1814 of nearly 100 per cent. above the level of 1790. Gold reached its highest point of £5 10s. an ounce in 1813 and silver its highest of 6s. 11½d. in 1814. The Hamburg exchange was at its lowest point in 1811, but there was very little recovery while the war lasted. The number of country banks had reached 900 by 1815.

The end
of the
war.

At the end of 1813, when it was becoming evident that Napoleon could not possibly continue the war much longer,

the circulation of paper money was at its highest level, commodity prices had almost reached the peak, and the price of gold had remained steady for a month at £5 10s. an ounce. From that point a rise in the value of money began. By October 1814 gold was down to £4 5s. Then it wavered a little. During the eleven months or so of peace before the return of Napoleon, commerce was in an uncertain condition. The difficulties which followed from the collapse of war-time industries and the fall in the price of corn when importation again became possible were offset by the reopening of Continental markets. Before, however, the return of peace after so long a war could have serious results, the war broke out again and the old conditions returned. During the Hundred Days gold went up once more to £5 7s. Waterloo was followed by another period of uncertainty, and then, in the autumn of 1815, there was a serious crash. Commodity prices, particularly the price of wheat, tumbled headlong.

'In 1813 and 1814 the harvests had been abundant throughout all Europe. The war had ceased, leaving England . . . glutted with merchandise, with abundance of all things. But something in the nature of an epidemic instantly seized the whole nation. The activity of our commerce itself had been bent and directed to the purposes of war. And after twenty-four years of warfare—all bills unpaid—every one seemed to think that they had nothing to do but dismantle—to sit still and enjoy themselves. But what followed? Managed as best it might be there must have been a great revulsion; but all seemed to be set on making that revulsion as great as possible. Every establishment, carried to its perfection at whatever expense, was instantly to be got rid of. Our people being out of employ, the army and navy were as instantly to be discharged to increase the number of the destitute.'¹

Between 1814 and 1817 eighty-nine country banks failed, and the total circulation of country bank paper fell by nearly one-half.²

By this time two agitations were growing in strength both in Parliament and outside, the one for a reform of the silver coinage and the other for a resumption of cash payments. Condi-
tion of
the silver.

¹ Hudson Gurney in the House of Commons, 18 May 1818.

² Committee of 1819, Evidence.

The former was led in the House of Commons by Pascoe Grenfell, who said that it was well known that there was now nothing like a Tower shilling in the country. The Bank tokens were supplemented mainly by counterfeits and old twelve and twenty-four-sou pieces which in France passed for ten and twenty sous only, and upon which there was a profit of 20 per cent. when circulated in England at 6*d.* and 1*s. od.* The Government, led by the second Lord Liverpool, son of the author of the *Treatise on the Coins*, with Vansittart as Chancellor of the Exchequer, resisted at first but soon gave way.¹ The old committee of the Privy Council, appointed in 1798, of which the first Lord Liverpool had been a member, and the other members of which had failed at the outset to agree with his principles, still sat. They had not been idle. A new Mint had been erected upon their recommendation outside the Tower, and reforms had been made in the establishment and administration. While the war lasted, however, and the abnormal currency conditions remained, they had refrained from making any recommendations regarding the reform of the coinage. They were now asked for a report, and when the report came, in May 1816, it was found that they had adopted Lord Liverpool's proposals in their entirety.²

They expressed the opinion that an immediate coinage of both gold and silver would be of great public benefit, and they recommended that gold should be declared the only standard, that no change should be made in the standard weight or denomination of the gold coins, and that no charge should be made for coining gold. Silver coins hereafter should be considered as representative coins, and should be legal tender only in payment of sums not exceeding two guineas. They should be reduced a little in weight by coining 66*s.* instead of 62*s.* from a pound troy of sterling silver; but the Mint should still be open to the purchase of silver at the old Mint price, 62 of the new shillings being paid for a pound of the metal and the other 4 shillings going towards the general expenses of the Mint. It was hoped that the slight reduction of weight

¹ Hansard, 1 Mar. 1815; 22 Mar. 1816; 3 May 1816.

² Report of the Committee of the Council on the State of the Coins, &c., 21 May 1816.

would be sufficient to protect the coins from being melted or exported, but not sufficient to give encouragement to the counterfeiter. This was remarkably sanguine in view of the fact that cash payments were not yet restored, that gold was still above £4 an ounce, and that silver in the new coins was to be rated at only 5s. 6d. an ounce, whereas less than twelve months previously the market price had been as high as 6s. 9½d. However, the Committee concluded by recommending that £2,500,000 of new silver should be coined before any issue took place, and that the genuine coins of earlier issues should be purchased at face value.

The Government adopted the recommendations at once, and within a month an Act was passed to give effect to them. This Act repealed so much of the Act 18 Charles II, c. 5 as provided for a free and open Mint for silver, and all the Acts which required silver to be coined at 62s. to the pound, and made it lawful, from the date of passing the Act, for all silver in the Mint and all silver which should be brought to or deposited at the Mint, to be coined at 66s. to the pound. Old silver brought to the Mint was to be exchanged for new at par, and the Treasury might appoint persons to receive it on behalf of the Mint in any part of the country. After a date to be proclaimed it should be lawful for all persons receiving old silver to cut or deface it, and after another date to be proclaimed it should be lawful for any person to bring any quantity of silver bullion to the Mint at 62s. a pound. Gold coin made according to the existing indenture should henceforth be the sole standard measure of value, and should be legal tender for payment without any limitation of amount. The existing standard weight and fineness of the gold coins was declared to be, and should remain, the standard of the lawful gold coin of the Realm; and if gold coins of any other denomination than those in use were issued they should be of proportionate weight. Silver was to be legal tender for payments up to 40s. only.¹

The sections relating to gold suggested that coins of a new denomination were to be issued, and this indeed was the case,

Liver-
pool's Act
of 1816.

Issue
of the
sovereign.

¹ 56 G. III, c. 68. The Act is dated 22 June 1816 and is generally known as Lord Liverpool's Coinage Act.

for Liverpool had determined to put into circulation a 20s. piece. During the next year preparations were made at the Mint for doing this, and on 5 July 1817 coins called 'sovereigns or 20s. pieces', weighing 'five pennyweights, three grains $2740/10,000$ troy weight of standard gold', or $20/21$ of the weight of a guinea, were proclaimed current. The price of gold had by this time fallen back to the Mint price, and when the old coins came out of their hiding-places many of them were found to be deficient in weight. Another proclamation of the same date therefore, after stating that there was reason to believe that due attention was not paid to the weighing of gold coins, provided least current weights for all of them, old and new, below which they should not be allowed to pass current. Every one was strictly required to pay attention to the Acts in force for cutting and defacing light coin. Further, on 11 October, half-sovereigns, of half the weight of the sovereign, were declared current.¹ Thus a century almost to the very day after the publication of Newton's famous report, which resulted, by accident rather than design, in the establishment of the guinea of 21s. as the standard coin, that coin was superseded. The guinea, upon which had been founded the great economic expansion and prosperity of the eighteenth century, gave way to the sovereign, of which the nineteenth century became so proud. And the sovereign, too, reigned almost exactly one hundred years.

The exchanging of the old silver for new was carried out in February 1817.² It being very difficult to recognize the coins which had really been made in the Tower, there was a danger that to receive them at par for a long period would put a premium upon counterfeiting, and so only a fortnight was allowed for exchanging them, and very short notice was given. The operation, however, was carried out successfully, all the silver required to make up the deficiency of the coins being purchased in the market at the low prices now ruling. At one period in 1816 silver was down to 4s. 11½d. an ounce and the Government was naturally not in a hurry to issue the proclamation fixing a day upon which the Mint should be thrown open to all comers for disposing of silver at 5s. 2d. And

¹ *London Gazette*, 5 July, 11 Oct. 1817.

² *Ibid.*, 28 Jan. 1817.

indeed that proclamation was never issued. Since 1816 silver has always been purchased as required at market price, and although the price has gradually fallen to a very low level and the profits upon coining have greatly increased, the methods of coinage and the administration of the law against the counterfeiter have improved so much that his efforts have been kept within narrow bounds. The fact that the Mint has always been prepared to take back at face value, although not required by any Act to do so, worn silver coins, and any considerable excess of coins above the requirements of business, has kept the tokens at par with standard money. It is their convertibility, and not the restriction upon their legal tender, which regulates the quantity and maintains the value. If, however, the provisions of the Act of 1816 had been fully carried out, the Mint would long ago have been flooded with silver at 5s. 2d. an ounce, and we should have been back in the Middle Ages, with a silver standard and a seignorage of 6 per cent.

Meanwhile the agitation for the resumption of cash payments had been growing. More than once the matter was raised in the House and there was a long debate, but the Government refused to allow the Bank's hand to be forced and repeatedly extended the term of the Restriction Act.¹ In May 1816, however, Samuel Thornton announced that the Bank was making preparations to resume. What these preparations were is not very clear. The Bank's discounts had fallen in the partial collapse of 1811 from the peak figure of over 20 millions to just over 14 millions. After that date the Directors do seem to have taken to heart a little the doctrines of the Bullion Committee, for they avoided at any rate a return to anything like the higher figure for the discounts, although they made up for this by advancing money to fully the same extent in other ways.² It was not until 1816 that there was any further fall in the discounts, and there is no reason to suppose that that fall was brought about by any deliberate action of the Bank, but rather by the general collapse of credit. The truth seems to be that neither the

The first
resump-
tion of
pay-
ments.

¹ 54 G. III, c. 99; 55 G. III, c. 28; and 56 G. III, c. 40.

² See the table at the end of this chapter.

Government nor the Bank had, even yet, any policy for bringing the pound back to a par with gold. When accused of this and asked what reason they had to suppose that cash payments would ever be restored, the Government professed to have every confidence in the Bank, and pointed to the falling price of gold. They seem to have been merely waiting and hoping that the improvement would continue. The great slump of 1815 played into their hands.

Gold, by July 1816, had fallen to £3 19s. an ounce, and by October to £3 18s. 6d. Bullion was purchased by the Bank steadily throughout the year at market price, which was still above Mint price, and coined into guineas (and later into sovereigns) at a loss. The reserve reached 7½ millions by August, 9½ millions by February 1817, and 11½ millions by August of that year, the largest amount the Bank had ever held.¹ Having thus acquired a large reserve, the Directors resolved, without taking any steps to close up completely the gap between the value of paper and the value of gold, to experiment with a partial resumption of cash payments. The Act permitted them to issue any cash received after the date of the Order in Council of 1797, upon giving notice to the Speaker of their intention to do so. In November 1816 they announced that they proposed to pay cash for all notes of less than £5 issued prior to 1 January 1812. In April 1817 they extended the offer to holders of small notes issued prior to 1 January 1816, and in September to holders of notes of all denominations issued prior to 1 January 1817. They attempted particularly to get rid of the small notes of £1 and £2, which brought them no more profit than larger ones and were the most dangerous to have in circulation, for they were the first to come in to be cashed in a panic. Many of the country banks shared this dislike of the small notes and kept the number in circulation as low as was compatible, in the absence of coin, with the convenience of their customers. Some of them, for example the banks of Norwich, never had issued notes of less than £5, but paid out Bank of England notes for smaller sums. They now endeavoured to put gold into

¹ Report of the Committee on Commercial Distress, 1847-8, Appendix 4.

circulation in exchange for the small notes. But their customers would not have it. They took the guineas back to the banks and asked for notes, which they found much more convenient. The sovereigns were ready in July 1817, but there was no desire in the country for gold of any sort, and although some of the bankers went to the expense of conveying quantities of coin into the provinces, they had to bring it back again, for it would not circulate, and for the first two years most of the people saw nothing of the new coins.¹

If, however, there was no demand for gold for internal circulation a demand soon arose from another source. In July 1817 the exchanges, which during 1816 had been distinctly in England's favour, became unfavourable again. The price of gold went up to £4, then to £4 os. 6d. and £4 1s. od. Gold began to leave the Bank, at first slowly, and then, in February 1818 when the price touched £4 2s. 6d., much more rapidly. The reserve fell from over 11½ millions in August 1817 to less than 6½ millions in August 1818 and to little more than 4 millions in February 1819. The price of silver went up to 5s. 7½d. an ounce, and there were grave fears for the safety of the new silver coins, which now showed a profit upon melting.² Most of the gold which left the country went to France, and the bulk of the first new issues of sovereigns, which English people would not use, were turned, within a few weeks of their issue, into French coin at the French Mint.³

A great deal has been written regarding the causes of the failure of the partial return to cash payments in 1816 and 1817, but the matter has not as yet been made quite clear. The Bank's discounts fell very much during those years, and in 1817 averaged no more than 4 millions. In 1818 they were very little higher. To what extent this was brought about by deliberate attempts to facilitate an early resumption of cash payments is doubtful. Samuel Thornton pointed to the fact that the note issue fell from just under 30 millions in the latter part of 1814 to little more than 26 millions in the summer of 1816, and declared that this had been brought about by

¹ Report and Evidence of the Committee of 1819.

² Hansard, 26 Jan. 1819.

³ Committee of 1819, Evidence of Alexander Baring.

The
second
stoppage.

conscious efforts on the part of the Bank.¹ It seems more likely that it was a fall incidental to the depression of trade. Jeremiah Harman was now Governor. He still refused to admit that note issues had any effect upon the exchanges. Vansittart was Chancellor of the Exchequer and his views had undergone little change. They both believed that an abnormal wartime demand for gold had raised its price, and they accepted the great fall which had occurred as the natural result of the return of peace. Vansittart therefore, in the second half of 1817, being short of money, and being under an obligation to find some 14 millions for the Sinking Fund, quite recklessly borrowed the whole of this amount from the Bank.² The sum due by the Government to the Bank, which early in 1816 had fallen considerably, rose again to the level of 1815. Here was one reason why the great reduction of the discounts did not result in a reduction of note issues, and why therefore the exchanges again turned adverse. Another was the great influx of bullion, an artificial influx due to the Bank's purchases in the market, which increased the reserve by 7 millions, and against which notes went into circulation.

It is probably correct to say that the drain which set in in 1817 was due to a rapid reaction from the collapse of 1815, made possible by the lack of all effort on the part of the Bank to control the situation, and brought about to some extent by injudicious borrowing on the part of the Government. The slump had been severe. Already grave fears of what the effects of a return to the old standard would be were becoming widespread. There was talk of a reduction of the standard. Hudson Gurney, the Norwich banker, declared in the House of Commons in May 1818 that 'the pound of account of 1818 was not the pound of account of the days of Mr. Locke, and that to the pound of account of the days existing you must adjust your coinage or, on reverting to payments in specie after so long a cessation, your embarrassments would be unbounded'.³ Some of the Bank Directors undoubtedly realized that cash payments upon the old basis could only be

¹ Hansard, 1 May 1818.

² Tierney in the House of Commons, 1 May 1818.

³ Hansard, 18 May 1818.

restored if the paper currency were contracted. The others saw nothing but the distress of the commercial world and were all for relieving it with fresh advances. The Government never contemplated for one second a reduction of the standard, and wished only for a 'resumption of payments', which meant upon the old basis, but they did not realize that this would be impossible if the Bank went to the assistance of houses in difficulty with fresh issues of paper. Vansittart stoutly resisted all demands for an inquiry, and expressed perfect confidence in the Bank. The Directors who favoured an extension of credit had their way. 'With a view to prepare for the resumption', said Samuel Thornton, 'they reduced their issues from 30 to 26 millions, but from the circumstances of the country they afterwards felt it necessary to advance their issues in order to supply the circulation.'¹ This suggests that the Bank took deliberate action to relieve the distress caused by the deflation which had occurred; but the figures published afterwards tend to show that the assistance was given rather by willingly acceding to Vansittart's request for an advance than by any renewed extension of commercial discounts or loans. This was confirmed in 1832 by one of the Directors, who, on being questioned concerning this period, denied that the Bank had extended its circulation merely to relieve distress.² In any case the issues undoubtedly did increase, and although by the end of 1816 the country bank circulation had fallen to little more than one-half the amount of 1814, in 1817, with plenty of backing to work upon, it once again began to show signs of remarkable recuperative power. Hence came the fall in the value of money which we have noticed.

The rise in the price of gold and the great drain of bullion in the early part of 1818 were a severe disappointment to Vansittart. He had watched with approval the Bank's experiment of partial resumption, and in February 1817 had expressed complete confidence that in 1818 they would resume fully.³ But in May 1818 he was compelled to introduce a

¹ Hansard, 1 May 1818.

² Evidence before the Committee of 1832, Qns. 2036-8.

³ Hansard, 19 Feb. 1817.

bill for further extending the Restriction Act until July 1819.¹ In January 1819 gold went up to £4 3s. 0d. and the reserve went down to 4 millions. A new Parliament met and was faced at once with appeals and petitions from merchants and manufacturers all over the country against the resumption of cash payments in July.² They all suggested further postponement, without making any constructive proposal. They were, generally speaking, in favour of a return to cash payments on the old basis—some day. The House, too, was not disposed even yet to face the real issue, and decide whether the old standard should be restored, regardless of consequences, or whether some new gold unit of lower value should be introduced. The Government was prepared weakly to drift on and extend once again the Restriction Act.³ But there were by now dissensions in the Bank parlour. Some at least of the Directors had begun to realize that sooner or later the Bank would have to justify itself in its failure to carry out the declared policy of the Government and resume cash payments. They managed to get a resolution passed which said that 'it appeared preferable to submit to the consequences of a parliamentary inquiry rather than pass a bill for a time inadequate to the circumstances in which the country might be placed'.⁴ This was communicated to the Government and, upon the motion of Vansittart, the House at last appointed a committee, which included Castlereagh, Canning, Tierney, Huskisson, Vansittart himself, and Peel, the last-named being chairman,⁵ to inquire into the expediency of resuming cash payments.

It is interesting to compare the Bullion Report with the report of the Committee of 1819. With the exception of Sir Francis Baring the Bullion Committee called no witnesses who had made any particular study of currency theory. The witnesses were nearly all chosen for their knowledge of the facts of the trade and monetary position. They were bullion and exchange dealers, bill-brokers, country bankers, officers of the Mint, the Customs and the Clearing House, and the

¹ 58 G. III, c. 37.

² Hansard, 22 Jan., 2 Feb. 1819.

³ *Ibid.*, 26 Jan. 1819.

⁴ Committee of 1819, Report and Evidence. ⁵ Hansard, 3 Feb. 1819.

principal Directors of the Bank. Only two or three of them were asked their opinion regarding the effect of paper issues upon the exchanges and the price of bullion. It is not too much to say that the leading members of the Bullion Committee had made up their minds beforehand upon the theoretical question.¹ Peel's Committee, however, while they called witnesses of the same kind, several of them indeed being the same persons, called also two such notable theorists as Ricardo and Tooke, and made a point of asking every witness whether, in his view, a reduction of the note circulation would improve the condition of the exchanges. In the large majority of cases the answer to this question was now in the affirmative. The Governor, Deputy Governor, and other Directors, past and present, of the Bank agreed with this, except Jeremiah Harman and Samuel Thornton, who were still dubious. Many of the other witnesses were quite definite and even emphatic upon the point, and almost all agreed that upon the Bank's policy of extending or contracting its note issue depended the general condition of credit and of trade throughout the country. Grave fears were expressed by several persons of the effects a restrictive policy would have upon conditions in the commercial world, and they advised that if resumption of cash payments must be made, it should be carried out by degrees. It was generally acknowledged that there was a gap between the value of the pound and the value of the standard weight of gold which must be closed by raising the value of money. Ricardo put forward a plan to avoid setting up an increased demand for gold and making the deflation more serious. He suggested that Bank notes should be made convertible into bullion only, that coin should not be put into circulation, and that small notes should be made legal tender instead. Only one witness, Thomas Smith, an accountant, pronounced definitely in favour of a reduction of the standard, and his theories were unsound in other respects and were not taken seriously.

The Committee determined that a return to the old standard within a relatively short period must be faced. Act of
1819.

¹ See on this point Parnell's speech in the Bullion debate, 7 May 1811.

A first report was issued on 5 April 1819 recommending the passage of an Act immediately forbidding the Bank to make any further payments in gold for the time being.¹ There was no use in allowing the reserve to run to waste while a plan was being devised. The main report followed on 6 May, and within a week or two a bill was framed to give effect to the Committee's recommendations.² It adopted the plan of a gradual return to the old standard within four years as a maximum. The complete suspension of payment was to continue until 31 January 1820. Between 1 February 1820 and 1 October 1820 the Bank was to pay all notes on demand in gold at the rate of £4 1s. per standard ounce, in bars of a minimum weight of 60 oz. each. From 1 October 1820 to 1 May 1821 the Bank was to sell gold for notes in the same way at £3 19s. 6d.; and from 1 May 1821 to 1 May 1823 at £3 17s. 10½d. They might, however, lower the price sooner by giving three days' notice in the *London Gazette*, but once they had lowered it they were not to raise it again. Any time after 1 May 1822 gold coin might be paid out, and on 1 May 1823 all restrictions upon cash payments were to expire. Finally there came a provision which, in the history of the currency, is almost as notable as any of the others. Whereas the laws in force against melting and exporting the gold and silver coin of the realm had been found ineffective, it was enacted that from and after the passing of this Act it should be lawful for any person to export the gold or silver coins of the realm to parts beyond the seas, and also to melt them, and to manufacture, export, or otherwise dispose of the bullion thereby produced, notwithstanding any provision to the contrary in any other Act. And to make quite certain, the sections relating to melting and export in a long list of Statutes were specifically repealed. The only restriction that was retained was the requirement that a person exporting silver bullion should take oath that it was not made from the clippings of silver coin, and even this was repealed two years later.³

¹ 59 G. III, c. 23, dated 6 Apr. 1819.

² 59 G. III, c. 49, dated 2 July 1819, generally known at the time and since as Peel's Act.

³ 1 and 2 G. IV, c. 26.

The Bank Directors had seen with misgiving the path along which the opinions of the Committee were moving, and they read with dismay the Committee's recommendations. Before the first report was published they passed a resolution which in effect denied that their issues had any influence upon the exchanges or upon the movement of gold. Afterwards they made a representation to Parliament protesting against the attempt to establish a system which would place upon them the responsibility for maintaining the national currency. They were a private undertaking. It might indeed be their business to look after the well-being of the commercial community, but the affairs of the nation were the concern of Parliament. The protest was ignored.

The Government left the matter for the decision of the House, and Peel, who was not a member of the Government, introduced the Committee's proposals in a series of resolutions. His speech was a complete exposition of 'sound money' doctrine. In his ignorance he had voted against the Bullion Committee in 1811 and had indeed gone into this latest Committee with some doubts in his mind. But the evidence he had listened to had completely convinced him that a return to the ancient standard must be made as soon as possible, and that the only method of effecting this was by a contraction of the issue of Bank notes. No one had ever been able to give any satisfactory definition of a pound sterling except that it was a piece of gold of a certain weight. He ridiculed the ideas of Thomas Smith who, in evidence before the Committee, had attempted to develop his conception of an 'abstract pound'. The pound was a definite piece of metal, fixed virtually by the proclamation of 1717, and to that standard common honesty required that we should return. Tierney, Huskisson, Canning, and all those who had consistently held to the teachings of the Bullion Report, rallied around him; and they included the bulk of the talent of the House. The opposition was of the feeblest. Those who feared the consequences of the resumption of cash payments and who felt that there was something to be said for reducing the standard, were almost afraid to raise their voice against the imposing array of brains behind Peel. Gurney and one or two

others stood by their guns, but Peel's resolutions and the bill based upon them were passed without a division.¹

Many of the witnesses before the Committee, including the Bank Directors, had insisted that to make a resumption of cash payments possible the Government must repay to the Bank a substantial amount of its borrowings. The Committee accepted this. It does not seem to have occurred to any one that a very moderate contraction of those advances would be sufficient to close up the comparatively small gap between the value of money and the value of gold, for the price of gold was, in May 1819, only £4 1s. an ounce. One of the resolutions introduced by Peel expressed the opinion that the Government should make provision immediately for the gradual repayment of 10 millions to the Bank.² This was an enormous figure to fix, amounting to nearly one-third of the Bank's paper assets, apart from the permanent debt. In July, however, an Act was passed making it illegal for the Bank to lend money to the Government in future for more than three months without the express authority of Parliament,³ and steps began to be taken at once for the repayment of the 10 millions. Repayment could only result in considerable deflation. Both the note issue and the deposits diminished, and the price of gold fell to £3 17s. 6d. an ounce almost immediately. The exchanges became very favourable, and throughout the year 1820 gold flowed persistently into the Bank. Early in 1821 the reserve had reached so high a figure that the Bank expressed its willingness to resume payment in coin at par of all its notes immediately, and an Act was passed permitting it to do so from 1 May.⁴ Thus full convertibility at the old standard was restored two years sooner than had been anticipated. The sound-money men had gone to extremes. The result of this rapid and unnecessarily large contraction of the Bank's credit was a further heavy fall of commodity prices, grave distress in many industries, and widespread unemployment. Ricardo's advice to avoid the circulation of coin was not followed. The Bank and the country banks continued their policy of retiring the small

¹ Hansard, 24 May 1819.

² 59 G. III, c. 76.

³ *Ibid.*

⁴ 1 and 2 G. IV, c. 26.

notes. Ten or eleven millions of gold soon went into circulation. Other countries were restoring their gold currencies as well. Europe became engaged in a scramble for a limited stock of gold.¹ Although the gap between the value of money and the value of gold had been small, the latter now rose so much that the full rise in the value of money became serious.²

It was only now that those who had favoured a reduction of the standard began really to make themselves heard. Commodity prices, and especially the price of corn and agricultural produce generally, had fallen very low, while private loans and mortgages remained at the same nominal figure. It was difficult to get rents adjusted, and above all the one great fixed charge upon the country's production, the National Debt, remained at the hitherto unparalleled figure of over 800 millions. William Cobbett returned from America in 1819, and began to tour England, noting the depressed condition of agriculture, attending distress meetings of farmers, and arousing them against the fund-holders who, under Peel's Act, were to receive full payment of interest and principal in an appreciated currency even though the producer might be made bankrupt. Petitions came in during 1820 and 1821 from all over the country calling attention to the depressed state of industry and begging that something might be done to modify the effects of the resumption of cash payments. Hitherto Gurney had been almost alone in the House in advocating a reduction of the standard. Now some of those who had been most enthusiastic for a return to the old standard began to have doubts. Alexander Baring, in March 1821, declared that the value of money had been raised too rapidly and too high, and called for an inquiry into the working of Peel's Act. He also proposed that Ricardo's plan should

Effects of
deflation.

¹ See the Report of the Committee on Agricultural Distress, June 1821.

² Macleod, vol. ii, p. 103, denied that the actual resumption of cash payments caused any considerable rise in the value of the pound. He held that this rise had occurred beforehand in the slump of 1816. His argument, however, was based entirely upon the changes in the price of gold and neglected the rise which occurred in 1820 in the value of gold. Ricardo argued similarly in the House in 1823 (Hansard, 26 Feb.) in defending the Act of 1819. But Ricardo on other occasions blamed the Bank for having raised unnecessarily the value of gold by buying it up for reserve purposes.

be adopted.¹ There were two lengthy debates, but the motion was lost.

About the same time several of the petitions which had been signed and sent up from the farmers' distress meetings were referred to a Committee on Agricultural Distress. In June 1821 this Committee issued a report, in the course of which they agreed that some part of the fall of prices was due to the return to gold at a time when so many other countries were doing the same thing. Similar depression, they reported, prevailed all over Europe. In the debate upon this report in May 1822 many members condemned Peel's Act. Although the distress was felt with equal severity by nearly all industries,² the agricultural interest, being by far the largest, and having by far the greatest influence in the House, managed to obtain the best hearing. Its acknowledged leader was now Charles Western, the member for Essex. In June 1822 he moved for a committee to consider the effects of the Act of 1819 upon agriculture, manufactures, and commerce, and upon 'the general condition of the different classes of society'.³ He argued that most of the National Debt, and indeed of the existing private long-term debts as well, had been contracted in a depreciated currency; and although he did not specifically say so in his motion, it was admitted in debate that he wished to see the pound reduced in value to the equivalent of 14s. His first motion was lost, but a month later he made a more formidable attack. He tabled eighteen resolutions, which invited Parliament to record the whole history of currency depreciation during the war; its subsequent appreciation; the increased burden of taxation since 1819 in terms of wheat, of labour, and of commodities in general; and the increased burden of the National Debt and of the annual debt-charge in terms of gold and of wheat. The House was asked to proclaim both the injustice to the pre-war creditor in paying his interest and repaying his principal during the war in a depreciated currency, and the injustice

¹ Hansard, 19 Mar. 1821.

² As early as 9 Dec. 1819 there was a debate in the House upon the distressed condition of the manufacturing districts.

³ Hansard, 11 June 1822.

to the post-war debtor in making him pay his wartime debts in an appreciated currency. They were to call for a 'final arrangement of the currency as equitable to all parties as circumstances would admit, or a reduction of taxation equal to the advance occasioned by the Act of 1819, together with the establishment of some principle for the adjustment of private contracts'.¹

A debate followed in which Ricardo was the chief opposer, and in the end all the motions were lost, but still the distress meetings continued to be held and the petitions to come in. The farmers could not get their rents and their tithes adjusted. So in June 1823 Western again moved for a committee of inquiry into the effects of the currency changes, and another long debate followed, at the end of which his motion was again heavily defeated.² Even this, however, was not the last attempt to undo the settlement of 1819. The movement revived again in 1830 and 1833, but received little support. Cobbett might rave and prophecy the inevitable collapse of the whole productive system under the weight of the Debt, but most people were prepared to try bearing it for a few years rather than risk any more currency experiments.

Peel's Act had left the pound upon a basis which approached more nearly to a completely automatic metallic standard than at any other time before or since. The seignorage and other Mint charges had long been abolished. Charles II had established a free and open Mint. Blondeau had defeated the clipper; and the introduction of improved machinery into the Mint, together with the growth of a more efficient organization for the detection of crime, was beginning to defeat the counterfeiter. Gold was more difficult to counterfeit than silver. Peel had abolished the restrictions upon the melting and export of coin. The old bullionist laws had long fallen into abeyance. Mercantilism was dying. No one now thought that the Government should make laws to secure the country's treasure. No one cared much whether gold came in or went out. The Bank regularly acted as agent of the Mint in the purchase of bullion and the issue of coin, and was generally prepared to purchase all bullion brought

The
currency
after
Peel's
Act.

¹ Hansard, 10 July 1822.

² *Ibid.*, 11 June 1823.

in.¹ Upon the slightest fall in the value of gold elsewhere large quantities poured in. Upon the slightest fall in the value of money in England, bullion or heavy coin being easily obtainable, large quantities poured out. Reared up upon the Bank's reserve of gold was a considerable edifice of paper money, changes in the quantity of which accentuated the effects of the bullion movements. This paper money was largely issued by hundreds of small banks whose activities were left practically uncontrolled by the State, and who had no notion whatever of regulating their issues except for their own ends. Above all, the Bank, whose note issues admittedly formed a large part of the reserves of these banks, still denied that it was in any way responsible for controlling the value of the national currency, and indeed doubted whether it had the power even to influence it. Needless to say in these circumstances the country was soon brought face to face with the dangers of unregulated credit.

THE MAIN STATISTICS OF THE RESTRICTION PERIOD

I. *A Table of the Assets and Liabilities of the Bank of England at 28 February and 31 August in each year from 1790 to 1826.*

In millions of pounds.

<i>Date.</i>	<i>Total Note Circulation including Post Bills.</i>	<i>Notes under £5.</i>	<i>Deposits.</i>	<i>Public Securities.</i>	<i>Private Securities.</i>	<i>Bullion.</i>
1790 F.	10·0		6·2	8·3	2·0	8·6
A.	11·4		6·2	10·0	2·0	8·4
1791 F.	11·4		6·4	10·4	2·2	7·9
A.	11·7		6·4	10·9	1·9	8·1
1792 F.	11·3		5·5	9·9	3·1	6·5
A.	11·0		5·5	10·7	3·2	5·4
1793 F.	11·9		5·3	9·5	6·5	4·0
A.	10·9		6·4	10·4	4·4	5·3
1794 F.	10·7		7·9	10·0	4·6	7·0
A.	10·3		5·9	8·9	3·6	6·8
1795 F.	14·0		6·0	13·2	3·6	6·1
A.	10·9		8·2	13·3	3·7	5·1

¹ See a speech by John Pearce, a Bank Director, Hansard, 11 June 1822.

