The First Currency Revolution

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In the last years of the eighteenth century and the early years of the nineteenth centuries the currency of England underwent so great a change that the process deserves to be recognised as a revolution. By the use of this term I mean that not only was a workable currency provided in some parts of the kingdom, but that this phenomenon became nation-wide, that every town in England had reasonable access to a supply of currency. This was something previously unknown in the history of the world. It was made possible at this time because an elastic supply of bank-created currency was added to the relatively inelastic stock of coinage. The men responsible for effecting this revolution were country bankers whose widespread initiative throughout the length and breadth of England provided England with a country-wide banking network.

In the years after 1797 when the central government abandoned attempts to control the supply of currency, private enterprise not only managed to provide an acceptable alternative, but did so in an exceptionally vigorous manner as entrepreneurs

throughout the country responded to the market opportunities presented to them by the temporary abandonment of the gold standard at a time of rapid economic expansion. Indeed, so great was their success that no future government would attempt to destroy the private sector's contribution to the provision of currency without first providing an acceptable alternative. This occurred after 1815 with the minting of the new gold sovereigns and half sovereigns. Prior to 1797 regalian rights had enabled the Crown to prohibit the private minting of coins without ensuring that the Mint provided this service and without the government taking upon itself the task of providing paper substitutes in that way, for example, that the United States' government did during the Civil War. In England the approach was indirect, by means of Parliamentary control of the Bank of England, which was granted charters for limited periods of time and allowed to issue bank-notes provided they were always convertible into gold and not of denominations below five pounds. On the eve of the great expansion of country banking, the notes of the Bank of England had already made a substantial addition to the currency of the metropolis, where those of the private bankers had been driven out of circulation. In the period before the crisis of 1797 it seemed as though the central government was tightening its control over the management of the currency,[1] but then there occurred a complete reversal of policy, the immediate cause of which was a drain of bullion from the Bank of England. No doubt the poor harvest of that year contributed to the outflow of bullion, but the principal cause was disruption of normal market conditions resulting from the war with France and the financial strains that this imposed upon the country.

The suspension of gold payments by the Bank in 1797 effectively took England off the gold standard and relieved both

[1] See for example F. STUART JONES, "Government, Currency and Country Banks in England 1770-1797", *The South African Journal of Economics*, vol. 44, No. 3, 1976.

bankers and entrepreneurs of the constraints hitherto imposed by the need to convert bank-notes into bullion on demand. It opened the way to a period of 'free banking' that, as far as the private bankers were concerned, was to last until the resumption of the gold standard in practice in 1821. The only remaining remnants of government control were the apparent prohibition of joint stock banking in England and Wales and the parliamentary right to renew the Bank of England's charter.

The number of country banks, most of which were note-issuers, had been growing rapidly before 1797. Indeed the period of most rapid growth in country banking may well have been the last quarter of the eighteenth century, just as it was for the cotton industry, but this was on a small base when numbers were still small. What happened after 1797 was that the number of country banks continued to grow rapidly and that this accelerated after 1805 until the numbers reached their wartime maximum in 1810.[2] Thereafter a decline set in that was only temporarily halted by the boom of 1823-1825. In the mid 1790's there were probably around 300 banking offices in England and Wales: by 1810 the number had risen to almost 700. A banking revolution therefore, preceded the currency revolution and was the means by which it was effected. In the mid-1790's it would still have been possible to find towns without banking offices and without either an adequate supply of bank-notes or coins. By 1810 this was not generally the case and a workable solution to the age-old currency problem had at last been found. This solution was the product of private enterprise, the response of individual merchants, manufacturers, lawyers and gentlemen not in business, who, identifying the market opportunities confronting them, made the move into banking.[3]

If we accept then, that free banking made possible the so-

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[2] RONDO CAMERON et al., *Banking in the Early Stages of Industrialisation*, (London, 1967), 25.

[3] CHARLES WILSON, *Economic History and the Historian*, (London, 1969), 159.

lution of the currency problem in the first decade of the nineteenth century, we must also take into cognizance the fact that it was accompanied by some inflation. The question that needs to be asked is whether banking, freed from the constraints imposed by the need to convert notes into bullion upon demand, was the cause of the wartime inflation or whether this was the result of heavy government expenditure accompanied by massive government borrowing and the monetization of much of this debt. Contemporary economic thought had little to offer in the way of guidance and in practice both the Bank of England and the country bankers were left free to issue as many notes as they deemed desirable. A quantity theory approach seems to offer the most convincing explanation of the inflation that occurred in the first decade of the nineteenth century, though this author remains sceptical of attempts to quantify this precisely in the way that Rondo Cameron has attempted to do.[4] There are far too many unknown variables involved to make this a very meaningful exercise. On the one hand one has to set the known increase in the National Debt and the more or less known increase in the supply of bank-notes against the unknown increase in the volume of bank deposits and the equally unknown increase in the volume of bills of exchange circulating as currency. On balance I would argue that the inflation was mainly caused by the heavy wartime expenditures and the borrowing that accompanied them, but that in some parts of the country excessive note-issuing by undercapitalised country bankers added to the problem that was made worse by wartime dislocation of trade, with higher freight and insurance rates, and temporary local shortages, caused by the war, harvest failure and the malfunctioning of the distributive system.

The reason why 1810 has been chosen for the termination of this essay is that the year 1810 saw the peak of war-time in-

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[4] Rondo Cameron et al., *op. cit.*, 42.

flation. It marked the high tide in the flow of currency and credit expansion that revealed itself in the depreciation of the pound sterling on the foreign exchanges. The short-lived commercial boom that had been triggered off by the Peninsula War, came to an abrupt halt at the end of 1810 and with it there came an end to the expansion in the number of the country banks that had been in progress since the recovery from the 1793 crisis; but the crisis of 1810 was no ordinary banking crisis, as were, for example, the crises of 1773, 1783 and 1793, for the year 1810 marked the beginning of the long secular decline in the number of banks in England that was only briefly halted in the mid 1820's. This long-term decline in the number of banks provides some evidence for the view that in 1810 the number of banks was somewhat in excess of the real needs of commerce and that this excess was partly the result of the ease with which individuals could set themselves up as bankers and issue their own bank-notes once the discipline of convertibility into bullion had been removed.

There was no collapse when Britain moved off the gold standard in 1797. Nevertheless the Government's decision to free the Bank of England from the obligation to redeem its notes in gold signalled the beginnings of a free-for-all in banking and currency creation on a scale that had hitherto never been experienced in England. Private enterprise met this challenge by making possible a very considerable expansion of the nation's currency base. The crises of 1810 brought this move to an end and led directly to a reduction in the volume of bank-notes put out by both the country bankers and the Bank of England. The beginning of the long decline in the volume of private securities held by the Bank of England dates from 1810 and reveals the extent of the contraction in its circulation. The years in between, from 1797 to 1810, were the golden age of laissez-faire in banking and currency, they were the great period of individualism when entrepreneurs throughout the country responded to the growing demand for a means of payment and remittance. In these years, 1797-1810,

the practical response of individual businessmen coincided with a public discussion of theoretical issues that for the first time lifted the discussion of economic doctrine out of the parlours of merchants and scholars and into the full glare of a great national debate. Economics had come of age at the very moment when attempts at centralised control of the currency were collapsing into utter ruin.

