
The Beginnings of Paper Money in England

J. Keith Horsefield

Emeritus, University of London

It appears to be commonly assumed that paper money came into use in England around 1700. But if we ask contemporary writers whether paper money circulated then we get contradictory answers. Some said it did—for example, an anonymous author who claimed that it was first issued about 1650 by a goldsmith named Futter.¹ Others differed, like Leigh in 1671² and Clements in 1695,³ or for that matter Giles Jacob as late as 1756,⁴ who all regarded money as comprising only coins. The intention of what follows is to try to establish whether paper money did indeed exist in the eighteenth century, and if so what form it took.

For this purpose we need a working definition of money. Let us say that money may be succinctly defined as anything which is generally acceptable in final settlement of a debt.⁵ This does not mean that the object handed over is necessarily legal tender; no paper was in England until 1833.⁶ Nor does it necessarily mean that every debt could be settled

¹ *Some observations on our Trade, and on the use of a Standard* [?1700], p. 36. HILTON PRICE, *A Handbook of London Bankers* (1890-1), p. 63, lists Henry Futter as a goldsmith from 1633.

² *Three Diatribes or Discourses... Secondly, of Money or Coyns...* (1671), p. 61.

³ *A Discourse of the General Notions of Money, Trade and Exchanges* (1695), p. 6.

⁴ *A New Law-Dictionary...*, 7th edition (1756), s.v. "Money".

⁵ Cf. ROBERTSON, *Money*, 4th edition (1948), p. 2: « anything which is widely accepted in payment for goods, or in discharge of other kinds of business obligations ».

⁶ 3 & 4 Will. IV, c. 98 s. 6.

by the same kind of money. But if what was offered was not of greater face value than the debt, and it was acceptable to settle that debt without recourse to the payer being looked for if anything went wrong, then it was money. Paper instruments which did not fulfil this purpose were not money.

The distinction here drawn was rarely clear to writers in the seventeenth or early eighteenth centuries, partly because their terminology was often exasperatingly loose. They tended to call all forms of paper instrument indifferently "notes", "bills", or "credit", so that one cannot be sure whether they are referring to banknotes, bills of exchange, or even less fundible items such as mortgages; and they frequently used the phrase "paper money" to comprehend all kinds of credit. But there were exceptions. One such was an anonymous writer who parodied the land bank proposals of John Briscoe in 1695. He wrote.

Paper credit ever was and will be useful for the carrying on of Trade and Dealings, viz. Bonds, Mortgages, Bills, or what else is used, only as a pledge to gain time for the payment of Money... But the Bills you propose, are designed... not only to discharge Debtors, but also Debts finally, and by Law, therefore such Notes and Bills... deserve the Name of *Paper Money*.⁷

Bearing this in mind, let us look briefly at the means of payment available around 1700. At least 11 are mentioned in the literature: silver coins, gold coins, copper coins, Bank of England notes, country bank notes, Land Bank notes, goldsmiths' notes, bills of exchange, tallies, mortgages, and annuity securities. Of these, only silver was unlimited legal tender. Gold coins were taken at a valuation in relation to silver which varied from time to time; and most copper coins were unauthorized tokens with only local usefulness. But it is the non-metallic items which interest us; we may look at the list in reverse order.

Annuity Securities — Perhaps the least likely candidates in the list were annuity securities. It is true that Ambrose Phillips, writing in 1725, calls them "Paper-Coin" and says that an annuity of £5 a year « is generally taken for £100 »; but he immediately goes on to say that if this is refused « and Money requir'd, this Money comes at last to Market to purchase such Securities ».⁸ It is thus clear that he did not really regard the securities as more than a temporary substitute for money.

⁷ *Proposals for Supplying the Government with Money on easie terms...*, p. 22. Said to be « By John Briscoe, 1694 » but actually a parody published in 1695; see J. K. HORSEFIELD, *British Monetary Experiments, 1650-1710* (1960) (henceforth B.M.E.), p. 183.

⁸ *The State of the Nation in Respect of her Commerce, Debts, and Money* (1725), pp. 45-6.

Mortgages — Ambrose Phillips also lists mortgages among means of payment because, as he says, « they are often transferr'd and may be reckon'd Money in Circulation ».⁹ Davenant, writing some thirty years earlier, had included mortgages in a similar list, but being more clear-sighted than Phillips he had classed them as credit, not as money.¹⁰ It seems improbable that anyone would, at any time, have seriously considered a mortgage as a piece of money rather than as an investment.