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<i>Date.</i>	<i>Total Note Circulation including Post Bills.</i>	<i>Notes under £5.</i>	<i>Deposits.</i>	<i>Public Securities.</i>	<i>Private Securities.</i>	<i>Bullion.</i>
1796 F.	10·7		5·7	13·0	4·2	2·5
A.	9·2		6·7	10·9	6·2	2·1
1797 F.	9·7		4·9	11·7	5·1	1·1
A.	11·1	0·9	7·8	8·8	9·5	4·1
1798 F.	13·1	1·4	6·1	11·2	5·6	5·8
A.	12·2	1·5	8·3	10·9	6·4	6·5
1799 F.	13·0	1·5	8·1	11·5	5·5	7·6
A.	13·4	1·3	7·6	9·5	7·5	7·0
1800 F.	16·8	1·5	7·1	14·0	7·4	6·1
A.	15·0	1·6	8·3	13·6	8·6	5·2
1801 F.	16·2	2·6	10·7	16·0	10·5	4·6
A.	14·6	2·4	8·1	11·9	10·3	4·3
1802 F.	15·2	2·6	6·9	14·2	7·8	4·2
A.	17·1	3·2	9·7	13·5	13·6	3·9
1803 F.	15·3	3·0	8·1	9·4	14·5	3·8
A.	16·0	3·8	9·8	13·3	13·6	3·6
1804 F.	17·1	4·5	8·7	14·7	12·3	3·4
A.	17·2	4·7	9·7	15·0	10·9	5·9
1805 F.	17·9	4·9	12·1	16·9	11·8	5·9
A.	16·4	4·5	14·0	11·4	16·4	7·6
1806 F.	17·7	4·5	10·0	14·8	11·8	6·0
A.	21·0	4·3	9·6	14·2	15·3	6·2
1807 F.	17·0	4·1	11·8	13·5	14·0	6·1
A.	19·7	4·2	11·8	13·4	16·5	6·5
1808 F.	18·2	4·1	12·0	14·1	13·2	7·9
A.	17·1	4·1	13·0	15·0	14·3	6·0
1809 F.	18·5	4·3	10·0	14·7	14·4	4·5
A.	19·6	5·2	12·3	15·3	18·1	3·7
1810 F.	21·0	5·9	12·5	14·3	21·1	3·5
A.	24·8	7·2	13·6	17·2	23·8	3·2
1811 F.	23·4	7·1	11·4	17·2	19·9	3·4
A.	23·3	7·6	11·1	21·9	15·2	3·2
1812 F.	23·4	7·5	11·6	22·1	15·9	3·0
A.	23·0	7·6	11·8	21·2	17·0	3·1
1813 F.	23·2	7·7	11·3	25·0	12·9	2·9
A.	24·8	8·0	11·2	25·6	14·5	2·7
1814 F.	24·8	8·3	12·5	23·6	18·4	2·2
A.	28·4	9·7	14·8	35·0	13·4	2·1
1815 F.	27·3	9·0	11·7	27·5	17·0	2·0
A.	27·2	9·5	12·7	24·2	20·7	3·4
1816 F.	27·0	9·0	12·4	19·4	24·0	4·6
A.	26·8	9·1	11·9	26·1	11·2	7·6
1817 F.	27·4	8·1	10·8	25·5	8·7	9·7
A.	29·5	8·0	9·1	27·1	5·5	11·7
1818 F.	27·8	7·4	8·0	26·9	4·0	10·1
A.	26·2	7·5	7·9	27·3	5·1	6·4

<i>Date.</i>	<i>Total Note Circulation including Post Bills.</i>	<i>Notes under £5.</i>	<i>Deposits.</i>	<i>Public Securities.</i>	<i>Private Securities.</i>	<i>Bullion.</i>
1819 F.	25.1	7.4	6.4	22.4	9.1	4.2
A.	25.3	7.2	6.3	25.4	6.3	3.6
1820 F.	23.5	6.7	4.1	21.7	4.5	4.9
A.	24.3	6.7	4.4	19.2	4.7	8.2
1821 F.	23.9	6.4	5.6	16.0	4.8	11.9
A.	20.3	2.5	5.8	15.8	2.7	11.2
1822 F.	18.7	1.4	4.7	12.5	3.5	11.1
A.	17.5	0.9	6.4	13.7	3.6	10.1
1823 F.	18.4	0.7	7.2	13.7	4.7	10.4
A.	19.2	0.5	7.8	11.8	5.6	12.7
1824 F.	19.7	0.5	10.1	14.3	4.5	13.8
A.	20.1	0.4	9.7	14.6	6.3	11.8
1825 F.	20.8	0.4	10.2	19.4	5.5	8.8
A.	19.4	0.4	6.4	17.4	7.7	3.6
1826 F.	25.5	1.4	6.9	20.6	12.3	2.5
A.	21.6	1.2	7.2	17.7	7.4	6.8

The figures are taken from Appendix 5 to the Report of the Committee on the Bank Charter, 1832.

The amount of the Bank's Capital and an equal amount of Public Securities are omitted from the table, this being the practice in all the accounts published down to 1844. The difference between the amount of the assets and the amount of the liabilities for any period is the Rest, consisting of additional capital in the form of reserve fund or undivided profits. As will be seen, the size of the Rest varied considerably during this period. Between 1790 and 1800 it rose from $2\frac{1}{2}$ millions to about $3\frac{1}{2}$, and between 1800 and 1808 from $3\frac{1}{2}$ millions to over 5. Between 1808 and February 1816 it went up to the peak figure of 8½ millions, and then fell rapidly by 1820 to $3\frac{1}{2}$ millions again, and by 1826 to less than 3. This variation in the Rest must not be overlooked in interpreting the changes in the other figures.

II. A Table of the Prices of Gold and Silver per ounce troy and of the Exchange with Hamburg, 1790 to 1818.

Date.	Standard Gold in Bars, per oz.		Portugal Gold Coin, per oz.		Standard Silver, per oz.		Hamburg Exchange in Schillings and Grotes.	
	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.	Highest.	Lowest.
	s. d.	s. d.	s. d.	s. d.	s. d.	s. d.		
1790	77 6	77 6	77 6	77 6	5 3½	5 2½	35 10	34 11
1791	77 6	77 6	77 6	77 6	5 3½	5 2½	35 11	34 10
1792	77 6	77 6	81 0	78 6	5 6	5 2½	35 4	34 0
1793	77 6	77 6	77 6	77 0	5 5	5 0	38 6	34 11
1794	77 6	77 6	77 6	77 6	5 2	5 0½	36 7	33 6
1795	77 6	77 6	77 6	77 6	5 6	5 1	36 6	31 10
1796	77 6	77 6	77 6	77 6	5 6	5 3	35 6	32 7
1797	77 10½	77 6	80 0	77 6	5 7½	5 0	38 5	34 9
1798	77 10½	77 9	80 0	80 0	5 2	5 0	38 1	37 3
1799	77 9	77 7	80 0	80 0	5 8	5 2	37 8	31 6
1800			86 0	85 0	No quotation		32 7	30 0
1801			86 0	82 6	5 11	5 11	32 10	29 8
1802	No quotation		83 6	83 6	5 11½	5 6	34 7	32 0
1803	No quotation		No quotation		5 8½	5 6	35 0	32 10
1804	80 0	80 0	80 0	80 0	5 6	5 5	36 4	34 4
1805	80 0	80 0	80 0	80 0	5 10	5 7	35 9	32 9
1806					No quotation		34 8	33 5
1807	No quotation		No quotation		5 8½	5 6	34 10	34 2
1808							35 5	31 2
1809			91 0	90 0	No quotation		31 3	28 6
1810	85 0	84 6	No quotation				31 9	26 6
1811	99 6	84 6	100 0	93 6	6 2	5 11½	26 6	23 6
1812	107 0	95 0	The price then		6 7	6 4	29 4	26 0
1813	110 0	98 0	varies in much		6 11	6 7½	30 6	26 0
1814	108 0	85 0	the same man-		6 11½	5 8	33 1	28 0
1815	107 0	82 0	ner as that of		6 9½	5 9	34 4	28 0
1816	81 0	78 6	bar gold		5 4½	4 11½	38 0	34 3
1817	80 6	78 6			5 3½	5 0½	36 9	34 6
1818	82 6	81 0			5 6	5 3½	35 2	33 8

Figures taken from Appendix 14 to the Report of the Committee of 1819.

CHAPTER X

THE DEVELOPMENT OF CREDIT CONTROL. I

The small
notes.

THE history of the development during the nineteenth century of a system for controlling the quantity and the value of the credit currency of the country falls naturally under two headings: firstly, the legislative measures to that end taken by Parliament, and secondly, the means adopted voluntarily by the Bank of England. It will not be convenient to deal with them separately, for the two processes of development went on together; but it will be well to bear in mind that the system was built up from both sides, and that not only did the various Governments and Parliament, with the aid of several committees of inquiry and much public controversy, continually attempt, during the first half of the century, to evolve a sound plan, but the Bank also, with varying degrees of diligence as personalities changed, sought to improve the technique of currency management.

The discussions of the Bank Restriction period ended in the triumph of the simplest and crudest form of the quantity theory. There were few people remaining after 1819, except amongst the Bank Directors, who denied that the quantity of money had any influence upon the price of gold or upon the exchanges. A belief in the doctrines of the Bullion Committee, together with a reverence for the teachings of Locke, had taken so firm a hold upon the minds of those concerned with the currency settlement of 1819 that, in applying their theories to practice, they used far too little caution. The Government, acting upon the recommendations of the theorists, clumsily extinguished a large amount of credit, and the acute depression which followed gave rise to the agitation of Cobbett and the farmers and to the repeated efforts of Western to upset the settlement; and although the latter was unsuccessful in securing an inquiry into the working of Peel's Act, his efforts were not without result.

In so far as Liverpool, Vansittart, and the Bank had had any plan in 1816 for securing the return to the gold standard, it had consisted of the accumulation by the Bank of a considerable reserve of bullion and the redemption, as soon as

the price of gold should cease to be much above the Mint price, of the notes of less than £5, which were to be replaced in circulation by sovereigns. The Government had never considered for a moment making small notes a permanent part of the currency. Scotland had long used them and had grown to like them, but in England they were the offspring of the war and formed no part of the normal money. The Act which permitted the issue of notes of less than £5 payable to bearer on demand had been continued from time to time but had never been made permanent, and in 1816 the date of its expiry was fixed at two years after the resumption of cash payments.¹ The Bank duly accumulated its reserve of gold by purchasing bullion in the market at a loss but, as we have seen, its first efforts to redeem the notes were a failure. In 1819, however, the policy was continued. Even Ricardo's precautionary scheme for continuing the use of pound notes to avoid setting up a demand for gold received little consideration; and as soon as it became evident that the Act permitting the issue of small notes would expire within the next few years the country banks began calling in theirs as well. The resumption of cash payments on 1 May 1821 made 1 May 1823 the date at which small notes must cease to be issued.

Meanwhile came the agitation against Peel's Act, and in 1822 the Government decided to take action to relieve the distress which gave rise to this unrest. To give some ease to the credit situation they deliberately borrowed from the Bank in this and succeeding years the money required for the pensions funding plan known as the 'Deadweight', and also what was necessary to pay off the dissentient holders of debt in two conversion schemes.² Further, in 1822, an Act was passed which permitted notes payable to bearer on demand for sums less than £5 to continue in circulation until 5 January 1833.³ This was a very different plan from that of Ricardo. The latter had advocated the issue of £1 notes by the Bank of England only, which were to be made legal tender in place

¹ 56 G. III, c. 21.

² Committee of 1832, Qn. 1983 and the Memorandum by the Governor of the Bank.

³ 3 G. IV, c. 70.

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of gold. The Government, in spite of the warnings of Gurney and others, gave to over 500 small country bankers the right to issue unlimited £1 notes payable to bearer on demand, and, if the holder persisted, payable in gold only, for the last of the provisions which had made Bank of England notes virtually a legal tender lapsed on 1 May 1823.¹ The Bank itself did not take advantage of the extension of time granted for the issue of small notes but continued to withdraw them from circulation, partly, it was said, because of the large number of forgeries. Nevertheless the huge stock of bullion which it had accumulated in anticipation of being called upon to provide for the withdrawal of the small country notes remained in its coffers, and there appeared to be ample backing for an extension of its loans. Discounts had been reduced to a very moderate figure, and the Bank did not permit them to grow again, but, with the encouragement and approbation of the Government, it began to advance freely to the public upon securities and even upon mortgages.²

The
boom of
1825.

A complete change now came over the condition of credit and trade. Urged partly by the reduction of the interest upon a large portion of the Funds and partly by the recovery of commodity prices which followed easier credit, the public began to speculate. In 1824 and 1825 over 600 new companies, with a total capital of more than 372 millions were floated, in addition to numerous foreign loans, particularly to South American States.³ The market prices of the new issues were run up to dizzy heights before even the concerns had begun to operate. Many of the projects were of the usual 'bubble' type, and yet people of substance and of established reputation went into them. The boom in many industries which accompanied the new flotations was financed largely with small notes. The country banks, some of which in 1819 had expressed a dislike of small notes, now either threw their dislike to the winds, or found it impossible to resist their

¹ The Act of 1821 had permitted the Bank to pay its other notes in £1 notes if it pleased until full resumption of cash payments occurred on 1 May 1823.

² Hansard, 27 June 1825.

³ H. English, *A Complete View of the Joint-Stock Companies formed during 1824 and 1825*, quoted by Gilbert, *History, Principles and Practice of Banking* (edn. of 1907, London), vol. i, p. 62.

customers' demand for them. The total volume of country bank notes stamped each year in the period 1821-3 was just over 4 millions. In 1824 it rose to 6 millions, and in 1825 to more than 8 millions.¹ In the provinces small notes became the common method of paying wages, and by 1825 one-half or more of the issues of the bankers in many districts were notes of less than £5.²

The position was perhaps a more dangerous one than had ever existed before. The whole of the much-enlarged country circulation was now payable in gold, and it included for the first time a large volume of small notes payable in gold on demand. There were no longer any small notes of the Bank of England which could even be offered in payment. During the war people had become accustomed to having their country notes paid in Bank notes, because there was nothing else. The country banks, anxious to avoid the movement of gold, now tried to keep their customers to this practice, even though Bank notes had ceased to be a legal tender, and placed difficulties in the way of cashing their larger notes in gold. In June 1825 a petition was presented from a man named Jones of Bristol, who had on two separate occasions presented for payment the notes of a Bristol bank and had been refused gold and offered Bank notes.³ A debate upon the petition occurred in the House, during which it was made abundantly clear that the Bristol bank had no right to refuse to pay in gold, and many people learned for the first time that this was the case.⁴ Yet there was but little gold in the provinces. The Bank's stock in London was practically the only source of supply. Add to this the fact that many of the country banks as well as their customers were heavily involved in the purchase of shares in bubble flotations, and it becomes clear that the situation was at least as full of danger as that of 1793 or 1797.

The crash did not come upon people unawares. Many of them foresaw it months in advance. In March 1825 Liverpool

Crisis of
1825.

¹ Hansard, 2 Feb. 1826.

² See the evidence of several country bankers before the Committee of 1832.

³ Hansard, 27 June 1825.

⁴ Cobbett, *Rural Rides* (Everyman Edition, 1906), vol. ii, p. 24.

warned the speculators of the inevitable collapse, and told them that when it came they must not look to the Government as on former occasions for an issue of Exchequer bills to relieve the situation.¹ The prices of staple commodities had now risen to a high level. The exchanges had become unfavourable in the autumn of 1824 and a steady drain of bullion had set in, but the reserve to begin with had been very large, and the Bank felt no great alarm until late in 1825. Throughout the first half of the year they continued to allow their own note issue to expand, partly, it must be admitted, to comply with agreements made with the Government for paying off the dissentients; and it was not until November that they began seriously to restrict their commercial accommodation. Such was the delicacy of the position by that time, however, that as soon as they did so the whole mass of inflated credit collapsed.

A considerable body of public opinion heartily condemned the speculators and were by no means sorry when the crisis came. The Government, as we have seen, had determined to afford them no assistance. On Wednesday 23 November complaints came from the City that the Bank was returning a considerable portion of the bills sent for discount by even the largest houses. By the end of the week there were runs upon the country banks in several districts. On Sunday, the 27th, partners of the London houses were fetched from church to supply gold to their desperate provincial customers. On Tuesday came the news of the failure of Elford & Co., a considerable bank at Plymouth. Still the Bank would do nothing to help. For another week they continued to send back large numbers of bills.

'As for relief from the King's Government,' said *The Times*, 'we can tell the speculating people and their great foster-mother in Threadneedle Street, that they will meet with none—no, not a particle—of the species of relief which they look for. The King's ministers know very well the causes of the evil, and the extent of it, and its natural and appropriate remedy, and we may venture to forewarn the men of paper, that no such help as they are seeking will be contributed by the State.'²

¹ Hansard, 25 Mar. 1825.

² 29 Nov. 1825.

Needless to say, this outburst did not improve matters. On 7 December Pole, Thornton, & Co., one of the largest London bankers, agent for forty-seven provincial houses, placed a statement of its position before the Bank and asked for assistance. This appeal could not be ignored. A sum, said to have amounted to £300,000, was lent to them, and they continued for a few days, but on Monday the 12th, they did not open for business. On this day the panic reached its height. Dozens of country bankers were in town begging assistance. The Bank was still giving help only in special cases. In one case the military had had to be called out to deal with the mob surrounding a local bank. Its partner received a loan of £50,000. Others went empty away, with no prospect but to close their doors when they reached home. To intensify the mental gloom of that Monday, the City was wrapped in one of those November blacknesses which only London can manufacture. Throughout the week every day brought news of a fresh crop of country failures. In three weeks sixty-one country banks and six important London houses ceased payment. The terrible despair and helplessness of every one in the first week of panic, in face of the complete refusal of both the Bank and the Government to render assistance, were remembered for many years.

Action of
the Bank.

At the weekly meeting of the Bank Directors on Thursday the 15th it was decided to consult the Government as to the future action of the Bank. The reserve was now down to a very low level. The Bank suggested that the time had come for the State to render assistance with an issue of Exchequer bills. They even hinted at the possibility of their being authorized by Order of Council to stop payment if much more gold went. The Government told them most emphatically that this last contingency was unthinkable. They must pay out to the last penny. Moreover, since Exchequer bills no longer circulated as currency, it would be useless to make a fresh issue unless the Bank advanced upon them, and there were already in existence plenty of securities upon which the Bank could advance. The Directors had discovered a box of small notes, dated 1818, which had never been issued. They were told to go away and issue their small notes, to

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advance money freely upon the Exchequer bills the public already held, to lend if necessary even upon goods, and indeed to take in every kind of security people could offer. Only thus could the panic be allayed.¹

A new policy therefore now showed itself. From this point the Bank spared no effort to render assistance. The small notes went forth and a few of them found their way into the City, where they 'underwent that sort of curious examination to which we subject the face of an old friend'; but the bulk of them were sent straight into the country, where they were 'received almost with acclamation'. The reserve was now hovering just above the million mark. Rothschilds were employed to purchase gold wherever it could be found. Within a few days they bought several millions, and the purchases cost the Bank £100,000 more than the Mint price.² The Mint worked night and day turning the bars into coin. There was scarcely a bank from Land's End to Berwick which was not by now calling for help, and the Bank lent freely in every direction. Government securities, Exchequer bills, commercial bills, other securities which the Bank normally would never have dreamt of taking, were purchased or held as collateral. The actual discounts increased from 5 to 15 millions in a few weeks. Commissioners were appointed to go into the provinces and advance money upon the security of goods to merchants in difficulties. Bank notes being still signed by hand the clerks at the Bank could not keep pace with the issues, although they worked feverishly far into the night. Pensioned officers were brought back to lend a hand. Beds were installed in the Bank and the whole staff slept there over Christmas. Gradually, by measures such as these, confidence was restored. The daily number of fresh failures reported from the country grew less. The drain upon the reserve dwindled and finally came to an end. The Bank ceased to buy gold, and as the new year advanced the price came down to the Mint price. Soon a portion of the

¹ Committee of 1832, Evidence of Jeremiah Harman; also a letter from Peel in the Correspondence of the Duke of Wellington, quoted by Bagehot, *Lombard Street* (edn. of 1915, London), pp. 190-3.

² Committee of 1832, Qns. 2068-71.

issues of coin which had been drawn into the provinces to take the place of the discredited country notes began to trickle back to the Bank. Parliament had been prorogued in July, before the panic began. When it met again in February, although the Bank reserve was still little more than 2 millions, every one felt that the crisis was over.¹

There was no Parliamentary inquiry after this crisis, because there was indeed but little difference of opinion as to the causes. The country banks blamed the Bank of England and the Bank of England blamed the country banks, but few people had much doubt as to where most of the blame lay. The Bank had certainly delayed too long before taking measures to restrict its issues in the early part of 1825. But it was hampered in this by the arrangements it had made with the Government in connexion with the debt conversion schemes: When the panic had begun, too, it had put off rendering assistance for a week or ten days, and had thereby undoubtedly intensified the alarm. But in this it had been encouraged by a considerable section of public opinion, which vigorously condemned the speculators and held that they should be allowed to take the consequences of their rashness. We certainly cannot praise the Directors for their sound management at this period, but it is doubtful whether, in view of the excessive elasticity of the country note issues, the greatest caution could have prevented the boom or the soundest management have avoided the collapse. The fault still lay in the system. It was the hundreds of small independent note issues, all capable of easy expansion and all liable to rapid discredit, which were to blame. There was a great deal of truth in Cobbett's summing up:

"The Bank is blamed for putting out paper and causing high prices; and blamed at the same time for not putting out paper to accommodate merchants and keep them from breaking. It cannot be to blame for both, and indeed it is blamable for neither. It is the fellows that put out the paper and then break that do the mischief."²

Most people leant to this view.

¹ For the general details of the crisis see *The Times*, Nov. and Dec. 1825, the evidence of the Bank Directors, past and present, before the Committee of 1832, and the Memorandum put in by the Governor to that Committee in the Bank's defence.

² *Rural Rides*, vol. ii, p. 25.

When Parliament met, opinion was nearly unanimous in condemning the small notes and the country banks. Liverpool was ready immediately with remedies. All notes under £5 must go, the Bank of England's as well as the others. The great increase of the issues had been mainly due to small notes, and it seemed clear that no one could be trusted to manage them properly. At the same time an attempt must be made to improve the stability, responsibility, and management of the country banks. They were all small institutions because no one was permitted to found a large one. 'Any small tradesman, a cheesemonger, a butcher, or a shoemaker, may open a country bank,' said Liverpool, 'but a set of persons with a fortune sufficient to carry on the concern with security are not permitted to do so.' The monopoly of the Bank was out of date. Other joint-stock banks should be permitted, which would compete with the small partnerships and give greater security. At the same time the Bank might be encouraged to compete itself by opening branches in the provinces. Public opinion had been prepared to some extent for the establishment of joint-stock banks by the movement led by Thomas Joplin, of which more will be said later.¹ Two Acts were passed to give effect to Liverpool's proposals. The first, dated 22 March 1826, in effect prevented the issue in England and Wales of any more notes of less than £5 payable to bearer on demand, and provided that all outstanding ones should be redeemed by 5 April 1829.² The second, dated 26 May, permitted joint-stock companies to carry on the business of banking and to issue notes at any place more than 65 miles from London, provided that they did not open an office within that radius. The Bank was empowered to appoint agents in any part of England, on condition that notes issued by those agents should be payable locally as well as in London.³ Thus the first measure of Parliamentary control of credit, the prohibition of small notes, introduced during the infancy of country banks, was restored.

¹ See page 233.

² 7 G. IV, c. 6. The Act left some doubt as to whether the issue of notes of less than £5 by the Bank of England was really illegal, but the Bank always acted afterwards as though it were so.

³ 7 G. IV, c. 46.

But the Government went no further at this time. They relied for securing the better management so badly needed, upon the fittest surviving in the competition which sprang from a greater freedom of trade in banking.

Scotland's experience of banking had been very different from that of England. There had been no monopoly of joint-stock banking north of the Border since the exclusive privilege granted to the Bank of Scotland in 1695 had lapsed 21 years later. Two other chartered banks¹ had been established and three more large joint-stock banks² had grown up during the eighteenth century. Nearly all the banks had more than six partners and nearly all of them had several branches. They had been remarkably free from runs and from failures. Even during the rebellions of 1715 and 1745 their credit had remained unimpaired; and they had suffered much less than English houses in the great panics of 1793, 1797, and 1825. The only serious failure had been that of the Ayr Bank in 1772, and this institution had paid in full in the end. It was said that the public had never lost a shilling from the stoppage of a Scottish bank.

Small
notes in
Scotland.

The Bank of Scotland had commenced to issue £1 notes as early as 1704, and the others had all followed suit in due course. Parliament had always made distinct regulations for banking in Scotland. Notes of £1 and upwards had never at any time been made illegal there, and in 1826 it was estimated that of a total note issue of £3,309,000, as much as £2,079,000 consisted of notes of less than £5. Gold coin was scarcely to be seen at all. Yet the more logically-minded members of Liverpool's Government felt that if small notes were a danger in England they must be a danger in Scotland. It became known in March 1826 that the intention was to make the prohibition of small notes extend to Scotland. The result was a perfect shower of petitions against this from every part of that country. Tierney said there had been nothing so spontaneous or unanimous in the north since the gathering of the clans on behalf of the Stuarts. Even Sir Walter Scott

¹ The Royal Bank of Scotland and the British Linen Bank.

² The National Bank of Scotland, the Commercial Bank of Scotland, and the Aberdeen Town and County Bank.

became a political pamphleteer for the time being and de-claimed against alterations of the law in Scotland merely for uniformity's sake. 'We are well,' he said, 'our pulse and complexion prove it—let those who are sick take physic.'¹ The petitions were referred to a Parliamentary Committee, which refused to recommend, against the weight of evidence brought to bear by the Scottish bankers, that the Government should proceed with the measure.² And so Scotland was left with its £1 notes. Even in England it was not so much the small notes themselves that were the danger as the insecurity of the banks that issued them.

The Bank
and the
market.

It is at this point that the history of the growth of scientific management by the Bank itself really begins; but we shall need to go back a little in order to form a proper conception of the changes now brought about. Although the Bank had by the year 1797 long been in the position of the bankers' bank and the keeper of the central reserve of bullion, its relationship to the commercial discount market was entirely different from the modern one. The Bank was still, as it had been from its earliest days, in direct competition with the other London banks and bill-brokers in discounting commercial bills. It had never abandoned the position of an ordinary commercial bank. It is true that by far the greater portion of its assets consisted of Government securities, but nevertheless its holding of bills, discounted for merchants in the ordinary course of business, always formed a considerable part of the total volume of bills held in the City. There was still a maximum legal rate of interest. By law down to the sixteenth century the taking of interest had been forbidden under the title of usury. Henry VIII had legalized it and had fixed a maximum of 10 per cent., which had been reduced in 1624 to 8 per cent., during the Commonwealth to 6 per cent., and in 1713 to 5 per cent.³ In 1716 the Bank had been exempted from the operation of this maximum so far as borrowing was concerned, which meant of course borrowing

¹ *Thoughts on the proposed change of currency, &c.*, published under the name of Malachi Malagrowther (Edinburgh, 1826).

² Select Committee on Promissory Notes in Scotland and Ireland, Report and Evidence.

³ 37 H. VIII, c. 9; 21 J. I, c. 17; 12 C. II, c. 13; 12 Anne, Stat. 2, c. 16.

from abroad, but it was bound by the law in lending or discounting.¹ Throughout the greater part of the eighteenth century the market rate of interest had been below 5 per cent. and had therefore not conflicted with the legal maximum. The Bank had discounted, generally at market rate, as many bills as it could, after the Government's needs were supplied and having regard to its own safety. If it wished to improve its position it would refuse to discount fresh bills except at slightly higher rates. When the maximum rate was reached it would send back, if it still wished to reduce its holding, a certain proportion of all the parcels of bills submitted.² There was no such thing as Bank rate. The Bank was always in the discount market. It had not yet assumed its modern position of aloofness from the market, tempered by a standing offer to supply the market with additional funds at a rate somewhat above the market rate. Even in 1825, when the Bank grew alarmed at the position and began to send back a large proportion of the bills submitted, it continued to discount the remainder at 4 per cent., and only raised the rate to 5 on 13 December, when the panic was at its height.³

Nevertheless there had been, in the eighteenth century, some attempts to exercise control of credit; and there can be little doubt that but for the demoralizing influence of inconvertible paper the technique of management would have progressed more rapidly. In the earlier cycles of boom, panic, and depression which occurred between 1763 and 1797 the Bank had discovered some of the elementary principles of a credit currency. Under the leadership of Samuel Bosanquet it had learned to watch the exchanges, and when the latter were adverse to restrict its discounts. It had learned also that, having turned the tide so that bullion

¹ 3 G. I, c. 8.

² On 31 Dec. 1795 the Bank issued a notice stating: 'That in future, whenever the bills sent in for discount shall in any day amount to a larger sum than it shall be resolved to discount on that day, a pro rata proportion of such bills in each parcel as are not otherwise objectionable, will be returned to the person sending in the same, without regard to the respectability of the party sending in the bills, or the solidity of the bills themselves.'

³ *The Times*, 14 Dec. 1825.

flowed in, it should then discount freely, lest the previous policy of restriction had placed other banks and commercial houses in danger. Henry Thornton had pleaded for a more general recognition of the Bank's powers and duties in this connexion. He had realized the possibilities of the discount rate as an instrument of control, had desired the Bank to become the recognized market leader in the matter of money rates, and had pointed out how the legal maximum hampered them in this.¹ Bosanquet died in 1806, having ceased to take an active part in the affairs of the Bank some years before. His principal colleague of the pre-Restriction period, Samuel Thornton, never displayed the same grasp of sound principles as either his brother or Bosanquet did, and under the temptations of the paper standard every notion amongst the Bank Directors of exercising control of credit vanished.

The legal maximum rate of interest.

The legal maximum rate of interest was obviously most difficult of enforcement. During the Restriction period the market rate went up, mainly owing to Government borrowing for the purposes of the war. At an early stage $3\frac{1}{2}d.$ per cent. per day, or about $5\frac{1}{4}$ per cent. per annum, was paid upon Exchequer bills. Longer-dated loans, although bearing interest at less than 5 per cent., were issued at considerable discounts, bringing the interest well above 5. The private and country bankers, though they may outwardly have observed the law, very easily found ways of charging something more than 5 per cent. under the title of commission. The Bank, however, felt bound to adhere strictly to the law. This was one reason why in 1809 and 1810 their discounts rose to such an enormous figure. Every one flocked to the Bank, where they could borrow at less than the market rate,² though this does not excuse the Directors, for they made no attempt to limit their commitments, even by the old method of accepting only a proportion of the bills submitted.

The Bank's policy.

The leading exponent of the principles by which the Bank was managed during the war was Jeremiah Harman. He did not become a Director until 1794 and seems to have picked up little if any of the knowledge which had been derived from the experiences of the preceding twenty years. When

¹ *Paper Credit*, c. X.

² Committee of 1832, Qns. 191-7.

examined by the Committee of 1832 he was asked to state the principles which had guided the Bank in their issues of paper while he was in office. He replied: 'The first principle was attention to the security of the Bank itself, in which we considered the safety of the public, of course, very much involved; to render as much service as we could to the commercial community with propriety, always having reference to the means which we possessed of fulfilling our engagements.'¹ Here was the key-note of the Bank's position down to 1825. It was still primarily a profit-making company, competing with other bankers. Its affairs were still private, and information concerning them was jealously guarded by the Directors. No accounts or returns were published unless Parliament called for them. The House, in deference to what was regarded as the Bank's natural desire for privacy, always refrained from asking for certain of the figures, and the quantity of gold held by the Bank was not made public at any time until 1832. When appearing before Parliamentary committees the Directors showed a strong tendency to answer very curtly the question put, to volunteer no information, and to take refuge in ignorance when asked anything regarding the relationship between the management of the Bank and the general control of credit.²

Amongst the younger Directors in 1819, however, were two men who played a leading part in changing the attitude of the Bank towards the control of credit, and indeed in altering entirely its relationship to the money market. John Horsley Palmer became a Director in the year of the Bullion debates, 1811, and William Ward in 1817, when the Bank was torn between its desire to help the merchants and its promise to Parliament to resume payment as soon as possible. Ward, who was a dealer in foreign exchange, accepted from the first the doctrines of the Bullion Committee, gave evidence to that effect in 1819, and, although the youngest Director, opposed the attitude of Harman and others towards Peel's Committee. There is no doubt that between 1819 and 1825 the views which he held were in the

John
Horsley
Palmer.

¹ Committee of 1832, Qn. 2151.

² See particularly the evidence before the Lords' Committee of 1797.

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ascendant in the Court of Directors. The collapse of 1825, the criticism of the Bank's actions which followed, and the opinions expressed generally by the Government and in Parliament as to the shortcomings of the credit system, convinced them that a new policy was needed.¹ In 1827 Ward moved that the resolution of 1819 which stated that the Bank could find no evidence that changes in its note issue had any influence upon the foreign exchanges, should be rescinded. This was carried.² In the same year Jeremiah Harman retired. In 1830 Palmer became Governor, and in 1832, supported by Ward, he gave evidence before the Parliamentary Committee on the Bank Charter, making it clear that within the last few years the development of the Bank as a controlling central authority had been taken up at the point it had reached in 1797, as described by Thornton in his work on paper credit, and carried forward to a very considerable degree.

Palmer's plan. Palmer's conception in 1832 of the proper relationship of the Bank to the money market, supported as it seems to have been by several of the other Directors, is of the utmost importance. No one had ever before worked out so complete a scheme of management. He went a great deal further than the Bullion Committee. They had held that the Bank should look to the exchanges and regulate its issues accordingly. Palmer agreed with this, but was content to watch the movement of bullion as the barometer of the exchanges, and take steps to maintain the reserve at one-third of all the liabilities, deposits and notes together. Having, at a time when the exchanges were steady and at par, obtained a one-third reserve, he thought that it was necessary only to maintain the securities at a fixed amount. The public itself would 'operate on the Bank', bringing notes in for bullion or taking them out again as the exchanges varied, and the consequent fluctuation of the circulation would correct the exchanges. At all ordinary times the system would work automatically and credit would manage itself. But it was necessary to provide for extraordinary times as well when credit began to shrink;

¹ See the correspondence between the Government and the Bank, Jan. 1826.

² Committee of 1832, Qns. 2075-80.

and it was in his plan for dealing with this that Palmer's ideas showed the greatest advance. Normally the Bank must be outside the discount market, because competition with the other banks was the most likely cause of excessive issues. Ordinarily the Bank's investments should be Government stock and other long-dated securities. It should, however, be prepared at a published rate of discount higher than market rate, to discount bills of exchange for the market at any time, and its published rate should be raised as the demand from the public for discounts became large. Thus in time of stress the Bank would be at the disposal of the market for providing additional funds.¹ Neither Thornton himself nor the Bullion Committee had ever suggested that the Bank should give up its ordinary discount business.