The Problem of Quantification

Between the mid-1970's and 1810 there occurred a sustained expansion of the currency in England. This occurred in the form of paper substitutes created as a response to legitimate commercial needs, either by individual businessmen or by the burgeoning banking network. Contemporary businessmen and bankers, as well as the authorities in London, generally considered only the metallic coinage and bank-notes as currency, but for the purposes of this paper we shall use the M 1 definition of currency that adds the demand deposits (i.e. credit balances) of the banks to the notes and coins, unless specifically stated that we are using the M 2 definition, which allows the volume of bills of exchange to be added to the stock of currency. This latter definition has its relevance in these years, 1797-1810, because of the growing practice of businessmen obtaining bills from their bankers and making them payable at their bankers. In other words, it can be argued that growth of the banking network also made a significant contribution to the use of the bill of exchange as an instrument of currency.

An attempt to quantify the volume of currency in circulation during the Napoleonic War period runs into severe obstacles. For the United States of America, at a slightly later date, the 1830's Rockoff has made use of econometric techniques to arrive at precise figures for the volume of currency in circulation and its contribution to the American inflation of the early 1830's.[5]

[5] Hugh Rockoff, " Money, Prices and Banks in the Jacksonian Era ", in Robert

Rightly he emphasises the importance of the relationship between prices, specie and conditions in the international capital market and then, by drawing upon the theory of the Chicago School, he has expressed the quantity of the monetary stock of the United States as follows:

$$M = \frac{S}{\frac{C}{M} + \frac{R}{D} - \left(\frac{C}{M}\right)\left(\frac{R}{D}\right)}$$

In this equation:

S = Stock of Specie
D = Bank-notes and Deposits held by the public
R = Specie held by the banks
C = Specie held by the public

But Rockoff's calculations were applied to an economy operating on a metallic gold and silver standard, a condition that did not apply to England between 1797 and 1810. Attempts to estimate the specie held by the banks and by the public, therefore, are not of the same importance in England, because the banks did not have to support their circulation of bank-notes with a reserve of specie. Nor, in this author's opinion, can a meaningful estimate be made of the bank-created currency in this period, for although some idea of the total bank-note circulation may be obtained by adding the figure of private bank-notes stamped to those of the Bank of England, which of course tells us nothing of the velocity of circulation, it is not possible to estimate the total volume of demand deposits in the banks.

Rondo Cameron has made a valiant attempt to do this but his 'guesstimates' are based upon very flimsy evidence, which surely throws into doubt the whole process of precise mathematical computation. According to Cameron, Total Money, M 1, increased from £50 million in 1800–1801 to £75 million in 1811.[6] This fifty per cent increase in the stock of total money was brought

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W. Fogel and Stanley Engerman, Eds., *The Reinterpretation of American Economic History* (New York, 1971).

[6] CAMERON, *op. cit.*, 42.

about by an 80 per cent increase in the volume of bank-notes circulating and a 200 per cent increase in the volume of bank deposits. However, upon closer inspection, the accuracy of Cameron's figures may be doubted. First Cameron has some doubts about 'moneyness' of deposits in the eighteenth and early nineteenth centuries and has only included in his figure 25 per cent of estimated deposits in 1800-01 and 43 per cent in 1811. The balance of the deposits has been added to the item of ' Other ' and is included in his M 2 definition of the monetary supply. To remove at one stroke of the pen three quarters of the total deposits should cast some doubts upon the use of these estimates of the monetary supply. Moreover no allowance is made for the deposits of the country banks and the London figure is arrived at by assuming an average of £ 200 000 per bank and multiplying this figure by 70, the number of private banks in London in 1800-01. The £ 200 000 per bank is an arbitrary figure thought up by doubling the earlier estimate of £ 100 000 in 1775. The figures for bank-notes are probably less inaccurate, being based on a proportion of the Bank of England's circulation, following Pressnell's opinion that the volume of Bank of England notes probably remained in excess of those of the country bankers throughout this period.[7] Figures of bank-notes and bank deposits follow a similar pattern for 1811, though for this year the deposits of the country bankers are taken into consideration and estimated at something over £ 6 000 000, a figure arrived at from evidence of Vincent Stuckey, a banker in an agricultural area, that deposits averaged one third of country bank-note issues. Again only a proportion, three sevenths, is included under M 1, a higher proportion it is true that in 1800-1801, but one which still leaves the bulk of deposits demonetised. Moreover further doubts must be cast upon the validity of applying

[7] CAMERON, *op. cit.*, 43-44, and citing L.S. PRESSNELL, *Country Banking in the Industrial Revolution*, (Oxford, 1953), 159. Sedgwick, however, has put the circulation of country bank-notes at slightly higher than those of the Bank of England by 1810. See Table IV.

Stuckey's evidence from the West Country to the whole of England. In agricultural areas there was a demand for a medium of exchange and a tendency for deposits to go up after the harvest. Would this necessarily be the pattern of the industrialising districts? Banking theory suggests the reverse, that bank advances make deposits, and that where there was a sustained demand for bank credit there was likely to be an increase in bank deposits. In a different context, it is true, Sushka has provided some support for an increase in bank liabilities in the form of deposits in this period by arguing that '... a rise in income induces a greater percentage increase in the holdings of bank liabilities than of currency'.[8] If Cameron is correct in postulating a rise in per capita income of approximately 14 per cent between 1800 and 1811,[9] then this would further support the case for a substantial rise in bank deposits in the period 1797-1810. To sum up, I would argue that Cameron's figures of the monetary stock of England and Wales for 1800-1801 seriously underestimate the size of bank deposits, that this margin of error is only slightly redressed for the year 1811, that the demonetisation of the bulk of deposits for both years casts further doubt upon the figures, and that even the stock of bank-notes in circulation may have been underestimated. All this should raise very serious doubts whether one can apply precise mathematical techniques to currency discussions during this early period.

Similar reservations may be made of Cameron's M 2 definition of the currency. Admittedly the bulk of deposits not included in the M 1 definition are put into the M 2 definition and, in the category 'Other', the total rises from £ 115 million in 1800-01 to £ 140 million in 1811. Of this, the balance of deposits accounted for £ 15 million in 1800-1801 and £ 20 million in 1811. Bills of exchange, therefore, are estimated as making a contribu-

[8] M.E. SUSHKA, "The Antebellum Money Market and the Economic Impact of the Bank War", in *The Journal of Economic History*, Dec. 1976, No. 4, 820.