Tallies — These also turn up in Davenant's catalogue, but again appear as "credit", not as "money". Most use of them was made during the recoinage crisis of 1695-6. Davenant, writing in July 1696, says

... of late, when the Coyne grew so corrupted ... Paper Credit did not only supply the place of running Cash, but greatly multiplyed the Kingdome stock, ffor Tallies & Bank bills (where Intrest was annexed) did to many Uses serve as well, and to some better than gold and silver ...¹¹

The clue here is surely the parenthetical phrase; no one expects to earn interest on money as such, and the acceptance of interest-earning assets in transactions must be regarded as making, if only involuntarily, a temporary investment of an unwanted balance.

Bills of exchange — Technically, of course, these include cheques, which first appear about the time of the Civil War. There is no doubt that after 1666, when the Courts decided in effect that the custom of merchants was part of the law of the land,¹² inland bills of exchange became increasingly useful as means of payment. After all, the custom of merchants included an obligation to pay one's debts.¹³ The widespread acceptability of bills of exchange is shown, for example, by the reliance of the Treasury on them to ensure the prompt remittance of taxes collected in the provinces,¹⁴ and also to enable out-stationed paymasters to obtain funds—a

⁹ *Ibid.*, p. 43.

¹⁰ e.g. « A Memorial concerning Credit and the means and methods by which it may be restored » (July 15, 1696) in *Two Manuscripts by Charles Davenant* (Baltimore, 1942), pp. 67-9.

¹¹ *Ibid.*, p. 68.

¹² *Woodward v. Rowe* (1666), 2 Keb. 105, 132, cited HOLDEN, *History of Negotiable Instruments in English Law* (1955), pp. 33-4.

¹³ *Pearson v. Garrett* (1693) 4 Mod. 242: « ... there is ... an ancient and laudable custom ... that if any person inhabiting [London] shall make any bill or note [by which] he should promise to pay any person any sum of money ... such person ... is bound to pay the same sum of money ... ».

¹⁴ P.R.O., Treasury Books T/51/34 (1667), pp. 53-4, quoted THIRSK and COOPER, *Seventeenth Century Economic Documents* (Oxford 1972), pp. 669-70.

use which was long continued, as shown by Departmental returns as late as 1810.¹⁵

Nevertheless, bills of exchange never attained the *general acceptability* as a final means of payment necessary for them to qualify as money. For one thing, accommodation paper was rife, especially towards the latter part of the eighteenth century,¹⁶ and this hampered the acceptability of even sound bills. For another, recourse to the Courts was often unsatisfactory. Court reporters were not good at terminology, or at distinguishing between cheques, other bills of exchange, and banknotes; for example, in one case the relevant document, obviously a cheque, was called a « Cash-Note upon his [the defendant's] Banker ». ¹⁷ But enough cases are clear to illustrate litigants' difficulties.

One was that juries insisted that a cheque had to be very promptly presented for payment if the recipient was to be protected against loss should the cheque not be met. Thus in 1746 the jury found against a plaintiff because, having received a cheque at 12.0 noon, he had failed to present it until the next day, by which time the banker had shut up shop. Mr. Justice Foster then refused to overrule the jury because, he said, « Bankers had no right to establish a customary law amongst themselves at the expense of other men ». ¹⁸ Thirty-six years later Lord Mansfield, in a similar case, instructed the jury that 24 hours was a reasonable time within which to present a cheque for payment, but the jury disagreed and again found for the defendant. ¹⁹ As late as 1842 juries were still insisting on presentation immediately. ²⁰

For these and similar reasons the House of Lords Committee on the Suspension of Cash Payments in 1797, faced with the need to consider whether bills of exchange were in fact money, decided otherwise. They distinguished them in this respect from banknotes, saying « Inland Bills of Exchange are thought by many, to be a Part of the Circulation of the Kingdom. They are not strictly so . . . » ²¹ This dictum may be taken as applying *ab initio*.

¹⁵ *Accounts of the Course of Exchange and the Bills Drawn on the Treasury, &c. in 1809* (1810).

¹⁶ *Stone v. Freeland* (1769) 3 Term Rep. BR. 176. See also the series of cases arising out of the bankruptcy of Livesey, Hargreaves and Co. in 1788 discussed in J. K. HORSEFIELD, *Gibson and Johnson: A Forgotten Cause Célèbre* (« *Economica* », Aug. 1943, pp. 233-7).

¹⁷ *Grant v. Vaughan* (1764) 3 Burr. 1516.

¹⁸ *Hankey v. Trotman* (1746) 96 E.R.I.

¹⁹ *Medcalf v. Hall* (1782) 3 Doug. 113. Similarly in *Appleton v. Sweetapple* (1782) 3 Doug. 137 and *Tindal v. Brown* (1786) 1 D. & E. 167.

²⁰ *Alexander v. Burchfield* (1842) 135 E.R. 431.