An extract from Palmer's evidence will help to make his views clear:

'The reasons which appear to me to exist,' he said, 'against the regulation of the amount of issues through commercial discounts in London arise from the magnitude of the deposits in the possession of the bankers of London and other individuals seeking employment, with which the Bank ought not, in my opinion, to interfere. The Bank, fixing a public rate of interest at which it may be willing to discount all approved bills of a given description, and being the only body issuing money *ad libitum*, within the sphere of the circulation of such bills, thereby fixes the maximum of the rate of interest during the existence of such notice, and consequently all persons having money already in existence to employ must necessarily lend it under the Bank's public rate, except in times of actual scarcity or deficiency of money currency. If the Bank were required to hold no other securities than commercial bills they would be under the necessity of acting in common with all other parties, viz. by competition in the purchase of bills of exchange at the existing market rate of interest. It is that competition with private bankers and individuals in London which seems to me so objectionable; and if the plan hitherto acted upon answers the public objects I can see no benefit in a change.'² In order to place that part of my opinion clearly before the Committee which has reference to the period when the action of the Bank as a bank

¹ Committee of 1832, Qns. 72-83, 178-88.

² The plan had been working since 1826.

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for commercial discounts in London is one of the greatest public importance, I beg to state that those functions of the Bank are exhibited when a scarcity of money or discredit exists in the London commercial money market. The market rate of interest will then advance to that previously fixed by the Bank as their public rate for commercial bills, which will occasion such bills to be immediately sent to the Bank for discount. The Bank *then* becomes the main support of the commerce of the country.¹

The Bank since 1819 and particularly since 1825 had gradually been brought into the position described by Palmer. The commercial discounts, which had generally amounted to 3 or 4 millions in the latter part of the eighteenth century and had risen to over 20 millions, or about 40 per cent. of all the Bank's assets, in 1810, fell to the pre-war figure after the resumption of payments. When the aftermath of the panic of 1825 was cleared away they were gradually reduced still further, until in 1831 the average was below a million. Though the market rate of discount sometimes fell to 3 per cent. or below, Bank rate was not allowed to follow it downwards, and during the whole period from 1815 to 1844 a 4 per cent. minimum was maintained. The war had left a plentiful supply of Government securities which the Bank could profitably hold, and the increase of joint-stock companies was constantly providing additional opportunities for investment. For many years the Bank depended upon these investments for most of its revenue. Later, as we shall see, Palmer's principle was departed from. The Act of 1844 was a red herring drawn across the path of sound progress in this respect. Nevertheless in later years the market gradually learned to find the bulk of its funds in normal times from amongst its own members. The Bank became its last resource. The modern position of the central institution is in its main features the same as that conceived by Palmer, who undoubtedly had a much better grasp of the true principles of the money market than the authors of the Act of 1844.

The great panic was followed by a long and dreary period of depression which affected nearly all trades and industries and lasted for six or seven years. This gave rise to a renewal

¹ Committee of 1832, Qn. 477.

of the demand for an inquiry into the effects of the Act of 1819. The price of silver had fallen considerably, and it was felt by many that they might attain their object of lowering the value of money by pressing for the restoration of the silver standard; and so this demand was joined to the other. The leader of the movement in Parliament was Matthias Attwood. Upon a motion of his there were lengthy debates in 1830 and 1833, but he received little support on either occasion.¹

Meanwhile the movement for greater freedom for the joint-stock banks continued. It is associated with the name of Thomas Joplin, who was a stockbroker and a native of Newcastle. In 1822 Joplin published a pamphlet calling attention to the superior stability of the Scottish system, a fact which does not seem to have been hitherto much realized in England. He also suggested that upon a strict reading of the clause of the Act which gave the Bank its monopoly no fresh legislation was necessary to enable joint-stock banks to be formed, so long as they did not issue notes.² He set out upon a veritable crusade to spread these views, distributing 2,000 copies of his book amongst business men in the principal towns of the North. In 1824 he took an active part in the formation of the Provincial Bank of Ireland, and joined the board. In 1826, when note-issuing joint-stock banks were permitted in England outside the sixty-five mile radius, he drew up a plan for a Provincial Bank of England, which, after much delay, was realized in 1833, when the National Provincial Bank of England was formed, with Joplin as a Director. In 1832, in anticipation of the renewal of the Bank Charter in the following year, a number of petitions came forward from the joint-stock banks asking that all doubts as to the legality of their opening offices in London for business other than the issue of notes might be set at rest by definitely granting them that right; and when this was conceded, in 1833, Joplin's work was finished.³

The Committee of 1832, before which Palmer gave his

¹ Hansard, 8 June 1830, 22 Apr. 1833.

² See pages 154 and 155.

³ T. Joplin, *An Essay on the General Principles and Present Practice of Banking, &c.* (London, 1813), and *An Analysis and History of the Currency Question* (London, 1832); also *Gentleman's Magazine*, Mar. 1848, p. 320.

Joplin
and the
joint-
stock
banks.

Com-
mittee of
1832.

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 evidence, was appointed on the motion of Lord Althorp for the purpose of inquiring into the expediency of renewing the Bank Charter, which expired in 1833. To this task was added that of inquiring generally into 'the existing system of banking by banks of issue in England and Wales', and into the question of extending the sphere of the joint-stock banks.¹ The Committee took a great deal of evidence and gathered together a mass of statistical matter relating to the banking system, but, owing to the dissolution of Parliament after the passage of the Reform Act, made no report. The new Government, however, was satisfied with the evidence, and in May of the next year Althorp introduced the bill which became the Bank Charter Act, 1833.²

Act of 1833. (This Act achieved two things: it greatly strengthened the hand of the Bank in exercising control of credit, and it widened the field for the joint-stock banks.) The influence of the evidence which Palmer had given appeared in a provision which freed the discount rate from the operation of the Usury Law. No bill of exchange or promissory note made payable at or within three months should henceforth be affected by that Law. In future the market rate of discount would reflect the relative plentifulness or scarcity of money seeking bills as an investment, and the Bank would be free to raise Bank rate to any level it pleased as the price of rendering assistance.³ This was of the greatest importance in view of the fact that the 5 per cent. maximum was not abolished generally until 1854.⁴ Another provision made Bank notes legal tender for all amounts above £5 except at the Bank of England, so long as the Bank should maintain their convertibility into legal coin. Thus in future panics, provided the credit of the Bank remained good, the demand for gold from the provinces would be much less than had hitherto been the case, and the reserve could be used to better advantage. The Bill as originally drafted would have made Bank notes legal tender for amounts of £5 upwards; but some country members

¹ Hansard, 22 May 1832.

² 3 and 4 W. IV, c. 98.

³ The Bank seldom took in bills which had longer than ninety-five days to run, but the provisions of this Act were extended in 1837 by 7 W. IV and 1 Vict. c. 80 to bills of not more than twelve months.

⁴ 17 and 18 Vict. c. 90.

objected that, now that the £1 notes had been withdrawn, farmers would be unable to exchange country notes for gold even in normal times for paying wages. The Bill was therefore altered to apply only to amounts above £5, so that by successively presenting single £5 country notes a person could be sure of obtaining gold.¹ A £5 Bank of England note tendered alone did not become a legal tender until the passage of the Currency and Bank Notes Act, 1928.

In answer to the petition of the joint-stock banks, any company was permitted by the Act to carry on the business of banking in London and within the sixty-five mile radius, so long as it did not issue notes payable on demand or at a shorter period than six months. Thus the foundation was laid for the establishment of that more stable banking system which has done so much to solve the problem of the panics. Lastly, a great deal of the obscurity in which the affairs of the Bank had been wrapped was removed, by requiring it to furnish a weekly return to the Treasury of the amount of its bullion, securities, circulation, and deposits; a monthly average of which was to be published in the *London Gazette*. Another Act passed a few weeks previously had required all note-issuing banks to furnish quarterly a statement of their average weekly circulation.²

The Act of 1833 was a great step forward in the direction of a better system. It is indeed doubtful whether any further legislation was necessary, except in connexion with limited liability. The Bank and the other banks might have been left at this point to work out their own salvation, with results which would probably have been little different from those which have ensued. Many people, however, were not satisfied, and the occurrence of another crisis within a short period gave them the opportunity of pressing for a more drastic regulation of credit by law.

In 1835 the rapid increase of joint-stock banks occasioned a considerable expansion of credit, and the flotation of several railway companies provided the opportunity for an outburst of stock-market speculation. The boom coincided with efforts in the United States to improve the banking

Pressure
of 1839.

¹ Hansard, 31 May, 1 July 1833.

² 3 and 4 W. IV, c. 83.

system, for which purpose securities were sold in the London market and a quantity of gold drawn off to add to reserves. At the same time doubt was cast upon the position of Bank of England notes as legal tender in Ireland, and the Irish banks began to increase their holdings of the metal. In July 1836 the steady drain induced the Bank to raise its rate from 4 to 4½ and in September to 5. Shortly afterwards the Northern and Central Bank of England, one of the two largest joint-stock banks in the country, found itself in difficulties, and received assistance from the Bank to the tune of £1,300,000.¹ About the same time several American houses in London, faced with ruin from the big fall which had now occurred in security prices, obtained substantial help from the same source. For a while a really serious collapse was avoided, and gold began to flow in. Inflation in France and Belgium drove out the metal from those countries and swelled the influx, which continued throughout 1837 and raised the reserve to 10½ millions—a high level for the period. No doubt the Bank felt that its new policy, outlined by Palmer in 1832, was working well. Early in 1838 the Directors themselves actually sent a million to America in gold. In February they reduced Bank rate to 4 per cent.; and although in July the

¹ Joint-stock banking had developed rapidly in Lancashire. The Manchester and Liverpool District Banking Co., with a paid-up capital of £750,000, and the Northern and Central Bank of England, which served Manchester and a wide area surrounding, with a paid-up capital of £711,000, were much larger than any other banks in England and Wales. There was also the Bank of Manchester, with £500,000.

The Northern and Central Bank obtained the Bank's assistance by false pretences. One of the directors came to London, ostensibly to sell £120,000 worth of securities. He left these behind in a cab and for some hours they were missing, during which he applied to the Bank for temporary help. When they were found he declared that his bank's credit was so much shaken that he would still need assistance. The Bank asked for a statement of the position, and a rough balance sheet was put up in which, 'inadvertently', £600,000 worth of deposits were deducted from the loans to customers, both sides being reduced by this amount. Upon the strength of this the Bank lent half a million; but when the true position was known another £800,000 had to be found before the Manchester bank was saved. When we realize that this was the kind of behaviour the Bank had to contend with in those days, we begin to appreciate the reluctance of the Directors to accept responsibility for getting the other banks out of their difficulties in a crisis. (See the evidence before the Committee on Joint-Stock Banks, 1837, and Appendix IV thereto.)

exchanges became unfavourable again and a drain set in, as late as December the Bank was still discounting freely at 4 per cent. and advancing money upon securities at $3\frac{1}{2}$, these rates being lower than those obtainable in the market. In 1839, owing to a heavy importation of corn, and to the fact that the inflation on the Continent had now collapsed, the drain became chronic. In May the rate was raised to 5, in June to $5\frac{1}{2}$, and in August to 6; but in spite of this the reserve in October was down to $2\frac{1}{2}$ millions. Many country banks, mostly small ones, suspended payment, and the Bank, to save the situation, was compelled to obtain a credit of 2 millions from the Bank of France, with which it was able gradually to stem the outflow of gold and restore confidence at home.¹

Such were the experiences of the first occasion upon which Palmer's new system of control was severely tried. The Bank attempted to throw the whole of the blame upon the joint-stock banks. During the crisis the Directors had refused to take in any bills bearing the name of a joint-stock bank, and Palmer himself published a pamphlet declaring that the new institutions were a source of great danger, and that the credit system would never be stable while they were allowed to continue.² The joint-stock banks, led by J. W. Gilbart, replied that the severity of the crisis was due to the complacent attitude of the Directors in 1837, which had led them to send gold out on the Bank's own account, to reduce Bank rate while an efflux of gold was in progress, and even to discount below market rate. There was considerable truth in this allegation. The Bank had certainly not made the best use of its own system. It had delayed too long before raising the rate, and had then raised it by a half per cent. only at a time. It had been ready to lower the rate too soon and had lowered it by 1 per cent. at the outset. This is the reverse of the modern practice. Moreover it had not kept entirely outside

Attitude
of the
Bank.

¹ Macleod, vol. ii, 136-45; A. Andreades, *History of the Bank of England* (London, 1909), pp. 263-8; Committee on Joint-Stock Banks, 1836-8; J. W. Gilbart, *An Inquiry into the Causes of the Pressure on the Money Market during the year 1839* (London, 1840).

² *The Causes and Consequences of the Pressure upon the Money Market, &c.* (London, 1837).

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the discount market. In the middle of 1833 the volume of bills which it held had fallen below a million. But to extend its note circulation the Bank had made an agreement with several country banks, by which they circulated Bank of England notes instead of their own, and the Bank in return rediscounted an equivalent amount of their bills at the fixed rate of 3 per cent. They, naturally, discounted in the first place at market rate, and their profit was the margin between the two rates. The system was similar to the modern American one. The quantity of accommodation provided in this way was limited by the agreements, but the Bank did not raise the rediscount rate when Bank rate went up.¹ By 1835 the discounts had risen to nearly 3 millions again. Thus although inexperience may have been the chief cause of defective management during the crisis, another was that the Bank was still very much inclined to place the interests of the proprietors before everything else, and the Directors were still half-hearted in accepting responsibility for control of the market. In discussing the question whether the rate should have been raised sooner Palmer said: 'To have acted, however, in anticipation of events likely to occur . . . would have established a precedent and imposed future responsibilities upon Directors which it is questionable whether they should ever incur, either upon their own account or that of the public'.

Nevertheless we must once again avoid laying too much blame upon the Bank. The Directors were still very much in the position of the captain of a vessel attempting, with only an imperfect knowledge of seamanship, to tow a number of other ships, all pulling in different directions, through a stormy sea. The joint-stock banks had undoubtedly added greatly to the supply of credit requiring control, and many of them were inadequately equipped with capital for the business they attempted to do; while their management was often bad.² The railway mania, accompanied as it was by the

¹ Committee of 1838, Qns. 127-30; Committee of 1840, Appendix 16.

² When the Northern and Central Bank asked for assistance it seems to have had outstanding against it deposits of £860,000, a note circulation of £300,000, and £400,000 of bills upon London which it had endorsed and put into circulation locally in the manner usual in Lancashire at that

flotation of many new companies for other purposes as well, was the initial cause of the inflation of credit, and for this the public generally, and not the Bank, were responsible. Then the accumulation of larger reserves in America and in Ireland, and the speculation and subsequent collapse on the Continent, had added immensely to the difficulties, by causing large displacements of gold. The Bank had shown great hesitancy in making use of Bank rate, had failed to do so in time, and had not raised it high enough; the joint-stock banks were small and were still feeling their way, and the Bank refused to work with them and hindered them in every possible way; the private banks were still numerous, and many of them were still lacking in stability and sound management. Here were the reasons why the situation caused by the speculative fever and aggravated by conditions abroad was not properly taken in hand. They were defects in the system which could only be cured by the Bank's fully acknowledging its responsibilities and learning from experience how and when to act; by what we should call nowadays the 'rationalization' of the banking industry through the formation of larger and more stable units;¹ and by co-operation between the central institution and the other banks, joint-stock and private. It is difficult to see how the Bank Charter Act of 1844 helped in any way towards the attainment of these objects.

It was easy, however, to bring evidence to show that the Bank's plan of management had completely failed. Palmer had said that the aim was to maintain a reserve equal to one-third of the liabilities. The published figures showed that during the period from 1835 to 1839 the reserve had seldom been as much as this, and had often been a great deal less. The drain of gold in the early part of 1839 had resulted in a reduction of the Bank's deposits and had left the note issue

time, as explained on pages 152 and 153. Against these liabilities it held only £24,000 in cash, and £120,000 in bills which it had endeavoured without success to rediscount in London.

¹ The joint-stock movement was a great step in this direction, many of the joint-stock banks having been formed from the older and well-established private banks. But in 1840 there were still 255 private and 87 joint-stock banks issuing notes, apart from those which did not issue.

almost untouched. It was argued that the Bank in attempting to keep the reserve at a fixed proportion of liabilities, deposits as well as notes, was attempting an impossibility. The discussions which had centred around the Bullion Report had ended in a widespread acceptance of the principle that the quantity of money in circulation was the chief factor in determining the value of money. A difference of opinion now arose as to what, for this purpose, was to be regarded as money. To some people the answer was: bank notes and coin only, and to those who held this view it seemed inevitable that the management of a note issue must be governed by separate principles from those relating to the management of other liabilities, and that effectively to combine the two was impossible. It is necessary to go back a little and follow the development of these ideas.

The
meaning
of 'cur-
rency'.

It will be remembered that in the first half of the eighteenth century the customers of the London banks made use to about an equal extent of the notes of those banks and of drafts upon cash accounts kept with them. Between these two documents at the outset there was really very little difference. The notes were issued in favour of the person who deposited the money, were generally for large, and often for broken, amounts, were frequently made out, not to 'bearer', but to 'order', and in the latter case passed current by endorsement like a cheque. In addition, public securities, such as tallies, malt tickets, lottery tickets, and Exchequer bills circulated; but until the Bank Restriction period the use of all forms of credit currency was confined to wholesale commercial transactions and to the business transactions of wealthy persons.

It is not surprising therefore to find that the early writers upon paper currency drew no distinction between the various forms in which they found it. They grouped them all together as 'paper credit', and held that all of them drove out and took the place of metallic money. There was no important difference between the note signed by Francis Child, the banker, which said: 'I promise to pay to Mr. John Smith or order, on demand, the sum of £186 14s. 2d.', and the draft signed by John Smith and addressed to Francis Child which said: 'Pay to Robert Brown or order the sum of £186 14s. 2d.'

No one regarded the former as in any way more entitled to be considered money than the latter. Davenant, Hume, and Sir James Steuart all spoke of notes, bills, drafts, bank credits, and even securities, as though they were a part of the circulating money of the country.¹ Adam Smith gave most of his attention to notes, which by that time had become by far the most important form of credit currency, but his well-known account of the bank money of Amsterdam makes it clear that he regarded that equally as money, and indeed he says: 'There are several sorts of paper money; but the circulating notes of banks and bankers are the species which is best known and which seems best adapted for this purpose'.²

By the last quarter of the century the banking system had become primarily a note-issuing system. It is true the London bankers had almost ceased to issue, and had finally adopted what is now somewhat unsatisfactorily called the deposit system;³ but most of the country banks did their business with notes, and their note issues, together with the deposits of the London bankers, were based largely upon the Bank of England's note issue. By this time, too, interest-bearing notes, which, as Thornton said, 'circulated heavily', were beginning to disappear, and the issue of notes to bearer on demand carrying no interest was increasing. The circulation of this latter kind of paper was easier and much more rapid. Hence notes acquired a peculiar importance and distinctive characteristics in the eyes of those who learned their banking theory by studying only the existing system. The circulating bills of exchange of Lancashire and the cheques of London were overlooked. And when notes to bearer on demand for less than £5 supplanted guineas in the Restriction period, notes in general began to be regarded as more definitely a part of the 'circulating medium' than any other kind of paper.

This tendency first became noticeable as soon as the Bank stopped payment. In the debate which followed the issue of

¹ See Davenant's *Discourses on the Public Revenues, &c.* (London, 1698); David Hume's *Essays: Of the Balance of Trade and Of Public Credit* (London, 1741); and Sir James Steuart's *Principles of Banks, &c.*, 2nd edn. (London, 1812).

² *Op. cit.*, p. 126.

³ A better term would be the account system.

the Order in Council Fox held that the only circulating medium was coin, and that to say that there was not a sufficient quantity of circulating medium was merely a roundabout way of admitting bankruptcy. Pitt, wishing to minimize the seriousness of the substitution of paper for metal, declared that the circulating medium included 'anything that answered the great purposes of trade and commerce, whether in specie, paper, or any other term that might be used'.¹ Walter Boyd, however, in his letter to Pitt, showed some inclination in one or two places to limit the meaning of currency to notes and coin, although when this pamphlet is taken as a whole it is doubtful whether his views on the point were as definite as Henry Thornton and afterwards MacLeod have made out.²

Views of
Henry
Thornton.

Thornton took great pains to correct the view that notes were the only paper money. Giving evidence in 1797 he said: 'The balances at the Bank are to be considered very much in the same light with the paper circulation'; and later, in his book, he described fully the use of bills of exchange as currency in the industrial areas, and argued that deposits also were in reality a part of the currency. 'It is in substance the same thing', he said, 'whether a person deposits £100 in money with the bank, taking no note, but obtaining the right to draw a draft on a banking account which is opened in his name, or whether he deposits the same £100 and receives for it a bank note.' In 1810 he was still trying to bring out the same point. When he was in the chair at the Bullion inquiry several questions were asked regarding the methods of making payments without the use of notes, and it seems likely that he was responsible for that passage in the Report which deals with the Clearing House and the increasing use of drafts upon banks.³

Thornton, however, could not make the Committee go the

¹ *Parl. Hist.*, 9 Mar. 1797.

² Lord Liverpool, in his *Treatise*, p. 246, was probably the first person to draw a distinction between paper currency and paper credit.

³ Although a clearing system of a sort seems to have existed from the early days of banking, it was not until the year 1775 that a separate Clearing House was established in London. In 1810 it had forty-six members and dealt with about £5,000,000 worth of cheques a day (Bullion Report, Evidence of W. Thomas). See also below, pages 288 and 289.

length of calling bankers' drafts money. They took refuge in the formula, which was widely used afterwards, that the deposit system 'economizes the use of the circulating medium'; and then passed on to point out the effects of the great increase in the Bank note circulation, neglecting altogether the concomitant and proportionate increase of deposits which had occurred.

If the Committee of 1810 over-estimated a little the importance of note issues, the Committee of 1819 did so to a much greater degree. Between 1810 and 1819 most of the merchants and bankers had been converted to the views of the Bullion Committee regarding the causes of the depreciation of money. Witness after witness was asked his opinion upon this point, and witness after witness replied that the rise in the price of bullion and the derangement of the exchanges had been due to the over-issue of Bank notes. Peel, who was chairman, was only 31 years old, and in a Parliamentary career of ten years had been at the War Office for two and Chief Secretary for Ireland for six, much of his time having been spent in Ireland. In 1818 he found himself out of office with nothing to do, and this was probably why he took up the chairmanship of this Committee. There is no reason to believe that he had hitherto made any special study of currency matters. He had indeed voted in 1811 against the Bullion Committee. But he attended every single meeting of this Committee and listened to the foremost bankers and merchants emphasizing the overwhelming importance of Bank notes in governing the value of the monetary standard. Scarcely any one even hinted that cheques or bills of exchange had any similar influence. The ideas which Peel gained from the evidence given before this Committee in 1819, ideas engendered in the minds of the witnesses by their experience of a banking system which was still primarily a note-issuing system, remained with him in 1839 when the note-issuing system was already being rapidly superseded by the account system.

Meanwhile, however, others had developed the same notions, had linked them with a new principle for the regulation of the currency, and had based upon the combined

The
Currency
Theory.

doctrines a number of practical suggestions. The leading exponents of these principles, which came to be known as the Currency Theory, were Samuel Jones Loyd, George Warde Norman, and Robert Torrens. Loyd was a banker, who had been a member of Parliament from 1819 to 1826. He had given evidence in 1832 before the Committee on the Bank Charter and was regarded as an authority. Norman had become a Director of the Bank in 1821, and remained one until 1872. He was, at this period, one of the leading Directors. Torrens was a retired colonel of marines, who had taken up the study of currency as far back as 1812 at the suggestion of a clergyman whose advice he had sought regarding a useful occupation for his spare time. He also had been a member of Parliament from 1831 to 1835.

The Currency School derived their principles from a strict and narrow interpretation of the views of the Bullion Committee. Their cardinal tenet was that, to safeguard the value of the standard, the quantity of paper money and coin in circulation should never be allowed to differ from the amount of money which would circulate if the currency were entirely metallic. In a world in which no credit currency had existed, the precious metals had distributed themselves amongst the nations in the proportions necessary to meet the demands of trade in each locality and keep the value of money at the same level everywhere. Paper money had been invented merely as a cheap substitute for metal, and the cause of the troubles which had followed its use was that from time to time the quantity issued had been greater than the amount of gold displaced. Therefore to regulate a paper currency correctly it must be arranged that whenever gold comes into the country an equal amount of paper goes into circulation, and whenever gold leaves the country an equal amount of paper is withdrawn. 'Whenever the aggregate paper circulation of the country fails to conform to the fluctuation of the bullion', said Loyd, 'then mismanagement is justly said to occur'.²

By the term 'paper circulation' was meant simply the note

¹ The Currency and Banking principles were so named by Norman in evidence before the Committee of 1840.

² Evidence before the Committee of 1840.

circulation of the Bank of England and the other banks. The terms 'money' and 'currency', which were used synonymously, referred to notes and coin only. Loyd and Norman, at any rate, were quite definite upon this point. It was the fluctuation of the quantity of these two taken together which alone affected the value of the pound. All the purely banking transactions of the country were based upon this volume of currency and were limited by it. The importance of circulating bills of exchange, of cheques, of deposits, and of the machinery of the Clearing House, was not overlooked. But none of these things were money or affected the quantity of money. 'That which has been termed by some writers the auxiliary currency', said Norman, '. . . I should prefer to denominate the means of economizing the use of money'. 'If bank notes are withdrawn from circulation their place must necessarily be supplied by an equal amount of coin; but the abolition of any or all the contrivances for dispensing with the use of money will not necessitate the introduction in their place of an equal amount of coin or bank notes.'¹

It followed immediately from this that the problem of regulating the quantity of money, to avoid fluctuations in the value of the standard unit and to remove for ever the danger of booms and panics, was merely a question of controlling the issue of notes. There were two difficulties to be met however. In the first place the issue of notes was in the hands of many separate and independent institutions. 'A single issuer might be easy to deal with,' said Norman, 'but how are we to deal with five hundred?'² There was no easy way to deal with them except to provide for the gradual extinction of the issues of all but one. But then came the second difficulty. In the case of that one, the Bank of England, the business of note issue was at present completely mingled and confused with its banking business, so that some people, J. H. Palmer for example, had fallen into the error of regarding notes and deposits as liabilities of the same kind, to which the reserve might be applied indiscriminately. There was a great deal to be said for putting the business of note issue under direct

¹ *A Letter to Charles Wood, Esq., M.P., &c.* (London, 1841), p. 34.

² *Op. cit.*, p. 84.

Government control, as was the business of issuing coin; but in any case it must be separated from the business of banking. Loyd's summing-up of the problem was as follows:

'A Bank of Issue is entrusted with the *creation* of the circulating medium. A Bank of Deposit¹ and Discount is concerned only with the *use, distribution or application* of that circulating medium. . . . Let us not . . . be unjust to the Bank. . . . She is a public body performing banking functions . . . how is she to meet these conflicting claims, how is she to perform these opposite and inconsistent duties?'²

The solution was to divide the Bank into two separate departments, one of them to manage the note issue upon the Currency Principle, and the other to carry on a simple banking business.

The
Banking
Theory.

(These ideas were opposed mainly by three writers who were the leaders of what is generally called the Banking School. They were Thomas Tooke, John Fullarton, and James Wilson. Tooke, as the author of the *History of Prices*, is well known.) He was a partner in a firm of merchants, and had first come forward as a student of economics in giving evidence before the Committee of 1819. Fullarton had been a medical officer, the editor of a newspaper, and finally a banker in India, where he had become very wealthy. Wilson was a merchant who had made a considerable fortune very rapidly, and had lost it in the crisis of 1836-9 even more rapidly. He straightway built it up again and retired in 1844, founded the *Economist*, became a member of Parliament and a member of the Government, and later went to India and reformed the finances of that country. Though both Wilson and Fullarton had lost a great deal of money in the crisis, they were strenuously opposed to the stringent currency regulations to which that crisis gave rise.

¹ It is interesting to compare Loyd's use of the term 'bank of deposit' with that of Sir James Steuart, writing in the middle of the eighteenth century. The latter regarded a bank of deposit as one which, like the Bank of Amsterdam in its early days (see Adam Smith's description), kept a 100 per cent. reserve. A bank of issue, according to Steuart, was any bank which allowed people to use paper money of any kind, not merely notes, in a greater quantity than the reserve held against it.

² *Reflections suggested by a perusal of Mr. J. H. Palmer's Pamphlet, &c.* (London, 1837), pp. 43-8.

The first of the three to publish his views was Tooke. In 1819 he had been a supporter of the principles of the Bullion Committee to the extent of holding that the rise of prices had been due in the main to an excessive issue of inconvertible notes; but even then he had been far from accepting the crude doctrine that the level of prices depended solely upon the quantity of notes in circulation. He told Peel's Committee that he had known variations in the state of the markets unaccompanied by any considerable change in the amount of notes in circulation, for goods changed hands upon 'other means of credit' besides notes. After the resumption of payments he dissented from the prevalent idea that the low level of prices was due to the return to the gold standard. To find support for his views upon this point he set out to investigate fully all the price movements which had occurred since 1793. In 1823 he published the results of his investigations so far as he had gone;¹ in 1838 he published them more fully and brought them up to date in the first two volumes of the *History of Prices*; and in 1840 he published another volume covering the years 1838 and 1839. During this time his ideas had travelled far in the direction towards which they had been tending in 1819. His detailed inquiry into the movements of the prices of individual commodities led him to abandon altogether the notion that they could be influenced by artificial management of the note issue. Convertible notes could not be over-issued, for if a banker put into circulation a larger quantity than was needed to meet the demands of the business of his district they would be brought back and deposited in the bank. Moreover, the note issue did not need any regulation, for it regulated itself. Fullarton developed this latter idea to a much further degree than Tooke, propounding what may be called the theory of the reflux.²

'Bank notes . . . are never issued but on *loan*, and an equal amount of notes must be returned into the bank whenever the loan becomes due. The banker has only to take care that they are

¹ *Thoughts and Details on the High and Low Prices of the Thirty Years, 1793-1822* (London, 1823).

² Tooke, in the fourth volume of the *History of Prices* (London, 1848), p. 183, adopted Fullarton's theory of the reflux.

lent on sufficient security, and the reflux and issue will in the long run always balance each other.' 'Perfect convertibility is no doubt one essential condition of every sound and efficient system of currency. It is the only effectual protection against internal discredit. . . . But it is not so much by convertibility as by the regularity of the reflux that any redundancy of the bank note issues is rendered impossible.' 'As a general principle, indeed, I am quite free to admit that the increase or decrease of a circulation of bank notes, from whatever cause it may proceed, ought to correspond with the increase or decrease which a currency of metallic coin would exhibit under the same circumstances. But I go further than this: I contend that there not only ought to be such correspondence but that there always is.'¹

(All the members of the Banking School were agreed that in any case it was absurd to attempt to regulate prices by attending to note issues only, for they were merely a part, and were rapidly becoming a minor part, of the total paper circulation.) 'Bank notes', said Fullarton, 'are the small change of credit.' All the notes might be turned in a single day, if people wished, into book credits, or all the bank balances into notes. 'The two systems were 'mutually convertible'. He and the others were, moreover, inclined to the view that instead of the quantity of money determining the level of prices, it was the level of prices which determined the quantity of money. (Cooke said that bills of exchange, so far from being the cause, were the effect of prices.² It was therefore absurd to attempt any kind of regulation of the price-level from the centre.) He believed that Bank rate should be used for maintaining a good metallic reserve against the risk of panic, but he denied the truth of what he called the 'money-market theory', which held that the rate of discount could influence prices. A high rate of discount had no effect upon prices, except perhaps to raise them, in the long period, by raising the cost of production.

Both the Currency and the Banking Theories had distinct weaknesses. Each of them was an attempt to form a too-simple explanation of complicated phenomena. The obvious weakness of the former lay in the idea that notes alone of all

¹ *On the Regulation of Currencies* (London, 1844), p. 27.

² *An Inquiry into the Currency Principle* (London, 1844), pp. 73-86.

forms of paper money had any effect upon the value of the standard unit, and that therefore to put an end to crises it was only necessary to place the issue of notes under the control of a kind of second mint, whose business should be confined to turning gold into paper or paper into gold as people wished. As a general principle this was unsound, and it certainly no longer suited the particular conditions in England. During the Restriction period, when notes of £1 and £2 performed most of the smaller transactions, and when notes of larger amount still did the major portion of the wholesale business, it might have worked. But the small notes had gone. In making at least half of the final purchases of the country, those by the consumer from the retailer, no paper of any kind could be used. And in the rest of the nation's business the use of cheques had grown considerably. Many of the country banks, joint-stock and private, as well as all the London banks, no longer issued notes. The deposits of most of the others were at least equal to their note circulation; and the final reserves of all the banks were represented as often by a deposit at the Bank of England as by notes in their coffers.¹ The supporters of the Currency Principle realized all this, and there are signs that Norman at any rate was not quite happy about it.

