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# The Formation of the Bank of England: A response to Changing Political and Economic Climate, 1694

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# THE FORMATION OF THE BANK OF ENGLAND

A RESPONSE TO CHANGING POLITICAL AND ECONOMIC CLIMATE, 1694

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Great Britain in the late 17th century was a nation in the midst of rapid flux. International events had recently freed the country to establish multiple colonies in the New World. Economic shifts at home had resulted in rapid urbanization and a resulting increase in the public need for hard currency. New joint stock companies were being formed, new goods were being imported and new markets were being developed. Fueling this economic expansion were political changes, which had historically limited the power of the Crown to confiscate public funds or levy taxes (while not limiting the royal need to fund its military adventures). Such rapid expansion needed a stable base on which to grow. Out of this need came the formation of the Bank of England. The formation of the Bank would help meet the need for greater liquidity in the national marketplace, fuel the increasing overseas trade and meet the needs of businesses and newly-urban private individuals, as well as the political and military needs of the Crown; it would do this, despite opposition from entrenched interests, by replacing the previous bullion-based economy with a modern, credit-based economy which would provide the stable financial base needed to fuel the growth of Britain's empire.

Britain's 17<sup>th</sup> century economic expansion had historical antecedents; after the Anglo-Spanish wars ended, the once-dominant Spanish navy and merchant fleet chose to focus primarily on the gold to be found in their possessions in South America and the Caribbean. This left the English, under the reign of James II, to establish colonies elsewhere and to expand their empire. It was during this time that England first colonized North America, Bermuda, Jamaica and the Bahamas. The growth of these colonies caused an increase in trade, particularly in luxury commodities such as sugar, tobacco, furs, tea and coffee. Many other industries expanded rapidly in Great Britain due to the influx of this new money from the colonies.<sup>1</sup> This increase in Atlantic trade, coupled with an ongoing expansion of trade into India and the rest of Asia, created a need for financing which was greater than

what the private bankers at the time could reliably provide.

In response to these expanding economic challenges and opportunities, there was a rapid growth in the population of the cities, notably London, as people flocked to urban centers to take advantage of the new opportunities.<sup>2</sup> This created an increased demand for goods and services, and a greater need for currency and available credit to pay for those goods and services.

Adding to that need for credit was the rampant high inflation of the time, due to the rapid influx of New World gold into European economies, which in turn led to a loss of real wages for working people.<sup>3</sup> This combination of inflation and economic growth emphasized the growing need for a stable, centralized source of reliable and affordable credit. A national bank could offer this while the private banking institutions of the time, relying on limited private stores of precious metals, could not. These private bankers included the goldsmiths, money scriveners, country banks and merchant bankers.

The goldsmiths evolved to become the original private bankers of the time. Since goldsmiths already had as part of their trade private stores of gold and stout vaults to store them in, entrepreneurs could entrust their own gold to them for safe keeping, for a fee, and receive a paper receipt for the deposit. The goldsmiths could then lend monies against these deposits for an additional fee. Mr. Hartley Winters declares that “some ingenious goldsmith conceived the epoch-making notion of giving notes...and so founded modern banking.”<sup>4</sup> Merchants would deposit “their money with the goldsmiths and received from them receipts” that “...were payable on demand, and were transferred from one holder to another in payment of debts.”<sup>5</sup> These receipts or notes from the goldsmith bankers, often in the form of a letter, are some of the earliest surviving cheques in England. Given the economic realities of the time, although deposits provided the funds for their business, most of the clients of these goldsmith bankers were usually borrowers rather than depositors.<sup>6</sup>

Goldsmith bankers carried out numerous types of banking businesses. They collected deposits at an interest rate of around six percent, and then distributed notes or bills to their clients which went into circulation. They were involved in the purchasing and selling of bullion, often carried out foreign exchange and discounted bills for their clients.<sup>7</sup> Goldsmiths deposited their surplus funds in the Exchequer and would then withdraw the money based on demand.<sup>8</sup>

Their operations were self-limiting, however, due to the fact that they

were restricted by the amount of gold which they had on hand to lend against. While it is true that many goldsmiths practiced a version of ‘fractional reserve banking’, and typically put more notes into circulation than they could actually redeem, there was also a limit to creditor’s faith in notes that were allegedly backed by a finite amount of gold.<sup>9</sup> This bullion-based standard would have to give way to a credit-based economic standard in order for a more modern economic system to grow.