²¹ *Report of the Lords' Committee of Secrecy*, 28th April 1797, p. 249.

Goldsmiths' Notes — Goldsmiths may have been issuing notes as early as 1650, as stated by the anonymous writer quoted above. It was not however until 1670, by which time they were described as "numerous",²² that they were officially identified as bankers.²³ In 1703 Chief Justice Holt was advised by «two of the most famous merchants in London» that goldsmiths' notes had been in use for «a matter of thirty years».²⁴ But the last third of the seventeenth century was not propitious for the establishment of creditworthiness. The Great Fire in 1665 and the subsequent appearance of the Dutch at Chatham caused many goldsmiths to stop payment,²⁵ and while most of them later reopened there were frequent failures among them. *Prima facie*, therefore, it would seem unlikely that their notes would have been generally acceptable as a final means of payment. Nevertheless, goldsmiths flourished, and some degree of acceptability of their notes can be traced. The question is whether this was sufficient to qualify them as money.

The identification of goldsmiths with bankers mentioned above was made in connection with loans to the Crown, in which capacity they appear to have succeeded the Livery Companies which had financed Charles I and Cromwell. Loans to the latter, however, had been made in specie, or at least in bullion, and it would seem that, at first at any rate, goldsmiths followed suit. Whether by 1670 Charles II and his Ministers were accepting notes, and if so whether they were regarding them as money, it is impossible to be sure; but that goldsmiths' notes were not generally regarded as money at that time seems to be demonstrated by the appearance, year after year, of scores of proposals to provide acceptable paper as a means of payment.²⁶

In any case, the Stop of the Exchequer, in January 1672, destroyed any acceptability that goldsmiths' notes might have had, even in official

²² «The Royal Fishing Revived» (1670), in *Harleian Miscellany* (1810), VII. 406. HILTON PRICE, *op. cit.*, p. 182 lists 31 «goldsmiths keeping running cashes» in 1670, but there is evidence that his lists are not complete.

²³ 22 & 23 Chas. II, c. 3, s. 2.

²⁴ *Buller v. Crips* (1703) 6 Mod. 30.

²⁵ POLLEXFEN, *A Discourse of Trade, Coyn, and Paper Credit* (1697), p. 73.

²⁶ e.g. (a) Sir BALTHASAR GERBIER, *Some Considerations on the two grand Staple Commodities of England* (1651), p. 5.

(b) GERBIER again in *Calendar of State Papers Domestic* (hereafter C.S.P.D.) 1661-2, p. 78, item 131 (August 1661).

(c) [SLINGSBY BETHEL], *The present interest of England stated* (1671), p. 10.

(d) *The many advantages the Bank of the City of London will afford to the Public and to all sorts of Traders* [1682].

(e) NICHOLAS BARBON, *A Discourse of Trade* (1690), pp. 29-30. For later proposals see B.M.E., especially p. 116.

circles. Immediately afterwards the Treasurer of the Navy sought instructions from the Treasury for the disposal of notes which had been accepted by him in exchange for tallies, since these notes, as he ungrammatically remarked, « is not now money ».²⁷

Four years later doubt was being cast on the creditworthiness of goldsmith-bankers because they held only a ten per cent cash ratio.²⁸ Contemporary City opinion seems to have been reflected in Yarranton's remark that « Of late years the monied men in England sent their moneys into Lombard-street, and there received a Note from a Goldsmith's Boy, which », he added gloomily, « was all they had to shew for their moneys ».²⁹

During this period we find, not unnaturally, no record of further official financing by goldsmiths. However, by 1680 their notes appear to have been cautiously received once more as subscriptions to Government loans. In February of that year the Secretary of the Treasury authorized the Tellers of the Exchequer to accept « until next Lady Day » any note offered for that purpose by Mr. Duncombe (a goldsmith), but stipulated that they were to « deliver [the note] when the money is directed upon you by the Auditor of the Receipt », ³⁰ which I take to mean that the note was not to be held, but was to be passed on promptly to a spending department.

This authorization was extended twice, to Midsummer³¹ and to Michaelmas 1680.³² The procedure was regarded apparently as a temporary expedient: Baxter says that the receipt of goldsmiths' notes « was improper but did occur ».³³ At any rate, in July 1680 the Secretary sought to confer with the Auditor of the Receipt, the Chamberlains, the Clerk of the Pells, and the four Tellers about how to reconcile « the ease of those which lend money to the King » with « the security of the King and the method of the Exchequer ».³⁴ The Treasury letter mentions that at that time My Lords were « satisfied that Mr. Duncombe does always discharge the money the same day or the day after » his note was taken by the Exchequer of Receipt,

²⁷ *Calendar of Treasury Books* (hereafter C.T.B.) Vol. 3 (1669-72), p. 1011.

