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For the want of ‘scots projects’

Scottish Financial Innovation and the nature of the Financial Revolution, 1688-1727

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Signed: Andrew McDiarmid

Date: 09/05/2019

Abstract

Taking root in the aftermath of the Glorious Revolution of 1688-89, the Financial Revolution extended into the middle of the next century, shadowed in Britain by union, rebellion, and dynastic change. The classic literature on the Financial Revolution is plentiful but has paid little attention to the Scottish experience. More recent work has sought to widen the perspective from which the Financial Revolution is viewed, Scotland, however, remains poorly-served. When the subject of Scotland is considered, there is an emerging consensus that identifies elements of a Scottish version of the Financial Revolution. As yet, however, no-one has argued for distinctive and significant Scottish financial innovation. There is an understanding that something occurred, something distinct from what happened in England or Ireland, but its full character remains unclear.

The focus paid to English affairs is not, however, unjustified. The 1690s witnessed significant financial development here - the Bank of England, the establishing of a national debt, an emerging stock market, a failed national land bank, significant economic debate - in Scotland, however, financial development was much slower. Here there was a distinct growth in joint-stock companies during the first half of the 1690s, including the founding of the Bank of Scotland and the Company of Scotland in 1695. Forty-seven joint-stock companies were in existence during the first five years of the decade, by 1700, however, only twelve remained active. For the next three decades financial development in England boomed, whilst Scotland stagnated.

This thesis takes the view that this was due to the financial fallout of the failed colonisation at Darien. This event severely tempered the attitude of the Scottish administration to new projects. The ‘financially confident’ Scots that had emerged

from the Glorious Revolution were no more.[1] Things failed to improve in the direct aftermath of the Union of 1707 when the founding of new Scottish institutions, indeed even the continuing operation of existing ones such as the mint, became difficult within a British framework in the short term. Consequently, the seeds of a Scottish Financial Revolution had been sown in barren soil. After 1695, no new Scottish financial institutions were formed for more than thirty years, and any financially innovative plans that were put before the pre-union administration were turned down. This thesis therefore postulates that the Scottish Financial Revolution occurred in three stages; first the aborted effort of the 1690s, followed by three decades of economic debate and foreign endeavours by members of the Scottish global community, before the third phase, with the establishment of the Royal Bank of Scotland in 1727, in which the Financial Revolution in Scotland commenced in earnest.

[1] D. Watt, *The Price of Scotland: Darien, Union, and the Wealth of Nation*, (Edinburgh, 2007), p.87

Chapter 1

Introduction

In the aftermath of the financial crisis of 2007-8, banking and finance have become dirty words. The financial practices which led to the crash – beginning with the selection of 'the diciest-looking mortgages from the most vulnerable [American] states' to package as high-yield, safe security investments for European investors -were risky in their nature. Lax regulations and self-serving banks acted only as 'conduits and catalysts in the process'.[1] The fall-out was global, with a small number of nation states on the brink of financial collapse.[2] This 'integrated world of government debt, banking, taxation, and trade' is not, however, a recent manifestation.[3] Instead, these financial instruments emerged from an expanding new world long before 'sub-prime mortgage' became a stock phrase among news analysts. Today, these instruments, built on credit, exist in a financial world moulded by the events of the Financial Revolution of some three centuries earlier.[4]

As the reader may be aware, that there was a financial crisis is also not new. The frequency by which these events occur, however,

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[1] L. Neal, *A Concise History of International Finance: From Babylon to Bernanke*, (Cambridge, 2015), p.295; and D. Carey, 'Preface', in D. Carey, and C. J. Finlay (eds), *The Empire of Credit: the Financial Revolution in the British Atlantic World, 1688-1815*, (Dublin, 2011), p.xiii

[2] The cases of Ireland, Greece, and Italy in particular come to mind, for an overview see D. Donovan, and A. Murphy, The Fall of the Celtic Tiger: Ireland and the Euro Debt Crisis, (Oxford, 2013); T. Pelagidis, and M. Mitsopoulos, *Greece: From Exit to Recovery?* (Washington, 2014); and R. Di Quirico, 'Italy and the Global Economic Crisis', in *Bulletin of Italian Politics*, Vol. 2, No. 2, 2010, pp.3-19

[3] Carey, 'Preface', p.xiii

[4] The term denotes the period following the Glorious Revolution of 1688-9 until the middle of the eighteenth century.

may come as a surprise. The examples which follow do not represent an exhaustive list but do indicate that in recent decades we have seen such events with marked regularity. During the mid-1970s much of the western world experienced a period of stagflation, that is high inflation and high unemployment mixed with slow economic growth. Less than a decade later a debt crisis emerged in Latin American, where previously prosperous countries could no longer repay loans that had been made by international creditors. Large-scale economic turbulence rocked the late-1980s, with 19 October 1987 termed ‘Black Monday’, as stock markets around the world collapsed, whilst U.S. savings and loan associations crashed en masse between 1986 and 1995. The 1990s then produced a series of financial crises around the globe, Asia, Russia, and India included. And in the 2000s there was most notably, prior to 2007-8, the crashing of the dot com bubble. New markets clearly present new opportunities for economic prosperity, but inherent in new financial products and markets is an element, to a greater or lesser degree, of risk.

Hand in hand with economic failure goes a period of reflection; this has also long been the case. As I write, a decade has passed since the global crisis of 2007-8, but still Europe and North America exist within a state of severe financial scrutiny, where market fluctuations are met with concern, and financial actors are viewed with caution. Similarly, following the collapse of the French-instigated ‘Mississippi Bubble’ in 1720 - a failure brought on by the over-issue of paper money by the *Banque Royale* and the over speculation of share prices in its sister concern, the *Compagnie d'Occident* - France reflected upon the financial practices that had led to that crash for decades. So much so that the country did not establish another central bank until the *Banque de France* in 1800.

Inevitably this period of reflection then arouses an element of reproach, where those deemed to be responsible for the economic collapse come under attack. These attacks come from within government and financial institutions, and from the public at large. Take Fred Goodwin, the ex-chief executive of the Royal Bank of Scotland (RBS), presiding over the institution's near collapse in 2008. A decade later he remains the face of financial impropriety to many people who are not quite sure why. The British Prime Minister at the time of the crash, Gordon Brown, was also pilloried by sections of the press for presiding over the financial crisis, despite it being a global crisis originating in the United States. Somewhat comparably, in 1720, Scotsman John Law, the architect of the Mississippi System which begat the previously mentioned bubble, became a target for those who found themselves out of pocket following its collapse. He fled France and spent his remaining years fending off these attacks and attempting to show that his monetary principles were indeed sound. At present there is undoubtedly a bubble effect in the markets around cryptocurrencies, when this bursts there will again be blame. The anonymous origins of many of these currencies, however, means that determining who will bear this responsibility is unclear. It must be stated that it is not the intention of this work to defend any of the financial actors outlined above, these names are only mentioned to highlight the similarities in public reaction to financial crises, despite a gap of almost 300 years between the examples given. Simply put, blame must be apportioned.

Not all attempts at financial innovation end in crisis of course. Boom or bust are not the only options. Some innovations are revolutionary without exposing themselves to uncontrolled risk. Take the automated teller machine (ATM). This has changed the way we access money, whilst the debit card has removed the need for us to carry a physical currency at all. The emergence of such innovations, however, were initially met with a sense of distrust from sections of the general public more used to speaking to a bank teller over the counter or making an appointment with the bank manager to discuss their finances.[5] Today, however, these systems have become entrenched and now largely operate within a system of trust and credibility.

Technological advances in recent years have been so rapid that the space in which these instruments operate has begun to be encroached upon by new applications such as PayPal and Apple Pay; instruments which allow secure financial transactions to be conducted via smart devices without the need to carry a dedicated bank card or cash. When Apple Pay was launched in 2014, however, it sparked a

[5] As recently as 2012 a British survey conducted by a retail and banking solutions provider found that 72% of people asked were concerned about the safety and security of mobile banking; the survey of 2,031 16-64-year olds in Great Britain was commissioned by Wincor Nixdorf and conducted by independent research company TNSOmnibus;www.wincornixdorf.com/internet/site_EN/sid_4E5716E14D8AA178 EE0561FA8C46EB1F.live1/EN/WincorNixdorf/Press/pressreleases/2012/UK_Research.html

debate on the security of such payment systems and has since become the method of choice for only a minority of consumers. Similarly, when debates on paper money became commonplace throughout the British Isles and the North American colonies in the second half of the seventeenth century, this too was met with apprehension from some.[6] Many viewed the new currency's value as 'imaginary', and struggled to separate the intrinsic value of gold and silver coin, valuable for its worth as a metal as well as specie, from its use as currency, as they were asked to place their trust in a circulating currency made from paper. That a piece of paper is worth £5 because it is trusted that someone will exchange it for £5 worth of goods/services was a difficult concept for societies based on tangible wealth to accept. The initial distrust of financially innovative instruments, and those behind them, is therefore not a modern phenomenon, but rather, like risk, appears to be almost inherent in new ventures.

The contemporary widespread distrust of the financial system is perhaps justified. After all, whether it was the sub-prime mortgage crash, fixing LIBOR rates, or the selling of Payment Protection Insurance, financial institutions have done little in the last two decades to ingratiate themselves with the general public.[7] Financial actors

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[6] See, C. P. Nettels, *The Money Supply of the American Colonies Before 1720,* (Madison, 1934); A. McFarland Davis, *Colonial Currency Reprints: 1682-1751*, Vol. 1 (Boston, 1910); J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, Edinburgh, 1705); Rev. J. Woodbridge, *Severals relating to the fund: Printed for divers reasons as they may appear*, (Boston, 1682); and W. Potter, *The trades-man's jewel, or, A safe, easie, speedy and effectual means for the incredible advancement of trade, and multiplication of riches,* (London, 1650).

[7] For an overview of some of these issues see; J. K. Ashton and R.S. Hudson, 'The Mis-selling of Payments Protection Insurance in Mortgage and Unsecured Lending Markets', in J. F. de Guevara Radoselovics and J. M. Pastor Monsálvez (eds), *Modern*

during the period under consideration in this thesis (1688-1727) also found that their attempts to win the trust of investors was undermined by the nefarious practices of some.[8] Such swindlers were, however, in the minority. And rather than employing dishonest schemes, we see many seventeenth- and eighteenth-century projectors sharing a strong believe that financial innovation could be beneficial to the public good. To return to John Law for example, he saw his proposed Scottish land bank of 1705 as being capable of increasing 'the National Wealth' and easing 'the Country of a number of Poor or idle, … [enabling] them to live better, and to bear a share in the Publick with the other People'.[9] Similarly, James Armour, an Edinburgh lawyer, when proposing a Scottish bank in 1696, hoped that the institution would place 'vertue in … [Scottish] hands'.[10] And today, despite the sometimes toxic perception of financial actors, there are still examples to be found of promotors of financial projects pushing the wider benefits of their schemes. Take the 2018 implementation plan for the Scottish National Investment Bank, here, in a statement with distinct echoes of the works produced by seventeenth- and eighteenth-century projectors, it was stated that:

Bank Behaviour, (London, 2012), pp.8-33; L. Vaughan and G. Finch, *The Fix: How Bankers Lied, Cheated and Colluded to Rig the World's Most Important Number*, (Chichester, 2016): and M. B. Aalbers, *Subprime Cities: The Political Economy of Mortgage Markets*, (Chichester, 2012).

[8] See A. L., Murphy, *The Origins of English Financial Markets*, (Cambridge, 2009), pp.30-34

[9] J. Law, *Money and Trade Considered: with a Proposal for Supplying the Nation with Money*, (Edinburgh, 1705), p.2

[10] J. Armour, *A Proposal to Supply the Defect of Money, and Relief to the Poor*, taken from J. Armour, *A Premonitor Warning: or advice by a true lover of his country unto all whole hands this may come*, (Edinburgh, 1702), p.6

> the Bank will invest in a broad range of activities where it can make a complementary contribution to economic development. It will do so with the twin objectives of making a return in excess of the cost of capital at portfolio level and by achieving inclusive and social economic benefits.[11]

Of course, to suggest that there was not an element of personal gain driving many of the seventeenth- and eighteenth-century projectors of banking and credit schemes considered in this thesis would be naïve, but there is undoubtedly a certain altruistic motif that runs through many of the works.

The term 'financial innovation' has already appeared several times in this chapter, it is therefore felt that the reader would benefit from a clear definition. The phrase when employed in this thesis is defined in a similar manner to that used by one of the world's leading financial publications, namely as:

> the act of creating and then popularising new financial instruments as well as new financial technologies, institutions and markets. It includes institutional, product and process innovation.[12]

Here, however, it is not necessary for the scheme to have been popular, nor, it should be said, is success a prerequisite for its inclusion. Economic debate emerged with ferocity in the years under consideration, it was therefore commonplace for new financial models to be attacked by critics who questioned their credibility. This thesis also defines financial innovation as representing a significant change,

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[11] Scottish National Investment Bank Implementation Plan, Scottish Government, February 2018, p.iv

[12] *The Financial Times,* located at http://lexicon.ft.com

rather than just incremental improvements in the economic systems which existed. It is also not intended that the examples considered here are used to draw a straight line from the financial innovation of the past to the financial practices of today; this type of teleological exercise is of no concern.

The period 1688-1727 falls within a number of important historical frameworks; this was an age of empire, an age of mercantilism, and marked the first phases of the Financial Revolution. Each of these concepts are utilised in different ways. The place of empire in this work is important but is not approached head on. Rather it exists as an important context, one which allowed for the dissemination of financially innovative ideas throughout the Atlantic world, and which created the conditions for financially active Scots to operate outside of Scotland.

Mercantilism, meanwhile, is conspicuous by its absence. This is a problematic term, which Steve Pincus has recently asked us to 'rethink', whilst Philip Stern and Carl Wennerlind have sought to 'reimagine' it.[13] It is suggested here, however, that employing the term as an organising concept to economic and social histories covering roughly 300 years, whilst convenient, leaves the historian with a vague

[13] S. Pincus, 'Rethinking Mercantilism: Political Economy, the British Empire, and the Atlantic World in the Seventeenth and Eighteenth Centuries', in *The William and Mary Quarterly*, Vol. 69, No. 1 (January 2012); P. J. Stern and C. Wennerlind (eds), *Mercantilism Reimagined:Political Economy in Early Modern Britain and its Empire*, (Oxford, 2014)

conceptual framework.[14] Analysing and describing complex ideas and occurrences in reduced, more simplistic terms is undoubtedly required in many cases to make sense of history, yet in the case of political economy, clarity has in some cases been sacrificed for convenience. This work takes the view that so rich and varied were the ideas espoused by 'mercantilist' writers, that the language used to describe them should also be rich and varied. For this reason, the approach of this thesis shall be to view economic discourse firmly within its own historical context. As such, the all-encompassing 'mercantilism' will be discarded, not to be substituted with another framework designed for the ease of the academic, but instead replaced with a clear understanding of each individual concept that will be discussed.

The last of these frameworks, beginning in late-seventeenth century and concluding around the middle of the eighteenth century, is the Financial Revolution. This period was one of significant change in the financial systems of the British Isles, and, unsurprisingly, as three kingdoms history and new British history have extended themselves to include financial history, their focus has fallen on London. Here attention has been drawn to the establishment of the Bank of England in 1694, the implementation of new credit instruments, and the emergence of an English fiscal-military state.[15] Research is beginning

[14] Oser and Brue date 'Mercantilism' as being in existence between 'roughly' 1500 to 1776, J., Oser, and S. L., Brue, *The Evolution of Economic Thought*, fourth edition, (New York, 1988), p.15

[15] Carey, 'Preface', p.xiii: see H. Roseveare, *The Financial Revolution, 1660-1760*, (London, 1991); and J. Brewer, *The Sinews of Power: War, Money and the English State, 1688-1783*¸ (New York, 1989).

to emerge now, however, which considers the financial innovations taking place at this time in the context of more peripheral actors, such as Scotland, Ireland, and the Americas.[16] Despite the addition of these works, the full nature of the Scottish revolution remains unclear. Therefore, understanding the character of the Scottish Financial Revolution is at the core of this thesis.

The history of financial institutions in early-modern Scotland appears to support the view that the country was distinct, but not innovative. The situation was different to that of England which enjoyed proto-constitutional government, where property rights were secured and where the crown governed alongside parliament, the former being reliant on the latter for financial support. It has been theorised that this type of government, in which the crown subscribed to a form of 'credible commitment' regarding the payment of its debts, was crucial in underpinning the English Financial Revolution.[17] Scotland, unlike England, however, had no national debt driving its economic considerations, and in William II, had an absentee monarch more focused on the machinations of English politics and his war with France than his kingdom to the north. Like England, however, Scotland did experience a growth in financial opportunities during the 1690s,

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[16] See Carey, and Finlay (eds), *The Empire of Credit*); and P. Walsh, *The South Sea Bubble and Ireland: Money, Banking and Investment, 1690*-1721, (Woodbridge, 2014),

[17] D. North, and B. Weingast, 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England' in *The Journal of Economic History*, Vol. 49, No. 4 (Dec., 1989); North and Weingast make the case that new institutions formed after the Glorious Revolution allowed the government to 'commit credibly to upholding property rights', thus creating the correct conditions for England's Financial Revolution.

albeit on a much smaller scale.

The Bank of Scotland was established by an Act of Parliament in 1695, as was the group behind the failed Scottish colonisation of the Isthmus of Darien, the Company of Scotland. These represent just two out of forty-seven joint-stock companies established in Scotland in the years between 1690 and 1695; the majority of which, however, failed to last into the new century.[18] Between 1700 and 1727 no new financial institutions were formed in Scotland, other than the Edinburgh Society set up to protect the rights of Equivalent stock holders in 1719, and a direct precursor to RBS.[19] The Bank of Scotland's twenty-one-year monopoly on banking in the country ended in 1716, but this did not provoke a wave of bank foundations. What was a crucial period in the evolution of financially innovative ideas in England – the founding of the Bank of England, establishing a national debt, an expanding stock market, a national land bank, the South Sea Company – was for Scotland one bereft of new financial institutions. Indeed, those with the money with which to speculate were forced to do so beyond Scotland's borders, with one prominent Scot in 1720 bemoaning the lack of 'scots projects'.[20]

This does not mean that 'scots projects' did not exist, quite the

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[18] Between 1690 and 1695 forty-seven joint-stock companies were formed, only twelve carried on to the very last years of the century. See D. Watt, 'The Company of Scotland and Scottish Politics, 1696 -1701', in S. Adams and J. Goodare, *Scotland in the Age of Two Revolutions*, (Woodbridge, 2014), p.212; and W. R. Scott, *The constitution and finance of English, Scottish and Irish joint-stock companies to 1720*, (Cambridge, 1910), p.356

[19] As laid out in the Articles of Union, the Equivalent was a sum of money due to Scotland for taking on, among other things, part of the English national debt. It shall be returned to in detail in subsequent chapters.

[20] NRS, GD243/437, John Drummond to William Drummond, 11 May 1720

opposite. In 1704/05 a pamphlet war erupted in the country with the emergence of a Scottish literature promoting innovative financial ideas. Included were proposals for national loan funds, land banks and various alternatives to the Bank of Scotland.[21] Of those proposal that were submitted to parliament, the administration spent a considerable time, from at least the summer of 1704 until August 1705, looking at them. By July 1705 debates over 'Trade and Money' had taken precedence over those on 'the Regulations of the Succession'.[22] It appears, however, that in the wake of the failure of Darien, that the Scottish parliament attempted to rescue the Scottish economy by focussing on the nation's trade, rather than by employing a financially innovative scheme. A Council of Trade was established in September of 1705, by which point those proposals that had suggested expanding the money supply in Scotland through the establishing of a paper currency had been dismissed as 'unfit' for the country.[23]

The debate which led to this had been at times heated, particularly when discussing the land bank scheme of John Law: the

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[21] As examples see, J. Armour, *A Proposal to Supply the Defect of* Money; A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705); .W. Seton, *Some thoughts, on ways and means for making this nation a gainer in foreign commerce; and for supplying its present scarcity of money*, (Edinburgh, 1705); J. Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: together with some proposals for supplying the defect thereof, and rectifying the ballance of trade*, (Edinburgh, 1705); J. Hodges, *Considerations and proposals for supplying the present scarcity of Money, and advancing Trade*, (Edinburgh, 1705); and J. Law, *Money and trade considered*

[22] D. Hume, *A Diary of the Proceedings in Parliament and Privy Council of Scotland, 21 May 1700–7,* (Edinburgh, 1828), p.164

[23] As to was the proposal that the value of existing coin might be increased: *RPS*, 1705/6/36. Date accessed: 25 March 2019

parliamentary commissioner going as far as to order the earl of Roxburghe and Fletcher of Saltoun to be put under arrest to avoid the pair duelling. This did little to stop the two men later meeting on Leith beach to contest their differences, before common sense won out.[24] Many financial schemes had significant political support, particularly from the Squadrone who backed Law's scheme, but this was not, in the end, enough to sway Parliament as a whole.[25]

John Young has made the case that the failure of the Darien project had a considerable impact on Scottish parliamentary politics between 1698 and 1702. In his view it was particularly noticeable 'in the development of the Country Party, in terms of party politics and factionalism, and the submission of petitions and addresses to Parliament for the defence of Darien'.[26] I suggest here that the financial fallout of Darien's failure had another consequence, that of tempering the political will of the pre-1707 parliament in backing new financial ventures, pushing the administration towards risk averse solutions, such as a Council of Trade rather than a paper currency, to Scotland's problem of undercapitalization. This lack of political will was then matched post-union, by the British administration's lack of interest, in which the formation of new financial bodies, or the operation of existing ones, continued to be difficult.

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[24] Baillie of Jerviswood was also in attendance and was to act as second for the injured Roxburghe; A. E. Murphy, *John Law: economic theorist and policy-maker*, (Oxford, 1997), p.75

[25] G. Lockhart, *Memoirs Concerning the Affairs of Scotland from Queen Anne's Accession to the Throne to the Commencement of the Union of Two Kingdoms of Scotland and England in May 1707*, 2nd edition, (London, 1714), pp.144–5

[26] J.R. Young 'The Scottish Parliament and the politics of empire: Parliament and the Darien Project, 1695–1707', in P*arliaments, Estates and Representation*, Volume 27, 2007 - Issue 1, p.175

Despite the absence of new financial organisations in Scotland between the 1690s and the 1720s, as this thesis will show, Scots remained active in the Financial Revolutions of a number of territories. It is argued here that Scotland's revolution occurred in three distinct stages. The first was the aborted attempt at financial development in the 1690s. This was replaced by a second phase that was a revolution of ideas and involvement in foreign institutions by members of the global Scots community. It was a revolution that was situated, not in Scotland the landmass, but in Scotland the global community, as financially innovative Scots became involved in schemes beyond the territory of Scotland.[27] The last phase then began in 1727 with the founding of RBS and the emergence of Scotland's multi-bank system in the following decades.

The literature on the Financial Revolution is plentiful but has paid little attention to the Scottish experience. P. G. M. Dickson's work has for a long time been a central text on the topic in England. He acknowledges the Anglocentric nature of the field, arguing that 'English historians' perennial ignorance of Irish and Scottish developments, and of the reaction of these developments on English ones, cannot, respectably, be redeemed by substituting "British" for

[27] Particularly prominent examples of foreign projects steered by Scots include the Bank of England, undertaken by William Paterson, and the French *Banque Royale*, masterminded by John Law. Paterson was also the driving force behind the Company of Scotland, whilst Law had promoted a banking scheme to the Scottish parliament, but this, along with other schemes, was refused by the administration in 1705, It was not until the founding of RBS in 1727, a bank animated by Law's monetary ideas, that Scotland's financial institutions moved forward, as the nation's banking sector expanded greatly. That expansion only ending with the 1772 collapse of the Ayr Bank; a collapse caused by the issuing of a large number of loans in circulating paper notes; See G. Selgin, *Bank Deregulation and Monetary Order*, (London, 2002), pp.265-8

"English" and then continuing to ignore Ireland and Scotland'.[28] Dickson never refers to Scotland in its own right, but only as part of a narrative involving England. Despite innovative work by Henry Roseveare and John Brewer in the field, they too followed this Anglocentric approach.[29] More recent work has sought to address this, with Daniel Carey and Christopher Finlay producing an edited collection which views the Financial Revolution through the wider framework of Empire. Contributions cover the creation of an Irish national debt and the failure of the Royal African Company. It also presents chapters on Scottish political economic discourse over the second half of the eighteenth-century, and the influence of Scotsman John Witherspoon's banking and credit ideas on Alexander Hamilton, America's first Secretary of the Treasury.[30] Neither work, however, approaches Scotland's experience during the Financial Revolution.

Contemporary works which investigate the political economy of early modern Scotland are limited. Among the researchers currently working in the field, there is, however, an emerging consensus that

[28] P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756*, (London, 1967), p.xvii

[29] H. Roseveare, *The Financial Revolution, 1660-1760*, (London, 1991); and J. Brewer, *The Sinews of Power: War, Money and the English State, 1688-1783*¸ (New York, 1989), these works were, however, concerned at their core with the establishment of a 'fiscal-military state', something that is far clearer in its English form, as such the omission of any significant study into Scotland in this context is understandable

[30] C. I. McGrath, '"The Public Wealth is the Sinew, and Life, of Every Public Measure": The Creation and Maintenance of a National Debt in Ireland, 1716-45', pp.171-208; R. Hermann, 'Money and Empire: The Failure of the Royal African Company', pp.97-120; D. Carey, 'John Locke, Money, and Credit', pp.25-52; P. Tonks, 'Leviathan's Defenders: Scottish Historical Discourse and the Political Economy of Progress, pp.73-96; and R. J. Fechner, '"The Sacredness of Public Credit": The American Revolution, Paper Currency, and John Witherspoon's *Essay on Money* (1786)', pp.141-170, all in Carey, and Finlay (eds), *The Empire of Credit*

identifies elements of a Scottish version of the Financial Revolution.[31] As yet, however, no-one has argued for distinctive and significant Scottish financial innovation. There is an understanding that something occurred, something distinct from what happened in England or Ireland, but its full character remains unclear.

Of the work in the field, that produced by Patrick Walsh has come the closest in defining Scottish events. His research into the South Sea Bubble has greatly added to our understanding of patterns of investment and the impact of the crash in peripheral areas, including Scotland.[32] His work on Ireland has had an inevitable overlap with the financial landscape of Scotland in the period from 1690-1721, with Walsh stating that 'Scotland, certainly in the pre-Union years, did experience a revolution in private if not public credit'. He goes further by adding that 'the focus on private enterprise rather than on the financial institutions of the state marked out the Scottish case as being significantly different to either the Irish or indeed the English financial revolutions'.[33] Importantly, Walsh also identifies that the nature of the revolution in Scotland was one in which 'the focus of Scottish innovation was less on the creation of forms of public credit, and more on corporate and mercantile initiatives'. He states that 'Scotland, unlike

[31] C. I. McGrath, and C. Fauske, (eds), *Money Power, and Print: Interdisciplinary Studies on the Financial Revolution in the British Isles*, (Newark, 2008); Carey and Finlay (eds), *The Empire of Credit*), and Walsh, *The South Sea Bubble and Ireland*
[32] P. Walsh, *The South Sea Bubble and Ireland: Money, Banking and Investment, 1690*-1721, (Woodbridge, 2014); and 'The Bubble on the Periphery: Scotland and the South Sea Bubble', in *The Scottish Historical Review*, Vol. XCI: No. 231: April 2012, pp.106-124
[33] Walsh, 'The Bubble on the Periphery …' p.112

England, or even Ireland, did not see the emergence of either an efficient revenue bureaucracy or a funded national debt', and that the military contexts which created the need for government borrowing in England and Ireland were 'either absent or too politically complicated'.[34]

Walsh's observations are important in allowing us to understand the characteristics of the Financial Revolution in Scotland. However, there are issues with his interpretation. Firstly, whilst there was a Scottish focus on 'corporate … initiatives', much of this occurred during the early 1690s, petering out by the turn of the century. Following that moment, native investment opportunities for Scots dwindled, and those with money were forced to invest elsewhere. Secondly, when addressing the 'complex and occasionally problematic question about the application of the concept of the "financial revolution" to Ireland and Scotland', Walsh comments that 'increasingly, scholars have answered this question in the affirmative, although always with the caveat that each country's experience of "revolution" was different, both from each other's and from the English experience'.[35] The issue with this statement, is that the sources given to support it, other than Walsh's own work, are the aforementioned work of Carey and Finlay, along with another edited collection by Charles McGrath and Chris Fauske.[36] These works, whilst moving the financial debate to the peripheries, and which discuss Ireland in some detail, on

[34] Walsh, *The South Sea Bubble and Ireland*, p.39
[35] Ibid, p.21
[36] McGrath, and Fauske, (eds), *Money Power, and Print*

the whole focus very little on Scotland.[37] Lastly, the limited evidence of the Financial Revolution in Scotland, evidence adapted from the events in England, has underplayed the important financially innovative ideas being disseminated through the agency of Scotsmen.

At the centre of this thesis is understanding the Scottish Financial Revolution. The character of the revolution identified as taking place *in* Scotland – including the joint-stock boom of the 1690s, and as this thesis shall show the crucial appearance of the Royal Bank of Scotland (RBS) in 1727 - only tells part of the story. Instead, to truly understand the Scottish Financial Revolution it is necessary to acknowledge the agency of the global Scottish community in the promotion of financially innovative schemes beyond the borders of Scotland.

Innovative economic ideas circulated during the period, not as part of an organised academic or state project, but often as independent undertakings by a financial community. To claim that many of those operating during this period constitute a 'network' would be to push the evidence too far. There are many individuals, however, whether they were merchants, politicians, speculators, physicians, or those with less desirable occupations, that shared overlapping interests and formed alliances. When they wrote they often did so in response to a specific issue rather than attempting to add to a larger understanding of economics.

[37] Carey and Finlay's collection contains three chapters which touch on Scotland/Scottish influence in a significant way, whilst McGrath and Fauske utilise it more as a backdrop rather than a significant influence.

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Whilst it may seem counterintuitive to begin an investigation of the Scottish Financial Revolution in the colonies, it is the case, as will become clear, that much of this study focuses on occurrences beyond Scottish borders. We therefore begin with an exploration of the dissemination and emulation of one financially innovative idea; the land bank - a banking structure which utilised land as security to underwrite a paper currency. This chapter charts the evolution of this idea over more than half a century, following it geographically between continents, as the scheme, in various guises, migrates back and forth between Britain and the colonies.

When the proposal did reach Scotland, it found a prominent supporter in the aforementioned John Law. His proposal for a Scottish bank in 1705, and its connection to other land bank models of the period will be covered in detail. The chapter will also serve as an introduction to the man who will reappear elsewhere in this study. Indeed, Law was central to the Financial Revolution in Scotland and elsewhere, traversing Europe between 1700 and 1715 in the hope of seeing his financial schemes become reality. This would happen between 1715 and 1720 in Regency France, under the patronage of Philippe, duke of Orléans, and is a tale that shall be covered elsewhere in this thesis.

To quote Antoin Murphy stated in his study into the birth of macroeconomics:

> The spirit of John Law lives through these chapters because, in many ways, he set the standard for others. He imagined and created an

> economy without gold and silver, an extraordinary achievement for the age he lived in. Ultimately he failed, but, more than any of the other writers in this book, he was able to imagine the type of monetary world that we live in today. By using him as a reference point, I may be accused of unfairness towards many of the other writers by implicitly benchmarking them against Law. This is not intended, because each of the writers selected made highly significant contributions to the development of macroeconomics.[38]

A similar disclaimer is also required here, because Law undoubtedly casts a long shadow over proceedings. It is hoped, however, that the reader will agree that Law's often dominant presence is justified.

This chapter will provide some context for the publication of Law's *Money and Trade Considered*¸ highlighting a backdrop of economic difficulty in Scotland. It will also consider the works that preceded Law's, categorizing what is being defined in this thesis as a 'transatlantic model' of land banking. This is termed as such due to the mobility of the proposal, appearing first in England in 1650 from the pen of William Potter, before it was carried across the Atlantic by his acquaintance, the Reverend John Woodbridge. He operated the scheme privately in 1671-72 and then again in 1681, offering it to the colonial legislature of Massachusetts on two occasions.[39] In 1687, again in Massachusetts, a new version of the scheme was composed by John

[38] A. E. Murphy, *The Genesis of Macroeconomics, New Ideas from Sir William Petty to Henry Thornton*, (Oxford, 2008), p.18

[39] M. E. Newell, *From Dependency to Independence: Economic Revolution in Colonial New England*, (New York, 1998), p. 121; Rev. J. Woodbridge, *Severals relating to the fund: Printed for divers reasons as they may appear*, (Boston, 1682); and P. C.-H. Lim, 'Woodbridge, Benjamin (1622–1684)', *Oxford Dictionary of National Biography*, (Oxford, 2004)

Blackwell, previously a co-treasurer under Cromwell. The following year a version of this tract was published in London, foreshadowing a substantial English debate on the topic during the 1690s and Scotland in the next decade.[40]

It is intended that this chapter will illustrate the difficulty in crediting any one 'individual with originality' when it comes to the economic ideas of period.[41] Instead what we see with the land bank is

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[40] J. Blackwell, *A Discourse in Explanation of the Bank of Credit or An Account of the Model Rules & Benefits of The Bank of Credit, Lumbard, and Exchange of Moneys Proposed to be Erected in Boston And managed by persons in Partnership, as other Merchantly Affayres*, (Boston, 1687); J. Blackwell, *A Model for Erecting a Bank of credit; With a Discourse in Explanation Thereof. Adapted to the Use of any Trading Countrey, Where There is a Scarcity of Moneys: More Especially for His Majesties Plantations in America*, (London, 1688); also see, H. Chamberlen, *A proposal for erecting a general bank which may be fitly called the land Bank of England,* (London, 1695); Chamberlen, *A brief narrative of the nature & advantages of the land bank*, (London, 1695); Chamberlen, *Proposal, by Doctor Hugh Chamberlen for a land credit presented to the Parliament by the committee to whom it was referred to be considered*, (Edinburgh, 1700); Chamberlen, *A Proposal and Considerations relating to an Office of Credit upon Land Security: Proposed to their Excellencies the Lords Justices: and to the Lords of the Privy Council; and the Parliament of Ireland*, (London, 1697); J. Briscoe, *The freehold estates of England, or, England itself the best fund or security*, (London, 1695); T. Neale, *The national land bank, together with money so composed, as not only to be easie understood, and easily practiced, but more capable also of supplying the government with any sum of money in proportion to what fund shall be settled: as likewise, the free-holder with money at a more moderate interest, than if such bank did consist of money alone without land*, (London, 1695); R. Murray, *A proposal for a national bank, consisting of land, or any other valuable securities or depositums with a grand cash for returns of mone[y] and circulation of the bank-credit, &c. The whole to be under the care, inspection, tru[st,] and controul of the publick authority, and legal magistracy*, (London, 1695); J. Asgill, & N. Barbon, *A Proposal for a Subscription to Raise One Hundred Thousand Pounds for Circulating the Credit of a Land bank,* (London, 1695); J. Asgill, & N. Barbon, *An Account of the Land bank, Shewing the Design and Manner of the Settlement, the Profits to the Subscribers, the Advantage to the Borrowers, the Conveniency to the Lenders, that it Wil Be the Support of the Nobility and Gentry of England, and a Public Good to the Whole Nation*, (London, 1695); J. Asgill & N. Barbon, *The Settlement of the Land bank*, (London, 1695); and J. Asgill, & N. Barbon, *A List of the names of the Subscribers to the Land bank*, (London, 1695)

[41] As John Keith Horsefield once commented, 'in the intellectual ferment of the later seventeenth century it is rarely safe to credit any particular individual with originality'; J. Keith Horsefield, 'The Origins of Blackwell's Model of a Bank', in *The William and Mary Quarterly*, Vol. 23, No. 1 (Jan., 1966), p.134

an idea that evolved over six decades and was disseminated over vast distances by a number of different groups, at different times, as being the solution to very diverse problems. Scotland represented only one potential outlet for such a model.

John Law remains centre stage in chapter three. Here, however, his career is considered at an earlier juncture than is customary, with an investigation into proposals made to French authorities in 1702. These presented a scheme for a national bank in the country, and their authorship has long been a matter of dispute. The foremost authorities on Law throughout the twentieth century, Paul Harsin, Earl Hamilton, and Antoin Murphy, failed to reach a consensus upon their provenance. Harsin, writing in the 1930s, was wary to conclude that the 1702 proposals had emanated from the pen of Law. He had discovered the proposals tucked away at the Bibliothèque Mazarine in Paris, bound in a folio with three letters relating to the proposed bank, along with other economic works.[42] He stated in 1933 that 'it seems very likely that the author of the project is none other than John Law', but remained cautious. Adding that with 'the current state of [the] documentation' he could not be certain.[43] A year later he published a collection of works that he attributed to Law and chose to omit the French proposals.[44]

On the other hand, Earl Hamilton, writing the late-1960s, had no doubt that Law had authored 'two drafts of a proposal for a … Bank

[42] Bibliothèque Mazarine, Ms.2342
[43] P. Harsin, *Crédit Public et Banque d'Etat en France, du XVI^e au XVIII^e siècle*, (Paris, 1933), p.29 & 35
[44] P. Harsin, *Œuvres complètes*, 3 volumes, (Paris, 1934)

of France'.[45] Hamilton investigated the works of Law for over half a century, unfortunately never producing the comprehensive work he aimed for, but his research did yield important articles on the Scotsman. It is, however, problematic that Hamilton provides little evidence to support his belief that Law authored the French proposals, despite his certainty on the matter.[46] More recently Antoin Murphy, like Harsin, has been cautious of attributing the proposals to Law. In 1994 he published *John Law's 'Essay on a Land Bank*', consisting in the main of an anonymous financial proposal made to the English government in 1704.[47] Murphy contends that this is the first known work by Law. He later stated in his 1997, work *John Law: economic theorist and policy-maker,* that whilst he was originally impressed by the similarities between the economic reasoning contained within the French works of 1701 and those that are certainly by Law, in the end he remained unconvinced.[48]

It is now over twenty years since Murphy made these remarks, during which time the authorship of the French proposals has remained unclear. This chapter, by analysing the proposals, along with three connected letters bound in the folio, against the known works of Law, his movements at the time, and the current historiography on the topic, has come to the conclusion that these works, rather than *Essay on a*

[45] E. J. Hamilton, 'The Political Economy of France at the Time of John Law', in *The History of Political Economy*, Spring, (Durham, NC, 1969), p.145
[46] Hamilton, 'The Political Economy of France …', p.141/2
[47] J. Law, *John Law's 'Essay on a Land Bank*', A. Murphy (ed), (Dublin, 1994)
[48] A. E. Murphy, *John Law: economic theorist and policy-maker*, (Oxford, 1997), P.44

Land Bank, are indeed the first known works of John Law.[49] Importantly, however, it is argued that they were not the work of Law alone, but instead that of a European network of men involved in financial matters, including Englishmen, Frenchmen, and possibly also a Dane, and illustrate a truly multi-national sharing of ideas.

Chapter four crosses the Atlantic and explores the agency of Scotsmen in the colony of East Jersey and later New Jersey. The decision to focus on this territory is driven by Scottish involvement there. By 1684 half of all land in East Jersey was owned by Scottish proprietors, and between 1685 and 1705 approximately two-thirds of the seats on the board of resident proprietors in East Jersey were held by Scots.[50] Even after east and west merged into one colony in 1702, initially under English then later British control, Scots continued to be key in the administration of the territory, with a Scotsman holding the governorship of the colony for thirty-five out of forty-eight years between 1683 and 1731.

New Jersey issued its first paper money in 1709. This was almost twenty years after Massachusetts' first foray into a fiat money, and six year after Carolina. It was a decision that chimed with those taken in other colonies, with New Hampshire, New York, Connecticut, and Rhode Island all establishing a paper currency at around the same time.[51] New Jersey had a long and complicated relationship with the

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[49] The 1977 French work by Edgar Faure on Law will also be included, E. Faure, *La Banqueroute de Law*, (Paris, 1977)
[50] A. Murdoch, *Scotland and America, c.1600-c.1800*¸ (Basingstoke, 2010), p.20
[51] F. Grubb, *Colonial New Jersey's Paper Money Regime, 1709-1775: A Forensic Accounting Reconstruction of the Data*, working paper for the National Bureau of

currency, making several issuances of new notes between 1709 and 1717.[52] Following this, British authorities instructed subsequent governors to discourage anymore bills being issued as they attempted to retire the currency. A need for a circulating currency remained, however, and in 1723 the colony established a loan office to issue paper bills secured on land. This chapter will explore the role played in these proceedings by the then governor of the colony, Scotsman William Burnet, son of prominent clergyman Gilbert Burnet. Although the loan office was not his brainchild, Burnet promoted it vigorously, going against the wishes of his superiors in Britain when he allowed the office to be established. His story is one of pragmatism in which he saw the hardships facing New Jersey colonists and used his position to alleviate them.

Chapter five brings together the experiences of four Scots to provide a case study of financial actors in the early eighteenth century. It aims to show the difficulties faced by Scottish financial institutions at the time, as well as provide an exploration of the choices made by Scotsmen involved in the financial sphere during the period. This begins with an introduction to goldsmith-banker, Andrew Drummond, who, despite apprenticing in Edinburgh, when the time came to strike out on his own he did so in London. His bank provided services to a number of London-based Scots, and it is from this institution's account

Economic Research, (Massachusetts, 2013), p.1; and C. P. Nettels, *The Money Supply of the American Colonies Before 1720*, (Madison, 1934), p.255

[52] R. A. Lester, 'Currency Issues to Overcome Depressions in Delaware, New Jersey, New York and Maryland, 1715-37', in *The Journal of Political Economy*, Vol. 47, No. 2 (Apr., 1939), p. 188, pp.182-217

holders that the other three men who are subject of this chapter are drawn.

These include John Drummond, a kinsman of banker Andrew. John was a merchant, and sometime banker, who had operated from the Netherlands since the age of fifteen, later becoming central to the financial interests of James Brydges, duke of Chandos. He also gathered intelligence for earl of Oxford, Robert Harley, Viscount Bolingbroke, Henry St. John, Robert Walpole, and the Argylls, John and Archibald Campbell, duke of Argyll and earl of Ilay respectively, as well as being a correspondent of the duke of Marlborough, John Churchill, and Sir Isaac Newton. It is from Drummond that the title of this thesis is drawn, after he complained to his brother in 1720 of the lack of 'Scots projects' in which to invest. [53]

The remaining two men who will be considered in this chapter are, general of the Scottish Mint, Charles Maitland, 6th duke of Lauderdale, and Patrick Campbell of Monzie, a prominent speculator of the period. Lauderdale's tenure as general of the mint will be considered in detail, illustrating the difficulties which faced Scottish institutions following the union of 1707, even one as well-established as the mint. Meanwhile, Monzie, a man who was involved in a number of prominent financial adventures of the period, will be considered in light of a land bank scheme he prepared for presentation to the new British government in 1708. As this chapter will show, this was a proposal plagiarised directly from John Law's unsuccessful land bank

[53] NRS, GD243/437, John Drummond to William Drummond, 11 May 1720

tender to the Scottish administration in 1705. It will be considered under what agency Monzie was acting when he chose to submit this proposal just three years after it had been rejected in Scotland.

The final chapter investigates the financial dealings of a network which was introduced in the previous chapter. This group, which included John Drummond, Patrick Monzie, and Archibald Campbell among others, shared many overlapping concerns. The chapter is concerned in particular with their involvement in two societies which emerged at the end of the 1710s, one established in Edinburgh and the other in London, to protect the rights of those owed money from the Equivalent payment. This was a payment of £398,085 10s sterling granted to Scotland in article fifteen of the Treaty of Union, effectively as compensation for the country accepting responsibility for part of England's existing national debt. The payment was also expected to remunerate losses from the ill-fated attempt at establishing a colony at Darien, and to cover the cost of a recoinage to bring the value of Scots money in line with that of England.

The payment has been described by Douglas Watt as a 'bribe, bonanza or bail-out, depending on your point of view', and became a provocative subject in popular debates surrounding Scottish independence.[54] This chapter will not explore this particular conversation, but instead analyses the payment and administration of the Equivalent between the Union of 1707 and the formation of the

[54] Watt, *The Price of Scotland: Darien,* p.xvii

Royal Bank of Scotland (RBS) in 1727. These two events are inextricably linked because of the actions of the network, to the extent that one can say that without the Anglo-Scots Union there would have been no RBS founded in 1727 under the conditions that it was.