That there was need of such a change is evidenced by the growth of the joint-stock companies at the time, which provided the capital for the rapidly growing overseas ventures. In 1688, the total capital invested in joint-stock companies was 630,000 pounds; by 1695 it was up to 1,312,049 pounds and continuing to increase. In the last decade of the century, foreign trade in general was financed between the levels of 5.6 to 7 million pounds. In order to support such expenditures, the investors in such companies would eventually support the formation of the Bank of England, funded in the manner of a joint-stock company itself, to replace the private bankers with a safer, central institution.<sup>10</sup>

Prior to that, however, the goldsmiths fulfilled the primary banking role in the nation, and their impact on the economy is evidenced by the fact that the monarchy frequently relied on them for funds. Charles II, who lived far beyond his means, needed the goldsmiths to raise money for a standing army.<sup>11</sup> The bankers were able to take advantage of this by charging the monarch interest rates of up to thirty percent, to bring in enormous profits.<sup>12</sup> As a result of these practices, Charles II and his successor James II collectively accrued enormous debt to these private bankers in the amount of 2,250,000 pounds. Converting such figures to modern equivalents can be difficult, but by one estimate this would be roughly equivalent to over 300 million pounds in 21<sup>st</sup> century currency.<sup>13</sup> When the monarchy, perhaps inevitably, defaulted on these sums, a large national deficit resulted.<sup>14</sup>

Charles II stopped the Exchequer in January of 1672. Debt-ridden and in need of funds, he seized all the monies from the Exchequer, most of which belonged to the goldsmiths. This in turn ruined many of the goldsmith bankers, which sent ripples all through the economy. For example, Vyner and Backwell, two of the best known goldsmiths in London, were both forced out of business due to the stoppage of the exchequer.<sup>15</sup> Fortunately for the business of the country, not all of the goldsmiths were ruined; many, such as the Hoares, the Heriots, the Williamses, the Childs and the Pinckneys were not directly affected.<sup>16</sup> In fact, perhaps taking advantage of a void in

the market, some new ones began to appear, such as Duncombe and Kent, who would provide many loans to Charles II and James II and continue to exist after the Bank of England was created.<sup>17</sup>

Irrespective of the fluctuating fortunes of the goldsmiths, the stoppage of the Exchequer and its effects began to sway public sentiment toward supporting the creation of a public institution where the floating capital of the community might be deposited with safety without the possibility of royal confiscation”.<sup>18</sup>

Complicating financial matters at this time was the fact that the goldsmiths were not the only entrepreneurs engaged in private banking; this role was also filled by the Money Scriveners, who were financial specialists “who specialized in conveyancing and mortgage work” and “...acted as intermediaries between the tradesmen, merchants and lawyers...who wanted a safe investment and those borrowing people” who were in need of large amounts of ready credit to finance their businesses or their lifestyles.<sup>19</sup> An example of such would be London’s Temple family, members of aristocratic society high up in the social scale, who typically lived far beyond their means.<sup>20</sup> The Temples accumulated enormous debts to the Money Scriveners to meet the social demands of their station, which demonstrates one of the way London private banking emerged; wealthy families were in need of credit, and goldsmiths and scriveners were there to supply it. They gave out interest on deposits and often assumed the function of cashier to merchants. These scriveners were basically acting as bankers but never established a banking house from their offices.<sup>21</sup>

In addition, there were also numerous country banks and merchants bankers. Sir Francis Baring, a wealthy London merchant, commented on one such country bank, the Air Bank. He claims that “the principals on which those banks were usually established, were insecure, in their being compelled at all times to invest or employ the deposit left in their hands” making it difficult to answer a bank run.<sup>22</sup> In addition, Baring adds that when a country bank failed, the catastrophe was felt by all. He thought that country banks should not be allowed to issue notes payable on demand because in many situations they did not have the means to repay them.<sup>23</sup> There was a great decrease in confidence in these country banks after numerous failures to repay depositors, which again added to the public desire for a safe central banking institution.

Collectively, the goldsmiths and the others basically performed all of the functions that the Bank of England would later carry out.<sup>24</sup> These included

the “receiving of deposits, the lending of money and ... the issue of bank notes.”<sup>25</sup> The private banks carried out these services, but they didn’t provide enough security to their clients. The public hoped that a bank would lower the interest rate, because the prevailing rates were so high. In fact, the interest rate was much higher in England than in other countries in Europe, and this “rendered trade comparatively disadvantageous to England.”<sup>26</sup> Merchants also desired that the future bank would provide a paper currency because the metallic coins of the day were so debased and they thought the paper currency would increase the riches of the nation.<sup>27</sup>

Taken all together, there were obviously many reasons for the commercial interests of the time to support the notion of a central bank. Commercial concerns were not the only relevant interests at the time, however. The 17<sup>th</sup> century was a time of huge political upheaval in England; the latter half of the century saw the English Civil War, the execution of Charles I, the protectorate under Oliver Cromwell, the resumption of the monarchy and the overthrow of James II in the ‘glorious revolution.’<sup>28</sup> All of these events happened against a background of international religious strife between the Catholics and the Protestants.