²⁸ *The Mystery of the New Fashioned Goldsmiths or Bankers...* (1676), p. 7.

²⁹ *England's Improvement by Sea and Land... to pay Debts without Money*, Part 1 (1677), p. 17.

³⁰ C.T.B., Vol. VI (1679-80), p. 429.

³¹ *Ibid.*, p. 489.

³² *Ibid.*, p. 608.

³³ STEPHEN B. BAXTER, *The Development of the Treasury 1660-1702* (1957), p. 130n.

³⁴ C.T.B., Vol. VI, p. 609.

which suggests that the acceptability of Duncombe's paper was based upon his prompt encashment of it.

Unfortunately the outcome of the conference sought by the Treasury does not appear. However, the gingerly acceptance of goldsmiths' notes seems to have continued on the same lines, as in April 1684 Sir Thomas Vernon, one of the Tellers of the Exchequer, was authorized to accept notes offered by Edward Noell, goldsmith, as subscriptions to the current loan, with the proviso that these « notes are to be delivered to the parties to whom the said money shall be issued ».³⁵

These incidents appear to show that the acceptability of goldsmiths' notes in official circles was limited to those of specific reputable individuals, and to have been subject to the condition that there were opportunities to pass them on promptly to someone else. They were not apparently regarded as a means of final settlement. Such acceptability falls short of identifying them as money.

In the City it seems as if, for a time, goldsmiths' notes were perforce accepted. Barbon, writing in 1690 to advocate a public bank, said that:

the merchants of London, for want of such a Bank, have been forced to carry their Cash to Gold Smiths, and have thereby raised such a credit upon Gold Smiths Notes, that they pass in Payments from one to another like Notes upon the Bank [*sc.* the Bank of Amsterdam]; And although by this way of Credit, there hath been very Vast Sums of Mony lost, not less than two Millions within five and Twenty Years, yet the Dispatch and Ease in Trade is so great by such Notes, that the Credit is still in some Measure kept up.³⁶

But it was a precarious as well as a partial credit. Although in the recoinage crisis in 1695-6 goldsmiths' notes were again much used, yet immediately afterwards another writer commented that « almost all that, which is currently called Paper-Credit, is sunk, lost, and become useless », and in « Paper-Credit » he included goldsmiths' notes.³⁷

It must be said that the Courts did little to encourage the use of notes. Rather the contrary: they appear for a long time to have treated notes as a new-fangled invention not effectively covered by the custom of merchants. We have seen that Chief Justice Holt had been advised by experts in 1703 that goldsmiths' notes had been in use for some thirty years. Yet in the same court, in the same Michaelmas term, Sgt. Darnell remarked significantly, if somewhat obscurely, that « the delivery of these [goldsmiths'] notes,

³⁵ C.T.B., Vol. VII (1681-5), p. 1086.

³⁶ *Op. cit.*, pp. 28-9.

³⁷ *A Letter to a Friend concerning Credit* [1697], p. 3.

as is now used, is no part of their trade; a very new invention, already obnoxious to such practices as deserve no encouragement ».³⁸

This may explain why as early as 1693 the legal view—enunciated as a principle by Chief Justice Holt ten years later—was that a note given in payment of a debt operated only conditionally — « to be payment if the money be paid thereon in convenient time ».³⁹ Further, it was the view, legitimated by the Courts also in 1703, that a banker's stopping payment was not an act of bankruptcy, so that he remained free to prefer one creditor above another.⁴⁰ Again it was ruled, from 1689 until 1704, when the right was conferred by legislation,⁴¹ that transferees of goldsmiths' notes (unlike those of bills of exchange) could not sue the makers of the notes.⁴² The right to do so had been held not to be within the custom of merchants.

Finally there remained, even after 1704, a corollary of the conditionality stipulated by Chief Justice Holt. Power to sue the maker of a banknote did not give the holder unlimited freedom to sue, at leisure, the person from whom he had received it if, for example, the goldsmith issuing it went bankrupt. In the first place, if the payee receiving the note had given a receipt for it he was regarded as having bought the note, and was stuck with it. Secondly, even if he had not given a receipt his remedy expired very quickly, just as it did for a bill of exchange.⁴³ In 1706 the safe period was set at three days⁴⁴ but later in the century it was even shorter. In 1721 it was one day.⁴⁵ This may have reflected some general mistrust of paper following the South Sea *debacle*, but if so the effect was a lasting one; in 1731⁴⁶ and again in 1742⁴⁷ the safe period was still twenty four hours, although by 1749 it was said to be "established" that holders of notes must encash them within three days.⁴⁸

Taking all this into consideration it would seem that the users of goldsmiths' notes might be likened to the players of a game such as "musical parcels", in which the loser is the one holding the parcel when the music

³⁸ *Ward v. Evans* (1703), 6 Mod. at p. 37.