[9] CAMERON, *op. cit.*, 42.

tion of £100 million in 1800-01 and of £120 million in 1811. Cameron warns us that these figures are suspect. He has, nevertheless, allotted to them a size greater than that of specie, bank-notes and all the bank deposits combined.[10] If the figures for the bank deposits are combined, (there is no really accurate way of separating lodgements from credit balances for this period) then the proportion of bills of exchange to all other forms of currency dropped from approximately 164 per cent to 126 per cent.

TABLE I

TABLE STOCK OF MONEY IN ENGLAND AND WALES[11]

	1800-01 £m	1811 £m
Specie in circulation	20	15
Bank-notes	25	45
All Deposits	20	35
Total	65	95
Bills of Exchange	100	120

The slowing down in the economy's rate of growth during the difficult years of the war against Napoleon, together with the free for all in note-issuing by the country bankers would lead credence to this trend. What, however, is open to debate is the magnitude of the volume of bills of exchange created in England and Wales and their use as a means of payment. In this respect the words of Lewis Loyd deserve attention for, as the leading banker of his day, he had practical experience of conditions in Lancashire and there, he insisted, the proportion of bills to notes

[10] *Ibid.*, 42 n.c.

[11] Adapted from Cameron's table 11.2.

was 9: 1.[12] Admittedly this did not apply to the whole of England, but it throws some further doubts upon the accuracy of precise estimates of the currency (M 2 definition) in this period and whether an econometric approach is worthwhile.

To return to the original equation, could a meaningful figure of the monetary stock be obtained by applying it to the available evidence? Cameron has given us figures of the stock of specie in circulation, but to divide this between that portion held by the banks and that held by the public would require an exercise in imagination, especially at a time when England was off the gold standard. And, as indicated above, estimates of bank-notes and bank deposits necessarily encompass so many variables that the margin of error in attempting a precise quantitative approach is so wide as to render its use in this equation virtually meaningless. In other words the figures cited by Cameron for the beginning of the nineteenth century do not lend themselves to the econometric methodology that may be applied to the currency in the hey-day of the gold standard in the late nineteenth century.

Aspects of the Currency 1797-1810: The Coinage

By the end of the eighteenth century the Mint had been deprived of a copper coinage, the silver coinage was dead and the minting of gold coins was undertaken only on a small scale to please the Bank of England.[13] Table II gives the value of gold and silver coins put out in these years.

Without the wartime inflation the supply of gold coins would have been inadequate. When wartime inflation led to the depreciation of the pound on the foreign exchanges and a premium being placed upon gold, the coins were encouraged to

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[12] *S.C. of the Lords on the Circulation of Promissory Notes*, parl. Papers, 1826-27, (245) vol. VI, Evidence of Lewis Loyd, 186.

[13] Sir John Craig, *The Mint*, (Cambridge, 1953), 256.

TABLE II

GOLD AND SILVER COINED AT THE MINT 1801-1810 [14]

Year	£ Gold	£ Silver
1801	450,242	53
1802	437,018	62
1803	596,444	72
1804	718,397	77
1805	54,668	183
1806	495,105	...
1807	...	108
1808	371,744	...
1809	298,946	115
1810	316,935	121

fly across the Channel to where they could command a higher price. Yet the situation that had existed throughout most of the eighteenth century in relation to the price of the metals was changing radically. Before 1797 the copper coins had been mere tokens, with the value of the copper in them less than that of their nominal value, while the silver coins were worth more than their nominal value as a consequence of the bullion price of silver rising above that of the Mint. Neither made for an effective circulation, as the public mistrusted the copper coins and the silver coins were quickly melted down. After 1797 the situation was reversed. The wartime demand for copper lifted the price of the metal above the Mint price and led to the melting down of copper coins, while the price of silver began to fall in relation to gold.[15] Copper coins, though, were of only limited use, as they could not be used either for the payment of taxes or for the purchase of bills of exchange. Nor was there any way of ensuring their efficient distribution, for the banks did

[14] G.R. PORTER, *The Progress of the Nation*, (London, 1851), ed. by P.W. Hirst 1912, 568.

[15] SIR JOHN CRAIG, *op. cit.*, 251 & 261.

not deal in them.[16] The inadequacy of the silver coins was more serious, for they were widely used, particularly for the payment of wages. Entrepreneurs found a way around this obstacle by making use of the small bank-notes put out by the country banks and the new one pound notes put out by the Bank of England, by the widespread use of small bills of exchange as a means of payment, and by the use of token coins. Although Great Britain remained officially on a bimetallic standard that was suspended by Act of Parliament in 1797, in practice the country was operating on a gold standard, with silver being valued in terms of gold rather than vice versa. This had been the situation throughout most of the eighteenth century when the British government's refusal to reduce the denomination of gold coins had preserved their high unitary value and assured their 'intrinsic stability'.[17]

Indeed, once the panic of 1797 was over, little seemed to have changed, for gold coins continued to be put out by the Mint. Guineas were only minted until 1799 but half guineas were coined until 1811,[18] though their circulation was impeded by the fact that the market price for gold was above that of the Mint. Since the economy continued to grow in these years, albeit at a slower rate and gold coins continued to disappear from circulation, the need for paper substitutes grew steadily stronger, thereby putting an even greater burden upon the private sector.

Paper substitutes could provide a workable alternative to gold, but for silver, this was not the case. In many ways the greatest difficulty experienced by contemporary entrepreneurs was in obtaining a means of paying wages and settling small debts of below half a guinea. This explains why there was a premium on silver coins[19] even though so many of the coins

[16] *Ibid.*, 252.

[17] SEYMOUR SHAPIRO, *Capital and the Cotton Industry in the Industrial Revolution* (Ithaca, New York, 1967), citing CARLO M. CIPOLLA, *Money, Prices, and Civilisation in the Mediterranean World: Fifth to Seventeenth Century*, (Princeton, 1956) 13-21 & 24.

[18] SIR JOHN CRAIG, *op. cit.*, 261.

[19] SIR JOHN CRAIG, *op. cit.*, 247.

were worth only about half their nominal value.[20] It explains too why so many employers and tradesmen issued their own token coins as, for example, Samuel Oldknow the muslin spinner, John Wilkinson the iron master, W. Ballans the Manchester tea dealer and John Holland the Manchester grocer.[21] Even the Bank of England issued silver token coins in 1804 after the failure of their attempts to persuade the Mint to issue seven shilling gold coins.[22] The Bank of England made use of Spanish and Mexican silver dollars overstamped with the head of George III. Such action became necessary because the fall in the price of silver had led the Government in 1798 to release the Mint from the requirement to take in all silver brought to it,[23] an action that had given tacit approval to the issue of token coins by individuals. Between 1804 and 1815 £ 4,457,649 of these tokens were made for the Bank of England by the firm of Mathew Boulton. Earlier in 1803 and 1804 the Mint had co-operated by overstamping the first batch of dollars. By these means the Bank could meet its own pressing needs for coins with which to pay portions of dividends; but such expedients could hardly meet the needs of London merchants. The flowering of private tokens in the first decade of the nineteenth century while providing us with an interesting examples of widespread individual enterprise, could not provide a long-term solution to the problem.