Louis XIV, the King of France, wanted to make Roman Catholicism the official religion for all of Europe. In England, members of the powerful, Protestant Whig party suspected that James II, the Catholic King of England, supported Louis’ intentions and they sought an alternative. James’ daughter Mary had married Prince William of Orange, a Protestant, and they appealed to him for intervention. Following an ‘invited’ invasion, William was named William III of England in 1689.<sup>29</sup> The supporters of James, however, continued to resist, and fomented rebellion in Catholic strongholds such as Ireland and Scotland. This required William to put down those rebellions while at the same time continuing an ongoing war with Louis of France.<sup>30</sup>

His ability to fund such endeavors, however, was limited; as a condition of ascending the throne, William and Mary had signed to English Bill of Rights, which restricted the power of the monarchy and did away with its power to levy taxes without the approval of parliament. As a result, William had to find other ways to finance his military activities.<sup>31</sup> This would ultimately lead to the need for a national bank, but not before other methods were attempted.

Initially, William asked the City of London for a loan of 100,000 pounds and was declined. Failing that, the commissioner of the Treasury, Lord

Charles Montague, came up with another scheme, and organized a tontine loan.<sup>32</sup> In such a loan, a purchaser, or subscriber, purchased a life annuity, the dividends from which increased in amount with the death of any member of the class to which the subscriber belonged; subscribers were divided into classes according to age, with the right of survivorship prevailing only among members of the same age class. On the death of the last survivor, the obligation of the government ceased and the capital reverted to the state.<sup>33</sup> This loan, although not fully subscribed, raised 881,493 pounds and supported the war for five years, until 1694.<sup>34</sup>

During this time, Lord Charles Montague devised a new scheme, in this case a lottery loan; this secured an additional million pounds; however, another million was needed.<sup>35</sup> The inability to raise needed monies by other means highlighted the need for a central bank from which the crown could borrow money to fund both its war with France and the suppression of the Jacobites. William III's government "realized that the creation of a bank would be of immense service to them" in order to finance their wars with France.<sup>36</sup>

In fact, a model for such a bank already existed, since the Dutch had formed their own central bank, the Bank of Amsterdam, in 1609. The British looked to the successful merchants and bankers of Holland as a model and many wanted to imitate the Dutch bank, an institution which was seen as a great success.<sup>37</sup> Augmenting this was the fact that the new monarch, William, was of Dutch extraction, and knew first-hand the value of such a Bank to the national economy.<sup>38</sup> The British saw that the Bank of Amsterdam had reduced interest rates to Dutch borrowers, traders and landowners, and thought that a central British bank would do the same.<sup>39</sup> The Bank of Amsterdam was extremely prosperous throughout the entire seventeenth century and was looked upon as a model bank throughout the entire world.<sup>40</sup> The British had been competing with the Dutch in establishing their commercial and colonial empires throughout the 17<sup>th</sup> century; it is only natural that due to this competition, they would be eager to keep up with the Dutch financially as well.

So eager were they, in fact, that although the Bank was not actually chartered until the 1690's, there was much talk of the foundation of such a bank all through the century, and many schemes were developed which never came to fruition. For example, a London merchant, Samuel Lambe proposed one early such scheme to a committee in parliament in 1658. There were many other pamphlets and proposals during this time, but they all suf-

ferred from the same failing, and were all turned down for the same reason; because parliament saw that with a national bank, the king would be able to get money without parliament's consent.<sup>41</sup> In 1683, an attempt was made to form a 'National Bank of Credit' at Devonshire House, but it was short lived. Its main responsibility was "to advance money to tradesmen and manufacturers, on the security of goods."<sup>42</sup> It failed for the same reason as the earlier plans; the fear of royal confiscation and "a speculative mania which has suddenly spread and was diverting public attention from serious schemes."<sup>43</sup> As has been stated earlier, however, the adoption of the Bill of Rights by William and Mary in 1689 alleviated the concern regarding royal confiscation, and finally opened the way for the bank to be formed.

It was William Patterson, a London merchant, who was the true founder of the Bank, as his efforts, after several failed attempts, resulted in the national bank's foundation in 1694. He made his first proposal in 1691, "to form a company to lend a million pounds to the Government at six percent (plus 5,000 "management fee") with the right of note issue."<sup>44</sup> In 1692, Parliament made a committee to consider proposals for raising money, since the government was desperate for more money for the war. The committee rejected Patterson's proposal. He then created another scheme, to loan two million dollars to the government; however, nothing came of this scheme either.<sup>45</sup> However, in 1693, after already creating his lottery loan, Lord Charles Montagu, the commissioner of the treasury, encouraged Patterson to draft another proposal, which was designed to "raise 1,200,000 to be lent to the government at 8 per cent. On condition that the subscribers were incorporated and that 4000 per annum should be allowed them for expense of management."<sup>46</sup> Patterson created a pamphlet that explained the economic principles of his bank.<sup>47</sup>

