

# THE PAPER POUND of 1797-1821

A REPRINT OF  
THE BULLION REPORT

WITH AN INTRODUCTION BY  
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## INTRODUCTION

### § I. WAR—CRISIS—SUSPENSION OF PAYMENT

WHEN war broke out with France in February, 1793, the pound sterling, which with its subdivisions, the shilling and the penny, formed the “£ s. d.” in which all English money accounts and contracts were expressed, was (as it was again from 1821 to 1914) interchangeable with  $123\frac{1}{4}$  grains or nearly 8 grammes of 22 carat (i.e. eleven-twelfths fine) gold. Owing to variations in the rating of the gold and silver coins which took place long before, there was indeed no gold coin representing £1, but the gold coins called guineas (because the gold from which the first issue of them was made came from the Guinea Coast) passed for twenty-one twentieths of £1, half-guineas for twenty-one fortieths, and seven-shilling pieces for seven twentieths, and these gold coins were all legal tender to any amount at those rates. One troy pound of 22 carat gold was coined into  $44\frac{1}{2}$  guineas, and anyone who had gold could demand that the Mint should coin it for him at that rate, but in practice he found it better to accept the slightly lower price, £46 10s. the pound or £3 17s. 6d. the ounce, given on the spot by the Bullion Office of the Bank of England. Gold was thus freely “convertible” into coin, and though the law forbade exportation of coin and of bullion produced by melting it, this seems in practice to have had so small an effect that the coin was in fact readily convertible into gold for mintage in foreign countries and for industrial uses both at home and

abroad, whenever any appreciable profit presented itself.

Silver coins were legal tender by tale for amounts under £25; but above that sum they were only legal tender by weight, at the coinage rate of 5s. 2d. an ounce, and there was no possible inducement to anyone to tender them at that rate, as they were commonly very much worn, and consequently anyone paying them away at 5s. 2d. to the ounce would have lost heavily as compared with passing them in small amounts at their nominal value.

There was no legal-tender paper. Bank of England notes, promising to pay the bearer on demand £10, £20, and a few larger sums, circulated freely in London and the immediate neighbourhood. Outside that area there were in circulation similar notes for sums of £5 and upwards, issued by over two hundred banks with less than six partners, called the "country banks" because the London private banks had long ago abandoned the business of issuing notes. The country banks did not go below £5, because the law had forbidden smaller notes since 1777; the Bank of England's abstention from issuing £5 notes (maintained by it till soon after the beginning of the war) seems to have been due to mere conservatism—it had only begun to issue £10 notes in 1759. The whole amount of Bank of England notes in circulation was about 12 millions: the amount of country notes is unknown, but later statistics suggest that it may have been not far off the same figure. The amount of gold coin in the country is supposed to have been from 20 to 30 millions, but it must be remembered that a far larger proportion than in modern times would be locked away in hoards only coming into circulation at long intervals.

The business of banking was still very imperfectly understood. Failures of country banks were frequent, and the Bank of England often had moments

of anxiety caused by these failures and by its own inability to resist the prevalent feeling of the public by being cautious in lending in times of speculation and liberal during depressions and alarms. It was apt to change its policy too late, so that it continued liberal advances when drawing in was required, and began to draw in when it was no longer desirable to do so, with the natural result of disaster accompanied by confusing recriminations about the comparative advantages of the "restrictive" and the "expansive" policies, both of which were right if only adopted at the proper time. Moreover, the legal prohibition of all interest above 5 per cent often stood in the way of effective restriction.

The near approach of the war in the winter of 1792-3 caused or coincided with considerable trouble among the country banks, which spread to London, and was only prevented from causing complete disaster by the Government undertaking to lend five millions of Exchequer bills to merchants in difficulties. This offer restored confidence, and bills for only £2,200,000 were actually issued.

Nearly two years of the war passed away without much financial difficulty, but towards the end of 1794 the Bank directors began to complain of Pitt's excessive demands for accommodation. The public expenditure had at first risen but slowly, as may be seen in Table I. on p. xliii. below. Including the expenditure of Ireland, it had been under 17½ millions in 1792, and it was only 24¼ millions in 1793 and 29½ in 1794. But the revenue had scarcely increased at all; it was 19¼ millions in 1792 and only 20¼ in 1794. In a country with an aggregate income of between 200 and 300 millions mostly belonging to a poor population, even the nine millions borrowed in some way or other by the Government in 1794 must have been a large sum in proportion to the usual annual savings of the people. In 1795 and 1796, however, the public expenditure shot up to