³⁹ *Hill v. Lewis* (1693), 1 Salk 132; *Ward v. Evans*. See HOLDEN, *op. cit.*, p. 85.

⁴⁰ *Hopkins v. Gray* (1703), 7 Mod. 139.

⁴¹ 3 & 4 Anne c. 9, s. 1.

⁴² *Horton v. Coggs* (1689) 3 Lev. 299; *Nicholson v. Sedgwick* (1698) 1 Ld. Raym. 180; *Clerke v. Martin* (1702) 1 Salk 129. On the subject of this sentence see HOLDEN, *op. cit.*, pp. 73-84.

⁴³ *Sir Charles Thorold v. Smith* (1706) 11 Mod. 71.

⁴⁴ *Ibid.*

⁴⁵ *Turner et al. v. Mead et al.* (1721) 1 Str. 416.

⁴⁶ *Hoar v. Dacosta* (1731) 2 Str. 910.

⁴⁷ *East India Company v. Chitty* (1742) 2 Str. 1175.

⁴⁸ *Walmsley v. Child* (1749) 1 Ves. 342.

stops. This is strongly suggested by the rulings of the Treasury. Business attitudes may well have been similar. Cantillon, writing about 1730, explained that a banknote might pass through several hands until it reached someone who either mistrusted it or needed change, and therefore cashed it, but he emphasised that « Bankers or Goldsmiths . . . are or ought to be always ready to cash their notes when desired on demand ».⁴⁹

Such notes cannot have been regarded as money; they were at best only a claim or an entitlement to money. Indeed they seem to have been so regarded by goldsmiths themselves, at least when it suited them. Counsel for Sir Stephen Evans and Hailes, goldsmiths, who had given one of their notes in exchange for two of other goldsmiths, claimed in 1710 that

their manner of giving notes . . . amounted to no more than a receipt for the two notes . . . for so much money, which when received they promise to be accountable for.⁵⁰

Land Bank notes — These had a very short run; while there were three Land Banks issuing notes in London in 1696, they had all closed down before the end of the century.⁵¹ Their notes were subject to the same limitations as those of the goldsmiths, added to which there were justified doubts about the adequacy of the cash holdings of the banks issuing them. Presumably Land Bank notes were used in payments for a limited time and within a limited circle, but they never attained general acceptability.

Country banknotes — Certainly as early as 1711, and perhaps as early as the 1670's, Smiths of Nottingham, and maybe other country bankers, were issuing what might be called banknotes, although in origin they were more like deposit receipts.⁵² Much of what has been said above about goldsmiths' notes applies equally to country banknotes. For example, their acceptability was limited, *inter alia*, by the fact that they were encashable only at the banks of the men who issued them, and by the need to encash them promptly to avoid possible loss. They may well have been used as a means of payment by a limited circle of people who knew and trusted the banker; and as the eighteenth century progressed this circle undoubtedly grew. As such stories as *Cranford* show, country banknotes eventually acquired a wide use; but for long after 1700 they were too unfamiliar to be generally

⁴⁹ *Essai sur la Nature du Commerce* [circa 1730], ed. Higgs (1931), p. 301.

⁵⁰ *Trowell v. Evans* (1710) 21 E.R. 1113.

⁵¹ B.M.E., pp. xviii, 156-210.

⁵² LEIGHTON-BOYCE, *Smiths the Bankers 1658-1958* (1958), pp. 16-8.

acceptable. Even in 1834 their acceptability was conditional: Chief Justice Holt's rule still applied. McCulloch reported that.

Country bank notes are usually received as cash. But though taken as such, if they be presented *in due time* and not paid, they do not amount to a payment.⁵³

As to what was « a due time », McCulloch advised that if they were received at the place where they were payable they should be presented on the day of receipt or as soon after as was possible. If they had to be presented by post, the legal rule was that this must be done by the next day.⁵⁴

Bank of England notes — This leaves us with Bank of England notes as the only candidates for the title of paper money in the early part of the eighteenth century. It is, of course, obvious that sooner or later they qualified; the question is, when did this happen? When did the recipient of a Bank of England note begin, as a matter of course, to accept it—unlike a goldsmith's or a country bank note—as final settlement of a debt? We may again seek the answer from business men, from the Law, from economic writers, and from the Government.