'On the whole it appears', he said, 'that the extensive use of the various economizing expedients in this country, where they are employed to so enormous an extent, may produce occasionally very striking phenomena. They and the use made of them are commonly pointed out by the phrases—the state of credit, low credit, high credit, &c., and we often see, without any alteration in the real money of the country, great changes take place in the state of the money market and of the prices of particular commodities and of even classes of commodities.'²

There is some reason to believe that the Currency theorists clung to the narrow view of the meaning of currency because

¹ Before the Restriction Act the Bank of England's note circulation had averaged between 10 and 11 millions, and the deposits about 6 millions. Between 1833 and 1835 the note circulation varied from 16½ to 18½ millions, while the deposits fluctuated between 10 and 20 millions, most of the effect of gold movements falling upon the latter.

² *A Letter to Charles Wood, &c.*, p. 72.

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to admit that cheques were money would have destroyed the system of control they had designed.

¶The great weakness of the opposing doctrine was that it gave no hope of any remedy for violent fluctuations in the state of credit and the level of prices. If Tooke and Fullarton's views were sound, both Parliament and the Bank of England were powerless against reckless speculation. There was a fallacy in the Banking Principle at least as grave as that of the Currency Principle, and it lay in the belief held by the supporters of the former, that the effects which they admitted would follow from the forcing into circulation of inconvertible notes by Government, could not follow from an injudicious increase of convertible credit by banks. Sir William Clay had criticized this view very aptly by asking why a £5 note issued by Government to the builder of a barrack should take a different course from a £5 note paid by a bank to the builder of a shop or warehouse. Fullarton replied that the essential difference between the two was that the Government paid the note away finally, it went into circulation, and there was nothing to secure its eventual withdrawal; whereas a bank only lent the note, and in due course the builder of the shop would be bound to pay it back. But borrowers were not always able to pay the money back. Sometimes they made mistakes and used it to produce things for which there was no market. As we should say nowadays, credit might become 'frozen' in unmarketable goods. It is safe to say that for the notes lent to those people who sent skates to Rio in 1810¹ there was no reflux. Tooke and Fullarton had argued themselves back into a position which was little better than that of the Bank Directors of the Restriction period, who said that notes issued in discount of commercial bills could not be over-issued. The truth is that neither convertibility, nor Fullarton's reflux, nor a combination of both, is adequate security against temporary depreciation. It may be impossible for banks to force their advances upon a dull market even at very low rates of interest, because borrowers consider not merely the rate of interest but the risk of losing the money they borrow; but when

¹ See page 181.

markets are alive and speculation is rife, there is no doubt that if the banks give the latter full rein, a general rise of prices may occur before the corrective effect of an efflux of gold is felt, and that at such times it is within the power of the central bank and of the other banks also to exercise a moderating influence. The worst error of the Banking Theory as held by Tooke and Fullarton was in denying this. James Wilson held sounder views. He did not agree with Tooke in opposing the 'money-market theory'. In fact he advocated a fuller and more energetic use of Bank rate.¹

Colonel Torrens, of all the writers of this period, shows the greatest inconsistency and uncertainty in his views. In 1812 he propounded theories which were precisely those of the Banking School,² and even in 1837 still declared that deposits, as well as notes, were money.³ But later he went back upon this and definitely joined the Currency School. He was the first to put forward the definite proposal to separate the Bank into two departments.

In 1837 and 1838 Loyd and Norman adopted the plan, with acknowledgements to its originator.⁴ On 8 July 1839, as a result of the bad collapse of credit, Joseph Hume moved for a committee of inquiry into the constitution and recent transactions of the Bank. The Committee on Joint-Stock Banks had sat from 1836 to 1838 without making any definite recommendations. Peel, once more out of office, had been a member of that Committee, and he was appointed also to this new one, which was directed to inquire into the working of banks of issue generally.

Com-
mittee of
1839.

The sittings of the first few weeks were taken up with

¹ *Capital, Currency and Banking* (London, 1859), Art. XV. See also, in connexion with the Banking Theory generally, two articles by a Polish economist entitled 'Money, Credit and Prices' in the *Economist*, 7 and 14 Apr. 1928. ² *An Essay on Money and Paper Currency* (London, 1812).

³ *A Letter to the Right Hon. Lord Viscount Melbourne, &c.*, 2nd edn. (London, 1837), p. 7.

⁴ The major portion of Norman's pamphlet entitled *Remarks upon some prevalent errors with respect to Currency and Banking, &c.* (London, 1838), was written in 1832. Loyd's first pamphlet entitled *Reflections suggested by a perusal of Mr. J. H. Palmer's Pamphlet, &c.*, was published in 1837 and was a reply to one published by Palmer defending the action of the Bank in 1836. It was followed in the same year by another entitled *Further Reflections on the State of the Currency, &c.*

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examining some witnesses from Manchester regarding the course of affairs in that district during the crisis. Peel attended very irregularly. Then Palmer and Loyd and Norman were called to give evidence. Peel became interested, attended regularly and asked many questions. Norman and Loyd explained at great length, and the latter with great ability and emphasis, the Currency Principle. Of the 372 pages of minutes, 106 are taken up with his evidence and 86 with that of Norman. Tooke came last of all and expounded the Banking Principle; but for him Peel did not put in one single attendance. The voice of Tooke was the only important one raised in opposition to the Currency Principle until the Bank Charter Act was half-way through the House of Commons. It was not until then that Fullarton published his pamphlet on the subject; and Wilson did not make his ideas known until he contributed a series of articles to the *Economist* in 1845-7. Palmer indeed held opposing views, but his opinions were somewhat discredited by what was regarded as the failure of his plan of 1832. Loyd was a man of great personality who for the rest of his life, though not in office, played a leading part in public affairs.¹ Already his advice upon financial matters had been sought on more than one occasion by the Government and particularly by the Treasury. He was a personal friend of Charles Wood, who was Chancellor of the Exchequer in Melbourne's Government and Chairman of the Committee of 1839. Peel had approached the currency question in 1839 with a mind already half made up, and it is not too much to say that he framed and passed the Act of 1844 upon the evidence and with the advice of Loyd, without paying serious attention to any contrary opinion.

The Committee sat on through the first half of 1841, and then, when Parliament was dissolved, published the evidence without making a report. Peel came into office; but for three years little was heard of the currency question. The Bank Charter Act of 1833 had extended the charter until 1855, with a provision that it might be terminated in 1844 if the Government of that period so wished. Peel decided to await

¹ In 1850 he was created Baron Overstone.

this opportunity. When it came he put up to the Cabinet a memorandum outlining three possible courses of action: firstly, to leave things as they were; secondly, to abolish all bank note issues and substitute a state note issue; thirdly, to take a middle course upon the lines which had been suggested by the leaders of the Currency School.¹ There is no doubt that Peel himself was strongly in favour of the last course, and it was this one that was adopted. On 6 May 1844 he introduced the plan to the House in a series of resolutions. In his opening speech he showed clearly that he adopted the Currency Theory unreservedly, and Charles Wood, the Chairman of the Committee, supported him with precisely similar views. On 13 June the Bill passed second reading, and on 19 July it became law. There was but little opposition, and the debates were relatively short.

The Bank Charter Act of 1844,² even in its regulation Act of
1844. of the Bank of England's note issue, did not follow strictly the Currency Principle. That principle laid down that the quantity of notes and coin in circulation should never differ from the amount of money which would circulate if all the money were metallic. It clearly required that notes should be mere bullion certificates, backed in full with metal; for when a fiduciary issue is permitted, the quantity of money exceeds the quantity of gold in the country, and the value of money is less than it would be if gold alone circulated. To have adopted the strict theory in 1844, however, it would have been necessary for the Bank to double its stock of bullion. Therefore the second part of the Currency Theory, namely the requirement that an influx or an efflux of bullion should be accompanied by an equal increase or reduction of note issues, was combined with Palmer's notion of keeping a fixed amount of securities and allowing the public to 'act upon the Bank' for themselves. The Currency theorists agreed with Palmer that the quantity of securities should not vary, but they held that the principle applied to note issues only. Here was the origin of the plan for a fixed fiduciary issue.

All this was put into force in the following manner.

¹ C. S. Parker, *Sir Robert Peel from his Private Papers* (London, 1899), vol. iii, p. 134.

² 7 and 8 Vict. c. 32.

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Section 1 placed the note issue under a separate Issue Department of the Bank. Section 2 required the Issue Department to take over 14 millions of securities from the Banking Department and as much coin and bullion as the latter did not require, giving in return such a quantity of notes as would equal, with the notes in circulation, the value of the assets taken over. The 14 millions of fiduciary issue might be reduced but not increased, except as provided for elsewhere in the Act, and all notes above this amount must be issued in exchange for, and covered by, their face value of gold coin, gold or silver bullion. Section 3 provided that the silver bullion should not exceed one-fifth of the total metallic cover,¹ and section 4 required the Bank to issue notes in exchange for all gold bullion offered to it, at the rate of £3 17s. 9d. per ounce of standard gold.² This last provision merely legalized a position which had existed since 1829, when, at the request of the Government, the Bank had raised its buying price from £3 17s. 6d. to £3 17s. 9d.³ It had long been prepared to purchase all gold offered. Section 6 provided for the rendering by the Bank of a weekly return of its position, in the form which has since become so familiar to all students of banking, and for the publication thereof in the *London Gazette*.

The Act then proceeded to deal with the country note issues. Under sections 10 and 12 no person other than a banker who was issuing notes on the day Peel introduced his resolutions, 6 May 1844, should in future issue notes; and, after the passing of the Act, none of these bankers should issue notes if they became bankrupt, or ceased to be bankers, or discontinued their issue for a time. This applied to the whole of the United Kingdom. By sections 11 and 16 banks of less than six partners in England and Wales, which were already issuing, should cease to issue if they-acquired more

¹ The Bank has held no silver bullion since 1861.

² The Bank might insist on the bullion being melted and assayed at the expense of the seller.

³ Committee of 1832, Qn. 212. The Government in 1829 requested the Bank to raise its price because Messrs. Rothschild had begun to send gold direct to the Mint. Although the right to do so still existed, this was the first time any one had exercised it for many years. See the evidence of Bingley before the Committee for Coin, 1828.

than six partners, and any amalgamation of such banks resulting in a combination of more than six partners should extinguish the issue rights. Subject to this the existing joint-stock banks of issue might continue to issue. Under section 13, however, any bank which continued to issue should have fixed for it a maximum circulation equal to its average circulation in the twelve weeks preceding 27 April 1844, and should, after 10 October 1844, be limited to this upon an average of four weeks. If it subsequently ceased to issue, the Government, by Order in Council under section 5, might, upon the application of the Bank of England, allow the Bank to add to its fiduciary issue two-thirds of the lapsed issue rights of the other bank. These provisions secured the gradual extinction of all note issues in England and Wales except that of the Bank. From 1844 the total amount of such issues began to diminish, and from time to time the Bank was allowed to increase its fiduciary issue accordingly, until in 1923 the maximum figure of £19,750,000 was reached, the last country bank of issue, Messrs. Fox, Fowler & Co. of Wellington, Somerset, having amalgamated with Lloyds Bank Ltd. in 1921.

In 1845 the principles of the Act of 1844 were extended to Scotland. Such opposition as there was on this occasion to legislation merely for uniformity's sake was of no avail. The Act of 1845 provided for the fixing, for each bank of issue, of a maximum fiduciary issue equal to its average issue for the twelve months ended 1 May 1845. All notes issued in excess of this amount were to be covered with gold or silver, the silver to be equal to not more than one-fourth the amount of gold. No banks other than those already issuing were to issue in future. Further, to remove some doubts which had arisen as to the effect of the Bank Charter Act of 1833 it was provided that Bank of England notes should not be legal tender in Scotland.¹ A similar act was passed for Ireland.²

Acts of
1845.

The Acts of 1844 and 1845 completed the first series of legislative measures for controlling the credit currency. For all practical purposes no further legal change was made until 1914, but in the meanwhile developments of the utmost importance occurred within the system.

¹ 8 and 9 Vict. c. 38.

² 8 and 9 Vict. c. 37.

CHAPTER XI

THE DEVELOPMENT OF CREDIT CONTROL. II

Peel and
the Bank
Charter
Act.

WHILE the Bank Charter Bill was still before the House of Commons Sir Robert Peel received a letter from John Horsley Palmer warning him that the proposed strict limitation of the note issue would make it difficult, if not impossible, for the Bank to render that assistance during a crisis which it had rendered in 1825, 1836, and 1839 and which had come to be expected of it. A few days later he received a similar letter from Henry Bosanquet, a director of the London and Westminster Bank, who, without entering into the question of the meaning of 'currency', declared that the much-discussed 'expedients for economizing money', whatever their nature might be, were liable to discredit, and proposed that during the first five years of the new system, whenever the rate of interest at the Bank should have risen to 8 per cent. it should be lawful for the Issue Department to make advances at that rate on the deposit of Exchequer bills, the loans to be repaid or the bills sold when the rate fell below 8 per cent. He further suggested that the Bank should be given the discretion of issuing their ordinary notes on such occasions or of making a special issue, receivable in payment of taxes but not convertible into gold. Unless something of the sort were done, he said, the system, in the midst of danger, would often have to be abandoned. The suggestion of an 8 per cent. Bank rate was a remarkable one in view of the fact that the rate had never yet been above 6. About the same time an address was presented to the Government, signed by twenty or thirty of the leading bankers, putting forward similar views.¹

Peel's attitude towards these warnings was that he admitted that if a crisis did occur, as serious as that of 1825 or 1839, the Bank would find it difficult to give much help; but he was convinced that the new system would render the occurrence of such a crisis most unlikely. Not the least remarkable thing about the Currency theorists was their simple faith that the mere separation of the Bank into two

¹ C. S. Parker, *op. cit.*, vol. iii, p. 139 et seq.

departments and the fixing of the fiduciary note issue at the perfectly arbitrary figure of 14 millions, would banish for ever the risk of commercial panic. Torrens had said that the adoption by the legislature of his plan would effectually prevent the recurrence of those 'commercial revulsions—those cycles of excitement and depression', which resulted from the alternate expansion and contraction of an ill-regulated currency.¹ 'The argument in favour of this plan', Peel had told the Cabinet, 'is that it violates no existing right; that it takes precautions against future abuses; that it ensures by gradual means the establishment of a safe system of currency'. In his reply to Palmer's letter he said: 'If the same consequences are hereafter to follow—when the country circulation is restricted to a given amount and the Bank can only issue on bullion—which did follow when both species of issue were practically uncontrolled, the whole measure is a delusive one.' But he added the following: 'It may occur in spite of our precautions, and if it does, and *if it be necessary* to assume a grave responsibility for the purpose of meeting it, I dare say men will be found willing to assume such a responsibility. I would rather trust to this than impair the efficacy and probable success of those measures by which one hopes to control evil tendencies in their beginning, and to diminish the risk that extraordinary measures may be necessary.'² Thus Peel himself foreshadowed the possibility, remote though he thought it was, of the suspension of the Act in time of crisis.

The Act was suspended three times during the first twenty-two years of its operation; but in the subsequent forty-eight years it never came anywhere near being suspended. The explanation of this can only be found by studying closely the subsequent history of the credit system.

When the immediate effects of the crisis of 1839 had passed away, the Bank resumed its position of aloofness from the commercial discount market. The contracts with country

Crisis of
1847.

¹ The foreword to *An Inquiry into the Practical Working of the Proposed Arrangements for the Renewal of the Charter of the Bank of England* (London, 1844).

² C. S. Parker, *op. cit.*, vol. iii, p. 140. The italics are Peel's.

banks which circulated Bank of England notes were continued, but the rediscount rate was raised from 3 to 4 per cent.,¹ and the quantity of country bills held under these arrangements fell to below 2 millions. For other people a minimum Bank rate of 4 per cent. was maintained, and the quantity of London bills held by the Bank fell by 1843 to less than £200,000. By this time, however, the management of the Bank had passed to a great extent under the influence of Norman and others who accepted the doctrines of the Currency School and the principles contained in the Act of 1844. Palmer's influence had waned. He had failed to maintain a one-third reserve; he had failed to maintain the securities at a fixed amount; and his plan of control had failed to prevent or deal very satisfactorily with a crisis. His other ideas regarding the Bank's relationship to the money market and the use of the discount rate were forgotten. Loyd and Peel encouraged the Bank to believe that as soon as the Issue Department was separated and made to work automatically the Banking Department would become an ordinary bank, with little or no special responsibility for the control of credit. Immediately the Act came into operation the Bank re-entered the commercial discount market and began to engage once again in keen competition with the other banks.²

The rapid development of domestic production and trade in the previous half-century had been accompanied by an equivalent expansion of English commercial interests abroad. Trade with the East had long ceased to be a monopoly of the East India Company. There were by now a considerable number of English concerns, large and small, in India, China, and other parts of the world as far distant, each with its own establishment or agent at home. Their business was generally both to send home the foreign produce and also to import whatever English goods they could find a market for locally. Every opportunity of expansion was seized, for the merchants

¹ Committee of 1847-8, Evidence of Adam Hodgson.

² 'An opinion appears to have been entertained by some persons, though not by the Governor and Deputy Governor of the Bank of England, that the Bank is released by the Act of 1844 from any obligations except that of consulting the pecuniary interests of its proprietors.' First Report of the Committee of 1847-8.

of the early Victorian period were filled with an irrepressible optimism born of the rapid progress of commerce and wealth in the immediate past. Those engaged in financing this trade with far-distant parts were still feeling their way. Where the safety line lay they had not yet discovered. Hitherto traders with Eastern countries had generally risked their own capital, for even India was still at least four months' journey away from England; but they were now becoming anxious to take all the credit which banking houses would give them. Firms in the East had begun to draw upon their London houses against goods which, even if shipped, were still many weeks from England. Often shipment was not even in prospect when the bills were drawn. And the London houses, receiving these bills by the overland route, brought them into the market at once to be discounted, in order to send more cargoes to the East. Bills drawn from India at six months' sight or ten months' date were extremely common, and the keen competition which had sprung up in banking with the increase of joint-stock banks made it easy to get them discounted. Into this competition the Bank of England now entered.¹

From 1815 to August 1844 the rate of discount charged by the Bank to persons other than the country banks with which it had made contracts under the note-issuing scheme, at no time fell below 4 per cent. From 1832 to the middle of 1836 the volume of London bills held was usually well below a million pounds, and the total of all bills generally below 3 millions. During the pressure of 1837-9 the total went up to over 11 millions, as the Bank rendered assistance to the houses in difficulties, but it dropped again to the previous low level in 1842. In the next two years there was a considerable influx of gold. The gold in the Bank rose to over 15 millions and the note circulation to over 21 millions. The Bank of England note has often been spoken of as though, since 1844, it has been little more than a bullion certificate; but in fact the reserve maintained under the Act against the notes in circulation never before 1914 rose to as much as one-

¹ Committee of 1847-8, Evidence of Robert Gardner; Sir Charles Wood in the House of Commons, 30 Nov. 1847.

half of the circulation, and in the early days was often less than one-quarter. The remainder of the gold, ear-marked for banking purposes by the holding of notes in the Banking Department, was found when the Bank was divided into two departments at the end of August 1844 to be equal to about 60 per cent. of the banking liabilities. In September Bank rate was reduced from 4 to $2\frac{1}{2}$ per cent. The volume of bills held by the Bank began to increase immediately, and for the next twelve months large quantities were taken in at the minimum rate of $2\frac{1}{2}$.¹ By the end of 1845 the total amount of discounts had reached $9\frac{1}{2}$ millions, and by March 1846, over 12 millions. There was a rule at the Bank that normally bills of longer date than ninety-five days should not be discounted. The Bank, however, advanced money upon bills from the East of much longer date, at first for three months and then, if necessary, for a further period, until they could be discounted without breaking the rule. The rate charged for these advances seems to have been less even than the minimum discount rate. 'Other Deposits', which in the first weekly return published under the Act, dated 7 September 1844, stood at £8,644,000, rose by March 1846 to £17,104,000.² Thus the Bank threw to the winds all that it had learnt regarding the management of credit in the past thirty years and relied solely upon the automatic regulation of the note issue. For two years indeed the Banking Department was managed very much in the same manner as the whole Bank had been managed in 1809.³ Its position in the money market was in sharp contrast with that laid down for it by J. H. Palmer in 1832.

During the boom which preceded the crisis of 1836-9 about 70 millions of capital had been sunk in the building of railways. In the next few years the reaction which followed

¹ Macleod says: "The day the Act came into operation the whole of the discounts were done at $1\frac{1}{2}$ per cent. and they continued at that rate for a fortnight, when some were done at 2 per cent. and up to 26 October a considerable portion was done at $2\frac{1}{4}$ " (vol. ii, p. 163). Macleod may have had access to information which has not been published, but these low rates are not borne out by the official returns.

² Committee of 1847-8, Appendix 8.

³ Committee of 1840, Appendix 16; Committee of 1847, Appendices 8 and 13.

caused a reduction in the rate of development in this direction, but in 1845 the movement began again, and within two years nearly three times as much capital was absorbed as in the previous period of boom. During the pause in the growth of railway enterprise, from 1840 to 1843, there had been great prosperity in nearly every industry. Production and commerce had taken up the slack and had made full use of the new means of transport. By 1844 it seemed clear that the railway builders need no longer wait, but might go ahead with further plans. The public received the new projects with enthusiasm, and carried them far beyond the bounds of reason. Railway investment became a mania. Within a short while there was scarcely a possessor of capital in any part of the country who was not holding more railway stock than common prudence would have permitted him to hold.

At the same time there occurred two successive bad harvests both in England and Ireland. The failure of the potato crop in Ireland in 1845, which finally sealed the fate of the Corn Laws, was followed by an even worse failure in 1846, which had such appalling results amongst the peasantry that extensive measures were taken to send food into Ireland. The most important results of the famine from our point of view were, firstly, a great rise in the price of corn, and secondly, a large importation thereof. The rise of price produced a wave of speculation and an inordinate number of corn bills, which the banks were called upon to discount. The importation, coming at a time when so much of the country's savings were sunk in unfinished and as yet unwanted railways, caused a serious drain of gold. The Bank of England, having supplied the market with from 7-10 millions of floating funds by discounts and by market loans, was in a bad position both for curbing speculation and for checking the drain. As soon as it attempted to do so there was bound to be a shrinkage of credit and a risk of panic.

As a matter of fact, however, the leading Directors for some time clung to the belief that they need do nothing. They waited for the Currency Principle to work, and complacently watched their banking reserve dwindle away without taking any effective measures to protect it. Between

Attitude
of the
Bank.

December 1846 and April 1847 it fell from $9\frac{1}{2}$ millions to 3 millions; and it was evident that the Currency Principle was not working, for the quantity of Bank notes in circulation remained steady all the time at just under 20 millions. The efflux of bullion, as on previous occasions, merely reduced the deposits and the banking reserve and left the note circulation unchanged. Nevertheless the Bank increased the discount rate by such easy stages that only on 10 April 1847 did it reach 5 per cent.

Then the Directors attempted to fall back upon the old method of arbitrarily limiting their discounts. Towards the end of April they told their customers that the quantity of bills taken in would be reduced by one-half. Immediately there was serious pressure in the money market and grave fears of collapse. The drain of gold ceased and the banking reserve went up to over 5 millions. But the Bank being afraid to insist upon any further reduction of discounts, easy conditions returned to the market and the crisis passed away for a time.¹

In the next few months the large quantities of corn imported and the prospects of a good harvest brought down the price of wheat from 110s. *od.* to 60s. *od.* a quarter and placed the grain speculators in difficulties. All the summer Bank rate continued at the low level, having regard to the seriousness of the position, of 5 per cent., and the discounts mounted again to over 10 millions. Early in August there occurred the failure of one or two minor firms engaged in foreign trade, and, about the same time, of one of the largest corn factors. The Bank therefore raised its rate to $5\frac{1}{2}$. But a collapse was now inevitable. Throughout August failures continued to be reported in the corn market, mixed with those of India, Mauritius, and China merchants. On the 21st, W. R. Robinson & Co., a firm of corn dealers, the senior partner of which was Governor of the Bank, failed, and the Governor was compelled to resign. Every week a fresh list of casualties was reported, confined, until mid-September, almost entirely to the merchants. There was a lull in the first week of September, and the Bank actually offered to lend money upon

¹ Committee of 1847-8, Evidence of Adam Hodgson and J. H. Palmer.

Government securities at 5 per cent. until the October dividends fell due. On the 14th, however, the crisis spread to the bill-brokers, and the failure was reported of Messrs. Sanderson & Co., a leading firm, with liabilities which were said to amount to £750,000, but which seem to have turned out afterwards to be much greater. Panic was now beginning to extend to all trades and industries. Each week the Bank return showed a smaller reserve. Early in October, with the payment of the dividends, it fell to £3,409,000, and Bank rate was raised again to $5\frac{1}{2}$ per cent. At the same time the Bank announced that no further advances would be made on public stocks, which set many people who had used the latter as collateral security selling frantically, and caused a panic on the Stock Exchange.

So far the banks had withstood the crisis well. But the severely restrictive policy which the central institution now so belatedly adopted began to tell upon them at once. As on other occasions directors and partners rushed up to London to beg for assistance. The Bank had but one reply for all of them—the Bank Charter Act. Any advances that were made would convey the right to withdraw notes from the Bank, and the Act forbade the Bank to pay out notes in excess of the very meagre banking reserve it now had left. ‘We do not want notes’, said the bankers. ‘If you lend us money we shall not withdraw notes. Only tell us we can have them and the situation will be relieved immediately.’¹ This attitude is understandable when we realize that there was but little panic amongst the general public. The liabilities which could not be liquidated lay between merchants, bill-brokers, and bankers. A cheque upon the Bank was as good or better than a bundle of notes. But the Bank would not take the risk and pointed again to the Act. The partners and directors left the Bank and turned to Downing Street. For a fortnight the Chancellor of the Exchequer, Sir Charles Wood, who had played so important a part in the passing of the Act, was occupied continuously in meeting the arguments and pleadings of those who wanted the Act suspended. Again and again he refused. But on Monday, 18 October, the Royal

‘Suspension’ of the Act.

¹ See Sir Charles Wood’s speech in the House, 30 Nov. 1847.

Bank of Liverpool, with a paid-up capital of £800,000, stopped payment, and a smaller bank in the same district, the Liverpool Banking Co., closed its doors. In the same week the Newcastle, Shields, and Sunderland Banking Co., a joint-stock bank of issue, also stopped. The Bank still limited the assistance it would render, for the Bank return showed a reserve of little more than 3 millions, and rumours spread of worse failures to come. On Saturday the 23rd, therefore, the Government gave way before the arguments of the market and told the Bank to grant advances and discounts as freely as they pleased, promising that if this involved any increase in the fiduciary issue above the legal maximum, Parliament would be asked to pass an Act of indemnity. They suggested that a minimum rate of interest of 8 per cent. should be charged.

Thus the main part of the plan suggested to Peel by Henry Bosanquet in 1844 was adopted. On Monday the 25th a letter to the Bank setting forth the Government's suggestions and its promise of an Act of indemnity was published. Immediately there was a great rush from all quarters to obtain advances upon securities, which the Bank proceeded to grant freely at 8, and later at 9, per cent. There was but little demand for notes, and the legal fiduciary issue was not exceeded. The Chancellor of the Exchequer was able to tell the House, when the crisis was over, that a bill of indemnity was not necessary. It is often said that immediately people knew that the Government had 'suspended' the Act and that the note issue was unlimited, they ceased to call for notes and the crisis was dispelled. The fact is that at no time during the crisis was there any greatly increased demand for notes. At the worst period of the panic the note circulation reached a maximum of only £20,800,000, against an average of 18 millions throughout the summer, and about 19½ millions during the whole of 1846; and this increase was partly due to the payment of the dividends. The greatest need of the market was not so much for notes as for credit at the Bank, against which cheques might be drawn. The Bank had paid the dividends early in October by calling in about 2½ millions of its temporary advances. This had precipitated the crisis

amongst the other banks. Had the Banking Department reserve been larger at this time the Bank might have come to their aid more freely without a suspension of the Act. And had the weekly returns shown a larger reserve the market would have been less panicky. The smallness of the reserve, though no doubt partly due to the drain to pay for imported corn, was also partly due to the Bank's neglect to exercise control of the market during 1846; and the position was made worse by the Act of 1844, which locked up about 18 millions of bullion in the Issue Department. The announcement of the suspension of the Act, and the immediate extension of discounts and advances by about £900,000, relieved the situation, and although the Bank printed very rapidly a considerable quantity of notes they were not needed.¹

During the crisis, in London alone, thirty-three important firms failed, with liabilities of over 8 millions. Naturally the old controversies which had centred around the Act of 1844 were revived and carried on with renewed vigour. Committees of inquiry were appointed by both Houses of Parliament, but the Act found more supporters than opponents. No one could say that it had been the cause of the crisis. The worst charge that could be brought was that it had done nothing to prevent the crisis, and that when the latter was at its worst it had aggravated the difficulties. Peel was bound to admit that the Act had failed as a preventive measure. But he blamed the Bank for not making an early use of the discount rate to curb speculation.² In this he was correct, although he himself had done as much as any one else in 1844 to encourage the belief that once the note issue was put into a separate department the Bank might relax its control of the market and behave as an ordinary bank. The witnesses before the committees of inquiry were asked many questions regarding the discount rate and the relationship of the Bank to the money market; and there was an almost general disapproval of the management of the Bank during the

¹ For the details of the crisis see the *Economist* for the period and Sir Charles Wood's speech in the House on 30 Nov. 1847. For the Bank figures, the Appendices to the Report of 1847-8.

² Hansard, Nov. and Dec. 1847.

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speculative boom of 1846. The Commons' Committee, while recommending that no change be made in the Act, declared that it was wrong to suppose that it relieved the Bank of responsibility for controlling the market.

'It is true', they reported, 'that there are no restrictions imposed by law upon the discretion of the Bank, in respect to the conduct of the Banking as distinguished from the Issue Department. But the Bank is a public institution, possessed of special and exclusive privileges, standing in a peculiar relation to the Government, and exercising from the magnitude of its resources, great influence over the general mercantile and monetary transactions of the country. These circumstances impose upon the Bank the duty of a consideration of the public interest, not indeed enacted or defined by law, but which Parliament in its various transactions with the Bank has always recognized and which the Bank has never disclaimed.'¹

Lessons of
the crisis.

The Bank, as an institution, did indeed learn something from these events, but its subsequent policy was vague and uncertain. The only Directors who gave up the greater part of their time to its affairs were the Governor and Deputy Governor, who, at this period, held office for two years in each post. Naturally their influence, while they were serving, was very great with the others, who were occupied with their own businesses; and it followed that there was little to secure continuity of policy in the management. One witness before the Committee of 1847 aptly summed up the impression which persons like himself received from the varying attitude of the Bank towards the market. He complained of its 'ambiguous position . . . it being connected in some way or other with the Government, it frequently appears to me to act as a private individual would act, and then at other times it appears to act as having certain national objects to sustain or difficulties to meet; so that a country tradesman, like myself, has no idea what the policy of the Bank is'.² The Directors who came into office after the crisis of 1847 adopted a somewhat passive and negative attitude. They refused to

¹ The last statement was not strictly true. The Bank had more than once disclaimed responsibility, and even after 1847 did not always admit it.

² Evidence of Joseph Pease.

enter into keen competition with the other banks in discounting bills, and yet they refused also to take steps to force money rates upwards when speculation began. It can be said for them, however, that when a drain of bullion actually did set in, they aroused themselves, and energetically made use of Bank rate to protect the reserve. The policy initiated in 1844 of relying solely upon the automatic withdrawal of notes from circulation was dead.

The commercial world made a rapid recovery from the effects of the panic. After a few months of dullness the growth of production and trade continued even more rapidly than before. In the ten years from 1848 to 1858 exports were more than doubled. Banking and credit expanded at least in proportion and to a far greater extent than was reflected in the Bank's own figures. The joint-stock banks of London increased their deposits from £8,850,000 in 1847 to £43,100,000 in 1857. Thus the Bank found itself the central support of a much larger volume of credit currency than before, and the difficulties of management were undoubtedly increased. At the same time the influx of gold from the new mines of California and Australia, which commenced in 1849 and 1851, provided a larger reserve, and for a time monetary conditions were easy. The total amount of bullion in the Bank reached, by the middle of 1852, over 22 millions, and the banking reserve over 14 millions.

The market rate of discount fell to and remained at a very low level from 1848 to 1853. Bank rate followed it downwards, keeping about a half per cent. above. In January 1848 it was reduced to 4, in June to $3\frac{1}{2}$, in November to 3, and in November 1849 to $2\frac{1}{2}$. One or two irregular variations followed and then, in April 1852, it fell to 2 per cent., at which low figure it remained for the rest of that year. Thus the view of many people that the 4 per cent. minimum, which had been maintained from 1815 to 1844, should be re-introduced was not accepted. In these years, however, this was of little consequence, for Bank rate was almost ineffective. The market lived of its own. The volume of bills held by the Bank, which had been as high as $12\frac{3}{4}$ millions in 1847, was, during the greater part of the period to the end of 1852, below

3 millions. Except for the discounts furnished to the country banks which circulated Bank of England notes under the contract system the Bank withdrew once again from the discount market.¹

In 1853 conditions in the money market became less easy. The discount rate rose and became equal to Bank rate. Bills were brought to the Bank and the discounts increased. The market rate went higher. Bank rate accompanied it, but the discounts increased still further. And so the process went on through the early months of the year. In January the rate was increased, first to $2\frac{1}{2}$ and then to 3; in June to $3\frac{1}{2}$, in September to 4 and $4\frac{1}{2}$, and on 1 October to 5. But the market rate was with it all the time. The Directors had refused to lead the market rate downwards and they now refused to lead it upwards. Consequently by the end of October the Bank was holding nearly 9 millions of bills again.