How this happened is complex. When it became apparent that the original Equivalent sum was not enough to satisfy the demands of Scottish creditors the British government issued debentures, certificates acknowledging a debt in lieu of cash. These debentures offered the holder a five per cent annual interest payment on the sum due to them. A market in the buying and selling of these paper certificates emerged throughout Britain, and eventually the two societies were formed to represent the interests of those holding Equivalent debentures. By 1724 these two groups had amalgamated into the Equivalent Company, and through the political manoeuvrings of the Argylls and Walpole established RBS in 1727. The money underpinning the new bank was generated by transferring Equivalent debentures into bank stock. Consider that; Equivalent debentures, effectively 'IOUs' that had been issued because there was no money, were utilised to fund a new bank. The chapter will discuss how this alchemy led to the establishment of one of the world's largest banks.

Before we begin in earnest, it is important to state that early-modern Scotland was not exceptional. Literature on trade and finance, of the type that emerged from Scotland early in the eighteenth century, can be identified as emerging from numerous countries during the time under consideration in this study. England saw significant financial progress in the 1690s, whilst events in Ireland 'gathered pace' during the same period.[55] Work by François Velde has displayed a 'wealth of innovation and experimentation' taking place in French public finance during the period, other than that undertaken by Law.[56] And a significant literature on economics emerged in the New World colonies.[57] Scotland did, however differ from these territories in two important ways.

Firstly, following the failure of Darien, it was a nation in shock. It's law-makers had become incredibly risk averse. Parliamentary proceedings display an administration looking for a solution to its economic problems, but failing to back many innovation financial schemes, in favour of a council of trade with limited powers.

Secondly, unlike the other territories outlined above, following 1707 Scotland lost its political autonomy. The Anglo-Scots Union removed the parliament from the country, and in 1708 the Scottish Privy Council was abolished. Whilst it is true to say that the colonies were also governed from Westminster, these territories (as will be shown in chapter 4) had the luxury of distance, allowing financial projects to be undertaken. This was a luxury that Scotland did not have.

The difficult political landscape in Scotland, both pre- and post-union, defined the character of the Financial Revolution which occurred in the country and through the diaspora. As will become clear, Scotland

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[55] C. I. McGrath, 'The Irish Experience of "Financial Revolution" 1660-1760', in McGrath, and Fauske, (eds), *Money Power, and Print*, p.157

[56] F. R. Velde, *French Public Finance Between 1683 and 1726*, (Chicago, 2006), p.1

[57] See A. McFarland Davis, *Colonial Currency Reprints: 1682-1751*, Vol. 1 (Boston, 1910).

was only part of the story. This is a thesis which is concerned with viewing the financial ideas discussed within their own landscape, considering how they link with contemporary ideas rather than drawing a line to modern economics. It is concerned with the actions of Scotsmen operating at this time, focusing on how they interacted with one another, how they operated their business, and how ideas were shared. In actuality this is not a study of economics or finance, but a study of ideas, and how those ideas were disseminated during a small, but crucial, window of forty or so years at the turn of the eighteenth century.

Chapter 2

Transatlantic Land Banking: London, Boston, (London Again), and Edinburgh

Following the revolution of 1688-89, interest groups and interested individuals, including merchants, politicians, and even criminals, turned their hand to political economy. James VII and II's removal from power and a revolutionary settlement in England and Scotland which secured property rights and reined in future royal influence, appeared to have signalled the correct conditions for the advent of new financial institutions.[1] Fervent economic debate emerged, heralding in a popular appetite for financial investment. The economic conversation of the period encompassed a number of novel financial approaches, including debased metal currency, credit schemes, banking models, and adjustments in the value of currency. Many proposals, whilst offering innovative ways of carrying out economic transactions, continued to be tied to an economy secured upon gold and silver.

The land bank model, however, represented a rupture from classic specie-based currency systems. Rather than silver continuing to be the commodity by which all other goods were valued, and by which contracts were payable, land had come to be viewed by some as being a far more secure foundation for a commodity currency. Whilst the specifics of each land bank proposal differed from one another, at their

[1] D. North, and B. Weingast, 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England' in *The Journal of Economic History*, Vol. 49, No. 4 (Dec. 1989)

core was the establishment of a body which would issue paper bills in exchange for pledges of land. The land would be owned by those taking out the loan and was to be repaid in line with the stipulations of the chosen scheme. As one land bank projector remarked, '[l]and is what produces everything, silver is only the product'.[2]

Land bank advocates sparked an intense period of debate during the mid-1690s in England, with a Scottish debate emerging in the following decade. These developments were, however, part of a much longer tradition that can be traced back to the middle of the seventeenth century, one which migrated across the Atlantic only to be transported back to England on the eve of the Glorious Revolution. It is the intention of this chapter to explore the dissemination of land bank ideas across the English-speaking Atlantic world from the mid-seventeenth century to the first decade of the 1700s. In doing so, the context in which they emerged, along with the advances in economic thought achieved by the agency of the groups who promoted the scheme during this period, will be considered. The case will also be made that whilst the land bank emerged as the solution to distinct problems being experienced by different groups on opposite sides of the Atlantic, that these groups were deeply influenced by the economic theory of the group that had come before. Thus, a clear link can be drawn between land bank proposals of the 1650s in England, through to the colonial models of the 1680s, England again in the 1690s and then those which

[2] J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, Edinburgh, 1705) p.100

emerged in Scotland a decade later.

The conclusions drawn from this investigation display the difficulty, highlighted by John Keith Horsefield elsewhere, in naming any writer as the original source of an idea during this period.[3] Instead, what is displayed is that clear linkages in economic ideas can be located between those operating at the time. The ideas that John Law promoted in Scotland in 1705, for example, had emerged from William Potter's ideas on credit over half a century earlier. Scotland was not the source of the innovation, it was however, another backdrop for a migratory banking model that again evolved to suit its surroundings, as it would do so again in its colonial contexts in the 1710.[4]

Financial Innovation in the Colonies

The economies of New World colonies were inextricably linked to the metropole. If the mother nation was hit by financial crisis, reverberations were felt across the Atlantic. In cases where a nation experienced a scarcity of coin or found its access to credit hindered, their colonies suffered too. In many cases they suffered more as the metropole attempted to improve the situation at home with scant regard for those occupying its overseas territories. In attempting to resolve such crises many novel solutions emerged.

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[3]Horsefield, 'The Origins of Blackwell's Model of a Bank', p.134

[4] See R. Seavoy, *An Economic History of the United States: From 1607 to the Present,* (New York, 2013); see chapter four, E. McCrady *The History of South Carolina under the Proprietary Government, 1670-1719*, (Westminster, MA, 1897, 2008), p.524: and M. S. Bilder, *The Transatlantic Constitution: Colonial Legal Culture and the Empire,* (Cambridge, MA, 2008), p.176-7

French-Canadian territories, for example, utilised numerous commodities as currency. At various times, wheat and moose skins were employed in the paying of debts, whilst the practice of using beaver and wildcat skins to settle accounts was in place here as late as 1740.[5] In a manner this was akin to a barter economy, with each commodity utilised as currency also having its own intrinsic value. Perhaps the most interesting innovation undertaken by the French colonists was a fiat paper currency fashioned from playing cards. This was first employed in 1685, following a change in the method by which the French government sent funds to the territory had left colonists without monies or supplies for the first eight months of the year. The king's intendent in Canada, Jacques Demeulle, initially attempted to cover the funding gap personally. When this failed he was forced to give the ten companies of soldiers stationed at the colony permission to find other work. This had little impact, however, and financial problems continued.

Inspired by the notes he had observed circulating among Quebec merchants, Demeulle decided, due to a lack of suitable paper or printing facilities, that playing cards had the necessary qualities to be utilised as money. The cards were clipped into various shapes in order to represent different denominations and used as currency until funds arrived from France, at which point the playing cards were redeemed for cash. The experiment appears to have been popular among the colonists, and

[5] R. A. Lester, *Monetary Experiments: Early American and Recent Scandinavian (1939)*, (London, 1970), p. 37

despite Louis XIV 'again and again' forbidding the issuance of card money in the colony, the practice continued beyond his death until 1720.[6]

Throughout the decade which followed, the French colony attempted to operate a traditional specie currency system. Coin had a tendency, however, to flow back across the Atlantic to France, causing a huge strain on the domestic trade of French-Canada. The king, now Louis XV, the great grand-son of the preceding monarch, found that of the available solutions, a reestablishment of card money seemed the most adequate.[7] The practice was then reinstated in 1730, continuing until 1763 when Canada passed from French to British control.

English/British colonies also looked to original means for addressing the issues surrounding the scarcity of coin and depression in their domestic economies. These were more sophisticated than the Canadian playing card currency but shared the same desire of supplementing currency flows and improving domestic trade. Here, from the earliest times of European inhabitation, private credit had been commonplace.[8] Thus when the implementation of a paper currency was proposed this was the culmination of already long practiced customs. Proposals for colonial banking and currency schemes had become prevalent during the late-seventeenth century, with debates rolling into the next century. So widespread were these discussions, that by 1715

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[6] Lester, *Monetary Experiments*, p.39-40

[7] A. Shortt, (ed), *Documents Relating to Canadian Currency, exchange and finance during the French period*, (Ottawa, 1925), p.589

[8] C. P. Nettels, *The Money Supply of the American Colonies Before 1720*, (Madison, 1934), p.250

each of the mainland colonies, excepting Virginia, Maryland, and Pennsylvania had implemented a paper currency.[9] The first to do so, however, and where our attention will now focus, was Massachusetts in 1690.

Colonial Massachusetts

Massachusetts was not only the first colony to issue a paper currency, in 1652 colonists had also taken the bold move of establishing their own mint. This was the only one in existence in North America prior to American Revolution and was in operation for over thirty years. Its removal came in 1684 as part of crown policy to regain control of the northern colonies. Elected colonial assemblies were replaced with a single royal government under a crown-appointed governor. As a result, Massachusetts lost her colonial charter, and English officials explicitly refused the colony the privilege of having its own mint.[10] By 1686 council officials in the colony were complaining that a scarcity of coin has caused 'the great decay of trade and obstructions to manufactures and commerce in this country, and [a] multiplicity of debts and suits thereupon'.[11] It was during this difficult period in the 1680s that land bank proposals came to the fore.

The debate over how a land bank might improve the colony's financial situation can be picked up in a pamphlet published in 1682,

[9] Ibid, p.253

[10] L. Jordan, *John Hull, the Mint and the Economics of Massachusetts Coinage,* (Lebanon, NH, 2002), and R. R. Johnson, 'The Revolution of 1688-9 in the American Colonies', in J. I. Israel, *The Anglo-Dutch Moment: Essays on the Glorious Revolution and its World Impact,* (Cambridge, 1991), p.221-2

[11] Johnson, 'The Revolution of 1688-9', p. 253/4

entitled, *Severals relating to the fund: Printed for divers reasons as they may appear*.[12] The tract, written by the Reverend John Woodbridge, proposed that a fund should be erected, and credit extended to the subscribers of the fund based upon the security of 'real or personal property'.[13] This was an idea that had been incubating for some time, with Woodbridge presenting a similar proposal to the Massachusetts General Court in 1667. When this gained little support, he ran the venture in private, first in 1671-72, and then again in 1681.[14]

Woodbridge intended his 1682 scheme to 'furnish a means of transacting business through its credits without the use of money'.[15] For the Englishman, specie was to be valued not for its intrinsic worth, but for its ability to stimulate commerce. Rather than viewing foreign exchange as a means by which to ameliorate the perceived colonial shortage of coin and bullion, as contemporary English writers considering the metropole were wont to do, Woodbridge made the case that 'money would begat money'.[16] Money, he asserted, 'multiplies trading; increaseth Manufacture, and provisions; for domestic use, and foreign returns; abateh interest; inciteth to the purchasing of land, and heighteneth its value'.[17] He was not, however, a wholly original thinker, nor did he claim to be. Indeed, the source of Woodbridge's credit

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[12] Rev. J. Woodbridge, *Severals relating to the fund: Printed for divers reasons as they may appear*, (Boston, 1682) in A. McFarland Davis, *Colonial Currency Reprints: 1682-1751*, Vol. 1 (Boston, 1910), pp.109-118

[13] McFarland Davis, *Colonial Currency Reprint*, p.4

[14] M. E. Newell, *From Dependency to Independence: Economic Revolution in Colonial New England*, (New York, 1998), p. 121, & Woodbridge, *Severals relating to the fund*, p.115

[15] McFarland Davis, *Colonial Currency Reprints*, p.4

[16] Newell, *From Dependency to Independence*, p.121

[17] Woodbridge, *Severals relating to the fund*, p. 114

proposal can be traced back to London over thirty years earlier.

Woodbridge had spent time in the Americas between 1636 and 1647 before returning to England. Upon his return he had become acquainted with William Potter, a man about whom little is known, but who contributed greatly to the financial discourse of the seventeenth-century.[18] Potter's key work, *The Key of Wealth, Or, A New Way for Improving of Trade,* published in London in 1650, set out an economic programme to increase the wealth of England through an advancement of trade.[19] Potter recognised that private credit among merchants had grown considerably, yet he also knew that it was fragile and prone to default. He therefore advocated for a scheme intended to move merchant groups away from potentially risky private arrangements towards a formalised banking structure designed to reduce risk.[20]

To do this he proposed that a group of merchants establish a shared fund. The group would issue bills of fixed value, payable to the bearer and secured against the property of those subscribing to the fund. These bills would then circulate freely among the subscribers. This scheme of collateralised credit was intended to increase the velocity of money, reducing the friction involved in economic transactions, and would, Potter believed, lead to an overall increase in output and consumption.[21] Potter was so confident in the scheme's potential he

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[18] V. Hewitt, 'Potter, William (*fl.* 1650–1651)', *Oxford Dictionary of National Biography*, (Oxford, 2004) [http://www.oxforddnb.com/view/article/22624]
[19] W. Potter, *The Key of Wealth, Or, A New Way for Improving of Trade*, (London, 1650)
[20] A. E. Murphy, *John Law: economic theorist and policy-maker*, (Oxford, 1997), p.48
[21] W. Potter, *The trades-man's jewel, or, A safe, easie, speedy and effectual means for the incredible advancement of trade, and multiplication of riches, (London, 1650), p.1*

even went as far as projecting it capable of doubling England's capital every two years, growing £1,000 to £1 billion in forty years.[22]

Such a project has seen Potter hailed as the 'forerunner of the land bank projectors' by Joseph Schumpeter.[23] Yet, throughout the often naïve economic reasoning, and the always difficult prose of the *Key of Wealth*, Potter only fleetingly makes reference to the possibility that bills might be backed by the security of land. This is not to say, as we shall see, that Potter did not privately discuss the merits of a land-based credit system, but in his writing, he was hardly explicit. It was in fact an essay written in response to Potter's work by Samuel Hartlib in 1653 that pushed the use of land as a security for a paper currency to the fore. In this work, Hartlib made the case for land in a way that Potter failed to do, stating that there was 'no way to raise credit in [a] bank but by mortgage of Land'.[24] As Keith Horsefield has pointed out 'it seems highly probable' that Woodbridge was 'acquainted' with Hartlib's work, though he failed to explicitly state this.[25]

When Woodbridge made his 1682 proposal he acknowledged only a debt to Potter, stating in the open pages of the Boston tract that:

- 'the multiplication of money amongst any people does through the revolution thereof, draw in so much commodity amongst them, (and put men upon building houses, ships, and improving land in such sort) as their estates in other things do soon exceed such multiplied stocks of moneys, according to the aforesaid proportion'

[22] C. Wennerlind, *Casualties of Credit: The English Financial Revolution, 1620 – 1720*, (London, 2011), p.72

[23] J. A. Schumpeter, *History of Economic Analysis*, (Oxford, 1994), p.292

[24] S. Hartlib, *A Discoverie for Division or Setting out of Land, as to the best form*, (London, 1653), p.32; included within this work is 'An Essay upon Master W. Potters Design: Concerning a Bank of Lands to be erected throughout this Common-wealth …', pp.27-33

[25] J. Keith Horsefield, 'The Origins of Blackwell's Model of a Bank', in *The William and Mary Quarterly*, Vol. 23, No. 1 (Jan., 1966), p.124

> About the latter end of the year 1649. an intimate Friend of the Author's in *London*, *Mr William Potter* … imparted to him a Designe for the accommodation of Commerce, in the nature of a *Bank* of *money*; but to be founded upon *personal Credit*, by a considerable number of able Men Ingaging, as the *Found* thereof, to pass forth Credit; as a medium to enlarge the *Measure* of *money*, that was known to be too little for the Dealings of that Land: Or by *depositing of Goods*, in the nature of *Lumber* of Merchandise, to pass out Credit thereon.[26]

Woodbridge goes on to say that whilst he viewed land as the 'the onely secure Deposit' for underpinning a credit fund, that the 'dubious & intricate Titles' of land in England made this almost impossible. This was a situation that Woodbridge 'so resented', that upon his meeting Potter, the conversation would often turn to finding a solution to the problem. At around this time, Woodbridge notes, Potter 'printed a book in folio, relating to his designe'.[27] Presumably this was *The Key of Wealth*, in which, as already noted, only a passing reference is made to the possibility of land as security. This suggests that the private conversations between Woodbridge and Potter had not provided a workable solution to the problem of a land-backed currency in England. Woodbridge, however, saw an opportunity in the colonies to implement a currency in which a 'bank' issuing bills backed by a 'Deposit in *Land*; real, dureable, & of secure value' might be a possibility.[28] The legislators of Massachusetts, however, were less sure.

In 1690, driven by a need to pay soldiers and creditors following Sir William Phips failed capture of French Quebec, the Massachusetts

[26] Woodbridge, *Severals relating to the fund*, p. 110
[27] Ibid
[28] Ibid, p.114

colony was forced to issue paper bills, beginning with £40,000 during 1690-1691. This currency was not, however, one based upon Woodbridge's model. Rather than the bills being underwritten by land, they were backed by future taxes. Initially, each issuance of paper was shortly followed by an Act levying a tax payable in the notes – usually eight months after the bills had gone into use, with the notes being destroyed upon their return. However, as time passed and the bills became commonplace, the period of redemption extended; the bills issued in 1709 ran for four years, whilst by the time the bills of 1710 had been issued the colony had mortgaged its future income from taxes for nearly the next five years.[29]

Interestingly, most of those involved in the decision-making that led to the tax-backed bills being issued in 1690 had been land bank advocates.[30] Why they chose not to implement a land-backed currency at this time but instead one secured on taxes, which lacked convertibility and which sellers were not forced to accept, is complex. As Dror Goldberg has asserted, 'effectively, the money was supported only by its acceptance as tax payments'.[31] He makes the case that the loss of Massachusetts's charter was crucial in how the colony proceeded in economic matters. In the short term the colony 'had to issue money to pay its troops and avoid a mutiny', whilst in the long term 'it needed a restored charter from England and so could not

[29] Nettels, *The Money Supply of the American Colonies*, footnote, p.257
[30] D. Goldberg, 'The Massachusetts Paper Money of 1690', in *the Journal of Economic History*, Vol. 69, No. 4, (2009), p.1095-6
[31] Ibid, p.1093

support its money in ways England considered illegal'. Unfortunately for the colony, supporting a currency with land and forcing that currency upon colonists was considered illegal by the English administration in 1690. Thus, the tax-backed bills were born.

John Blackwell's *Discourse*

An important figure in the Massachusetts land bank story, was John Blackwell. Termed as the colonies' 'foremost financial expert', he was most likely consulted in 1690 when the tax-backed currency was being considered.[32] Having arrived in Massachusetts in the early 1680s, the previous thirty years had been a mixed-bag for the Englishman. He had been co-treasurer under Cromwell, jointly responsible for the entire system of direct taxation and military expenditure during the Protectorate. Following the Restoration, he was barred from occupying public office and much of his Irish land was forfeited. In the early 1670s he married the daughter of the imprisoned republican general, John Lambert, a decision that one historian remarks, 'hardly argues any diminution in his commitment to the Good Old Cause'.[33] In the years prior to his American migration he was part of a failed attempt to establish a note-issuing bank attached to the Company of the Royal Fisheries in London. And by 1684 he had crossed the Atlantic.[34]

In 1686, Blackwell proposed his own land bank model to the

[32] Ibid, p.1096

[33] G. E. Aylmer, 'Blackwell, John (1624–1701)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004; online edn, May 2008 [http://www.oxforddnb.com/view/article/37197, accessed 18 Jan 2016]

[34] D. Goldberg, *Property Rights: The Rise and Fall of America's First* Bank, (working paper, 2009), p.6

Massachusetts colonial assembly. Unlike Woodbridge, however, he was effective in establishing the bank in principle. His success in part was down to how he had quickly ingratiated himself into the colony's political networks. He had become deeply involved in the merchant community since his arrival, becoming chair of a merchant committee selected to discuss ways in which to end the economic difficulties of the colony. This was the very committee, that following the colonial assembly's considerations, gave Blackwell's bank the go-ahead.[35] The bank drew great support from landowners, this is unsurprising when one considers that in order to benefit from a land bank one first required land to pledge as security. When the bank's directors were named in 1687, these included Blackwell, along with major land speculators from the colony, whilst all other offices in the bank were also filled by landowners.[36]

The new bank was designed to issue bills of credit secured upon 'lands or reall estates mortgaged', with the additional suggestion that 'staple goods' might provide suitable security for loans through a supplementary Lombard scheme.[37] The loans made were to equate 'to the value of about One halfe or Two thirds' of the land or goods pledged, and were repayable at the rate of four per cent per annum.[38] Failure to repay the principal debt would ultimately lead to the sale of that which had been pledged as security. In a manner similar to property

[35] Goldberg, *Property Rights*, p.6
[36] Ibid, p.7
[37] Blackwell, *A Discourse*, p. 125
[38] Ibid, p.126

repossessions today, any profit made on the sale over and above the value of the original loan would be returned to the borrower.[39] A constitutional framework and managing structure was also provided, with Blackwell outlining the twenty-one managers required for the bank, along with the financial commitment each would be required to undertake.[40]

At the core of Blackwell's bank was a means by which to unlock capital tied up in land and goods. Various examples are given of how borrowers might grow their wealth with the use of the bank; this included details of how landholders could secure a loan on their current estate, use the borrowed funds to purchase more land, which might then similarly be mortgaged to allow for the purchase of yet more land. Similar examples were also given for how miners and weavers might speculate with their unlocked capital.[41] The proposed paper currency, one secured upon colonial land and its produce, was not, however, to be forced upon the inhabitants of Massachusetts. Instead, it was to be an entirely voluntary scheme, with 'no person … compelled to accept Bank bills of credit, unlesse he shall voluntarily agree to do so, and for no longer time, nor otherwise than he shall so consent'.[42]

The tract detailing Blackwell's land bank proposal is far more detailed than Woodbridge's of a few years earlier. There have, however, been questions regarding how much of an original thinker Blackwell

[39] Ibid, p.140
[40] Ibid, p.137, managers were expected 'to deposit moneys, & other estates in the bank as a stock or fund'
[41] Ibid, p.126-129
[42] Ibid, p.141

was. He had after all arrived in Massachusetts at a time when fervent economic debate was taking place, perhaps he had latched onto the ideas of Woodbridge? Or had he carried them across the Atlantic with him? Keith Horsefield has argued convincingly for the latter, drawing our attention to Blackwell's involvement, albeit as a peripheral actor in a group headed by Sir Edward Abney, in the attempted Royal Fisheries bank in London in the early 1680s. He states that he felt 'fairly confident that [Blackwell's] subsequent advocacy of banking schemes in New England was based neither on original ideas of his own nor on plans evolved in Boston, but on what he had learned and read in London'.[43] Problematically for this conclusion however, is the fact that Blackwell's Boston proposal pushed land as security for the bank to the fore in a way that the London proposals for a bank grafted on to the Royal Fishery did not.[44] This suggests that whilst Blackwell may have lifted his model from England, in the colonies he saw the potential for a bank backed by land security, a realization most likely inspired by the debate already started by Woodbridge.

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[43] Keith Horsefield, 'The Origins of Blackwell's Model of a Bank', p.134

[44] Blackwell is clear on the part to be played by land as security for the bank, always placing land ahead of goods. The Royal Fishery proposal on the other hand places goods before land in its examples of a bank. See Blackwell, *A Discourse in Explanation of the Bank of Credit or An Account of the Model Rules & Benefits of The Bank of Credit, Lumbard, and Exchange of Moneys Proposed to be Erected in Boston And managed by Persons in Partnership, as other Merchantly Affayres*, (Boston, 1687), in A. McFarland Davis, *Colonial Currency Reprints: 1682-1751*, Vol. 1 (Boston, 1910), p.123, 138, 146; J. Blackwell, *A Model for Erecting a Bank of credit: With a Discourse in Explanation Thereof. Adapted to the Use of any Trading Countrey, Where There is a Scarcity of Moneys: More Especially for His Majesties Plantations in America*, (London, 1688), in McFarland Davis, *Colonial Currency Reprints*, p.156/7; Anon, *Bank-Credit or the Usefulness & Security of the Bank of Credit Examined; in a Dialogue Between a Country Gentleman and A London Merchant*, (London, 1683), p.7,10,11; and Anon, *An Account of the Constitution and Security of the General Bank of Credit*, (London, 1683), p.5-6

Despite Blackwell's bank receiving significant support in the colony and being given consent by the administration there, it was never realised. The same crown policy which had prohibited the Massachusetts mint in 1684, dealt the fatal blow to the bank, when Sir Edmund Andros, the governor appointed to oversee the short-lived Dominion of New England in 1686, invalidated all land titles. Andros was loyal to the Stuarts and seized the opportunity presented by the revoking of the colonial charter in 1684 to assert control by claiming all lands had reverted to the crown. Without secure land titles the land bank could not operate. Blackwell abandoned the Massachusetts project in July 1688 but went on to promote the same scheme in Pennsylvania early in the following year.[45]

Where things get particularly interesting with Blackwell's proposal, however, is with its publication in London in 1688, under the title *A Model for Erecting a Bank of credit; With a Discourse in Explanation Thereof. Adapted to the Use of any Trading Countrey, Where There is a Scarcity of Moneys: More Especially for His Majesties Plantations in America*.[46] The tract, whilst slightly longer than the Boston manuscript of the previous year, was built around a near identical proposal to its predecessor. Its timing is intriguing, appearing on the eve of the Glorious Revolution, and more importantly for this thesis also the eve of the Financial Revolution.

The value of the London pamphlet has been remarked upon

[45] H. Bodenhorn, *State Banking in Early America: A New Economic History*, (Oxford, 2003), p.74
[46] Blackwell, *A Model for Erecting a Bank of credit*

before. It was claimed by one historian in 1945 to represent 'the first systematic presentation of the case for inconvertible paper money in the colonies', and one which provided 'the prototype of *all* proposals for the issue of paper money secured by land and commodities'.[47] The first statement made here is problematic, and ignores the contribution made by Woodbridge in Boston, instead appearing only to acknowledge the Blackwell tract published in England. The second claim, that Blackwell's *Model* was the 'prototype' for 'all' future land bank proposals is an argument that has received little attention and is one that deserves further investigation.

The English Land Bank Debates of the 1690s

The mobility of Blackwell's proposal highlights the transatlantic dissemination of financially innovative ideas between the colonies and the metropole. Blackwell's original banking model may well have owed a debt to the Royal Fisheries proposal of 1683, but by 1688 his focus on land as a security also owed a debt to the land bank debates of Massachusetts. The idea of using land as security for a paper currency had evolved significantly since the Potter and Hartlib models of the 1650s, but the fundamentals of the scheme - a voluntary, collateralised credit fund open to the bank's subscribers - remained the same.

Potter's original model had been carried to the colonies by Woodbridge. While, this was not the reason for his travel there, once

[47] J. Dorfman, 'Captain John Blackwell: A Bibliographical Note', in *The Pennsylvania Magazine of History and Biography*, Vol. 69, No. 3, (Jul., 1945), p.233, pp.233-242 – my emphasis

there he believed that Massachusetts might be a more fertile incubator for such a scheme. (Incidentally, a banking scheme was also proposed in Connecticut by John Winthrop, Jr., sometime governor of the colony, influenced by Dutch and Italian banking schemes, as well as Potter's model, after Winthrop had been sent a copy of *The Key of Wealth* by Hartlib.[48]) As we have seen this was not the case, but Woodbridge had begun a meaningful debate on the merits of a paper-currency in the colonies. Blackwell added to this debate, providing a far more detailed model than that of Woodbridge. And when Blackwell's model appeared in London, it did so on the eve of substantial English debate on the topic.

This debate was carried out against a backdrop of post-revolutionary uncertainty, continental wars, Jacobite/Williamite splits, and emerging financial innovations, reaching its peak in the mid-1690s. In truth, proposed banking schemes which aimed to advance English credit had never really gone away between 1650 and 1688. John Bland had sought to make bonds and bills fully assignable and transferable, monetizing debt and increasing the speed of transactions for merchants.[49] Francis Cradocke made the case in 1661 that credit might

[48] W. W. Woodward, *Prospero's America: John Winthrop, Jr., Alchemy, and the Creation of New England Culture, 1606-1676*, (Chapel Hill, 2010), p.267, and Newell, *From Dependency to Independence*, p.121

[49] J. Bland, *Trade revived, or, A way proposed to restore, increase, inrich, strengthen and preserve the decayed and even dying trade of this our English nation, in its manufactories, coin, shiping and revenue whereby taxes may be lessened if not totally taken away, to the great content of the people : as also a way shewed how the duty of excise may be regulated for the ease and incouragement of this nations commerce, both for the outward exportation and inward consumption of all sorts of commodities : and likewise, certain ways propounded for the raising of considerable sums of money to maintain the charges of the government,without prejudice of the people, as also for the payment of all the souldiers just arrears, and the peoples just publique faith debts*, (London, 1659)

be extended based on securities, including land, arguing that this 'security answers to the intrinsique value of coyn', and that security and money were in essence the same thing.[50] Whilst in 1682, Robert Murray, the son of a Scottish tailor, called for a Bank of Credit for the city of London.[51] There were of course others, but these did not match the flurry of works which emerged following the Glorious Revolution.[52]

The political divisions which emerged at this time are a crucial element in understanding the origins of financial proposals. The revolutionary settlement had been central in securing property rights and in setting the crown on a firmer financial footing. It has been theorised that this, along with checks on royal prerogative, allowed for the formation of new financial institutions, such as the Bank of

[50] F. Cradocke, *Wealth discovered: or, An essay upon a late expedient for taking away all impositions and raising a revenue without taxes. Published, and presented to his most excellent Majesty, King Charles the II. By F.C. a lover of his countrey. Whereunto is added his Majesties gracious order*, (1661, London), p.14-15

[51] R., Murray, *Corporation Credit, or, a Bank of Credit made currant, by common consent in London. More useful and safe than money*, (London, 1682)

[52] See F. Burghill, A proposal for the speedy enriching both of the King and people (London, 1662), W. Killigrew A proposal, shewing how this nation may be vast gainers by all the sums of money, given to the Crown, without lessening the prerogative humbly offer'd to the King's Most Excellent Majesty, the Lords Spiritual and Temporal, and to the knights, citizens, and burgesses, assembled in Parliament 1663,, E. Forde, *Experimented proposals how the King may have money to pay and maintain his fleets with ease to his people, London may be rebuilt and all proprietors satisfied, money be lent at six per cent on pawns, and the fishing-trade set up, which alone is able and sure to enrich us all, and this without altering, straining or thwarting any of our laws or customes now in use*, (London, 1666), R. Murray, *A proposal for the advancement of trade upon such principles as must necessarily enforce it,* (London, 1676), and M. Lewis, *Proposals to the King and Parliament, or, A large model of a bank shewing how a fund of a bank may be made without much charge or any hazard, that may give out bills of credit to a vast extent, that all Europe will accept of rather than mony : together with some general proposals in order to an act of Parliament for the establishing this bank : also many of the great advantages that will accrue to the nation, to the crown, and to the people, are mentioned, with an answer to the objections that may be made against it,* (London, 1678)

England.[53] Confidence in the crown's commitment to honour its debts allowed for the establishment of novel ways in which it could borrow funds. The land bank debate often saw division along political lines, with Tories favouring the model as a challenge to the emerging Whig-backed Bank of England. When the short-lived National Land Bank was formed in 1696, one member of the commons even went as far as to say that the animosity between the Land Bank and the Bank of England 'runs as high as Jacobite and Williamite'.[54] From this perspective, land bank models not only represented a novel solution to improve the nation's finances and to help the state cover its financial responsibilities, but also acted as an attempted reassertion of the traditional power of land.

A stalwart of the land bank debate was Dr. Hugh Chamberlen. He had first turned his attention to the project in 1689 but had been an advocate of banking schemes as early as 1665 when he had attempted to establish a lombard bank.[55] His first foray into land banking was published in November 1690, entitled, *Dr. Hugh Chamberlen's Proposal to Make England Rich and Happy.*[56] Unlike the proposals that had emerged from the colonies in which landowners were to be issued with paper money secured upon, and equivalent to a proportion of the

[53] D. North, and B. Weingast, 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England' in *The Journal of Economic History*, Vol. 49, No. 4 (Dec., 1989)
[54] Francis Gwyn to William, and marquis of Halifax. 3 Aug 1696. Althorpe, Halifax MSS., box 4, cited in D. Rubini, 'Politics and the Battle for the Banks, 1688-1697', in *The English Historical Review*, Vol. 85, No. 337 (Oct., 1970), p.693, pp. 693-714
[55] A. Murphy (ed) *Monetary Theory: 1601-1758*, Volume 1, (London, 1997) p.26
[56] H. King, 'Chamberlen, Hugh, the elder (*b.* 1630x34, *d.* after 1720)', *Oxford Dictionary of National Biography*, (Oxford, 2004) online edn, Jan 2011 [http://www.oxforddnb.com/view/article/5062, accessed 18 Jan 2016]

value of the land they pledged, Chamberlen proposed that borrowers would be given bills equating to 100 per cent of the security given.

Chamberlen was unsuccessful in 1690, but by September 1695 he had gained enough support for the venture that he placed a series of advertisements in the London press promoting a new land-credit scheme.[57] This was followed in late-November with an announcement that subscriptions of £50,000 had been met, and that business would shortly commence.[58] There appears, however, to have been a problem raising the money via landowners, and in December a number of press advertisements invited specie subscriptions from 'monied-men'.[59] The first subscribers meeting took place in June 1696, with a constitution for the 'Office of Land-Credit', as it was to be known, being published in the next month.[60] Yet, despite the apparent support for the Office of Land-Credit, it never commenced business, the institution falling by the

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[57] Chamberlen produced numerous pamphlets on the topic, as did others in response to the works; H. Chamberlen, *An Humble Proposal to the Honourable the House of Commons*, (London, 1690); H. Chamberlen and D. Thomas, *A Proposal for Encouraging of Persons, to Subscribe Towards a Common Stock of [-----} for the Erecting and Managing of a Trade by a General Fishery to be with all Possible Moral Security of a Great Gain to the Adventurers, and of No Less Honour and Advantage to the Publick, and is a Benefit not to be Attained by Any other Methods, as is Strongly Presumed from Arguments that Have All the Appearing Force of Demonstration*, (London, 1691); H. Chamberlen, *Dr. Chamberlen's Petition and Proposals for a Land Bank to Increase Trade*, (London, 1693); H. Chamberlen, *A Short Abstract of Doctor H. Chamberlen's Proposal to the Honourable House of Commons the Last Sessions. And Also of Mr. John Briscoe's Present Printed Proposal Compared Together, Whereby the Benefits of Each to the Nation, and every Freeholder Concern'd, may plainly appear*, (London, 1694)

[58] R. Kleer, "'Fictitious Cash': English Public Finance and Paper Money, 1689-97, in C. I. McGrath, & C. Fauske, (eds.), *Money, Power, and Print: Interdisciplinary Studies on the Financial Revolution in the British Isles*, (Cranbury, 2008), p.91

[59] H. Chamberlen, *The Office of Land-Credit: Encouragement to Mony'd* Men, (London 1696); and Kleer, "'Fictitious Cash', p.91

[60] R. H. Inglis, *The Dictionary of Political* Economy, Vol. 2 (Cambridge, 2015), p.564, and H. Chamberlen, Chamberlen, *The constitution of the Office of Land-Credit, declared in a deed*, (London, 1696)

wayside after a charter was granted to the National Land Bank in early 1696.

While Chamberlen had been attempting to gather subscriptions to his bank, numerous other projectors made the case for their own model of an English land bank.[61] The National Land Bank was one such model, promoted by John Asgill, Nicholas Barbon, and John Briscoe.[62] Asgill and Barbon had worked together on banking schemes previously, whilst Asgill and Briscoe had been rivals, accusations of plagiarism had abounded between the men (and Chamberlen), but in early 1696 they joined forces to submit a joint land bank proposal.[63]

The National Land Bank proposed to raise £2,560,000 for the government, as such a charter was swiftly granted.[64] The English administration at this time was attempting to bridge a gap between

[61] J. Briscoe, *The freehold estates of England, or, England itself the best fund or security*, (London, 1695), T. Neale, *The national land bank, together with money so composed, as not only to be easie understood, and easily practiced, but more capable also of supplying the government with any sum of money in proportion to what fund shall be settled: as likewise, the free-holder with money at a more moderate interest, than if such bank did consist of money alone without land*, (London, 1695); C. E. Challis, 'Neale, Thomas (1641–1699)', *Oxford Dictionary of National Biography*, Oxford University Press, 2004;[http://www.oxforddnb.com/view/article/19829, accessed 19 Jan 2016]; R. Murray, *A proposal for the advancement of trade upon such principles as must necessarily enforce it*, (London, 1676); & Murray, *A proposal for a national bank, consisting of land, or any other valuable securities or depositums with a grand cash for returns of mone[y] and circulation of the bank-credit, &c. The whole to be under the care, inspection, tru[st,] and controul of the publick authority, and legal magistracy*, (London, 1695)

[62] J. Asgill, & N. Barbon, *A Proposal for a Subscription to Raise One Hundred Thousand Pounds for Circulating the Credit of a Land bank*, (London, 1695), J. Asgill, & N. Barbon, *An Account of the Land bank, Shewing the Design and Manner of the Settlement, the Profits to the Subscribers, the Advantage to the Borrowers, the Conveniency to the Lenders, that it Wil Be the Support of the Nobility and Gentry of England, and a Public Good to the Whole Nation*, (London, 1695), J. Asgill & N. Barbon, *The Settlement of the Land bank*, (London, 1695), J. Asgill, & N. Barbon, *A List of the names of the Subscribers to the Land bank*, (London, 1695)

[63] J. F. Chown, *A History of Money: From AD 800*, (London, 1994), p.204

[64] R. D. Richards, *The Early History of Banking in England*, (Abingdon, 1929), p.129

revenue and expenditure of at least £2 million. William's war was costly, and the National Land Bank represented yet another method by which this could be funded.[65] The bank failed to raise any significant funds, however, and swiftly folded in August 1696 when its directors were asked to provide financial support for the crown's overseas military operations.[66]

When one looks to the details of the financial proposals which emerged in England in the early 1690s, echoes of Blackwell's *Model* are clear. Johns, Asgill and Briscoe, along with Nicholas Barbon, for example, sought to organise the operational structure of their own land bank in an identical manner to that proposed by Blackwell, appointing twenty-one governors to oversee the institution, and offering loans with an interest rate of between three and four per cent, depending upon the frequency of repayments.[67] Similarly, a model proposed by Thomas Neale expected to offer loans to its subscribers at a rate equating to '£3. 10 *s.* yearly *per Cent*' - a figure well below the six per cent maximum detailed in English usury laws between 1651 and 1713.[68]

Similarities can also be seen in the repayment policies of English land bank proposals. Blackwell's *Model* had not specified the length of the loans, simply stating that repayments, including interest,

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[65] J. K. Horsefield, *British Monetary Experiments, 1650 – 1710*, (Cambridge, Mass., 1960), p.201

[66] R. L. Greaves, 'Asgill, John (*bap.* 1659, *d.* 1738)', *Oxford Dictionary of National Biography*, (Oxford, 2004); and R. D. Sheldon, 'Barbon, Nicholas (1637/1640–1698/9)', *Oxford Dictionary of National Biography*, (Oxford, 2004 (Oxford, 2004)

[67] Asgill & Barbon, *A Proposal for a Subscription to Raise One Hundred Thousand Pounds for Circulating the Credit of a Land bank*, p.1, and Asgill & Barbon, *The Settlement of the Land bank*, p.6

[68] T., Neale, *The national land bank*, p.1, and L. Neale, *A Concise History of International Finance: From Babylon to Bernanke*, (Cambridge, 2015), p.86

were to be paid 'at the end of every six Months, for so long time as [the bank] and [the borrower] shall agree the same'.[69] For Blackwell, no hard and fast expiration date was to be placed upon the bills issued by his bank, instead offering flexible contracts to borrowers. In an analogous manner, Neale also offered borrowers in his scheme the opportunity to pay loans 'back again in such proportions as best suit with [their] private concerns'.[70] This is not to suggest that Blackwell's was, as previously suggested, the land bank 'prototype' which all others followed, but there are certainly similarities between his model and the English land bank framework that emerged during the debate of the 1690s.

The timing of Blackwell's London pamphlet is also important, appearing on the cusp of the Glorious Revolution, following which, Douglass North and Barry Weingast have made the case that the English revolutionary settlement allowed for more secure property rights, wealth protection, and the elimination of confiscatory government, effectively moving the country towards a system of constitutional monarchy.[71] The interest in an English land bank arose in a climate of greater interest in popular investment, with the privileges secured in the Bill of Rights allowing novel approaches to funding sovereign debt to become established. In Scotland, however, the situation was very different.

[69] Blackwell, *A Model for Erecting a Bank of credit*, p.162
[70] Neale, *The national land bank*, p.1
[71] D. North, and B. Weingast, 'Constitutions and Commitment'

Scotland after the 'Glorious Revolution'

In 1693, and again in 1700, Hugh Chamberlen unsuccessfully attempted to convince the Scottish administration on the merits of his land bank.[72] Other than these proposals, however, no other works advocating for a land bank in Scotland have been identified prior to 1704. When these works do emerge, it is with a flurry of Scottish economic debate on the eve of the Anglo-Scots Union.[73] Why the Scots did not enter this debate until this point, when England had been debating the topic for at least a decade, is a complex question.

Certainly, the financial innovations that did occur in the 1690s were made possible by the respective revolutionary settlements of Scotland and England. The Institutional changes which emerged at this time promoted the power of parliament whilst checking the prerogative rights of the crown, creating both a separation, and a balance, of power. The English settlement also sought to put the crown on a firmer financial footing in an attempt to reduce the likelihood of arbitrary behaviour. No longer could the crown appropriate the wealth of its

[72] H. Chamberlen, *Papers Relating to a Bank of Credit, upon Land-Security: Proposed to the Parliament of Scotland*, (Edinburgh, 1693).

[73] See A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705); W. Seton, *Some thoughts, on ways and means for making this nation a gainer in foreign commerce; and for supplying its present scarcity of money*, (Edinburgh, 1705); J. Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: together with some proposals for supplying the defect thereof, and rectifying the ballance of trade*, (Edinburgh, 1705); J. Hodges, *Considerations and proposals for supplying the present scarcity of Money, and advancing Trade*, (Edinburgh, 1705); and J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, Edinburgh, 1705)

subjects or easily default upon its financial responsibilities when fiscal pressures became too much - as had indeed been the English case throughout most of the seventeenth century.[74] The arguments of North and Weingast make a strong case for our understanding of the financial progress of the 1690s, with the erection of national banks in England and Scotland having been impossible prior to the Glorious Revolution. Secure property rights and checks upon the crown made investments in such institutions attractive to stockholders, with economic growth encouraged under a crown and government which aimed to not only establish a relevant set of rights to protect the people from arbitrary government but also to make a ‘credible commitment’ to honour those rights.[75]

In Scotland alone, between 1690 and 1695, forty-seven joint-stock companies were in existence, indicating the presence of a significant number of investors with a pool of capital in the country.[76] (Only 12, however, carried on to the very last years of the decade.[77]) When the subscriptions book to the Bank of Scotland was opened in 1695, the venture was fully subscribed to the sum of £1.2 million Scots in two months.[78] This may not have matched the speed of the Bank of

[74] North, and Weingast, ‘Constitutions and Commitment’, p. 817-8
[75] Ibid, p.803
[76] D. Watt, ‘The Company of Scotland and Scottish Politics, 1696-1701’, in S. Adams and J. Goodare (eds), *Scotland in the Age of Two Revolutions*, (Woodbridge, 2014), p.212
[77] W. R. Scott, *The constitution and finance of English, Scottish and Irish joint-stock companies to 1720*, (Cambridge, 1910), p.356
[78] The Scots bank was a significantly different institution to its southern cousin. The Bank of England, primarily a creation of the City of London, was run in close association with the English treasury, and drew subscriptions chiefly from merchants and professionals. The Bank of Scotland on the other hand found its investment provided largely by the nobility and gentry of lowland Scotland, with merchants and

England, which in 1694 was fully subscribed in two weeks, but is nonetheless a respectable time. Whilst the Company of Scotland, the group behind the attempted colony at Darien, found Scottish subscriptions of £400,000 with relative ease after the crown had prevented or discouraged investment in London, Amsterdam and Hamburg.[79] Yet, despite this growth of investment and interest in innovative financial practices, what we do not see in Scotland during the 1690s, unlike in England, is a debate around land banks.