This was necessary, because support for the bank's creation was no means universal. The primary political groups which were in opposition were the Jacobite supporters of the deposed King James and the landowning Tories. Both groups feared that the government would be strengthened and their own influence diminished by the establishment of a national bank. The Catholic Jacobites thought that the creation of the bank would weaken France's monarchy.<sup>48</sup> The Tories, in turn, thought that the bank "would lead straight to socialism" or a commonwealth.<sup>49</sup> The Tories also opposed the Bank because it would strengthen King William III's power by making it easier for him to obtain money; this would make it less likely for the House of Stuart to be restored.<sup>50</sup>



In addition to politically motivated opposition, there were other concerns as well. Many merchants feared that the incorporated bank might turn into a monopoly over all of England's banking business, while the country gentry thought that a central bank would make borrowing impossible by raising interest rates.<sup>51</sup> The goldsmiths, naturally, were also against the establishment of a bank because they feared that national bank would be a great competitor to their business and their profits would be greatly reduced.<sup>52</sup>

All of these enemies of the Bank of England joined together into one opposing force to arouse public opinion. One of their main points of contention was that the bank would control all of the money in the kingdom at the risk of the merchants and charge high interest rates. They also argued that the bank would gain too much power and if it did not succeed, English commerce would be in ruins. The conservative Tories claimed that a national bank would lead Great Britain towards a republic, while on the other hand, the opposing Whigs worried that a national bank would lead to an absolute monarchy, by providing the king with unlimited funds. Even though many of these arguments seem contradictory, the opposition was extremely successful in arousing public fear against the creation of a national bank.<sup>53</sup>

All of this opposition notwithstanding, a bill to create a national bank was submitted to The Committee of Ways and Means in the House of Commons in 1684. Not surprisingly, it was met with vigorous debate in parliament, both in the House of Commons and the House of Lords.<sup>54</sup> With Montague's help, however, it was accepted by the House of Commons in April of that year, with some modifications. Due to some Whig apprehension, an amendment was added which forbade the corporation "from lending money to the crown or from purchasing Crown lands without the consent of Parliament."<sup>55</sup> In order to appease traders, another amendment was also added by the House of Commons forbidding the bank from dealing in goods and commodities.<sup>56</sup> There was much more debate and opposition in the House of Lords; however, there was a majority of twelve and the bill was passed.<sup>57</sup> Many have noted "that the Act was only passed to avoid embarrassment to the Government, which needed the money immediately and could not obtain it otherwise;" many politicians who agreed to the act didn't even realize the other advantages that this bank would provide to the state and to the nation's credit.<sup>58</sup>

On April 25<sup>th</sup>, 1694, the principles of Patterson's proposal were encompassed in the Tunnage Act, which was passed by the House of Commons

and the House of Lords, allowing the government to borrow 1,200,000 at eight percent interest, with 4,000 for management expenses.<sup>59</sup> This loan allowed William to carry out his war with France, which lasted from 1690 to 1697.<sup>60</sup> The corporation was not originally intended to be a monopoly, however, it ended up being the only Joint Stock Bank and its monopoly was later affirmed under the reign of Queen Anne.<sup>61</sup>

Under the rules by which it was incorporated, the Bank had to lend all of its capital to the government, could not borrow more than its capital, and “its business was restricted to buying and selling bullion, gold or silver, and dealing in Bills of Exchange.”<sup>62</sup> On June 21, 1694, individuals were allowed for the first time to subscribe to the Bank of England. No individual could subscribe over 10,000 pounds before July 1<sup>st</sup>, and after that date one could subscribe more than 20,000 pounds. Additionally, each subscriber was “personally liable in proportion the amount of their stock.”<sup>63</sup> On the first day, 300,000 pounds were subscribed and within three days, that figure was up to 600,000, which was enough for the bank to become a corporation; by July 2<sup>nd</sup>, the entire subscription was collected.<sup>64</sup> All of the subscribers to the loan were formally incorporated under the title The Governor and Company of the Bank of England.<sup>65</sup>

On July 27<sup>th</sup>, 1694, the charter of the Bank of England was sealed. The charter secured the corporation’s life for twelve years, at which time the government could renew the charter or annul it. Among the provisions of the charter, it designated a location for the Bank’s headquarters, which were to be at Mercers’ Chapel.<sup>66</sup> It also mandated the management structure for the Bank; it was to consist of a governor, a deputy governor and twenty-four directors to be elected each year; all of whom were required to be natural born British citizens. The charter also said “that no dividend shall at any time be made by the said governor . . . save only out of the interest, profit or produce arising out of the said capital stock or fund.”<sup>67</sup> The governor, deputy governor and each director were required to own 4,000 pounds, 3,000 pounds and 2,000 pounds respectively of stock in the corporation. There were also to be fifty-four secretaries and clerks.<sup>68</sup> The charter additionally claims that there will be general courts that require twelve directors or governor to exist, and that these courts are to be summoned four times a year. These general courts can also be called at any time, if nine or more proprietors call for it.<sup>69</sup> These courts had the power to create by-laws and to set the governor’s and director’s salaries.<sup>70</sup> The charter listed the names of the twenty-one directors, the deputy governor, Michael Godfrey and the Gov-