51 $\frac{3}{4}$  and 57 $\frac{3}{4}$  millions, while the revenue was only 20 and 21 $\frac{1}{2}$  millions. It is utterly impossible to believe either that the aggregate produce of the nation's labour had risen so that this enormous increase of government expenditure could be met without any reduction of individual consumption and investment, or that the consumption and investment by individuals had been cut down as much as the Government expenditure rose, and it is wholly improbable that increase of production and reduction of private consumption and investment would together anything like counterbalance the increase of Government expenditure. Doubtless what has constantly happened in great wars was happening in this country in 1795-6: the Government and people together were spending much more money than they could go on spending without either a sharp monetary crisis leading to a reduction of the aggregate money expenditure or a dilution of the currency which enables the large money expenditure to go on by providing a larger nominal amount of money to be expended in the purchase of the same amount of goods and services—at higher prices. In a country of compromise it was to be expected that both of these alternatives would be embraced.

At the end of February, 1794, as is shown in Table II. on p. xlv. below, the Bank of England held almost 7 millions of coin and bullion while its liabilities were less than 18 $\frac{3}{4}$  millions (of which 10 $\frac{3}{4}$  were notes in circulation). Next year the position was only a little less favourable, but in 1796 the coin and bullion had shrunk to 2 $\frac{1}{2}$  millions while the liabilities had only gone down to 16 $\frac{1}{2}$  millions. On August 31 the coin and bullion had gone down another £400,000, while the liabilities were still almost 16 millions. By what particular incidents the crisis was finally precipitated is of little importance. It arrived at the end of February, 1797. The coin and bullion in the Bank was reduced to so small an

amount and the drain was continuing at such a rate that the directors informed Pitt that the situation was desperate. In similar circumstances a modern government would declare a bank holiday of three days, and spend the interval in printing and securing authorisation for legal tender government notes, which it would then lend to the Bank to be paid out instead of coin. Pitt adopted a less simple but equally effective plan. First thing on Sunday morning, February 26, he secured the attendance of the King, the Lord Chancellor, the Lord President, the Duke of Portland, Marquis Cornwallis, Earl Spencer, the Earl of Liverpool, Lord Grenville and himself at a Council which passed and communicated at once to the Bank a resolution which declared "the unanimous opinion of the Board that 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 and supporting the public and commercial credit of the kingdom at this important conjuncture," and "required" the directors "on the grounds of the exigency of the case to conform thereto until the sense of Parliament can be taken as aforesaid."

Opening as usual on Monday morning, the Bank prudently made no attempt to explain why the order was issued, but exhibited it along with the following notice:

"The Governor, Deputy-Governor, and Directors of the Bank of England think it their duty to inform the proprietors of Bank Stock as well as the Public at large that the general concerns of the Bank are in the most affluent and prosperous situation, and such as to preclude every doubt as to the security of its notes. The Directors mean to continue their usual discounts for the accommodation of the commercial interest,

paying the amount in bank-notes, and the dividend warrants will be paid in the same manner."

At noon a great meeting of merchants and bankers was held which passed a resolution undertaking to accept bank-notes, and eventually 4,000 signatures were attached to this.

On the same day the King thought it "proper to communicate to the House of Commons without delay the measure adopted to obviate the effects which might be occasioned by the unusual demand of specie lately made from different parts of the country on the metropolis." His Majesty did not apparently think it proper to refer in any way to the difficulties caused by his Minister's demands on the Bank, nor did Pitt himself when he proceeded to present the Minute of Council recording Sunday's resolution and to move for a committee to inquire into the outstanding engagements of the Bank. He said he would propose that the liabilities of the Bank should be secured by the State (an intention never carried out), and that its notes should be accepted in all payments due to it. In answer to questions he declined to say whether he favoured making the notes legal tender or not, and said he would bring in a Bill to allow the issue (by all banks) of notes for sums less than £5. Fox and other speakers expressed the utmost consternation, and prophesied that the notes would go the way of assignats. Next day in the House of Lords the Government announced that they had decided against making the notes legal tender. Lansdowne gloomily asseverated, "A fever is as much a fever in London as in Paris or Amsterdam . . . the fall will be slow perhaps, and gradual for a time; but it will be certain."

The Order in Council was confirmed by the Act 37 Geo. III. c. 45, called the "Bank Restriction Act," passed on May 3. How temporary the emergency was supposed to be is shown by the fact that

this act was only to continue till June 24: in fact it was kept in force by continuing acts for nearly quarter of a century.