The case made here as to why land banks became a serious consideration in Edinburgh only after 1704 is complex. The first factor is the political situation in Scotland, with 1689 marking the beginning of the Whig ascendancy in the country. This is significantly different from our understanding of English events. The traditional English historiography has tended to view the revolution in a conservative, even Tory, light. This has been challenged over the last thirty years or so, the field expanding to include a number of Whiggish assertions as to the nature of events in England, but the traditional view remains largely intact.[80] The hegemony of the Whigs in Scotland is one of the

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professionals such as lawyers, judges and medical practitioners contributing a smaller share. And where the Bank of England's initial function was to support the cost of war on the continent, by making public government debt and by providing the crown with loan facilities, the Bank of Scotland was specifically forbidden in it charter from lending to the crown, and instead sought to lend in order to promote Scottish commercial interests; see R. Saville, *Bank of Scotland: a history, 1695-1995*, (Edinburgh, 1996), p.4

[79] T.C. Smout, 'The Road to Union', in G. Holmes (ed), *Britain after the Glorious Revolution, 1689-1714*, (London, 1969), p.179, and P. Walsh, *The South Sea Bubble and Ireland: Money, Banking and Investment, 1690-1721* (Woodbridge, 2014), p. 40

[80] T. Harris, 'The People, the Law, and the Constitution in Scotland and England: A Comparative Approach to the Glorious Revolution', in the *Journal of British Studies*, Vol. 38, No. 1 (Jan., 1999), p.29; see also See W. A. Speck, *Reluctant Revolutionaries: Englishmen and the Revolution of 1688*, (Oxford, 1989); and R.

underlying reasons for the absence of a land bank debate during the 1690s. As previously outlined, an important aspect of the English debate was the Tory-backing of land banks in an attempt to counteract the Whigs' pet project, the Bank of England. In Scotland, however, the government which emerged in 1689 was so unmistakably Whiggish that there was little to challenge to it.[81]

The second factor as to why the Scottish land bank debate did not take place until the start of the eighteenth century is in part due to the kingship of William II & III. Governing England, maintaining his interested in the United Provinces, and waging war on France were the new king's concerns, consequently, Scotland was low on his list of priorities. Whilst the revolution that raised him to king may well be termed 'glorious' in England, for the Scots it marked the beginning of a bloody internal conflict which would perpetually erupt and subside for more than half a century. The country also suffered financially, with William putting in place barriers to the Company of Scotland's funding

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Beddard, 'The Unexpected Whig Revolution of 1688' in *The Revolutions of 1688*, R. Beddard (ed), (Oxford, 1991).

[81] It should be noted that when the land bank debate did erupt in Scotland, we see 'Whig' support for land bank schemes. Take for example Dr. Andrew Brown, Laird of Dolphinton. He was described as 'a Whig, and a friend of Andrew Fletcher and King William', but in 1705 wrote two essays calling for the erection of a 'land-mint', see A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705), and *A second Essay concerning the Land Mint : shewing, that the present necessity, and want of Gold and Silver money, absolutely requires this, or the like Remedy, and that very speedily ... By the author of the Character of the true publick Spirit*, (Edinburgh, 1705). This dismisses the notion that in Scotland the land bank was the preserve of the Tories as it appears to have been south of the border, indicating the Scottish political situation following 1689 to have been distinct from that of England, and as such we should not expect to see an analogous debate taking place at the same time north of the border

attempts outwith Scotland, and subsequently failing to support efforts to settle a colony at Darien. English foreign policy towards France, driven by William, also caused significant interruption to Franco-Scottish trade. Added to Scotland's political situation and its economic woes, the 1690s were also a time of mass migration and famine. In short, Scotland during the reign of William and Mary was not as settled as England.

That said, however, many of the same rights secured in England in 1689 also existed in Scotland. Indeed, the formation of an institution such as the Bank of Scotland could not have occurred had there not been significant constitutional change. But the hypothesis being made here is that the Scots were dealing with other issues - a disinterested monarchy, economic difficulties, Jacobitism, famine – under a revolutionary government that was unmistakably Whiggish. Amongst all of this they also became intoxicated with establishing their own New World colony. Therefore, it appears that, Hugh Chamberlen (a visiting Englishman) aside, no one in Scotland between 1689 and 1704 cared for the idea of a land bank.

By 1704, however, the landscape had changed. Of the 2,800 colonists who had set out to found a colony at Darien under the direction of the Company of Scotland, around 1,500 had perished, whilst eleven of the company's fourteen ships were either abandoned, captured or shipwrecked.[82] The Scots had only arrived on the isthmus of Darien in

[82] M. Horton, 'To Transmit to Posterity the Virtue, Lustre and Glory of their Ancestors': Scottish Pioneers in Darien, Panama', in C. A. Williams (ed), *Bridging*

October 1698, but by the end of March 1700 they had surrendered their territorial claim to the Spanish. £153,000 of the £400,000 subscribed by Scots to the scheme had been paid, this was now lost to the nation.[83] An economy that was already struggling found its situation exacerbated. Concerns were further intensified by both the wider drain of specie from Britain to cover the cost of Marlborough's war, and the depressed level of Scottish economic activity.[84] A run on the Bank of Scotland ensued, and in December 1704 it was forced to suspend payments. It was this collection of circumstances which made the Scottish government, and indeed wider commercial society, open to novel financial suggestions, and it is from here that we shall explore the Scottish financial debates which emerged.

The Scottish Financial Debate, 1700-1705

Whilst appearing to be driven by many of the same concerns as its English counterpart - political uncertainty, lack of coin, trading deficits – Scottish economic debates must be viewed as a separate entity.[85] Among writers in Scotland at this time, there was consensus on two

the Early Modern Atlantic World: People, Products, and Practices on the Move, (Farnham, 2013), p.131

[83] C. A. Whatley, and D. J., Patrick, *The Scots and the Union*, (Edinburgh, 2006), p.173

[84] G. Davies, *History of Money*, (Cardiff, 2002), p.275, and Murphy, John Law, p.71

[85]See Anon. *Letter to a member of parliament concerning the bank of Scotland and the lowering of interest of money* (Edinburgh, 1696); J. Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: together with some proposals for supplying the defect thereof, and rectifying the ballance of trade*', (Edinburgh, 1705); Seton, W., *Some thoughts, on ways and means for making this nation a gainer in foreign commerce; and for supplying its present scarcity of money*, (Edinburgh, 1705); and D. Black, *Essay upon Industry and Trade, shewing the necessity of the one, the coveniency and usefulness of the other*, *and the advantages of both*, (Edinburgh, 1706)

issues; first that that the country was underutilising its resources, and secondly, that it was suffering from a lack of coin.[86]

That its land, labour, and waters were being underemployed was not viewed as solely the nation's fault. The English were accused of crushing any Scottish 'attempts in commerce, which have had the least appearance of clashing with theirs'.[87] Meanwhile the Dutch were suspected of growing rich from fishing Scottish waters.[88] Whilst others feared that foreign merchants were carrying off Scots coin and goods at bargain prices.[89] On the issue of a deficit in coin, this was not a singularly Scottish problem. England had suffered throughout the seventeenth century with the same ailment, as too had the New World colonies. The problem in Scotland at this time was not, however, only about a physical lack of coin, it was also one of undercapitalization. In the country we see debates that are similar to those that had taken place in England prior to the establishment of the Bank of England in 1694; one which highlights not only the lack of specie in circulation, but also the chronic undercapitalization of the Scottish economy.[90]

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[86] See Brown, *An essay on the new project for a land-mint;* Seton, *Some thoughts;* Clerk, *The circumstances of Scotland consider'd;* Hodges, *Considerations and proposals for supplying the present scarcity of Money;* Law, *Money and trade considered*

[87] Seton, *Some thoughts*, p.13

[88] Ibid, p.24, and Black, *Essay upon Industry and Trade*, p.13

[89] Clerk, *The circumstances of Scotland consider'd*, p.9

[90] See H. Peacham, *The worth of a penny, or, A caution to keep money: with the causes of the scarcity and misery of the want thereof, as also how to save it, in our diet, apparel, recreations, etc., and also what honest courses men in want may take to live,* (London, 1703); W. Atwood, *A safe and easy method for supplying the want of coin and raising as many millions as the occasions of the publick may require. Humbly offered to the consideration of the present Parliament. With some remarks upon the Bank of England, Dr. Chamberlain's Bank, the Land bank, so called, and the National Land bank*, (London, 1695); and T. Houghton, *A letter to a member of Parliament: shewing how probably the credit of the nation may be speedily raised And not only*

Responses to the issue were varied. In 1696, James Armour, the son of a Glasgow merchant, proposed the formation of a new national bank which was to issue loans in its own paper bills under a fractional reserve model.[91] Given that the Bank of Scotland was newly formed at this time it seems that there was little interest in the project. Six years later he produced a tract which was highly critical of the contribution that bank had made to the nation's economy, and again called for the establishment of a new bank in the same mould as he had proposed previously.[92] Sir John Clerk, member of the Scottish parliament and Whig party representative during negotiations for the Anglo-Scots Union, was similarly dissatisfied with the Bank of Scotland's operating structure. He called for the erection of a new bank intended to extend credit in Scotland – yet would also be satisfied to re-establish the Bank of Scotland 'upon a better foundation than formerly.[93]

Others suggested that establishing a debased metal currency in Scotland would act as a way of safeguarding circulating coin.[94] Such a coin, it was argued, would be less likely to be exported, protect against the hoarding of metal plate, and also provide the nation with a means

the publick debts made good without present money, but render'd serviceable to the publick, and a means to free others as well as the creditors from the difficulties that the deficiencies of funds, and scarcity of coin have occasioned, (London, 1697).

[91] J. Armour, *A Proposal to Supply the Defect of Money and Relief to the Poor*, (Edinburgh, 1696), the fractional reserve model loans out paper bills secured upon a fraction of the specie held by the bank, in this case specie was to represent ¼ of the notes issued

[92] J. Armour, *A Premonitor Warning: or advice by a true lover of his country unto all whole hands this may come*, (Edinburgh, 1702)

[93] Clerk, *The circumstances of Scotland consider'd*, p.25-26

[94]Anon, *An Essay For promoting of Trade and increasing the coin of the nation (in a letter from a gentleman in the country to his friend at Edinburgh, a member of parliament* (Edinburgh, 1705), debasing the currency was achieved by alloying a precious metal - gold or silver – with a base metal – copper or brass for example

by which to put Scotland's people to work.[95] Many were concerned, however, that prices would simply fluctuate accordingly, with specie only being valued in line with its precious metal content. This practice, it was feared, would see Scotland swamped with counterfeit coins and allow 'foreigners [to] coin money of the same base standard and impression [as] ours; and carry off our goods with great advantage to them and loss to us'.[96]

The advancement of credit through novel schemes was seen by others as the answer to Scotland's woes. Pamphleteer James Hodges proposed a particularly original plan to introduce two national funds of credit into Scotland. The first, entitled 'the publick revenue', was to be secured upon the 'complex credit of the nation, and all persons therein'; whilst the second, the 'fund of the African-Company', was to be secured upon the Company of Scotland, an endeavour which Hodges considered to be 'the Interest of the Nation', given that so many of 'the Nobility, Gentry, Merchants, and Tradesmen in the Kingdom' were shareholders.[97] Hodges calculated the combined total of both funds to be between £230,000.00 and £260,000.00 sterling. In order to utilise these funds it was proposed that this figure should be 'prepared in bills for an exchequer credit, to be issued from the treasury, in payment of all debts due by the public'.[98] It was intended that the funds would free up dormant capital for public use and thus alleviate the scarcity of coin

[95] Ibid, p.7
[96] Clerk, *The circumstances of Scotland consider'd*, p.9-11
[97] J. Hodges, *Considerations and proposals for supplying the scarcity of money, and advancing trade*, (Edinburgh, 1705), p.7
[98] Ibid, p.8

under which Scotland was labouring; yet Hodges' proposal went no further.

Those writers who theorised on how the Scottish economy could be capitalized, displayed an understanding of the interconnectedness of money and trade. To them it was clear that without an augmentation of the country's money supply, access to labour was stifled, and economic opportunities were restricted. More money would allow for the utilisation of untapped or underemployed labour, in turn increasing production and expanding exports. This would then allow for the balance of trade to be tipped in Scotland's favour, abating the need for coin and bullion to be exported to cover the cost of a trading deficit. Land banks became viewed by many as being the solution to Scotland's problem.

In 1704, Chamberlen was once again involved in promoting a 'landcredit' scheme in Scotland, this time with a Scottish partner – the equally perennial, James Armour. Armour's father, a Glasgow merchant of the same name, had been proprietor of what was probably Scotland's first linen factory.[99] His business aspirations were, however, dealt a hefty blow when, after falling foul of James VII's religious policies, he found himself exiled to the colonies with other religious nonconformists in 1685, remaining there until the opening years of the eighteenth-century. During this time his son had remained in Scotland. He had become an apprentice to Alexander Wright, an Edinburgh

[99] N. C. Landsmen, *Scotland and Its First American Colony, 1683-1765,* (New Jersey, 2014), p.74 & T.M. Devine, *Glasgow: Beginnings to 1830,* (Glasgow, 1995), p.81, & *RPS,* 1681/7/65. Date accessed: 27 May 2015.

merchant, in 1684, and later became a solicitor. From the mid-1690s he began to write on economic matters, and whilst his writings number only a handful, they do cover a period of almost thirty years.[100] Over this time his economic arguments evolved considerably; from a banking proposal somewhat in the mould of William Patterson's Bank of England; on to a 'landcredit' scheme operating separately from the Bank of Scotland; before he later advocated for a land-based banking scheme to be administered by the Bank of Scotland.[101]

The proposal that Armour made with Chamberlen was his first focused on a land bank. Parliamentary authority was to be the foundation of the new institution, with legislation establishing a system whereby the sum of £300,000 was to be struck in notes of different denominations.[102] A parliamentary commission was to be set up to administer the bank's loans, which were to be secured on the best land and repaid at five per cent interest per annum over the period of twenty-five years. Importantly, the five per cent would be the only payment

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[100] See J. Armour, *A Proposal to Supply the Defect of Money, and Relief to the Poor*, (Edinburgh, 1696); Armour, *A Premonitor Warning: or advice by a true lover of his country unto all whole hands this may come*, (Edinburgh, 1702); Armour, *To the Honourable House of Commons in Parliament assembled, the humble petition and offer of James Armour*, (London, 1711); Armour, *Proposals for restoring credit; for making the Bank of England more useful and profitable; ... Humbly offered to the consideration of both houses of Parliament*, (London, 1721); Armour, *Proposals for making the Bank of Scotland more useful and profitable: and for raising the value of the Land-Interest of North Britain*, (Edinburgh, 1722), & H. Chamberlen, H., & J. Armour, *Proposal by Doctor Hugh Chamberlen, and James Armour for a Landcredit*, in A. E. Murphy, & C., Sugiyama (eds.), *Monetary Theory, 1601-1758*, Vol. 4, (London, 1997).

[101] Chamberlen, & Armour, *Proposal by Doctor Hugh Chamberlen, and James Armour for a Landcredit*,
Armour, *A Proposal to Supply the Defect of Money*, and Armour, *Proposals for making the Bank of Scotland more useful and profitable*

[102] Chamberlen, & Armour, *Proposal by Doctor Hugh Chamberlen, and James Armour for a Landcredit*, p.235

made by the borrower, meaning that over the term of the loan the borrower would repay the principal sum borrowed, plus twenty-five per cent. Additionally, those making repayments were required to do so with the original bank bills, of which four per cent of every five repaid was to be destroyed upon return, with the remaining one per cent used to cover the operating costs of the scheme.

For Armour and Chamberlen, as had been the case with Potter, Woodbridge, and Blackwell, the paper currency proposed was in no way a fiat money. This was a commodity-backed money with 'a solid and real worth, being founded and secured on land, which has an intrinsick value'.[103] Yet, when Scottish parliamentarians met to discuss the proposal in August 1704, many were not convinced. Despite some initially positive rumblings from the committee tasked with considering the landcredit, with some members 'inclyne[d] to think favourably of [the] proposal', parliamentarians were wary of acting too quickly.[104] Instead the proposal was printed and circulated in parliament in mid-July 1705, with Armour and Chamberlen appearing before the house in person to answer questions.[105] By the end of the month, however, a decision had been made which stated that the 'forceing [of] any paper credit by an act of parliament was unfit for this nation'.[106]

The rejection of financially innovative ideas by the Scottish administration had become common place in the years directly after the

[103] Ibid, p.237
[104] *RPS*, A1705/6/13. Date accessed: 25 May 2015
[105] *RPS*, A1705/6/8. Date accessed: 25 May 2015
[106] *RPS*, 1705/6/36. Date accessed: 25 May 2015

failure of Darien. Indeed, a plethora of proposals emerged in and around 1705, none of which came to fruition. Even on the eve of union with England, it appears that Scottish law-makers appetite for novel financial ideas had been severely tempered by the financial fallout of Darien. Included within these rejected proposals was one by Scottish economist John Law, to which our attention shall now turn.

John Law's *Money and Trade*

Much has been written about the early life of John Law; born in 1671, the son of a prominent Edinburgh Goldsmith, trained in banking until the death of his father in 1683, by the early 1690s he was in London, where he gambled heavily and behaved badly. In 1694, with a single thrust of his sword, he killed a rival with whom he had dueled in Bloomsbury Square - dueling was illegal at this time, and in the case of a death, the victor would face the charge of murder.[107] He was condemned to the scaffold, and there the story would have ended if it were not for a daring prison escape and a flight to the continent, where he continued to gamble and misbehave, but also became immersed in learning all he could about the world of banking.[108]

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[107] Murphy, *John Law*, p.39

[108] For perhaps the defining account of Law's life see A. E. Murphy, *John Law: economic theorist and policy-maker*, (Oxford, 1997). There are, however, countless others. See A. W. Wiston- Glenn, John Law of Lauriston, Financier and Statesman (London, 1903); P. Cochut, Law, Son Systeme et Son 1poque (Paris, 1853); P. P. Wood, *Memoirs of John Law of Lauriston* (Edinburgh, 1824); E. Levasseur, Recherches Historiques sur le Systeme de Law (Paris, 1854); A. Thiers, *The Mississippi Bubble, a Memoir of John Law* (New York,1859); E. Daire, "Notice Historique sur Jean Law," in iconomistes Financiers du Dix-huitieme Siecle (Paris, Guillaumin et Cie., 1851, pp. 419-442); G. Prato, "Un Capitolo della Vita di Giovanni Law," in *Memoria della Reale Accadmia della Scienze di Torino*, serie ii, vol. 64,

By 1704 Law was back in Edinburgh, over the next three years he produced land bank proposals for the governments of England, Scotland and France.[109] The first scheme, aimed at the English economy, appeared in 1704, at a time when the land bank debate in the country was on the wane after fervent discussion of the topic throughout the 1690s. The idea's which underpinned the proposal were heavily influenced by the financial practices of the Bank of Amsterdam. Here a basic receipt certificate, transferable by a mutual clearing arrangement, and for which there existed an equivalent amount of specie in bank repositories, was issued to subscribers.[110] This allowed a customer to make a cash deposit with the bank, with any subsequent business transactions being conducted via the bank's books. The system increased liquidity in the Dutch capital, removing actual coin from the process, and improved the fluidity of trade. Law aimed for a similar outcome in England, making the case that a currency founded on the security of land was a viable substitute for specie. The proposal aimed to substitute one type of money (specie) for another (land). This land bank proposal, unlike those made by Woodbridge, Blackwell, Chamberlen and Armour, at no point advocates for the expansion of the currency supply. Instead his proposal, whilst possibly seeing an

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no. 5, Feb. 15, 1914; G. Oudard, La Tres Curieuse Vie de Law (Paris, Librairie Plon, 1927); W. Gray, John Law (London, 1721).

[109] See J. Law, *Essay on a Land Bank*, A. Murphy (ed), (Dublin, 1994); J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, (Edinburgh, 1705); J. Law, *Mémoire touchant les monoies et le commerce*, (1706); and J. Law, *Mémoire pour prouver qu'une nouvelle espèce de monnaie peut être meilleure que l'or et l'argent*, (1707).

[110] C. Rist, *History of Monetary and Credit Theory: from John Law to the Present Day [1940]*, (Bristol, 1994), p.33

increase in the speed of circulation, would add no additional currency into the English economy.

The ideas promoted in England by Law in 1704, whilst highly conservative by his later standards, were already starting to stand him apart from other monetary theorists. Antoin Murphy has identified Law's *Essay on a Land Bank* as not only providing the first comprehensive assessment of the functions of money, but also as being the first work to make explicit use of 'supply (quantity) and demand analysis'. Law was also the first to use the term 'the demand for money' and provide 'the first presentation of modern quantity theory in a demand for money/supply of money framework'.[111] Yet, whilst his work of 1704 was clearly making steps in defining his economic thought, it would be his 1705 work which really marked a significant advance in monetary theory.

Money and Trade Considered, with a Proposal for Supplying the Nation with Money is a central work of the Financial Revolution. In it Law makes the case that Scotland was underutilizing both its labour and its natural resources, a situation that could be rectified with the establishment to a land bank. To support his case, he carefully unpicks the nature of money; from what constitutes a currency, to the interrelationship of money and trade. In doing so he attempts to detach the notion of money from precious metals. Firstly, however, it was necessary for the author to outline the qualities which had first led to silver's use as a currency. Here he highlighted its versatility and

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[111] Murphy, *John Law*, P.52

durability - along with its ability to be brought to a standard in fineness, before being easily divided, transported and stored; whilst also identifying that its value was the same in one place as another, or with minimal difference. Even before silver had been minted as coin, Law argued, it was 'reasonable to think … [it] was used as money', going on to state that silver bullion had long been 'the measure by which goods were valued: the value by which goods were exchanged: and in which contracts were made payable'.[112] (Law had used similar terminology in the *Essay* of 1704).[113]

This reasoning upon how silver began to be utilised as money chimes with what Christine Desan terms 'the convergence story', where 'money arises immediately out of bipolar exchange … [and] individuals converge upon that medium to express the material value of objects'.[114] Desan views this narrative as being 'blunt', falling 'apart immediately beyond the basic outline', yet this is what Law believed, and it is an account that also has echoes with Blackwell's analysis of money in the London tract of 1688.[115] Here the argument was made that:

> money, whether Gold or Silver, is but a measure of the value of other things; yet hath for a long Succession of Ages (especially in the Civilised and trading part of the World) obtained to be the usual, and best known means of interchange[116]

[112] Ibid, p.6-7
[113] *John Law's Essay on a Land Bank*, p.55
[114] C. Desan, *Making Money: Coin, Currency, and the Coming of Capitalism*, (Oxford, 2014), pp.23-69
[115] Ibid
[116] Blackwell, *A Model*, p.154

Indeed, by the early 1700s this argument had become a central tenet of the currency debate. Edinburgh doctor, Andrew Brown poetically stated that 'money, like Proteus, is convertible into everything, as also everything is convertible into it.[117] Whilst John Locke believed silver to be 'the money of account and contract, and the measure of commerce in any country'.[118] The similarities between the thinking of Blackwell and Law on this matter are, however, raised here for a reason. That being that is not the only similarity.

Whilst, it is important to state here that Law's monetary theory far surpasses anything contained within Blackwell's *Model*, at a fundamental level of themes, language, and administration, many comparisons can be drawn. Both men first of all open their proposals with a monetary history lesson, with Blackwell detailing the 'inconveniences' experienced by actors in a barter economy, whilst Law acquiesces that the 'state of barter was inconvenient'.[119] The existence of such a barter economy has recently been disputed by Desan, who states that whilst people may exchange items, '"barter" is actually far removed from the triangle of swaps – a cow for ten chickens, ten chickens for the pot desired at the outset – that later

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[117] Brown, *A second Essay concerning the Land Mint*, p.7

[118] J. Locke, *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money, In a letter sent to a member of Parliament*, (London, 1691), p.76

[119] See Desan, *Making Money*, 'Creation Stories', p.23-69, here a case made that a barter economy as outlined by Law is unlikely to have existed, nor does Desan take the view silver came to be used as money through the evolution that is claimed by Law, instead questioning the numerous assumptions such a story requires; that separate individuals acted in an analogous matter, viewing a metal as a store of value, also that metal might be consider uniform enough in such a condition to act as a store of value, Blackwell, *A Model*, p.2 (find page in currency reprints), and Law, *Money and trade considered*, p.5

commentators often impute to it'.[120] This modern interpretation of the machinations of early economies, and its incongruence with the history given by Law and Blackwell, is not, however, of central concern at present. What is important is that both Law and Blackwell agreed that conducting business in an equitable manner under what they viewed as a barter system was difficult, and as such, money provided an improved method by which to buy and sell.

Both men were similarly of the mind that a bank was the best solution to augmenting a nation's money supply. In Law's case that nation was Scotland, whilst Blackwell saw his scheme as being suitable to be adapted to any nation. Both projectors were also fond of providing examples of how their schemes would work in practice, with Blackwell, as previously noted, detailing how landowners, miners, and weavers might speculate with their unlocked wealth; whilst Law used the case of a closed island economy to provide a working model of his monetary theory.[121]

Institutional similarities between Blackwell's and Law's banks also exist. Take for example the proportion of bills to be issued by the bank to borrowers in relation to the value of land pledged. For this Blackwell stated the value of bills 'shall amount to about the value or sum of one half, or two thirds of the said estates' pledged.[122] Similarly, Law detailed how his bank was to be authorized 'to lend Notes on Land

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[120] Desan, Making Money, p.39
[121] Blackwell, *A Discourse in Explanation of the Bank of Credit*, p.126-129, and Law, *Money and Trade*, p.97
[122] Blackwell, *A Model*, p.10

Security, the Debt, not exceeding one half, or two Thirds of the value'.[123] Specifying lending terms was of course not uncommon, but setting borrowing at between one-half and two-thirds of the value of land pledged is a condition that this writer has found to be set *only* by Blackwell and Law.[124]

Both men also argued that an increase in a nation's money would lead to economic growth, rejecting the inflationary argument that prices will simply rise in line with money stocks. In 1688, Blackwell detailed how those countries that had employed banks had become rich, despite the arguments than an 'overflowing of moneys' would do little to improve finances. Seventeen years later, Law similarly argued:

> If the money of any particular country should encrease beyond the proportion that country bears to Europe; it would undervalue money there, or according to the way of speaking, it would raise goods : but as

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[123] Law, *Money and Trade*, p.85. Law would also offer two other options, 1. To give the full price of the land based on its value in silver money – For Law silver money and land money would not be of the same worth; this is due to the fluctuations of the former, 2. An irredeemable purchase at the land's value

[124] Briscoe would alter between a bill issuance of 'three fourths' and 'four fifths' to land value depending upon which of his tracts are read. See J. Briscoe, *The following proposals for, and accounts of, a national land-bank having been printed at London. Its proveable many gentlemen who would have subscribed thereto, by reason of the distance of their dwelling from thence have heard nothing, orhad [sic] but an imperfect account of it; for informing whom, true copies of several of Mr. Brisco's papers are herewith reprinted, in order to be dispersed in several counties. The free-hold estates of England, or England itself the best fund or security*, (Edinburgh, 1695); J. Briscoe, *May it please your honours, the last sessions of Parliament I presented the members of the honourable house with a treatise, intituled, A discourse on the late funds; wherein were proposals for a national land-bank ...*, (London, 1695); J. Briscoe, *To the honourable the Knights, citizens and burgesses, in Parliament assembled. May it please your honours; the last sessions of Parliament I presented the Honourable the Commons in Parliament then sitting, with proposals for setting up a national land-bank in favour of the freeholders and trading part of the kingdom,* (London, 1695); J. Briscoe, *An account of the national land-bank*, (London, 1695); J. Briscoe, *Proposals for raising money for the National Land-Bank*, (London, 1695). Whilst Chamberlen advocated a complex system based on 100 or 150 years purchase of estates

money would be undervalued every where the same, or near to what it where there; it would be of great advantage to that country, tho thereby money were less valuable.[125]

Whilst these similarities should be recognised, there are also significant differences between Blackwell's and Law's models which indicate how financial ideas had developed in the intervening years. Take Blackwell's description of a bank in 1688 for example, here it was defined as:

A considerable number of persons, some of each rank, trade, calling and condition, especially in the principle place or places of trading in any country, agree voluntarily to receive, as ready moneys, of and from each other, and any persons in their ordinary dealings, bank-bills of credit, signed by several persons of good repute, joined together in a partnership, given forth on lands of good title mortgaged, and staple unperishing goods and merchandizes, deposited in fitting places to be appointed by the partnership for that purpose; to the value of about one half, or two thirds of such respective mortgages and deposits.[126]

Such a definition is in line with the Potter and Woodbridge conceptualization of a bank and was one that had remained almost unchanged between 1650 and 1688. By the time Law came to write his treaty, however, such definitions were antiquarian. By 1705, Scotland and England had had national banks for a decade. Banking had evolved from the kind of private enterprise advocated by Blackwell, based on men of good repute, into a matter of national interest, to be represented by Law's large-scale institutions, overseen by parliaments.

The intended consequences of Blackwell's and Law's

[125] Law, *Money and Trade*, p.76
[126] Blackwell, *A Model*, p.5

respective banks were also vastly different. Law envisaged his Scottish land bank as providing the institutional backing to introduce a new currency into the country. Whilst the fundamental premise of Blackwell's proposal was to increase credit among merchants and landowners, accelerating circulation and augmenting money stocks.

This significant evolution in economic thinking points to the changes that had occurred in the political and economic landscapes of the British Isles between 1688 and 1705. William and Mary's accession had allowed for a significant re-modelling of British institutions, yet as outlined above the situation in England and Scotland were vastly different. From 1688 England had been almost continuously at war, first the Nine Years war, then the War of the Spanish Succession. Money was scarce but significant financial innovation had meant there were new means by which conflicts might be funded. In Scotland, the failed Darien project had halted the shoots of the country's own Financial Revolution in the 1690s, almost bankrupting the nation in the process. Add to this a trading deficit which was draining the country of coin, and a southern neighbour whose foreign policy, particularly that of waging war on France, did little to assist trading relationships, and it is clear that there were significant hurdles to overcome in order to improve Scotland's financial prospects. Law's proposal should therefore be understood within its Scottish context, in that it looked to capitalize the economy of small country that was well-resourced, but with little access to the traditional currency materials of gold and silver.

Conclusion

The land bank was undoubtedly the 'nearly man' of British financial innovation during the late seventeenth- and early eighteenth- centuries. As we have seen, an interesting narrative can be traced back and forth across the Atlantic. From England in 1650, to Boston during the 1680s, returning to England in the next decade, before making its way to Scotland in the early 1700s. The administration in England went further than most with the establishment of the crown sanctioned National Land Bank in 1696. Yet, the failure of the institution indicates that whilst the head may have been willing, the body was less sure.

Of the proposals covered here in detail – Potter, Woodbridge, Blackwell, Chamberlen and Armour, and Law - the case has been made for their interconnectedness, drawing a line between Potter's work in 1650 to that of Law in 1705. Making a direct link between the work of these two men has been suggested elsewhere by Murphy.[127] The difficulty, however, is that Law never mentions Potter anywhere in his own economic works, making it unclear if he had read the *Key to Wealth* or any of Potter's subsequent works.[128] Murphy does state, however, that's Potter's work 'struck many pre-Lawian chords', which seems a little like putting the cart before the horse.[129] It should of course be remembered that the fifty-plus years separating the work of Potter and Law represents a substantial period of time, a fact that we as historians

[127] Murphy, p. 46
[128] Ibid, p.49
[129] Ibid, p.46

often forget, so used are we to writing histories that cover the occurrences of many centuries.

It is hypothesized here that Blackwell was the link between the work of the two men. Law's timeline indicates that by the early 1690s he was in London.[130] He had been an apprentice goldsmith and educated in the ways of banking by his father, it therefore does not seem to be too much of a stretch to suggest that the young man would have been aware of Blackwell's 1688 land bank proposal published in London. As we have seen here, the language, themes, and certain aspects of the financial framework of each proposal do show a degree of equivalence between the work of the two men.

Whether Law said anything about credit that had not been said previously is up for debate. This investigation would suggest that in 1705 he was building on the ideas of others. He did, however, make a significant contribution to the Scottish debate during this period, with the country itself influencing how Law framed his ideas.

That the landscape, be that political, economic, or national, was crucial in informing how the landbank model was conceived is clear when we drawback form the examples considered here. The proposals contained here illustrate that three distinct groups – colonial settlers, Englishmen at home, and Scotsmen – at four distinct periods – the

[130] C. Mackay, *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds*, (London, 1852), p.8, places Law's departure as shortly after 'the death of his father, which happened in 1688'. Murphy puts the death of Law's father as 1683, however, calling into question MacKay's assertion. Murphy does not give a date when Law first arrived in London, but we do know he was there by the early 1690s; Murphy, *John Law*, p.20

1650s, 1680s, 1690s, and early 1700s – sought to overcome distinct sets of problems with the same solution. For the colonists a land bank would prevent external shocks to the domestic economy – removing the reliance on gold and silver, a commodity equally coveted by the metropole, and replacing it with a secure, local, paper currency. English land bank proponents of the 1650s meanwhile sought to expand trade by reducing the friction on transactions, whilst those of the 1680s sought to augment diminished specie stocks in an already capitalised economy, whilst also shoring up Tory factions against attack from emerging Whig institutions. In Scotland there was less of a desire to reassert Tory power, and more of a need, like the colonists, to support the domestic economy. An augmentation of the money supply here would allow for the expansion of Scottish manufactures; utilising the resources and labour force of the country which for the most part lay dormant and capitalising the struggling Scottish economy. This narrative of undercapitalization was powerful and was one that would prove crucial in influencing the ideas of future Scottish writers.

<u>Chapter 3</u>

‘We are far from fairy tale Mr Chancellor’;[1] The Proposed National Bank of France, 1702

The financial experiments carried out by John Law in France between 1715 and 1720 have been well-documented.[2] In these years he founded the note issuing, joint-stock *Banque Générale*, later becoming the *Banque Royale* following its nationalisation in 1718.[3] Next he established another joint-stock offering, the *Compagnie d'Occident*, with an aim to develop the territory of Louisiana in North America. The company grew into a monopolistic behemoth, acquiring the rights to almost all French overseas trade, with Law increasing the outstanding value of the company’s shares from around 34 million livres to over 5 billion in the space of just three years.[4] The final stage of his system involved the acquisition of the lease to operate the *Ferme générale*, an outsourced tax collection agency through which most indirect taxes in France were collected for the crown, and the purchase of the royal mint.

[1] Three letters discussing a proposed national bank will be considered in this chapter, this statement echoes that found in letters one and two – ‘this is not a chimera’ - but is drawn from the third letter, Bibliothèque Mazarine, Ms.2342/5/3, p.198

[2] This list is in no way exhaustive, but gives an indication of the work given over to Law at this time; P, Cochut, Law, *Son Systeme et Son Epoque*, (Paris, 1853) ; L. M. Lande, *The Founder of Our Monetary System, John Law: Compagnie des Indes & The Early Economy of North America*, (Montreal, 1984); Lande, *The Rise and Fall of John Law, 1716-1720*, (Montreal, 1982); E. Levasseur, *Recherches Historiques sur le Systeme de Law* (Paris, 1854); Murphy, A. E., *John Law: Economic Theorist and Policy-Maker*, (Oxford, 1997); A. Thiers, *The Mississippi Bubble, a Memoir of John Law* (New York,1859); Hamilton, E. J., ‘The Political Economy of France at the Time of John Law’, in *The History of Political Economy*, Spring, (Durham, N.C), 1969)

[3] Hamilton, ‘The Political Economy of France at the Time of John Law’, p.145

[4] Murphy, *John Law*, p.164; The company then became the *Compagnie Perpetuelle des Indes* in 1719

From here he ambitiously sought to refinance the French national debt, lending to the state at a low interest rate of three per cent enough to cover its existing financial obligations.[5] By the end of 1720, however, Law had succeeded in turning *banque* into a four-letter word, when his financial system collapsed, leaving much of Europe in economic turmoil. Following this, he spent some time in England, and refused invitations from Russia and Denmark to discuss new projects.[6] He wrote in defence of his French system and awaited an invite to return to France. The invite never came and in 1729 Law died in Vienna.

This is how Law's career as an economic thinker ended, but how did it begin? The answer to this is currently an area of contention. Presently, a 1704 proposal for an English land bank, published in 1994 by Antoin Murphy as *John Law's Essay on a Land Bank*, is, due to Murphy's expertise int this area, generally considered to be Law's first foray into political economy.[7] This chapter, however, shall argue that Law, a central figure of the Financial Revolution, was active at least two years earlier, when, as part of multinational group operating on the continent, he was involved in the dissemination of innovative financial ideas and the promotion of a banking model to the French administration.

The origins of the works which make up this scheme are murky to say the least. Written between 1701 and 1702 they are spread out

[5] F. R. Velde, 'John Law's System', in *The American Economic Review*, Vol. 97, No. 2, (May, 2007), p.277
[6] Murphy, *John Law*, p.313
[7] J. Law, *John Law's 'Essay on a Land Bank*', A. Murphy (ed), (Dublin, 1994)

over three letters and two proposals contained within a collection held at the Bibliothèque Mazarine, Paris.[8] Academics are divided on the provenance of this grouping of political economic writings. Murphy has stated that whilst he was originally impressed by the similarities between the economic reasoning contained within these works and those that are certainly by Law, in the end he was unconvinced.[9] Likewise, Paul Harsin, the early twentieth-century chronicler of Law's catalogue, chose to omit these works from his *Œuvres collection,* despite being the one who had originally unearthed them.[10] On the other hand, Earl Hamilton, a man who dedicated more than fifty years to examining the work of Law, had no doubt that the Scotsman was the author of 'two drafts of a proposal for a privately owned Bank of France' in 1702.[11] Unfortunately, however, Hamilton provided no evidence to back up this assertion. More recently, Edgar Faure, in his weighty tome *La Banqueroute de Law*, has highlighted some interesting comparisons between the works of Law and the French proposals. Despite this, he could not come to a decisive judgement on the authorship of the works.[12]

The question as to whether the disputed works originated from Law is therefore one which is still outstanding more than eighty years

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[8] Bibliothèque Mazarine, Ms.2342

[9] Murphy, *John Law*, p.44

[10] P. Harsin, *Œuvres complètes* publiées pour la première fois par, (Paris, 1934). Harsin did, however, publish the works in the 1933 work, *Crédit Public et Banque d'Etat en France*¸ but did not attribute these to Law.

[11] Hamilton, 'The Political Economy of France …', p.141

[12] E. Faure, *La Banqueroute de Law*, (Paris, 1977), p.31 ; Also see appendix 2, L'affaire Olivier Du Mont, pp.640-644

since Harsin first located the documents in Paris; almost fifty years since Hamilton threw his considerable weight behind their authenticity; forty years since Faure highlighted the similarities, and indeed the incongruities, between the work of Law and these documents; and twenty years since Murphy stated that doubts remained over their authorship.

The issues at the very centre of unravelling the origin of these interesting sources are threefold. Firstly, the collection consists of three letters and two proposals centred upon the establishment of a national bank of France, the signature upon each letter varies; the first is unsigned, the second marked 'G.M.', and the third is under the name of Olivier du Mont (henceforth these will be referred to as the 'du Mont letters'). Secondly, these are not in their original form, or hand, but instead are copies (all five documents have been transcribed by the same hand, however). And thirdly, Faure doubts whether Law himself had suitable mastery of the French language at this time to have written the proposals. Additionally, he feels that some of the terms used within the works were terms that Law failed to use subsequently. This led Faure to suggest that 'Law may have had a collaborator, or later changed his method'.[13] Whilst the three letters were written after the proposals, these provide context for the two proposals, so these will be considered first.[14]

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[13] Faure, *La Banqueroute de Law*, p.640

[14] The proposals have usually been referred to as having been made in 1702, with the copyist stating such in the margins of proposals, however, the appearance of the letters in early 1702 to follow up on the proposals suggest that they were made in 1701. This is supported by an article in the *Gazette d'Amsterdam*, 16th February 1702, which

‘This is not a Chimera’; The ‘Olivier du Mont’ Letters[15]

Like Scotland, the 1690s were also ‘ill years’ for France. The failed harvest of 1693 heralded particularly devastating consequences for the country, causing ‘an apocalyptic, medieval-type dearth’, with the death toll peaking at 2 million between 1692 and 1694.[16] Famine and disease were set against a backdrop of war, with the merging of several conflicts in late-1688 signalling the commencement of the Nine Years War (1688-97). French involvement had begun as a localised dispute, with Louis XIV intervening in the Rhine area in order to settle succession issues in Cologne and the Palatinate.[17] This quickly escalated, drawing France into conflict with the League of Augsburg, a group set up in 1686 to counter French influence in Germany.

At the same time as Louis was intervening in German affairs, William of Orange was involving himself in English affairs, landing in Torbay in November 1688 and kick-starting the Glorious Revolution. The French king was a supporter of the displaced James VII & II and promptly declared war on the Dutch Republic. By early 1689 the League of Augsburg had evolved into the Grand Alliance and now included England, Scotland (leading to trading prohibitions between

states that ‘the project of establishing a bank for circulating royal bills in trade was *finally rejected* after further examination’

[15] Bibliothèque Mazarine, Ms.2342/5/1, p.186, and Ms.2342/5/2, p.192; This is a phrase which occurs in both the first and second letters from the Mazarin Collection,

[16] E. Ladurie, *Times o0f Feast, Times of Famine: A History of Climate since the Year 1000*, (New York, 1971), p.68, and E.L., Jones, *The European Miracle: Environments, economies and geopolitics in the history of Europe and Asia*, (Cambridge, 1981), p.30

[17] D. Onnekink, ‘The Last War of Religion? The Dutch and the Nine Years War, in D. Onnekink (ed), *War and Religion after Westphalia, 1648-1713*, (Farnham, 2009) p.69

Scotland and France which precipitated an economic slump in the former), the Netherlands, and Austria. France now found itself in a truly global conflict, with theatres of war opening in the old and new worlds.