ernor, Sir John Houblon. William Patterson was one of the original directors but ended up resigning in 1695 after disagreements with the other directors.<sup>71</sup> The directors, governor and deputy governor were elected on July 11<sup>th</sup>, 1694 by the 663 proprietors who each had more than 500 shares of stock.<sup>72</sup> The bank prospered from the beginning because of the personal notoriety of many of the directors and shareholders, who provided credibility for the institution. Many well-regarded wealth financiers and commercial merchants of high standing became shareholders.<sup>73</sup>

All of the capital of the bank was lent to the government and thus the shareholders money was in the king's hand. The government had to pay back the loan by 1705. The bank also had the power to issue notes up to the amount it had lent to the government. The bank discounted British bills at six percent and foreign bills at four and a half percent in order to encourage people to deposit money.<sup>74</sup>

The simple fact of the Bank's existence did not quell all of the opposition to it, of course. Shortly after its founding, William Patterson wrote a dissertation in support of the Bank and describing its economic purpose, as a public retort to the arguments of the Jacobites and the Tories.<sup>75</sup> He argues that all money without intrinsic value is false and worthless. He then goes on to state that all other forms of currency's value can only be determined by its comparison to gold and silver and that credit must be founded on gold or silver. In addition, he contends that the bank will help landowners and traders by lowering interest.<sup>76</sup> Many of the supporters of the Bank declared that it "would rescue the nation out of the hands of extortioners, lower interest, raise the value of land, renew public credit, extend circulation, and improve commerce."<sup>77</sup>

In the Bank's first year, general court meetings were held extremely frequently, often up to a few times a week. At the first general court held at Mercers' hall, the directors and the governor devised three methods for depositing monies. A depositor could either "receive 'Running-Cash Notes' payable on demand either in whole or in part,....keep a 'book or paper' wherein amounts received and paid on their account would be entered up at the Bank; or they might draw 'notes' on the Bank, to the extent of their deposits."<sup>78</sup> These three different options provided depositors with a secure method of storing their money. At a general court meeting on July 30<sup>th</sup>, 1694, the Director's appointed a staff of cashiers, tellers, doorkeepers and messengers to deal with the business of the bank.<sup>79</sup> The tellers had to be specifically wary of accepting goldsmith's money at this time, because much

of it was debased coinage.<sup>80</sup> The fixed hours of the bank were from eight am to five pm; however, the bank was closed on Sunday's and holidays.<sup>81</sup>

With these governing principles in place, the Bank functioned smoothly through its first year, gaining public approval. Those factions allied against it, however, continued to voice their opposition, such that of Michael Godfrey in 1695. A wealthy London merchant and the deputy governor of the bank, he felt the need to publish a Short Account of the Bank of England, which sought once again to defend the bank against its opposition's arguments. He writes that such opposition stems "from prejudice, false insinuations, or mistaken notions...from self interest."<sup>82</sup> He states that all of the opponent's arguments against the bank are based on their private interest, and that the benefits and advantages that the bank will bring to the large public of the nation surpass any of the arguments of the naysayers.<sup>83</sup> He claims that the main advantage of the Bank is that "a loan was granted to the government at an exceptional rate" which "enabled William to take the offensive in Flanders and to secure his first successes."<sup>84</sup> He goes on to emphasize that the bank helped to make the voting process for taxes more efficient, and that the bank also provides a secure place for the public to store their deposits, receive interest upon them, and withdraw them whenever desired. Godfrey proclaims that bank provides enormous mutual benefits to both the public and government.<sup>85</sup> In this pamphlet he also tried to assuage the fears of the Tories by emphasizing that the Bank would lower interest rates and increase the land's value by 100 million pounds.<sup>86</sup>

Two years later, in 1697, Sir Francis Baring, a British merchant banker, in turn documented his initial thoughts on the Bank of England and currency in his essay "Observations on the Establishment of the Bank of England and on the Paper Circulation of the Country." Baring attributes the wealth and prosperity that Great Britain had experienced to the founding of the Bank of England. He states that the bank's object in circulating bank notes was "to increase commercial discounts."<sup>87</sup> He also claims that paper is a better medium for circulation than gold because it is easier to manage and exchange; not only is it necessary but he claims that it is indispensable.<sup>88</sup> According to Baring, the issuance of bank notes should only increase in proportion to the increase of the nation's commerce. Baring divides the Bank's operations into three main categories: General circulation, transactions with the government, and commercial discounts.<sup>89</sup> He explains that it is essential for the directors not to extend the issue of notes "beyond that the currency of the country requires, and can support."<sup>90</sup> He adds that the di-

rectors should be checked and “limited in the amount for which their notes shall be issued, as a security to the public with regard to the private interest of the Bank.”<sup>91</sup>