The see-sawing price of copper would have made any consistent policy in these years almost impossible to execute. Until the Battle of Trafalgar, war-time demand for copper pulled up the price to well above that of the Mint: after 1805 the price fell and coins which would previously have been melted down

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[20] G.R. Porter, *The Progress of the Nation*, (London, 1912 ed.) 567.

[21] R.S. Fitton & Wadsworth, *The Strutts and the Arkwrights*, (Manchester 1958) 240-244; L. Grindon, *Manchester Banks and Bankers*, (Manchester, 1877) 102, W.J. Davis, *Nineteenth Century Token Coins*, (London, 1904) 64.

[22] Albert Feavearyear, *The Pound Sterling - A History of English Money*, (Oxford, 1963) 206-7; and Sir John Craig, *op. cit.*, 261-262.

[23] Albert Feaveraryear, *op. cit.*, 187-188 and Sir John Craig, *op. cit.*, 261.

now were worth more than the copper in them. In 1797 the prohibition on token copper coins was lifted [24] opening the way for a free for all in issuing copper tokens throughout the country. Some official coins were struck by the Mint at sixteen pennies to the pound (weight) of copper, but these were quickly melted down.[25] By 1805 the Treasury contract with Boulton agreed that twenty-four copper pennies should be struck from one pound of copper, but this happened just before the copper price began to fall and instead of each penny coin being worth about one penny, they effectively became tokens of little intrinsic value. In the provinces this led to a boom in tokens being issued by individuals, firms and municipalities,[26] as local initiative responded to the opportunity made available by an expanding economy, a falling copper price and the withdrawal of the prohibition on the issue of token copper coins.

Paper Substitutes and the Country Banks 1797-1810

Such action was, of course, only tinkering with the problem of providing businessmen with a suitable currency and, had the merchants and manufacturers of England been obliged to rely only on government assistance and metallic substitutes for their currency needs, then the state of the economy might have been very different from what it was. Fortunately for them and for the country as a whole the proliferation of a number of different paper substitutes provided them with an effective workaday currency. It was the increasing number of country banks that made this possible. The provision of remittance facilities and the extension of credit to local merchants and manufacturers were the main driving force behind this development. These remittance needs were met by various means depending upon the pre-

[24] PORTER, *op. cit.*, 569; FEAVERYEAR, *op. cit.*, 187 and CRAIG, *op. cit.*, 264-5.
[25] DAVIS, *op. cit.*, xvii.
[26] CRAIG, *op. cit.*, 266.

ferences of the local business community. In South Lancashire it was by means of drafts on London and bank endorsement of bills of exchange rather than by the issue of local bank notes that the local banks made their contribution to the currency needs of the cotton manufacturing districts, while across the Pennines in Yorkshire the banks issued their own notes, just as they did in the metal working districts of the West Midlands. Important though these were it is likely that they were exceeded in importance by the growing volume of bank deposits that were accumulating in the hands of the country bankers of England and Wales.

Some indication of the magnitude of this development may be gained from rapid increase in the number of country banks in the years after 1796. Table III lists the number of country bankers in England and Wales as given in the Post Office London Directory, which may, according to Pressnell, have under-recorded the number of banks before 1818 as a consequence of not including those country banks that did not possess London agents.[27] Before 1800 the figures of the Universal British Directory are used.

TABLE III

THE NUMBER OF COUNTRY BANKERS IN ENGLAND AND WALES 1796-1810

1796	301
1798	312
1798	312
1800	370
1801	383
1802	397
1803	410
1804	414
1805	438
1806	478
1807	515
1808	573
1809	631
1810	654

[27] L.S. PRESSNELL, *Country Banking in the Industrial Revolution*, (Oxford, 1953), 11.

The majority of these country banks were note issuers. Conditions for the growth of such banks were very favourable during the days of easy credit that followed the suspension of gold payments in 1797. Not only did the number of country bankers more than double, but the rate of increase in the formation of new banks was rising at a time when the growth of the economy was slowing down [28] — a development which would suggest that some new force was at work. This new force was wartime inflation, though to country towns, the advantages of having a bank were also becoming more obvious and, without either economic growth or inflation, it is likely that there would have been some increase in the number of banks. The official statistics are even more impressive than those of the private directories. They list 783 banks by the year 1810, possibly as the result of double counting by the inclusion of branches as separate banks. All in all outside London, at the peak of the wartime inflation, there may have been close to 800 separate banking offices in England and Wales, the overwhelming majority of which were note issuers. The Peninsular War triggered off a commercial and financial boom that, according to Feavearyear, led to one hundred new country banks being formed in 1809, to an increase in the volume of Bank of England notes by £4,000,000 and to a possible doubling in the issues of the country bankers from £11,000,000 in 1807 to 22,000,000 in 1809.[29] Deposits in the hands of bankers would also have grown rapidly in these years. Private enterprise had made possible a massive increase in the currency base of the kingdom. For a time it may even be said that banking had taken upon itself some of the characteristics of a leading sector.

A rough idea of the quantity of notes put out by the country bankers may be gained from Sedgwick, who was Chairman

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[28] FRANÇOIS CROUZET, "Capital Formation in Great Britain during the Industrial Revolution", in *Capital Formation in the Industrial Revolution*, ed. François Crouzet, (London, 1972), 208-210.

[29] FEAVEARYEAR, *op. cit.*, 194.

of the Board of Stamps and provided the 1819 Committee of the House of Lords with numerous papers relating to currency matters. Pressures of wartime finance led to a stamp duty being placed on bank-notes in 1804, so that from this date it is possible to know the number of notes stamped in each year, though this of course did not necessarily ensure that they would be put into circulation. The number stamped fluctuated considerably in the years between 1804 and 1810, with business optimism diminishing apparently after Austerlitz and Jena and then booming in the years 1809 and 1810. Table IV gives Sedgwick's figures.

TABLE IV

COUNTRY BANK-NOTES STAMPED AND ISSUED 1805-1810 [30]

Year ending 10 October	Country Bank-Notes Stamped	Sedgwick's Estimates of Total Country Circulation
	£	£
1805	11,342,413	—
1806	11,480,547	—
1807	6,587,398	18,021,900
1808	8,653,398	16,871,524
1809	15,737,986	23,703,493
1810	10,517,519	23,893,868

The country bankers were making a slightly greater contribution to currency needs of the kingdom with their local notes than was the Bank of England with its note-issues, though in apportioning responsibility for the inflation of these years, one should bear in mind the statement of Lewis Loyd, the London and Manchester banker with the most country correspondents, that the volume of country bank-notes fluctuated according to the volume of Bank of England paper [31] — a judgement that fits in well with the con-

[30] J. MACARDY, Commercial Cyclopaedia, Manchester, 1842) 59

[31] *S.C. of the Lords on the Resumption of Cash Payments*, Parl. Papers, 1819, Evidence of Lewis Loyd, 166.

temporary criticism of the Bank. One might note, also, that no less an authority than Phyllis Deane has argued that the rise in prices was a cause and not a consequence of the increase in the note circulation.[32]

Bank-notes and bank deposits together were making a sharp impact upon the performance of the economy, a fact which some contemporaries were quick to appreciate. One anonymous writer argued that the development of country banking was primarily responsible for the increase in commerce and agriculture that had taken place.[33] Nor did he think that the emergence of nation-wide banking had increased the level of commercial insecurity.[34]

> " Security is the primary object of the bankers; and their interest and that of the public is so intimately connected that it will very rarely happen that they will be tempted to engage in visionary projects, when their sure, safe and real projects are so large."