Direct evidence of business men's views is hard to come by, but there were two crises in the first half of the eighteenth century where their actions speak louder than words. The first was the short-lived run on the Bank of England which was a by-product of the South Sea bubble scandal in 1720-1; the second was the scare caused by the progress of the Young Pretender in 1745. On both occasions the business community was prompt to sustain the credit of the Bank,⁵⁵ which must surely mean that, in the City at least, the Bank of England's notes were regarded as a unique element in commercial life.

If so, the fact that, within limits, the Courts were ready to treat as law the custom of merchants suggests that we might find expression of this uniqueness in legal circles. It is difficult, however, to discover any such views in the first half of the eighteenth century. It was not until 1758 that we find Lord Mansfield, in a case about a stolen Bank of England note, saying that the defendant's counsel had « very ingeniously argued . . . on the fallacious basis that banknotes were goods, whereas they were universally regarded as money, as cash ». He added « It is necessary, for the purposes

⁵³ *A Dictionary . . . of Commerce*, 2nd edition (1834), pp. 69-70.

⁵⁴ *Williams v. Smith* (1819), 106 E.R. 447.

⁵⁵ CANTILLON, *op. cit.*, p. 321; CLAPHAM, *The Bank of England: A History* (Cambridge, 1944) I, 234.

of commerce, that their currency should be established and secured ».⁵⁶ Yet even this endorsement did not wholly overturn Chief Justice Holt's principle of conditionality. In 1790 Mr. Justice Buller, after twelve years in the King's Bench Division, said in another case involving a Bank of England note that, even though « banknotes pass in the world as cash »,

this Court has never yet determined that a tender of bank notes is at all events a good tender; but if they have been offered, and no objection has been made on that account, this Court has considered it a good tender.⁵⁷

It was not until 1797 that any legislative difference was made between Bank of England notes and others. Parliament then decided that the tender of a Bank of England note should always suffice to prevent arrest for debt.⁵⁸ But, as already mentioned, banknotes did not become legal tender for all purposes until 1833.

What may we conclude so far? By 1758 the Courts were persuaded that Bank of England notes were money, although legislative action to give effect to this was not taken for another seventy-five years. Before 1758 there are hints that in 1720-1 and 1745 business men regarded Bank of England notes as something special. But 1758 is more than sixty years after the Bank was founded; and the hints in the preceding crises are no more than hints.

If we turn to the economic writers there is one who enables us to antedate Lord Mansfield's pronouncement by ten years, with the unambiguous assertion that Bank of England notes are « a kind of *real Specie*, which are *current* in all sorts of Payment ».⁵⁹ But earlier in the century we find ourselves bogged down in the horrible morass of imprecise language to which reference has already been made. Moreover, we have to allow for a writer's bias. Thus Charles Davenant was from time to time engaged in anti-Ministerial propaganda, so that when in 1701 he described Bank of England notes as « imaginary wealth », whose only effect had been to « lull the nation asleep, while the ready money that should even carry on our common business, has been exported »⁶⁰ we may not unfairly regard the criticism as an involuntary tribute to the acceptability of Bank of England notes as a substitute for cash.

If with this in mind we then wade circumspectly through the outpourings

⁵⁶ *Miller v. Race* (1758) 1 Burr. 453.

⁵⁷ *Wright v. Reed* (1790) 3 D. & E. 554.

⁵⁸ 37 Geo. III, c. 91, s. 8. See *Grigby v. Oates* (1804) 2 Bos. & Pull. 526.

⁵⁹ *An Essay upon Public Credit in a Letter to a Friend* (1748), p. 20.

⁶⁰ « An Essay upon the Balance of Power » (1701), in WHITWORTH, ed., *The Political and Commercial Works of... Charles D'Avenant...* (1771), III, 329.

of some of Davenant's contemporaries we can find at least indirect evidence in support of this view. What struck Alexander Justice in 1707 was that

in all Countries where there are Banks... the Bank Money is considerably higher than the Current... (except in *England*, where there is no difference in the Value of the Monies).⁶¹

The comparison here made with the highly-respected Bank of Amsterdam's giro system suggests, even more clearly than the terminology, that Justice, at any rate, was ready to regard Bank of England notes as money. Support for such an attitude can be found in the work of a number of authors who stress the exceptional resources which the Bank had at its disposal.⁶²

But these were inferences, not facts. Remains only the Government's view. What was that?

Since the Bank of England was a Governmental creation, and its earliest notes were issued for Governmental purposes, one might suppose that the Government, at least, would have had no doubts about their acceptability. But there were complications. One was the long-standing tradition in the Exchequer that receipts had to be in hard cash.⁶³ Another was that, almost before the experiment of the Bank had got under way, the crisis of the recoinage in 1696 drove its notes to a discount. It was not therefore surprising that when the question of the acceptability of Bank notes for general Governmental purposes came up, in that same year, the Treasury hesitated.