The short spell of peace which followed the conclusion of the Nine Years' War in 1697 was shattered with the commencement of the War of the Spanish Succession in 1702, in which France, allied with Spain and some smaller kingdoms, once again found itself pitted against the Grand Alliance.[18] The economic situation in France was strained, the Paris mint was lagging in its work of striking new coin. It became necessary to issue certificates to those who had delivered old coins and bullion for recoinage, but who now found themselves waiting for the sluggish mint.[19] These promises, known as *billets de monnaie*, began to circulate throughout France in lieu of payment. Up to 1704 the French treasury seems to have been largely in control of the currency. Following French defeat at the Battle of Blenheim, however, this control collapsed, the situation brought on by the rush to exchange bills for cash and because of the previous over-issue of bills to cover expenses. By 1706, the bills were in circulation at 'ruinous discounts, virtually paralysing credit'.[20]

The French authorities attempted to tackle the problem by converting the 173 million livres of outstanding bills into various forms

[18] Whilst the death of Spain's Charles II in 1700 triggered events, the hostilities would not begin until 1702

[19] Hamilton, 'The Political Economy of France …', p.124

[20] J. S. Bromley, (ed) *The New Cambridge Modern History: The Rise of Great Britain and Russia, 1688-1715/25,* Cambridge, 1971, p.302

of financial instruments.[21] That the financial strain of war and the willingness of the French to accept the paper notes in payment would lead to their over-issue and subsequent depreciation, had not yet occurred at the time of the du Mont letters. It is, however, within the context of the disastrous 1690s having just drawn to a close, and with France finding itself again on the eve of a new European war, that the proposal for a national bank emerged.[22]

Sent from London, the letters were intended to lobby the French king to consider a proposal for a privately-owned bank in France.[23] The first two letters were aimed to penetrate straight to the centre of the French administration, albeit through the backdoor, and were addressed to Louis XIV's morganatic wife, Françoise d'Aubigné, Madame de Maintenon. Whilst the third appears to have been written to Michel Chamillart, then French controller-general of finance, and a confidant of Madame de Maintenon.[24] All are written in the hand of the copyist, so comparing the original hand is impossible. Comparing the content, however, provides enough evidence to support the conclusion that all of the letters originated from one source, as all are concerned with a

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[21] For full details see Bromley, *The New Cambridge Modern History*, p.302

[22] Hamilton, 'The Political Economy of France …', p.124

[23] The first two letters state London as being their origin, the third does not. The dates of the correspondence straddle the Gregorian and Julian calendars, being sent as they were in January and February - During this period the English employed the Julian Calendar, starting a new year on March 25, whilst the French, along with other Papal countries, had changed to the Gregorian calendar in the 16th century. The Gregorian Calendar was also 11 days ahead of the Julian Calendar by this point. These letters appearing in January and February straddle 1701 and 1702 in England and France respectively. (Scotland had started its year on January 1 since the start of the 17th century). For clarity modern dating will be applied and we will treat the proposals as being made in 1702.

[24] Ms.2342/5/1, p. 189 ; Ms.2342/5/2, p193 ; and Ms.2342/5/3, p.201

proposal for a French bank being given due consideration. This does not, however, mean that they originated from one individual. As stated above, Faure has suggested that if John Law was involved with the project then he may have had a collaborator.[25] It is argued here, however, that Law was indeed involved, and that he had at least two other partners.

Each letter, whilst clearly originating from the same group, has its own style, with each of the three being penned by a different author. The first letter appears to have originated from the pen of a Frenchman. In it he states that his involvement in proposing the national bank was out of duty and 'the great zeal … [he had] for the king, and … [his] homelands'. He also warns that should the French fail to take up the opportunity of the bank swiftly, then '*our* enemies will profit by it', a fact known to the author who had 'seen the treaties made by the interested parties with two of the premier powers of Germany'.[26] This is a clear indication that those behind the banking proposal were attempting to implement the new bank not only in France, but had also been in talks with two German states, and, as we later learn, also with Austria.[27]

The network behind the banking project appears to have been intent on its implementation somewhere in Europe, with, it seems, little

[25] Faure, *La Banqueroute de Law*, p.640
[26] Ms.2342/5/1, p.185, my emphasis on 'our'
[27] Harsin, *Crédit Public et Banque d'Etat en France*, p.27. At present these proposals remain lost, but 1703 would see Austria's first attempt at founding a national bank, the Banco del Giro, indicating such matters were being discussed at this time. See W. Roberds & R. Velde, 'Early Public Banks', a paper given to a conference on Money in the Western Legal Tradition, (Cambridge, 2012), p.69-71

regard for the dividing lines being defined on the eve of war. It is also in this first letter that we are given an indication of Law's involvement in the project, when the author makes it clear he is not working alone; referring to a friend with whom Chamillart and his ministers had been in contact already, and who was travelling from afar to meet the author at his residence, hopeful of a response from France which had not yet arrived.[28]

The second letter in the group is signed 'G.M.'. This led Harsin to theorize that this may have represented Georges de Montagne, a pseudonym which had been used in previous correspondence directed to Louis XIV in 1699 by Danish merchant, Jorgan Thor Mohlen.[29] Mohlen's is an interesting name to raise in these matters, with the Dane being responsible for the issue of non-interest-bearing notes in 1695 in Norway, then united with Denmark.[30] (This enterprise had led French historian, P. J. Charliat, writing in the years prior to Harsin, to comment on the similarities between the projects undertaken by Thor Mohlen in the 1690s and that of John Law in the 1710s.[31]) Thor Mohlen was given permission to print the temporary notes after he had incurred losses to privateers. Whilst they were accepted as legal tender and convertible to coin, public confidence in the currency was low, and the government

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[28] Ms.2342/5/1, p.185

[29] P. Harsin, *Crédit Public et Banque d'Etat en France, du XVI^e^ au XVIII^e^ siècle*, (Paris, 1933), p.26

[30] G. S. Cuhaj, *Standard Catalogue of World Paper Money, General Issues, 1368-1960*, (Lola, WI, 2014), p.1288

[31] P. J. Charliat, 'Réfugiés Français En Norvège: Le Consulat Français à Bergen Au Temps De Louis XIV' in *Bulletin De La Société De L'Histoire Du Protestantisme Français (1903-)*, vol. 77, no. 1, 1928, pp. 7–513

withdrew them from circulation a year later.[32]

In his 1699 correspondence to the French king, Thor Mohlen advocated for the issue of a French currency not backed by specie, as well as the establishment of a 'great company of navigation' in the country.[33] The Danish merchant clearly had an interest in financial matters, but if Thor Mohlen was the author of the second letter, he made it clear that he was not the architect of the proposal at large; 'je n'ey suis point l'autheur'.[34] Instead, the unnamed friend of the first letter reappears as being the man responsible for the theories underpinning the proposed bank. This admission by 'G.M.' indicates that there was a network of at least three men operating around the French proposals, who these men were, however, is never revealed.

Whilst the letters are ambiguous in identifying those behind the banking scheme, they are much more explicit in naming the network in the French administration tasked with considering the proposal. Hilaire-Armand Rouillé du Coudray, a French nobleman, and later director of finance during the early years of Law's system, Michel Amelot de Gournay, council to Louis XIV, French financier, Samuel Bernard, and controller-general of finances Chamillart, are, among others, mentioned in the first letter. Interestingly, it is stated that Rouillé had 'seen the project only briefly' but had 'concluded that it was not practicable'.[35] This is striking for two reasons. Firstly, in 1700-1701 Law had made a

[32]D. Goldberg, 'Paper Money, 1450-1850, in D. Coffman et al (eds), *The Atlantic World*, (New York, 2015) P.477
[33] Ibid
[34] 'I am not the author' Ms.2342/5/2, p.190
[35] Ms.2342/5/1, p.186

visit to Paris, taking meetings with the duke of Orléans, Chamillart and Rouillé whilst there.[36] Secondly, the three du Mont letters and two proposals are bound together in Paris today with a brief prepared by Rouillé in October 1715 which offered a word of caution against the banking proposals made by Law to the French administration at that time. This inclusion may be coincidence, but more likely it suggests that there is indeed a connection, that existed at the time the Mazarine papers were grouped together, but that is now lost, between Law and the earlier proposals.

It is without doubt the third letter of the series that gives the greatest indication of Law's involvement. Signed as du Mont, the author of the letter states that his associates are English.[37] His own nationality is never specified, but this statement suggests that the author is not English. Harsin has hypothesised that when the author of the first letter stated that his friend 'lived in a province, far from London, because it took him several days to get there … [h]e could be, for example, ... Scots', travelling from north of the border.[38] Law himself has placed himself in Scotland at least in the autumn of 1701, when he left is, however, unclear.[39]

Everything contained within the three letters suggests that the friend alluded to in the first two letters is 'Olivier du Mont'. And

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[36] J. B. Massillon, *Memoires de la minorite de Louis XV*, (Paris, 1792), cited in Harsin, *Crédit Public et Banque d'Etat en France*, (Paris, 1933).28

[37] Ibid, p.195 'mes associes qui sont anglais de nation'

[38] Harsin, *Crédit Public et Banque d'Etat en France*, p.26

[39] Law stated in his 1712 proposal for a bank in Turin that 'I was in Scotland when the edict establishing the *billets de monnoye* was published', this was September 1701 in France. Murphy, *John Law's 'Essay on a Land Bank*', (Dublin, 1994), p.22

certainly, the third letter, illustrates a greater command of the economic ideas involved in the project than anything displayed by its forebears, exhibiting content that can only be described in the very least as 'Lawian'. Edgar Faure, however, has questioned whether Law held enough proficiency in French in 1701/2 to have written the letters, yet his basis for such an assumption is unclear. Law's father, William, had died in 1683 whilst in Paris, suggesting he himself held some understanding of the language. As he had educated Law 'as a gentleman', it would stand that French was a part of this education. Following the Restoration, French had become the language of diplomacy, and in his treatise on the education of a gentleman, John Locke had stressed the importance of teaching the language to British children.[40] After his father's death, John was sent to study under the Reverend James Woodrow at the grammar school at Eaglesham, a move designed to remove him from the temptations of Edinburgh.[41] It is difficult to say with any certainty whether French was on the curriculum, but it was not unusual by this time for Scottish schools to teach this.[42]

Whether Olivier du Mont was John Law is still questionable, yet perhaps there is a clue in this enigmatic pseudonym. Prior to the

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[40] F. Watson, *The Encyclopaedia and Dictionary of* Education, (ed), Vol. III, (London, 1922), p.1528; and J. Locke, *Some Thoughts Concerning Education*, (London, 1693), p.233-4

[41] W. Gray, *The Memoirs, Life and Character of the Great Mr. Law and his Brother at Paris*, (London, 1721), cited in Murphy, *John Law*, p.16, and Murphy, p. 16

[42] R. Anderson, *Edinburgh History of Education in Scotland*, (Edinburgh, 2015) p.47 and p.89; and N. Phillipson, 'Commerce and Culture: Edinburgh, Edinburgh University, and the Scottish Enlightenment', in T. Bender (ed), *The University and the City: From Medieval Origins to the Present*, (Oxford, 1988), p.103

widespread Anglicisation of Scottish place names in the nineteenth century, the word ‘law’ was used not only to describe legal custom, but also commonly to refer to a hill in, among other places, Fife and Lothian from where the Law family hailed. Was the moniker of du Mont, the French for mountain, the Scotsman’s way of stealthily identifying himself? Neither Harsin, Faure, or Murphy have raised this possible connection.[43]

Of the three letters, that signed by du Mont is the only one that provides an indication of the economic underpinnings of the proposed bank, with the first two acting as pleas (or indeed threats at the mention of the German states also considering the proposal) for the submitted plan to be properly considered. This letter undoubtedly stands apart from the other two, and as Harsin has identified, its author has a ‘style … enameled with Anglicisms which prove at least that English is [the author’s] usual language’.[44] Yet this, and the possible pun on ‘Law’, provide only circumstantial evidence that Law was involved in the proposed French bank. The following examples, however, make a more compelling case.

In 1705 Law stated in *Money and Trade Considered* that:

> [t]he … qualities necessary in money, are, 1. Eas[e] of delivery. 2. [that it is] Of the same value in one place to what it is in another. 3. To be kept without loss or expense. 4. To be divided without loss. 5. To be capable of a stamp. Paper money has these qualities in a greater degree than silver. 1. It is easier of delivery: 500 lib. In paper may be payed in

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[43] "Law *n.*[2]". *Dictionary of the Scots Language*. 2004. Scottish Language Dictionaries Ltd. Accessed 5 Dec 2016 <http://www.dsl.ac.uk/entry/snd/law_n2

[44] Harsin, *Crédit Public et Banque d’Etat en France*, p.26

> less time, than 5 lib. In silver. 2. It is nearer the value in one place to what it is in another, being of easier carriage. 3. It can be easier kept; taking up less room. 4. It can be divided without loss: because it may be changed for lesser notes at the office …5. It is capable of a stamp, and less liable to be counterfeit.[45]

Whilst in the du Mont letter from 1702 the author, fearing that the plan is not being given due consideration, states:

> The value of the bills [of the proposed Bank of France] will be secured by a fund, and hold the certificate of the seal, and public authority, the same as other money, or as other species, and therefore [be of] the same qualities as these species … having more value, and being more much more convenient, and less prone than the other to being counterfeited.[46]

The similarities within the two statements are indeed marked. Whilst the 1705 statement is meticulously crafted, the earlier contains the same monetary ideas in a more embryonic form; the convenience of a paper currency, its ability to maintain a value, and its capacity to be stamped with a seal of authority and protected from forgery.

Further similarities arise when one considers a description in the du Mont letter of how the French bank would benefit the country's economy. The author states that:

> everyone will want to have [the bank's bills], it will be the other money, which will pay all small debts, and so the money going out of the hands of individuals … it will travel from here to another, moving quicker than other money which is paid less than quarterly during the court of the king.[47]

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[45] Law, *Money and Trade*, (Edinburgh, 1705), p.85
[46] Ms.2342/5/3, p.197-198
[47] Ibid, p.199

This statement indicates the author to have been very aware of the important part played by the velocity at which money circulated. These new bills would allow transactions to be completed more quickly, allowing one unit of the new currency to undertake multiple transactions in the same time as specie currency took to complete one deal.

The proposed French bank was not, however, simply to operate a deposit banking system such as at Amsterdam but was also to augment the money stock of the nation, as the Bank of England had in that country. The author of the letter understood that a lack of cash limited economic growth. This economic principle, termed the 'cash balance constraint', was a fundamental mechanism in Law's *Money and Trade*, and featured prominently in his subsequent French works.[48] This theory maintains that 'employment was positively related to the amount of money in circulation'.[49] A lack of money in circulation reduces employment opportunities, which in turn limit manufactures and trade, and stifle economic growth. The author[s] of the letter state that with '[t]his new addition of such a large fund so suddenly, trade will grow'.[50] This connection between money and trade is basic when compared to Law's later works but does represent an early example of his style of monetary theory.

On a more minor comparison between the work of Law and the

[48] See *Mémoire Touchant les Monoies et le Commerce*
[49] Murphy, *John Law*, p.113
[50] Ms. 2342/5/3, p.196

du Mont letter, one is struck by the following point made in the correspondence:

> If a property fund worth ten thousand ecus for example was mortgaged for only two-thirds or less than value, this mortgage would be for the whole kingdom, among those who have the money to loan at interest.[51]

Law was ever the fan of giving hypothetical arguments and particular examples (as he similarly was for making objections to his own work in order to reply to in it the tract; this is also a motif of the du Mont letter), but these lines from the third letter are important not just because of this.[52] They are notable rather because of the proportion of the overall fund that the author suggests to employ; 'two-thirds'. This fraction is significant in the work of Law. When Law made his land bank proposal for Scotland in 1705 he outlined three methods by which a loan might be made. Firstly, as an ordinary heritable loan, not exceeding the maximum of *two-thirds* of the value of the pledged property; secondly, as a loan up to the full value of the property, but with a fixed period of redemption; and thirdly, as an irredeemable purchase at the land's value.[53] The instruction in the du Mont letter that two-thirds of the total fund might be utilised is again an interesting connection with the work of Law.

In 1705 Law indicated that he had authored economic works several years earlier. In the *Money and Trade* he reproached fellow

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[51] Ibid, p.200
[52] Harsin also identified such a trait, see J. Law *Money and Trade*, & *Mémoire pour prouver qu'une nouvelle espèce de monnaie peut être meilleure que l'or et l'argent*, (Paris, 1707)
[53] Law, *Money and Trade*, p.86, my *emphasis*

projector, the persistent Englishman, Hugh Chamberlen, for being, as Law saw it, ‘offended at my meddling in this affair, having, as he [Chamberlen] says, borrow'd what I know of this subject from him’.[54] Law went on to state; ‘Two Persons may project the same thing, but so far as I can judge, what I am to propose is different from his’. He continued by saying that he had ‘form'd a scheme … several years before I had seen any of [Chamberlen’s] Papers: Which I can prove, if that were necessary, by persons of worth I then show'd it to’.[55] As Murphy asserts, this suggests that Law had started writing on economic matters a number of years prior to the publication of *Money and Trade*.[56]

The question which arises from this conclusion, and which has remained unresolved for decades, is whether Law was referring to the 1702 proposals for a French national bank, and whether these, rather than *Essay on a Land Bank*, submitted to the English government in 1704 and published by Murphy in 1994, represent Law’s first major economic work?[57]

Proposals for a French National Bank

If one is to say with certainty that John Law was the projector behind the French proposals, then it must be considered how they fit with the existing works we know to have been produced by Law during the first decade of the 1700s. It is necessary to understand therefore that whilst

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[54] Ibid p.153
[55] Ibid
[56] Murphy, *John Law*, p.43
[57] Murphy indeed proposed the same question in 1997 but as yet it remains unresolved.

there are indeed certain commonalities existing in those works definitely produced by Law, they are also singular proposals. He did, for example, adapt certain details of his land bank proposals made between 1704 and 1707 depending on whether he was promoting the scheme in England, Scotland or France.[58] If we compare the disputed French proposals of 1702 with *Money and Trade* for example, whilst both advocate the establishment of a new bank, along with the introduction of a paper currency, they are also very different works. The ideas represented in *Money and Trade* were aimed at finding a solution to the financial problems experienced by Scotland, a small country with a population of 1.1 million in 1700, compared to the almost 20 million of France, and with a proportionally sized economy.[59] Additionally, Law's main focus by 1705 was a money secured on land, with a Scottish bank introducing a currency designed to circulate in perpetuity. The proposals for France three years earlier were of a very different nature.

At the centre of the two French proposals was a desire to augment the money supply of France through the creation of a national bank which was to be a 'bank of deposit, of transfer, of discount, and of emission'.[60] The proposals are significant, and represent the first time that such a scheme was discussed in French financial history. The first

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[58] As stated elsewhere, Law proposed schemes in England, Scotland, and France during this period.
[59] R. Schofield, 'British Population Change, 1700 -1871, in R. Floud, and D. McCloskey (eds), The Economic History of Britain Since 1700: 1700-1860, (Cambridge, 1994), p.93, pp.60-95, & D. B. Grigg, *Population Growth and Agrarian Change: An Historical Perspective*, (Cambridge, 1980), p.191, (France is quoted as 19 to 19.5 million)
[60]P. Harsin, *Crédit Public et Banque d'Etat en France, du XVI^e^ au XVIII^e^ siècle,* (Paris, 1933), p.33 and p.29

proposal, *Memoire au sujet de l'Etablissement d'une banque en France*, is shorter than its companion, and contains an interesting editorial note left there by the copyist. This inscription concludes that the original author of the proposal had not been a Frenchman. The copyist states that despite the author speaking a little French well, they had made some linguistic errors in the text. As such, the copyist had corrected many of these errors, whilst others were left as they were in the original text.[61]

The *Memoire* is constituted of two aims; one for establishing sound credit and increasing the money circulating in France, and two, for decreasing credit and restricting the circulation of specie in England and Holland. The understanding of the banking systems in these two countries, countries with which Law was well-acquainted, is evident. In order to understand the propositions contained within the proposal the author states that it was first necessary to understand 'what the credit of England and Holland consists of'. Here the working practices of the Bank of Amsterdam are briefly outlined, along with the assertion that 'in Holland we see little specie', with 'payments to be on the Bank of Amsterdam, shares of their Indies company, and … obligations of the state' passing as currency in its place.[62] Similarly, it is stated that 'in England the bank's notes, and exchequer bills, the shares in the bank, and of the old, and new, indies companies, compete in commerce', suggesting that the author of the proposal, as Law had indeed done by

[61] Ms. 2342/5/4, *Mémoire au sujet de l'Etablissement d'une banque en France*, p.203
[62] Ibid

1704, was already cutting ties with precious metals as being the only security for currency, and instead saw numerous financial instruments as capable of being circulated as money. This is a motif that can be identified throughout the work of Law during this period and beyond.

In his 1711 proposal for a bank in Turin, Law ‘equate[d] the shares of the East India Company with money’, whilst he viewed the shares of his own Mississippi Company as constituting money in their own right, ultimately leading him to monetize these shares into huge sums.[63] The view of the author of the 1702 proposal, that EIC shares and other instruments competed with specie, correlates directly with Law’s opinion. In 1707 he stated:

> What approximates most to a new type of money is the East India Company. The stock of this Company is divided into shares like that of the bank. They are traded each day on the exchange and the current price is published for the public's information in the gazettes.[64]

On this matter, Murphy stated that:

> [Law’s] broadened vision as to what constituted a monetary instrument led him to believe that once there was a ready market for a financial asset that enabled traders to determine its value at that point in time when exchange was taking place …, then it could be used as a medium of exchange. Financial markets in generating liquid financial instruments, that is, instruments that possessed the attributes of being turned into cash without loss or delay, were, according to him, in the process of creating new types of monetary instruments.

[63] Murphy, *John Law*, P.61

[64] Law, *Mémoire Pour Prouver qu’une Nouvelle Espece de Monnaie Peut Etre Meilleure que l’or et l’argent*

The above statement ends with Murphy proclaiming that 'Law was one of the first economic writers to recognize this development'.[65] If this is the case, then either the anonymous author of the French proposal writing in 1702 had made the same theoretical leap, or John Law was that author.

The proposed French bank was to be truly national in its scope, centred in Paris but with branches throughout the country – a prospect which Harsin describes as 'unique' at the time - with a fund of 10 million livres to be raised through subscriptions.[66] Loans were to be offered by the bank, secured on 'collateral of land, homes, or other real estate, at 5 per cent, and discounted a per cent, for punctual payment'.[67] The author assures his audience that through the bank 'traders will have the same facilities in trade as in Amsterdam', whilst the 'the nobility will find the facilities to borrow money … at reasonable interest, borrowing sums for making profit in trade'.[68] To make the bank secure there was to be 'a register of all the contracts, or other debts that affect land, homes, or other real estate', these registers, like the bank's offices, were to be established throughout the country.[69] The proposal falls somewhere between the operational structures of the Bank of Amsterdam and the Bank of England; providing increased velocity of cash for traders, but also expanding loan making facilities to augment

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[65] Murphy, *John Law*, p.61
[66] Harsin, *Crédit Public et Banque d'Etat en France*, p.30, the largest subscription permitted was to be 50.000 livres, whilst the smallest was set at 3000
[67] Ms. 2342/5/4, *Memoire au sujet de l'Etablissement d'une banque en France*, p.209
[68] Ibid, p208 &209
[69] Ibid, p.211

the French money supply and increase trade.

The second proposal contained in the bound volume of the Bibliothèque Mazarine, *Memoire pour l'Etablissement d'une banque publique, pour le bien et commodite du commerce, et en veu de rendre l'argent commun en France*, carries on the theme of the first, but is much extended and increased in detail. It is outlined that the 10 million livres fund underpinning the bank's business would be constituted of shares priced at 1000 livres each.[70] The author shares his view that it was preferable to have numerous stakeholders investing smaller amounts, than a few stakeholders investing large sums.[71] Directors to oversee the bank's business were to be elected, with cashiers appointed for the administration of day-to-day transactions. The bank was viewed as being an enterprise that would grow steadily, with manufacturers, merchants and farmers borrowing to increase their trade, before depositing their profits with the bank, and growing the bank's funds.[72]

Loans were to be made over a term of six, twelve, or eighteen months, and in one of three forms:

> [as] bills of interest for the end of the month, the interest included to the bill, Bills for the value of all the deposits that [the borrower] will bring. And bills at interest without term, the interest will not be Included, and will be paid when the bearer demands payment of the bill, this interest will be calculated with interest of interest.[73]

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[70] Ms. 2342/5/5, *Mémoire pour l'Etablissement d'une banque publique, pour le bien et commodité du commerce, et en vue de rendre l'argent commun en* France, p.216
[71] Ibid
[72] Ibid, p.218
[73] Ibid, p.220

Those borrowing from the bank would do so at a general rate of six per cent, or where land was pledged, at a rate of four, with those who failed to repay on time running the risk of seeing their collateral sold to reimburse the bank.[74] Collateral could take many forms; land, property, or goods. Merchants for example would be able to take 'loans on wines and waters of life, salts and other fruits, in stores, which [the bank] will take [as] security'.[75]

On the other side, profits for investors were proposed to be considerable, with a twenty-five-year term potentially returning investors of 3000 livres, more than 13000, whilst those investing 5000 would see a projected return of 22000.[76] The bank, it was argued, would do much to advance the economy of France, unlocking the wealth tied up in land and property, in turn promoting growth in French manufactures and trade. These are notions, albeit supplanted to Scotland, which will be familiar to anyone who has ever read Law's *Money and Trade*.

Comparing the works of Law with the French proposals of 1702

As we have seen, the proposed national bank of France intended to employ land as loan security, but it was not solely to be a land bank of the type which Law would advocate for from 1704. Instead security might be taken from a number of sources. The relationship between the

[74] Ibid, p.223
[75] Ibid, p.224
[76] Ibid, p.221

bank and land was, however, to be an important one, both for the use of land as security for loans from the bank, and for the bank's impact on land prices in France. On the latter point the author of the 1702 proposals stated that:

> interest being 4-5%, the land must increase in price because those who will have their assets in cash by finding an income as advantageous as the loan of their money, [will] buy [land] more readily.[77]

This focus upon the future value of land foreshadows Law's assertion in 1705 that 'land will continue to rise in value, being yet capable of improvement; and as the demand increases, for the quantity will be the same'.[78] And that of 1707 when he stated that:

> the difference between the price of land when species was more abundant and now, is a very strong reason for employing land to the uses of money and thereby reduce the demand and value of gold and silver species and increase demand and the value of land.[79]

These similarities are interesting, yet the different nature of the 1702 proposals compared to Law's known works between 1704 and 1707 makes a comparison on a purely economic level difficult. If we instead focus upon the form of the proposal and the language used, we come across some notable similarities.

Firstly, the format of the second of the 1702 proposals, *Memoire pour l'Etablissement d'une banque publique,* is in a style remarkably like that of Law's other works of the period. This proposal, like *Money*

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[77] Ibid, p.227
[78] Law, *Money and Trade*, p.70
[79] J. Law, *Mémoire pour prouver qu'une nouvelle espèce de monnaie peut être meilleure que l'or et l'argent*, (Paris, 1707) – Faure makes the connection between the 1702 proposal and the 1707 mémoire, but fails to consider *Money and Trade*

and Trade, and his French proposal of 1707, is split into chapters, each intended to convey a specific part of the scheme. Secondly, both the 1702 proposal and *Money and Trade* highlight the influence of Sweden in banking matters.[80] This is a reference difficult to locate in any other works than these, it being more customary to focus upon England, Germany, Holland and Italy as sources of banking innovation. Thirdly, Law proposes in *Money and Trade*, that his Scottish land bank would issue three types of loan. These were summarised above, but in Law's own words were as follows:

> 1.To authorize the Commission to lend Notes on Land Security, the Debt not exceeding one half, or two Thirds of the Value: And at the ordinary Interest.
> 2. To give out the full Price of Land, as it is valued, 20 years purchase more or less, according to what it would have given in Silver-money. The commission entring into Possession of such Lands, by Wadset granted to the Commission or Assigneys; and redeemable betwixt and expiring of a Term of years.
> 3. To give the full Price of Land, upon Sale made of such Lands, and disponed to the Commission or Assigneys irredeemably.[81]

Memoire pour l'Etablissement d'une banque publique similarly stipulates three methods for making loans, that whilst not identical to those outlined above, do show some overlap, especially when we consider that the third letter, that from the pen of du Mont, had also stipulated an upper limit on loans as two-thirds of the total fund

[80] Law, *Money and Trade*, p.36; and *Memoire pour l'Etablissement d'une banque publique*, p.213
[81] Ibid, p.85

pledged.[82] Fourthly, an interesting similarity arises when one considers Law's description of the benefits of the Bank of Amsterdam in *Money and Trade*, and those made in the first 1702 proposal, *Memoire au sujet de l'Etablissement d'une banque en France*. In 1705 Law described the Amsterdam institution as follows:

> This bank … is a secure place, where merchants may give in money, and have credit to trade with. Besides the convenience of easier and quicker payments, [the bank] saves the expense of casheers, the expense of bags and carriage, losses by bad money, and the money is safer than in the merchants houses, for 'tis less lyable to fire or robbery, the necessary measures being taken to prevent them.[83]

Compare this to the 1702 tract where it is declared:

> The Bank of Amsterdam was established, for facilitating trade, merchants give in their money, and are given credit in the bank's book, …. it is proper as a general fund, for keeping the money of individuals, it is held in a town house, a very strong place … and the money is surrounded by stone to safeguard against fire … merchants have great advantages … their money is more secure than their homes, they don't have need of clerks for paying and receiving ... saving on time to tell, risk of dissatisfaction, … false money, [and] the expense of the bags, and carriage.[84]

The similarities in these descriptions of the Bank of Amsterdam are nothing less than striking. Whilst one's ideas may evolve and adapt –

[82] These are referenced above, but for ease of comparison are repeated here; 'It will have three kinds of bills, bills of interest for the end of the month, the interest included to the bill, Bills for the value of all the deposits that he [the borrower] will bring. And bills at interest without term, the interest will not be Included, and will be paid when the bearer demands payment of the bill, this interest will be calculated with Interest of interest'

[83] *Money and Trade*, p.36

[84] *Memoire on the establishment of a bank in France*, p. 203/4

as Law's clearly did between 1704 and 1720 – to change one's style of writing is a much more difficult task.

Was John Law, Olivier du Mont?

The manuscripts discussed here, and contained within the Bibliothèque Mazarine, are unique, no other copies of the letters or proposals for a French national bank have been discovered in the eighty-plus years since Harsin made his original find. Bound together with these documents is the Rouillé brief mentioned above, dated October 1715, along with an anonymous memoire dated 1710-11 on paper money. Although anonymous, Harsin states the tract to have been written by someone 'very qualified', leading him to the belief that this collection of writings is not 'free of importance'. With the historian concluding in 1933 that whilst the manuscripts' 'provenance remains mysterious, their interest is clear'.[85]

The proposed French bank, however, failed to materialise, with the *Gazette d'Amsterdam* stating in February 1702, at around the same time of the letters, that:

> the project of establishing a bank for circulating royal bills in trade was finally rejected after further examination, and efforts were being made to find other ways of extricating money that was still extraordinarily rare.[86]

The remark that the proposal was 'finally rejected' suggests it had been under consideration for some time. Indeed, the proposal in question

[85] Harsin, *Crédit Public et Banque d'Etat en France*, p.34

[86] *Gazette d'Amsterdam*, 16th February 1702, cited in Harsin, *Crédit Public et Banque d'Etat en France*, p.21

appears to have been submitted to Louis XIV in 1701, at a time when Law was in Paris meeting with the Orleans, Chamillart and Rouillé.[87]

Harsin, in 1933, stated that 'it seems very likely that the author of the project is none other than John Law', going further to say that 'no implausibility seemed to exist in the formulation of this conclusion'. He does, however, offer a word of caution, stating 'but it goes without saying that in the current state of our documentation, we cannot say more'.[88] And indeed, despite Harsin appearing to believe these were the works of Law, he chose to omit the proposals from his catalogue of Law's work. As stated above, Earl Hamilton was more than convinced that the works emanated from the pen of Law; Faure then did much of the legwork highlighting examples of concurrence between the 1702 proposals and documents drawn in the main from Law's tenure as controller-general of finances in France. Whilst Murphy admits to being at first struck by similarities, he remains unconvinced. One must remember, however, that at present Murphy's publication of *Essay on a Land Bank* represents Law's first known work, which would fail to be the case if the 1702 works are recognised to be by Law. Yet, despite Harsin's belief that the works were that of Law, neither he, nor Faure would categorically state this. And whist Hamilton had no doubt that Law was the man behind the French proposals, he offers little in the

[87] Law was in Paris at around the time of the proposals, having arrived at some point before April 1701 when he was imprisoned in the city, suspected of being a foreign spy or enemy of the French state

[88] Harsin, *Crédit Public et Banque d'Etat en France*, p.29 &35

way of evidence to support this conclusion.[89] To put the matter to rest, a convincing argument is required.

Closing Arguments

That the form of bank proposed in the 1702 manuscripts differs in many ways from that suggested by Law in 1704 and 1705 is not a barrier to the earlier proposals originating from the Scotsman's pen. Unlike English physician, Hugh Chamberlen, who touted more or less the same land bank proposals to numerous countries for well over a decade, Law's recognised works show that he was prepared to adapt his monetary theory to suit the needs of the country in question; indeed, his *Essay on a Land Bank*, directed at the English government in 1704, and *Money and Trade*, designed for the Scottish economy a year later, whilst sharing many of the same economic underpinnings, were considerably different proposals.[90] That said, as Faure has highlighted

[89] Hamilton, 'The Political Economy of France …', p.141/2

[90] For examples of Chamberlen's work see, H. Chamberlen, *An Humble Proposal to the Honourable the House of Commons*, (London, 1690); H. Chamberlen and D. Thomas, *A Proposal for Encouraging of Persons, to Subscribe Towards a Common Stock of [-----} for the Erecting and Managing of a Trade by a General Fishery to be with all Possible Moral Security of a Great Gain to the Adventurers, and of No Less Honour and Advantage to the Publick, and is a Benefit not to be Attained by Any other Methods, as is Strongly Presumed from Arguments that Have All the Appearing Force of Demonstration*, (London, 1691); H. Chamberlen*, Dr. Chamberlen's Petition and Proposals for a Land Bank to Increase Trade*, (London, 1693); H. Chamberlen, *A Short Abstract of Doctor H. Chamberlen's Proposal to the Honourable House of Commons the Last Sessions. And Also of Mr. John Briscoe's Present Printed Proposal Compared Together, Whereby the Benefits of Each to the Nation, and every Freeholder Concern'd, may plainly appear,* (London, 1694); H. Chamberlen, Chamberlen, *The constitution of the Office of Land-Credit, declared in a deed,* (London, 1696); Chamberlen, H., & Armour, J., *Proposal by Doctor Hugh Chamberlen, and James Armour for a Landcredit,* in A. E. Murphy, & C., Sugiyama (eds.), *Monetary Theory, 1601-1758,* Vol. 4, (London, 1997); and H. Chamberlen, *Papers Relating to a Bank of Credit, upon Land-Security: Proposed to the Parliament of Scotland*, (Edinburgh, 1693).

elsewhere there are many theoretical similarities between the 1702 proposals and Law's later works.[91]And as has been shown here, the French proposals had already begun to theorize upon land as a suitable collateral for a paper credit currency in a way that distinctly foreshadows the theories defined in *Money and Trade.* Additionally, the manner in which the author of the French proposals includes shares and other financial instruments in a broad conceptualization of currency – representing a mode of monetary thought that Law would never shed, and one that Murphy credits the Scotsman with being one of the first to recognize – is a startling correlation in economic reasoning.[92]

Furthermore, and as the case has been made here, what catches one's eye in addition to the economic propositions contained in the 1702 proposals, is the use of form and language; as stated earlier, ideas can evolve, but changing one's writing style is arguably much more difficult. The form of the proposals, particularly the more fully formed second draft, closely resembles how Law would go on to set out many of his proposals. Multiple chapters, each defining a specific fragment of the overall proposal, underpinned by examples, whilst not a singularity of Law, is a framework within which he worked during the first decade of the 1700s. The similarity in linguistic turns of phrase is also startling; indeed, when Law describes the benefits of the Bank of Amsterdam in *Money and Trade* this could almost have been lifted

[91] Faure, *La Banqueroute de Law*, Appendix 2, L'affaire Olivier Du Mont, pp.640-644
[92] Murphy, *John Law*, p.61

word for word from the second proposal of 1702.[93] Add to this the similarity between Law's 1705 work and the ideas of the letter signed by Olivier du Mont, along with the intriguing editor's note on the manuscript which states the work to have been undertaken by someone other than a Frenchman, and the case for Law's involvement in the 1702 proposals is compelling.

For over 20 years *Essay on a Land Bank*, located and published by Murphy, has been considered John Law's 'first known work on monetary economics'.[94] This is despite Murphy failing to establish the tract's provenance, and it being in the hand of a copyist, rather than that of Law himself; characteristics which also apply to the French proposals. But Murphy is adamant that it is the work of the Scot; 'the content, in terms of both style and substance, is unambiguously that of John Law'. Murphy draws comparisons between *Money and Trade* and the *Essay*, whilst also linking it to a Scottish proposal, the '1705 Act for a Land Mint', concluding all three to have been written by Law.[95] This conclusion is based upon a careful forensic investigation of the 'style and substance' of the *Essay* in comparison to the known works of Law. This mirrors the methodology employed in the consideration of the French proposals undertaken here.

Taking this into consideration, it is the belief of this author that John Law was the man at the centre of the French banking proposals of 1702. This is a conclusion drawn from the economic, stylistic, and

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[93] See pp.84-85
[94] J. Law, *Essay on a Land Bank*, A. Murphy (ed), p.17
[95] J. Law, *Essay on a Land Bank*, A. Murphy (ed), p. 18/19

linguistic similarities between these proposals and Law's later works. Along with the known timeline of Law's movements in 1701/2, his meetings with central members of the French administration, and the references made to the same in the du Mont letters. Add to this the punning of Law for du Mont, and it is clear that the French proposals represent the first known economic works by John Law.

These works are not, however, important for simply being the first by the (in)famous Law; indeed, the monetary theory they contain is not the great leap forward of *Money and Trade*, nor does it indicate the startling experiments that Law would undertake in France over a decade later. But the proposals are significant because they highlight the European-wide dissemination of economic ideas and the appetite for financial speculation present at the start of the eighteenth century. These proposals indicate that Law, a Scotsman, was touting a conceptual banking framework, inspired by the success of the well-established Bank of Amsterdam, and the more recently formed Bank of England, to not only the French government, but also to two German administrations and the Austrian government in Vienna. The 1702 proposals represent a financial proposition which was truly European in its nature. One which shows the propagation of financial ideas throughout the continent, driven by a network which consisted of English, French, and perhaps also Danish, merchants and financiers, and, of course, one Scottish economist.

Chapter 4

'The Proper Question is not whether Paper Money be as Good as Silver or Gold, but whether it is Better than No Money': Scots and the New Jersey Loan Office[1]

The economic debate taking place in the North American colonies in the early eighteenth century was vibrant and varied. The men writing on the economy were a mix of those born in the America's and those drawn from numerous Old World nations. They were concerned with a number of issues. These included the impact that the clipping of coins was having on a circulating metal currency, on the part that credit played in their economies, how money impacted the ability to trade, the place of barter within their communities, how they might maintain the value of colonial bills, and how a scarcity of coin was affecting their ability to carry on domestic trade.[2] This last concern, more than the others, is the one has attracted the most attention, with a number of scholars arguing that the possibility of a scarcity of coin in early modern North American colonies is a myth. They postulate that these territories were small open economies with the ability to adjust domestic prices to match specie supply if this was required for the execution of domestic business.[3] Some colonists also believed this to be the case, with future

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[1] An anonymous pamphleteer cited in T. L. Purvis, *Proprietors, Patronage, and Paper Money: Legislative Politics in New Jersey, 1703-1776*, (London, 1986), p.149

[2] For examples of this see Davis, *Colonial Currency Reprints,* Vols. 1-4

[3] See L.V., Brock, The Currency of the American Colonies, 1700-1764, (New York, 1975), A. M., Davis, *Colonial Currency Reprints, 1682-1751*, Vols. 1-4. (New York, 1964), L. W., Labaree, B. B. Oberg, and W. B. Willcox, (eds.). 1959-1998. The Papers of Benjamin Franklin, vols. 1-34, (New Haven, 1959-98), M. N. Rothbard, *Conceived*

founding father Benjamin Franklin arguing in 1729, that if 'the quantity of current coin should decrease … what coin there is will rise in value as currency, *i.e.* people will give more labour in manufactures for a certain sum of ready money'.[4] There were many others within the colonies, however, who did not see things the way that Franklin did, and instead viewed a shortage of coin as a very real problem.

This chapter will explore how the colony of New Jersey attempted to solve this problem at various times. It will detail the issuances of tax-backed paper money from 1709 onwards, and the problems which arose when the British government attempted to retire this currency from 1717 onwards; a move which had resulted in liquidity issues in the colony by the early 1720s. Much of our focus will be drawn to the solution to this problem, the New Jersey Loan Office. The chapter will also detail the Scottish connection to New Jersey, and is particularly concerned with the part played in establishing this new institution by Scotsman William Burnet. As governor of the colony,

in Liberty, (Auburn, 2011), pp.624-8. Economic historian Farley Grubb describes this argument as follows; 'Under the quantity theory of money in an open economy with an operative specie-flow mechanism, if specie is scarce domestically, then domestic prices will decline to accommodate the smaller money supply. As domestic prices fall, the locale's exports become more competitive abroad, and imports to the locale look less attractive relative to domestic goods. Exports increase which brings in more specie, and imports decrease which reduces specie outflow. This replenishes the locale's money supply to desired levels. As such, chronic specie scarcity cannot exist. Temporary specie scarcity is possible, such as during a war, due to unexpected disruptions to the balance of trade, but market forces in an open economy would eventually correct these imbalances', F., Grubb, *Chronic Specie Scarcity and Efficient Barter: The Problem Of Maintaining An Outside Money Supply In British Colonial* America, (Working paper), p.2

[4] B. Franklin, 'A Modest Enquiry into the Nature and Necessity of a Paper-Currency' in Davis, *Colonial Currency Reprints,* Vol 2, p.351, pp.335-337

Burnet represented the British administration, but time and time again he went against his employers. This chapter will consider why.

A Shortage of Coin and the First Issuances of Paper Money

Those works which bemoaned an absence of coin in the colonies echoed complaints raised throughout the British Isles.[5] Where the colonists were at a distinct disadvantage to the metropole, however, was that, other than the erection of a mint in Massachusetts in 1652, closed during the 1680s when the English administration explicitly refused the colony the privilege of having such an institution, there was no domestic method by which coin could be produced.[6] Instead, what coin there was

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[5] See H. Peacham, *The worth of a penny, or, A caution to keep money: with the causes of the scarcity and misery of the want thereof, as also how to save it, in our diet, apparel, recreations, etc., and also what honest courses men in want may take to live*, (London, 1703); W. Atwood, *A safe and easy method for supplying the want of coin and raising as many millions as the occasions of the publick may require. Humbly offered to the consideration of the present Parliament. With some remarks upon the Bank of England, Dr. Chamberlain's Bank, the Land bank, so called, and the National Land bank*, (London, 1695); T. Houghton, *A letter to a member of Parliament: shewing how probably the credit of the nation may be speedily raised And not only the publick debts made good without present money, but render'd serviceable to the publick, and a means to free others as well as the creditors from the difficulties that the deficiencies of funds, and scarcity of coin have occasioned*, (London, 1697); J. Armour, *A Proposal to Supply the Defect of Money and Relief to the Poor*, (Edinburgh, 1696); A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705), .W. Seton, *Some thoughts, on ways and means for making this nation a gainer in foreign commerce; and for supplying its present scarcity of money*, (Edinburgh, 1705), J. Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: together with some proposals for supplying the defect thereof, and rectifying the ballance of trade*, (Edinburgh, 1705), J. Hodges, *Considerations and proposals for supplying the present scarcity of Money, and advancing Trade*, (Edinburgh, 1705), and J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, (Edinburgh, 1705)

[6] L. Jordan, *John Hull, the Mint and the Economics of Massachusetts Coinage*, (Lebanon, NH, 2002), and R. R. Johnson, 'The Revolution of 1688-9 in the American

in the colonies came mainly through trade with Spanish and French territories.

These coins, which circulated largely in the hands of merchants, did not, however, remain in the colonies long. As underdeveloped territories, their inhabitants had extensive needs, and were dependent, in large part due to the Navigation Acts, on English imports.[7] This unfavourable balance of trade saw specie flow out of the colonies and back to the metropole, causing problems for domestic economies. So, whilst a debate among modern scholars on whether a colonial specie shortage could occur, despite 'unrestricted specie-market arbitrage', continues, what is important for the work which follows here, is that a specie shortage, perceived or otherwise, acted as a catalyst for the issuance of paper money in the colonies.[8] It was not, in the end, due to domestic trade issues, but rather the need to meet the cost of military expenditure that led to the first emissions of a paper currency in a number of colonies.