For a few months from October 1853 a slight reaction set in, but at the same time a drain upon the Bank's reserve began. In March 1854 the Crimean War broke out and set up a demand for remittances abroad. In May, Bank rate was raised to $5\frac{1}{2}$, not, this time, because the market rate of discount had risen, in fact the demand for discounts at the Bank had fallen off, but to protect the reserve. The move was successful. The discounts fell to below 4 millions by the summer of 1855. The reserve recovered and the rate was reduced by easy stages to $3\frac{1}{2}$ per cent. by June of that year.

Then a sudden change came over the situation. A vast amount of speculation was in progress. The gold discoveries had stimulated production in all parts of the world. Expenditure upon the war had brought unusual activity to many English industries. Signs of the approaching end of the war filled many people with fears of a collapse. In a few weeks the Bank's discounts went up again to nearly 9 millions, and a serious reduction of the reserve occurred. Bank rate was raised by three stages to 5 in September, then to $5\frac{1}{2}$ early in October, and at the end of that month to 6 for bills of less than 60 days and to 7 for bills of longer date. At this high level it remained until May 1856, during which period the

¹ Figures from the Appendices to the Report of 1857-8.

discounts once more fell to below 4 millions, and the reserve recovered somewhat. The danger, however, was not yet past by any means. Bank rate being reduced to $4\frac{1}{2}$ the drain set in again, and the Bank was compelled once more to charge 7 per cent. in October 1856. Competent observers reported very unhealthy conditions in many trades.¹

Nevertheless the Bank was very satisfied with itself. Its policy seemed to be working well. In 1855 the period expired during which the agreement with the Bank made in 1844 was to continue unaltered. At any time afterwards the Government, on giving one year's notice, could bring it to an end. It was decided therefore in 1857 to hold an inquiry into the working of the Bank Acts both of 1844 and 1845; and a Parliamentary committee was appointed. In evidence, T. M. Weguelin, Governor of the Bank, explained the policy which had been adopted in the last few years. The Bank had not attempted to control or even to lead the market. Normally its rate had followed the market rate. When the reserve had begun to shrink, however, the Bank had immediately raised its rate, regardless of the market rate, to stop the outflow. Here clearly was a policy which differed from Palmer's. There was no suggestion that the Bank should remain outside the discount market altogether. There was no intention that the Bank should maintain its rate always above market rate and refuse to add to the market's supply of discounts at normal times, lest this should induce speculation. There had been no endeavour to check speculation before it gave rise to a drain, no attempt, if we may borrow Peel's phrase of 1844, 'to control evil tendencies in their beginning'. The Directors were not in agreement regarding the use which should be made of Bank rate. The Governor himself put more faith in a restriction of the term of the bills discounted.² Nevertheless Weguelin's policy was better than that of 1847, which had merely relied upon the automatic working of the Issue Department, and he himself was satisfied with it. He had worked to maintain an adequate reserve to meet liabilities. He was ready to admit that the Banking Department differed

Weguelin's
policy.

¹ Reports of 1857 and 1858 and Appendices; *Economist* for the period.

² Committee of 1857, Qn. 311.

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from an ordinary bank. It formed the 'pivot of the whole banking system of the country' and should not enter into active competition with the other banks or itself engage in speculative transactions. He had not been affected by the Act of 1844, and his policy would have been the same had that Act not been in existence.¹ 'In short', he was asked, 'looking exclusively as bankers to the state of your reserve, you have, during a period when a combination of causes occasioned a continuous drain of bullion, conducted your affairs with satisfaction to yourselves?' 'I think the result has been satisfactory', he replied. 'In no case has our reserve declined below 3 millions; and on the whole, I think, there has been no anxiety in the public mind with regard to the state of our reserve.'²

Before the same committee, William Newmarch, a disciple of Tooke, who co-operated with him in completing the *History of Prices*, declared that the Bank had undoubtedly acted in competition with the other banks, and that in lowering its rate to 2 per cent. in 1852 it had definitely encouraged speculation. He was supported in these views by John Stuart Mill.³ On the side of the Act came George Warde Norman and S. J. Loyd, now Lord Overstone, both as dogmatic as ever in defending the Currency Principle. 'The Banking Department of the Bank of England is exactly like any non-issuing bank', said Norman, 'that of Coutts & Co. or Smith, Payne & Smith. . . . There is no difference whatever between them.'⁴ The great merit of taking the note issue away from the Banking Department, declared Overstone, 'was that it prevented an unlimited extension of the quantity of money. So far as the Banking Department was concerned the Bank of England was 'nothing more than a banker on a large scale'.⁵

Crisis of 1857. The complacency displayed by Weguelin was soon to receive a shock. Unlike the crisis of 1847, which was preceded by a long series of commercial failures in England, the crisis of 1857 burst upon the country suddenly from America, and

¹ Committee of 1857, Qns. 5, 6, 161, 250, 251, 252, 269, 486, 487.

² *Ibid.*, Qn. 35.

³ *Ibid.*, Qns. 1359, 1360, 1366.

⁴ *Ibid.*, Qn. 2964.

⁵ *Ibid.*, Qn. 3895.

was a banking crisis from the beginning. The United States was passing through its first period of great railway development. The vast territory bounded by the Great Lakes, the Ohio and Mississippi Rivers, which in 1850 had had but a few unconnected stretches of rail, was by 1860 covered with a complete network. As in England, railway building became a mania and was carried far ahead of the immediate needs of industry. In the same period there was also an equally rapid multiplication of small and unstable banks, great competition in the supply of credit, and too little discretion in the use of that credit. The inevitable result followed late in August 1857, when a sudden depreciation occurred in the whole list of railway securities. Important investment houses began to topple at once, and such was the condition of the banking system that, of the sixty-three banks in New York, within a fortnight all but one stopped payment, and those of Boston, Philadelphia, and Baltimore followed suit.

English investors are said to have held at that period more than half of the total railway capital of America; while of the whole value of goods exported from the United Kingdom one-fifth went to the United States. News of the happenings across the Atlantic reached England towards the end of September. Banks and bill-brokers holding American bills began immediately to look around for somewhere to unload them. The bill-brokers were in difficulties from the outset, for they had by now developed the practice of borrowing large sums from the banks at call, and the banks began to call in this money immediately. The market rate of discount rose above Bank rate, and the latter was put up from $5\frac{1}{2}$ to 6 per cent. on 8 October; but the bill-brokers all flocked to the Bank with their bills to secure funds to pay the other banks. At the same time the news from America affected Continental banks, all of whom raised their rates and began to draw off bullion from England; while the more nervous English banks began to take sovereigns into the country. The Bank stood the strain for four days and then, on the 12th, raised the rate to 7.

During the next fortnight the money market was in a state of paralysis. At times there was great excitement

amounting to panic, at times comparative calm, while people waited anxiously for the next American mail. No bill of exchange that the Bank would take was discounted in the market, for market rates were all higher than Bank rate; and the Bank was called upon to carry a further $2\frac{1}{2}$ millions of bills, the total being increased to over 11 millions. On the 19th the rate was raised to 8 per cent., the reserve being down to little more than 4 millions.

Towards the end of October the banks of Liverpool and Glasgow, which were most affected by the stoppages in America, found themselves in serious difficulties. The Borough Bank of Liverpool and the Western Bank of Scotland applied to the Bank for assistance and were saved for a few days. Macdonald & Co. of Glasgow, a firm of muslin producers, who had been in the habit of drawing finance bills upon as many as seventy-five different agents in all parts of the country, failed and brought down two other houses with them. Large withdrawals of sovereigns from the Bank for Scotland and Ireland occurred, and at the same time the East India Company began to ship bullion to the East under an arrangement made with the Bank before the crisis. The reserve fell to below 3 millions, Bank rate on 5 November was raised to 9 per cent., and the Bank endeavoured to sell, or borrow money upon, Government stock, an effort which, at such a time, could meet with little success. On 7 November, Dennistoun & Co., a large discount house of London, with debts due from America to the tune of 2 millions, and with £300,000 owing to it by the Borough Bank of Liverpool which had now suspended, stopped payment. On the 9th the Western Bank of Scotland closed its doors. On the same day Bank rate was raised to 10 per cent.

The Glasgow banks had been in the habit of tapping the savings of the poorer people, keeping their offices open at night to enable working people to pay in. The failure of the Western Bank, followed as it was by the stoppage of the City of Glasgow Bank on the 11th, caused great excitement amongst the people of Glasgow. Crowds paraded the streets from one bank to another, and troops were sent for to prevent disturbances. The drain of gold from London for this part

of the country was very great. Meanwhile in London itself on the 11th the stoppage occurred of Sanderson & Co., the firm which had been one of the first to succumb in the crisis of 1847. Its liabilities were now said to be $3\frac{1}{2}$ millions.

On 11th November the crisis was at its worst. The Bank reserve was less than $1\frac{1}{2}$ millions. The Bank, since the pressure began, had added to its discounts more than 5 millions, but still the demand for accommodation was unabated. One discount house alone, on the 10th, had asked for £400,000. Once more the Bank was hampered by the Act of 1844 in rendering assistance. If further credit were granted there was grave danger that more gold would be withdrawn, for on this occasion there was undoubtedly panic, in Liverpool, Glasgow, and other parts of the North, amongst the general public. At the same time it was clear that liberal assistance was urgently needed by many important firms if they were to be saved and a serious disaster averted. On the evening of the 11th therefore it was decided to suspend once again the Bank Act. On the 12th a letter went from Downing Street to the Bank promising an Act of Indemnity if the legal fiduciary issue were exceeded while the crisis lasted, and recommending that meanwhile the 10 per cent. Bank rate should be continued. The same day the Bank discounted a further 2 millions' worth of bills, £700,000 for one broker alone.

The crisis did not pass immediately upon the suspension of the Act. Discounts continued to increase until they were more than 18 millions, and by 21 November the total of discounts and advances had reached £21,616,000, a half of which had been granted to the bill brokers. The Bank reserve on the evening of the 12th was only £581,000, and subsequently 2 millions of notes in excess of the legal maximum were issued to the Banking Department, of which £928,000 left the Bank. The note circulation on this occasion increased by about $1\frac{1}{2}$ millions above normal, due to the discredit of so many provincial banks, and some part of the excessive fiduciary issue continued to circulate until 30 November. By that date, however, there was a very decided improvement in the situation. The Bank was now able to sell

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Government securities. The exchanges had all turned favourable to England, and bullion was coming in from several quarters. Gradually within the next few weeks confidence was restored. The Act of Indemnity was passed on 12 December with but little opposition.¹

Effects of
the crisis.

Although the crisis was so acute while it lasted, its permanent ill effects were comparatively moderate. The casualties were severe amongst the merchants and bill-brokers, and the Western Bank of Scotland, the Borough Bank of Liverpool, and one or two others disappeared; but in London no bank failed. Looking back a year later the *Economist* recorded that never upon any former occasion had so many of the defaulters paid in full. Some with the greatest amount of liabilities, such as Dennistoun & Co., had paid long before they had been expected to do so. The Committee of 1857 was reappointed in 1858 and asked to take into consideration the crisis and its causes. Once again there was a thorough inquiry into the working of the Act of 1844. The Committee reported that its principal effect had been to secure that the Bank should have a good reserve of bullion, which it might bring into action when the Act was suspended in time of danger. In 1825 the bullion had fallen to £1,261,000; in 1837 to £3,831,000; and in 1839 to £2,406,000; while the lowest points it had reached since 1844 had been, in 1847, £8,313,000 and in 1857, £6,080,000. They therefore recommended that no alteration should be made in the provisions of the Act.

In evidence before the Committee the Governor of the Bank announced that as a result of the crisis the Bank had resolved upon one important change of practice. In recent years the business of the bill-brokers and discount houses of the City had been greatly extended, and they now held many millions of deposits at call from private persons and banks both in London and also in the country, particularly the agricultural districts, where there was surplus capital. Interest was paid upon these deposits, and the Bank Directors

¹ Hansard, 4 Dec. 1857, et seq.; Stat. 7 and 8 Vict. c. 32. The events of the crisis are set out in great detail in the Report of the Committee of 1858. See also the *Economist*, Oct., Nov., and Dec. 1857. The figures are taken from the Appendices to the Report of 1858 and also from House of Commons Papers, 1873, xxxix.

complained that this induced the bill-brokers to compete keenly in the discount market without sufficient regard for the soundness of the bills they discounted, that they kept no reserves of their own, and that they relied upon being able to rediscount at the Bank if their deposits were withdrawn. The firm of Sanderson, which had been one of the first casualties both in 1847 and 1857, were found to have been operating in the later period with a capital reduced to one-quarter of its former figure, and to have incurred liabilities twice or three times as great. There were other similar cases.¹ In the crisis which had just passed it was the bill-brokers and discount houses who had placed the greatest strain upon the Bank's resources. The Bank therefore in future proposed to refuse to discount for these institutions at any time. Loans for short terms would continue to be made to them at the period of money tightness which always preceded the quarterly dividend payments, but no bills would be taken in from them.² The object, said the Governor, was 'to keep the resources of the Bank more within her own compass', and not permit the discount brokers 'to rely entirely and totally for cashing their bills upon the Bank of England'. They would now be bound to keep their own reserves.³

It was pointed out to the Bank that at a time of crisis it would still be impossible to refuse help to any section of the market.⁴ The Governor admitted this. The rule was meant for normal times only. It was an effort on the part of the Bank to withdraw partially from the discount market by making one large section live of its own. It was a policy which was not easy to work smoothly, and it was abandoned and re-adopted more than once before the much greater independence which the whole of the money market acquired by the end of the century rendered discrimination against one section unnecessary.

It may be said that while the crisis of 1847 merely destroyed the complacency engendered by too complete a confidence in the Currency Theory and prompted the Bank to take active defensive measures when its reserve was threatened, the

The
Bank's
difficul-
ties.

¹ Committee of 1858, Qns. 1946-7.

² *Ibid.*, Qns. 396-402.

³ Qns. 399, 688, 689.

⁴ Qn. 695.

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crisis of 1857 left the Bank with a full sense of the need for keeping watch at all times for signs of danger. There was now no doubt that henceforth efforts would always be made to 'control evil tendencies in their beginning'. The Bank, however, was still in a weak position for doing so. Apart from the shortcomings of the banking system generally, from which its main difficulties still sprang, there was also the fact that, although the Bank now refused to discount for the bill-brokers, it still wished in the interests of its proprietors to obtain some share in the commercial discount market. To combine this with a proper watchfulness over the market was a difficult matter. The Bank's position internationally was already of such importance that gold movements which had nothing to do with internal monetary conditions frequently compelled the Bank to take precautions. Changes of Bank rate now became very frequent and the fluctuations wide.

A good illustration of the difficulties of carrying out the functions of a controller of the discount market while sharing substantially in its profits is to be found in 1859. After the crisis money rates as usual had fallen to a very low figure. By the end of 1858 there was extreme easiness in the market, and the Bank, to secure any bills at all, was bound to bring its rate down to $2\frac{1}{2}$, and even then its discounts were little more than 3 millions. This position continued until April 1859, by which time the danger of war between Austria and the Italian States allied with France had become serious. The banks began to curtail their commitments, and the Bank of England was called upon to take more bills. Some gold left the country and people commenced to talk of a rise of Bank rate to 3 per cent. But while the market was talking, the Bank, on 28 April, raised the rate to $3\frac{1}{2}$ and on 5 May to $4\frac{1}{2}$, although there was nothing approaching a crisis. Never before had the Bank acted so promptly. The market was taken aback. Those who had rushed to the Bank were frightened away by this sudden rise of rates. Within a fortnight the *Economist* recorded that 'now the money which had been needlessly stored up vainly seeks placement at the enlarged rates. The panic has disappeared; the extreme contingencies provided for have not come to pass; and the

previous urgent borrowers have turned equally anxious lenders at considerably reduced rates. The Bank of England, of course, keep their minimum at $4\frac{1}{2}$ per cent. It would not comport with the dignity—perhaps with the interests—of that establishment to act upon an uncertain and vacillating policy.¹ Nevertheless a fortnight later the Bank, finding that its discount business had vanished, reduced the rate to $3\frac{1}{2}$, and soon to $2\frac{1}{2}$ again.

There were similar emergencies at frequent intervals in the next few years, when to bring the market to heel the Bank was compelled to raise its rate sometimes to as much as 8 per cent. But always, when the immediate danger was past, the Directors showed great anxiety to get the rate down again to market rate, in the interests of the proprietors.² During the years 1860–5 there were seventy changes of Bank rate, the lowest figure being 2 per cent. and the highest 9.

About the year 1863 a new species of banking institution, generally known as finance companies, began to develop; and so unsound were the principles upon which they worked that in a very short time they brought about another crisis and a third suspension of the Bank Act. These concerns were limited companies formed for the purpose of initiating the development of all kinds of productive undertaking, such as railways, docks, harbours, and gasworks, not merely in England but in all parts of the world, finding the money therefor by accepting deposits at interest from the general public. Instead of the promoters of a new railway coming direct to the public with an issue of stock, they acquired the habit, during the short period of three years or so beginning in 1863, of going to one of the new finance companies and obtaining successive advances as required to commence and continue their works, giving in exchange some form of bond or charge upon the future profits of the undertaking. The system was unsound and dangerous because it involved locking up funds which had been lodged with the company for short periods only, not merely in long-dated or permanent investments which might be realizable only at a considerable

The
finance
companies.

¹ *Economist*, 21 May 1859.

² See particularly the *Economist*, Jan. and Feb. 1863.

loss, but in securities the value of which depended upon the problematic results of trading in the distant future. 'Financing' was nothing more than a plan for destroying the proper balance between fixed and circulating capital, by 'freezing' a considerable portion of the funds of the short loan market into as yet uncompleted railways and docks. It committed the same error through the agency of the new companies as had been committed by the general public and the banks in the railway mania of 1845, and which had been one of the main causes of the crisis of 1847.

The immediate effect of the growth of this new kind of business was to reduce the quantity of money available for discounts. Towards the end of 1863 a tendency developed for more and more bills to be taken to the Bank, and although the Bank allowed its discounts to increase to about 6 or 7 millions, it raised the rate by stages to 8 per cent. Throughout 1864 Bank rate fluctuated between 6 and 9 per cent., and although in the summer of 1865 conditions were easier, the Bank weakening a little and allowing its holding of bills to rise to over 10 millions, that year ended with a 7 per cent. rate. The high money rates bore heaviest upon the finance companies, and in order to pay the interest upon deposits and the substantial dividends expected by their shareholders, these concerns took up securities of a more and more speculative nature. In the early months of 1866 there began to be signs of distress amongst them. They had adopted the practice, to improve the appearance of their balance sheets, of allowing a substantial portion of their subscribed capital to remain uncalled, and their shareholders, many of whom were small investors, had never dreamed that they would be expected to meet this liability. However, calls now began to be made in some instances, and in many cases the holders were unable to find the money. Large quantities of stock came into the market and the price collapsed. The depositors, seeing the fall of price, became nervous and began to withdraw their deposits, thus multiplying the difficulties.

Overend,
Gurney
& Co.

Meanwhile several firms of older standing, discount houses and even bankers, which hitherto had kept to sound business and invested most of their funds in discounts and loans of

relatively short date, were tempted, no doubt by a desire to hold their own, to take a hand in financing. The greatest of them was Overend, Gurney & Co. This firm had been raised by Samuel Gurney, a member of the famous family of Norfolk bankers, to the position of the leading discount house in the world. In 1825 it rendered so much assistance to other houses which were in difficulties that it emerged from that crisis with a credit second only to that of the Bank itself. Afterwards it became a great clearing house for bills, taking them in at relatively high rates and giving them out again to small and little-known brokers at lower rates. No banking house, private or joint-stock, could boast of the credit of Overends. But Samuel Gurney died in 1856, and shortly afterwards the partners left the straight and narrow path of sound discounting and filled up their portfolios with securities of the most speculative and doubtful character. Even their discount business began to be mismanaged, a considerable part of the bills taken in being drawn against nothing solid. By the summer of 1865 it was well known in the City that they were in a desperate plight. The partners decided to sell the business to a limited company. The press, so far as they dared, gave broad hints to the public not to buy, but in spite of this Overend, Gurney & Co., Ltd., were floated. All the while, however, a knowledge of their rottenness was spreading. In ten months £4,600,000 of their deposits, or nearly one-third, was withdrawn. Early in May 1866 they applied to the Bank for help, which was refused, and on the afternoon of 10 May the news came into the City, already much shaken by the collapse of finance companies' shares and the stoppage of some of the smaller ones, that Overends had failed.

Of all the panics which occurred in the nineteenth century that of 1866 was the most severe while it lasted, with the exception perhaps of that of 1825. In 1847 there had been little or no public panic. In 1857 it had been confined mainly to Glasgow and Lancashire. In 1866 it covered nearly the whole country. The *Economist* called it a 'country bankers' panic'. The district around Lombard Street on 11 May was occupied by a mob, which rushed blindly hither and thither

Crisis of
1866.

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as rumour had it that first this house and then that had failed.¹ Yet the real position had been much more serious on previous occasions, when a far greater number of important houses had been in danger. Most of the banks now were entirely sound. The prestige and resources of the joint-stock banks had grown immensely since the previous crisis. The management of all the banks had greatly improved. They were indeed compelled to draw upon the Bank and send huge quantities of notes and coin into the country. The Bank reserve fell to below 3 millions on the 11th, and the same evening the Government, without hesitation, suspended the Act. But the Bank did not need to take advantage of the privilege, for within a day or two the crisis passed. It was soon realized that the position of the credit system in the main was sound, and that the difficulties had been caused by a group of finance companies doing a special business. Naturally most of these concerns disappeared, and there was grave loss to their depositors and shareholders; nevertheless it is safe to say that but for the failure of the concern whose name had been a household word for forty years there would have been no panic.²

The Bank of England, as on previous occasions, discounted with the greatest freedom and advanced money to all who could give security. Bank rate was raised to 10 per cent. on the first day of the suspension of the Act, 12 May, and remained so until 16 August; for although the actual panic quickly subsided, the difficulties of the position were not smoothed out for many months. The liquidation of Overends was a long process, and until it was accomplished the financial condition of dozens of firms remained doubtful. Afterwards there followed the usual period of stagnation, of easy credit and low interest rates, with Bank rate falling to 2 per cent. again by the summer of 1867 and remaining there for sixteen months.

¹ This day was the famous 'Black Friday'.

² Details of the crisis and of the history and operations of the finance companies are to be found both in *The Times* and the *Economist* for the period. Copious extracts from these journals are contained in Dr. T. E. Gregory's *Select Statutes, Documents and Reports relating to British Banking, 1832 to 1928* (London, 1929).

It is difficult to point to any direct outcome of the crisis of 1866 which definitely improved the control exercised by the Bank of England or by the market as a whole over the credit system. By being in the market itself in the years immediately preceding, and by acceding to the demand for extended discounts, the Bank may have given the finance companies a little more rope than they would otherwise have had. But afterwards it did not withdraw from the discount market. The volume of bills held fell off a little at first because of the dullness which followed, but in 1870 and 1871 it was allowed to increase again to around 10 millions. Bank rate was still kept down to market rate or even below as long as the Bank dared to keep it so, and changes in the rate became nearly as frequent as before. The crisis indeed should have served as a great lesson for the money market that institutions holding much money on deposit at short notice from the public must not lock up any large portion of those funds in long-dated investments; but the lesson was not well learned, for this was precisely what Messrs. Baring Brothers were found to have done in 1890.

It was not until 1878 that the Bank took a definite step to change its position in the money market, though there were signs for some time previous to that date that its practice with regard to Bank rate was changing. The departure then made is of so much importance that it must be thoroughly understood. It will be remembered that in the early part of the nineteenth century Henry Thornton, the Bullion Committee, and indeed the whole of the banking world were agreed that the Bank's discounts were the most important factor in the credit system. Upon them depended the volume of credit currency, particularly of course, at that time, of note issues, for the Bank always provided a very large part of all the discounts available in London. Later, under the influence of J. H. Palmer, the Bank had withdrawn from the discount market and had begun to publish a rate of discount, higher than market rate, at which it would be prepared to create additional funds if the market became sufficiently in need of them to pay this rate. This was the period of the 4 per cent. minimum. In 1844, however, this system had been thrown

The use
of Bank
rate.

over and Bank rate had once more become the same as market rate, except at periods when the Bank wished to protect or add to its reserve. The Bank actually from time to time came into the market, not merely to compete with the discount houses for a definite supply of bills, but to add to the demand for accommodation by driving rates downward. Bagehot, in *Lombard Street*, published in 1873, said: 'At all ordinary moments there is not money enough in Lombard Street to discount all the bills in Lombard Street without taking some money from the Bank of England.'¹ This statement has often been quoted to show how matters have changed since that time, for at present the market often goes for considerable periods without seeking the assistance of the Bank. This is no doubt partly due to the much greater supply of floating funds existing nowadays. The market has generally a much greater independence. But this is not the only reason. There has been a change of policy on the part of the Bank. Bagehot's statement was somewhat rough and inaccurate and tended to leave the impression that the quantity of bills was fixed and definite. Actually, except at periods of extreme stagnation, when no rates, however low, will tempt borrowers, the demand for accommodation is elastic as well as the supply. The Bank of England at all times, then and now, if it cared to do so could come into the market and offer to discount or lend at rates which would tempt fresh borrowers and add to the total funds available. If it did so now, borrowers would come from the ends of the earth. It has been said that a 10 per cent. Bank rate, maintained for long, would draw gold from the moon. It might also be said that a Bank rate which was for long less than market rate would bring borrowers from the moon. In the middle of last century, however, the Bank frequently offered to discount freely at such a rate. We have seen how this weakened the Bank's control.

After the crisis of 1857 the Bank found itself raising its rate above market rate more and more frequently as a precautionary measure, compelled in the public interest to sacrifice its discount business and penalize its regular customers. In 1878, therefore, it definitely accepted the

¹ Edition of 1915, p. 110.

position and announced, in effect, that henceforth, however large the reserve might be, money would never be available *ad libitum* to all and sundry at market rate. To its own regular customers, persons who kept their accounts and did all their business with the Bank, discounts would be granted at the competitive rate. But to the market generally, the other banks and the bill-brokers, accommodation would be available only at Bank rate, which, it was understood, would in future bear no definite relationship to the competitive rate and would as a general rule be higher. The Bank did not withdraw entirely from the discount market as Palmer had advocated, but this change of practice virtually meant the adoption of his principles. The bills taken in from the Bank's regular customers would be a fairly constant factor so long as those customers could obtain as favourable a rate at the Bank as elsewhere. The variable factor would be the volume of bills discounted for the market, and henceforth these were to be taken in always at a rate fixed by the Bank and not at one determined by the market. There was to be a definite tightness in the market before Bank funds would be available; and until nearly the end of the century this tightness occurred almost every week and gave the Bank a firm control of the market rate.¹

Meanwhile another matter had come under discussion, namely the adequacy of the banking reserve. It will be remembered that under J. H. Palmer's guidance the Bank had determined to keep a reserve of about one-third of all its liabilities, including the note circulation. This plan had broken down, and when the note issue was placed under a separate department the amount of the banking reserve was considered by the authors of the Act of 1844 to be of little importance to the public. Tooke alone at that time declared that the Bank kept too small a reserve. He said the Directors grew impatient if the reserve rose to 10 millions, and were

Adequacy
of the
reserve.

¹ *Economist*, 15 June, 1878. The significance of the Bank's announcement was not realized at the time. The *Economist*, while recognizing that Bank rate would in future bear no definite relationship to market rate, thought that the Bank was about to enter into keener competition for discounts, since its regular customers, however low market rate went, would now always get the benefit of it.

quite content to see it reduced to 5 millions. In his opinion 10 millions should be taken as a minimum.¹ During the next twenty years, however, the Directors gave no sign that they were attempting to maintain the reserve either at any minimum figure or at any definite percentage of liabilities. Usually they were quite satisfied with a reserve of 40 per cent., reduced their rate if it rose much above that amount, and showed little sign of anxiety so long as it was more than one-third of liabilities. T. M. Weguelin, in 1857, expressed satisfaction that the reserve had not in recent years fallen below 3 millions. In the period immediately preceding 1866 it seldom rose much above 10 millions and was often considerably below. Yet although lower in proportion to the liabilities of the Bank, it undoubtedly was greater in proportion to the total banking liabilities of the country than the banking reserve is to-day. The deposits of the joint-stock banks of England and Wales in 1866 amounted to about 110 millions.² If we take the whole of the bank deposits of Great Britain at that time as 250 millions, that will be an outside figure. An average reserve of 8 millions was a reserve of nearly one-thirtieth. In the early part of 1914 about 25 millions was held by the Bank against total banking liabilities of nearly 1,000 millions, and in 1929 a reserve of, say, 50 millions was held against over 2,200 millions of bank deposits.³ If the reserve in 1866 was an unsafe one, it was not because of the size of the credit structure based upon it but rather of the character and management thereof.

After the experiences of 1866 there were many people who believed that larger reserves were necessary. *The Times*, in the midst of the crisis, blamed the London banks for not keeping larger reserves themselves. An attempt had been made, it said, to convert the reserve of the Bank of England into the reserve of all the banks in London.⁴ *The Economist*, however, with Bagehot as its editor, came down very heavily against this idea. For good or ill the one-reserve system was

¹ *History of Prices*, vol. iii, c. IV, sec. 2.

² *Economist*, 19 May 1866.

³ In these figures Ireland is omitted. In the latter part of 1929 the position grew much worse.

⁴ *The Times*, 15 May 1866.

established in England, and the Bank of England kept that reserve. It was time that the Bank publicly acknowledged its duty in this respect and set itself to maintain a reserve at all times adequate to support the credit of the internal banking system and meet the demands of foreign trade. Bagehot did not say that in recent years the Bank had not kept a sufficient reserve, but he did demand assurances from the Bank that it would continue to do so, and that it realized that the other banks and the money market generally would expect it to render unlimited assistance in times of pressure. Some of the Directors declared that these views were dangerous, and refused to encourage the market to lean upon the Bank in this way. But Bagehot maintained that the Bank, whether it liked the position or not, could not escape from it.¹ The protests of the Directors against Bagehot's views were the last effort which the Bank made to rebel against the force of circumstances which, during the whole century, had been heaping upon it a larger and larger measure of responsibility for maintaining the public credit. The Bank has never made any public acknowledgement of its responsibilities, but it has never since that time denied them, and it has always done its utmost to fulfil them.

No effort, however, was made during the next twenty years to keep a larger reserve, and in 1890 there occurred the Baring crisis. We need not enter fully into the details of this affair. It is sufficient to say that Messrs. Baring Brothers, an international banking house with world-wide interests, imprudently locked up too large a proportion of their assets in long-dated investments, principally South American securities. Unlike the investments of Overend, Gurney & Co., those of Barings were perfectly sound; but the firm held such large blocks of them that it was quite impossible to realize at short notice, and when difficulties arose and they asked other houses in the City to relieve them of some, the other firms grew nervous. The nervousness spread and the banks began to reduce their commitments. At last Barings were persuaded to seek the assistance of the Bank, and were wise enough to do so before the position became desperate. A committee was

The
Baring
crisis.

¹ *Lombard Street*, pp. 155-64.

appointed and a guarantee fund was formed, to which most of the banks and discount houses subscribed, for the purpose of covering the liabilities of Baring Brothers until such time as their assets could be realized. The Bank, fearing a panic, had meanwhile made arrangements to borrow 2 millions of gold from France. There was, however, no panic. The arrangements made to support Barings were entirely successful. The firm was reconstructed and continued in business as Baring Brothers & Co., Ltd., entirely regaining its old position. But the fact that the Bank had felt it necessary to go to France for gold raised the question once again of whether it was keeping an adequate reserve.¹

South
African
gold.

The problem was solved temporarily, however, in the next few years, without any definite action on the part of the Bank being necessary. The South African gold mines were coming into production. The full flood of bullion began to arrive in 1893. In the next year the Bank's total stock reached over 39 millions, and the banking reserve over 31 millions, or 67 per cent. of liabilities. Such a position had never been attained before. The market was glutted with funds. During 1894 the best three-months bills were sometimes discounted at less than $\frac{1}{2}$ per cent. Bank rate came down to 2 per cent. in February and remained there during the rest of that year and during the whole of 1895; and it was merely a nominal rate. The market never needed to approach the Bank. With such a reserve the Bank, under the principles of management practised during the first few years of the Bank Act, would have gone out into the market and would have added enormously to its discounts however low the rate might have fallen. But the Bank refused to reduce the official minimum below 2 per cent. and thus took the first shock of the flood of gold by holding a much larger reserve. The immediate effect upon prices was no doubt in this way considerably modified.²

The great plentifulness of money market funds continued for several years. The average market rate of discount during 1894 was 19s. 3d. per cent.; during 1895, 15s. 11d.; during

¹ *The Times*, 24 Nov. 1890; *Economist*, Nov. 1890.

² *Economist*, *Commercial History*, 1894.

1896, £1 7s. 7d.; and during 1897, £1 15s. 10d.¹ The market became for long periods totally independent of the Bank. This independence was modified to some extent by the borrowing during the South African War, but at no time during the period down to 1914 did the market need to go to the Bank nearly as frequently as it had done in the 'seventies. Instead of there being scarcely a week in which some persons were not driven to the Bank for accommodation at Bank rate, it was only at times of unusual pressure, as for instance when the heavy tax collections were in progress in March, that the Bank's assistance was needed.