Four separate incidents in July and August 1696 brought the matter to the fore. Three of these came to the notice of the Lords Justices (the Council of Regency). On July 11 they were told that demands were being made from Amsterdam that bills of exchange falling due in London should be met in specie « and not in bank or goldsmiths' notes ». Several bills had been protested because their holders refused to receive notes. But « in the present exigency of money » (the recoinage had just begun) English merchants thought that it would be reasonable to pay in notes at least half the amounts due under such bills of exchange. The Lords Justices agreed to consider the matter, and meanwhile instructed public notaries to refrain for a fortnight from protesting such bills.⁶⁴ The Lords Justices asked the

⁶¹ « A General Discourse of Exchange », p. 29, in *A General Treatise of Monies and Exchanges* (1707).

⁶² e.g. [JANSSEN], *A Discourse Concerning Banks* (1697, reprinted 1742), p. 11; [SIMON CLEMENT], *Faults on Both Sides* (1710), in « Somers' Tracts » (1814), XII, 697.

⁶³ MADOX, *The History and Antiquities of the Exchequer*, 2nd edition (1769), I, 274 and II, 307.

⁶⁴ C.S.P.D. 1696, p. 267, 269.

King, who was then in the Netherlands, to intervene with Amsterdam,⁶⁵ but on 27 July they decided not to renew the instruction to public notaries⁶⁶ and to let matters take their course.

A week later they received a petition from the clothiers of Worcester asking that Bank notes should be accepted in payment of excise duties. The reply sent was that « Their Excellencies would recommend this to the Treasury, and would do all in their power for the petitioners' relief ».⁶⁷ Almost at the same time the Lords Justices received a third application: the Bank of England complained that « a receiver of the customs had made a difficulty to take » their notes.⁶⁸

Meanwhile the Treasury had been directly approached by some merchants in Norwich, who asked to be allowed to pay duties in Bank notes « as they were informed was done in London ». Whatever may have been the validity of this hearsay evidence, the Treasury sat on its hands: it minuted « My Lords can give no direction ». Nor did the Lords Justices' recommendation move it. But two months later the problem could no longer be burked. Mr. Dodington, Treasurer of the Navy, complained that the Commissioners of Prizes had sought to pay over the share of the prize-money appropriated by Act of Parliament for the care of sick and wounded seamen, not in cash but in Bank notes, then at a discount of 20 per cent. This, he said, was not « payment according to the Act of Parliament ».⁷⁰

The Treasury asked the Prize Commissioners for an explanation. They replied that they received notes for the prizes which they sold, and said that captains and others interested had raised no objection to receiving their shares in banknotes. (Unless Navy men were less particular than others this sounds as if banknotes were in common use in 1696). Anyway, the Treasury, taking Mr. Dodington's point about the Act, wrote back to the Prize Commissioners telling them to turn the banknotes into cash, and to charge in their accounts the loss they would sustain by the discount. To this the Commissioners answered that they would do so, but they hoped that Mr. Dodington would keep quiet about it, lest those who had already accepted banknotes should raise what they called « a clamour ». This seems to have rung a warning bell in the Treasury, for three weeks later it wrote again to the Prize Commissioners telling them to pay Mr. Dodington in

⁶⁵ *Ibid.*, p. 269.

⁶⁶ *Ibid.*, p. 300.

⁶⁷ *Ibid.*, p. 329 (August 7, 1696).

⁶⁸ *Ibid.*, p. 339 (August 11, 1696).

⁶⁹ *Calendar of Treasury Papers* (hereafter S.T.P.), 1556-1696, p. 531 (22 July 1696).

⁷⁰ C.T.B., 1696-7, pp. 63-4. For the discount on banknotes see THOROLD ROGERS, *The First Nine Years of the Bank of England* (Oxford 1887), p. 87.

banknotes, and to inform him that the Commissioners for the Sick and Wounded would accept them from him.⁷¹

Mr. Dodington seems, in fact, to have been satisfied to use banknotes not only for the specific purpose of paying the Commissioners for the Sick and Wounded, but for the general purposes of the Navy as well. This appears from the fact that when his accounts were being settled in 1699 he was allowed £ 2870.2s.6d. in respect of losses sustained by him through the discount on banknotes which had passed through his hands.⁷²

Meanwhile, however, William Lowndes, Secretary of the Treasury, had prodded Parliament into making an attempt to tidy up Exchequer procedure and prevent Exchequer officials from using its takings for their own purposes. Early in 1697 the Royal Assent was given to « An Act for the better Observation of the Course anciently used in the Receipt of Exchequer ». ⁷³ In this statute, which faithfully followed the traditional procedure, tellers receiving money for taxes, loans, or other purposes were required to weigh it.⁷⁴ Exchequer bills only were exempted from this procedure.⁷⁵ Obviously banknotes tendered for such purposes would fall short of the appropriate weight.