This degree of optimism may have been somewhat misplaced in 1804, but he went on to argue cogently how the country bankers had contributed to the expansion of the economy. Of the four main reasons he put forward all dealt with currency matters.[35]

1. The country bankers made possible the use of banks at a time when currency was being drained abroad for war purposes.
2. The people had more confidence in local notes than in those of the Bank of England.
3. The country banks attracted deposits that could be used to finance trade at home and abroad, manufacturers and agriculture.
4. Gold and silver could be collected more easily by local notes than by those of the Bank of England.

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[32] PHYLLIS DEANE, *The First Industrial Revolution*, (Cambridge, 1965), 177.

[33] 'The Utility of Country Bankers', anon., in J.R. MCCULLOCH, *A Selection of Scarce and Valuable Tracts on Money* etc., (London, 1856), 199.

[34] *Ibid.* 111

[35] *Ibid.* p 120-1

No doubt the pen of this particular writer was not free from bias, but nevertheless he had got to the heart of the matter and identified the most significant change taking place in the economy — the emergence of class of organisers of capital on a grand scale and the concomitant accumulation of capital in their hands. The importance of bank deposits and the growing use of the banker's draft was noted by yet another contemporary writer, W. Smart in his economic Annals of the Nineteenth Century. In 1810 the volume of drafts put through the London bankers' Clearing House amounted to £4,700,000, which required on average bank-notes to the value of £220,000 for settling balances.[36] Payments were made through banks amounting to more than twenty times the value of the bank-notes used at a time when, according to Cameron, note issues were three times more important than deposits in the monetary stock of the kingdom.

The Role of the Bank of England 1797-1810

The role of the Bank of England in the provision of currency and in contributing to the inflation of these yars was that of a moderating force. The Bank was not immune to the demand for its notes, but it is not always clear whether this demand was originating in genuine economic growth or from the increased government spending. Of the three main types of inflation, demand pull, cost push and monetary, Britain in these may have been experiencing a combination of the demand pull and monetary inflation. The former, demand pull, may have been partly caused by wartime dislocation of the market and local shortages, but was mainly caused by the massive increase in government spending, which, until the early years of the nineteenth century, was accompanied by heavy borrowing. The Bank of England's response to this situation was cautious and conservative. Before 1797 exces-

[36] W. SMART, *Economics Annals of the Nineteenth Century*, 1801-1830, 3rd ed., (London 1923), 251.

sive government borrowing, taking the form of an increase in the note issues of the Bank, would have put pressure on the bullion reserve and made it impracticable for a Westminster government to engage in massive and irresponsible borrowing. After 1797 government demands upon the Bank could increase without there being any need to counter-balance these with an increase in its bullion. In this situation the authorities of the Bank behaved with admirable discretion in the first decade of the nineteenth century. The reserve of bullion was increased and remained well above the level of the crisis year, 1797, and note issues rose only moderately. Table V lists the note issues, bullion holdings and deposits of the Bank of England in these years. At first glance it might seem that note issues rose significantly, more than doubling in the period, but if we accept that the new one pound notes were taking the place of the disappearing gold coins and not thereby making an addition to the total monetary supply, then the net addition to the stock of currency was not out of line with the growth of the economy as a whole. There were two occasions when the note issues of the Bank of England rose sharply. The first of these occurred at a time when both the economy and government spending and borrowing were growing rapidly; the second was a response to the current rise in prices and depreciation of the pound sterling on the foreign exchanges.

The Bank of England also made a major contribution to the circulation of the country bank-notes by the decision to grant rediscount facilities to the country correspondents of London banks in 1795.[37] This step enabled the country banker to have access to the great resources of the Bank in normal times, thereby allowing the issuing banks to discount bills more freely with their own notes. Yet the greatest contribution of the Bank to currency expansion in these years may well have occurred

[37] J.K. Horsefield, 'The Duties of a Banker', in T.S. Ashton & R.S. Sayers, *op. cit.*

TABLE V

THE NOTE-ISSUES, DEPOSITS AND BULLION OF THE BANK OF ENGLAND 1797-1810 IN £ 9 000,000 [38]

Year and Month		Total Notes £	Notes Under £ 5	Deposits £	Bullion £
1797	F	9.7		4.9	1.1
	A	11.1	0,9	7.8	4.1
1978	F	13.1	1,4	6.1	5.8
	A	12.2	1,5	8.3	6.5
1799	F	13.0	1,5	8.1	7.6
	A	13.4	1,3	7.6	7.0
1800	F	16.8	1,5	7.1	6.1
	A	15.00	1,6	8.3	5.2
1801	F	16.2	2,6	10.7	4.6
	A	14.6	2,4	8.1	4.3
1802	F	15.2	2,6	6.9	4.2
	A	17.2	3,2	9.7	3.9
1803	F	15.3	3,0	8.1	3.8
	A	16.0	3,8	9.8	3.6
1804	F	17.1	4,5	8.7	3.4
	A	17.2	4,7	9.7	5.9
1805	F	17.9	4,9	12.1	5.9
	A	15.4	4,5	14.0	7.6
1806	F	17.7	4,5	10.0	6.0
	A	21.0	4,3	9.6	6.2
1807	F	17.0	4,1	11.8	6.1
	A	19.7	4,2	11.8	6.5
1808	F	18.2	4,1	12.0	7.9
	A	17.1	4,1	13.0	6.0
1809	F	18.5	4,3	10.0	4.5
	A	19.6	5,2	12.3	3.7
1810	F	21.0	4,3	10.0	3.5
	A	24.8	7,2	13.6	3.2

as a consequence of the growth in the Bank's deposits. These rose from an average of £ 6.35 million in 1797 to £ 11.3 million in 1810, an increase of 86 per cent. Moreover the bulk of this increase occurred before 1806, when market conditions were more buoyant. From the time of the battle of Austerlitz there was little

[38] A. FEAVERYEAR, *op. cit.*, 227-229.

growth in the Bank's deposits, reflecting the more difficult economic conditions of the times and also perhaps the slowing down in the rate of borrowing by the Government.