As had been the case in Massachusetts in 1690 (chapter two), British expeditions north into Canada were the trigger for the issuance of New Jersey's first paper money in 1709; as it also was for New Hampshire, New York, Connecticut, and Rhode Island at around the same time.[9] Colonies were required to contribute quotas of men and

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Colonies', in J. I. Israel, *The Anglo-Dutch Moment: Essays on the Glorious Revolution and its World Impact*, (Cambridge, 1991), p.221-2

[7] E. J., Ferguson, *The Power of the Purse; a History of American Public Finance*, (Chapel Hill, 1961), p.4

[8] Grubb, *Chronic Specie Scarcity and Efficient Barter*, 'abstract'

[9] C. P. Nettels, *The Money Supply of the American Colonies Before 1720,* (Madison, 1934), p.255

money to the military effort, and for some, paper money was the only way to cover the cost.[10] Massachusetts had been more than a decade ahead of the other colonies when it first issued the currency in 1690. This was followed by Carolina in 1703, after forces from the colony had taken action in Spanish Florida as part of the North American theatre of the War of the Spanish Succession in the in the previous year.[11] During this time paper money had also begun to emerge in Britain, with the banks of Scotland and England issuing notes from the mid-1690s onwards.

The colonial notes were different, however, from those issued in the metropole. Banking structures operating a fractional reserve model, where a proportion of coin was held by the bank as security for paper notes, like those in Britain, did not appear in English-speaking North America until after the American Revolution. Colonial notes, rather than being dispensed by a bank and secured on specie deposits, were instead administered directly by the colonial legislature and were backed by future taxes or pledges of land. Once the use of paper money had been initiated, colonial legislatures made issuances of the new currency periodically. The money was placed directly into colonial coffers and used to cover the costs of, among other things, soldiers' pay

[10] The NJ assembly chose to issue £3,000 in paper money (or bills of credit) to be retired through collection of taxes within two years. A second expedition two years later led to the issue of an additional £5,000

[11] F. Grubb, *Colonial New Jersey's Paper Money Regime, 1709-1775: A Forensic Accounting Reconstruction of the Data*, working paper for the National Bureau of Economic Research, (Massachusetts, 2013), p.1; and D. Marley, *Wars of the America's: A Chronology of Armed Conflict in the Western Hemisphere*, Vol 2., (Oxford, 2008), pp.324-343

and government salaries. In some cases, loans were made by the legislature secured upon the property of the borrower.[12]

Between 1709 and 1717 the New Jersey legislature made three emissions of notes.[13] Between 1717 and 1722, however, British authorities instructed subsequent governors to discourage anymore bills being issued as they attempted to retire the currency. The financial situation of the colony, certainly in terms of liquidity, deteriorated. So much so that the colony's governor at the time, William Burnet, reported instances in the early-1720s of taxes being paid in jewellery because colonists could not access specie.[14] Laws passed in 1722 attempted to help colonists meet their obligations lawfully, and stipulated that freeholders might cover their tax burden with wheat rather than money. Litigation over non-payment of loans increased, however, as creditors refused to accept crops or livestock in place of hard cash, usually resulting in the auctioning off of the debtors' estate at a discount.[15] It is against this landscape of financial uncertainty and monetary scarcity that the New Jersey Loan Office emerged as a solution to the colony's economic problems in 1723.

Before this new institution is considered, however, it is felt that

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[12] Ibid

[13] R. A. Lester, 'Currency Issues to Overcome Depressions in Delaware, New Jersey, New York and Maryland, 1715-37', in *The Journal of Political Economy,* Vol. 47, No. 2 (Apr., 1939), p. 188, pp.182-217

[14] New Jersey Archive, vol 87, cited in . Kemmerer, 'The Colonial Loan Office System in New Jersey', in *The Journal of Political Economy,* vol. 47, No. 6 (Dec, 1939), p. 869, pp.867-874

[15]Purvis, *Proprietors, Patronage, and Paper Money,* p.146

now is an opportune moment to cover the history of New Jersey and the part the territory played in Scottish and Atlantic lives.

The Foundation of East Jersey

East Jersey did not begin its existence as a Scottish colony, but by the middle of the 1680s it had become a region dominated by Scotsmen. They did not, however, represent an absolute majority in the colony, the region also being home to various Dutch and English settlers, as well as numerous American-born people who had migrated to the area. Instead, as one historian has remarked, 'the "Scottishness" of East Jersey was to a great extent top down as from 1685-1705 approximately two-thirds of the board of resident proprietors in East Jersey were Scots'.[16]

The territory of New Jersey had originally been granted to John Berkeley, Baron Berkeley of Stratton, and Sir George Carteret, both ardent royalists, by James Stuart, then Duke of York, later James VII & II, at the Restoration. In 1676 the colony divided, Berkeley sold his interest, representing the western part of the region, to a London-based Quaker group, while Carteret retained proprietorship of East Jersey.[17] By 1682 approximately 2000 Quakers from England and Ireland had arrived in West Jersey, after which migration slowed as this religious group turned its attention towards Pennsylvania.[18] When Carteret died in 1680 the eastern territory was also purchased by a Quaker group,

[16] A. Murdoch, *Scotland and America, c.1600-c.1800*¸ (Basingstoke, 2010), p.20
[17] N. Landsman, *Scotland and its First American Colony, 1683-1765*¸(New Jersey, 1985), p.102
[18] Purvis, *Proprietors, Patronage, and Paper Money*, p.8

headed by William Penn. The acquisition by Penn and eleven others meant that the whole of New Jersey was effectively now a Quaker colony.[19]

This group of twelve East Jersey proprietors swiftly expanded to twenty-four, and now included Robert Barclay of Urie, a Scotsman from the northeast. Barclay was a prominent Quaker in his native land and had produced an extensive number of theological works throughout the 1670s.[20] Quakers were not, however, exempt from the religious

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[19] B. Dobrée, *William Penn, Quaker and Pioneer*, (London, 1932), p.144

[20] (This is in no way an exhaustive list); See R. Barclay, T*ruth cleared of calumnies wherein a book intituled, A dialogue betwixt a Quaker and a stable Christian (printed at Aberdeen, and upon good ground judged to be writ by William Mitchell ...) is examined, and the disingenuity of the author, in his representing the Quakers is discovered : here is also their case truly stated, cleared, demonstrated, and the objections of their opposers answered according to truth, Scripture, and right reason*, (Aberdeen, 1670); *William Mitchell unmasked, or the Staggering instability of the pretended Stable Christian discovered; his omissions observed, and weakness unvailed, &c.*, (Aberdeen, 1671); *Seasonable warning and serious exhortation to, and expostulation with, the inhabitants of Aberdeen, concerning this present dispensation and day of God's living visitation towards them*, (Aberdeen, 1672); *A Catechism and Confession of Faith, approved of, and agreed to by the general assembly of the patriarchs, prophets, and apostles, Christ himself chief speaker in and among them, which containeth a true and faithful account of the principles and doctrines which are most surely believed by the churches of Christ in Great Britain and Ireland, who are reproachfully called by the name of Quakers, yet are found in the one faith with the primitive church and saints, &c.*, (London, 1673); *The anarchy of the ranters, and other libertines; the hierarchy of the Romanists, and other pretended churches, equally refused and refuted, in a two-fold apology for the church and people of God, called in derision, Quakers. : Wherein they are vindicated from those that accuse them of disorder and confusion on the one hand, and from such as calumniate them with tyranny and imposition on the other; shewing, that as the true and pure principles of the Gospel are restored by their testimony; so is also the antient apostolick order of the Church of Christ re-established among them, and settled upon its right basis and foundation,* (originally 1674), reprinted Philadelphia, 1757;*An Apology for the true Christian Divinity, as the same is held forth and preached by the people called, in scorn, Quakers; being a full Explanation and Vindication of their Principles and Doctrines, by many Arguments deduced from Scripture and right reason, and the testimonies of famous Authors, both ancient and modern, with a full Answer to the strongest Objections usually made against them; presented to the King; written and published, in Latin, for the information of Strangers, by Robert Barclay; and now put into our own Language, for the benefit of his Countrymen*¸(1676)

persecution of Restoration Scotland, with Charles II's outlawing of Presbyterian ecclesiastical practices also extending to this group. Such was the oppression of his coreligionists, that upon returning from a tour of Quaker settlements in Germany and the Netherlands in 1676, Barclay discovered that his father, along with almost every adult male Quaker resident in the northeast of Scotland had been placed in the Aberdeen tolbooth. Despite seeking help from the duke of Lauderdale, Prince Rupert of the Rhine, and making his case directly to the Scottish Privy Council, Barclay could do little, and found himself imprisoned in Aberdeen from November 1676 until April 1677.[21]

The freedom granted to Barclay in 1677 did not extend to all of his coreligionists, with the majority of Quakers remaining imprisoned in the tolbooth. He continued to fight their cause, approaching the duke of York to ask that he speak to Lauderdale on behalf of the Quakers. York, whilst mindful of Barclay's situation, could do no more than offer a letter granting him and his father immunity from persecution. However, when York, in an attempt to distance himself from the Exclusion Crisis that threatened his future kingship in England, York decamped to Edinburgh in 1679, the Aberdeen Quakers were set at liberty.[22]

The involvement of Barclay in the colony of East Jersey was central in attracting Scottish investment to the venture. By the early 1680s Scotland's economy was growing and its foreign trade was

[21]G. DesBrisay, 'Barclay, Robert, of Ury (1648–1690)', *Oxford Dictionary of National Biography*, (Oxford, 2004)
[22] Ibid

expanding. The spirit of improvement which would see the country's landowning class attempt to restructure the nation's economy, especially its agricultural sector, on a more advanced English model during the eighteenth century can be traced to the closing decades of the preceding century. The combination of such aspirations with the religious tensions of the period undoubtedly incubated the correct conditions for a substantial investment of resources into colonial endeavours.[23] So much so that English proprietors appointed Barclay governor for life, granting him a free proprietary share in the colony as long as he recruited another four Scottish proprietors.[24] Barclay accepted the position on the stipulation that he could remain in Scotland, from where he could promote the colony at home, as well as in neighbouring England and Ireland. With this agreed, he worked tirelessly as an advocate for East Jersey, circulating broadsheets to advertise the colony's potential and obtaining the right to transport religious prisoners held in Scotland to the territory.[25] Barclay did not stop when he had recruited the stipulated four proprietors, however, and by 1684 had brokered the purchase of twelve Scottish properties in the colony, amounting to half of the colony's lands.[26]

Investors were not solely sought from Quaker circles, instead the emphasis was placed on Scottish investment. Barclay persuaded a number of prominent Scotsmen to become involved, such as Lord Neil

[23] Landsman, *Scotland and its First American Colony*, p.73 and p.103
[24] Ibid, p.105
[25] Murdoch, *Scotland and America*, p.19
[26] Ibid.

Campbell who invested in the transportation of servants and goods to colony and purchased 8000 acres of land (a useful purchase when Campbell found himself exiled to the region in 1685 following his brother's failed rebellion against the new king). The Drummond brothers, the earls of Perth and Melfort, both prominent advisors to James VII, also become involved in the project; a statue of Perth still stands before city hall in Perth Amboy, New Jersey, today.[27] A large proportion of shareholders hailed from the northeast, some from landed families, while others had mercantile interests; some overlapped these strata.[28] Under the direction of Barclay, Scots sold off portions of their own properties to other Scots, the secondary group termed 'fractioners', with more than fifty holding shares in East Jersey by the middle of the 1680s.[29] By 1688 around 100 prominent Scotsmen had invested in East Jersey and nearly 700 scots had ventured across the Atlantic to the colony.[30]

Those who set out for East Jersey shared many personal and familial links, many arriving as part of a family unit or with a relative. A majority arriving between 1683 and 1688 were Presbyterian, and settled throughout the Raritan River valley, with the newly established Perth Amboy becoming the political capital of the colony.[31] Servants were attracted principally from families with existing connections to the

[27] L. G. Fryer, 'Campbell, Lord Neil, of Ardmaddie (*c*.1630–1692)', *Oxford Dictionary of National Biography*, (Oxford, 2004); and Landsman, *Scotland and its First American Colony*, p.105/6
[28] Landsman, *Scotland and its First American Colony*, p.106
[29] Ibid, p.105
[30] Purvis, *Proprietors, Patronage, and Paper Money*, p.10
[31] Ibid

proprietors, with one historian claiming that 'almost everyone we can trace came from a neighborhood where the promotors resided'.[32] Tenants were also sought, but certainly at the beginning of Scottish settlement there appears to have been a preponderance towards servants, rather than tenants, as the proprietors attempted to improve their own estates in the short-term. Among the proprietors there was also a prevalence of younger sons who had been left without lands of their own in Scotland, a feature of the inheritance system at this time. One proprietor stated that he had invested in the colony with the aim of providing for his youngest son, 'since [he] had not estate whereby to make him a Scotch laird'.[33] These younger sons were prominent among settlers, and this characteristic was fundamental in how the Scots organised the colony.

While English proprietors in East Jersey, possessing around half of the colony's land, sold freeholds at the price of two pence per acre, their Scottish counterparts prohibited this at any price, instead allowing only the sale of properties or fractions of properties. They of course could not prohibit the English proprietors from selling land but insisted that any freeholds should be taken from English territories, leaving Scottish holdings intact. Scottish proprietors also limited the size of fractions that could be sold, stipulating that no fractioner should hold land smaller than 500 acres.[34] Thus the large estate became 'the

[32] Landsman, *Scotland and its First American Colony*, p.119
[33] Robert Gordon of Clunie cited in Landsman, *Scotland and its First American Colony*, p.107
[34] Landsman, *Scotland and its First American Colony*, p.110

fundamental economic unit of East Jersey', with the colony organising itself in the Scottish tradition of lands being directly granted to large landowners, who would then reallocate them to their tenants and servants.[35] Whilst West Jersey had developed into a society of small farmers, with proprietors gradually subdividing their share into smaller fractions, East Jersey was based upon landed estates, mirroring the northeast of Scotland at a distance of some 3000 miles.

The absentee proprietors also sought to impose strong government upon the colony by implementing a plan of administration termed the 'Fundamental Constitutions'. Drafted in 1683, this began by stating that 'the right of government, as well as soil, [was] in the four and twenty Proprietors', before setting out several complex administrative stipulations.[36] The document detailed Barclay's appointment as governor until his death, 'or by reason of his malverstation', at which point the proprietors were to choose his successor. It outlined the structure of colonial government, with the establishment of 'a great Council, to consist of the four and twenty proprietors, or their proxies in their absence, and one hundred forty-four to be chosen by the freemen of the Province'. It was recognised, however, that at the time of writing, the colony was not of sufficient size to support such an administration. Instead twenty-four

[35] Ibid, p.109/10

[36] 'The Fundamental Constitutions for the Province of East New Jersey in America Anno Domini 1683', in F. N. Thorpe (ed) *The Federal and State Constitutions Colonial Charters, and Other Organic Laws of the States, Territories, and Colonies Now or Heretofore Forming the United States of America*, Vol. 5, (Washington, DC, 1909), p.2574

representatives were to be selected for the eight towns then in existence, with another forty-eight selected to represent the county, with the seats held by the twenty-four proprietors taking the total number within the assembly to ninety-six. It was intended that as the colony grew so too would the assembly.

Whilst there were some articles within the constitution that appeared to protect the settlers, such as guidelines on religious toleration, fundamentally it aimed to consolidate the power and dominion of the Scottish proprietors over the distant colony. The end game being to make the colony financially profitable. The proprietors appear to have been confident that the measures would be passed by the East Jersey assembly. They stated in procedural guidelines for the board of proprietors in April 1685 that the body was to meet:

> To approve and confirm such acts of Assembly, as from time to time shall be found a necessity to establish before copies can be sent hither for our confirmation, but *when* the Fundamental Constitutions are pass[ed] in Assembly, then to proceed according to them.[37]

The colonial assembly, however, had different ideas, and when it met to discuss the enactment of the Fundamental Constitutions in 1686, they were rejected out of hand, the members of the legislature recognising the dangers such a constitution posed to their local autonomy. Following this, the proprietors refrained from making any other attempts to alter the colony's government. Many settlers, however,

[37] Emphasis added, 'The Journal of the Procedure of the Proprietors & Proxies to Proprietors of this Province of East New Jersey from and After the 9th day of April, *Anno Die* 1685', in *The Minutes of the Board of Proprietors of the Eastern Division of New Jersey from 1685 to 1705*, Vol. 1, (Perth Amboy, 1949), p.44

remained wary.[38]

The removal of James VII & II from the thrones of Scotland, England and Ireland in 1689 marked a watershed for East Jersey. As the Scottish proprietors became consumed with Old World problems, power within the colony fell to a domestic group, the Board of Proprietors of the Eastern Division of New Jersey. Formed in 1685, the group was dominated by Scottish fractioners, including all fourteen resident proprietors, with all but one being a Scotsman.[39] Over the next two decades Scots held on average two-thirds of the seats on the board.[40] These men, however, like the absentee proprietors before them, used their position to build up their own estates, often disregarding the interests of proprietors still resident in Scotland by acquiring titles to the best land themselves.[41] Their allocation of lands was unpredictable, often leaving the board open to legal challenges, and their partisanship was clear, even voting themselves an extra monetary bonus for their role as proprietors.[42] This new governing group did not, however, have the infrastructure of those proprietors based in Scotland. They could not recruit settlers to the colony in the same way, and after 1690, coinciding with the death of Barclay, immigration reduced dramatically.

By 1701 the resident proprietors were in difficulty. Their efforts to collect the rents due to them from settlers during the 1690s had met with little success, with East Jersey inhabitants retaliating with both

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[38] Purvis, *Proprietors, Patronage, and Paper Money*, p.9
[39] Ibid, p.10
[40] Landsman, *Scotland and its First American Colony*, p.122
[41] Purvis, *Proprietors, Patronage, and Paper Money*, p.10
[42] Landsman, *Scotland and its First American Colony*, p.122

legal and illegal means. The proprietors were viewed by settlers as being preoccupied with their own financial gain and driven by self-interest.[43] By putting their own interests ahead of that of the colony the Board of Proprietors, as well as the Scottish-based proprietors before them, had brought the colony's government into disrepute. Such issues did not, however, manifest themselves only in East Jersey, with West Jersey also experiencing problems, as mobs in both regions broke open jails, halted court proceedings, and assaulted colonial officials.[44] The lack of a centralised authority to govern the colony left the proprietors with few options, and in 1702 they petitioned the English government to take over administration of the territories; this was accepted and East and West Jersey became one royal province under English control. Ownership of the Scottish half of East Jersey, however, remained with the Scottish proprietors.

New Jersey 1702 -1722

Before the proprietors of East Jersey surrendered government of the colony to the crown, they, in collaboration with their neighbours in the west, submitted a memorial to the English administration. The document outlined the conditions under which they would relinquish control. It was insisted that the proprietors retain title to all unappropriated land, and that they would possess sole power to appoint officials to conduct surveys. They stipulated that a new legislative body should be established based on equal representation for both East and

[43] Purvis, *Proprietors, Patronage, and Paper Money*, p.2
[44] Ibid, p.2-3

West Jersey, with assemblies meeting alternately at Perth Amboy and Burlington. The proprietors were successful in all these demands, and also secured another crucial power, that they, not the crown, had the right to appoint the governor of the colony.

The crown, however, failed to maintain this arrangement, with the governorship of New Jersey being combined with that of New York from 1702 until 1738, during which time, it has been claimed, the role became just another arm of royal bureaucracy, being awarded to those who had been of good service to the English, then British, government.[45] A Scotsmen was not appointed to govern in 1702, but they were by no means excluded from the office, and if we count from the time of Barclay's involvement in the colony in 1683 until 1731, when the governorship began to be regularly filled by Englishmen or native-born Americans, this period of forty-eight years saw the role of governor filled for thirty-five of those years by a Scotsman.

Between 1702 and 1710 the office was held by three Englishmen, the longest serving and most notable being Lord Cornbury, a cousin to Queen Anne. Cornbury had taken up the office in 1702 but was removed in 1708 following a successful smear campaign which had accused him of the not completely unfounded transgressions of 'venality, bigotry, and transvestism', undertaken by New York-born landowner Lewis Morris.[46] His replacement Robert

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[45] Purvis, *Proprietors, Patronage, and Paper Money*, p.15-16

[46] P. U. Bonomi, 'Hyde, Edward, third earl of Clarendon (1661–1723)', *Oxford Dictionary of National Biography*, (Oxford, 2004), and T. L. Purvis, 'Morris, Lewis (1671–1746)', *Oxford Dictionary of National Biography*, (Oxford, 2004)

Hunter arrived in 1710, marking the beginning of twenty-one years of Scottish governorship in New York and New Jersey. Edinburgh-born Hunter had been sent at the behest of the British Whig government.[47] When the British general election held at the tail end of the year signalled the demise of the Whig majority, however, he found himself with little support from the incoming Tory administration. His opponents in New York and New Jersey knew he had little influence with the new government, and thus Hunter faced challenges in both territories.

Strong opposition in New Jersey came from the provincial council, the upper house in the colonial legislature since 1702. Hunter resolved the issue by discharging the incumbent councillors and replacing them with men loyal to him. Those displaced councillors did not, however, go quietly. Instead they ran for, and achieved, seats in the colony's lower house, the general assembly, attempting to frustrate legislative proceedings by failing to attend sessions. Hunter in turn lived up to his name, hounding his enemies out of the colony. The restoration of a Whig ministry at the ascension of George I in 1714 reinforced Hunter's position, and by the time he handed over the governorship in 1719 he had shown himself to be, in the words of a fellow historian, 'the most effective royal governor to serve in New York and New Jersey'.[48]

The man who replaced Hunter, and who would oversee the

[47] M. Lustig, 'Hunter, Robert (1666–1734)', *Oxford Dictionary of National Biography*, (Oxford, 2004)
[48] Lustig, 'Hunter, Robert (1666–1734

founding of the Loan Office, was William Burnet. Burnet had been born into the heart of a political world. His birth occurred at the Hauge in 1688 whilst his father, prominent Scottish clergyman Gilbert Burnet, was in exile after falling out of favour with Lauderdale and James VII. The young Burnet took his name from his godfather, William of Orange, later William II & III.[49]

When his father returned to Britain, the new king rewarded him with the Bishopric of Salisbury. Gilbert Burnet then offered positions within his diocese to a number of scholars, one being John Craige, a talented mathematician who had been the first to import Newtonian ideas into Scotland. From 1690 Craige spent the rest of his career in the see of Salisbury, holding various positions in the diocese. In the early years he became tutor to William. The young man even spent time living with Craige after he had committed some unknown transgression, his father remarking in letter to Craige that he had 'so little pleasure in him [William] that I will not suffer him much to be in my sight … I can say nothing to the boy but God pity him'.[50] William's relationship with Craige was an important one, and it was likely the mathematician who was responsible for introducing Burnet to Isaac Newton, who in turn proposed the young man's election to the Royal Society of London in 1706.[51] The young Burnet went on to travel around Europe, meeting

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49 M. Greig, 'Burnet, Gilbert (1643–1715)', *Oxford Dictionary of National Biography*, (Oxford, 2004); and Lustig, 'Burnet, William'

50 R. Nash, *John Craige's Mathematical Principles of Christian Theology*, (Baltimore, 1991), p.11, 14 & 15

51 J. M. Dixon, *The Enlightenment of Cadwallader Colden: Empire, Science, and Intellectual Culture in British New York*, (New York, 2016), p. 18 & 52

some of the most preeminent scholars of the time.[52] He returned to England and studied law, but does not seem to have practiced, and in 1712 he was married, becoming a father before being widowed in 1715.

By the time Burnet arrived in New York in September 1720 he was an exceedingly well-educated man. A protégé of Newton, he was recognised as an international authority on mathematics, and brought with him a significant library as well as an assortment of scientific instruments.[53] (Less positively, he was also reeling from the financial losses he had incurred with the collapse of the South Sea Company's stock price.[54]) Upon his arrival he allied himself with Hunter's old supporters, writing to the Board of Trade to inform them that he would be 'adhering firmly to every one of Brigadeer Hunters friends and not giving way to a party that has gathered strength by his absence'.[55] Burnet allied himself with a group composed largely of landowners which dominated the assembly, whilst a rival faction, comprised in the main of merchants, remained out of favour.

In New Jersey the was situation similar, with Burnet aligning himself with a group of major landowners who had been granted their lands from the crown.[56] His opposition here came from those who were against proprietary rule or had received their land grants directly from the first governor of New York, Richard Nicolls, rather than from the

[52] These included mathematicians Johann Bernoulli, and the brothers Manfredi, philosopher Giuseppe Valletta, and physicist and mathematician Giovanni Poleni.
[53] Dixon, *The Enlightenment of Cadwallader Colden*, p.45
[54] B. Bailyn, *The Origins of American Politics*, (New York, 1970), p.110
[55] Burnet cited in Dixon, *The Enlightenment of Cadwallader Colden*, p.49
[56] Lustig, 'Burnet, William'

crown. In order to suppress opposition in the general assembly, Burnet, called elections in 1722, after which the body became dominated by his allies. Burnet held office until 1727 when he was transferred north to take up the governorship of Massachusetts and New Hampshire. He died in Boston two years later from a fever contracted after a fall from a carriage.[57]

During Burnet's governorship of New Jersey he found himself in conflict with the British administration on the subject of the colony's currency. In many ways he was between a rock and a hard place; the administration at home threatening to relieve him of his duties if he allowed an unauthorised paper money to be put into circulation, whilst the colonial administration could not pay him his salary if he did not allow this. It was under these conditions that the Loan Office was established.[58]

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[57] Ibid

[58] Burnet's instructions were that he should not 'assent to, or pass any Act in His Majesty's province of New Jersey under your government, whereby bills of credit may be struck or issued in liue of mony, or for payment of mony, either to you the governor, or to the commander in chief, or to any members of his majesty's council, or of the assembly of the said province of New Jersey, or to any other person whatsoever, without a clause be inserted in said Act declaring that the same shall assent to, or pass any Act in His Majesty's province of New Jersey under your government, whereby bills of credit may be struck or issued in liue of mony, or for payment of mony, either to you the governor, or to the commander in chief, or to any members of his majesty's council, or of the assembly of the said province of New Jersey, or to any other person whatsoever, without a clause be inserted in said Act declaring that the same shall have been approved and confirmed by his majesty'; Additional Instructions to Governor William Burnet of New Jersey, relative to Acts authorizing Bills of Credit', 27 Sept. 1720, in W. Whitehead (ed), *Documents Relating to the Colonial History of the State of New Jersey*, Vol. 5, 1720-1737, p.4

The Emergence of the New Jersey Loan Office

The paper money issued by the New Jersey legislature prior to 1723 should be viewed as bills of credit. These were inconvertible notes initially issued to cover the cost of military expeditions or the expenses of government and were usually retired through subsequent taxation. Between 1709 and 1717 new emissions were made periodically, after which British authorities attempted to retire the currency. During the bills' withdrawal period, the colonial assembly voted to pay any bill-holders with bills past their date of maturity, eight per cent interest, a decision which resulted in significantly deflating the currency against the pound sterling.[59]

The winding down of the tax-backed bills did not, however, signal an end to a paper currency in New Jersey. By the early 1720s around £24,000 of New York and Pennsylvania paper bills were still circulating in the colony's economy, whilst around £1000 of its own bills also remained.[60] The colonial administration refused, however, to accept the New York and Philadelphia bills for payment of taxes. As such, the sum in circulation was not enough to alleviate the need for a liquid currency in the colony, with its inhabitants struggling to complete business transactions, obtain credit, or settle their debts. In October the legislature met to discuss the problem, and a little over a month later the Loan Office was established.

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[59] D. L. Kemmerer, 'The Colonial Loan Office System in New Jersey', in *The Journal of Political Economy,* vol. 47, No. 6 (Dec, 1939), p. 869, pp.867-874
[60] Purvis, Proprietors, Patronage, and Paper Money, p.145/6

The preamble to the 1723 Act which allowed for the establishment of the loan office recognised the financial landscape into which the new institution was emerging:

> Whereas many Petitions and Applications have been made to his Excellency the Governor of this Province, by Freeholders, Merchants and In habitants of the same, setting forth, That the Silver and Gold formerly Current in this Province, is almost entirely Exported to Great Britain and else-where, and thereby the many Hardships which His Majesty's good Subjects, within this Colony, lie under, for want of a Currency of Money, ... And his Excellency the Governor having the Good and Ease of His Majesty's Subjects of this Province at Heart, has been pleased to call their Representatives together in General Assembly, to provide Remedies for the Grievances aforesaid, who ... taking into their serious Consideration the Miserable Circumstances of the Inhabitants of the several Counties which they Represent, for want of a Medium of Trade or Currency of Money: And that ... to pay the small Taxes for Support of this Government they have been obliged to cut down and pay in their Plate, Ear-Rings and other Jewels; And that many Law-Suits and Differences have arisen, and do daily arise among them, which will be the Ruin of a great Number of the said Inhabitants, if some Method be not found out for their Relief. And this Assembly having deliberately considered the many Petitions to the Purposes aforesaid, to them presented, and being sensible, of their own Knowledge, that the Matters of Fact, therein set forth, are True, and being well Informed of the Relief which the Neighbouring Provinces have found, in like Case, by a Paper Currency, and hoping the like Effects from it, and finding no other Way to Remedy the Grievances aforesaid, of His Majesty's Subjects here.[61]

The reference to 'neighbouring provinces' particularly refers to Pennsylvania, where there had also been a great need for a circulating currency. One prominent local there remarked in 1722 that the colony

[61] *Law of 1723*, chap. lxxxvii, cited in Lester, 'Currency Issues', p.190

had ‘never been under such low circumstances for want of Trade and Money’, although he admitted that the situation in New Jersey was even ‘more dull’.[62]

The Pennsylvania legislature had acted quicker than its New Jersey counterpart, establishing its own loan office in March 1723, allowing for the issuance of £15,000 of paper bills, to be made in loans of no more than £100, secured on property, and at a rate of five per cent to be repaid over eight years. (Counterfeiters were to be treated with a firm hand; having both ears cut off, whipped on the ‘bare back with thirty one lashes well laid on’, before being fined or sold into servitude.[63]) The erection of the Philadelphia institution was a crucial influence on that founded in New Jersey.[64]

The New Jersey Loan Office sought to remedy the financial restrictions the colony was labouring under. It was empowered to lend a total of £40,000 in bills. This was done by issuing loans of between £12, 6*s* and £100 secured upon property with a value of twice the amount borrowed. Repayments were to be made over twelve years at a rate of five per cent interest. The commissioners tasked with overseeing the project were to destroy all returned bills except those paid as interest, which were instead used to pay their own salaries, with any remaining forwarded on to the colonial treasury.[65]

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[62] Logan to Amos Strettle, November 12, 1722, Letter Book of James Logan, 1717 to 173I, pp. 297-98, cited in Lester, p.188

[63] R. A. Lester, ‘Currency Issues to Overcome Depressions in Pennsylvania, 1723 and *1729, The Journal of Political Economy, Vol. 46, No. 3 (Jun., 1938),* p.338, pp.324-375

[64] A. Rabushka, *Taxation in Colonial America*, (New Jersey, 2008), p.495

[65] Purvis, *Proprietors, Patronage, and Paper Money*, p.148

The origins of the ideas underpinning the loan office lay in the land bank proposals of other colonies (see chapter two). Massachusetts in particular had had a lively debate on the topic throughout the 1680s, with Englishman, John Woodbridge producing a proposal for the erection of a fund to extend credit to its subscribers, secured on ‘real or personal property’.[66] Woodbridge was expanding on a model first proposed in Britain by his friend William Potter during the 1650s.[67] Potter had aimed to stimulate English trade by providing merchants with a secure form of credit issued within a formalised banking structure designed to reduce risk.[68] Woodbridge first brought the proposal to the Massachusetts general assembly in 1667, but received little support. Following this he ran the venture in private, first in 1671-72, and then again in 1681.[69] He submitted the scheme to the assembly again in 1682, where it gained little traction among the legislature and was never established.

Another Englishman, John Blackwell, carried on from Woodbridge, publishing his own land bank proposal in 1687.[70] The proposal owed a debt to Woodbridge, and set out a fund which would

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[66] Rev. J. Woodbridge, *Severals relating to the fund: Printed for divers reasons as they may appear*, (Boston, 1682)

[67] W. Potter, *The Key of Wealth, Or, A New Way for Improving of Trade*, (London, 1650); *The trades-man's jewel, or, A safe, easie, speedy and effectual means for the incredible advancement of trade, and multiplication of riches, (London, 1650)*

[68] A. E. Murphy, *John Law: economic theorist and policy-maker*, (Oxford, 1997), p.48

[69] M. E. Newell, *From Dependency to Independence: Economic Revolution in Colonial New England*, (New York, 1998), p. 121, & Woodbridge, *Severals relating to the fund , in* McFarland Davis, *Colonial Currency Reprints*, p.115

[70] J. Blackwell, *A Discourse in Explanation of the Bank of Credit or An Account of the Model Rules & Benefits of The Bank of Credit, Lumbard, and Exchange of Moneys Proposed to be Erected in Boston And managed by persons in Partnership, as other Merchantly Affayres*, (Boston, 1687), in McFarland Davis, *Colonial Currency Reprints*, p.125-6

issue 'bills of credit' secured upon 'lands or reall estates mortgaged', with the possibility that 'staple goods' might provide suitable security for loans under a Lombard scheme.[71] Neither scheme ever came to fruition. Blackwell's proposal was, however, republished in London in 1688, and whilst no land bank was established at this time, the publication did coincide with a marked rise throughout the next decade of land bank proposals in England, with the country even founding the short-lived National Land Bank in 1696.[72] The debate then moved into

[71] Ibid, p. 125

[72] J. Blackwell, *A Model for Erecting a Bank of credit; With a Discourse in Explanation Thereof. Adapted to the Use of any Trading Countrey, Where There is a Scarcity of Moneys: More Especially for His Majesties Plantations in America*, (London, 1688), J. Briscoe, *The freehold estates of England, or, England itself the best fund or security*, (London, 1695T. Neale, *The national land bank, together with money so composed, as not only to be easie understood, and easily practiced, but more capable also of supplying the government with any sum of money in proportion to what fund shall be settled: as likewise, the free-holder with money at a more moderate interest, than if such bank did consist of money alone without land*, (London, 1695), R. Murray, *A proposal for a national bank, consisting of land, or any other valuable securities or depositums with a grand cash for returns of mone[y] and circulation of the bank-credit, &c. The whole to be under the care, inspection, tru[st,] and controul of the publick authority, and legal magistracy*, (London, 1695), . Asgill, & N. Barbon, *A Proposal for a Subscription to Raise One Hundred Thousand Pounds for Circulating the Credit of a Land bank,* (London, 1695), J. Asgill, & N. Barbon, *An Account of the Land bank, Shewing the Design and Manner of the Settlement, the Profits to the Subscribers, the Advantage to the Borrowers, the Conveniency to the Lenders, that it Wil Be the Support of the Nobility and Gentry of England, and a Public Good to the Whole Nation*, (London, 1695), J. Asgill & N. Barbon, *The Settlement of the Land bank,* (London, 1695), J. Asgill, & N. Barbon, *A List of the names of the Subscribers to the Land bank*, (London, 1695), W. Atwood, *A safe and easy method for supplying the want of coin and raising as many millions as the occasions of the publick may require. Humbly offered to the consideration of the present Parliament. With some remarks upon the Bank of England, Dr. Chamberlain's Bank, the Land bank, so called, and the National Land bank*, (London, 1695), & W. Tindall, *Some remarks upon the bank and other pretended banks with reasons humbly offered to the consideration of the present Parliament for establishing a real land-fund, or a money and land bank; under a regular managery, with unquestionable controuls and checks upon them: By Philalethes*, (London, 1696) Anon. *A New ballad upon the land bank, or, Credit restored to the tune of All for love and no money*, (London, 1696), E. Ward, *A hue and cry after a man-midwife who has lately deliver'd the land bank of their money*, (London, 1699), Asgill & Barbon, *A Proposal for a Subscription to Raise One Hundred Thousand Pounds for Circulating the Credit of a Land bank*, H. Chamberlen, *A proposal for erecting a general bank which may be fitly called the land Bank of*

Scotland in the next decade, becoming particularly vibrant on the eve of the Anglo-Scots union.[73] Thus, by the time the New Jersey Assembly passed the Act to establish the Loan Office in 1723, it was already a well-theorised concept. It was also beginning to become more established in practice, with Carolina, Massachusetts, Rhode Island, and New Hampshire all founding land banks between 1713 and 1717.[74]

The benefits of the Loan Office impacted on all sections of New Jersey society. The landowning class were able to take advantage of the financial opportunities presented by the institution, whilst as leaders among the community they were also quite happy to take credit for the implementation of what was a popular initiative. New Jersey merchants meanwhile benefited from an increase in paying customers, as well as a reduction in the risk that debtors would be unable to obtain sufficient funds to repay them. Increased access to credit allowed freeholders the opportunity to improve their position within the colony.[75] More widely

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England, (London, 1695), Chamberlen, *A brief narrative of the nature & advantages of the land bank*, (London, 1695), and Chamberlen, *A Proposal and Considerations relating to an Office of Credit upon Land Security: Proposed to their Excellencies the Lords Justices: and to the Lords of the Privy Council; and the Parliament of Ireland*, (London, 1697)

[73] J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, Edinburgh, 1705, A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705), and *A second Essay concerning the Land Mint : shewing, that the present necessity, and want of Gold and Silver money, absolutely requires this, or the like Remedy, and that very speedily ... By the author of the Character of the true publick Spirit*, (Edinburgh, 1705)

[74] See R. Seavoy, *An Economic History of the United States: From 1607 to the Present*, (New York, 2013); see chapter four, E. McCrady *The History of South Carolina under the Proprietary Government, 1670-1719*, (Westminster, MA, 1897, 2008), p.524: and M. S. Bilder, *The Transatlantic Constitution: Colonial Legal Culture and the Empire*, (Cambridge, MA, 2008), p.176-7

[75] Purvis, *Proprietors, Patronage, and Paper Money*, p.150-153

all colonists benefited from the reduced tax burden with taxes now covered by the interest payments on loans made by the Loan Office.

The British Board of Trade, however, viewed the currencies of the colonies with hostile distrust. These innovations were deemed a threat to British exporters who might find themselves in the position of having to settle accounts in devalued colonial paper money rather than specie or bills of exchange.[76] The board therefore sought to regulate colonial currencies in a stricter manner than previously, and insisted upon a suspending clause in any Act for the issuance of paper money until the king's opinion on the matter was known, the clause being designed to stop the colony from enjoying the benefits of the new law straight away.[77] And, in the event that the British administration should wish to block the legislation, this would be easier if a vast sum of paper money was not already circulating.

When William Burnet accepted the office of governor he was furnished with explicit instructions not to give:

> assent to, or pass any Act in His Majesty's province of New Jersey under your government, whereby bills of credit may be struck or issued in liue of mony, or for payment of mony, … without a clause be inserted in said Act declaring that the same shall not take effect until the said Act shall have been approved and confirmed by His Majesty.[78]

The British administration did however state that he might override these instructions if the money was genuinely required to cover the

[76] Ibid, p.154
[77] Ibid
[78] 'Additional Instructions to Governor William Burnet of New Jersey, relative to Acts authorizing Bills of Credit', 27 Sept. 1720, in W. Whitehead (ed), *Documents Relating to the Colonial History of the State of New Jersey*, Vol. 5, 1720-1737, p.4

costs of government expenditure, and on the condition that the bills were retired through taxation. The Loan Office bills issued in 1723 were, however, neither required to pay government expenditure, nor did they have a suspending clause, and were backed by land mortgages rather than taxes.[79] Really, it could not have been clearer, but Burnet found himself caught between the instructions of the administration at home, and the needs of the those in the colony. He ran the risk of either losing his job if he failed to satisfy the British administration or losing his salary if he went against the New Jersey assembly. The governor fell on the side of the colony, but not without bargaining for significant concessions; demanding higher salaries for government officers in New Jersey, his choice of colonial agent to represent the colony in Whitehall, the commitment of the assembly to raise £10,000 in taxes over the following decade, and a personal allowance of £1000. As one historian has observed, 'nothing better illustrates the vital importance of the land bank [to the colony] than what the assembly was prepared to give up for it'.[80]

The king did eventually give his assent to the Loan Office, and when he did so the colonial assembly attempted to take back many of the concessions it had promised Burnet. They refused to pay for the agent in Whitehall, and in 1725 forced Burnet to use other funds to cover government expenses. The governor was not, however, too hard done by, with the assembly also granting him an additional personal

[79] Purvis, *Proprietors, Patronage, and Paper Money*, p.155
[80] Ibid.

payment of £500 at this time.[81] And in 1728 he was awarded another allowance of £600.[82] Such agreements had become commonplace by this time. As the Board of Trade attempted to exert authority over Burnet – asking him not to sign any more bills for paper money unless funded by taxes, and to 'sink the interest charges along with the payments on principle' – the colonial assembly remunerated him financially to keep the colonial economy moving.

Burnet's lack of deference to the British administration in these matters, and the way in which he allowed the loan office to establish itself in New Jersey, undoubtedly made the job of his successors difficult. They could not simply arrive in the colony and dismantle the currency system, some would try, but were met with short shrift from the assembly. Burnet was induced financially to support the new loan office, but his writings suggest that he was not simply being driven by personal gain but held out hope for the project of a paper currency.

The Writings of William Burnet

One often gets the impression that Burnet was very much a subscriber to the principle that it was easier to seek forgiveness than ask permission. Despite the Act for striking paper bills being passed in November 1723, he failed to write to the Board until May the following year, claiming the news could not be transmitted any sooner due to printing and shipping timetables.[83] The board appeared to be wise to

[81] Ibid, p.156
[82] Ibid,.156/7
[83] 'Governor Burnet to the Lords of Trade – referring to Acts passed in New Jersey Assembly' New York 12 May 1724, in W. Whitehead (ed), *Documents Relating to*

this and the governor was chastised for his tardiness in communications via later correspondence.[84] When he does choose to write, however, Burnet provides clear details on why he believed paper money necessary for the colony.

Writing on 12 May 1724 he outlined the colony's economy as being one which did not have a great shipping trade, but instead relied 'wholly on husbandry and raising stock'. Colonists were therefore 'obliged to sell [their produce] to the neighbouring great markets of New York and Philadelphia in both which places there is a paper currency and where the merchants will pay the New Jersey people in nothing but paper bills, that they may save all their gold and silver, to send home to England for goods'.[85] Specie was apparently scarce, with payment in paper from neighbouring colonies meaning the introduction of new specie was difficult.[86] This observation indicates that paper money was being introduced into the New Jersey economy whether colonists printed their own or not. This was a problem for Burnet, because whilst the absence of an alternative meant the notes were accepted in trade, they were not legal tender for the payment of taxes nor for the settling of private debts, and as Burnet points out, they 'had often been refused, and would be so, unless they were made current by

the Colonial History of the State of New Jersey, Vol. 5, 1720-1737, p.87, He had written very briefly in December 1723, but skims over the details of the new currency p.74

[84] 'Letter from Governor Burnet to the Lords of Trade – about certain returns to be made' New York 2 June 1726, in Ibid, p.177. Burnet states 'I have received a letter from M[r] Popple dated 1[st] October 1725 containing your Lordships' commands to me to be more punctual in Send-Copys of publick papers, publick accounts and all proceedings for your Lordships information'.

[85] 'Governor Burnet to the Lords of Trade' 12 May, p.74

[86] Ibid - 'the old was exhausted'

a law in New Jersey'. He believed that there was nothing 'so honourable, nor safe' as the colony striking its own notes.[87]

At the time of Burnet's governorship of New Jersey he also held the office in New York. Paper money had been a relative success there when compared to other attempts. Burnet used this to his advantage, claiming that notes issued in New York were more valuable at his time of writing than when they were issued, so much so that they had risen to be 'valued at par with the coin of England'.[88] It should be remembered of course that New Jersey was very different from the expanding seaport of New York. As the British Empire had grown in size and complexity, New York had matched it.[89] Coin was important for commerce, but so too was paper. As the colonists became intrinsically linked to the business of empire they required a currency that was fluid and did not hinder transactions. Bills of credit, issued by the colonial government, and bills of exchange, privately issued notes, had created a 'culture of credit' within New York.[90] New Jersey lacked this expanding Atlantic export market, but its proximity to the large trading hub of New York meant that it was drawn into a paper currency system whether it issued its own or not.