Despite these published statements of support for the Bank’s operations and goals by the merchant and financial community, neither the goldsmiths nor the Tories restricted themselves to passive opposition; both groups attempted to act against the Bank’s interests. The goldsmiths tried to embarrass the Bank in its early years largely out of jealousy; the Bank’s existence greatly diminished their business and lowered their discounts.<sup>92</sup> “The private bankers . . . strove to ruin the reputation of their hated rival by plotting against its credit.”<sup>93</sup> For example, legend has it that one Charles Duncombe, a former goldsmith, a Tory and ultimately one of the wealthiest commoners in England, quietly bought up a very large number of Bank shares, 80,000 pounds worth in all, and abruptly sold them all in 1695 in an attempt to damage the Bank’s credit and stock price.<sup>94</sup>

More credibly, it is known that the goldsmiths collectively organized a run on the Bank in May of 1696. After the Bank’s initial opening, many goldsmiths chose to do business with it; goldsmith bankers such as Hoare, Freame, Gould and Barclay all opened accounts at the bank.<sup>95</sup> They used these accounts as a place to deposit Bank notes which had come into their possession during the course of business, and to make withdrawals as needed.<sup>96</sup> However, they used these accounts to their advantage and the Bank’s disadvantage during the Currency Reform of 1686.<sup>97</sup> At that time, in an attempt to rid the market of debased and clipped coinage, the government had mandated that old coins would be deemed valueless and withdrawn from circulation on May 4; however, due to mismanagement and poor timing by the treasury, there were insufficient new ones available to take their place. Seeing the delicate situation that this created for the Bank, the goldsmiths en masse demanded full payment of their accounts, leaving the Bank without enough coin to meet the suddenly increased demand. This required John Houblon, the Governor, to suspend full cash payment, promising a prompt partial payment in coin and the balance as soon as additional new coin could be obtained from the mint.<sup>98</sup> This led to a discount on the Bank’s notes of up to twenty percent and a temporary discredit of them, which, naturally, was beneficial to the goldsmith’s business.<sup>99</sup>

Despite such mutual hostility, however, the Bank persevered and the goldsmiths ultimately had to do business with it. In turn, the Bank began to straighten out “its relations with the goldsmiths” to prevent “a rival com[ing]

into the field with full parliamentary backing.”<sup>100</sup> The Tories, in their turn, desired to create a rival bank to the Bank of England to express their opposition and in the hopes of weakening the rival Bank. A proposal for a Land bank was submitted to the House of Commons in 1693 and in 1696 it was passed and the bank was created. The brain behind the Land bank was Dr. Hugh Chamberlain, an accoucheur, (a male midwife or obstetrician) who was backed by Harley and Foley.<sup>101</sup> The bank “was to raise a loan and issue notes secured on freedhold land” and land “was to be the basis of its paper currency.”<sup>102</sup> The land bank was incorporated “to lend money on land at a low interest” and was prohibited from using its stock to buy and sell commodities.<sup>103</sup> The king was to use this loan for his war campaigns against France. Many of Chamberlain’s notions in the scheme were “so monstrous and palpable an absurdity;” as to be completely unworkable; for example, he said that “a lease for a hundred years was worth four times as much as the fee simple” which is simply not true.<sup>104</sup> The Land Bank projectors wanted ready money for the state, but the land bank scheme was not drawn out appropriately to supply this.<sup>105</sup> The Bank of England, the treasury officials and the city of London all opposed this Land Bank. In addition, since it was a Tory plan, it was vehemently opposed in Parliament by the Whigs, and in the face of this combined opposition the whole scheme ended up being a failure; within six months the bank was obsolete.<sup>106</sup>

It did not completely fail in its intent, however, since during its brief existence it did palpable damage to the Bank of England, as the Tories had hoped. The Land Bank’s opening forced the Bank of England’s shares down from 107 to 83. Many saw the Land Bank as a strong rival that offered a much lower interest rate for borrowing, even though in retrospect it was doomed for failure. The crown had supported the Land Bank, who was going to lend them a great sum of money; after the Land bank’s collapse the government went to the Bank of England for assistance. The government asked the Bank “to increase its capital and to accept depreciated tallies in payment of the new subscription” which greatly aided the crown at the Bank’s expense.<sup>107</sup> As a result of the Land Bank’s creation and then imminent failure, the Bank of England was forced into a precarious situation.