An Act (37 Geo. III. c. 32) had been passed three days earlier to suspend the prohibition embodied in the Act of 1777 and thus allow the issue of bank-notes for sums under £5 down to but not below £1. Nothing in the legislation made bank notes legal tender, nor was there any provision for country and Scotch banks. From the time when the news of the Order in Council reached them, these banks had apparently acted as if the Restriction required them as well as the Bank of England to refrain from cash payments. But they did not claim to be able to insist on paying out nothing except their own notes, like the Bank of England. They had always been ready to give Bank of England notes or drafts on London in exchange for their own notes, and continued to be so. Consequently though their notes were not convertible into coin, they were always convertible into Bank of England notes, and thus each bank remained subject to the ordinary limitations. It was the Bank of England alone which was relieved from all fear of being asked to give other money for its notes.

Gold coin was soon little seen, much of it being exported and most of the rest put away in hoards. Silver, required for all payments under £1 in the absence of half-guineas and seven-shilling pieces, was very scarce, and the want of national coins was to some extent relieved by the stamping of foreign dollars with the King's head and by the Bank issuing silver tokens for 5s.: why these should have been issued by the Bank as tokens instead of by the Mint as coins does not appear.

The currency situation thus created differed from that which prevailed after August 1914 in several ways. In the earlier period there was no legal tender paper, while in the latter both Treasury

notes and Bank of England notes were legal tender to any amount. On the other hand, in the earlier period Bank of England notes were inconvertible, whereas, in the later, Bank of England notes were convertible into Treasury notes and Treasury notes could be converted into gold coin by any one who had the temerity to demand it at the Bank, running the risk of being suspected of an intention of breaking the law which prohibited melting the coin of the realm. But neither of these differences are important. Under the Restriction Act of 1797 the Government was bound to accept and pay Bank of England notes as equivalent to the pounds sterling which the Bank still promised on the face of the note to pay. The ordinary law-abiding private individual, whatever the comparative value of note and bullion, could gain nothing by refusing notes and insisting on guineas, because he was unable to smuggle them abroad or to melt them down and swear that the bullion was not produced from coin of the realm. Such guineas as remained in circulation or were brought from hoards from time to time could only be passed in respectable circles for a pound and a shilling, and no one seems to have thought of treating a guinea as 21s., and a pound-note as, say, only 19s. The £1 of the note issue became the standard £1 in 1797 just as later in 1914. The convertibility of Treasury notes into sovereigns which continued all through the war of 1914-18 made no real difference, since transport difficulties prevented the exportation of sovereigns and the law forbade their conversion to ornamental or industrial uses. When transport difficulties ceased to operate, a prohibition of export was promptly issued. As sovereigns could only be used for currency, for which purpose £1 notes were just as good, there was no inducement to ask for them in place of notes.

It must not be supposed that the transition of 1797 from a metallic to a paper standard was effected

with a total absence of disturbance and confusion. *The Memoirs of a Banking House*, by a Scotch banker, Sir William Forbes, published long after the need for professing a confidence which was not felt had passed away, provide a useful supplement to the dry bones of official notices and brief newspaper reports of meetings. Sir William says that a meeting called by the Lord-Lieutenant of Midlothian to concert measures for the defence of the country in case of invasion and reported in the Edinburgh newspapers of Feb 18, caused a panic among the farmers and lower classes of country people.

“ On Monday the 20th,” he continues (p. 82), “ they came to our counting-house in considerable numbers, evidently under the impression of terror, calling for payment of their notes that had been lodged at interest. This lasted the whole of that week and the two first days of the following. Nor was it confined to us alone, for the public banks experienced it in a still greater degree, and we were beginning to think there was to be a similar, perhaps a still severer, demand on us than what had taken place in 1793; when, early in the morning of Wednesday, the 1st March, an express arrived from London to the directors of the Bank of Scotland from Thomas Coutts & Co., their correspondents there, informing them that the demand for gold on the Bank of England had risen to such an alarming height that the Directors had thought it proper to state the circumstance to the Chancellor of the Exchequer, who immediately procured an order of the Privy Council to be issued, prohibiting that bank from making any more issues of specie in exchange for their notes. Mr. Mansfield, who was a director of the Bank of Scotland, informed our Mr. Anderson of this interesting event, and he immediately brought the intelligence to me, a little before the usual hour of commencing business. My ideas, at various times during the course of the war, had been often not a little gloomy when I thought of the state of things in the kingdom, and indeed in Europe; but now it was that I certainly did think the nation was ruined beyond redemption, when so novel and alarming a circumstance had taken place at the Bank of England, which had ever been considered as the bulwark of public and private credit. Mr. Hay, Mr. Anderson, my son and I all repaired as fast as possible to the counting-house, which at ten o'clock was crowded as usual with people demanding gold. We were soon joined by Mr. Simpson, cashier, and Mr. James, deputy-governor of









































































