Historians have cited Burnet as being the author of two 1724 tracts written in favour of paper currency; *A Plea for Paper Currency*,

[87] 'Governor Burnet to the Lords of Trade' 12 May, p.87
[88] Ibid
[89] S. R. Zabin, *Dangerous Economies: Status and Commerce in Imperial New* York, (Philadelphia, 2009), P.12
[90] Ibid, p.13

and *A Defence of Paper Money*.[91] In actuality both these works derive from the same source, a letter written by Burnet to the Board of Trade from New York in November 1724.[92] The letter, which covers Indian relations, regulating the colonial militia, and the 'licentiousness of tenants', also dedicates significant space to the topic of paper bills.[93] The governor was very aware that in defending a paper currency that had come to be viewed in an 'odious light' he ran the risk of seriously disadvantaging himself. The Board of Trade had already made it clear to Burnet that any proposed legislation 'for encreasing of paper money [would] meet with no encouragement', yet here he was advocating for just that.[94] He argued that it was not the paper bills themselves that were problematic. He admitted that those issued in Carolina and New England had been subject to deflation but reminded the Board that the New York bills had maintained their value. This led Burnet to conclude that properly legislated and regulated paper bills 'are both of service to the trade of the plantations and of great Britain'.[95]

The governor also went into detail about those factors, beyond the legislative, that would impact on the success of the paper currency. He recognised wider influences in whether a currency was accepted and

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[91] W. Burnet, 'A Plea for Paper Currency', in J. P. Greene, *Settlements to Society: 1584-1763*¸ (New York, 1966), pp.293-296 'A Defence of Paper Money', in A. Bushnell Hart, *American History Told by Contemporaries: Building of the Republic, 1689-1783*, (Washington, 2002), pp.251-254.

[92] 'Governor Burnet to the Lords of Trade', New York 21 Nov 1724, in E. B. O'Callaghan, (ed), Documents Relative to the Colonial History of the State of New-York; Procured in Holland, England and France by John Romeyn Brodhead, Esq, Vol. 5, (Albany, 1855), pp.735-740

[93]'Burnet to the Lords of Trade', p.738

[94] Ibid, p.736

[95] Ibid

successful, influences that were much harder to regulate for. He stated that 'credit ought to be supported if it is possible, both by reason and common opinion', and that 'reason tho ever so strong will not always do alone in the beginning if common opinion is against it'. In other words, whilst the merits of extending credit via the introduction of a new scheme may appear obvious, it is very hard to embed this without public opinion being in favour. He argued that:

> common opinion ... will generally do for a time without reason nay, against it But then it is often attended with vast mischief and danger – of this we have a fatal instance in the famous south Sea Scheme, which being left to common opinion without any restraint has produced the most terrible effects possible.[96]

Tied up in the importance that Burnet places on 'common opinion' is the idea of trust, in which responsibility is conferred upon, in this case, a financial system, whilst the individual is vulnerable should that system fail. No matter how rational the financial system administering paper money may be, trust in the system is required: 'this … keeps up the imaginary value [of the currency], when there is no real [o]ccasion for it'.[97] This was true in the successful case of the Bank of England, and equally true in the contrasting fortunes of John Law's Banque Royale. Burnet was also drawing on his own experiences as a speculator in South Sea stock where confidence in the company had played a major role in pushing up its share price.[98] Public trust in a paper money when

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[96] 'Burnet to the Lords of Trade', p.736
[97] Ibid, p. 737
[98] P. Walsh, *The South Sea Bubble and Ireland: Money, Banking and Investment, 1690*-1721, (Woodbridge, 2014), p. 7

compared to that for a gold or silver equivalent could be highly volatile. For Burnet there was nothing more fundamental in promoting confidence in the scheme of paper money than the actions of government, stating that ultimately ‘all credit finally centers in the security of the government’.[99] Burnet’s paper money was therefore one of legitimacy, both in a public and a governmental sense.

The theorising by Burnet on the role of ‘public opinion’ recognised the changing landscape of finance during the period under consideration. The role played by confidence/trust in economic relationships had been changing in Britain since the 1680s. Here there had been a shift from limited investment opportunities to large-scale financial offerings as new debt and equity markets emerged in London and, to a lesser degree, in Edinburgh. In the ten years after 1685 around 100 new joint-stock companies were established in England, with forty-seven coming into existence in Scotland during the first five years of the 1690s.[100] Investors now had a plethora of businesses in which to invest, from paper and linen manufacturers to mining and overseas trade, and confidence in these businesses and the wider financial market was crucial.[101]

New banking structures similarly moved the process of lending money from small private bankers and goldsmiths, built on individual

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[99] ‘Burnet to the Lords of Trade’, p.738

[100] A. Murphy, *The Origins of the English Financial Markets*, (Cambridge, 2009), p.1; and D. Watt, ‘The Company of Scotland and Scottish Politics, 1696-1701’, in S. Adams and J. Goodare, *Scotland in the Age of Two Revolutions*, (Woodbridge, 2014), p.212

[101] Murphy, *The Origins of English Financial Markets*, pp.10-23

reputations, to large financial institutions with little in the way of a track record. In England the government had been crucial in building confidence in the Bank of England when it accepted a £1.2 million loan in 1694. The founding of the bank, it has been postulated, represented an example of the government's commitment to honour its debts. This was a recent phenomenon that had become necessary after the Glorious Revolution shifted the government of England onto a proto-constitutional footing, in which parliament was supreme and the actions of the crown were now much more predictable than they had once been.[102] Confidence in the credibility of the financial institutions which emerged at this time, and in the instruments they offered, was central to their success.

A few years after Burnet's letter, Richard Cantillion, the Franco-Irish banker and economist, wrote his *Essai sur la Nature du Commerce en Général*, in which he espoused the importance of confidence; the confidence of investors, the confidence of merchants, and the confidence in banks.[103] More recently, Craig Muldrew has argued, in his work on economic history between 1500 and 1750, that 'most market transactions involved the extension of informal credit because of a lack of ready cash, this meant that interpersonal trust was of central importance', further adding, 'trust, belief, and credit all went together'. In this Muldrew is centrally concerned with personal credit, where

[102] D. North, and B. Weingast, 'Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England' in *The Journal of Economic History*, Vol. 49, No. 4 (Dec., 1989)
[103] R. Cantillion, *Essays on the Nature of Commerce in General*, trans by H. Higgs, (New Brunswick, 2009), p.p. 59-79

‘trustworthiness or credit became a paramount part of people’s public reputation’.[104] By the time of Burnet’s writing in 1724, however, personal reputation, whilst still important, had begun to be supplanted by trust in institutions. Burnet’s theorising recognised this and extended beyond the personal sphere. His ‘public opinion’, as with Cantillon’s ‘confidence’, was espousing trust in a financial system that was outwith the control of the individual.

Support for Burnet: James Alexander’s *Further Reasons*

James Alexander left Scotland for New Jersey in 1715. He hailed from Perthshire, had been trained as an engineer, and was twenty-four years old at the time. His enemies in later years would claim he had fled Scotland due to his part in the failed Jacobite rising. In truth, however, Alexander’s family held political views at odds with the Jacobite cause; even if this had not been the case the young man had left the country too early in 1715 to have joined the rebels. Rather than leaving Scotland for political reasons, Alexander had left for financial ones, hoping to improve his fortunes in a country that required skilled engineers.[105]

Once landed he quickly rose to prominence. So rapid was his ascent in fact, there is a suggestion that he had an influential patron, possibly John Campbell, 2nd duke of Argyll, (a man we shall return to in subsequent chapters) and it certainly appears that someone was

[104] C. Muldrew, ‘Trust, Capitalism and Contract in Early Modern England, 1500-1750’, in Social Sciences in China Vol. 36, No. 1, (2015), pp. 130-143

[105] Purvis, T. (2000-02). Alexander, James (1691-1756), political leader. *American National Biography*. Retrieved 22 Jan. 2018

looking out for him.[106] In November 1715 he was appointed to the position of surveyor-general of East Jersey, securing the same office in West Jersey and in New York within two years. Here he used his position to acquire lands for himself before they could fall into the hands of other speculators. He began to study law, and in 1718 became recorder of Perth Amboy and deputy secretary of New York. He was admitted to the bar in New York in 1720, by which time he had been appointed commissioner to survey the boundary between New York and New Jersey. In 1721 he became a New York councillor, gaining the same post in New Jersey the following year. In 1722 he also became attorney-general of New Jersey, holding the position until 1727. He later helped to found the American Philosophical Society, the New York Library Society, and Columbia University.[107] This meteoric rise through colonial society meant that by the time Burnet included a tract written by Alexander in the May 1724 letter to the Board of Trade, he was already Attorney General.

The treatise was in favour of paper money, and in Alexander, Burnet had found a key ally. As the governor would later do in his November 1724 letter, Alexander drew on New York as an example of an economy operating a successful paper currency. He reminds the Board of Trade that the Act which had allowed for the issuance of paper money in New York, and which had been given royal assent in 1715,

[106] P .D. Nelson, 'Alexander, James (1691–1756)', *Oxford Dictionary of National Biography*, (Oxford, 2004) [http://www.oxforddnb.com/view/article/68428, accessed 22 June 2017

[107] Ibid

permitted the notes to a lifetime of twenty-one years. He argued that whilst the paper was current in the colony to the north, ‘New Jersey can have nothing from New York which is the chief place of its trade but paper money’. This he claimed was also the case with New Jersey’s other main trading partner, Pennsylvania, which had also passed legislation enacting paper money for a similar lifetime. This line of thought foreshadowed Burnet’s concerns that New Jersey would have a paper currency whether the colony issued its own notes or not.

Alexander, whilst paying some attention to external forces, also extolls the domestic benefits he claimed had already been achieved since the introduction of the Loan Office in the preceding year. Previously, he states, such was the ‘want of a proper tender for payment of debts before this Act [that] the lawyers fees were more than all debts that were … recovered’. He argued that debtors were trapped in a vicious cycle, whereby they ‘could not get out of [debt] again without being harrissed and torn to pieces at the will of his creditor and his lawyer’. Such was the dire financial situation of the colony, that ‘in one small county in New Jersey (where there is ten [counties in total]) there was near three hundred [legal] actions commenced in the year before the [paper money] bill past’. Since the Act had passed, however, he claimed there have been only five actions in the same county.[108]

The relationship between the lack of a circulating currency and

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[108] J. Alexander, ‘Further Reasons, for passing an Act of New Jersey Entitled an Act for an additional support of Government, and making Current forty thousand pounds in Bills of Credit, for that and other purposes therein mentioned, cited in W. Whitehead (ed), *Documents Relating to the Colonial History of the State of New Jersey*, Vol. 5, 1720-1737, p.94/5

lawsuits is a reoccurring theme in Alexander's writings. In a memorandum found in his private papers, he complained not only of the fees that lawyers were charging for their services, but also that 'persons of good estates who are now sued, from the scarcity of money or a circulating medium, cannot raise cash, and are [liable] to intolerable costs'.[109] An apparent contempt for his fellow lawyers aside, Alexander's views suggest that there was a very real problem of a lack of a circulating currency prior to the establishment of the Loan Office.

In the treatise sent by Burnet to the Board, Alexander claimed that since a paper currency had become current in New Jersey, the people there were free of the economic constraints that had hitherto hindered their progress. Not only could they carry on their usual business, which for many had stalled due to law suits, but they could also diversify. He noted that some colonists had built 'vessels to trade with' and suggested that this may be the first step in New Jersey settlers 'beginning to have foreign trade of their own', where they would 'venture themselves to the West Indies for gold and silver to supply the place of the bills when they are sunk'. The new money had also allowed for improvements to the territory, as colonists 'set about [the] draining of swamps (of which Jersey has a great many) fit for hemp'. Alexander stated that the 'bent of the people is now very much upon that manufacture which without this bill they could not so easily have gone upon'. As well as hemp, the Board of Trade were advised that numerous

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[109] J. Alexander, *The Common Expense of the Law in this Province an Intollerable Grievance*, New York Historical Society, Alexander Papers, M8, Box 5, Document 349

iron works were also now being carried out in the colony. This economic growth was not only of benefit to New Jersey, Alexander claimed, but also to New York and Pennsylvania which would see their exports to New Jersey increased.[110]

Checking the figures for Alexander's claim that paper money would allow the colonists of New Jersey to increase their imports from neighbouring regions is difficult. Margaret Newell has identified that 'the colonial domestic economy remains the '"final frontier" of early American economic history', so 'sparse and irregular' is the available data on the subject when compared to that available for transatlantic trade.[111] The work that has been done in this area, however, has argued that 'regional exports were subject to very substantial short run fluctuations', in which demand would rise and fall by as much as '70 percent within 3 to 5 years in each colony', a situation that would 'have added a great deal of uncertainty to the colonists' economic situation'.[112]

As a more general point, New York and Pennsylvania were growing in importance in both transatlantic and regional trade, regardless of any changes occurring in New Jersey.[113] By the 1770s, foreign exports emerging from New York and Pennsylvanian accounted

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[110] Alexander, 'Further Reasons', p.96

[111] M. Newell, 'Economy', in D. Vickers (ed), *A Companion to Colonial America*¸ (Oxford, 2006), p.175

[112] P. Mancell, J. L. Rosenbloom and T. J. Weiss, *Commodity Exports, Invisible Exports and Terms Of Trade for the Middle Colonies, 1720 To 1775*, NBER working paper, pp.4-6

[113] J. L. Rosenbloom and T. J. Weiss, *Economic Growth in the Mid Atlantic Region: Conjectural Estimates for 1720 to 1800*, NBER Working Paper, p.17

for more than 96 per cent of those originating in the Middle Colonies, whilst Delaware and New Jersey exported just 3.5 per cent combined.[114] Alexander's prediction therefore that the Loan Office bills would be the foundation of a burgeoning foreign trade for the colony could not have been more inaccurate. His claims that the Loan Office led to an increase in spending in the colony, however, appear to be on a better foundation. It does not, after all, seem an unreasonable assumption to believe that in 1724, with a new circulating currency having been recently issued, that an upsurge in spending occurred and new projects started, but to say more than this would be problematic.

The Business of the Loan Office

That the Loan Office did not lead to large-scale development in New Jersey's overseas trade, as Alexander had claimed, does not mean it was a failure. Improvement of the domestic economy had always been a driving concern of those behind the institution. Indeed, a document written by New Jersey merchants, and included with a letter from Burnet to the Board of Trade in December 1726, attests to the apparent triumph of the Loan Office. The merchants state that since the notes had been issued in 1724 they had 'passed current not only [in New Jersey] … but also in the province of Pensilvania without any scruple or discount thereon betwixt the currency of Pensilvania [and] [New Jersey]'.[115] These merchants were at the sharp end of currency

[114] Ibid, p.15

[115] 'Certificate of Perth Amboy Merchants of the Value of New Jersey Bills in Decem[be]r 1726 rece'd with Mr Burnet's Letter of 19th Decem[be]r 1726', in W.

exchange, and claimed the bills had successfully allowed them to transact business across colonial borders without the imposition of any tariffs due to exchange rates.

They do admit, however, that it had taken time for the bills to become established. When they had first been issued in 1724 a discrepancy had arisen between the price of gold and the bills of New Jersey, placing a premium of fifteen per cent on gold above the value of the bills. This carried on throughout much of 1725, but did not affect New Jersey alone, with Pennsylvania also experiencing the same problem. By the time of writing in late-1726, however, this had changed, with the merchants stating that the difference in value 'is now very much decreased, [and] decreasing so that gold may be got for 5 or 6 per cent difference [and] in small sums there is no difference … at all'.[116] They also state that when the bills were first issued, New York merchants had refused to take them unless at a discount. This situation gradually changed, however, and by early 1726 had reversed completely, with New Jersey bills becoming preferred in New York over the colony's own currency.[117]

A similar document to that produced by the New Jersey merchants was also created by their counterparts in New York and included with Burnet's letter to the board. This confirms their preference for the New Jersey bills. They agreed that initially the bills

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Whitehead (ed), *Documents Relating to the Colonial History of the State of New Jersey*, Vol. 5, 1720-1737, p.154

[116] Ibid, p.155

[117] Ibid.

of 1724 had not been well received in New York, and that 'dureing the first year thereafter did scarcely obtain any currency in this province'. Following this, any New Jersey bills were accepted at a discount, but as the New Jersey merchants had also claimed, in early 1726 this changed, and the bills 'began to be chosen in payment rather than New York money … [and] by degrees there became a premium upon it of 3d 6d 9d [and] 12d in the pound to get New Jersey money'.[118]

It should of course be remembered that both of these documents were included with Burnet's letters to the Board, and he was governor of both colonies at the time, so we might assume he had some input in their drafting. But, another Scot, William Douglas, writing in the colony in 1740, also pointed to the success of the New Jersey notes. He made the case that the New Jersey bills had come to play an important role in the exchange between New York and Pennsylvania, stating: 'New York bills not being current in Pennsylvania, and Pennsylvania bills not current in New York, but Jersey bills [being] current in both … all payments between New York and Pennsylvania are made in Jersey bills'.[119] Clearly the notes had become important financial instruments in New Jersey and beyond.

Merchants of New Jersey found the paper currency had opened up options for them when it came to negotiating bills of exchange; if they did not like the price offered in their own colony, they might access

[118] Certificate of New York Merchants of the Value of New Jersey Bills in Decem[be]r 1726 rece'd with Mr Burnet's Letter of 19th Decem[be]r 1726', in W. Whitehead (ed), *Documents Relating to the Colonial History of the State of New Jersey*, Vol. 5, 1720-1737, p.153
[119] Purvis, *Proprietors, Patronage, and Paper Money*, p.150

the market of New York for an alternative transaction. Freeholders also continued to benefit from the increased credit offered by the loan office, and a second Loan Office Act of 1733 extended the loan repayment period from twelve to sixteen years, at five percent interest. Whilst the wider colonial community benefited by a reduction in their tax burden. As one historian has commented, ‘no other law passed during the royal period ever brought such direct benefits to a larger percentage of property holders as the loan office’.[120]

Paper money was popular among colonists but garnered some objections from outwith the colonies. In 1740, after complaints from British merchants about a poorly administered currency in New England and the Carolinas, the Board of Trade discouraged any further reliance on paper money in North America, forbidding any related legislation from passing until it received the king’s approval.[121] By this time, the first American governor of New Jersey, Lewis Morris, was in office.[122] He sought to uphold the Board’s instructions, rejecting a generous financial incentive from the colonial assembly to sign a new Loan Office Act in 1740, and found himself butting heads with the group throughout the first half of the decade.[123] Just prior to his death in 1746, Morris again refused another bill for the Loan Office, as a result the Assembly refused his heirs the payment of the last two years

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[120] Ibid, p.152
[121] Lustig, ‘Cosby, William’, and Purvis, p.160
[122] T. L. Purvis, ‘Morris, Lewis (1671–1746)’, *Oxford Dictionary of National Biography*, (Oxford, 2004)
[123] D. L., Kemmerer, ‘The Colonial Loan-Office System in New Jersey’, in *Journal of Political Economy*, Vol. 47, No. 6 (Dec., 1939), p 873, pp.867-874

of his salary. His successor, Jonathan Belcher, who had also taken over the governorship of Massachusetts and New Hampshire for eleven years following the death of Burnet in 1729, granted a Loan Office bill but this was disallowed in Britain.[124]

The last loans made by the Loan Office were due to be repaid in 1753, by which point the majority of bills had been retired and the colonists were again paying taxes by conventional methods. Whilst a number of bills were issued to cover the costs of the French and Indian War (1754-1763), a total of £347,000, none of these were Loan Office bills.[125] The colony continued to lobby for a new Act to issue paper money via the Loan Office but were continually snubbed by the British administration. It was not until 1775 that another Act was passed for the issuance of paper money, but only on the understanding that the bills were not legal tender.[126] Soon, however, America would have its independence and would decide on its own monetary policy.

Conclusion

That the Loan Office benefited a wide range of New Jersey colonists is clear. Landowners, freeholders, merchants, creditors, and debtors, all profited from the office's notes. The role played by William Burnet was

[124] Batinski, M. (2004, September 23). Belcher, Jonathan (1682–1757), merchant and colonial governor. *Oxford Dictionary of National Biography* Oxford, 2004); and Kemmerer, 'The Colonial Loan-Office System in New Jersey', p.873

[125] The popularity of these New Jersey bills in New York continued well into the eighteenth century and were so popular among New York merchants, that the New York Assembly legislated in 1774 that 'New Jersey bills could not be traded at more than 6.6 percent above par' so that the colony might protect the value of its own bills; Kemmerer, 'The Colonial Loan-Office System in New Jersey', p.873

[126] Kemmerer, 'The Colonial Loan-Office System in New Jersey', p.873

crucial in establishing the new institution. It was his actions, against the instructions of the British administration, that allowed the Loan Office, backed by the New Jersey Assembly, to issue £40,000 in bills in 1724, with another £25,000 being made current in 1727. He left the New Jersey governorship in 1727, but this did not end the emissions of the bills, and by 1733 there was £100,000 in circulation, enough to meet government expenses without the need for taxes until 1751.[127]

As we have seen, however, Burnet was financially compensated for supporting the office. One reading of events might be that he was simply feathering his own nest. Such a view, however, goes against what is known of Burnet, a man 'noted for his competence, intelligence, and honesty'.[128] He was a pragmatist, and when it came to paper money he viewed it not from a theoretical perspective, but rather as a practical method by which to improve the economic situation in New Jersey. His writings on the currency, while in the form of official letters rather than a formalised treatise, portray a man who was very aware of an important issue when it came to a paper currency, that of human nature. He recognised the importance of public opinion and confidence in supporting the venture. From his position in the colonies he knew that public support for a paper currency was strong and that the Loan Office was likely to succeed there.

East Jersey had for a while represented a transatlantic echo of Scottish society – in its structure, its economic undercapitalisation, and

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[127] Purvis, *Proprietors, Patronage, and Paper Money*, p.159
[128] Lustig, 'Burnet, William (1688–1729)', *ODNB*,

in the lack of coin, perceived or otherwise - but as the colony evolved, it did so in different ways from the home nation. The Union of 1707 had allowed Scotland's export trade to increase throughout the eighteenth century, whilst the union of East and West Jersey did little to change trading patterns. And as Scotland had met with little encouragement from the Scottish and then British administrations when it came to instituting novel means by which to improve the domestic economy, this was also true of New Jersey, with colonists finding the English and then British government reluctant to allow the colony to operate its own mint or Loan Office. A luxury that New Jersey had, that Scotland did not, however, was one of distance, with the colony's position on the east coast of North America being far enough away from the metropole that official instructions might be easily ignored. A fact that William Burnet knew only too well.

Chapter 5

For the want of ‘scots projects’: Scottish Financial Institutions and the Lack of Financial Opportunities[1]

Scotland in the early-1690s witnessed a booming interest in joint-stock ventures. In the first five years of the decade forty-seven such companies existed in the country.[2] The most notable of these concerns were the Bank of Scotland and the Company of Scotland, both formed in 1695. The failure of the latter institution to establish a colony at Darien, and the financial fallout which followed, did, however, create a climate in which Scottish lawmakers became unprepared to support new projects. By the close of the century only twelve of the joint-stock companies were still in existence, and by the middle of the next decade, the new financial creations which had emerged between 1690 and 1695 had been replaced by substantial debate but little action.[3]

Following the Anglo-Scots Union of 1707, it appears that the country continued to face challenges in establishing new institutions, with the founding of the Royal Bank of Scotland in 1727 being the first since 1695. Even the running of an existing institution, the Scottish mint, as this chapter shall show, appears to have been difficult under the new British government. Many Scottish projectors of financially

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[1] NRS, GD243/437, John Drummond to William Drummond, 11 May 1720

[2] D. Watt, ‘The Company of Scotland and Scottish Politics, 169o6-1701’, in S. Adams and J. Goodare, *Scotland in the Age of Two Revolutions*, (Woodbridge, 2014), p.212

[3] W. R. Scott, *The constitution and finance of English, Scottish and Irish joint-stock companies to 1720*, (Cambridge, 1910), p.356

innovative schemes had to promote them beyond the territory of Scotland, this was true for William Paterson, John Law, and others. Similarly, those in the country with money with which to invest had to do so elsewhere.

This chapter will bring together the experiences of four Scotsmen, in order to provide a case study of financial actors in the early eighteenth century. It aims to show the difficulties faced by Scottish financial institutions at the time, as well as provide an exploration of the choices made by Scotsmen involved in the financial sphere during the period. It will consider in detail, London-based Scottish banker, Andrew Drummond, and his banking business, as well as his kinsman, John Drummond, a merchant-banker with business interests on the continent and an impressive list of connections. Charles Maitland, earl of Lauderdale and general of the Scottish mint, will also be discussed in detail; his inclusion will illustrate the problems in operating a financial institution, even one as well-established as the mint, in the years following the Union. Lastly, we will investigate a land bank proposal prepared by Patrick Campbell of Monzie, for the British government in 1708. This was a scheme that owed much to the work of John Law. It is in fact so similar that one must consider under what agency Monzie was acting when he prepared the work. As well as these men there is also a host of supporting characters with an array of overlapping financial interests. As Drummond, Lauderdale, and Monzie were all account holders at Andrew Drummond’s bank, it is here that we shall start.

Drummond's Bank

As a young man, Andrew Drummond walked south from Edinburgh to London. In his knapsack he carried Jacobite money, and in his hand an ornate malacca cane, or so the legend goes.[4] In truth the cane was more than likely a purchase from a fashionable London boutique rather than being one that had been carried south by Drummond in his youth.[5] The accusation that he carried Jacobite money may, however, be closer to the mark. The cause after all was one which had resided close to home. When Andrew was less than two years old his father had been imprisoned in Stirling Castle for his support of the now exiled James VII, only being released in 1692 'on proof that his mind was deranged'.[6] His younger brother William, who became 4th viscount of Strathallan in 1711, was among the first to rally to the standard of the Old Pretender, James Francis Edward Stuart, in 1715. He was taken prisoner at Sheriffmuir before being released two years later. His sympathies did not die easily, however, and in 1745 he commanded the Jacobite forces remaining in Scotland as the Young Pretender, Charles Edward Stuart, attempted to conquer England and fell at Culloden the following year. This later period, despite there being no indication that Andrew shared his brother's Jacobite sympathies, impacted markedly upon his banking business.[7]

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[4] H. Bolitho & D. Peel, *The Drummonds of Charing Cross*, (London, 1967), p.25
[5] Ibid; the cane appears in two works by German painter Johan Zoffany which captured Drummond in his later years
[6] Ibid, p.20
[7] Ibid, p.24

Drummond had apprenticed as a goldsmith in Edinburgh, and when he first opened his London business in 1712 it was as this that he traded. By 1717 he had entered the business of banking, opening his first account in September of that year. This development in the services offered by goldsmiths had become commonplace during the second half of the seventeenth century, as many branched out from the original goldsmith services of providing safekeeping facilities to the taking of deposits and money lending before such practices were termed as banking.[8] In London between 1670 and 1688 there was a rapid entry into the business of being a goldsmith-banker, with sixty-one new enterprises commencing business. This was, however, met with an almost equally rapid rate of exit as forty-seven businesses departed from the market, seven going through the legal process for bankruptcy during the same period.[9]

The agency of goldsmith-bankers in the decades prior to the Glorious Revolution was crucial in the development of new financial instruments and practices. From the middle of the century this group undertook financial innovations which transformed banking in England and Scotland. They accepted deposits on current and time accounts from landowners and merchants, they made loans and discounted bills,

[8] P. Temin and H-J. Voth, *Prometheus Shackled: Goldsmith Banks and England's Financial Revolution After* 1700, (Oxford, 2013), p.32

[9] Temin and Voth, *Prometheus Shackled*, p.41; the figures given for 1671 are 29 entries, 11 exits, with 0 bankruptcies; 1678, 10 entries, 23 exits, and 6 bankruptcies; and 1688, 22 entries, 13 exits, and 1 bankruptcy; They state that 'each entry shows the number of entrants and exits since the last observation. The last column [bankruptcies] reports that a minority of failed banks went through the legal process of bankruptcy. It was only after the South Sea Bubble of 1720 that rates of entry and exit diminished'.

and perhaps most crucially they issued promissory notes, a written promise to pay a stated sum to a specific person or the bearer on demand or upon a specified date, and made their deposits transferable by paper instruments.[10] This does not mean that other groups undertaking such innovations, financial intermediaries such as scriveners, merchants and brokers, should be forgotten, but certainly the evolution from goldsmith to banker is of fundamental importance.

Whilst Drummond's apprenticeship had been in Edinburgh, when the time came to start out on his own he had chosen London. This was an astute choice for the period, as those at the centre of political and commercial life were drawn towards the seat of power. Between the close of the seventeenth century and the opening decades of the eighteenth-, the city began to dominate the political and commercial spheres in a way that it had failed to do previously. This was a process that had begun with the Union of the Crowns in 1603, as the greater nobles of Scotland had increasingly been drawn to London.[11] After the Union of 1707 this was magnified as gentry from throughout Britain migrated to the capital. Whether this was to take their seat in parliament, to seek office at court, to order their legal or business affairs, or indeed to arrange a suitable (and preferably profitable) marriage for their

[10] D. M. Joslin, 'London Private Bankers, 1720 -1785, in *The Economic History Review*, New Series, Vol. 7, No. 2, (1954), p.168, pp.167-186, this was in the form of a '"drawn note" or cheque'; and F. T. Melton, 'Deposit Banking in London, 1700-90', in R. P. T. Davenport-Hines, & J. Liebenau (eds.), *Business in the Age of Reason*, (London, 1987), p.40 pp.40-50

[11] J. B. Stewart, *Opinion and Reform in Hume's Political Philosophy*, (New Jersey, 2014), p.227-228

offspring, London was indeed the place to be.[12]

Drummond's goldsmith shop was established in Charing Cross, a location chosen for its proximity to the mansions of the Scottish aristocracy and its place as 'the Scottish heart of London'.[13] Here Drummond avoided the competition of the commercial centre of London and instead operated what was almost a monopoly of financial services in the nominal Scots colony.[14] Those Scots now resident in London saw the security and convenience of moving part of their wealth with them. Drummond had positioned himself well to provide financial services to his countrymen, and, certainly in the beginning, the bulk of his banking clients were Scots. This included James Graham, first duke of Montrose, keeper of the signet and secretary of state under George I, William Murray, lord Nairne, a man who like Andrew's brother, William, had been one of the first to raise his standard in support of the Old Pretender in 1715, the displaced Stuart later naming him 'Jacobite earl of Nairne and Viscount Stanley', and Patrick Campbell of Monzie, a man described by Richard Saville as having been 'involved with numerous financial calamities'.[15] The bank was not, however, solely a Scottish clique, accounts were also held by prominent Englishmen,

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[12] Joslin, 'London Private Bankers', p.167

[13] A. Heal, *The London Goldsmith, 1200-1800: A Record of the Names and Addresses of the Craftsmen, their Shop Signs and Trade Cards*, (Exeter, 1972), and Bolitho & Peel, *The Drummonds of Charing Cross*, p.18

[14] Bolitho & Peel, *The Drummonds of Charing Cross*, p.29

[15] R. Sunter. (2004-09-23). Graham, James, first duke of Montrose (1682–1742), landowner and politician. *Oxford Dictionary of National Biography*, (Oxford, 2004); P. Hopkins, 'Nairne, William, styled second Lord Nairne and Jacobite first earl of Nairne (1664–1726)', *Oxford Dictionary of National Biography*, (Oxford, 2004); and Bolitho & Peel, *The Drummonds of Charing Cross*, p.29, and Saville, *Bank of Scotland*, p.95

even George III, along with his extravagant son, the future George IV, are included in the bank's books.[16]

Such illustrious clientele was, however, a far cry from Drummonds' modest beginnings. (Another) legend has it, that a sailor, who had an order on the bank for £20 prize money, upon viewing the humble establishment kindly offered to take £5 on account and to return for the remainder in a month or two.[17] Despite such apparently unassuming beginnings, Drummond made the not unsubstantial profit of £315 10s 4d. in his first year as a banker.[18]

His first account holder was John Gordon, a Scot who began conducting his affairs through the bank in September 1717, transacting over £28,000 in business via the bank in the first twelve months alone.[19] Gordon, it transpires, was a regimental agent for the British Army, with Drummond paying him just over £113 in commission for his business during the same period. This was equal to more than a third of Drummonds' profits for the first year, but it was through men like Gordon, and in part as a direct consequence of crown and government policy, that the bank expanded its business. This was due to changing government policy in the aftermath of the War of the Spanish Succession, with the British government becoming concerned that its

[16] N. Munro, *The History of the Royal Bank of Scotland, 1727-1927*, (Edinburgh, 1928), p.331
[17] F.G. Hilton-Price, *Handbook of London Bankers*, (London, 1876), p.158-9, cited in Bolitho & Peel, *The Drummonds of Charing Cross*, p.17
[18] Bolitho & Peel, *The Drummonds of Charing Cross*, p.29. Calculating this is modern terms is fraught with difficulty, but it is around £63,000
[19] Bolitho & Peel, *The Drummonds of Charing Cross*, p.29, and Munro, *The History of the Royal Bank of Scotland*, p.330

existing army might turn its support to the Jacobite cause. To mitigate this risk, they took the step of reducing the standing army by 10,000 men in 1717, before disbanding five dragoon and six foot regiments in the following year. In addition, George I, determined to increase military efficiency, decided to reform the mechanisms by which military payments were made. A new system, whereby officers found their discretionary income and their range of financial actions severely curtailed, was introduced. Army officers were now accountable to government pay officers. Lieutenant-colonels and colonels were key to the system's operation, and to ease the administrative burden they might delegate some or all of their regiment's finances to an agent, such as John Gordon. And when it came time to pay soldiers, or make reimbursements for weapons or uniforms, then that agent may use a banker, such as Andrew Drummond.[20] Men like Gordon, agents or colonels of British regiments, formed a large part of the fledgling bank's business.[21] Indeed, a vast sum of military money was moving through Drummonds Bank. It is difficult to go more than a page or two in the bank's ledgers without coming across a captain, major, brigadier, or other military rank that was utilising Drummond's services.

It is important to understand that Drummond was not one among hundreds dealing in banking in the capital. It has been calculated that between 1701 and 1726 only six new goldsmith-bankers began

[20] Melton, 'Deposit Banking in London', p44/45

[21] Ibid, p.44; and P. Winterbottom, (2010, September 23). Drummond, Andrew (1688–1769), goldsmith and banker. Oxford Dictionary of National Biography, (Oxford, 2004)

operation, during which time thirty-three ceased business.[22] In fact, by 1725 only twenty-four private bankers were operating in London.[23] These private enterprises operated alongside the Bank of England (BoE), with that institution enjoying a monopoly of joint-stock banking in England until the opening decades of the nineteenth century.[24] The goldsmith-bankers could not however compete with the big bank's note issue. BoE notes came to be accepted everywhere, with around £3 million in circulation by 1720, increasing throughout the eighteenth century to reach £13.5 million by 1795.[25] The goldsmith bankers did issue notes, but in small amounts (negligible when compared to the BoE), and focused instead on mortgage securities, in which they dealt extensively, an area in which the BoE operated little, whilst also being more active in the discounting of notes than that institution.[26]

That there were multiple banking spheres operating concurrently with one another, with enough room for everyone to manoeuvre, was a feature of early London banking. Drummonds' business does not appear to have operated in any remarkable way; money was lent, notes were cashed, lottery tickets sold, and the goldsmith business operated as one might expect, with some diamonds also being traded. What is, however, interesting is the account holders

[22] Temin and Voth, *Prometheus Shackled*, p.41
[23] Joslin, 'London Private Bankers', p.173
[24] Melton, 'Deposit Banking in London', p.40
[25] *The Bank of England Note: a Short History*, BoE, (QB 1969 Q2), p.211, pp.211-222
[26] Melton, 'Deposit Banking in London', p.41. A discount would occur when a paper note issued by a source other than the bank where the note is being presented is bought by the bank at a reduced rate, the full worth of the note then being collected by the bank at a later date.

that operated around Drummonds. This was a group comprised of noblemen, merchants, politicians, financiers, and military agents. The remainder of this chapter aims to investigate a selection of these men, exploring who they were, what their interests were and how these converged.

'Honest' John Drummond: Merchant, Banker, and Diplomat

John Drummond complained in 1720, that whilst he wished to speculate in Scotland, there was a distinct lack of 'scots projects' in which to invest.[27] He was not, however, short of investment opportunities elsewhere, the Scot having spent much of his career up to this point – whether this was as a merchant, a banker, a foreign agent or a diplomat – outside of Scotland. He had been sent to Utrecht in 1691 at the age of fifteen, before heading to Amsterdam two years later to train for a commercial career. Following his apprenticeship, he became a partner in a merchant-bank business in the Dutch capital, trading in the import of luxury goods with Dutchman, Jan Van der Heiden from 1702.[28] And by 1706, through a burgeoning relationship with James Brydges, later the duke of Chandos, Drummond was operating on the 'fringes of the British fiscal-military state'.[29]

The two men had become acquainted a year earlier when Brydges had visited the Netherlands. On this trip Drummond had

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[27] NRS, GD243/437, John Drummond to William Drummond, 11 May 1720

[28] G. K. McGilvary, 'John Drummond of Quarrel: East India Patronage and Jacobite Assimilation, 1720-80, in A. I. Macinnes & D. J. Hamilton (eds), *Jacobitism, Enlightenment and* Empire, (London, 2014), p.145, pp.141-158

[29] A. Graham, *Corruption, Party, and Government in Britain, 1702-1713,* (Oxford, 2015), p.103

assisted in the purchase of several paintings and books for Brydges. The two remained life-long friends.[30] Brydges was certainly a man of means, between 1705 and 1713 he held the position of paymaster of the Queen's forces, making himself a profit of £600,000 from the office.[31] His connections and interests were far reaching, and Drummond became central in controlling these. John also made an introduction between Brydges and Andrew Drummond, the former opening an account at Drummond's Bank, one imagines much to the pleasure of the latter.

Drummond's links to the British administration, which may account for the military aspect of kinsman Andrew's banking business, did not, however, stop with Brydges. He corresponded with a number of the period's central figures, one of whom was John Churchill, duke of Marlborough. A letter from the duke to Drummond in 1711, when the latter was about to depart for London, gives an indication of the influence that Drummond possessed by then, with Marlborough asking that he put in a good word with the new administration and to converse 'frequently with the persons whose friendship and confidence it is so necessary for me to preserve and improve'.[32] Marlborough's request was not misplaced. The leader of the new government was Robert

[30] R. Hatton, 'John Drummond in the War of the Spanish Succession: Merchant turned Diplomatic Agent', in R. Hatton and M. S. Anderson (eds.), *Studies in Diplomatic History, Essays in Memory of David Bayne Horn*, (Hamden, CT, 1970), p.76
[31] J. Johnson, 'Brydges, James, first duke of Chandos (1674–1744)', *Oxford Dictionary of National Biography*, (Oxford, 2004)
[32] W. Fraser (ed), *Report on the Manuscripts of Charles Stirling-Home-Drummond Moray Esq. of Blair-Drummond, at Blair Drummond and Ardoch in the County of Perth*, (London, 1885), Marlborough to Drummond, 13 Aug. 1711, p.144, cited in Hatton, 'John Drummond in the War of the Spanish Succession…', p.70

Harley, he and Drummond had been acquainted since at least 1704, from around the time that Harley had influenced the decision for Drummond to be given the government contract for selling Cornish tin.[33] Since then he had been providing reports on Dutch finance and trade to Harley, who became earl of Oxford in 1711, as well as acting as unofficial agent to Henry St. John, Viscount Bolingbroke, and Harley's right hand man for a spell.[34] Preeminent mathematician and physicist Isaac Newton was also among Drummond's correspondents, with the Scotsman providing the master of the English Mint information on the price of German, Dutch and East Indies tin from his Amsterdam base.[35]

Drummond also offered financial services to Tory merchant and financier Edward Gibbon, a man, who like Brydges, had become wealthy through war, acting as a remittance contractor to the Ordnance Office for the artillery train during the military campaigns of William II & III.[36] His links to Drummond were not always positive, with Gibbon almost financially ruining the Scotsman in 1712 when he attempted, unsuccessfully, to recover a debt owed to him by the recently bankrupt company of Van der Heiden and Drummond by seizing money that Drummond had concealed in London without the

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33 Hatton, 'John Drummond in the War of the Spanish Succession…', p.77

34 L. Frey and M. Frey (eds), *The Treatise of the War of the Spanish Succession: An Historical and Critical Dictionary*, (London, 1995), p.136-7; Bolingbroke was also an account holder at Drummonds Bank

35 Mint 19/III.545, Mint 19/III.577, and Mint 19/III.566, National Archives, Kew, Richmond, Surrey, UK

36 Graham, *Corruption, Party, and Government in Britain*, p.103, and McGilvary, 'John Drummond of Quarrel', p.145

knowledge of his Dutch partner.[37] Both men would also become deeply involved with the London Society for the Subscribed Equivalent Debt - a group which represented London-based holders of Equivalent debentures, and one to which we shall return to in detail in the subsequent chapter – with Gibbon and Drummond becoming part of the first directorship of the society.[38]

Whilst Drummond considered Harley to be his chief patron, certainly during Anne's reign, it was Brydges who offered some of the most lucrative financial deals.[39] He became involved in all aspects of Brydges affairs, procuring artworks and luxury goods, as well as providing financial services. In August 1708, Brydges gave Van der Heiden and Drummond the contract to supply cash to British prisoners of war, the money being funnelled through French agents.[40] Drummond himself did not approve of men lining their own pockets through war if this was 'ruthlessly done' at the expense of Britain or her allies, a moral stand for which he earned the moniker 'Honest John'.[41] His regular correspondences with Brydges during the War of the Spanish Succession, in which he provided detailed news from the continent of the progress, or otherwise, of peace negotiations, were, however, utilised by the paymaster general to buy and sell stock accordingly.[42]

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[37] Hatton, 'John Drummond in the War of the Spanish Succession…', p.88
[38] Transfer Book for the London Society (for the subscribed Equivalent debt), 1718-1724, RBS, REQ/9, p.11
[39] Hatton, 'John Drummond in the War of the Spanish Succession…', p.77
[40] Graham, *Corruption, Party, and Government in Britain*, p.104, and B. Cowan, *The Social Life of Coffee: The Emergence of the British Coffeehouse* (New Haven, 2008), p.285
[41] Hatton, 'John Drummond in the War of the Spanish Succession…', p.78
[42] Ibid, p.79

Later, when Drummond was in Paris he invested heavily for Brydges in John Law's Mississippi scheme; Brydges was already liquidating his stock in 1720, but was still caught up in the bubble's collapse.[43] While in the French capital, he also acted as a representative of the South Sea Company, becoming a confidant of Law, as well as Thomas Pitt, Jr., Lord Londonderry, a prominent speculator of the period and also an account holder at Drummonds Bank.[44]

Drummond was clearly well-connected, yet despite extensive financial contacts to some of the major figures of the period, his own merchant business was in decline by 1712. Bankruptcy followed, and his intelligence work for the British ministry ceased. Prior to this it had been expected that he would take up the role of deputy paymaster to Brydges. Ascent to this office, however, required that Drummond pay a security of £30,000, a sum that, due to his recent financial problems, was well beyond the Scot. He appealed to his close friend Dr. William Stratford in 1712 that the 'kindness and compassion' of his 'great friends' might come to his rescue.[45] His 'great friends' included an intimate circle comprised of Brydges, John Campbell, 2nd duke of Argyll, and Sir Matthew Decker, one of the richest men in London, and

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43 Graham, *Corruption, Party, and Government in Britain, p.234*

44 Londonderry had a tangled financial relationship with Law; with the latter also being involved in funding the French regent's purchase of the Pitt/Regent diamond, a 140.5 carat solitaire, from Pitt's father, governor Thomas Pitt Sr., see Neal, *'I am not Master of Events': the Speculations of John Law and Lord Londonderry in the Mississippi and South Sea Bubbles*, (New Haven, 2012), for a full account of Law and Londonderry's complicated financial dealings; and for an entertaining historical fiction treatment of events see J. Baumgold, *The Diamond: a Novel*, (New York, 2005)

45 J. J. Cartwright, (ed), *The Manuscripts of His Grace the Duke of Portland*, Vol. V, (London, 1899), Drummond's letter to Harley, 19 Sept. 1711, pp.175-6, cited in Hatton, 'John Drummond in the War of the Spanish Succession…', p.90;

a man deeply involved with the South Sea and East India Companies.[46] Drummond's hope that they might come to his rescue was therefore not beyond their means.