The Role of the Bill of Exchange 1797-1810

The economic expansion that was taking place in Britain between 1797 and 1810 undoubtedly led to an expansion in the volume of bills created. As noted earlier Rondo Cameron arrived at a figure of £100 million pounds for the year 1800-1801 and £120 million pounds for 1810,[39] as the contribution of bills to the total monetary stock, but to what extent these bills acted as a currency is not always clear. We know that in Lancashire a bill-based currency was common and that it replaced drafts on London in the last years of the eighteenth century.[40] It was the growing popularity of the bill as an instrument of currency that led the local non-note-issuing bankers to provide their business customers with standardised bill forms (not unlike a post-dated cheque) with the banker's name indicated as the place where they would be payable.[41] As bills were not required to bear stamps until 1805 the figures for the first half of the decade cannot be precisely established. However, from 1805 to 1810 they can be used as evidence to support continued economic growth that was brisk from the time of Peninsular War or for a slowing down in the growth of the economy with the renewal of war against Napoleon. Between 1805 and 1810 the volume of bills created rose by almost 50 per cent, with almost no growth in 1807 and zero growth in 1808, which was more or less in line with the expansion in the iron and textile industries. Table VI gives these figures.

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[39] See above 592.

[40] 'The Bill of Exchange and private banks in Lancashire, 1790-1830', in T.S. Ashton and R.S. Sayers, *Papers in English Monetary History*, (Oxford, 1964), 45-49.

[41] B.R. Mitchell & Phyllis Deane, *Abstract of British Historical* Statistics, (Cambridge, 1971), 131, 179 & 191.

TABLE VI

BILLS OF EXCHANGE STAMPED 1805-1810 [42]

Year	Amount £ millions
1805	384.449
1806	458.656
1807	464.418
1808	454.051
1809	541.805
1810	588.753

What these figures do not tell us is how often these bills were used as currency. Assuming that the bulk of these bills were three month bills, the currency component would be roughly one quarter of the total stamped. In some districts bills dominated the local circulation, as in industrialising Lancashire, where bills might be used for as many as 120 different transactions.[43] In Lancashire bills were likely to be responsible for more transactions than Bank of England notes that were never re-issued after they were returned to the Bank; and in Lancashire Lewis Loyd put the proportion of bills to notes circulating in the district as high as nine to one at the end of the eighteenth century.[44] Even in 1819 he claimed that almost all transactions in Manchester except for the provision trade and labourers' wages, were still carried on by means of bills of exchange.[45] To sum up, in the absence of an adequate metallic coinage and the nation-wide distribution of Bank of England notes, individual merchants and manufacturers developed a working alternative in the bills of exchange, the creation of which was independent of both the Mint and the banking system. In the year or two immediately prior

[42] *S.C. on Promissory Notes*, Parl. Papers 1826, vol. XXII, 17.

[43] *S.C. of Lords on the Circulation of Promissory Notes, op. cit.* Evidence of Lewis Loyd, 186.

[44] *Ibid.*, 185

[45] *Ibid.*, 188

to 1810 the tide of business confidence was rising fast and this led to a significant increase in the volume of bills created that was likely to have had a far greater impact upon the total monetary stock and prices than the additions to the country bank notes for circulation.

The Early Nineteenth Century Theoretical Position

In the early nineteenth century the current state of currency theory offered little guidance to the authorities on the difficult question of how to tackle inflation and the depreciation of the pound sterling on the foreign exchanges. According to Horsefield, in the last years of the eighteenth century, a crude form of the 'Banking Principle' that might accurately be entitled the 'Smithian Principle' was giving ground to a new theory that acquired shape in 1800-1802 and widespread popularity in 1810. This was the 'Bullionist' view,[46] that remained dominant until 1825, when the events of that year cast doubt upon it and gave a boost to what was to become the 'Currency Principle'. Throughout this period, then, theory was always half a step behind the march of events, and the debate tended to focus more and more upon the question of convertibility of bank-notes to the exclusion of the role of deposits or bills of exchange.

The 'Smithian Principle', which held sway from the time of the publication of the Wealth of Nations in 1776, took for granted the existence of a de facto gold standard. These conditions did not apply after 1797. Accordingly proponents of Smithian views tended to ignore the effects of almost unrestricted government borrowing and to under-estimate the dangers of over-issue on the part of bankers. Proponents of the 'Smithian Principle' held to the belief that to supply the needs of trade not only most adequately fulfilled the purpose of banking but avoided

[46] J.K. HORSEFIELD, 'The Duties of a Banker', in T.S. ASHTON & R.S. SAYERS, *op. cit.*

the danger of over-issue,[47] a state of affairs which might have existed before 1797, but certainly did not after 1797. These somewhat simplistic ideas foundered on the rock of government borrowing in the last years of the eighteenth century.

The changed situation was reflected in how the Bank responded to the crisis of 1797 as compared with that of 1783. In 1783 under leadership of Samuel Bosanquet, the Bank had acted in a constructive way by continuing its commercial discounts while delaying advances to the government. In 1797 this was not possible, because the needs of war and the scale of government borrowing had radically altered the situation.[48] Between 1793 and 1797 the Government had borrowed £98 million and had passed special legislation to relieve itself from the prohibition upon using the Bank as a source of supply. Thenceforward the Bank was at the mercy of the Government and could have only checked the drain upon its resources by the drastic step of refusing to pay the Exchequer bills drawn upon it.[49]

After 1797 an obsession with the need to restore convertibility led the directors of the Bank into an intellectual desert. In 1783 their actions had been ahead of the development of theory: after 1797 they fell more and more behind. In 1783 they had looked at the Exchanges as well as the bullion in their vaults in determining the size of their note-issues: in 1797 they looked only at their cash holdings; and in 1810 they looked only to convertibility. In this way they espoused the 'Smithian' doctrine before the Bullion Committee in 1810 and a 'Bullionist' one from 1827 to 1844,[50] while Parliament, more accurately reflecting the forward march of economic thought, adopted a 'Bullionist' view in 1810 and those of the 'Currency School' in 1844.

At the turn of the century a combination of poor harvests,

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[47] *Ibid.*, 7
[48] *Ibid.*, 8-12
[49] *Ibid.*, 11
[50] *Ibid.*, 15

rising mercantile profits and a temporary rise in government borrowing led to a sharp rise in prices, particularly in 1799 and 1800.[51] With the Bank of England's notes inconvertible, the traditional self-regulating counter to inflation was absent. Public attention focused on this problem and, then as now, politicians and public figures sought scapegoats and put forward easy answers to complex problems. The Bank of England was the obvious candidate. It was accused of causing the inflation by over-issuing its notes. Out of the ensuing controversy economic thought took one of its significant steps forward: the quantity theory of money was clearly expressed, the fallacies in Adam Smith exposed and, by 1801, Henry Thornton had published his *Enquiry into the Nature of Paper Credit*, which enunciated the school of thought on the currency that was to become known as the 'Bullionist' view.[52] Francis Horner was instrumental in publicising Thornton's views, and these spread so rapidly among Members of Parliament that by March 1804 the Parliamentary Committee enquiring into the state of the circulation in Ireland adopted a 'Bullionist' interpretation of the depreciation of the Irish coinage. From then on until 1810 a majority in the House of Commons espoused the 'Bullionist' views for which the 1810 Committee is famous: and the extent of the inflation in England was measured by the degree to which the foreign exchanges had turned against England, with the implicit assumption that excessive note-issuing was the cause and the resumption of gold payments the solution. By contrast the future of the metallic coinage was much less controversial. Lord Liverpool's *Treatise on the Coins of the Realm*, written in 1798 and published in 1805, provided the basis for the eventual establishment of the gold standard by his son in 1816.[53]

Between 1803 and 1809 the theoretical controversy languished because the economic conditions for sustaining it were weakened,

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[51] FEAVEARYEAR, *op. cit*, 191-192.