From this there arose a fresh problem. Having had its reserve raised to a much higher percentage of its own liabilities by circumstances largely beyond its control, the Bank seems to have determined not to let it fall again to the old low levels. Apart from the great increase of the liabilities of the other banks which followed the influx of gold, an increase which in course of time became greater in proportion than the increase of the Bank reserve, there was also to be considered the rapidly growing international business of the London market. It was becoming more than ever the practice of foreigners to settle their debts one to another through London, either by keeping balances here or by acquiring the right to draw bills upon London houses. The Bank reserve had become liable to sudden and considerable calls from all countries in the world, as became very evident in 1907, when a serious crisis in America resulted in a heavy drain both across the Atlantic and also to European countries where nervousness prevailed. When money rates recovered somewhat from the low levels of the 'nineties, the Bank was able to keep a larger reserve without causing its dividends to suffer very much, because its total volume of business had grown considerably while its capital remained at the same figure as in 1816. Between 1900 and 1914 the reserve was generally nearer 50 per cent. than 40 per cent. of the liabilities of the Banking Department. But it still needed protection from time to time, and in view of the new independence of the money market Bank rate alone was no longer always an

The
effective-
ness of
Bank rate

¹ *Ibid.*, 1904.

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effective weapon for this purpose. The reserve might be subject to a foreign drain while conditions at home remained easy. The Bank might raise Bank rate, but if the market was plentifully supplied with funds the market rate would not follow it upwards, and money would not be attracted from abroad. The Bank adopted the plan therefore of going out into the market on such occasions and taking up some of the market's funds for itself. This was done sometimes by borrowing money upon securities, sometimes by selling securities for cash, sometimes by arranging with the joint-stock banks for the withdrawal of a part of their funds which were on deposit at call or short notice with the discount houses, to be placed on deposit at similar interest with the Bank. The market would then generally be driven to the Bank either to re-discount some of its bills or to obtain money to carry them, and Bank rate would be made effective.

Thus we see how in the second half of the nineteenth century the Bank shouldered its responsibilities without making a public parade of the fact, and how it made every effort to improve the technique of its own share in the management of the credit system. To this undoubtedly is partly due the freedom from severe panic after 1866. But there were other causes which, taken together, probably had a greater influence. They are to be found in the vast improvement in the management, credit, and resources of the other banks and discount houses; the further development of the cheque system of currency to the almost total exclusion of all the other forms, which were much inferior; and the binding together of all the institutions of credit into one system through the operation of the Clearing House. Let us consider these three matters one by one, in the reverse order.

The
Clearing
House.

There is considerable evidence that a clearing system of a sort existed amongst the London bankers even in the seventeenth century.¹ It was not, however, until 1775 that an actual central meeting-place for clearing transactions was set up in the City. It was copied from one which existed at Edinburgh, and was at first purely an affair of the London bankers. When the joint-stock banks appeared they were rigidly

¹ See page 99.

excluded, and it was not until 1854 that the feeling of jealousy was sufficiently abated for the private bankers to let them in; and even then their admission was only brought about by the inconvenience of doing business with them while they remained outside, and by their threat to establish a clearing house of their own. Until May 1854 the balances of the Clearing House were settled in notes, but at that date it was made a rule that every member should keep an account at the Bank so that differences might be settled by cheque. In the following year the Government agreed to accept cheques in payment of customs duties, which hitherto had had to be paid in notes. In 1864 the clearing system was completed when the Bank of England became a member of the Clearing House.¹

It has often been said that the Bank Charter Act, by its strict regulation of note issues, encouraged greatly the development of the deposit system. As to what extent this is true there is considerable doubt. It will be remembered that in the very early days of banking in London the cheque was as important a part of the system as the note. It is probably true to say that at all periods in London cheques were used at least as often as notes. In the country note issues held the field to begin with, but by the time the note issues of 700 country bankers and the evil effects thereof were exercising the minds of the Bullion Committee, the London bankers had given up issuing notes altogether and had adopted the cheque system exclusively. And after the resumption of cash payments the whole system changed so rapidly that Fullarton in 1844, before even the Bank Act was law, called bank notes the small change of credit. By that time deposits formed at least one-half of the liabilities of every country banker. The account system indeed probably gained ground as much upon its merits as from any encouragement it received by the restriction of notes.

Nevertheless, although it is not true to suppose that the cheque was little used until after 1844, it is true to say that only when the century was well advanced did a national cheque system begin to develop. The note issues of the country banks during the Restriction period were strictly

Growth
of the
cheque
system.

¹ Committee of 1857, Qns. 96 and 97; MacLeod, vol. ii, p. 443.

local issues, and so also, to begin with, were the account systems of those banks. Each district was mainly self-contained. While the Clearing House remained an affair of the London private bankers it was of no use to draw a cheque upon a bank in Newcastle to send to a creditor at Bristol. His banker would have no facilities for collecting. Lancashire and Yorkshire, as we have seen, had their own peculiar systems of circulating bills of exchange for relatively small amounts of from £10 to £30, 'proverbial for their dirty appearance, the profusion of their endorsements, and for the much more valuable quality of being very rarely unpaid'.¹ These bills were of no use for making payments outside those counties. For payments from one district to another it was necessary either to purchase an ordinary trade bill drawn upon the other district, or obtain in some way a draft upon a London banker. Thus although at a very early stage the banking system was closely knit together for reserve purposes, with the gold stock of the Bank of England as its basis, there was, until the middle of the nineteenth century, no national system of credit currency.

The joint-stock banks.

The growth of this system accompanied the growth of joint-stock banks and branch banking.² The old country banks, before the Act of 1826, had begun to establish branch banks, and, by sharing partners and otherwise, had entered into arrangements one with another to facilitate cross-country business.³ But so long as they laboured under the restriction of the old Act of 1708 little could be done. After 1833, however, when joint-stock banks began to spring up everywhere, and especially after 1854 when they entered the Clearing House, cheques began to travel the length of the country. The joint-stock banks of Lancashire adopted the circulating-bill system to begin with, but soon replaced it with the cheque system, while a new generation of bill-brokers, holding deposits at call from the banks, discounted as an investment the bills of the industrial districts and so

¹ W. Newmarch, *Statistical Journal*, 1851.

² The provincial branches of the Bank of England, first established in 1826, were welcomed as convenient for remittance purposes.

³ See the evidence of Vincent Stuckey before the Committee of 1832.

took them out of circulation. The bill of exchange now almost lost its old character of a form of credit currency.¹

And while the growth of joint-stock banking was accompanied by the development of a uniform currency system, it was accompanied also by a great improvement in banking management and in the credit of banking institutions. Liverpool's Government, in 1826, had permitted the establishment of joint-stock banks with the express purpose of encouraging the growth of a stronger and more responsible type of institution than were the majority of the small banks of that day. And by 1873 Bagehot was able to say: 'The joint-stock banks of this country are a most remarkable success'.² The best of the old private banks had been founded by men with a reputation in their district for probity and fair dealing. The progress of their business depended entirely upon the personal relationship between banker and client. The farmer and the country tradesman trusted their banker because they liked his principles. Many of the founders of the craft were of the Quaker persuasion, men noted for their uprightness and austerity of character. The trust inspired by their personal qualities and the individual attention they were able to give to their clients' interests were sufficient to secure for them all the business their capital could carry. They used no other method of appeal. The details of their affairs were kept a close secret. Their profits, their reserves, the disposition of their assets, were never disclosed. The founders died in due course and their successors in the business were often men of an entirely different calibre. In times of trade activity, when prices were rising and the stock markets booming, so little capital was required to start a new bank, offer high deposit rates, and compete with the old ones, that dozens of unscrupulous newcomers commenced business at every such period, only to crash when the inevitable slump came, leaving the public to sigh for some better method of judging a banker than merely by his church-going habits.

¹ Compare the results of researches made into the quantity of different forms of currency in use, by W. Leatham, *Letters on the Currency*, 1841 (London, 1840 and 1841), Newmarch, *Statistical Journal*, 1851, and Inglis Palgrave, *Statistical Journal*, 1873.

² *Lombard Street*, p. 230.

The joint-stock banks, on the other hand, made a different appeal. They said in effect:

'We do not ask you to trust us because of our moral character. We merely stand before you as persons able beyond a doubt to manage our affairs with prudence and to command gigantic resources. Look at our balance sheet. At least every half-year you can see published in all the important newspapers a statement which shows that our paid-up capital runs into six figures, that we have reserves of equal amount, and four times as much capital uncalled. Our deposits total many millions, and all our long-dated investments are gilt-edged securities.'

Banks began to increase their profits, not by holding the most risky securities, but by drawing to themselves millions of customers; and the first inducement they held out was safety and good management. The extension of branch banking and the increase of the area covered meant that their fortunes were no longer bound up with the prosperity of one or two particular industries. Their risks were spread and their security therefore vastly increased. Speaking of the possibility of the failure of a first-rate joint-stock bank in London Bagehot said: 'Such an event would have something like the effect of the failure of Overend, Gurney & Co'.¹ The stoppage of one of our 'Big Five' banks to-day would cause a panic compared with which all the crises of the past would pale into insignificance. Nothing short of some great national catastrophe could bring it about.

The period after 1866 witnessed a rapid change in the structure of the banking system. At that date a relatively small volume of credit was distributed amongst a large number of banks. Before fifty years had elapsed, by the growth of the joint-stock banks and by the process of amalgamation, a very much larger volume of credit had become concentrated in the hands of a very few banks. A table at the end of this chapter gives a picture of the position of the credit system as a whole at crucial dates in the last century and a half.

In addition to the improvement in the management of individual banks there has grown up amongst them a fuller

¹ *Lombard Street*, p. 251.

sense of their community of interest in freedom from panic. In the main they have shown great willingness to assist the Bank in controlling credit; and such willingness is of the utmost importance, for so powerful have they become, that the hostility even of one of them might nullify all the efforts of the Bank. The latter has also in recent years been remarkably free from criticism in the press. One can scarcely imagine the appearance in a responsible paper nowadays at a time of serious crisis, of an outburst similar to that quoted on page 220 from *The Times* of 1825. Both the press and the public have grown to understand clearly the working of the system and to anticipate well in advance when precautions are likely to be necessary; and so widespread has a knowledge of the principles involved become that a change of Bank rate occupies at least two columns of the news page of popular evening papers. It has been the practice of many bankers from the early days of the nineteenth century to vary their deposit rate with Bank rate, but nowadays a large number of other rates move with it as well. The rate of interest named in mortgage and loan contracts of all kinds is commonly Bank rate plus 1 or 2 per cent., so that when Bank rate rises there is a growing tendency for the whole system of money rates throughout the country to rise with it; while the money market itself, with its improved knowledge of the 'mind' of the Bank, often tends to discount in advance a coming rise. All this has helped to make it possible to sustain a very much larger structure of credit currency without increasing the gold reserve in proportion; and it is desirable that in future further advances in this direction should be made so far as they can be made with safety. For in this way we shall be able to counteract the effects of a possible world shortage of gold.

We must conclude this chapter by completing the history of the coinage to the end of the nineteenth century. By a proclamation of 6 February 1821 the least current weights of the gold coins were fixed at 122.5 gr. and 61.125 gr. respectively. It was still the law, under the Act of 1774, that any person to whom light gold was tendered must deface it. The Mint would only accept for coinage gold in the form of bars, accompanied by an assay report, and light coins had to be

The coinage in the 19th century.

melted and assayed at the owner's expense before they would be recoined. Many years later the Bank estimated the average cost of this operation at $2\frac{1}{2}d.$ per ounce, and therefore the minimum loss to the holder of every light sovereign defaced must have been nearly $2\frac{1}{4}d.$ ¹ The Bank scrupulously weighed all coins paid in and defaced all light ones. Ordinary persons ignored the law, and those who handled coin in large quantities probably took care that as few light ones as possible went to the Bank.

In the years 1842-5 the first recoinage of sovereigns took place. On 7 June 1842 proclamation was made calling upon the public generally and in particular the officers receiving revenue to deface all light coins coming to them. On 3 October 1843 another proclamation stirred the public to action in the matter. To minimize the loss to the holders of light gold the Bank agreed to act as the agent of the Mint and purchase defaced coin at the full Mint price of £3 17s. 10½d. per ounce, the Mint taking it from the Bank at the same price, an arrangement which lasted until the end of 1843. In the years 1842-4 nearly 14 millions of light gold was withdrawn, and it was thought by the Mint authorities that about one-third of the coinage outside the Bank had been recoined, and that only 5 per cent. of the remainder was light.² After the recoinage the gold currency began at once to settle down again into its old state. The quantity defaced at the Bank fell by 1852 to below half a million a year. Taking the average life of a sovereign, as estimated later by the Mint, at 27 years,³ an annual withdrawal of 1½ millions would have been necessary to keep a circulation of only 40 millions up to standard.

In due course the coins of the branch mints in Australia were made legal tender in England, beginning in 1866 with those of Sydney. In 1870 the great consolidating Coinage Act was passed, bringing together the whole of the existing law of the coinage.⁴ The correct weights of the coins were now

¹ See the correspondence between the Treasury and the Bank, 1870.

² Newmarch, Appendix to the *History of Prices*; House of Commons Papers, 1857, xxv; Mint Report, 1889, Appendix XV.

³ Mint Report, 1903.

⁴ Coinage Act, 1870, 33 Vict. c. 10.

given to five decimal places instead of three, and the remedy allowance was reduced and applied to single coins instead of being stated for a pound weight of coin. It was reduced too much in fact, and wider limits were fixed by the Act of 1891. No change was made in the least current weights or in the law relating to light coin, but the Mint announced that in future it would accept its own stamp on the face of the coin as a sufficient guarantee of fineness, and would take back light coin in parcels of at least £100 without requiring it to be melted and assayed. This enabled the Bank to offer the public the full Bank price of £3 17s. 9d. per ounce for light coin, and from that time larger quantities were recoined.¹

The new arrangements, however, were still inadequate to maintain the coinage at its proper weight. At first several of the banks sent light coin to the Mint, but soon the Bank of England alone did so, and the annual average amount recoined in the period 1871-89 was little more than a million. The percentage of light gold in circulation steadily increased. The public grew concerned for the safety of the standard, and there was much dissatisfaction at the injustice of the law regarding the defacement of light coin. Jevons instances the case of a man who received gold in exchange for an order at the Post Office at St. Martin's le Grand and a few minutes later had it defaced when tendering it in the purchase of stamps at Somerset House.² In 1887 the Mint held an inquiry into the condition of the coins, and in 1889 an Act was passed requiring it to exchange at face value all pre-Victorian gold which had not been illegally dealt with and which was not more than four grains lighter than the standard weight.³ In 1891 another Coinage Act⁴ empowered the Government to purchase all light gold coins at face value, provided the loss of weight was not more than three grains; and, as no limiting date was fixed to the operation of this provision, it gave the Mint in pre-war days the necessary authority for carrying out a continuous recoinage and keeping the coins in circulation

Act of
1891.

¹ House of Commons Papers, 1870, xii.

² *Money and the Mechanism of Exchange*, 14th edn. (London, 1903), p. 112.

³ Coinage Act, 1889, 52 and 53 Vict. c. 58.

⁴ Coinage Act, 1891, 54 and 55 Vict. c. 72.

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as near as possible to the standard. Between 1890 and 1894 every effort was made to withdraw and re-coin all the gold which was below the least current weight. Thus at long last the missing provision required to make up a satisfactory set of coinage regulations was supplied.

We left the copper coinage, in Chapter VIII, at the point at which the Government had arranged in 1799 to make 36 halfpennies from a pound weight of metal. The price of copper very soon rose sufficiently to make this unprofitable, and in 1806 it was decided to coin a pound into 24 pennies. Even these coins, however, in the next year became worth melting, and from 1807 to 1821 no copper coins of any kind were issued by the State. Tradesmen's tokens of many varieties came into circulation once more. In 1821, however, coinage began again of copper pennies, with halfpennies and farthings also, at 24*d.* to the pound, and continued until 1860. In that year bronze coins were introduced containing 95 parts copper, 4 parts tin, and 1 part zinc, the pennies being minted at exactly half the weight of the copper ones, or 48 to the pound. The halfpennies and farthings were not reduced quite so much, being coined at 40*d.* to the pound. This is our modern small change. Halfpennies and farthings to represent the pound sterling are coined from 6 lb. avoirdupois of bronze, and pennies from 5 lb. thereof.

CREDIT STRUCTURE AND RESERVES OF GREAT
BRITAIN AT IMPORTANT DATES

000 omitted in money columns.

Year.	1 Total Bank Deposits of Great Britain exclusive of Bank of England.	2 Approx. Total No. of Banks.	3. Bank of England Note Circulation.	4 Note Circulation of other Banks.	5 Total of Cols. 1, 3, and 4.
	£		£	£	£
1792	10,000	300	11,000	12,000	33,000
1796	8,000	250	11,000	5,500	24,500
1809	15,000	750	20,000	25,000	60,000
1819	12,000	550	24,000	20,000	56,000
1824	20,000	600	20,500	20,000	60,500
1844	50,000	350	21,250	11,000	82,250
1846	55,000	330	21,250	7,750	84,000
1856	120,000	300	20,500	6,750	147,250
1865	200,000	250	21,250	5,750	227,000
1889	568,000	160	24,500	2,300	594,800
1893	595,000	152	25,750	2,000	622,750
1894	600,000	150	25,250	1,750	627,000
1895	621,000	147	26,000	1,750	648,750
1896	648,000	138	26,500	1,500	676,000
1900	734,000	106	29,500	1,250	764,750
1906	780,000	77	29,000	500	809,500
1913	962,000	60	28,750	135	990,885
1914	1,061,000	55	74,750	100	1,135,850
1928	2,231,000	28	367,000	Nil	2,598,000

Year.	6 Total Deposits of Bank of England.	7 Banking Dept. Reserve.	8 Percentage Col. 7 to Col. 6.	9 Total Coin and Bullion in Bank of England.	10 Percentage Col. 7 to Col. 1.	11 Percentage Col. 9 to Col. 5.
	£	£	£	£		
1792	6,000			7,000		21.6
1796	5,000			6,000		24.5
1809	12,000			4,500		7.5
1819	4,000			4,500		8.0
1824	10,000			9,000		14.9
1844	13,500	8,000	60.0	15,250	16.0	18.5
1846	18,000	9,000	50.0	14,500	16.4	17.3
1856	16,000	5,750	36.0	11,000	4.8	7.5
1865	20,500	8,000	39.0	15,000	4.0	6.6
1889	32,500	11,000	33.9	19,750	1.9	3.0
1893	35,750	16,000	44.8	26,500	2.7	4.2
1894	40,500	24,500	60.5	34,250	4.1	5.5
1895	48,250	30,000	62.2	39,000	4.8	6.0
1896	59,750	33,750	56.5	44,250	5.2	6.5
1900	59,000	20,500	41.0	33,250	2.8	4.3
1906	54,000	22,500	41.7	34,000	2.9	4.2
1913	55,000	26,500	48.2	37,500	2.8	3.8
1914	155,000	51,750	33.4	88,000	4.9	7.8
1928	121,000	52,750	43.6	159,750	2.4	6.1

NOTES TO THE TABLE

The figures for Ireland are not included in the table because, owing to the existence of the Bank of Ireland, with its partially legal tender note issue, they did not bear directly upon the Bank of England's reserve.

Column 1 represents the total of the bank deposits of Great Britain, exclusive of the Bank of England, at the end of each year. The figures down to 1865 are estimates based upon such information as is available in the reports and papers published by the various committees of inquiry. Until after 1824 the greater portion of these deposits were held by the London bankers, while the note issues in Column 4 were entirely outside London and the surrounding counties.

The Bank of England figures are, as far as possible, averages for the year, except those for 1914, which are taken from the last return of the year, and those for 1928, which are from the return for 28 November, the first return after the amalgamation of the note issues. For 1914 the figure in Column 3 includes currency notes, and the figure in Column 9, gold held against currency notes.

Column 4 includes Scottish notes down to 1844. After that date the Scottish banks were compelled to keep their own metallic reserves against their note issues.

Column 11 shows clearly how low the ratio of the central stock of gold to total credit liabilities fell in the years immediately preceding the war, and how the substitution of notes for gold in circulation has raised the percentage. It must be remembered, however, that small notes in circulation are an element of weakness against which a larger reserve is necessary.

THE WAR AND THE NEW SYSTEM

CHAPTER XII

IN the days before the war all who studied the English financial system, with few exceptions, contemplated it with admiration mingled a little with awe. London, they said, was the financial centre of the world, the banker of all nations. The bill upon London was an international currency which could be negotiated anywhere, because every one owed us money. A mountain of credit of unprecedented size was reared up internally upon the reserve of the Bank of England, and that reserve was amazingly small. France had four times as much gold as we had, and Germany nearly twice as much; yet they placed restrictions upon the movement of gold, while we allowed ours to move freely in and out. The ingenuity with which the Bank maintained a free market for the metal and carried the finances of the world upon so small a foundation was the wonder of all. Even the big bankers were a little awe-struck in contemplating the system of which their institutions were a part. They had all read about the great panics of the nineteenth century, the terrible gloom of that Monday in 1825 and the horror of Black Friday. Most of them remembered the Baring crisis, and shuddered to think of what would happen in the event of a great European war. They shook their heads at the smallness of the gold stock and, remembering the forgotten box of notes of 1825, declared that the Bank should have a stock of pound notes printed in readiness.¹ It is not surprising that when the crisis came it was they, knowing so much of these matters, and not the public, who lost their nerve. The credit system was even greater than they thought.

The pre-war system.

The dramatic suddenness with which the crisis of 1914 descended upon the world was one of its most remarkable features. It developed first in the stock markets. The Austrian note to Serbia and the ultimatum which followed it on Sunday 26 July, caused a heavy fall of prices on the Monday. On Tuesday war was actually declared by Austria,

The outbreak of war.

¹ A committee of bankers was actually sitting to consider the question of the size of the reserve when war broke out.

and there was another heavy fall. Several failures occurred. Meanwhile the increasing gravity of the situation amongst the Great Powers set the banks calling home their funds from countries likely to be involved. England was the great creditor nation, and the efforts of foreign houses to pay their debts at first turned the exchanges heavily in our favour and then absorbed all the London bills available, so that remittance became impossible. Unable to obtain their foreign money the banks began to strengthen their position internally and sent the bill-brokers to the Bank. Bank rate, which had been 3 per cent. since January, went up to 4 per cent. at the ordinary weekly meeting on Thursday. On the same day the number of 'hammerings' on the Stock Exchange was so large that on the Friday the Committee, for the protection of all its members, closed the Exchange. This rendered securities unsaleable and caused a panic. The whole market went to the Bank on Friday and Saturday, and the rate rose to 8 and 10 per cent. The other banks grew very nervous, and even refused to pay gold to their customers for ordinary purposes, making them take Bank notes. And gold being needed for the payment of wages and for the holidays, which were just beginning, the public formed a queue at the Bank of England to cash their notes.¹

Suspension of the Bank Act.

That the Bank Act would be suspended at a time such as this had long been as clearly recognized as if it had been contained in the Act itself, and the Bank asked for suspension in good time. On the evening of Saturday, 1 August, they informed the Government that within the last five days they had advanced to bankers, bill-brokers and merchants upwards of 27 millions, and that although they had started that morning with a reserve of £17,420,000, they had probably not as much as 11 millions all told remaining that evening. They had not as yet refused any request for assistance, but unless the Act were suspended they feared they might soon be compelled to do so. The Government replied the same evening recommending the Bank not to hesitate to grant all possible assistance even if this meant an infringement of the Act. The advances made should bear not less than 10 per cent. interest,

¹ *Economist*, 1 and 8 Aug. 1914.

and the profits should accrue to the State. Actually on the 7th and 8th August the fiduciary issue was increased for a day or two by just over 3 millions, but by that time the increase had been made legal.¹

Monday, 3 August, was Bank Holiday, and a meeting was held of all the leading bankers and merchants, who unanimously recommended the Government to extend the holiday for three days. A proclamation was issued accordingly. On the same day an Act was passed through all its stages empowering the Government to proclaim a moratorium for any classes of debts it pleased.² A proclamation was issued at once extending by one month the time for payment of all bills of exchange drawn before 4 August and falling due before 4 September. Other proclamations issued later added other classes of payment to this one and extended the period for another month. They caused a great deal of confusion. It was never quite clear which payments were included and which were excluded. Some people took advantage of the protection while others did not. The Stock Exchange remained closed while the moratorium lasted, and securities could not be realized to liquidate debts. The example of England was followed abroad and similar postponing measures were adopted in other countries, which aggravated the difficulty of international settlements. It is doubtful whether these measures did not do more harm than good. An outburst of patriotic feeling prompted all classes to attempt to work the moratorium smoothly, otherwise it is likely that a plan which left one-half of the people's debts enforceable while payment of the others could be postponed, would have had serious consequences.³

During the extended Bank Holiday measures were improvised for dealing with the monetary situation. There were two contingencies which the Government had to face when the banks reopened on Friday, 7 August. (One, which had already arisen, was the shrinkage of money-market credit,

Condition of the discount market. ✓

¹ White Paper 370 of 14 Oct. 1915 and the Prime Minister's answer to a question in the House on 9 Nov. 1915, quoted by Mr. Hartley Withers, *War and Lombard Street*, 1916 edn. (London), Preface.

² Postponement of Payments Act, 1914, 4 and 5 G. V, c. 11.

³ See the *Economist* for Aug. and Sept. 1914.

a feature common to all periods of financial strain since the middle of the eighteenth century. The market was glutted with unsaleable and uncollectable bills, their holders protected for the time being by the moratorium. The remedy was well-known. It consisted of the creation of a supply of some form of unimpeachable credit, which the market would accept and use, until the extent of the losses caused by the interference with the normal channels of remittance could be made known, and the system could adjust itself to the requirements of war-time commerce. In the eighteenth and early nineteenth centuries the Government had on two occasions supplied the need by creating Exchequer bills; but for a hundred years or more the function had been regarded as one proper to the Bank of England. It was therefore decided that the Bank should relieve the market of the unsaleable bills.

On 12 August the following announcement was published: 'The Bank of England are prepared, on the application of the holder of any approved bill of exchange accepted before the 4th day of August, 1914, to discount it at any time before its due date at Bank rate without recourse to such holder, and upon its maturity the Bank of England will, in order to assist the resumption of normal business operations, give the acceptor the opportunity until further notice of postponing payment, interest being payable in the meantime at 2 per cent. over Bank rate varying. Arrangements will be made to carry this scheme into effect so as to preserve all existing operations. The Bank of England will be prepared for this purpose to approve such bills of exchange as are customarily discounted by them and also good trade bills and the acceptances of such foreign and colonial firms and bank agencies as are established in Great Britain.'

The Government guaranteed the Bank against loss resulting from these operations.¹

The
currency
notes.

The other contingency, which had not yet arisen, but of which there was considerable fear in the first week of the war, was a loss of confidence in the banks, followed by a run upon them for gold. The only parallel to the existing situation which history afforded was as far back as 1797, when an invasion panic had caused suspension of cash payments. At that period, however, previous collapses had left the people

¹ *Economist*, 15 Aug. 1914.

with but little confidence in their banks, while in 1914 the system had for many years shown great stability. Nevertheless the refusal of the banks to pay out gold in the week before war was declared had set some people hoarding the metal, and there was a genuine fear that this might spread. At any rate it was decided to take measures to prevent it. In 1797, when the public had drained the Bank nearly dry and a stoppage of payment had actually occurred, it had been left to the Bank, with the permission of Parliament, to create a supply of small credit currency. In 1914, while the Bank still had a large reserve, and before any serious signs of a public panic had shown themselves, the Government decided to take upon itself the creation of a supply of small currency. An Act was passed in a single day, 6 August, known as the Currency and Bank Notes Act, 1914.¹ This empowered the Treasury to issue currency notes for £1 and 10s., to be current in the United Kingdom as fully as sovereigns and half-sovereigns, legal tender for any amount, and convertible on demand into gold coin at the Bank of England. Lest it should be impossible to print these notes fast enough, postal orders, of which there was a stock of about 2 millions unissued, were made legal tender, and also Scotch and Irish bank notes, the Government being empowered to revoke this provision by proclamation at any time. The Act indemnified the Bank, and also the Scotch and Irish banks, in respect of any issue of notes they might already have made in excess of the amounts permitted by the Acts of 1844 and 1845.

The Act did not require the Treasury to keep any reserve whatsoever against the currency notes, and there was no restriction at all upon their quantity. It was purely an emergency measure and made no attempt to provide regulations for the new issue as a permanent addition to the currency. The intention at the outset was to lend the notes to the banks at Bank rate, according to their requirements, up to a maximum of 20 per cent. of their deposit liabilities;² and the Act made them a first charge upon the assets of the borrowers. The notes were printed in great haste, and the banks had quantities of them ready when they opened on

¹ 4 and 5 G. V, c. 14.

² Cunliffe Committee, First Report.

7 August. Loans amounting to over 10 millions were made in the first few weeks, but as soon as it became evident that the expected run would not develop the banks repaid the bulk of this money. This did not, however, reduce the note issue, because the policy was adopted of concentrating as much of the gold of the country as possible in the Bank of England. Although currency notes were convertible, the public were appealed to in every possible way, in Parliament, in the press, by the Bank of England and by the other banks, not to ask for gold. The man who did so, they were told, was helping the enemy.¹ Thus gradually notes took the place more and more of the gold in circulation.

But even the substitution of notes for gold in circulation was not the limit of the use made of currency notes. The Government did not demand from every one to whom they paid out a note the face value of gold in exchange. Had they done so the whole history of the currency since 1914 would have been different. An account was opened at the Bank for the issue of the notes and the Government adopted the practice of accepting the transfer to this account of a credit of one pound for every pound note issued, whether the person receiving the note had obtained his credit by paying gold into the Bank, by selling securities to the Bank, by borrowing from the Bank, or by rendering a service to the Government in exchange for a credit which the Government had raised at the Bank. Thus the issue of notes became limited only by the quantity of credit the Bank was prepared to create.

Inflation
of credit.

Creation of credit at the Bank began immediately. It was by this means that the Bank relieved the market of its unsaleable bills. It was by this means alone that it could do so. The total amount of securities held by the Bank, including bills of exchange, increased from 42 millions at the end of June 1914 to 121 millions at the end of December, and the 'Other Deposits' from 54 millions to 128 millions. Yet the Bank, in spite of this inflation of its balance sheet, had no fears for its reserve, because at first gold flowed in, displaced

¹ See the speeches of the Chancellor of the Exchequer (Mr. Lloyd George) at this period. Notices were posted up in banks asking people to use notes and pay gold in.

by currency notes, and because later it became evident that the new notes, which were in unlimited supply, would be accepted without question. The banking reserve, which had been kept at 40 or 50 per cent. of deposit liabilities in pre-war times, was allowed to fall at once to 20 per cent. and later as low as 8 per cent. of deposits; and yet there was no danger of a demand for legal tender money, apart from a possible invasion panic, reducing it to nothing, because the Treasury met all such demands with currency notes. The amount of the banking reserve ceased to have any significance at all.

The first result of the large increase of ledger credit at the Bank was that the other banks found themselves with a great surfeit of funds. The situation in the money market was relieved immediately. Bank rate went down to 6 per cent. on 6 August and to 5 per cent. on the 8th. In the third week of the month, we read, 'the issue of 15 millions Treasury bills was subscribed for three times over, and the average rate was $3\frac{5}{8}$ per cent. . . . The banks in their present state of timidity are only too glad to have Treasury bills as a means of investment for their very large idle funds.'¹ When the first crisis was over and the moratorium came to an end, the bills which the Bank had taken began to run off. Normally as this occurred the credit which the Bank had created would have been cancelled by the payments made by the persons who met the bills. This, however, was not allowed to happen. The Government needed money and was compelled to borrow to supply its need. As the bills which the Bank had taken off the market were met, the Bank merely supplied their place with Ways and Means Advances to the Government,² Treasury bills, or longer-dated Government stock. Thus the original inflation was continued, and the reserves of the other banks remained high. Their lending-power being proportionally increased, they soon found means of using it, particularly when the large war loans came to be floated.

It is probably true to say that the banks, other than the Bank of England, played no part in initiating currency

¹ *Economist*, 22 Aug. 1914.

² Temporary borrowings authorized in the first instance by the House of Commons Committee of Ways and Means.

inflation during the war. Indeed there are grounds for saying that by keeping somewhat larger reserves than they had previously kept they did something to limit its volume. Reference to the table at the end of this chapter will show that whereas in the early part of 1914 the cash reserves in the tills and at the Bank of England of the other banks of Great Britain were equal to little more than 13 per cent. of their deposits, during the war they were never less than 17 per cent. and at one time they rose to more than 22 per cent. of deposits. Clearly they did not grant credit as freely as they might have done had they been content merely to maintain their pre-war reserve percentages. Since the war the percentage has been allowed to fall, but not quite to the old figure.

The link
with gold
des-
troyed.

There was no definite legal abandonment of the gold standard, no stoppage of payment, while the war was in progress. The effectiveness of the link with gold was destroyed slowly and insidiously, and few people realized at first what was happening. In 1914, as has been pointed out, the exchanges went heavily in England's favour and gold flowed in in large quantities to liquidate the debts due from abroad. On balance in that year we gained 28 millions of gold coin and bullion. Soon, however, the exchange with America, from which country large purchases of munitions and material began to be made, set very definitely the other way. During 1915 and 1916 49 millions of gold was exported.¹ By the middle of 1916 gold coins had ceased to circulate, although it was known that not all of them had reached the Bank of England. The first signs of a premium upon gold began to appear. On 5 December, 1916, a regulation was issued under the Defence of the Realm Act which said: 'A person shall not melt down, break up, or use otherwise than as currency any gold coin which is for the time being current in the United Kingdom or in any British possession or foreign country; and if any person acts in contravention of this regulation he shall be guilty of a summary offence against these regulations.'²

¹ Board of Trade Returns. The returns of gold movements ceased to be published after 1916.