When assistance came it was through Bolingbroke, possibly due to the perseverance of Stratford who had lobbied Harley tirelessly on Drummond's behalf.[47] The secretary of state was, however, aware of Drummond's worth, acknowledging in 1711, that his assistance in government business overseas had 'been of more advantage to the Queen's affairs, than all her ministers have done for her, who are very numerous and very expensive'.[48] Bolingbroke granted Drummond a commission in March 1713 to participate in the Utrecht negotiations, the series of discussion which aimed to end the War of the Spanish Succession, where he was to act on behalf of British trade interests with the Southern Netherlands. The Scotsman's knowledge of Dutch trade meant that he was perfectly placed to advance the British interest. Drummond appears to have taken to the role well, much to the chagrin of his Dutch friends who were surprised by the way in which pressed the British case during the negotiations. The possibility that Drummond would be installed as consul at Ostend or as resident at Brussels was discussed, yet despite his part in the successful negotiations, neither office materialised.[49]

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[46] G. McGilvary, *East India Patronage and the British State: The Scottish Elite and Politics in the Eighteenth Century*, (London, 2008), p.6/7
[47] Ibid, p.7
[48] G. Parke (ed), *Letter and Correspondence Public and Private of the Right Honourable Henry St John Lord Viscount Bolingbroke during the Time he was Secretary of State to Queen Anne,* Vol. I, (London, 1789), Letter to Drummond, p.57
[49] Hatton, 'John Drummond in the War of the Spanish Succession…', p.90-1

During this period Drummond was beginning to become concerned at the political rivalry emerging between Oxford and Bolingbroke. He had dismissed rumours of a split between the pair in 1712 as ‘malicious inventions’ by English opposition party representatives in Utrecht, but he soon knew this not to be the case.[50] The rancour between the two, which had been simmering since 1710, boiled over into open hostility in 1713. Peace on the continent had set in motion war between the two men, with the common ground on which they had stood during peace negotiations now beginning to shift.[51] Surprisingly the split elevated Drummond in the eyes of the Dutch, with Anthonie Heinsius, the Dutch Grand Pensionary, seeking to use the Scot as a channel of contact with Whitehall.[52]

Internecine conflict aside, with the death of Queen Anne in August 1714 came the end for the Oxford-Bolingbroke administration. The new king, George I, did not favour either man. Both had been deeply involved with the Treaty of Utrecht, which, whilst ending the war, had been in the new king's view ‘a betrayal of the allies—of which the electorate of Hanover was one’.[53] Oxford was stripped of all offices and in 1715 was impeached for his part in the Treaty, whilst accusations of Jacobitism were also levied against him. He spent time in the Tower before being acquitted in 1717. Bolingbroke meanwhile had been

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[50] *Portland Papers,* Vol. V, Drummond to Oxford, 14 Oct. 1712, p. 235
[51] B. Coward, *The Stuart Age: England, 1604*-1714, Fourth Edition, (London, 2014), p.458
[52] Hatton, ‘John Drummond in the War of the Spanish Succession…’, p.92
[53] W. Speck, (2004-09-23). Harley, Robert, first earl of Oxford and Mortimer (1661–1724), politician, *Oxford Dictionary of National Biography*, (Oxford, 2004)

omitted from George I’s list of regents or lords justices and at the end of August 1714 was dismissed and his office sealed up. Whilst Oxford had remained to fight his impeachment, Bolingbroke borrowed money from Brydges, now duke of Chandos, and fled to France. Accusations of treason followed, and Bolingbroke did not return to England until he was pardoned in 1725.[54]

The fall of Oxford and Bolingbroke, two political patrons of central importance for Drummond, left the Scot in a dangerous position. He had after all played a role in the treaty which was now so objectionable to the crown. But as Chandos had helped Bolingbroke, he also did the same for his old friend, rescuing Drummond, who then discarded the Tories for a Whiggish conversion, following which his position rose considerably.[55] He became a director of the Royal African Company in 1722, and of the Royal Exchange Assurance Company in 1726, where he acted as Chandos’ agent in the close network of ‘overlapping directorships and personal connexions’ governing the company.[56] During this period Drummond also took on a directorship with the English East India Company (EIC), carrying on the role until 1733.[57] Here he became central to a programme of patronage which saw *de facto* prime minister Robert Walpole (yet another account holder at

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[54] H., Dickinson, (2004-09-23). St John, Henry, styled first Viscount Bolingbroke (1678–1751), politician, diplomatist, and author, *Oxford Dictionary of National Biography*, (Oxford, 2004)

[55] McGilvary, ‘John Drummond of Quarrel ‘, p.145

[56] Graham, *Corruption, Party, and Government in Britain*, p.235, & McGilvary, *East India Patronage*, p.46

[57] McGilvary, *East India Patronage and the British State*, p.46, & McGilvary, ‘John Drummond of Quarrel’, p.146

Drummonds) utilise the Scotsman and his friends in the EIC in order to reduce the threat of Jacobitism.

Drummond of course had Jacobite links himself, perhaps most notably with his relation to James VII & II's ministers, the earls of Perth and Melfort. Indications of this in his immediate family, however, cannot be traced, and in his own correspondence he is clear that his family connections to the Stuart's meant little to him.[58] He became central, however, in administering a system of EIC patronage starting in the 1720s, which continued well after his death and into the 1770s, designed to bring prominent Jacobites in from the cold, dispensing favours not only for Walpole, but also the Argylls, John Campbell, duke of Argyll, and his brother Archibald, earl of Ilay.[59] These favours, which George McGilvary has argued, were 'used to reintegrate Jacobites into mainstream Scottish life', saw 'a number of privileged Scots tainted with Jacobitism' become EIC proprietors. Whilst others, or their sons, became company employees, crew, or 'free merchants trading in the east'.[60]

During the 1720s and 1730s the importance of Drummond increased, as did his wealth. The patronage system he resided over stretched from Scotland to the East Indies. His network involved central figures in the British administration, as well as important actors from banking, shipping, and mercantile circles. He patronised over one hundred politically powerful Scottish families, personally sending

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[58] McGilvary, 'John Drummond of Quarrel, p.147
[59] Murphy, *John Law*, p.68
[60] McGilvary, 'John Drummond of Quarrel', p.146

around fifty petitioners into East India posts, always on a *quid pro quo* basis. When a close friend, the Earl of Morton, boasted that through Drummond he held influence over Walpole, he also made it clear that of the two men, Drummond was the more important to him. Drummond of course owed a lot to Chandos, he had been instrumental in moving him into a position of confidence with Walpole, whilst also supporting him in his bid to take a seat in parliament and finding him favour with the king.[61]

In 1725 Drummond purchased the Quarrel estate near Falkirk, and in 1727 became a member of parliament for the Perth burghs, a turn of events of which Walpole was fully in favour. The move into politics seems an obvious one, but he had explained to Oxford in 1710 that he had no intentions of standing for parliament at that time, and that Argyll had prior to that year offered him a seat in 'his part of the country and [that he] could not accept it'.[62] By 1727, however, Drummond had changed his mind, describing his election as 'the first mark … of my country's regard for me', stressing his aim to 'serve his country' rather than gain personally from the position.[63] He did, however, return Walpole's favour by voting with the administration in all recorded divisions between 1730 and 1740.[64]

Drummond was successfully returned to parliament unopposed

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61 McGilvary, *East India Patronage and the British State*, p.40-8

62 J. J. Cartwright, (ed), *The Manuscripts of His Grace the Duke of Portland,* Vol. IV, (London, 1897), Drummond's letter to Harley, 19 Sept. 1711, p.596,

63 Ibid, p.44

64 R. Sedgwick, (ed), *The History of Parliament: The House of Commons 1715-1754,* (Martlesham, 1970)

until his death in 1742 at the age of sixty-six. For the five years prior to this he had once again been deeply involved in diplomatic matters, acting as commissioner in the negotiation of trade agreements with the Holy Roman Emperor and the States General at Antwerp. Upon his death, Andrew Drummond, deemed by John as 'my true and worthy friend', was named as sole executor.[65]

This biography of John Drummond illustrates that despite his relatively modest background he was successful in ingratiating himself into important financial networks. Networks comprised of men central to the British administration, including Oxford, Bolingbroke, Brydges, the Argylls, and Walpole. The interests of these men extended to all aspects of the British administration, be that military, colonial, or domestic. A sector that became of crucial importance to Drummond's network was banking, with the erection of the Royal Bank of Scotland (RBS) in 1727 being driven by members of the group at that time. Drummond, as we shall see in the subsequent chapter, was crucial in the operation that led to the formation of the new bank.

Charles Maitland, 6th Earl of Lauderdale and General of the Scottish Mint

By the time of the Anglo-Scots Union, £1 sterling passed for £12 Scots. In order to address this discrepancy, article sixteen of the union treaty stated 'that, from and after the union, the coin shall be of the same

[65] Dr Hatton cited in H. Bolitho & D. Peel, *The Drummonds of Charing Cross*, (London, 1967), P.23

standard and value throughout the united kingdom'.[66] Over the next two years a Scottish recoinage took place, overseen by the general of the Scottish mint, John Maitland, 5th earl of Lauderdale. He was the third member of his family to hold the position since the Restoration. His father Charles had held the office for twenty-two years before a special commission set up to investigate corruption at the institution removed him in 1682.[67] Following this, Richard, Lord Maitland at the time, Charles' eldest son, and John's elder brother, took up the role. An ardent Jacobite, Richard fought at the Battle of the Boyne and was banished to France in the early 1690s. He was not, however, well-received at the exiled Stuart court at Saint-Germain, from which he was ejected after disapproving of the king's 'extreme Catholic policy'.[68] Following Richard's death in 1695, John took up the role of general at the mint, overseeing the recoinage, and remaining in post until his death in 1710.

Though only twenty-two at the time, John's son Charles, as well as inheriting the earldom of Lauderdale, also hoped to take over from his father at the mint. In August 1710 he wrote to lord Grange, James Erskine, reminding him that his recently deceased father 'had all the respect for you imaginable: and would have serv'd you in any thing that

[66] Article 16, *The articles of Union* 1707

[67] R.W. Cochran-Patrick, *Record of the Coinage of Scotland: From the Earliest Period to the* Union, Vol. 1 (Edinburgh, 1876), p.xxiii; for a full account of the affair see 'Proceedings against the earl of Lauderdale and others, for official Malversations', in T.B. Howell (ed), *Cobbett's Complete Collection of State Trials and Proceedings for High Treason and Other Crimes and Misdemeanours from the Earliest Period to the Present Time, with notes and other illustrations*, Vol. XI., (London, 1811), pp.157-244

[68] D. Hughes, *Versions of Blackness: Key Texts on Slavery from the Seventeenth* Century, (Cambridge, 2007), p.119 (footnote)

lay in his power'.[69] Lauderdale hoped that Grange, who had recently been made lord justice clerk, would favour him to replace his father at the mint and convey such to his brother, John Erskine, the earl of Mar, who, as Harley's principal agent in Scotland, would decide who the next general at the mint would be.[70] Lauderdale's mother also attempted to influence the decision, relaying her hope to Grange's wife that her son might 'sucsied his faither in the mint'.[71] Neither entreaty was successful, however, with political manoeuvring on the part of Mar seeing the position conferred upon Lord Balmerino, John Elphinstone.[72] In November 1712 Alexander Home, 7th earl of Home, succeeded Balmerino, before he lost office during the political upheaval at the ascension of George I in 1714.[73] At this time, the young Lauderdale was then chosen to fill the position.

Lauderdale had not, however, assumed the role at an opportune moment. The effect of the recoinage had been detrimental to the domestic economy of Scotland. Mint accounts show that a total 103,346 lb weight of silver was coined between 1707 and 1709, producing coin with a figure of just over £100,000 sterling, a sizeable sum for Scotland.[74] The recoinage had, however, followed the English custom

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[69] Letter to Lord Grange from Lord Maitland [the 6th Earl of Lauderdale] at Hatton, (1710) GD124/15/993/1

[70] Richard Scott, 'Erskine, James, Lord Grange (*bap.* 1679, *d.* 1754)', *Oxford Dictionary of National Biography*, (Oxford, 2004)

[71] Letter [to the wife of Lord Grange] from the newly widowed Countess of Lauderdale GD124/15/993/2

[72] A. Murray, 'The Scottish Recoinage of 1707-9 and its Aftermath', *The British Numismatic Journal*, 72 (2003), p.123

[73] Ibid

[74] PRO Mint 12/25; *Newton Corr.*, v. pp. 2-3, cited in Murray, 'The Scottish Recoinage', p.121; Murray states that 'in December 1708 with 14,155 pound weight melted and 13,700 pounds minted in new crowns and half crowns', using these figures

of minting no coin smaller than sixpence, this was to become an issue for a Scottish economy transacting low-value business.[75]

When it had been discovered that the mint intended to exclude the striking of smaller denomination coin, those with commercial interests had made representations to the December 1708 Convention of the Royal Burghs. Here it was outlined that smaller denomination coin, such as ‘tou pence, three pence and four pence’ were required to be put into circulation in order to allow low-value domestic transactions to take place.[76] An application for a warrant to mint smaller coin was made to the master of the English mint, Isaac Newton, on 3 December 1708, requesting permission to strike coin of up to £8,000 sterling in 2d., 3d. and 4d.. This was approved by royal warrant in May of the following year. There was, however, a delay putting this into operation as the Scottish mint waited to receive formal authorisation in the form of a new mint indenture. The contract was not received until April 1712, despite Newton being directed to prepare this in July 1710.[77] The then general of the Scottish mint, Balmerino, had promised in 1711 ‘to lay befor my lord high Treasurer how necessarie it was that the mint should be opened their being severalls that had been offering bullion to be coyned as also anent other matters relating to the said mint’, and whilst

it is possible to calculate that 103,346 lb weight of silver would produce approximately £100,024 in coin

[75] ‘Of the withdrawn coins the 5s. Scots piece had been equivalent to 5d. sterling and the 3s. 6d. to 3 ½ d’, Murray, ‘The Scottish Recoinage’, p.123

[76] Ibid

[77] Ibid

dies were made, no coins were struck.[78] Even by the time Lauderdale began his tenure as general in November 1714 still no new coin had been minted in Scotland for five years.

In addition to the delay in minting smaller denomination silver coins, insult was added to injury when the treasury refused the Scottish mint permission to produce new copper coins. This was a ruling particularly felt by the country's poor, the scarcity having a profound effect on the business conducted at Scottish fairs and markets.[79] By the middle of the 1710s, Dutch 'doits', counterfeit Irish coin, and clipped coins circulated freely in the Scottish economy as a means of alleviating the need for coin.[80] Prior to his removal from office in 1682, Lauderdale's grandfather had illegally struck a vast number of copper coins to aid currency circulation in the country. This has been estimated as being equivalent to £96,000 sterling by 1707, dropping drastically over the next three decades.[81]

From his time of taking office, the young Lauderdale had lobbied to produce silver coin in Scotland but did little about copper coinage. Three years after his appointment, and ten years after the Treaty of Union, however, he complained to the duke of Montrose that he had been deprived of 'the benefite of the copper coinage, which was the only considerable profit belonging to the Generall of the Mint'.[82]

[78] A. L. Murray, 'The Scottish Mint after the recoinage, 1709-1836', *Proceedings of the Society of Antiquaries of Scotland*, 129, (1999), p.864
[79] C. A. Whatley & D. J. Patrick, *The Scots and the Union*, (Edinburgh, 2006), p.324
[80] Ibid
[81] Murray, 'The Scottish Recoinage', p.126
[82] Lauderdale cited in Murray, The Scottish Recoinage', p.126

Despite the apparent self-interest shown by Lauderdale, there was a crippling need, met by bad foreign and counterfeit coinage, for small denomination coin in Scotland; the silver 2d., 3d., and 4d. coin promised in 1709 having still not materialized.

By the closing years of the 1720s, prominent nobleman, Archibald Campbell, Lord Ilay, had turned his attention to what had now become a crisis. He viewed the situation of 'false coyning which is spread in a manner all over the country' as being worse than the problematic shortage of coin that it sought to remedy. He suggested that halfpennies and turners (two pence Scots) should be minted in Edinburgh or London in order to alleviate the need for coin.[83] Ilay saw, however, that there were potential problems associated with augmenting the coin stock of Scotland. He feared that if new coinage was forthcoming, then 'the whole of the loss upon the false money must fall upon the lower sort of the people and the poor which will inevitably produce a great clamour'. Whether such considerations played a part in the English mint's decision is unclear, but by 1732 still there had been no coinage in Scotland since the completion of the recoinage in 1709, with Newton's successor at the Mint, John Conduitt, stating that 'there [was] no probability of any'.[84]

Despite the Treaty of Union stating that the mint was to remain in existence in Scotland, the operation of this institution was problematic. Lauderdale's official correspondence indicates the

[83] Ilay cited in Murray, The Scottish Recoinage', p.127
[84] Ibid

difficulty he faced as he tried to operate an independent Scottish institution under the same rules as its English counterpart, with the former also taking direction from the latter. The relationship between the two bodies was fractious. Putting aside the complications over the minting of new coin, receiving payment for salaries and fees had also become a particular area of friction. Prior to the Union, £1,200 sterling per annum had been paid net at Edinburgh to defray the cost of salaries and maintenance of the mint. Following 1707 this figure was paid gross at Westminster, with deductions made for treasury and exchequer fees, as well as the fees involved in remitting the money itself, leaving £1,060 to reach Edinburgh.[85]

That funding had been reduced was not, however, the only issue, with the Scottish mint also struggling to secure payment of the new lower amount. Lauderdale's father had petitioned Newton in 1709, stating: 'the officers and other servants of her Majestie's Mint Are straitned for want of their sallaries and fies especially those who have no other means of subsistance but the fruits of their Labour'. He reminded Newton that 'it appears to me that both her Majesties Mints in South and North Britain are to be on one foot', yet by the middle of the next decade late payments were still a problem for his son.[86] The young Lauderdale lobbied Newton for an increase in the allowance granted for defraying the costs of the Scottish mint, successfully

[85] Ibid p.124

[86] Lauderdale, 5th earl, Mint 19/III.55, National Archives, Kew

increasing this from £1200 per annum to £1,450.[87] Payments were not, however, made any the swifter.

Despite the treasury apparently setting aside £5415 in stages between 1714 and 1720 to defray the operating costs of the Scottish mint, Lauderdale complained directly to Newton in 1721, that while this amount 'is already imprest I do not find that the moneys already imprest to his Lord[ship]: or any part thereof are yet accounted for'.[88] Receiving any imbursement was a slow process, a royal warrant for the payment of fees and salaries outstanding to the mint since Christmas 1714 was not drafted until November 1718, and as Lauderdale's 1721 letter shows, even after this, payment was not forthcoming.[89] The earl complained that staff salaries totalled £930 per annum, and were unpaid since 1714. He also protested that 'the charges of coinage [and] keeping the coining tools in repair are paid by the pound weight of the moneys coind, and there has been no coinage'. Lauderdale calculated the amount still due to the Scottish mint, including 'the charges of keeping the offices in repair, and the dwelling houses wind and water tyte, [which] may amount to about £80 of £100 P[er] ann[um]', as totalling £6885 by the time of his letter. Clearly when article sixteen of the Treaty of Union stated that the 'Mint shall be continued in Scotland, under the same Rules as the Mint in England', this hinged heavily on the caveat that it was to be 'subject to such Regulations and Alterations as her

[87] Newton, Mint 19/III.57, National Archives, Kew; the date this occurred is unclear, but was between 1714 and 1716
[88] NAS E411/12/1
[89] Newton, Mint 19/III.146, National Archives, Kew

Majesty, her Heirs or Successors, or the Parliament of Great-Britain, shall think fit'.[90]

It is clear that post-union, the Scottish mint was treated with little deference. Newton viewed the position of general of the Scottish mint as redundant, recommending the office not be renewed at its next vacancy. He had wanted to avoid the salaries at the Scottish mint becoming 'an annuity without account'.[91] Due to the British policy of hindering the operation of the Scottish institution, this was, however, the eventual outcome. Despite this, Lauderdale held the post for almost twenty years; during which time he also took on a lucrative position as a commissioner of Police, as well as acting under the instructions of Walpole as a commissioner for investigating a newly discovered mine on lands owned by the exiled earl of Mar.[92]

Lauderdale's tenure as general of the Scottish mint was at times trying, and clearly illustrates the issues faced by financial institutions in a Scotland now ruled from London. The policy of centralized British control over the Scottish mint meant that those coins produced in 1709 were the last to be minted in Scotland, despite the institution retaining its permanent officials for over a century following this.

Campbell of Monzie: From Speculator to Projector

Described early in the twentieth century as 'one of the most prominent Scotsmen of his time', Patrick Campbell of Monzie has more recently

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[90] Article 16, *The articles of Union* 1707
[91] Murray, 'The Scottish Mint, p.866
[92] Murray, 'The Scottish Mint p.864, and the Lauderdale papers, NRS, RH4/69/26/1, RH4/69/26/5,

been described by Richard Saville as a man who was 'involved with numerous financial calamities'.[93] This is not to imply that the Scot was a man of poor judgment. Monzie was indeed involved in a number of prominent financial projects, but he was not alone, indeed vast swaths of Europeans were involved in the same financially speculative schemes.

Monzie, along with a number of Scottish merchants and noblemen, invested in the Darien adventure, subscribing £100 in 1696.[94] He also invested in stock of the South Sea Company, which, as Patrick Walsh has shown, was successful in garnering subscriptions 'from beyond the traditional financial heartland of the City'.[95] Walsh also states that, so wide-ranging were the shareholders in the company by the time of the speculative bubble in 1720, that 'it probably had one of the most internationally diverse investor bases of all contemporary major European joint-stock companies'.[96] Similarly, John Law's Mississippi Company, which through gross over-speculation on the part of its architect came to a head in the same year, drew on subscribers from different social spheres from across Europe, of which, Monzie was again one.[97] Yet, whilst these projects may well be defined as 'financial

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[93] Munro, N, *History of the Bank of Scotland, 1727-1927*, (Edinburgh, 1928), p. 84; Saville, *Bank of Scotland*, p.95

[94] NRAS, DS/UK/25005, *The Darien Papers: Being a Selection of Original Letters and Official Documents Relating to the Establishment of a Colony at Darien by the Company of Scotland Trading to Africa and the Indies. 1695-1700*, (Edinburgh, 849); The list names 'Patrick Campbell, brother to Monzie' (he would not become Lord Monzie until 1706 when he was retoured heir to his brother Duncan, who had died in 1697) as an investor

[95] P. Walsh, *The South Sea Bubble and Ireland: Money, Banking and Investment, 1690*-1721, (Woodbridge, 2014), P.59

[96] Ibid

[97] See Murphy, *John Law*, and Neal, *'I am not Master of Events*'.

calamities', one cannot place any culpability for the failure of any of them at the door of Monzie. What Saville does importantly identify, however, is that Monzie was always there, involved somewhere in the grand speculations of the day.

Monzie was not, however, solely a financial speculator. In 1708 he turned projector, drafting a financial scheme for a proposed British land bank.[98] The planned 'land mint' was expected to raise £1,000,000 through subscriptions, with each shareholder possessing a maximum of 10 shares, each secured on land worth £1,000, with 1000 shares in total.[99] The ideas contained within this proposal, however, do not display Monzie to be an original thinker. Instead, as shall be shown here, they point directly to the work of fellow Scot, John Law. The language utilised and the monetary theory expounded by Monzie are so similar to that displayed by Law in his 1705 work, *Money and Trade Considered*, that to term the work as plagiarism would not be too strong.[100]

Take for example the view of each man on the role of money. Law, when discussing silver's use as a currency even before it was manufactured into coin, states '[w]hat is mean't by being used as Money, is, that Silver in Bullion was the Measure by which Goods were valued: The Value by which Goods were exchanged: And in which Contracts were made payable'.[101] Rearrange these words ever so

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[98] P. Monzie, *A Land Money*, (1708), National Library of Scotland, 1.814(13)
[99] Monzie, *A Land Money* p.15
[100] J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, (Edinburgh, 1705)
[101] Law, *Money and Trade*, p.6/7

slightly and we find Monzie's description that 'money is used as the measure by which goods are valued as the value by [which] goods are exchanged [and] In which contracts are made payable and payments are made'.[102]

The clearest indication of Law's influence on Monzie, is in the latter's analysis of the 'paradox of value'; this is the proposition that a good's value is determined not by its usefulness but by its relative scarcity. Monzie explains this using the example of water and diamonds. He states:

> The value of goods is rated not as the uses they are aplyed to are more of less necesary but as they are in Quantity in proportion to [th]e demand for them. Water is of necesary use yet of little value because the quantity of water is great in proportion to the demand for it Deamonds are of less necesary use yet of great value because the demand for deamonds is great in proportion to the Quantity of them[103]

Whilst Law had stated three years earlier that:

> Goods have a Value from the Uses they are apply'd to; And their Value is Greater or Lesser, not so much from their more or less valuable, or necessary Uses: As from the greater or lesser Quantity of them in proportion to the Demand for them. Example. Water is of great use, yet of little Value; Because the Quantity of Water is much greater than the Demand for it. Diamonds are of little use, yet of great Value, because the Demand for Diamonds is much greater, than the Quantity of them.[104]

Whilst the 'paradox of value' was not a concept original to Law, it is important to note that the allegory of diamonds and water by which he expressed it, *was* wholly original, later being borrowed by Adam

[102]Monzie, *A Land Money*, p.1
[103] Ibid, p.3
[104] Law, *Money and Trade*, p.1

Smith.[105]

Similarities between the 1705 work of Law and the 1708 work of Monzie are numerous; from the reward each would offer to anyone finding two notes with the same serial number, to the use of the term ‘land mint’- an uncommon term, with most projectors of similar schemes choosing instead to define the enterprise as a ‘land bank’. In fact, the only other occasions in which this author can identify the use of the term, is in Law’s ‘1705 Act for a Land Mint’, and in Edinburgh doctor, Andrew Brown’s two 1705 essays on the matter.[106]

We might of course give Monzie the benefit of the doubt, after all, and as was shown in chapter three, Law had been accused of borrowing his land bank model from that of Hugh Chamberlen.[107] And as preeminent financial historian John Keith Horsefield once commented, ‘in the intellectual ferment of the later seventeenth century it is rarely safe to credit any particular individual with originality’.[108] In this case we are considering the early eighteenth century, but the sentiment is the same. Monzie’s proposal, however, is so similar to that

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[105] Murphy, p.57

[106] A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705), A. Brown. *A second Essay concerning the Land Mint : shewing, that the present necessity, and want of Gold and Silver money, absolutely requires this, or the like Remedy, and that very speedily ... By the author of the Character of the true publick Spirit*, (Edinburgh, 1705). Law’s ‘1705 Act for a Land-mint’ is included in J. Law, *Essay on a Land Bank,* A. Murphy (ed), (Dublin, 1994).

[107] Law, *Money and Trade,* p.153; Law stated in 1705 that Chamberlen was, ‘offended at my meddling in this affair, having, as he says, borrow'd what I know of this subject from him’.

[108] J. Keith Horsefield, ‘The Origins of Blackwell's Model of a Bank’, in *The William and Mary Quarterly*, Vol. 23, No. 1 (Jan., 1966), p.134

of Law's just three years earlier that it seems inconceivable to suggest that he had not lifted it from there. Law's 1705 proposal for a Scottish land bank had been discussed at length in the country, Monzie with his interest in financial projects could not have failed to be aware of it.

Law's proposal had not, however, been universally popular. The opinions of Scottish parliamentarians had been firmly divided on the merits of the scheme. Significant support had been given by the powerful Argylls, whilst the devoted patriot, Andrew Fletcher of Saltoun described it as 'a contrivance to enslave the nation'.[109] Indeed, members of the Scottish parliament were so at odds over Law's proposal, that Saltoun found himself on a beach in Leith with Baillie of Jerviswood, the latter acting as second for the injured earl of Roxburgh, on the cusp of a duel prompted by a disagreement over Law's proposal.[110] With this in mind, we must consider under what agency Monzie was operating when he chose to resurrect Law's proposal just three years after it been rejected by the Scottish parliament.

It is suggested here that one answer as to why Monzie prepared the proposal when he did was due to the recent Anglo-Scots Union. The parliamentary merger had left many prominent Scots wondering exactly where they now fit within the new British political structure. Monzie as a 'projector' was conceivably attempting to ingratiate himself with the new political establishment, moving beyond the role of investor to stand atop a new financial system. Another answer may be that in the two

[109] Murphy, *John Law*, p.74-5
[110] Ibid, p.67 and p.74-5

decades that followed the revolution of 1688-89, excepting the Bank of Scotland and the Company of Scotland, the Scottish parliament had shown itself to be generally reticent when it came to the establishment of new financial institutions; in large part due to the failed Darien project. In 1705 when Law's proposal had been made to parliament, several other financial proposals also emerged but to no avail.[111] During this same period, England's financial progress had been far more adventurous. In this case Monzie perhaps saw the merits of Law's land bank and saw the new British parliament, a body driven by the need to finance its military, as a more willing partner in a new land bank than its Scottish predecessor.

It appears unlikely, however, that the proposal was ever submitted, certainly, no parliamentary record between 1707 and 1710 can be found to suggest it was, and only one copy of the proposal appears to exist, held in Edinburgh, and in Monzie's own hand. It may be that support for the project was lukewarm, or possibly Monzie thought better of the plagiarism. Recent legislation had also granted the

[111] A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705), .W. Seton, *Some thoughts, on ways and means for making this nation a gainer in foreign commerce; and for supplying its present scarcity of money*, (Edinburgh, 1705), J. Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: together with some proposals for supplying the defect thereof, and rectifying the ballance of trade*, (Edinburgh, 1705), J. Hodges, *Considerations and proposals for supplying the present scarcity of Money, and advancing Trade*, (Edinburgh, 1705); Chamberlen, H., & Armour, J., *Proposal by Doctor Hugh Chamberlen, and James Armour for a Landcredit*, in A. E. Murphy, & C., Sugiyama (eds.), *Monetary Theory, 1601-1758*, Vol. 4, (London, 1997) and J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, Edinburgh, 1705)

Bank of England a partial monopoly on issuing banknotes, with a 1708 Parliamentary Act making it unlawful for companies or partnerships of more than six people to set up banks and issue notes, thus restricting private banks to small partnerships. The focus on the Bank of England as the bank of the administration perhaps signalled to Monzie that it was not the time to propose a new land bank.

Whatever the reason, Monzie would still ascend within important financial networks even without 'his' landbank. Over the next twenty years he rose to prominence, becoming an important part of Edinburgh's Equivalent Society, and a director of the Equivalent Company in 1724, before becoming one of the first directors of the Royal Bank of Scotland upon its formation 1727, holding office for almost quarter of a century.

Conclusion

The astute reader will have noticed that other than the four men who have been the topic of this chapter, a cast of other names have recurred throughout. The inclusion of important political figures and financial actors of the day – Law, Ilay, Argyll, Walpole, Chandos, Bolingbroke, Oxford, Newton – have displayed the important connections held by the four scots at the centre of this narrative. Andrew and John Drummond, Lauderdale, and Monzie were not highlighted for this reason, however. They were selected because they all display different aspects of the what it meant to be a Scot involved in the financial world during this period, and the problems that came with it.

When the time came to ply his trade, Andrew Drummond, who despite apprenticing as a goldsmith in Edinburgh, chose London as the setting for his business, the site of his premises well-chosen to serve the Scottish community there. In the years directly following the Anglo-Scots Union, the financial opportunities presented in London outweighed those of Edinburgh. No parliament now sat in the Scottish capital, and many members of the gentry had migrated to London, moving part of their wealth with them. Being based in London also allowed Drummond to benefit from the lucrative business of the fiscal-military state. As outlined above, a distinctive feature of the business carried on by Drummonds Bank was the number of army agents who held accounts. This type of business could not have been carried on in the same manner if Drummond had operated from Edinburgh.

Scots were not Drummond’s only customers, of course. Many prominent Englishmen also banked with the Scot. Some doing so because of their connection to John Drummond – this is also more than likely the reason for the military money moving through the bank. As we have seen, John left for the continent at fifteen, and for the next two decades he based his career there, investing money, making deals, and gathering information for his patrons. He became the lynchpin of Chandos’ financial operation and was friends with those at the very top of the British administration, as is shown by the assistance offered to him when his own business failed in 1712. Practically all of Drummond’s business interests were on the continent or based in England. This was a man who wished to invest in Scotland but found the climate for such endeavours there to be unhospitable; complaining of the lack of ‘Scots projects’ in which to invest in 1720.[112]

Both Drummonds appear to have viewed Scotland as failing to provide economic opportunities. After all, the administration there prior to 1707 had shown itself to be unwilling to encourage innovative financial schemes in the wake of the Darien failure. Whilst no new financial institutions of note were formed in the country between 1695 and 1727.[113] This difficult landscape, where financial innovation was hindered by a lack of political action, continued after 1707 and is exemplified by the experience of Lauderdale as general of the Scottish mint. Scotland had had its own mint at different locations since the mid-twelfth century, the Edinburgh mint becoming the most active and long-running.[114] Despite guarantees in the Treaty of Union that it would be protected, after 1709 the Scottish mint never struck another coin. Lauderdale’s struggle in operating the institution under a British administration, in being granted permission to strike coins or even in just being paid staff salaries, highlights the difficulties which faced financial institutions in Scotland.

Monzie meanwhile, in an attempt to engage with the new British administration, considered presenting a land bank proposal which had been rejected by the Scottish parliament just three years earlier. It has been hypothesised here that this was an attempt to ingratiate himself into the new system, and that he recognised the merits of John Law’s

[112] NRS, GD243/437, John Drummond to William Drummond, 11 May 1720
[113] The Edinburgh Equivalent Society was formed during this period, but as a direct precursor to the formation of the Royal Bank of Scotland in 1727 and will be the topic of chapter six.
[114] Bateson, J. D., *Coinage in Scotland*, (London, 1997), p.63

original plan which had been rejected at a time when the attitude of the Scottish administration to new financial proposals had been severely tempered.

These men were operating in a period considered to be the Financial Revolution. Yet, these narratives indicate the issues which were affecting financial innovation and institutions in Scotland at the time. Each was forced to operate outwith their homeland in order to access financial opportunities that were not available there, or in the case of Lauderdale, to attempt to operate a Scottish institution within a British framework, which in the years immediately following the Union, appears to have been difficult.

Chapter 6

The Equivalent Societies of Edinburgh and London, and the Formation of the Royal Bank of Scotland

The financial ideas which underpinned the formation of the Royal Bank of Scotland (RBS) in 1727 had developed during the first quarter of the eighteenth century beyond Scottish borders. New concepts of what constituted money evolved as emerging financial markets allowed for the creation of liquid financial instruments that were capable of being turned into cash without loss or delay, in turn creating new monetary instruments. Alongside this, the refinancing of old debt had become *de rigueur* with English and French joint-stock companies engaging in debt-for-equity swaps, in which the company would take on government debt in exchange for monopoly rights or other perks.

The method by which RBS was capitalised built on these ideas, with the initial funds of £111,000 invested into the bank coming from government debt which had in large part been outstanding since the Union of 1707. Importantly, however, this debt-for-equity swap was not carried out in a deal between the government and the bank, but rather occurred through the agency of the debt-holders themselves. This was significantly different from the debt-for-equity deals conducted by John Law's Mississippi Company or the South Sea Company, both of which had dealt directly with the French and British governments respectively.[1] In the case of RBS it was those that were owed by the British government that took steps to transform this debt into equity.

The money which would eventually capitalise RBS was an unforeseen consequence of the Equivalent payment stipulated in the 1707 Treaty of Union. This sum of £398,085 10s had been agreed as compensation to Scotland for taking on part of the English national debt and the incurrence of other costs associated with the union process. Numerous men, including Bank of England projector William Paterson, were employed to calculate what the sum of the Equivalent should be. Quotes ranged from just £10,000 up to £1 million, with Paterson's own estimate between £600,000 and £1 million.[2] It is unsurprising, of course, that Paterson, a man deeply involved in the Company of Scotland, a project whose shareholders would receive a significant proportion of the Equivalent payment (around fifty-five per cent of the agreed total would go to this group), should provide one of the highest figures for the expected remuneration.[3] In the end, the figure agreed upon was likely that calculated by David Gregory, an Aberdeen-born mathematician who provided a scientific perspective to Paterson's

[1] In 1719 the South Sea Company won its bid to exchange £40 million of government debt into company equity. The company planned to make their money by exploiting the difference in exchange between the government debt and their inflated share prices. The bubble created from this kind of trading burst the following year and the company was bankrupt. A similar situation occurred in France, where John Law had brokered a debt-for-equity swap with the government there. Subsequently, shares in Law's company peaked at over 10,000 livres before becoming worthless by 1721. Here, however, Law was also in charge of the Banque Royale and printed more money to support the share price, a move that only worsened the crisis.

[2] D. Watt, *The Price of Scotland: Darien, Union, and the Wealth of Nation*, (Edinburgh, 2007), p.229

[3] Ibid, p.xvii

commercial and financial experience.[4] Despite agreement on this very precise figure, however, Douglas Watt has argued the final amount agreed upon to have been a 'political decision', for which there was no 'correct' financial sum. Rather, what was important was that the figure settled on was one large enough for the Scots to accept, without being too large for the English to object.[5]

Even after the figure for the Equivalent was settled on, payment was not always forthcoming. For many creditors awaiting payment, the Equivalent became a source of discontent as the funds put aside failed to meet demand. This chapter will consider how two groups emerged, one in Edinburgh and another in London, to protect the interests of those holding equivalent debt. And how these groups in the years prior to 1727 successfully transformed the government's promises of payment from the Equivalent fund into capital to underpin a bank. Before this, however, it is necessary to understand the decade that preceded the Anglo-Scots Union. This was a period in which ambitious Scots overextended themselves as they attempted to settle a colony in the New World, in turn creating the conditions for the Equivalent payment of 1707.

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[4] W. Deringer, *Calculated Values: Finance, Politics, and the Quantitative Age*, (Cambridge, MA, 2018), p.92-3

[5] Watt, *The Price of Scotland*, p.229/30

The 'Rich, Poor, Blind and Lame': The Founding of Caledonia and the Road to Union[6]

The colonisation of territory at Darien on the isthmus of Central America was not Scotland's first foray into such endeavours. Attempts had been made to establish a Scottish outpost in Nova Scotia in the 1620s, and in the 1680s there was an attempt at a colony in South Carolina, whilst various Caribbean islands were considered throughout that decade by the Scottish Privy Council for Scots settlement.[7] As discussed in chapter four there was also significant Scottish involvement in the administration of the East Jersey and New Jersey colonies. The Darien 'adventure' has, however, attracted attention in a way that these other efforts has failed to do. The affair was one of national importance and has come to be viewed as failing for a number of factors, including the opposition of the English and Spanish to the project, the extreme conditions in South America, inadequate management, and poor planning; the latter assertion is not helped by Walter Herries, a surgeon on the first expedition to Darien, who claimed

[6] Walter Herries, a surgeon who had sailed with the first expedition to Darien, described the scene in Edinburgh as subscriptions were made to the Company of Scotland in 1696 in biblical terms, stating: 'they came in shoals from all Corners of the Kingdom to Edinburgh, Rich, Poor, Blind and Lame, to lodge their subscriptions in the Company's House, and to have a Glimpse of the Man Paterson', W. Herries, *A Defence of the Scots Abdicating Darien: Including an Answer to the Defence of the Scots Settlement there* (1700), p.8; Douglas Watt has stated however that Herries was wrong in his assertion that subscriptions had been taken at the Company House, this was not the case, these were instead taken at 'the House of Mrs Purdie in the North side of the High-street over against the Cross'. Watt also states that during the time of subscriptions being taken Herries was employed in London; Watt, *Price of Scotland*, pp.49-51

[7] Watt, *Price of Scotland*, p.19

that there had been 4000 wigs of various styles and 1500 bibles, hardly essential commodities, among the initial cargo sent to the colony.[8]

Planting a colony on Darien was always an ambitious project. The territory had been claimed by the Spanish as early as 1501, who then established a colony there nine years later. Having sailed across the Atlantic Ocean to reach the isthmus the Spanish trekked through thick jungle in 1513 guided by the Tule, indigenous people of the area, to reach the Pacific Ocean.[9] Today in roughly the same area is the Panama Canal, covering a distance of sixty miles or so and connecting the Atlantic and Pacific Oceans. Whilst the Spanish colony at Darien was abandoned in 1524, the isthmus remained vital in the movement of mined Spanish silver which was transported up the coast from mines in the west of South America to Panama City, before being transported across the isthmus by mule and then by sea back to Spain. Thus, as Watt has correctly argued, the Scottish 'colonial project was not therefore centred on a pleasant backwater, but on an area of huge financial and strategic importance'.[10] If the ambitious plan was successful however,

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[8] Herries, *A Defence of the Scots Abdicating Darien*, p.22; Bruce Lenman viewed the event as a 'supreme crisis', in which 'systematic attempts by King William's agents to undermine[d] Scottish appeals for aid from the Netherlands and Hamburg', and in which the scheme's architect William Paterson was a 'disastrous influence on Scottish policy', B. Lenman, *An Economic History of Modern Scotland 1660–1976* (Hamden CT, 1977), pp.48-9; T.C. Smout viewed the inaction of directors as being central to the failure of the project, T.C. Smout, *Scottish Trade on the Eve of Union 1660–1707* (Edinburgh,1963), p. 252; the role played other nations has been emphasised by David Armitage, D. Armitage, 'Making the Empire British: Scotland in the Atlantic World 1542–1717', *Past and Present,* 155 (1997); and more recently Douglas Watt, whilst recognising the opposition from the English, Dutch and Spanish, argues that this should have been anticipated, and has emphasised the principal reason for failure being the directors losing 'touch with reality, influenced by the manic overconfidence of the nation', Watt, *The Price of Scotland*, p.252-3

[9] Watt, *The Price of Scotland,* p.5.

[10] Ibid, p.5-6

it would provide Scotland with plantations with which to cultivate raw materials and open up a captive market for Scottish manufactures. The reward was therefore worth the risk.

The man behind the proposal was the aforementioned Paterson, a London-based Scot who was no stranger to speculating. He has been named as the man behind a tontine scheme for the raising of £1 million in capital for the English crown in 1693.[11] A year earlier he had been part of a group behind a proposed bank of credit which had been rejected by the English parliament. By 1694 he was promoting another banking scheme in England in which a subscribed fund would be created to support long-term public borrowing, with the mortgaging of future revenue to cover investors interest payments. This time the bank would get the go ahead, receiving royal charter as the Bank of England (BoE) in mid-1694, with Paterson among its first directors. Later that year, however, Paterson fell out of favour with his colleagues at the bank after he had proposed an 'an interest-bearing fund to help City orphans'. His fellow directors feared the new scheme would drain capital investment from the bank, the rift grew, and in February 1695 Paterson tendered his resignation.[12] By May of that year he had become aware of a group of Scottish merchants who were attempting to establish an overseas trading company and was asked, due to his experience in such matters, to become involved.[13]

[11] M. A. Milevsky, *King William's Tontine: Why the Retirement Annuity of the Future Should Resemble its Past*, (Cambridge, 2015), p.59
[12] Armitage, D. (2004-09-23). Paterson, William (1658–1719), banking projector. Oxford Dictionary of National Biography, (Oxford, 2004)
[13] Watt, *The Price of Scotland*, p.32

The Company of Scotland Trading to Africa and the Indies was created by Parliamentary Act in June 1695.[14] It was not, however, the first Scottish company of its type. In 1617, James VI had awarded a charter to a number of adventurers allowing them to operate as the Scottish East India and Greenland Company. Neither the English East India Company (EIC) nor her Russian counterpart were overly enamoured with the new competitor, however, and after pressure was applied to the king, the charter was revoked and those behind the Scottish company were financially compensated.[15] The next Scottish overseas trading company was established in 1634, as the Scottish Guinea Company. The company, which was largely a London-based venture, was awarded a thirty-one-year monopoly on African trade.[16] Two ships were sent to West Africa in 1636, the jubilation at the success of one, the *Golden Lion*¸ which returned a fifty per cent profit on the trip, was tempered by the fate of the second ship, the *St. Andrew*, which was seized by Portuguese authorities and its crew massacred.[17] It is therefore fair to say that by the time the Company of Scotland was erected in 1695, that past Scottish trading companies had not been a resounding success.