[52] J.K. HORSEFIELD 'The Duties of a Banker II', in T.S. ASHTON, *op. cit.*, 23-29.

[53] FEAVEARYEAR, *op. cit.*, 188-190.

a state of affairs that changed abruptly in 1809. Inflationary conditions were acute in the last years of the eighteenth century. Between 1797 and 1800 short-term advances to the Government by the Bank rose to around five million pounds, but by the end of 1802 they had fallen to only one million above their 1797 level. The increase in the Bank's note issues may also be accounted for by their taking the place of the disappearing guineas. The coming of peace together with the avoidance of military entanglements on the Continent or in the West Indies was accompanied by a marked reduction in the intensity of the inflation. In 1809 all this changed. In 1809 a commercial boom, focussed on the Brazilian market and possibly triggered off by the beginnings of the Peninsula War, led to a renewal of the inflationary pressure.

In 1809 one hundred new country banks were opened, according to Feavearyear,[54] though the Post Office London Directory gives a more gradual increase in their numbers of eight per cent from 1806-1807, eleven per cent from 1807-1808, and ten per cent from 1808-1809.[55] The Government's short-term debt rose by two millions in 1809, the value of bank-notes stamped almost doubled and the private securities held by the Bank increased by eighty per cent between 1808 and 1810.

Inflation of this magnitude, without the discipline of convertibility into gold, was bound to affect the foreign value of the pound and the exchanges rapidly turned against Britain. Gold was at a premium and the over issue of bank-notes was said to be the cause.[56] It was in the midst of this situation that the House of Commons appointed the Committee to enquire into the high price of bullion.[57] Francis Horner, Henry Thornton and William Huskisson were the dominant men on the committee and may be held mainly responsible for the famous report. This showed

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[54] *Ibid.*, 194
[55] PRESSNELL, *op. cit.*, 11.
[56] *Ibid.*, 195
[57] *Ibid.*

that the rise in the price of bullion in England was not due to an adverse balance of payments or to a general Europeanwide rise in the price of bullion, but to an over-issue of Bank of England notes. Between the time of the publication of this report and the Parliamentary debate in 1811 a national debate ensued which aroused widespread attention. Both Huskisson and Ricardo rushed out pamphlets and helped direct the controversy into an attack upon the Bank of England. In the midst of a war and with a Commons' majority fairly assured the Government was able to ward off the attack and prevent an immediate return to gold payments. Yet progress had been made. Currency matters had aroused widespread attention, understanding of the working of the exchanges and the way currency developments affected them had advanced, while at the same time the danger of allowing the nation's credit to rest upon the decisions of men as muddled as the Governor and Deputy-Governor of the Bank was fully exposed.

The year 1810 witnesses the high-water mark in both the power of Napoleon and in the tide of inflation engulfing the country. Attempts by individuals to make their debtors pay in the value of gold and not in paper pounds were hastily prevented by Parliament,[58] but while the war lasted it was not practical to return to a fully convertible currency. Indeed in the year that the Bullion Committee came up with their recommendations, the Baltic was closed to British goods and 600 vessels were said to have been lost as the French seized Stralsund and put pressure on Prussia shortly before annexing Holland outright. Napoleon saw more clearly than the Bullion Committee the issues that were at stake, when he cried:[59]

> "It is no longer two armies who combat on the plains of Fontenoy: it is the empire of the seas which still resists that of the continent."

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[58] FEAVEARYEAR, *op. cit.*, 206

[59] S.W. SMART, *op. cit.*, I, 220.

At such a moment in time it was indeed impracticable to consider that trade was flowing in its normal channels and that a resumption of gold payments was possible. Nor was it possible in 1810 for the Government to mint sufficient quantities of silver and copper coins to drive out of circulation the rising flood of token coins.

The Role of the Government

A growing awareness of the importance of currency matters amongst writers and politicians coincided with a massive increase in the scale of government spending and borrowing. Earlier period of inflation, like that of the sixteenth century, were the product of a variety of causes, such as increased pressure upon real resources resulting from population expansion and monetary mis-management, but the one feature common to all was the massive increase in government spending that accompanied the development of modern professional armies and bureaucracies. In the early nineteenth century it is unlikely that there was one single cause of the inflation, but there can be little doubt that a major cause was government spending, which had a two-fold impact. It increased the intensity of the ' demand-pull ' type of inflation by exerting sudden pressures on the market and creating bottle necks, and it increased the currency base of the nation by the need to borrow in the form of bills drawn on the Bank, although between 1800 and 1810 the public advances of the Bank of England formed a diminishing proportion of the total advances.[60]

Table VII below gives the figures of government expenditure and revenue from 1793 to 1810, with what today would be called the public sector's borrowing requirement. This proportionately reached its greatest extent in the years immediately before the crisis of 1797, when the Government in Westminster was reluctant

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[60] Arthur D. Gayer, W.W. Rostow & Anna Jacobson Schwartz, *The Growth and Fluctuations of the British Economy 1790-1850*, (Oxford, 1953), vol. II, 893.

TABLE VII

THE EXPENDITURE AND REVENUE OF THE GOVERNMENT OF GREAT BRITAIN AND IRELAND 1793-1810 [61]

	In £ Millions Expenditure	Revenue	Excess of Expenditure
1793	24.2	19.8	4.4
1794	29.6	20.2	9.4
1795	51.7	19.9	31.8
1796	57.7	21.5	36.2
1797	50.5	23.1	27.4
1798	50.9	31.0	19.9
1799	55.4	35.6	19.8
1800	56.5	34.1	22.4
1801	60.6	34.1	26.5
1802	49.5	36.1	13.1
1803	49.0	38.6	10.4
1804	58.6	46.2	12.4
1805	66.9	50.9	16.0
1806	68.5	55.8	12.7
1807	67.3	59.3	8.0
1808	73.0	63.0	10.0
1809	76.5	63.8	12.8
1810	76.8	67.1	9.7

to increase the tax burden and relied relatively more on borrowing to cover the cost of the war. In the early and mid-1790's it was not, of course, clear that the war against France would last a whole generation and that short-term financial expedients would not provide a satisfactory solution to the problem of how to pay for the cost of the war.