² Defence of the Realm Regulation 30 E. The maximum punishment was six months' hard labour, or a fine of £100, or both, and forfeiture of the gold (Reg. 58).

There was not, while the war lasted, any specific prohibition of the export of gold. But when the intensive submarine campaign began, the risks became very great. In January 1917 the S.S. *Laurentic* was sunk off the coast of Donegal with 5 millions of gold aboard, consigned by the Government to America to help the exchange.¹ By the middle of May 1917 scarcely a single vessel entered a British port which was not under the direct control of the Government, who were thus in a position to refuse cargo space for gold. And that their policy was to prevent export is made clear by the fact that they refused to insure gold cargoes under the War Risks Insurance Scheme. Further, by arrangement with the South African Government, the producers of gold in that country were compelled to sell the whole of their output to the Bank of England at the Bank price of 77*s.* 9*d.* It may be said, therefore, that in the early part of 1917, without legislation, the Government by administrative action virtually closed the English gold market.²

Apart, however, from the difficulties and the high costs of exporting gold, there was in fact very little profit to be made from it during the war, owing to artificial control of the exchanges with the more important countries. The principal rate, so far as England was concerned, was that with America, partly because of the enormous volume of purchases that we were compelled to make from that quarter, and partly because the dollar was the principal currency in terms of which the pound tended to depreciate. The United States managed to maintain an effective gold standard during the greater part of the period, and although the value of gold, and therefore of the dollar, fell, it did not fall so rapidly as that of the paper currencies of Europe; and the value of the currencies of France, Italy, and the other belligerents fell more rapidly than that of the pound. Towards the end of 1915 the Government decided, wisely or unwisely, to attempt to keep down the cost of purchases from America by supporting the exchange. On 13 December, 1915, it was announced that they

'Pegging'
the ex-
changes.

¹ After the war 4½ millions of this gold was saved.

² Cunliffe Committee, First Report; *Economist*, weekly extracts from the circulars of Messrs. Samuel, Montague & Co.

wished to take up American and Canadian securities held in this country, and to give in exchange for them Exchequer bonds; or, alternatively, to borrow the securities for two years, the lender to receive the interest or dividends, plus a commission of 10s. per cent. Later the list of securities required was extended to include those of some other countries as well, and a special tax of 2s. in the pound was charged upon the dividends where holders refused to bring the securities forward. Finally, in January 1917, power was taken to requisition them as required. In all, securities to the face value of 977 millions were received by the Treasury in this way, and either sold in America or pledged as collateral security for loans raised there.¹ The funds so obtained were used to make purchases of material in America and to place dollars on the market in London whenever the rate tended to fall below $4\cdot76\frac{7}{18}$. When America came into the war in April 1917 money was borrowed for the same purpose direct from the American Government without collateral security, and the exchange rate maintained at this official figure throughout the war.²

The wisdom of the plan has many times been questioned. In so far as purchases from America were met out of funds obtained in America, 'pegging' the exchange did not affect the cost of the goods. Only those people who actually purchased dollars at the time obtained their goods more cheaply than they otherwise would have done; and these people were largely importers of luxury goods such as motor cars, films, and watches.³ Their gain was partly offset by a loss to exporters and was partly made up of a subsidy from Government funds, for that is what the placing of currency on the market at a cheap rate amounted to.

However the French franc was similarly 'pegged' in relation to the pound at around 27·50, by means of loans raised in England. The Italian lira and, in the first two years, the

¹ Of the total, 339 millions had been disposed of abroad and 384 millions returned to their owners by 1921 (*Economist*, 19 Mar. 1921, p. 599).

² See the various reports of the Economic Science section of the British Association on Industry and Finance during the war.

³ The 'McKenna' duties were introduced to limit their activities.

Russian rouble, were 'assisted' in the same way, though less successfully; and even the neutral Dutch florin was controlled. Thus, apart altogether from Government interference, the gross profit to be made upon gold shipments between these countries, and from them to America, was so small that no one could face the heavy costs. In England Bank notes and currency notes remained legally convertible into gold on demand at the Bank, but no one took the trouble to convert them, because it would have been impossible to dispose of the gold in any quantity at a profit. This fact, together with the steady and relatively high value of the pound in relation to the dollar and neutral currencies as indicated by the exchange rates, concealed for a long while from many people that it was steadily depreciating in relation to gold.

The depreciation in relation to commodities was definite and progressive from the beginning, and was at all times greater than the depreciation in terms of gold, because gold itself depreciated, having been driven out of circulation in so many countries. Some idea of the movement of commodity prices is given in the table on page 334. The rise began before war was declared, owing to the purchases of staple commodities made by speculators and hoarders. There was a pause in the summer of 1915 when the heavy exports of gold began to make themselves felt upon the state of credit. The gold standard for a short while continued to function. Then, in the autumn of that year, came very heavy advances by the Bank to the Government, and the rise of prices throughout 1916 and the first half of 1917 was very rapid. By the middle of 1917, however, the efforts which had been made to fix prices by ordinance, and the appeals to the public to economize in the use of essential commodities, had failed. The Government had begun to secure control of the supply of all important articles and to distribute them at its own price. From this time until the end of the war the rise of prices was much less rapid.

Accompanying the rise there was an increase in the quantity of notes and coin in circulation and also in the volume of bank deposits. Some idea of these changes is also given in the table. It is useless to speculate on the question which

The rise
of prices.

was the cause and which was the effect, or whether they were both causes of the rise of prices. There were some people who blamed the over-issue of currency notes for the whole of the inflation. Others were inclined to place the blame upon the banks for subscribing so heavily to the war loans and thus increasing credit.¹ Others again said that labour, by agitating and obtaining higher wages, and war profiteers, by taking advantage of short supplies, drove prices upwards in the first instance, that notes were merely drawn into circulation to meet the higher prices, and that bank deposits went up because all incomes were higher. Each of these theories had an element of truth. The Government, no doubt, at times did force the note-issue indirectly by borrowing from the Bank and taking a part of the loan in its own notes, paid in for the purpose. But inflation can occur without any additional notes or even bank credits being forced upon the public. The Bank directors in 1810 denied, probably with perfect truth, that they had forced their issues. Yet there had undoubtedly been inflation. So long as unrestricted credit is available and the disposition exists amongst the community to draw upon it and use it, that is sufficient. During the last war there were always munition-makers anxious to obtain all the credit they could. It made no difference whether the Government lent them money, as it did to an enormous extent, or whether they obtained it from their banks. So long as they could exchange it for currency notes to pay wages, and so long as the Government was prepared to pay fresh currency notes into the Bank to meet these demands, the reserves of the other banks would expand with expanding credit. And when the trade unions succeeded in pushing wages upwards temporarily to a greater extent than prices rose, and so obtained an increase of real income, employers merely secured more credit and drew out more notes. Prices rose, and destroyed the advantage which labour had gained. And

¹ 'It is earnestly to be hoped that as soon as possible after the war, when it can be done without depressing capital values below parity, the banks will place on the market the greater part of the Government investments they have acquired during the war. Such a course of action will cause monetary deflation . . .' A. H. Gibson, Appendix II to British Association Report of 1917.

when speculators cornered supplies and drove prices upwards, further credit and more notes were created to meet them. In the absence of a metallic standard or of any regulation of the quantity of money there was nothing to counteract the rise. The mere existence of an unlimited note issue made inflation possible, even without any forcing of the notes.

The second column of the table on page 334 shows the percentage change in the quantity of notes and coin in circulation and held by banks other than the Bank of England during the war and at various dates afterwards. The figures have been calculated by taking the round sum of 120 millions as the amount of gold coin in circulation in 1914,¹ adding the published figures of note circulation, and allowing for the gradual withdrawal of gold down to the end of 1916. Allowance has also been made for the fact that some 30 millions of gold was held by the banks and not paid into the Bank of England until after the war. A careful comparison of the figures in this column with those in Column 1, representing changes in wholesale prices, and those in Column 3, representing changes in bank deposits, is necessary if we are to understand what happened when the war finished.

During 1917 and 1918 the quantity of notes and coin in circulation increased much more rapidly than prices rose. This was due to two causes. In the first place the banks, which were holding larger reserves in proportion to their liabilities than in pre-war days, had begun to hold a larger share of the total volume of notes. Secondly the notes held by the public had increased in greater proportion. This was the period when the number of men in the army and of wives receiving separation allowances increased to its maximum, and the number of boys, girls, women, and elderly men employed in all occupations multiplied considerably. All who were not with the forces received high wages, and many of them worked overtime. Some spent much money upon luxury and amusement, but many found little opportunity

Money
and
prices.

¹ The Cunliffe Committee's estimate was 123 millions. This figure can be confirmed as approximately correct by linking it up with estimates which had been made at previous dates and with various calculations made by the Mint and published in the Mint Reports.

for doing so while the war lasted, and of these a considerable proportion would not trust their savings to any form of investment, but kept them hoarded up at home. The prices of the staple commodities which go to form the index number were nearly all controlled by the State. Thus they did not rise as rapidly as the note issue.

After the armistice in November 1918 there was a pause in the rise of prices. In fact for about four months the tendency was downward. The demand for many raw materials, which had been coming principally from the makers of munitions of war, suddenly collapsed. There was a feeling amongst producers that the removal of war-time restrictions would bring about a rapid return to pre-war conditions and prices; and this caused them in many instances to liquidate hastily. Markets, however, soon received support from other sources. The public held a much greater volume of legal tender currency than the level of prices warranted, and a great deal of it had been hoarded up against the day when the war should finish and there would be time and inclination to spend. Considerable sums of money, still raised by borrowing, were paid out by the State in the form of gratuities to ex-soldiers, many of them men who had never had a bank balance before. The future was not really bright for large numbers of demobilized service men and munition workers, but for the time being they had unusually large resources. There was a feeling abroad that the world had changed and that the old hard doctrines of work and thrift no longer held good. In the year 1919 there was a great burst of reckless spending. Motor-cars and motor-cycles, gramophones, furniture, pianos, jewellery, and clothing of all kinds sold easily at greatly augmented prices. Theatres, cinemas, dances, and race meetings were never so well attended before or since. The same spirit was abroad throughout the world. Great activity resulted in all the principal industries. Prices between March 1919 and April 1920 rose nearly 50 per cent. Commodity markets and stock markets enjoyed a great boom. A flood of new issues sought the favour of the investor. Towards the end of the period speculation became reckless, especially amongst the crowd of novices with capital which

the war had produced, all imagining themselves leaders of commerce.

The rate of increase in the note issue was very much less in 1919, in spite of the great rise of prices, than it had been in 1918. A proportional increase was not necessary because a considerable quantity of notes which had hitherto been largely inactive had suddenly begun to circulate. The average velocity of circulation had increased. Thus not many additional ones were drawn into circulation. The increase of credit at the Bank of England also proceeded more slowly. The reserves of the other banks began to be depleted by the withdrawal of notes. They allowed their reserve percentages to fall, now that the war was over. Deposits continued to increase, but much more slowly. The boom was financed, so far as wholesale transactions were concerned, not so much by an increase of bank deposits as by a more rapid turnover. An attempt has been made to illustrate this in Columns 4 and 5 of the table. The Clearing House returns give us some means of measuring changes in the volume of cheques drawn from time to time. The country clearing is the best barometer of commercial, as distinct from financial, business. The ratio of country cheques cleared to bank deposits gives a rough measure of the activity of bank balances. Column 5 shows how the activity increased during the boom and then fell away greatly during the succeeding slump.

While prices were soaring, wages trying in vain to overtake them, and paper profits mounting up, a considerable change was taking place in the value of the pound externally. In March 1919 the arrangements for controlling the exchange with America and with France, and for assisting the exchange with Italy, were brought to an end. Immediately the dollar rate, which had been steadily held at 4.765 since 1915, began to fall, towards what came to be known as purchasing-power parity, that is to say the rate determined by the relationship between the values in terms of goods in their own countries of the respective currencies. The value of gold had fallen. Prices in the United States had risen, particularly from 1917 onwards when America became engaged in the war. But they had never risen as much as prices in England. The pound

The ex-
changes.

had always been depreciated in terms of dollars and therefore of gold, although the 'pegging' arrangements had obscured this. Now that these arrangements were gone the exchange found its proper level, and continued to fluctuate around purchasing-power parity until the gold standard was restored in 1925. A graph at the end of this chapter gives a picture of these movements. The lowest rate touched was 3.195 in February 1920. The franc and the lira, both of which were depreciated to a greater extent than the pound, fell in value at once in terms of pounds as shown by the exchange rates, but naturally fell much further in terms of dollars and of gold.

Gold and silver. Meanwhile further signs of the depreciation of the pound had shown themselves with the partial restoration of a free market for the precious metals. During the war, in the interests of the rupee exchange and of the silver currencies of France and other allied countries, the price of silver had been kept fairly low by a rigid inter-allied control. As a part of these measures it had been decreed in England, in March 1918, that no person should have in his possession more silver coin than the amount reasonably required for his personal expenses and his business. Also no person was to sell or purchase any coin current in the United Kingdom for an amount exceeding the face value of that coin, or accept any such coin in payment of a debt for an amount exceeding its face value.¹ This latter provision was mainly for the benefit of the gold coin, since the price of silver was not yet high enough to affect the value of the English silver tokens. In August 1918 the Treasury was empowered to fix a maximum price for silver bullion, and did so from time to time by Order in Council.² On 9 May 1919, however, the maximum price was removed and almost complete freedom restored to the silver market. During the boom of 1919 the price of sterling silver rose rapidly, and on 11 February 1920 touched 89½*d.* an ounce, the price in 1914 having been about 26*d.* At this peak figure a half-crown, containing just over 218 grs. of sterling silver, was worth about 3*s.* 4½*d.*

Coinage
Act,
1920.

On 31 March 1920 an Act was passed reducing the fineness

¹ Defence of the Realm Act, Reg. 30EE.

² *Ibid.*, 30EEE.

of the silver coins from 925 parts in 1,000 to 500, to enable the Mint to produce coins which, unless the price of silver went very much higher, would not pay for melting.¹ Thus the 'ancient right standard' silver of England, which had been in use without interruption, except for the one notorious period of debasement, at least since the Conquest, was banished from the Mint. From an economic point of view the policy was sound, although before the Act was passed the price of silver began to fall, and very soon made it unprofitable to melt the old coins. Many people regretted the change on historical grounds; and there certainly was some danger of loss of prestige in those colonies where the silver tokens circulate amongst native races. Gradually, however, the new coins have been substituted in circulation for the old, and the Exchequer has reaped the benefit. The first issue rapidly turned a bad colour, but this has been remedied since 1922 by adopting the device of 'blanching' employed by Henry VIII, that is to say, by coating them with silver of a higher fineness.²

When the exchange with America began to fall in March 1919, it became evident that there was a profit to be made upon the export of gold, if any one cared to take the metal from the Bank. The Government therefore decided to place a definite embargo upon export. Section 8 of the Customs and Inland Revenue Act of 1879³ empowered the Government to prohibit at any time by Order in Council the export of war materials, and an Act of 1914 had generously extended this provision to 'all other articles of every description', so long as a state of war existed.⁴ Orders in Council had been issued from time to time prohibiting the export of a host of commodities except by Government licence in particular cases, and on 1 April 1919 gold coin and bullion were added to the list.⁵ It has been argued since that it might have been better had a free market for gold been restored at once, and Bank rate and the other usual methods resorted to to bring the value of money and the value of gold together. Some

¹ The Coinage Act, 1920, 10 G. V, c. 3.

² Mint Report, 1922.

³ 42 and 43 Vict. c. 21.

⁴ The Customs (Exportation Prohibition) Act, 1914, 4 and 5 G. V, c. 64.

⁵ *London Gazette*, 1 Apr. 1919.

deflation would have been necessary, but not nearly so much as occurred in the collapse of 1920 and 1921. The Bank held over 80 millions of gold, there was 28½ millions in reserve against currency notes, and the other banks held about 30 millions, which the Cunliffe Committee, as we shall see later, had already recommended should be paid into the Bank. Only relatively small quantities could be shipped at a time. To have used the reserve in 1919 for the purpose for which it existed might have prevented the boom and have accelerated and made less burdensome the return to a gold standard. However, the Government could not foresee the boom. Prices had been falling since the armistice, and they no doubt thought that in a short while the prohibition would cease to be necessary. It is interesting to note that the *Economist* raised the question at the time, and asked: 'Was it necessary to prohibit before it was actually seen that gold was going in quantities that we could not afford to lose? Might it not have been worth while to try whether an effective 5 per cent. Bank rate would provide the necessary check?'¹

At the same time that the prohibition of export was introduced it was announced that importation would be freely permitted.² For some months, however, this was without effect, for there was very little free gold in the world. The South African producers were still bound to sell all their gold to the Bank at the Bank price. Australia had forbidden export without a licence and was granting few licences, so that the produce of that country was steadily accumulating in the banks there. All the countries of Europe were holding tightly to such gold reserves as they had left. On 7 June 1919 indeed, the United States, which had had an embargo upon the export of gold since September 1917, removed that embargo, and gold began to flow out from there. But obviously no one would bring gold from America to this country where, once arrived, it would be trapped, and where it could be sold only to the Bank of England for 77s. 9d. of English depreciated currency. In July 1919, however, the South African producers opened negotiations with their Government to obtain permission to sell a portion of their output at an economic

¹ 5 Apr. 1919.

² *Board of Trade Journal*, 3 Apr. 1919.

price. These negotiations were successful, and they began to send consignments to the United States, as the most convenient of the few remaining countries in the world whose mints offered the market value for gold. In September the British Government agreed to grant licences for the re-export of new gold brought to this country. This meant that for the produce of the mines a partially free market was restored in London. The first cargo arrived in mid-September, was refined and sold at about 16 per cent. premium, or 98s. 7d. per ounce fine. From 15 September a price was regularly quoted, varying with the rate of exchange with the gold-standard countries and, in particular, as overwhelmingly the most important, with the American dollar rate. On 5 February 1920, when the dollar was dearest, gold touched 127s. 4d. per ounce fine.¹ When the last of the peace treaties came into force in December 1920 the Act of 1914, under which the Order in Council had been made prohibiting the export of gold, lapsed; but the Gold and Silver (Export Control, &c.) Act, 1920 was passed, continuing for five years the power to make such an Order.²

The Government had not waited until the war was over, or, therefore, until inflation was at its worst, before considering what steps should be taken to resettle the currency when peace should be restored. In January 1918 the Treasury and the Minister of Reconstruction appointed a Committee under the chairmanship of Lord Cunliffe, Governor of the Bank of England, to consider the problems which would arise in connexion with the currency in the post-war period and the steps which should be taken to restore normal conditions. In August 1918 this Committee published a first report, which has supplied the guiding principles for almost all the currency measures adopted since.³ We must consider this report in some detail.

The Cunliffe Committee first of all drew attention to the essential features of the pre-war system and pointed out in

The
Cunliffe
Com-
mittee.

¹ See the bullion circulars of Messrs. Samuel, Montague & Co., quoted by the *Economist*.

² 10 and 11 G. V. c. 70, dated 23 Dec. 1920.

³ Command Paper 9182, 1918.

what respects war conditions had destroyed its effectiveness for maintaining the gold standard. They showed how creation of credit at the Bank had resulted in a huge increase of bank deposits and how note issues had expanded in consequence to meet swollen wages bills. The check upon this inflation which would normally have operated, namely the export of gold, was now practically destroyed; and, although it was not possible at that time to judge to what extent the currency was depreciated in terms of bullion, there seemed no doubt that there had been some depreciation. They had found a unanimity of opinion amongst the witnesses they had examined, that the conditions necessary to the maintenance of an effective gold standard should be restored without delay.

The method recommended for doing this was an early and considerable measure of deflation.

‘A primary condition of the restoration of a sound credit position is the repayment of a large portion of the enormous amount of Government securities now held by the banks. It is essential that as soon as possible the State should not only live within its income but should begin to reduce its indebtedness. We accordingly recommend that at the earliest possible moment an adequate sinking fund should be provided out of revenue, so that there may be a regular annual reduction of capital liabilities, more especially those which constitute the floating debt.’

There is considerable doubt as to the extent to which a mere repayment of loans, even of loans held by the banks, would have brought about a rise in the value of money, but there is no doubt that that was the purpose of the recommendation. The possible effects upon industry and trade of a sudden rise in the value of money do not seem to have been considered. The Committee had no idea of the width of the gap which existed at that time between the value of the pound and the value of a sovereign’s weight of gold either in England or elsewhere. In parallel circumstances in 1811 the whole political and financial world had had clearly before it the high price of gold bullion, and had thrashed the matter out. Yet in 1819, with a full knowledge of the extent of the depreciation of money, Peel’s Committee had recommended the raising of the value of the pound by immediate deflation to a par with

the old gold unit. Only afterwards were the serious consequences of too-sudden deflation realized. A somewhat similar course of events occurred now. Of the twelve members of the Cunliffe Committee, apart from the Chairman, nine were bankers who thoroughly understood the pre-war position and wished to get back to it as soon as possible. The history of the period from 1820 to 1830 was written plain in the pages of Hansard for all to read, but nevertheless the Committee recommended deflation.

They went on to deal with the regulating machinery to be used for maintaining the gold standard in the changed circumstances of the post-war period. Under war conditions Bank rate had ceased to have any controlling influence. During most of the time it had remained at 5 per cent., and such changes as had been made were made merely to keep it in accord with outside rates, rather than to control those rates. Its effectiveness must be restored. Also as soon as possible some legal limitation of the note issue should be reintroduced, and all notes should be brought under the control of the Bank of England. The convertibility of the note should be maintained, but every effort should be made to prevent gold from circulating. All the gold in the country should be concentrated as a central reserve in the Bank of England.¹

The Committee had considered various schemes for amending the system set up by the Bank Charter Act of 1844. They had come to the conclusion that the principle of the Act had 'upon the whole been fully justified by experience' and should be maintained. They recommended, however, the continuance of the provision of the Currency and Bank Notes Act, 1914, under which the Bank of England might, with the consent of the Treasury, temporarily issue notes in excess of the legal limit, provided that Parliament was informed immediately of such excess issue. They were unable to say what the post-war fiduciary issue should be. They found it easier to 'approach the problem from the other end' and fix tentatively the amount they would like to see held in gold in

¹ The other banks still held between them about 30 millions of gold, which was paid into the Bank in 1919 and 1920.

the central reserve, 'leaving the ultimate dimensions of the fiduciary issue to be settled as the result of experience at the amount of fiduciary notes which could be kept in circulation . . . without causing the central gold reserve to fall appreciably below the amount so fixed'. The pre-war gold reserve had been about 38½ millions, and the amount of gold coin outside the Bank of England about 123 millions. Some economy would be permissible in view of the increased mobility of a central reserve, and they therefore fixed 150 millions as the amount to be aimed at. Until this amount had been reached and maintained concurrently with a satisfactory foreign exchange position for a period of at least a year, the policy of reducing the uncovered note issue should be followed. When it had been so maintained the fiduciary issue should be determined and fixed, and the whole of the currency note issue taken over by the Bank.

The fiduciary note issue.

Such were the Cunliffe Committee's recommendations, published three months before the war ended. The Government was not in a position to adopt any of them in the first twelve months of peace, indeed a considerable volume of fresh borrowing was found to be necessary. Meanwhile the great speculative boom gathered strength. The first effort to check it came from the Bank of England, when Bank rate was raised to 6 per cent. on 6 November 1919. This had no noticeable effect. On 3 December, however, the Cunliffe Committee issued a short final report,¹ in which they made a more definite recommendation for the gradual reduction of the currency note issue, which was put into effect immediately. The Treasury instructed the Bank of England that during the twelve months commencing 1 January 1920, they should not issue currency notes in excess of a total of £320,600,000 except against gold or Bank of England notes, and that afterwards the maximum fiduciary issue in any year should be the maximum amount actually attained by the fiduciary issue in the preceding year.² Thus a link, loose and unsatisfactory in many respects it is true, but better than none, was provided

¹ Command Paper 464, 1919.

² Treasury Minute of 15 Dec. 1919, *House of Commons Papers*, 1919, xxxii, 139.

between the Bank reserve, Bank rate, and the currency note issue. The arrangement secured that during the years of slump which followed, when currency requirements were shrinking continuously, the maximum fiduciary issue should be progressively reduced. On one or two occasions the Bank was compelled to transfer additional Bank notes to the currency note reserve to avoid breaking the rule, but in the main the steady fall of prices kept the fiduciary-issue well within the previous year's maximum. It is certain that the regulation cannot have been one of the causes of the slump, for the latter set in with great violence only three or four months after the Minute was issued and before it had had any real effect.

It seems fairly clear that the boom of 1919 and 1920 contained within itself the seeds of its own collapse. Bank rate was raised to 7 per cent. on 15 April 1920. The fall of some markets can be traced almost from this day, and the 7 per cent. rate may have been the last straw. But there were other more potent causes. The collapse seems to have begun in Japan and spread through the United States to this country and Europe generally. It was said by some people that consumers all over the world, incensed at the high prices, went on strike and held off from buying. There is no doubt that, so far as people in England were concerned, the unusual resources held by the mass of them, placed in their hands during the war and just after by inflation and by borrowing, came to an end. The Government, though unable to deflate, ceased to inflate; and the Bank of England and the other banks in the autumn of 1919, faced with the renewed rise of prices, took to heart the lessons of the Cunliffe Report and began to discourage requests for increased credit. The volume of bank deposits and of notes increased much more slowly. The rise of prices was accompanied by no commensurate increase in the quantity of money. This necessitated a more rapid turnover of all the various kinds of currency. There are probably definite practical limits to the increase in the velocity of circulation of a currency. A man with a given amount of floating capital, which he cannot increase, is compelled, as prices rise, to buy in smaller parcels and to buy more fre-

Boom
and
slump.

quently, if he wishes to sell the same quantity of commodities in a given time. And this will not entirely meet the difficulties of a manufacturer, because wages continue to be paid weekly, and when they rise the increase can only be met by an increase of the capital employed. As a boom continues, if an increase of credit is still refused, these difficulties become chronic, and ultimately liquidation sets in because current charges cannot be met.

This was what happened in the spring of 1920. The result was a collapse in all markets, such as had not been seen for over a century. The wholesale-price index-number fell from 323 at the end of March 1920 to 197 at the end of March 1921. Some markets, such as shipping and coal, which suffered especially from the competition of German deliveries in kind under the terms of peace, experienced phenomenal declines. Many shipping companies found their fleets valued in the market in 1921 at less than one-fourth the valuation of March 1920. Scores of small mushroom concerns in every trade and industry, which had sprung up to earn profit with ease upon rising prices, were ruined. Stock Exchange prices fell with the rest. Bubble flotations of the previous year vanished, and many old-established concerns found themselves with capital hopelessly inflated and no chance of ever paying a respectable dividend upon the swollen figures. The trade unions put up a strong fight against the inevitable reduction of wages necessitated by the rise in the value of money, and a long strike occurred in the coalfields. The number of unemployed increased rapidly.

In the United States a similar collapse occurred at the same time. The value of the dollar and of gold rose rapidly during the latter part of 1920. But the value of the pound rose more rapidly, and there was a considerable recovery in the American exchange rate. The Federal Reserve authorities, however, carried out during 1921 a great deal of forced deflation, and raised the value of their currency still further. Although prices continued to fall in England the pound could not keep pace with the dollar, and the exchange rate fell back. There was a recovery in the next year, and at one time, in March 1923, it looked as though par would be reached; but the dollar

gained strength and the rate fell back again, though at no time after 1921 was the depreciation of the pound in terms of gold more than 15 per cent.

The effects of deflation were felt much more acutely in England than in America. The burden of the debt and of pension charges was much heavier. The trade unions were much stronger, and the temper of organized labour generally in the immediate post-war period was such that readjustments of wages rates were secured by employers only with the greatest difficulty. As a result considerable difference of opinion arose as to the wisdom of endeavouring to restore the ancient gold unit by raising the value of the paper pound. Some people blamed the deflation policy of the Cunliffe Committee for the very severe commercial distress from which the country was suffering, and even suggested that a moderate and judicious inflation might be advisable to set the wheels of industry moving. When the nation was producing to capacity, they thought, the value of money would rise of itself to par. Others frankly advocated 'devaluation' of the pound, that is to say, either the establishment of a new gold unit of a lower value equal to that of the current value of the paper, or the restoration of the convertibility of the paper at a discount. Others again favoured the abandonment of the metallic standard altogether and the establishment of a managed currency.¹ Successive governments, while avoiding, in view of the depression, any active measures to close up the gap between the value of money and the value of gold, held steadfastly to the policy of watching for an opportunity of restoring the convertibility of the note on the old basis.

The other European powers which had been engaged in the war had made no attempt to raise the values of their currencies, in fact they had done little to avoid further falls. Fluctuations had been extremely wide and exchange speculation had become rife amongst all classes in all countries. Even in determining the sterling-dollar rate the speculator played a considerable part, though here the opportunities of profit and the risk of loss were much less. Towards the end

¹ For a list of the principal works on the currency at this period see the Bibliography, page 345.

of 1924 the pound began to be purchased for a rise. Germany, having seen the value of her paper currency vanish, had issued an entirely new currency upon the old basis, and the new mark stood at a premium in relation to the pound. The colonies, particularly South Africa, were beginning to show signs of anxiety to return to gold. Holland, Switzerland, and a few others of the smaller countries, were only waiting for a lead from England. It was known that the Gold and Silver (Export Control, &c.) Act of 1920 expired at the end of 1925, and that the Government would need an extension if they were to continue the existing system. Intelligent speculators began to anticipate with confidence that at some time during 1925 the return to gold would be made. Thus the dollar exchange rate rose above 4.70 before the end of 1924.

Com-
mittee of
1924.

As early as June 1924 the Treasury had appointed a small committee to consider whether the time had yet arrived to amalgamate the currency note issue with the Bank of England note issue. This Committee sat through the autumn of 1924, while the external value of the pound was steadily rising, and when they reported in February 1925 they were found to have given much time to considering whether or not the gold standard should be immediately restored. They had had no doubt from the beginning, they said, that the financial position of Great Britain was such that she could restore and maintain the gold standard upon a pre-war basis at any time that it might be thought prudent to do so. The only matter of doubt at the outset had been whether a policy of credit restriction, aimed at raising the value of the pound to parity, was justifiable if there was a reasonable hope of its reaching parity of its own accord within a short while. The rise in the American exchange to within $1\frac{1}{2}$ per cent. of par while their deliberations were in progress had finally determined them to report in favour of an immediate announcement that the restrictions upon the export of gold would not be renewed at the end of 1925.¹

The report was not immediately published, but before the end of the month a clear intimation was given that the sterling-dollar rate would not be allowed to fall back. On

¹ Command Paper 2393 of 1925.

Thursday 26 February the New York rediscount rate was raised for domestic reasons from 3 to $3\frac{1}{2}$ per cent., and the change was not known in London until after the weekly meeting of the Bank Court. On the Friday, however, without going to the length of calling a special meeting to sanction a formal rise of Bank rate, the Bank announced that no bills would be discounted at less than 5 per cent. The following week Bank rate was raised from 4 to 5 per cent.¹ Thus for the first time since the war the Bank looked to the foreign exchanges and to foreign money rates in fixing its rate of discount.

It was left for Mr. Churchill, as Chancellor of the Exchequer, in making his Budget speech on 28 April, to announce definitely the return to gold. As from that day the Bank of England was given a general licence to deliver gold for export against any form of legal tender money. A bill was announced to make more permanent arrangements, and the public were appealed to not to ask for sovereigns for internal circulation in the meanwhile. South Africa had already announced the removal of restrictions on 1 July. Holland, Australia, and New Zealand acted simultaneously with Great Britain in removing theirs.

The Gold Standard Act of 1925,² passed on 13 May, contained two principal parts, one with permanent, the other with temporary effect. The first part provided that both Bank notes and currency notes should cease to be convertible on demand into legal coin at the Bank, but should nevertheless remain legal tender. The ancient right of all persons to bring gold to the Mint and have it coined was abolished, and the exclusive right to do so given to the Bank. So long as this latter provision remained, the Bank was to be compelled to sell gold in bars of approximately 400 oz. of fine gold, at its head office in office hours, to any purchaser who asked for it and paid the purchase price in legal tender money. The price was to be at the rate of £3 17s. 10½d. per ounce of standard gold. Thus the main features of the plan which Ricardo had advocated over a century before were adopted in very similar circumstances now, and for the same reason that Ricardo had

Gold
Standard
Act,
1925.

¹ *Economist*, 28 Feb. 1925.

² 15 and 16 G. V, c. 29.

put forward—to avoid as far as possible raising the value of money and adding to the distress of industry. No one could now demand a sovereign for a note, but any one who had about £1,700 in notes could demand gold in bar form for export, which was all that was necessary for an effective gold standard.

The second part of the Act was designed to make sure that the return to gold should be successful and permanent. The Government were empowered to borrow for two years any sums that might be required for the purpose of exchange operations in connexion therewith. Already the Government had arranged to borrow if necessary up to \$300 millions in New York to support the exchange in the event of its threatening to slip back, and had taken the precaution of securing in advance the dollars necessary to meet the American debt payments for twelve months. The credit was never required. The pound rose at once above the gold point, which subsequently limited its movements. It is probable that the return might have been made much sooner, almost at any time, indeed, from 1921 onwards, but for the fear of the effects of falling prices. There was only about 15 millions more gold in the country in 1925 than there had been when the war finished, and the depreciation of sterling in relation to dollars had fallen by the end of 1921 to less than 15 per cent. A clear intimation to the market that a return to gold was coming would have closed up the gap then as it did in 1925.