It was not harmed in the long run, however. The Bank’s great strength was that, in response to the previously existing fear of Royal default on Crown obligations, it served as a “commitment device,” making the government’s promise to pay its debts trustworthy.<sup>108</sup> It also set up transparent regulations for all financial dealings between the people, parliament and the

Crown.<sup>109</sup> With the confidence which this inspired in the marketplace, the Bank's notes became readily accepted throughout the nation, which opened the way for a more credit-based economy, gradually replacing the bullion-based system of the goldsmith bankers. Paper money could now be issued, not for gold, but for intangibles, such as revenues on land, tax receipts and commercial obligations. This acted to increase the wealth of the nation by recognizing and providing credit for previously unrecognized forms of wealth.<sup>110</sup> This rise in wealth is evidenced by, among other things, the steady increase in investment in the great joint-stock companies through the early part of the 18<sup>th</sup> century, and the concurrent rise in real per-capita income in the nation.<sup>111</sup>

To conclude, the Bank was founded in response to a confluence of historical forces, which included a new political structure for the nation, private business interests, an increase in overseas trade and a simultaneous rise in urbanization. These forces provided new confidence for investment as well as a rising need for affordable credit, based on a standard more flexible than the bullion-base of the goldsmith bankers. With the successful Dutch Wisselbank to serve as a model, the Bank of England provided the capital and the security which allowed England to grow into the next century's great world power.

<sup>1</sup> B.R. Tomlinson, Paul Johnson, "Great Britain," *The Oxford Encyclopedia of Economic History*, (Oxford University Press, Inc., 2003, 2005) <http://www.oxford-economichistory.com/entry?entry=t168.e0316>.

<sup>2</sup> "Greater London, Inner London & Outer London: Population and Density History," <http://www.demographia.com/dm-lon31.htm> (2001).

<sup>3</sup> Art Mamorstein, "England in the 16<sup>th</sup> and 17<sup>th</sup> centuries," <http://www.northern.edu/marmorsa/delinednotes17thcentengland.htm> (September 2008).

<sup>4</sup> R.D. Richards, *Early History of banking in England*, (London: P.S. King & Son, LTD, 1929), p. 24.

<sup>5</sup> B.B Turner, *Chronicles of the Bank of England*, (London: Swan Sonnenschein & Co., Lim: 1897), p. 5.

<sup>6</sup> Sir. John Harold Clapham, *The Bank of England: A History, Volume 1: 1694-1797*, (Cambridge: University Press, 1970), p. 5-7.

<sup>7</sup> *Ibid.*;10.

<sup>8</sup> Joseph Hume Francis. *History of the Bank of England. A Comprehensive account of its origin, foundation, rise and progress*, (Chicago: Euclid Publishing Company, 1888), p. 28.

<sup>9</sup> "Fractional Reserve Banking," *Nation Master Encyclopedia*, <http://www.nationmaster.com/encyclopedia/Fractional-reserve-banking> (2005)

<sup>10</sup> Richard Grassby, *The Business Community of Seventeenth-Century England*, (New York:

Cambridge University Press: 2002), p. 257.

<sup>11</sup> Clapham, 11.

<sup>12</sup> John Francis, History of the Bank of England, Its Times and Traditions: Volume 1, (London: Willoughby & Co 2000), p. 31.

<sup>13</sup> [www.measuringworth.com](http://www.measuringworth.com)

<sup>14</sup> Reginald Saw, The Bank of England: 1694-1944 and Its Buildings Past and Present, (London: George G. Harrap & Co. Ltd, 1944), p. 12.

<sup>15</sup> Clapham, 12-13.

<sup>16</sup> Richards, p. 24-25.

<sup>17</sup> James E. Thorold Roger, The First Nine Years of the Bank of England, (Oxford: Clarendon Press, 1887), p. 86.

<sup>18</sup> W. Marston Acres, The Bank of England From Within: 1694-1900, ( London: Oxford University Printing Press, 1931), p. 6.

<sup>19</sup> Clapham, p. 7.

<sup>20</sup> Clapham, p. 7.

<sup>21</sup> Ibid.; p. 7-8.

<sup>22</sup> Baring, Francis, Sir. Observations on the establishment of the Bank of England and on the paper circulation of the country, (London: Minerva-Press for Sewell, Cornhill, and De-brett, 1797), p. 16.

<sup>23</sup> Ibid.; 19.

<sup>24</sup> Rogers, 24.

<sup>25</sup> A. Andreadas, History of the Bank of England: 1640-1903, (London: P.S. King & Son, ltd, 1924), p. 45.

<sup>26</sup> Joseph Hume Francis, 50.

<sup>27</sup> Andreadas, 45-49.

<sup>28</sup> Richard Hooker, "The European Enlightenment: The Case of England" <http://www.wsu.edu/~dee/ENLIGHT/ENGLAND.HTM> (1996)

<sup>29</sup> Saw, 11-12.

<sup>30</sup> John Leonard Roberts, The Jacobite Wars: Scotland and Military Campaigns of 1715 and 1745, (Edinburgh University Press: 2002) p. 1-2.