The major inflationary impact of the excess of expenditure occurred in the first few years of the wars against France in 1795, 1796 and 1797. The inflationary pressures were then reduced somewhat, though clearly they were mounting again at the turn of the century. Thereafter there occurred the reduction in the

[61] GAYER et al., *op. cit.*, 44, 76 and 103. The name Great Britain is used though of course the United Kingdom came into existence in 1801.

intensity of the inflationary pressures that reduced the tempo of the debate over currency matters. The figures of the excess of expenditure over revenue do not in themselves provide a satisfactory explanation of the crisis of 1810. In fact between 1797 and 1810, while expenditure increased by 52 per cent, revenue increased by 191 per cent. As the excess of expenditure formed a diminishing proportion of total expenditure, the inflationary impact of government borrowing was slowing down in these years. Moreover only a proportion of the total debt was monetised and can be seen in the increased holdings of Exchequer bills by the Bank. In so far as the debt was sold to the public and took money out of circulation, without the creation of new bank-notes or other paper instruments of credit, it was not inflationary from a monetary point of view.

It may in fact be argued that the Government's main contribution to inflation was by means of its increased expenditures. These would (i) stimulate the demand pull type of inflation and then, (ii) when they had filtered down into the banking system, inflate the deposit base of the banks and stimulate credit and currency inflation by augmenting the aggregate stock of money in the country (after subtracting that amount of money that was spend abroad). Against this, however, must be set the effect of the increased taxation, which would have had the effect of taking money out of circulation and ultimately of reducing the deposit base of the banking system. This might be considered inflationary only in so far as it took money out of the hands of the saving class and put it into the hands of the spending government, whose business customers might further keep the money in circulation by their own spending patterns of behaviour.

In attempting to draw out some conclusions about the causes of the early ninettenth century inflation and the role of the government as opposed to that of the banking sector, we might note the following points. A trebling of governmental expenditure in just over a decade would today give a powerful twist

to the inflationary spiral. The same was true of the 1790's and early 1800's. Secondly, the continued excess of expenditure over revenue, £301 million between 1793-1810, would create a climate conducive to inflationary pressures by the extent to which it was monetised and by the effects of the short-term floating debt. Thirdly, the scale of government expenditure and borrowing should be compared with the increase in the note-issues of the country banks in attempting an assessment of the role of 'free banking' in contributing to the inflation of the period. The total circulation of country bank-notes, according to Sedgwick, never rose as high as £24 million — an increase of something over ten million in the first decade of the nineteenth century. Fourthly, that if the country banks were responsible for fuelling the inflation, then it cannot have been by means of their note-issues but as a consequence of the growth in their deposits, which reflected the buoyant state of English agriculture and the early stages of industrialisation as well as the impact of the vastly increased scale of government spending. Moreover, fifthly the increase in the country bank note-issues of ten or so million pounds must be set against, not only the £301.9 million increase in the public debt, but also the volume of bills circulating. An M2 definition of money would include the huge volume of bills created, which, as indicated in Table VI, rose by over £200 million between 1805 and 1810. Assuming these were three-month bills, then the possible increase in the monetary stock was around fifty million pounds, a figure somewhat lower than the addition to the public debt in these years, but one which was showing a more rapid rate of increase and which was passing directly into circulation. The periodic bursts in business confidence, reflected in the South American boom of 1809 and the increase in bills discounted by the Bank of England, may have contributed to the inflation of 1809-1810, but responsibility for this cannot be laid at the door of the country bankers, whose contribution to the total increase in the nation's monetary stock was far over-shadowed

by that of the increase in the volume of bills circulating and the increase in governement expenditure.

It may be argued that the Suspension in 1797 allowed the country banks to maintain smaller reserves and that this released funds for investment, which, according to banking theory, would eventually return to the banking system in the form of deposits thereby inflating the credit base upon which the banks operated. Bank credit was of course likely to be a factor in causing the inflation, but whether that was cause or consequence of the economic growth is debatable. Excessive issues of bank-notes tended to return to their issuers fairly quickly in a country as small as England, while there is little evidence of any significant relaxation in the Banks' policies towards borrowers. A more relaxed policy towards advances only developed in the years after 1815. The emergence of a full blown banking system in these years may have led to an increase in the velocity of circulation by the growing ease with funds could be transmitted throughout the country, but assigning to them a major proportion of the blame for the war-time inflation is not acceptable. The case against them is not proven. Indeed by assisting the distributive system they played an important part in contributing to the economic growth of the period.

Conclusion

Although merchants and manufacturers were undoubtedly hampered by the inadequacy of, and the tendency toward depreciation in, the paper currency, these did not represent insuperable obstacles. Ways were found around them. It was not currency dislocation, but the effects of prolonged war that led to a slackening in the rate of growth of the economy in these years. The Government had failed to provide an adequate currency, but then governments have always failed in this respect and businessmen were accustomed to improvising in their means of payment and remittance. The early years of the Industrial Revolution

were no exception and businessmen developed a number of ways of getting around the currency shortage. The private bankers took the lead in this movement with their local bank-notes, with their drafts on London bankers and with the expanding volume of their deposits, but individual merchants and manufacturers also made their contribution by their willingness to make use of bills of exchange as a local currency, and the directors of the Bank of England made their contribution by increasing the Bank's holding of private securities paid for with their own notes.

The country banks, freed from the constraints of convertibility with its need for sizable reserves, increased the volume of their own note-issues, but it is unlikely that they were the main cause of the inflation of the first decade of the nineteenth century. The increase in the issues of the country banks over the thirteen years should be set against: 1) significant growth in the economy that would have required an additional to the national stock of money; 2) country bank notes taking the place of the disappearing gold coins; and 3) the emergence of new country banks in districts that were previously without them. Credit inflation may have been stimulated by the growth in the volume of bank deposits and it is likely that it was by this mechanism that the banks made their greatest contribution to meeting the currency requirements of the kingdom. Moreover both the note-issues and deposits of the country bankers must be set against the vast increase in government expenditure and the very considerable increase in the volume of bills created. It was unfortunate that the first currency revolution was accompanied by sustained inflation, the temporary abandonment of the gold standard and the long wars against France, for none of these was essential to it. The development of a national network of country banks affected this revolution which would have occurred without the wars and the Suspension of 1797.

In the closing years of the eighteenth century and the early years of the nineteenth century private enterprise in England

broke through the centuries-old barrier of currency constraint. The vicious cycle of governmental prohibition on currency formation followed by failure to provide a viable alternative was at last broken. Private enterprise responded rapidly to the opportunities before it in the form of an industrialising economy and, taking advantage of the temporary abandonment of the gold standard and governmental control, built upon the foundations already laid in the previous quarter century to provide the worlds' first industrial society with the world's first nation-wide efficient means of making and receiving payments.