The serious effects of the prolonged trade depression from which the country was suffering dominated the situation the whole while. The Government shrank from any deliberate deflation before 1925, and it is doubtful whether the slump was up to that time anything more than the reaction from the great boom of 1919, prolonged in England by special causes, such as the depreciated currencies of our principal European customers, the competition of Reparations deliveries of ships and coal, and the change-over from coal to oil by important sections of the world's transport. Since 1925 there can be little doubt that the gold standard has aggravated the depression. The internal value of the pound had not really

adjusted itself before the Act was passed, and had to do so afterwards. Moreover the slow rise in the value of gold which has followed the return to gold by several important countries, in spite of the fact that they are not using gold coin, has caused a further rise in the value of money. It is the inevitable penalty of our adherence to the doctrines of Locke. For the third time after a period of depreciation we have avoided any alteration of the metallic standard, and have restored the value of the pound to a par with the value of that standard, mainly because, in the view of the majority of people, the national credit demanded it. For the second time we have returned to the gold standard because no other standard of which we have had experience can give so near an approach to stability of value, and because so long as the majority of other countries favour gold it is the only way to secure stability of the foreign exchanges. Failing, however, some new discovery of gold in the world, it behoves us, and all other countries, to make every effort to economize the use of the metal. The accumulation of unnecessarily large reserves, upon which some of our European neighbours appear to be bent, besides being a waste of capital, is not in the interests of the world's production and trade; for the burden of fixed charges will inevitably hang as a heavier and heavier millstone around the neck of producers as it did before the discovery of America, if there is to be a continuous scramble for gold.

The Treasury Committee of 1924 recommended that the policy with regard to the transfer of the currency note issue to the Bank of England should remain as recommended by the Cunliffe Committee. The recommendations of the latter Committee were that, until a minimum central gold reserve of 150 millions had been maintained concurrently with a satisfactory foreign exchange position for a period of at least a year, the policy of reducing the uncovered note issue, as and when opportunity offered, should be consistently followed. When the fiduciary issue had been reduced to the amount which experience showed to be consistent with the maintenance of a gold reserve of 150 millions, the outstanding currency notes should be withdrawn and Bank of England notes of low denomination substituted. The Treasury Com-

mittee pointed out that the Bank would require at least a year to set up the necessary organization to print and issue its own notes. They were of the opinion that if the free gold market were restored at the end of 1925, the experience necessary to enable the amount of the fiduciary issue to be definitely fixed would have been obtained by the end of 1927, and the transfer could then take place early in 1928.

Currency
and Bank
Notes
Act,
1928.

These recommendations were followed very closely. The gold reserve had risen above the figure of 150 millions before 1925, but two years' experience of the gold standard was allowed before further action was taken. In 1927 the Bank began to print a supply of £1 and 10s. notes of a new design, incorporating the historic promise of the chief cashier to pay on demand the sum stated on the face. As early as possible in the session of 1928 a Bill was introduced, which became law on 2 July as the Currency and Bank Notes Act 1928,¹ and which substituted a completely new set of currency regulations for those contained in the Acts of 1844 and 1914. The Act empowered the Bank to issue £1 and 10s. notes, at any place in London or outside, but payable only at the head office in London, and made all Bank notes legal tender for the payment of any amount. Thus disappeared the anomaly set up by the Act of 1833, by which a £5 note was not legal tender for a simple payment of £5.² The notes under £5 were definitely made legal tender in Great Britain and Northern Ireland, but those of £5 and upwards were left, except for the change just mentioned, in the position in which they were placed by the Acts of 1833 and 1845; that is to say, they were legal tender in England and Wales only.

The new Act went on to provide that so long as the arrangements made by the Gold Standard Act for the convertibility of the notes into gold continued, Bank notes of £1 and 10s. were to be a legal tender by the Bank itself, but holders of notes for £5 and upwards became entitled to demand notes of less than £5 in exchange. The outstanding currency notes on the day the Act came into force should be deemed to be Bank notes, and the Bank should assume liability for them. The Bank Act of 1892³ had provided that the Bank might

¹ 18 and 19 G. V, c. 13. ² See page 234. ³ 55 and 56 Vict. c. 48.

write off notes not presented for payment within forty years of the date of issue. For the new small notes twenty years was fixed as the period, and the whole of the profits of the note-issue, including the profits arising from write-off, were to be paid to the Exchequer. The banks of Scotland and Northern Ireland were authorized to hold Bank notes as their reserves where they had hitherto been required to hold gold. A penalty was instituted for defacing Bank notes. The Treasury were empowered to amend, with the concurrence of the Bank, the form of weekly return required by the Act of 1844.

The remainder of the provisions of the Act related to the regulation of the note issue. On the day of transfer of the currency notes to the Bank, which was subsequently fixed by Order in Council at 22 November 1928,¹ all the assets, other than Government securities, held by the Government against currency notes, which consisted of 56½ millions of Bank notes and 5¼ millions of silver coin, were to be transferred to the Issue Department; also sufficient of the Government securities to make up a total equal to the transferred note issue. The Bank notes so transferred were to be cancelled. In future the maximum fiduciary issue of Bank notes of all denominations was to be 260 millions, which amount, however, might be reduced by the Treasury at the request of the Bank. It might also be increased at the request of the Bank, by Treasury minute laid before both Houses of Parliament, to such amount as the Bank should specify, and for such period, not exceeding six months, as the Treasury should think proper. The period might be extended from time to time by further Treasury minutes, up to a maximum of two years from the date of the first minute, after which further extension could be granted by Parliament only. As part of the cover for the fiduciary issue the Bank was empowered to hold up to a maximum of 5½ millions of silver coin; and thus is provided a reservoir of silver coin to minimize the effect upon the Mint of rapid fluctuations in the circulation. In order to concentrate the gold reserves of the country the Bank was given power to require any person in the United Kingdom holding gold exceeding £10,000 in value, and not

¹ *London Gazette*, 2 Nov. 1928.

intended for immediate export or for industrial purposes, to sell it to the Bank at £3 17s. 9d. per standard ounce.

On the appointed day the amalgamation of the note-issues was carried out, and the Bank return of 28 November, published in a new form, which gives somewhat fuller details of the Bank's position, showed a total note issue of £419,088,945, of which £52,087,797 was held in the Banking Department, and a gold reserve against the notes of £159,088,945.¹

The new system.

Except in one respect the authors of the Act of 1928 attempted to return as nearly to the pre-war system as the much larger note-issue and the absence of a gold circulation would permit. The one variation they made was the giving of power to the Treasury to increase temporarily, at the request of the Bank, the fiduciary issue. Perhaps it will be as well to have the exact wording of Section 8 of the Act, which confers this power. It runs as follows:

8. (1) If the Bank at any time represent to the Treasury that it is expedient that the amount of the fiduciary issue shall be increased to some specified amount above two hundred and sixty million pounds, the Treasury may authorize the Bank to issue bank notes to such an increased amount, not exceeding the amount specified as aforesaid, and for such period, not exceeding six months, as the Treasury think proper.

(2) Any authority so given may be renewed or varied from time to time on the like representation and in like manner:

Provided that, notwithstanding the foregoing provision, no such authority shall be renewed so as to remain in force (whether with or without variation) after the expiration of a period of two years from the date on which it was originally given, unless Parliament otherwise determines.

(3) Any minute of the Treasury authorizing an increase of the fiduciary note issue under this section shall be laid forthwith before both Houses of Parliament.

Any one who examined this section casually might imagine that it merely introduced into the new Act a provision such as had been recommended by Henry Bosanquet even before the Act of 1844 was passed and by other people over and over again since, including, above all, the Cunliffe Committee; a provision, in short, for the extension of the fiduciary issue

¹ See Appendix 4.

in time of crisis. The fact, however, that the section permitted the increased issue to continue for two years might suggest that the power was intended to be used more readily, and in circumstances other than those in which the old Act would have been suspended. That this was so was made perfectly clear during the debates in the House of Commons. The Act was passed by a House which was in a very different frame of mind from that of the House which passed the Act of 1844. The question then was how best to restrict or control the issue of notes, the mismanagement of which was regarded as the prime cause of the recurrent crises. Now the fear was that there would be too much restriction. Criticism came from members in whose minds loomed large the danger of aggravating industrial depression by credit contraction and high money rates resulting from an attempt to maintain an unnecessarily large gold reserve. The views most commonly expressed were not those of the Bullion Committee or the Currency School, but of Western and his supporters, put forward in similar circumstances in the early nineteenth century when agricultural depression was rife.

Sir Laming Worthington-Evans, who had charge of the bill, assured these members that Clause 8 was not intended to be used as a mere substitute for the crisis letter. Naturally it would be so used if necessary, but there were other contingencies which might bring it into operation. In the first place if the foreign banks which had adopted the practice of keeping large balances in sterling determined at any time to withdraw considerable sums in gold, this would justify the Bank in asking for an extension of the fiduciary issue. Also 'should the Bank of England find that, owing to a world demand for gold, credit would be unduly restricted, not as a check on speculation, but to the injury of legitimate requirements', then the Bank could ask for a removal of the limit. Further, the provision permitted of an extension of the issue to meet the normal growth of the circulation. He informed the House that the Governor of the Bank had authorized him to say that the general intention of the Bank was to make use of its new powers in the manner thus outlined.¹

¹ Hansard, 14 and 22 May 1928.

It may be said, therefore, that the Act of 1928 extended a very considerable measure of freedom to the Bank in the management of the note-issue. Indeed it might be asked whether, having done so much, it was necessary for the Act to fix a limit at all to the fiduciary issue. The fixed fiduciary issue was introduced in 1844 because Parliament at that time could not trust the Bank to manage the issue in the national interest. Many of those who supported Peel knew nothing of, or perhaps even disagreed with, the Currency Theory, but were content to pass the Act because they felt that even a rule which might be arbitrary and inelastic was better than no rule at all. Nowadays, however, few people suggest that the Bank ever puts its own interests before the national interests. Parliament trusts the Bank to manage, so far as it is able, the supply of credit. Parliament does not lay down what banking reserve the Bank shall keep, nor when Bank rate shall be raised and lowered. Every authority is agreed that the supply of credit has a great deal to do with the value of money and with the activity or dullness of production and trade; yet in this connexion the Bank is allowed perfect freedom. It would therefore not be very outrageous if Parliament relied upon the Bank to add to its already comprehensive code of rules for managing the reserve, some principles for controlling the note circulation more adaptable to changing circumstances than a regulation fixing arbitrarily the fiduciary issue.

It is too soon, however, to criticize the working of the new system. At this point we must leave the history of the pound. From the silver pennies of King Offa of Mercia to the Currency and Bank Notes Act, 1928, is a long story, but nevertheless a continuous one. There has been no real break in the history of the pound sterling since pennies were first introduced and 240 of them called a pound. The fall of value, it is true, has been very considerable. 'L'or va pis toujours', says the old French proverb, and it might well be applied, not merely to gold, but to all kinds of money. There is probably some principle deep down in human nature, or in the system which man has constructed for satisfying his wants by producing goods for a market, which secures that those who take a mortgage upon the means of production in order to

live in idleness upon the interest shall in the long run be deprived of a portion of the wealth which they lend. Perhaps, if we only knew, they protect themselves against this by charging a higher interest. At any rate there is no doubt that the world's history can afford no example of a monetary unit which has been allowed for any very long period to appreciate. The English penny, six of which in the time of the Conqueror would buy a bushel of wheat, or ten gallons of ale, will now purchase but one-fourth of a loaf or one gill of the smallest beer. The English pound, which Domesday Book recorded as the year's rental of a hundred-acre holding, will now scarcely pay a week's rental of two unfurnished rooms in a suburban villa. Yet the case of most if not all the other currencies is far worse. The French franc, which now goes 124 to the pound, was once called a livre, and is a direct descendant of the libra of Charlemagne. The Italian lira, of which 92 make a pound, can trace its history through the ancient Venetian lira to the same origin. French sou, Italian soldo, and English solidus or shilling were in the eighth century the same unit. And the Cologne mark of the Middle Ages, which was probably of about the same value as the English mark of 13s. 4d., was the ancestor of that modern German mark, one million of which have in recent years been sold in London streets for twopence. Against these examples the history of the English standard appears eminently respectable.

CURRENCY AND PRICE CHANGES IN THE WAR AND
POST-WAR PERIODS

<i>End of</i>	1 <i>Prices.</i>	2 <i>Notes and Coin.</i>	3 <i>Bank Deposits.</i>	4 <i>Per- centage Reserves of the Banks.</i>	5 <i>Country Clearing.</i>	6 <i>Ratio Country Clearing to Bank Deposits.</i>
Mar. 1914	100	100	100	13·3	100	100
June "		108	108	20·1	90	83
Sept. "		109	115	111	19·0	103
Mar. 1915	128	116	116	17·3	104	88
June "	126	122	125	20·4	108	85
Sept. "	130	131	124	19·5	115	92
Dec. "	141	146	122	18·5	118	96
Mar. 1916	156	143	128	18·4	129	100
June "	168	153	133	18·3	129	97
Sept. "	171	153	137	20·4	133	97
Dec. "	189	168	142	22·8	142	100
Mar. 1917	205	161	140	19·8	167	118
June "	219	172	137	17·3	147	105
Sept. "	218	184	152	18·2	153	100
Dec. "	223	207	167	18·8	171	102
Mar. 1918	227	219	172	18·8	179	104
June "	236	239	176	18·8	186	105
Sept. "	241	260	185	18·7	201	107
Dec. "	236	298	195	18·7	211	107
Mar. 1919	221	301	210	19·0	211	100
June "	239	313	225	19·3	228	101
Sept. "	254	310	228	18·9	252	109
Dec. "	284	323	231	18·6	271	113
Mar. 1920	323	317	235	17·3	308	129
June "	303	328	239	16·1	285	118
Sept. "	296	324	242	16·1	291	119
Dec. "	229	334	244	16·1	277	113
Mar. 1921	197	315	244	15·5	242	99
June "	195	299	244	14·9	206	84
Sept. "	196	288	246	15·2	197	79
Dec. "	168	293	248	15·6	206	82
Dec. 1922	164	269	231	15·9	197	84
Dec. 1924	172	266	223	16·8	213	96
Dec. 1926	145	253	226	16·1	203	90
Dec. 1928	136	258	237	15·4	217	92

NOTES

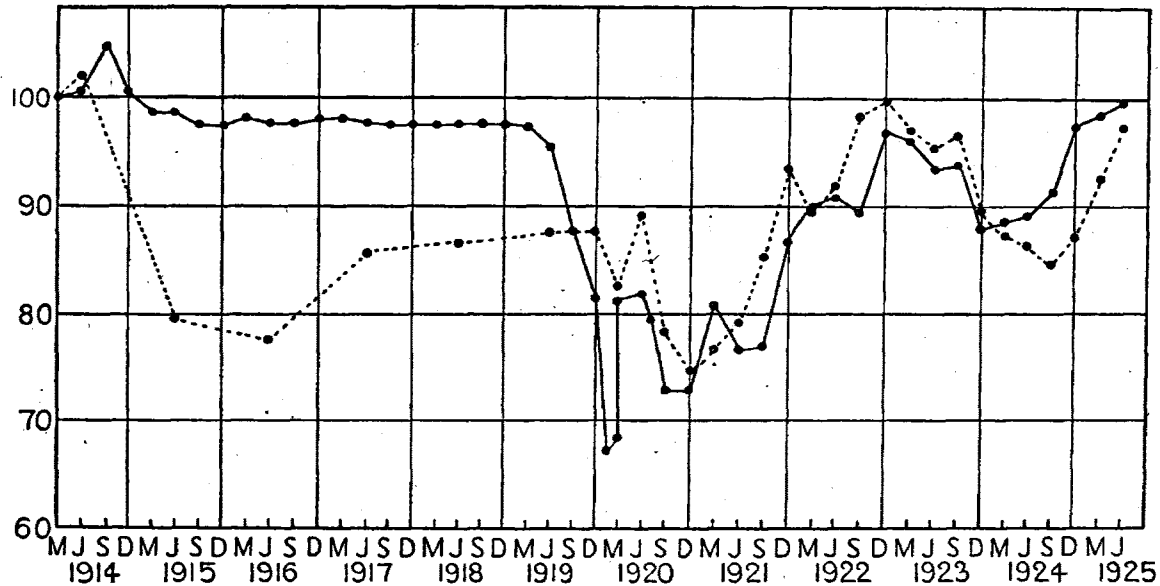
The calculations are based upon figures taken from the *Economist*.

Column 1 gives the *Economist* index number of wholesale prices.

Column 2 gives the percentage change in the total of notes and coin, other than token coin, in circulation and held by banks other than the Bank of England. It has been assumed that the quantity of gold in circulation in 1914 was 120 millions. Allowance has been made for the gradual withdrawal of this and also for the fact that for several years a large quantity of Bank notes were held in reserve against currency notes.

Column 5 gives the percentage change in the quantity of cheques passing through the country clearing in the quarter.

Column 6 gives the ratio between country clearing and bank deposits expressed as a percentage of the ratio in 1914.



RELATIONSHIP BETWEEN THE POUND AND THE UNITED STATES DOLLAR

The thick graph represents the exchange value of the pound in dollars as a percentage of the gold par, 4.86 $\frac{2}{3}$.

The dotted graph represents the value of the pound in dollars as determined by the relationship between the American Bureau of Labour Statistics and the 'Economist' Wholesale-Price Index-Numbers. It is based upon annual averages in the war period and then upon the figures at the end of the quarter.

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APPENDIX I

A Table of the Rating of Sterling Silver, the Mint Charges, and the Mint Price.

Date.	Rating of Sterling Silver per ounce troy.	Mint Charges.			Percentage of Charges to Money Coined.	Mint Price per ounce troy.
		Seignorage.	Expenses.	Total.		
Alfred	d. 20·0	d.	d.	d.		d.
991 (?)	21·3			?		?
1276	21·6	0·80	0·49	1·29	6·0	20·3
1290	21·6	0·53	0·49	1·02	4·7	20·6
1343	Not stated	0·53	0·80	1·33		
1344	23·6	0·53	0·71	1·24	5·3	22·4
1345	23·8	0·53	0·71	1·24	5·2	22·6
1346	24·0	0·64	0·60	1·24	5·2	22·8
1349	24·0	0·77	0·47	1·24	5·2	22·8
1351	26·7	0·53	0·71	1·24	4·7	25·5
1355	26·7	0·44	0·58	1·02	3·8	25·7
1361	26·7	0·27	0·62	0·89	3·3	25·8
1412	32·0	0·27	0·80	1·07	3·3	30·9
1464	40·0	3·56	1·24	4·80	12·0	35·2
1466	40·0	2·13	1·24	3·37	8·4	36·6
1467	40·0	1·60	1·24	2·84	7·1	37·1
1471	40·0	0·53	1·06	1·59	4·0	38·4
1492	40·0	0·18	0·89	1·07	2·7	38·9
1526	45·0			1·00	2·2	44·0
1542	64·2			16·20	25·2	48·0
1544	59·2			11·20	18·9	48·0
1545	88·8			37·00	41·7	51·8
1546	133·2			81·40	61·1	51·8
1547	133·2			74·00	55·6	59·2
1549	133·2			64·70	48·6	68·5
1551	266·4			155·40	58·3	111·0
1552	60·1 <i>a</i>					
1553	60·5 <i>a</i>					
1560	60·0	0·30	1·20	1·50	2·5	58·5
1583	60·0	0·70	1·20	1·90	3·2	58·1
1601	62·0			2·00	3·2	60·0
1604	62·0			2·50	4·0	59·5
1626	62·0	0·80	1·20	2·00	3·2	60·0
1666	62·0			Nil		62·0
1816	66·0					(b)

(a) These coins were issued in exchange for base ones. The market price of silver was such that they must have been minted at a loss.

(b) Silver purchased at market price.

Where no figures are shown in the third and fourth columns the division of the charges between the King and the Moneyers is not known.

APPENDIX II

A Table of the Rating of Fine Gold, the Mint Charges, and the Mint Price.

Date.	Rating of Fine Gold per ounce troy.		Mint Charges.			Percentage of Charges to Money Coined.	Mint Price per ounce troy.	
			Seigniorage.	Expenses.	Total.			
	s.	d.	s.	d.	s.	d.	s.	d.
1257	17	9 3						
1343	26	9 7	1	9 3	3 8	2	1 1	7 8
1344	23	6 4		5 3	3 6		8 9	3 2
1345	23	6 4		5 3	2 2		7 5	2 7
1346	25	0 3		10 7	1 8	1	0 5	4 2
1351	26	9 7		7 7	2 1		9 8	3 1
1355	26	9 7		5 9	4		6 3	2 0
1363	26	9 7		3 8	1 6		5 4	1 7
1412	29	9 5		3 8	1 6		5 4	1 5
1464	37	2 7	4	2 8	2 5	4	5 3	12 0
1465	40	2 5	1	7 7	2 5	1	10 2	4 6
1467	40	2 5	1	0 8	2 7	1	3 5	3 2
1471	40	2 5		5 3	2 7		8 0	1 7
1492	40	2 5		7	2 0		2 7	6
1526								
Angel	45	2 8					2 8	5
Crown	45	8 4					3 3	6
1544 (May)	50	1 0				2	1 0	4 1
1545 (Mar.)	54	6 6				4	6 6	8 5
1546 (Jan.)	54	6 6				3	6 6	6 6
1546 (Mar.)	60	0 0				9	0 0	15 0
1546 (Oct.)	60	0 0				8	0 0	13 3
1547 (Jan.)	60	0 0				2	0 0	3 3
1549	61	10 0				1	10 0	3 0
1552								
Angel	60	3 7					?	?
1558								
Angel	60	3 7					5 0	7
Crown	60	0 0					4 8	7
1589								
Angel	60	3 7					6 0	8
1590								
Crown	60	0 0					7 6	1 0
1601								
Angel	61	1 8					10 0	1 4
Crown	60	10 9					10 9	1 5
1604								
Crown	67	7 6	2	2 2	6 6	2	8 8	4 0
1605								
Angel	67	10 2	1	11 6	6 4	2	6 0	3 7
1611								
Angel	74	7 5				3	9 0	5 0
Crown	74	4 8				4	1 1	5 5
1612								
Angel	74	7 5				2	7 5	3 5
Crown	74	4 8				2	4 8	3 2
1619								
Angel	74	7 5	1	3 0	6 4	1	9 4	2 4
Crown	74	4 8	1	4 4	6 6	1	11 0	2 6
1661								
Angel	79	7 2					(a)	(a)
Crown	79	4 3					(a)	(a)
1663	80	10 9					Nil	80 10 9
1666 (Mar.)	105	2 2					Nil	105 2 2
1666 (Apr.)	80	0 0					Nil	80 0 0
1699	86	11 7					Nil	86 11 7
1717	84	11 5					Nil	84 11 5

(a) Old coins raised in value but no new ones issued.

Where no figures are shown in the third and fourth columns the division of the charges between the King and the Moneyers is not known.

APPENDIX III

A Table of the English Coins in Order of Issue.

I. GOLD COINS

Coin.	Date.	Fineness.	Weight in troy grains.	Legal Denomination.
				s. d.
Penny	1257	Fine Gold	45 ^o	1 8
	1265		Value raised to	2 0
Florin	1343	Fine Gold	108 ^o	6 0
	Half- and quarter-florins in proportion.			
Noble	1344	23 ct. 3½ gr.	136·7	6 8
	1346	"	128·6	6 8
	1351	"	120 ^o	6 8
	1412	"	108 ^o	6 8
	1464	"	Value raised to	8 4
In all of the above issues there were half-nobles and quarter-nobles in proportion.				
Ryal or Royal	1465	23 ct. 3½ gr.	120 ^o	10 0
	1544		Value raised to	12 0
Half-ryals and quarter-ryals in proportion.				
Angel	1465	23 ct. 3½ gr.	80 ^o	6 8
	1526 (6 Sept.)		Value raised to	7 4
	1526 (5 Nov.)		"	7 6
	1544	23 ct.	80 ^o	8 0
	1549		Value raised to	9 8
	1552	23 ct. 3½ gr.	80 ^o	10 0
	1601	"	78·9	10 0
	1604	"	71·1	10 0
	1611		Value raised to	11 0
	1612	23 ct. 3½ gr.	64·7	10 0
1661	Angels of 71·1 gr. raised to			11 8
	And angels of 64·7 gr. to			10 8
Angelets or half-angels were also issued in proportion at all periods, and quarter-angels in 1544 and from 1560 onwards.				
Sovereign or Double Ryal	1489	23 ct. 3½ gr.	240 ^o	20 0
	1526 (6 Sept.)		Value raised to	22 0
1526 (5 Nov.)			"	22 6
	1544	23 ct. 3½ gr.	200 ^o	20 0
	1545	22 ct.	192 ^o	20 0
	1546	20 ct.	192 ^o	20 0
	1549	22 ct.	169·4	20 0
	1552	23 ct. 3½ gr.	240 ^o	30 0
	1552	22 ct.	174·5	20 0
	1601	22 ct.	171·9	20 0

Down to 1544 the half-sovereign, of course, was the ryal.
From 1544 half-sovereigns were issued in proportion.

APPENDIX III

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				s.	d.
Double Sovereign	1489	23 ct. 3½ gr.	480·0	40	0
Crown of the Rose	1526	22 ct. (?)	54·0	4	6
Crown of the	1526	22 ct.	57·3	5	0
Double Rose	1545	22 ct.	48·0	5	0
	1546	20 ct.	48·0	5	0
Half-crowns in proportion.					
George Noble	1526	23 ct. 3½ gr.	71·1	6	8
Half-George-nobles in proportion.					
Treble Sovereign	1549	22 ct.	508·2	60	0
	1642	22 ct.	421·5	60	0
Unite	1604	22 cr.	154·8	20	0
Double-crowns of 10s., Britain crowns of 5s., thistle crowns of 4s., and half-crowns of 2s. 6d. in proportion.					
	1611	The value of all the above raised by 10 per cent.			
	1612	22 ct.	140·8	20	0
	1619	22 ct.	140·5	20	0
The unites of this issue were sometimes called laurels.					
	1661	Unites of 154·8 gr. called up to 23s. 6d. and unites of 140·8 or 140·5 gr. to 21s. 4d.			
Rose Ryal	1604	23 ct. 3½ gr.	213·3	30	0
Spur ryals of 15s. in proportion.					
	1611	Value of the above raised by 10 per cent.			
	1612	23 ct. 3½ gr.	194·1	30	0
Spur ryals of 15s. in proportion.					
	1661	Rose ryals of 213·3 gr. called up to 35s. and those of 194·1 gr. to 32s. Spur ryals in proportion.			
Guinea	1663	22 ct.	129·4	20	0
	1696 (Lady Day)	Value raised to		26	0
	1696 (10 Apr.)	Value reduced to		22	0
	1699	"		21	6
	1717	"		21	0
Five-guinea pieces, two-guinea pieces, half-guineas, and quarter-guineas in proportion.					
	1797	Seven-shilling pieces in proportion.			
Sovereign	1816	22 ct.	122·274	20	0
Five-pound pieces, two-pound pieces, and half-sovereigns in proportion.					

II. SILVER COINS

The Penny of Sterling Silver.

	<i>Grains Troy.</i>
Traditional weight (from the eighth century to about 991)	24'00
From about 991 to about 1275	22'50
About 1275	22'00
1343	20'30
1345	20'15
1346	20'00
1351	18'00
1412	15'00
1464	12'00
1526	10'70
1544	10'00
1552	8'00 (of 11 oz. 1 dwt. fineness)
1560	8'00 (of sterling silver)
1601	7'80
1816	7'27

Farthing and halfpenny.

First issued by Edward I, of proportional weight.

1335. Halfpennies containing one-sixth copper and five-sixth silver issued, weighing 10·7 gr.

1345. Halfpennies, 9·7 gr.; farthings, 4·8 gr. These continued to be made until 1351.

At other times halfpennies and farthings were made in proportion to the penny. They continued until the Tudor debasement.

Groat.

Known definitely to have been issued in 1279. Became a regular issue in 1351, when half-groats were issued also. Both coins were always proportional to the penny.

Shilling, Teston, Testoon, or Tester.

First issued 1504. Always proportional to the penny except during the debasement period.

Threepenny piece, Sixpence, Half-crown, and Crown.

First issued 1552.

Three-farthing and Three-halfpenny piece.

Issued as an experiment in 1561.

Ten-shilling and Twenty-shilling piece.

Issued during the Civil War.

Two-shilling piece or Florin.

Issued in 1849.

Double-florin.

Issued in 1887.

APPENDIX IV

I. *The First Bank Return after the Bank Charter Act, 1844.*

BANK OF ENGLAND

Week ended 7 September 1844.

Issue Department.

	£		£
Notes Issued	28,351,295	Government Debt	11,015,100
		Other Securities	2,984,900
		Gold Coin and Bullion	12,657,208
		Silver Bullion	1,694,087
	<u>£28,351,295</u>		<u>£28,351,295</u>

Banking Department.

	£		£
Proprietors' Capital	14,553,000	Government Securities	14,554,834
Rest	3,564,729	(including the Dead	
Public Deposits	3,630,809	Weight Annuity)	
Other Deposits	8,644,348	Other Securities	7,835,616
Seven-day and other		Notes	8,175,025
bills	1,030,354	Gold and Silver Coin	857,765
	<u>£31,423,240</u>		<u>£31,423,240</u>

II. *The First Bank Return under the Currency and Bank Notes Act, 1928.*

BANK OF ENGLAND

Week ended 28 November 1928

Issue Department.

	£		£
Notes Issued		Government Debt	11,015,100
In Circulation	367,001,448	Other Government	
In Banking De-		Securities	233,568,550
partment	52,087,797	Other Securities	10,176,193
		Silver Coin	5,240,157
		Amount of Fiduciary	
		Issue	260,000,000
		Gold Coin and	
		Bullion	159,088,945
	<u>£419,088,945</u>		<u>£419,088,945</u>

APPENDIX IV

Banking Department.

	£		£
Proprietors' Capital	14,553,000	Government Securities	52,180,327
Rest	3,254,001	Other Securities	
Public Deposits	21,452,051	Discounts and Advances	13,586,293
Other Deposits		Securities	20,214,855
Bankers 62,379,409			33,801,148
Other Accounts 37,185,203		Notes	52,087,797
	99,564,612	Gold and Silver Coin	757,041
Seven-day and other bills	2,649		
	<u>£138,826,313</u>		<u>£138,826,313</u>

APPENDIX V

A Summary of the Present Monetary Regulations.

THE COINAGE

Coinage Act, 1870

Weight of the Sovereign	123·27447 gr. troy.
Weight of the Half-sovereign	61·63723 „
Weight of the Shilling	87·27272 „
The other silver coins in proportion.	
Weight of the Penny	145·83333 „
Weight of the Halfpenny	87·5 „
Weight of the Farthing	43·75 „

The gold to be of eleven-twelfths fineness. The pennies, &c., to be of mixed metal, copper, tin, and zinc.

The least current weight of the sovereign to be 122·5 gr., and of the half-sovereign 61·125 gr.

Coinage Act, 1891

The Mint remedy for the sovereign to be 0·2 gr. for weight and 2 per mille for fineness.

The Government empowered to direct by Order in Council that gold coins which have not been illegally dealt with and are not more than three grains light shall be exchanged by the Mint at their nominal value.

Coinage Act, 1920

The silver coins to be one-half fine silver, one-half alloy, or millesimal fineness 500, instead of sterling silver, millesimal fineness 925.

Silver and bronze coins are issued in the quantities and of the denominations asked for by the public through the agency of the banks and the Bank of England. Though not required by any Act of Parliament to do so, the Mint exchanges worn silver and bronze coins for other money at par, and thus the legal value is maintained.

Gold Standard Act, 1925

No person to have the right to bring gold to the Mint and have it assayed and coined except the Bank of England.

THE NOTE ISSUE

No banks other than the Bank of England may issue notes in England and Wales. (Act of 1844.) Scottish and Irish Banks which were issuing notes in 1845 are entitled to issue notes without cover up to a maximum then fixed, and to issue any further quantity they please covered in full with gold and silver coin or Bank of England notes. (Acts of 1845 and 1928.) The Bank of England is bound to

purchase with notes all gold offered, at the price of £3 17s. 9d. per ounce of standard gold. (Act of 1844.) The Bank of England is bound to sell, for any legal tender money, gold at £3 17s. 10½d. per ounce of standard gold in the form of bars containing approximately 400 oz. of fine gold. (Act of 1925.) The fiduciary issue of Bank of England notes of all denominations must not exceed 260 millions, unless the Government by Treasury minute authorize a temporary increase. The holders of Bank of England notes of £5 and upwards may demand notes of £1 and 10s. in exchange at the Bank. (Act of 1928.)

LEGAL TENDER

The exact amount of the debt must be tendered. No person is bound to give change.

Gold coins are legal tender up to any sum, but silver coins to a greater amount than £2 or bronze coins to a greater amount than 1s. may not be tendered in any one payment. (Coinage Act, 1870.)

Bank of England notes of £5 and upwards are a legal tender for all amounts in England and Wales, except at the Bank of England. (Acts of 1833, 1845, and 1928.)

Bank of England notes of £1 and 10s. are a legal tender for all amounts in Great Britain and Northern Ireland, and at the Bank of England. (Act of 1928.)

Scottish and Irish bank notes, except the notes of the Bank of Ireland, are not a legal tender.

The notes of the Bank of Ireland are a legal tender in payment of taxes in Ireland, except in so far as this is abrogated by the Currency Act of the Irish Free State, 1927. (Act of 1821, 1 & 2 G. IV, c. 72.)

The Executive Council of the Irish Free State may declare any of the token coins of Great Britain no longer legal tender in the Irish Free State. (Coinage Act of the I.F.S., 1926.)

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