Despite this apparently deliberate attempt to exclude banknotes from Governmental receipts, the Treasury clearly felt that their usefulness would have to be recognized. However, so long as the notes remained at a discount, as they did throughout 1697, the remedy would have to wait. The opportunity came in 1698, when the House of Commons was dealing with an enormous Bill designed to raise £ 2 million by authorising the subscribers to form a second company to trade with the East Indies.⁷⁶ Montagu, Chancellor of the Exchequer, proposed the addition of a clause (No. 89) which read, omitting much verbiage, as follows:

It shall . . . be lawful for the Lord High Treasurer, or any Three or more of the Commissioners of His Majesty's Treasury . . . if he or they shall think fit, and it be found safe and expedient . . . to receive . . . Bills under the Seal of the Governor and Company of the Bank of England, commonly called Bank Bills . . . unto the end of the next Session of Parliament, and no longer . . . provided that none of the said Bank Bills shall be so taken . . . when the same are at any Discount.

⁷¹ C.T.P., 1556-1696, p. 556.

⁷² C.T.B., 1698-99, p. 392.

⁷³ 8 & 9 Will. III, c. 28.

⁷⁴ s. 1.

⁷⁵ s. 11.

⁷⁶ 9 & 10 Will. III, c. 44.

This clause was duly passed, and was repeated in a similar Act the next year.⁷⁷

It will have been noticed that the clause refers to « Bills under the Seal » of the Bank. This would appear to exclude other types of notes which the Bank issued in its early years, notably the « running cash notes » by which it evaded the limit of £1.2 million notes under seal specified in its Charter.⁷⁸ Some sealed bills attracted interest, but in October 1698 the Treasury recorded its willingness to receive sealed bills not bearing interest,⁷⁹ so we need not assume that only interest-bearing ones were meant by the statute. Whether the Government's readiness to accept banknotes extended also to running-cash notes I cannot tell; but in any case the distinction between the two types of notes disappeared early in the eighteenth century, and it may be questioned whether the difference between them was regarded as important anywhere except in formal legal documents.

Although the provision made in the clause cited was not renewed beyond the end of 1699,⁸⁰ banknotes continued to be used for Governmental purposes. For example, the Secret Service accounts for 1700 specifically list payments in « Bank Bills »,⁸¹ and in 1701 the King instructed that the proceeds of the sale of his East India stock should be paid to him in banknotes.⁸² It seems unlikely that he would have specified banknotes if there was any doubt about their acceptability, or indeed that the Treasury would have been able to produce them if it had continued hurriedly to pass them on when received.

Nevertheless, the first unconditional statutory expression of a readiness to accept taxes, etc., in banknotes does not appear, so far as I can discover, until 1816.⁸³

Our conclusions are inevitably tentative, but if we concentrate on the *de facto* rather than the *de jure* situation, we may feel that by quite early in the eighteenth century Bank of England notes had established themselves as generally acceptable in final settlement of debts. This development undoubtedly owed much to growing familiarity with earlier instruments, such as goldsmiths' notes and perhaps country bank notes, but it seems on the whole unlikely that any of these quite attained the status of

⁷⁷ 10 Will. III, c. 11, s. 13.

⁷⁸ 5 Will. & Mary c. 20, s. 26.

⁷⁹ C.T.B. 1698-9, p. 161.

⁸⁰ « A Letter to a Member . . . relating to the Credit of our Government » (1705), in *The Vindication and Advancement of our National Constitution and Credit* (1710), p. 97.

⁸¹ C.T.B., 1702, p. 882.

⁸² C.T.B., 1700-1, p. 115.

⁸³ 56 Geo. III, c. 96, s. 4.

money. The situation was very different by the end of the century, especially after the Bank of England suspended cash payments in 1797. The general acceptability of notes thereafter is perhaps most clearly shown in a quarter to which one would not usually look for economic analysis. *The Gentleman's Magazine* faithfully reflected the attitudes of England's upper middle class, including a distaste for things commercial. But in June 1797 it unbent enough to make a joke about the prevalence of paper. « In a small yew-tree in the garden of Mr. Samuel Warburton, of Sheffield », it said, « a wren, a linnnet, and a blackbird have built their respective nests. These little musical tenants of the tree live in perfect harmony together, and, according to the fashion of the times, pay their rents to Mr. Warburton in notes ».⁸⁴ *Carisbrooke, Isle of Wight.*

⁸⁴ *The Gentleman's Magazine*, Vol. 57, p. 516.