<sup>31</sup> "English Bill of Rights 1689" [http://avalon.law.yale.edu/17th\\_century/england.asp](http://avalon.law.yale.edu/17th_century/england.asp) (2008)

<sup>32</sup> Andreadas, 57.

<sup>33</sup> *New International Encyclopedia*, Second Edition, Volume XX, (New York: Dodd, Mead, 1916), p. 340-341.

<sup>34</sup> Andreadas, 57-58.

<sup>35</sup> Ibid; 57-58.

<sup>36</sup> Ibid.; 44.

<sup>37</sup> Ibid.; 29 and 44.

<sup>38</sup> "Major Developments: Calls for a National Bank in England," *Bank of England*, [http://www.bankofengland.co.uk/about/history/major\\_developments2.htm](http://www.bankofengland.co.uk/about/history/major_developments2.htm).

<sup>39</sup> Ibid.; 67.

<sup>40</sup> Ibid.; 80.

<sup>41</sup> Acres, 5.

<sup>42</sup> John Francis, 41.

<sup>43</sup> Andreadas, 53.

<sup>44</sup> Saw, 15.

<sup>45</sup> Andreadas, 65.



- <sup>46</sup> Acres, 8.
- <sup>47</sup> Andreadas, 65.
- <sup>48</sup> Acres, 10.
- <sup>49</sup> Saw, 18.
- <sup>50</sup> Turner, 16.
- <sup>51</sup> Andreadas, 68.
- <sup>52</sup> Acres, 10.
- <sup>53</sup> Andreadas, 69-70.
- <sup>54</sup> *Ibid.*; 70.
- <sup>55</sup> Acres, 10.
- <sup>56</sup> Clapham, 17.
- <sup>57</sup> Andreadas, 71.
- <sup>58</sup> Acres, 11.
- <sup>59</sup> Saw, 15.
- <sup>60</sup> Clapham, 14.
- <sup>61</sup> Turner, 17-18.
- <sup>62</sup> Acres, 11.
- <sup>63</sup> Andreadas, 73
- <sup>64</sup> Roger, 2.
- <sup>65</sup> Andreadas, 73-74.
- <sup>66</sup> *Ibid.*; 73.
- <sup>67</sup> *Ibid.*; 74.
- <sup>68</sup> *Ibid.*; 74-75.
- <sup>69</sup> Roger, 60.
- <sup>70</sup> Acres, 15.
- <sup>71</sup> Andreadas, 13-14.
- <sup>72</sup> Acres, 13.
- <sup>73</sup> Andreadas, 87.
- <sup>74</sup> *Ibid.*; 84-85.
- <sup>75</sup> *Ibid.*; 19.
- <sup>76</sup> Roger, 23-24.
- <sup>77</sup> Joseph Hume Francis, 53.
- <sup>78</sup> Acres, 27.
- <sup>79</sup> *Ibid.*; 29.
- <sup>80</sup> *Ibid.*; 32.
- <sup>81</sup> *Ibid.*; 33.
- <sup>82</sup> Acres, 19.
- <sup>83</sup> Acres, 20
- <sup>84</sup> Andreadas, 88.
- <sup>85</sup> *Ibid.*; 88.
- <sup>86</sup> Saw, 18-19.
- <sup>87</sup> Baring, 3.
- <sup>88</sup> *Ibid.*; 42.
- <sup>89</sup> *Ibid.*; 3-7.
- <sup>90</sup> *Ibid.*; 12.
- <sup>91</sup> *Ibid.*; 81.
- <sup>92</sup> John Francis, 73.
- <sup>93</sup> Roger, 10.

<sup>94</sup> Clapham, 30-31

<sup>95</sup> Ibid.; 30-31.

<sup>96</sup> Ibid.; 30.

<sup>97</sup> Roger, 42.

<sup>98</sup> Ibid.; 62-63

<sup>99</sup> Clapham, 107-108.

<sup>100</sup> Ibid.; 33.

<sup>101</sup> Roger, 50.

<sup>102</sup> Saw, 24.

<sup>103</sup> Roger, 59.

<sup>104</sup> Ibid.; 51.

<sup>105</sup> Clapham, 34.

<sup>106</sup> Saw, 25.

<sup>107</sup> Andreadas, 108-109.

<sup>108</sup> Der-Yuan Yang, "The Origin of the Bank of England: A Credible Commitment to Sovereign Debt" (University of Santa Barbara: 1997) <http://www.econ.ucsb.edu/papers/wp01-98.pdf>.

<sup>109</sup> Ibid.

<sup>110</sup> "Major Developments 3: A Credit Based Economy and Banker to the Government," *Bank of England*, [http://www.bankofengland.co.uk/about/history/major\\_developments3.htm](http://www.bankofengland.co.uk/about/history/major_developments3.htm).

<sup>111</sup> Charles Kindleberger, *World Economic Primacy, 1500 to 1800*, (New York: Oxford University Press: 1996), p. 112.