The company, which it is important to say was initially very

[14] *The Records of the Parliaments of Scotland to 1707*, K.M. Brown et al eds (St Andrews, 2007-2018), 1695/5/104. Date accessed: 22 August 2018.
[15] W. R. Scott, *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720*, Vol. 2, (Cambridge, 1910), p.55
[16] C. A. Whatley, *Scottish Society, 1707-1830: Beyond Jacobitism, Towards Industrialisation*, (Manchester, 2000), p.25; Watt, *The Price of Scotland*, p.24
[17] Watt, *The Price of Scotland*, p.24; for an overview of the company see R. Law, 'The first *Scottish Guinea company*, 1634–3', *The Scottish Historical Review*, 1997, vo. 76, No. 2: pp. 185-202

much an instrument of London-based Scots, has become synonymous with Darien but at its outset other projects were considered. These included a proposed herring and white fishing business, as well as entry into salt production. It was also suggested that trading cycles between Greenland, Russia and Africa may be profitable to the new company. Commissions were also issued to merchants, allowing them to operate under the provisions of the Act which had established the company. Permitting merchants to import goods tax free to Scotland, in exchange for which the company would receive five per cent of profits. Many subscribers to the company had wished to create a company trading to the East Indies in the model of the English and Dutch companies, it was, however, Darien that won out.[18]

Paterson had been promoting the benefits of the territory for around a decade prior to the founding of the Company of Scotland. For him the narrow tract of land connecting modern day North and South America was the 'door of the seas and the key of the universe'. He was certain that 'with anything of a sort of reasonable management, … the proprietors [would be able] to give laws to both oceans and to become arbitrators of the commercial world without being liable to the fatigues, expenses and dangers, or contracting the guilt and blood of Alexander and Caesar.'[19] His enthusiasm for the project must have been contagious, and by July 1696 his proposal to settle Darien was accepted

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[18] Ibid, pp.207-218

[19] Paterson quoted in J. R. McNeill, *Mosquito Empires: Ecology and War in the Greater Caribbean, 1620–1914*, (Cambridge, 2010), p.109

by the directors of the Company of Scotland.[20]

The taking of subscriptions for the company had begun in November 1695, before Darien had been chosen as a site. Presumably those subscribing thought it was for an East Indies or African endeavour. Either way, take up of the scheme was swift. In London subscriptions reached £300,000 within ten days of the book opening, with subscribers required to pay a quarter of their pledges at this time. Demand in fact out stripped supply. It was at this point that the company faced its first problem, that of English consternation at the new project. English joint-stock companies, particularly the EIC, as well as a number of London merchants, did not welcome the new endeavour. The EIC appointed a committee to draw up a list with which to petition the House of Lords on the reasons why the new Scottish company would be detrimental to English trade. The king was so besieged by complaints that he became too exasperated to discuss Scottish business. William had taken his eye off of Scotland and this had resulted in the company being granted a powerful charter from the Scottish parliament. As has been stated elsewhere, 'the attempt to raise capital in London unleashed the full fury of English economic nationalism', as a result directors and promoters of the scheme in England were to be impeached.[21] English investors, along with those in the Netherlands, withdrew from the project, and attention turned to Scotland to provide full funding for the

[20] C. A. Whatley, and D. J., Patrick, *The Scots and the Union*, (Edinburgh, 2006), p.167
[21] Watt, *The Price of Scotland*, p.44

Darien venture.[22]

The take up of subscriptions in Scotland was exceptionally swift. On the first day alone, 26 February 1696, £50,400 was subscribed in Edinburgh, with £91,000 being pledged by the end of the month. On 5 March a second subscription book opened in Glasgow, and by 1 August £400,000 in subscriptions had been signed up for.[23] Residents of Edinburgh and Glasgow accounted for just under thirty-three per cent of all subscriptions, the remainder coming from across Scotland with Caithness being the only shire not represented in subscription books.[24] The minimum investment that could be made was £100 and the maximum £3000. The shareholders were a diverse group, nobility and merchants were well represented, as were the professions. A number of women also subscribed to the company.[25] A later attempt at raising capital was made in Hamburg. The senate there was, however, petitioned by the English administration who stated their displeasure at the situation and requested that the senate remedy the situation before relations with England were soured.[26] This interference, along with the fact that the company was dealing with a financial scandal as James Smyth a close associate of Paterson was accused of embezzling just over £25,000 of the company's capital, put a definitive end to foreign

[22] For a full account of the events of this period see Watt, 'London Scots' chapter in *The Price of Scotland*, pp.31-45
[23] Watt, *The Price of Scotland*, p.p. 51-54
[24]Ibid, p.55-6
[25] NLS, Adv. MS 83.1.8v (Subscription list for the Company of Scotland, 1696), cited in G.W. Withers, *Geography, Science and National Identity: Scotland Since 1520,* (Cambridge, 2001), p.105
[26] Watt, *The Price of Scotland*, p.101

investment in the scheme.

Despite issues regarding foreign investment, in July 1698 five vessels left the port of Leith bound for the isthmus of Darien. They spent a few days in Kirkcaldy making final checks before setting sail northwards, heading towards Orkney with the intention of picking up supplies. Perhaps as an indication of the misfortune that would later besiege the settlers, the ships became lost in thick fog, losing contact with one another and missing Orkney completely. The ships later reconnected and in late October reached the Gulf of Darien. The Scots were apparently welcomed by the local people, the Tule, and set about preparing the site for New Edinburgh. The events which followed – the establishment of a harbour that was nigh on impossible to get ships out of, the prevalence of disease, infighting among colonists, mismanagement from Scotland, lack of crown support, skirmishes with the Spanish – have all been covered in detail elsewhere.[27] For the purposes of this chapter it is enough to know that the project did not go well, and by the end of March 1700 the colonists had surrendered any Scottish claim to the territory to the Spanish.

The financial fallout was severe. Whilst in Scotland only £153,000 of the £400,000 subscribed had actually been paid, this was still a huge amount of money for the country.[28] Perhaps one saving grace was that so much of Scotland's money was tied up in the scheme

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[27] For a wonderfully written and well-balance view of events see Watt, *The Price of Scotland;* also see, J. Prebble, *Darien: The Scottish Dream of Empire*, (Edinburgh, 2001).

[28] Whatley, and Patrick, *The Scots and the Union*, p.173: at this time £1 sterling was equivalent to £12 scots, as such £153,000 converts to over £1.8 million scots

that whilst there had been a degree of mania about investing, there had not been enough spare liquid cash with which to fund a secondary market in the shares. Unlike the later South Sea or Mississippi schemes where share prices had been inflated, and shares bought and sold for vast sums, this had not happened in Scotland. The lack of funds had prevented a bubble, but this does not mean the effects of the failure were not felt. The events at Darien had capped off what had been a disastrous decade for Scotland. Poor harvests had triggered severe famine which marred the second half of the 1690s. The picture of emaciated Scots close to starving is outlined in stark terms by contemporary accounts.[29] The impact of the Nine Years War had not helped this, with the imposition of taxes to pay for the conflict along with the disruption the hostilities had caused to Scots trade and shipping exacerbating the hardship. Added to this is what Christopher Whatley has termed a European-wide 'rampant economic nationalism' which had developed by the end of the seventeenth century, with the adoption of policies 'by competitor nations that badly hurt Scottish interests' in all of its key trading markets.[30] The failure of Darien was perhaps the final nail in the coffin of an independent Scotland, and union with England began to be considered.

Discussion of a parliamentary union between Scotland and England was not new. This had been considered during the kingships of James VI & I and Charles II, and following the Glorious Revolution

[29] Ibid, p.142
[30] Ibid, p.160

there were again calls for unification.[31] Tentative discussions had begun in 1699 regarding the possibility of an Anglo-Scots Union, but with the failure of Darien talk intensified. Negotiations then took place in earnest between October 1702 and February 1703, and it was during these talks that the term 'equivalent' first appeared in this context, with the Scottish commissioners using the word in reference to a £10,000 per annum compensation payment for the Scots taking on the higher taxes of the English and as an investment fund to encourage manufacturing and fishing in the country.[32] Union talks collapsed in early 1703, but a number of important points had been discussed that came to underpin future talks. The Equivalent especially became centrally important to union being achieved.

The complex pay-out in the 1702/3 negotiations was a fraction of what it would become in 1706/7, and it was to be Company of Scotland shareholders who benefited greatly from the package. The payment of just over £398,000 was a little shy of the £400,000 subscribed to the Company of Scotland, but it represented 2.6 times the capital which was actually paid.[33] Of the sum, just over £232,884 was to go to the shareholders and creditors at the company. Of the remainder £2000 per annum was to be paid as a subsidy to the wool industry, with the outstanding amount going towards the cost of recoinage and to pay

[31] C.A. Whatley, 'The Making of The Union of 1707: History with a History', in T. M. Devine (ed),
Scotland and the Union 1707-2007, (Edinburgh, 2008), pp.23-38; Watt, *The Price of Scotland*, p.224
[32] Watt, *The Price of Scotland*, p.224
[33] Whatley, 'The Making of The Union of 1707', p.34; £153,000 had been paid by subscribers

the commissioners who had negotiated Union.[34]

The Equivalent represented a significant amount of money to a country on the verge of bankruptcy. And we must also remember that included in the terms of Union was Scottish access to English colonies, allowing Scots right of entry to many of the benefits it was hoped Darien would have brought. At its heart, however, the Anglo-Scots Union was greatly in the interest of the English administration by ensuring a parliamentary bond with Scotland, preventing a re-emergence of the 'Auld Alliance' with France and the opening up of a theatre of war on England's northern border, whilst also protecting the protestant succession upon the death of Anne.[35] When the Act came into effect on 1 May 1707, the Company of Scotland, as stated in article fifteen of the treaty, was dissolved. The Scots had lost what had begun as a great national interest, but which had come to be a dead weight around the nation's neck.

'Why Should I be so Sad on my Wedding Day?': Payment of the Equivalent[36]

In June 1707, a commission of twenty-five men, including John Clerk, later of Penicuik, and William Seton, later of Pitmedden, both men having published political economic pamphlets in 1705, was tasked with 'disposing of the … sum of three hundred ninety eight thousand

[34] Watt, *The Price of Scotland*, p.231
[35] Ibid, p.220
[36] Sir John Clerk stated in his memoirs how the bells of St Giles Cathedral in Edinburgh had played this traditional Scottish song on the day the Treaty of Union came into effect, J. Clerk, *Memoirs of the Life of Sir John Clerk of Penicuik, 1676-1755*, J. M. Gray, (ed), (Edinburgh, 1892).

eighty five pounds and ten shillings, and all other monies which shall arise to Scotland upon the agreements in the treaty of union'.[37] The payment was to cover the public debts of Scotland, provide compensation to Darien creditors and shareholders, defray the cost of a recoinage and of the commission itself, and also provide a development fund for Scottish industries.[38] The initial sum calculated for the Equivalent was not, however, expected to cover the full cost of the debts outlined, with Scotland also to receive a proportion of the expected increase in tax revenue as a result of union, termed the 'arising equivalent'.

From the outset, payment of the Equivalent was a complex issue. The Bank of England, responsible for making the payment to the Scottish commission, sought to turn the payment in its own favour. The adolescent institution issuing secret instructions, cleared by Lord treasurer Sidney Godolphin, that just £100,085 of the total amount was to be paid in gold, with the remainder being issued in exchequer bills only payable in cash at the English bank.[39] This was not met with

[37] See W. Seton, *Some thoughts, on ways and means for making this nation a gainer in foreign commerce; and for supplying its present scarcity of money*, (Edinburgh, 1705), and J. Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: together with some proposals for supplying the defect thereof, and rectifying the ballance of trade*, (Edinburgh, 1705), Clerk, *Unto his Grace John Duke of Argyll, Her Majesties High Commisioner and the Honourable Estates of Parliament, The Report of the Commision of Parliament, Appointed for Stating and Examining the Publick Accompts*, (1705), and 'an act to discharge and acquit the commissioners of the equivalent for the sum of three hundred eighty one thousand five hundred and nine pounds fifteen shillings ten pence half-penny by them duly issued out of the sum of three hundred ninety eight thousand eighty five pounds ten shillings, which they received' (1714) in *The Statutes at Large, from the Twelfth Year of Queen Anne, to the Fifth Year of King George I*, Vol. XIII, (London, 1746), p.109

[38] S. G. Checkland, *Scottish Banking: A History, 1695*-1973, (Glasgow, 1975), p.44

[39] Bank of England, MSS, Court Minutes, vol. E, G4/6, p. 155, 8 May 1707, cited in R. Saville, *Bank of Scotland: a history, 1695-1995* (Edinburgh, 1996), p.75

enthusiasm in Scotland where the bills were viewed as a clear challenge to the Bank of Scotland's notes, and when the funds arrived by coach in August 1707 riots broke out on the streets of Edinburgh as news spread of the inclusion of the exchequer bills. At the insistence of the Scottish commissioners more money was sent, with an additional £50,000 arriving swiftly. By Christmas there remained few, if indeed any, exchequer bills in circulation in the Scottish economy.[40]

Yet, despite such a troubled start, and with reports of 'ill agreement' between the appointed commissioners, it appears that the commission worked effectively, paying out £381,509 15s 10.5d by 1709, leaving little over £16,575 still to be paid .[41] Of the sum paid, in excess of £49,888 had gone to covering the cost of recoining 'the Scots and foreign money, and reducing it to the standard of the coin of England'; £229,611. 4s 8d had gone towards payment of 'the stock, interest and debts' of the Company of Scotland; just over £5,513 was used to pay the members of the commission for their services, with an additional £2,224 being used 'for defending law suits where the titles of parties were not clear'; the remaining amount was put towards the cost of civil and military lists.[42]

Despite the majority of the original Equivalent sum being paid it would become clear that many claimed still to be owed money, with the amount stipulated in the Treaty of Union being far short of the

[40] Saville, *Bank of Scotland*, p.76
[41] Letter from Mar to Seafield, 5 Aug. 1707, *MSS.*, 222. Cited in P. W. J. Riley, *The English Ministers and Scotland, 1707 – 1727*, (London, 1964), p.211
[42] 'an act to discharge and acquit the commissioners of the equivalent …' (1714)

amount sufficient to satisfy Scottish debts. As outlined above, shareholders and creditors of the Company of Scotland had been a priority, covering the full cost of military and civil lists had not, however, been viewed with the same importance. When it came to pay these there was not enough left in the fund.[43] It had of course always been expected that there would be a shortfall which would be covered by the 'arising equivalent'. The money raised from this had, however, failed to meet the sums anticipated at the time of union. Those with a claim to the Equivalent became impatient, with many beginning to realise that 'there was no necessary relation between the amount of the Equivalent and the amount of public debt'.[44] In order to cover the outstanding debt, the British parliament sanctioned the use of debentures; legal documents setting forth the debt, payable at five per cent interest from June 1708, which were issued to those still due money.[45] By 1713 a total of £138,201 7s in debentures had been issued. These 'IOUs', which implicitly recognised the British government as the debtor, were not, however, convertible into other government stock, nor were they redeemable, and to add insult to injury, no sufficient fund was put in place to cover the interest payments due to debenture holders.[46]

By 1714 the process of financial remuneration started in 1707 was expected to have finished, and, as stated above, it appears the

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[43] Watt, *The Price of Scotland*, p.240-1

[44] Riley, *The English Ministers and Scotland,* p.215

[45] N. Munro, *The History of the Royal Bank of Scotland, 1727-1927,* (Edinburgh, 1928), p.28, and Riley, *The English Ministers and Scotland*, p.213

[4646] R. Saville, *Bank of Scotland: a History, 1695-1995,* (Edinburgh, 1996), p. 84

commission had indeed gone a long way to achieving this. This year was also to mark the end of the payments made from the 'arising equivalent'.[47] Yet at this time the British parliament extended the period in which claims to the Equivalent could be made, stating that there remained 'other publick debts of Scotland yet unsatisfied'.[48] This was a development which had occurred after a 'considerable number' of creditors met in Edinburgh in January of 1714, where they formed a committee designed to protect the interests of those holding Equivalent stock. The new committee planned a campaign designed to secure their rights, and when they next met, 'several hundreds' were in attendance.[49]

The new committee emerged at a time when the Union itself was in peril. Since mid-1713 there had been a serious attempt by Scottish representatives at Westminster to dissolve the merger. Many Scots felt they had not been well-served economically by the new British government, viewing the post-1707 taxes on various commodities and industries - woollens, candles, animal skins, fishing, linen – as having impacted negatively on the Scottish economy.[50] That the British administration held little interest in Scotland's economic affairs is borne out by the steep fall in legislation linked to the economy, with fifty-three Acts related to the economy passed in Scotland between 1689 and 1707, compared to just five between 1707 and 1727.[51] In

[47] Saville, *Bank of Scotland*, p.85
[48] an act to discharge and acquit the commissioners of the equivalent …' (1714)
[49] Riley, *The English Ministers and Scotland*, p.223
[50] C. A. Whatley and D. J. Patrick, *The Scots and the Union*, (Edinburgh, 2006), p.336-338
[51] Whatley and Patrick, *The Scots and the Union*, p.338-339

1713, pamphleteer and English spy, Daniel Defoe, wrote that ‘a firmer union of policy with less union of affection has hardly been known in the whole world’.[52] This was a point confirmed by the British administration’s attempts to extend the English Malt Tax to Scotland, despite the Union Treaty explicitly stating, ‘that any Malt to be made and consumed in that Part of the united Kingdom now called Scotland, shall not be charged with any Imposition on Malt during this War’.[53] The conflict referred to being the ongoing War of the Spanish Succession. By the middle of 1713, Scottish representatives at Westminster had weaponized the malt bill, and went about mounting a serious attempt at dissolving the Union.

The charge was led in the commons by George Lockhart of Carnwath, supported by Sir Alexander Aerskine.[54] Lockhart of Carnwath had long been against the Union, involving himself in conspiracies to prevent it by force in 1706, despite him having a commission at this time to negotiate its terms. By 1713 he was the parliamentary representative for Edinburghshire, during which time he ignored threats of imprisonment as he used his position in an attempt to undermine the Union.[55] In the Lords, support was given by the earl of Seafield, James Ogilvy. Like Lockhart of Carnwath, he too had held a commission to negotiate for Union in 1706, as he also had in 1702,

[52] D. Defoe, *Union and No Union. Being an Enquiry into the Grievances of the Scots. And How far they are right or wrong, who alledge that the Union is dissolved*, (London, 1713), p.4
[53] Article 14, *The articles of Union* 1707
[54] Whatley, and Patrick, *The Scots and the Union*, p.339
[55] D. Szechi, ‘Lockhart, George, of Carnwath (1681?–1731), Jacobite politician and memoirist’, *Oxford Dictionary of National Biography*. (Oxford, 2004)

playing a crucial role as lord chancellor in successfully navigating the treaty through the Scottish parliament. In October 1706 Seafield spoke in favour of union, addressing the parliament at Edinburgh he stated:

> it must be of great Advantage to have this whole Island Unite under one Government, and Conjoyned entirely in Interest and Affection, having Equality of all Rights and Privileges, with a free Communication and Intercourse of Trade, which must certainly Establish our Security, Augment our Strength, and Increase our Trade and Riches.[56]

By 1713, however, he had become disillusioned. He was responsible for the introduction of the repeal bill, citing the malt tax and various constitutional issues, including the abolition of the Scottish Privy Council and the bar on Scottish peers' being peers of Great Britain, as his reasons for bringing the bill in front of the house. The ballot was close, only losing by four votes. The Union remained intact.[57]

Added to this parliamentary discontent was the ascension of a new king in August 1714, marking the Hanoverian Succession and bringing with it significant political upheaval. Whilst the period was also a hotbed of Jacobite intrigues, erupting in 1715. Yet, despite these significant events, payment of the Equivalent remained an important matter. The new Edinburgh group applied pressure to the British administration, and in 1714, new debentures totaling £230,308 were issued. Included within this figure were claims for '£10,992 in fees and perquisites due to the Barons of the Exchequers, £14,000 for coarse

[56] J. Young, 'Ogilvy, James, fourth earl of Findlater and first earl of Seafield (1663–1730), politician', *Oxford Dictionary of National Biography*, (Oxford, 2004)
[57] Ibid

wool manufactories …, £15,129 for the salaries of Commissioners and £44,758 for interest'.[58] The 1714 Act concerning the debentures stated that the commissioners were to:

> call for all certificates, &c. and cancel all debentures by which the unsatisfied debt is constituted, and to issue new debentures, to bear the interest at 5l. per cent, after 24 June 1714. And paid out of the first money due to Scotland.[59]

Despite this acknowledgment of a considerable amount of outstanding debt, however, no additional method of redemption, other than that outlined in the original 1707 treaty, was provided in 1714. It was not until five years later, in 1719, that a new Act was passed to provide for repayment. This stipulated that £10,000 was to be paid out of the customs and excise of Scotland to service the interest on outstanding Equivalent debentures, which had by then increased to £248,550.[60]

The Edinburgh and London Societies

Prior to the passing of the 1719 Act, a number of debenture holders attempted to sell the paper on at the best price they could. Many debentures remained in Scotland, but a large quantity, somewhere in the region of £170,000, moved into the hands of London investors, some of which were Scots.[61] This exchange of debentures was occurring during a period of increased financial speculation, as investors were caught up in the hysteria of the South Sea and

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[58] Saville, *Bank of Scotland*, p.85
[59] an act to discharge and acquit the commissioners of the equivalent …' (1714)
[60] *An Abridgment of the Publick Statutes in Force and use from Magna Carta, in the ninth year of Henry III to the eleventh year of his present Majesty King George II. Inclusive,* Vol II, (London, 1739)
[61] Watt, *The Price of Scotland*, p.49

Mississippi booms. The opportunity to buy debentures at a reduced rate, collecting interest in the meantime, in the hope of selling them on later for increased profits is yet another example of the popular interest in the burgeoning market of financial options. In order to protect their investment debenture holders, both north and south of the border, organised themselves into societies, superseding the Edinburgh committee which had been so important to the additional issue of debentures in 1714.

The Edinburgh Society originally consisted of fifty members, made up of noblemen, lawyers, and merchants. This included Archibald Campbell, earl of Ilay, a man termed 'the King of Scotland', such was his influence, Andrew Fletcher, the nephew of his patriotic namesake, later Lord Milton and one of the first directors of the RBS, and the then Lord Provost of Edinburgh, John Campbell.[62] Their deed of settlement stated that:

> a well formed & well governd society maybe of great use, not only to set on foot & carry on several undertakings for the benefit of the City of Edinburgh, but may likewise be of use to promote the interest of the nation, by encouraging trade, manufacture, & fishing, and introducing several new branch[es] thereof.[63]

It appears to have been their intention that the stock they possessed, whilst ultimately tied up in debentures, was to be employed in aiding

[62] Murphy, *John Law*, p.68, and Anon, *An Historical Account of the Establishment, Progress and State of the Bank of Scotland, And of the Several Attempts that Have Been Made Against It, and the Several Interruptions and Inconveniences which the Company Has Encountered*, (Edinburgh, 1728), p.21
[63] Original deed of setlement of the Edinburgh Society, RBS, REQ/11/1

the capitalisation of the Scottish economy. Those elected to preside over the society were invested with the power to:

> lend or employ all or any part of the money to be paid to them by the subscribers hereof, as also their bills or notes of credit and all such sums of money, or effects which they shall become possest of by virtue of this deed, upon heritable bonds, wad setts, absolute purchase of lands, or in exchange for the bills or notes of credit, or upon other things, as they shall think fit.[64]

Clearly there was an appetite for speculation, but this was not without boundaries. The deed is very plain in setting out that the society was not to partake in 'such branches of trade or merchandize, as consist in buying or selling goods or wares, or adventuring them by sea'.[65] Instead they would look to advance Scotland's economy by domestic means.

The Society for the Subscribed Equivalent Debt was the Edinburgh Society's southern sister. Yet, whilst it was centred in London, it was not an exclusively English enterprise. This group included many Scotsmen, including the irrepressible John Drummond (see chapter five), an important, figure in James Brydges', duke of Chandos, lucrative financial machine, along with Lord Archibald Hamilton, brother to James, duke of Hamilton, the man whose behaviour at the time of the Anglo-Scots Union has since come under severe scrutiny, as well as John Campbell, duke of Argyll, brother to the Edinburgh Society member, Lord Ilay, and George Middleton, a Scottish banker who conducted business for the Campbell brothers, as

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[64] Original deed of setlement of the Edinburgh Society, p.3
[65] Ibid

well as acting as London agent to financier and economist John Law.[66]

Scotsmen were not only members of the London society, they were also crucial in its conception. The scheme had arisen from a proposal made by William Paterson, Bank of England and Company of Scotland projector. He had recognised that there were many Britons with a stake in the Equivalent, but as Edinburgh was the only place where stakeholders could receive payment, many found it hard to manage their interest.[67] The emergence of this group was one of only a few successes for Paterson, who had undoubtedly found the odds stacked against him following the failure of Darien. He was at his core, however, an improver, still interested in the commerce of Scotland. He had attempted in 1701 to persuade the Scottish administration to form a publicly regulated trading body, the Council of Trade. It was to be a powerful entity, dealing in trade and banking, with the right to regulate weights and measures, to impose and collect customs and excise duties, and to protect and promote foreign trade. It was to be 'empowered to purchase or build workhouses' for the relief of the poor, and to promote 'manufactories and fisheries' of Scotland, as well building stores for

[66] Warrants for the dividends paid to members of the London Society (for the subscribed Equivalent debt) 7 July 1719, (REQ/13/1), Warrants for the dividends paid to members of the London Society (for the subscribed Equivalent debt) 14 July 1721, (REQ/13/3), E. Healey, 'Middleton, George (1692–1747)', *Oxford Dictionary of National Biography*, (Oxford, 2004); A. E. Murphy, *Richard Cantillion: Entrepreneur and Economist*, (Oxford, 1986), p.175; and L. Neal, *"I am Not Master of Events", The Speculations of John Law and Lord Londonderry in the Mississippi and South Sea Bubbles*, (New Haven, 2012). For more information on John Law see A. E. Murphy, *John Law: economic theorist and policy-maker*, (Oxford, 1997)

[67] Transfer book of the London Society (for the subscribed Equivalent debt), 1718-1724, RBS, REQ/9

corn throughout the kingdom.[68] Paterson's overtures to the Scottish administration were, however, unsuccessful at this time, but in 1705 Scotland did appoint a Council of Trade, albeit one which lacked the wide-ranging powers which had been envisioned four years earlier.[69]

In the aftermath of Union, Paterson had attempted to gain a share of the Equivalent, hoping that whilst he had not invested any of his own money in the attempt on Darien, that his role in the raising of capital in London for the venture might be properly recognised.[70] This was a not unfounded claim, with the Scot having been offered generous terms by the Company of Scotland in 1695 which entitled him to four per cent of the total capital raised for the scheme, the figure being set at £600,000 at this time, potentially netting Paterson £24,000.[71]

He spent the eight years following 1707 petitioning the British administration for recompense of the apparent losses he had incurred while a director of the Company. In the years directly preceding Union he had acted as an agent for Robert Harley, earl of Oxford and secretary of state, writing pro-union propaganda from Edinburgh and keeping an eye on Scottish parliamentary debates for the English administration.[72] The connection to Oxford appears, however, to have done little to further Paterson's case for compensation, and it was only with the

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[68] W. Paterson, *Proposals and Reasons for Constituting a Council of Trade*, (Edinburgh, 1701); and R. Emerson, *An Enlightened Duke, The Life of Archibald Campbell (1682-1761), Earl of Ilay, 3rd Duke of* Argyll, (Kilkerran, 2013), p.228

[69] *The Records of the Parliaments of Scotland to 1707*, K.M. Brown et al eds (St Andrews, 2007-2018), 1705/6/193. Date accessed: 16 March 2018.

[70] Watt, *The Price of Scotland*, p.242

[71] Watt, *The Price of Scotland*, p.35

[72] D. Armitage, 'Intellectual Origins of the Darien Venture', in J. Robertson (ed), *A Union for Empire: Political Thought and the British Union of 1707*, (Cambridge, 2006**),** p.144, pp.97-120

ascension of George I in 1714, after which a number of his friends were appointed to government, that his luck changed.[73] By the middle of 1715 an Act had been passed by the British parliament, entitling the Scot to £18,241 in Equivalent debentures.[74]

Papers from the London society show that by 1718, Paterson possessed Equivalent stock of £5000, so when he proposed that London-based holders of Equivalent debt arrange themselves in to 'one joynt transferrable fund' it was an ongoing concern for the Scotsman.[75] Additionally, Paterson stood to make a healthy profit if the society were successful, with the indenture documented in the transfer book stating that he was to receive for 'the term of twenty one years one tenth part of the nett profits above the interest on the subscrib'd capital stock, and incident expences in the management thereof'.[76] As we shall see, the group was successful, Paterson did not however benefit from any profits, dying in early 1719.

Union Talks and Attempted Takeovers

To put the stock of the Equivalent proprietors into context, this totalled almost two and a half times the entire capital of the Bank of Scotland. With the backing of such a sum the proprietors of Equivalent debt set

[73] S. Bannister, *William Paterson, the Merchant Statesman, and Founder of the Bank of England: His Life and* Trials, (Edinburgh, 1858), p.408-9

[74] This is around £2.25 million today; 'an Act for relieving *William Paterson* Esquire, out of the Equivalent-money, for what is due to him', (1715) in *Journal of the House of Lords: Volume 20, 1714-1717* (London, 1767-1830), *British History Online* http://www.british-history.ac.uk/lords-jrnl/vol20 [accessed 13 March 2018], p.122; and Watt, *The Price of Scotland*, p.246

[75] Transfer Book for the London Society (for the subscribed Equivalent debt), 1718-1724, RBS, REQ/9

[76] Transfer Book for the London Society, p.11

their sights on the adolescent Scottish bank as the quickest way to employ their fund. This was the most obvious choice for such a move, the bank after all represented the only success to emerge from the aborted Financial Revolution of the 1690s. It was founded during a flurry of economic debate and had remained where it was through restrained governorship. It had of course faced challenges since its formation and had been the subject of significant attacks from those who felt it was failing in its aims. Some criticised its lending practices, complaining that the loans were being given 'to all that would give them good security… [the bank] never concerning themselves whether it was to stay in the kingdom [of Scotland] or not', and fearing that the this had led to 'the export of so much coin as hath in a manner left us beggars'.[77] Other critics of the bank held the conflicting view that credit was not being advanced in a sufficient quantity and called for the re-establishing of the Bank of Scotland upon a better foundation than formerly, or by the erection of a new national bank to be managed by those appointed by parliament.[78]

Such debates aside, the bank faced its real crisis in 1704 when directors had been forced to stop cash payments, lending and discounting after late repayments of loans, political uncertainty and rumours of a forthcoming recoinage that was to increase the value of the scots pound (a rumour that led many to retain their money instead

[77] Anon. *An Essay For promoting of Trade and increasing the coin of the nation (in a letter from a gentleman in the country to his friend at Edinburgh, a member of parliament)*, (Edinburgh, 1705)
[78] Clerk, *The circumstances of Scotland consider'd*, p.25

of depositing it with the bank) combined to leave the bank with a funding deficit.[79]

The stop was short-lived, however, and following the Union of 1707 the bank's business improved. The board at this time funnelled their energy into increasing the loans and advances made by the bank. Between August and December of 1707, £157,000 in bank notes was exchanged for coin and exchequer bills, and against bills and bonds of exchange, representing a substantial increase from the £2,850 monthly average issued during the same months in 1705. The bank also began to benefit from funds deposited by revenue collectors and British government officers following the Union. Richard Saville has identified this boom in the bank's business as being 'indicative of an agricultural economy which benefited from the active links with English markets', and by 1713 the bank held advances of £91,000, with almost £40,000 in its notes circulating, a sharp increase from accounts prior to Union.[80]

Following this extraordinary boom in business, however, the bank again fell upon difficult times. Political uncertainty at the time of the Hanoverian Succession pervaded all areas of society, the bank was no different. The intensified Jacobite threat led to demands on the bank's funds and on 19 September 1715, less than two weeks after the standard of 'James the 8th and 3rd' was raised at Braemar, it again stopped payments.[81] The bank issued a notice that all banknotes would

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[79] Saville, *Bank of Scotland*, p. 49/50

[80] In March 1706 the bank's accounts showed total lending of £24,118 and just £6,052 in notes out, Saville, *Bank of Scotland* p.77-81

[81] S. G. Checkland, *Scottish Banking: A History, 1695*-1973, (Glasgow, 1975), p.47; and C. Ehrenstein, *Erskine, John, styled twenty-second or sixth earl of Mar and*

carry a five per cent annualrent, whist all holders of due bills were asked to repay by 1 November. Many failed to do this, however, and for the next year the bank issued no advances. Until early 1717 the bank conducted little business, before things began to improve slightly from the middle of that year.[82]

This was situation at the bank when the Equivalent societies made their approach in December 1719 with the offer of up to £250,000 investment.[83] The proposal is anonymous, but we do know that it was made by 'a proprietor in the Equivalent stock, and also an adventurer in the bank'.[84] This displays that a number of these investors were involved in multiple ventures, and, as has been outlined in chapter two, the growth of Scottish joint-stock companies in the 1690s indicates the existence of a pool of capital within the country. It is suggested by the anonymous projector, that uniting the two interests would be beneficial to those involved, with the proposal:

> that there may be a Contract be twixt the Bank, and the Proprietors of the Equivalent Debenture Bills, or so many of them as shall be willing, which he thinks may amount to £150,000, or perhaps to the whole of £250,000, to be joined to the Bank's Subscription of £100000, making together £350000 Sterling.[85]

Jacobite duke of Mar (bap. 1675, d. 1732), Jacobite army officer, politician, and architect. Oxford Dictionary of National Biography

[82] Saville, *Bank of Scotland*, p.83/84

[83] The sum suggests involvement from both the Edinburgh and London societies

[84] *An Historical Account of the Establishment, Progress and State of the Bank of Scotland: And of the Several Attempts that Have Been Made Against It, and the Several Interruptions and Inconveniences which the Company Has Encountered,* (Edinburgh, 1728)**,** p.11

[85] *An Historical Account***,** p.12

The bank would then benefit from this association by gaining access to a proportion of the £10,000 which parliament had stipulated earlier in the year was to be paid out of the customs and excise of Scotland to service the interest on Equivalent debentures. They would also receive part of the £600 payable from the government for management of the Equivalent debt, and access to the funds stipulated in the 1719 Act as being payable for the encouragement of Scottish industries.

The profits arising from the newly capitalised bank were to be split according the investment made, with the Edinburgh Society taking 5/7 – a figure calculated from the society's investment of £250,000 (5/7) of the £350,000 total of the bank's stock should the proposal be accepted - whilst the existing bank proprietors would receive the remaining 2/7.[86] Another caveat included in the proposition was that debenture holders should be advanced £225,000 in Bank of Scotland bills, equating to 9/10 of the investment made. This would mean that Equivalent proprietors had in real terms invested just 1/10 of their stock, for a return of 5/7 of the bank's profits! Such an offer suggests the Equivalent proprietors viewed themselves as negotiating from a position of strength, with their overall stock dwarfing that available to the Bank of Scotland. Proprietors of the bank, however, were not so enamoured with the proposal.

The bank's assessment of the proposed uniting of the two interests was that it would be 'most disadvantageous to the Bank; and if complied with, would expose the Company to very great Hazards, if

[86] Ibid

not certain Ruin'. They highlight the Parliamentary Act which had established the bank as representing a bar to the merger, stating that the bank's stock was limited 'to £100000, whereof at least 2/3 must be long to Scotsmen residing in Scotland'.[87] Even if this were not the case, the bank still saw many problems with the proposal, including the fact that those holding Equivalent stock would benefit from receiving 5/7 of the bank's profits for very little investment when one considers that 9/10 of their initial outlay (in the form of debentures) was to be reimbursed in the bank's bills. Agreement to this would in principle commence the circulation of a large-scale convertible paper money backed by unredeemable Equivalent debentures, unsurprisingly the bank was concerned.[88]

The bank also took the view that its current stock of £100,000 was, 'after twenty four years experience … sufficient to carry on and negotiate all Affairs in the Way of Banking, as far as this Nation can bear- and therefore to enlarge the Capital Stock, must necessarily prejudge the Proprietors'. It added that 'if a further Stock were needful, the Proprietors [of the bank] would willingly enlarge it themselves'.[89] Lastly, and as something of a parting shot, the bank responded to the Equivalent proprietors' offer of access to the promised government funds; 'As to the last Part of the Proposal, relating to the £600, and the £2000 per annum, and the £14000 for Wool, the Directors have nothing

[87] Anon, *An Historical Account*, p.13
[88] A. Cameron, *The Bank of Scotland, 1695-1995: A Very Singular Institution*, (Edinburgh, 1995), p.40
[89] Anon, *An Historical Account*, p.14

to say, these being altogether uncertain, or rather not to be expected'.[90] The debenture holders did not take the snub well, with the Edinburgh Society calling for the withdrawal of the full £8400 they held with the bank in one amount, whilst also spreading rumours that the bank's cash stock was in short supply, in the hope of prompting a run on the institution.

In April 1720, the Edinburgh society again attempted to insert themselves into the bank's business. This time they did so alone, and rather than making an offer of large-scale investment, they instead proposed to buy an extensive number of the bank's shares. It was anticipated that shareholders in the bank would transfer 600 shares to members of the society at a cost of £200 scots per share, equating to £10,000 sterling for all 600 shares.[91] Possibly having learned something from the previous rejection, the Edinburgh society stated that this sale of shares was to be done 'in such manner as is consistent with the constitution of the bank'. The proposer was also mindful, however, that by selling some of the shares, many of those holding office with the bank may lose the right to do so. As such, those in office were to be allowed to retain their shares until the next election, at which point they were to transfer them to the Edinburgh society.[92]

The proposal was bold, and was described by a historian of the bank in 1728 as follows:

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[90] Ibid, p.15

[91] Anon. *Proposal for uniting the Bank of Scotland and the Edinburgh Society, in order to prevent mutual injuries, and lay a solid Foundation for their being subservient and assisting to one another,* cited in *An Historical Account*, p.19

[92] Ibid, p.19

> Tho' the Haughtiness of that Society, at least of the Pen man of the Proposal, is very obvious, as the Proposal it self was ridiculous; yet the Directors of the Bank resolved, out of Respect to several Persons of good esteem in the Society, to return a discreet Answer.[93]

The response from the bank was measured. They again reverted to their 1695 founding charter as being an obstacle. Stating that the forcing of shareholders to part with their stock would 'incapacitate many adventurers for being directors, who are very fit for the office'. It was also stated quite simply that there was no appetite among the bank's proprietors to sell their shares, even at a higher price. There was also a concern that should half the bank's stock be transferred to the society, then the Equivalent proprietors would attempt to purchase more shares in order to 'make themselves absolute Masters' of the bank.[94] This refusal by the bank to unite with holders of Equivalent debt in Scotland appears to have been accepted by the Edinburgh Society, and they did not attempt another takeover of the bank. The society would, however, continue to challenge the bank in other ways.

As this back and forth between the Bank of Scotland and the Edinburgh Society was happening in Scotland, the London society was also attempting to enter the business of banking. The effort to do so was through the exploitation of a clause included within the Act of 1719 which had provided payment for interest on debentures. The clause stated that the king, if so inclined, could grant debenture holders greater legal security by allowing them to incorporate. The London Society

[93] Ibid
[94] Ibid, p. 20

therefore sought a charter, doing so under the same terms of the indenture agreed by the proprietors at the erection of the group. This had stated that the society might:

> lend or imploy their bills or notes of credit, and all or any part of the moneys paid in unto them… as they shall think fit upon, mortgages, pledges or absolute purchases of any lands, leases, goods, or chattels, or in exchange for any other bills or notes of credit or other things.[95]

The proprietors expected some resistance from the Bank of England and attempted to mitigate this by proposing that they would restrict their note issue to paper payable at six months from the time of borrowing, whilst also excluding notes payable on demand from their services while the Bank of England was in operation.[96] The bank was, however, concerned. The charter, if granted as it stood, would provide the London-based Equivalent proprietors with power and privileges identical to those held by the bank, whilst also granting them trading rights from which the bank itself was restricted.[97] A meeting with the Attorney General, Nicholas Lechmere, was urgently sought by the bank on 6 August 1719, and a week later the bank's board was informed that a clause had been 'proposed to be added to the draught of the said charter to secure the privileges of the bank'.[98] The clause, suggested by the Equivalent proprietors, was almost identical to that included in the South Sea Act, and had been intended to prohibited the South Sea Company from acting as a bank. Despite this, that company had indeed

[95] Transfer Book for the London Society, p.9
[96] Saville, *Bank of Scotland*, p.86
[97] Ibid
[98] Bank of England, Court of Directors: Minutes, 10 Jul 1718 -22 Jun 1721, G4/11, p.82

conducted banking operations; the Bank of England remained concerned.

Lechmere found himself in a difficult position, as the bank, seeking to protect its own interests, continued to pressure him, with directors again meeting with the Attorney General in September to discuss the charter.[99] Yet by November, Lechmere had taken the stance that the clause 'offered by the proprietors of the Equivalent is a proper and reasonable security to the Bank of England, the same being framed in the words according to the tenor of the clauses which the parliament hath thought fit to enact on other occasions' (as in the case of the South Sea Company).[100]

The Bank of England were still vehemently against the charter, their position was weakened, however, by the Bank of Scotland. With the Scottish bank declaring that they found the limiting clause in the charter to be acceptable to them.[101] At this time the Edinburgh Society was still in the process of making their advances upon the Scottish bank, so one wonders how much this acceptance of the proposed charter was influenced by these discussions; perhaps the Scots bank hoped that if a charter was granted in England they would be free of the continually grasping hands of the Edinburgh society?

Bad timing, more than objections from the Bank of England, was in truth what prevented the Equivalent proprietors from being granted a charter at this time, with the collapse of South Sea stock mid-

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[99] BoE, Minutes, p.86

[100] Pro T/ 1/223/ no. 8, 27th November 1719, cited in Saville p.86

[101] Pro T/ 1/223/ no. 8, 27th November 1719, cited in Saville p.86

1720 bringing talks to an end. Events were then exacerbated by the collapse of the French Mississippi bubble towards the end of the year. From then until the autumn of 1722 the offices of the Attorney General and the Solicitor General had little time to focus on anything other than the financial fallout of 1720, refusing to comment on the charter application 'while they unravelled the traumas of the stockmarket crash'.[102]

The Proposed Incorporation of the Equivalent Societies

While the London Equivalent proprietors were concerned with attaining a charter, they were not so preoccupied that the advances being made by the Edinburgh Society towards the Bank of Scotland went unnoticed. During this period talks had also commenced on a possible union between the two Equivalent societies. One proprietor noted that debenture holders in London stood to gain considerably if the two societies incorporated and the Edinburgh Society was successful in its rough wooing of the bank, stating:

> 'tis fit to know that possibly the Edinburgh society may come to make ane agreement with The bank of Scotland and put the case they procure ane interest in and right to half the bank this half so purchased they can legally divide with the corporation.[103]

The proposal for uniting the Edinburgh and London Equivalent societies appears in many anonymous drafts, but an analysis of the handwriting shows the proposer to have been Patrick Campbell of

[102] Saville, *Bank of Scotland*, p.87
[103] Letter to a proprietor of the Equivalent debt 14 March 1720, RBS, REQ/11/11

Monzie, a man deeply involved with the financial speculations of the time (see chapter five). The drafts are found in the collection marked 'papers of the Edinburgh Society', dating between 1718 and 1724, and are held by the Royal Bank of Scotland. Arranging these in any definitive order is difficult, but it is possible to see an evolution in the terms and complexity of each draft. The first full proposal consisting of five articles, marked simply as 'proposition', details how the contract between the two societies was to be ordered. This document begins by stating that:

> [T]he proprietors of the Subscribed Equivalent Debt do in a general court authorize the Trustees who are at present vested in the right of their debentures to transfer to the Edinburgh Society the sum of 50,000 – of these debentures to which the Edinburgh Society shall add 12500 making in all 62500 – and by the deed of their society, make that sum unassignable to remain a certane fund of credite for themselves, and a security to all such as shall deal with them.[104]

To the £62,500 that was now to be held by the Edinburgh Society, the London society was also to hold the same sum, designated for the same use as a fund of credit and security. This uniting of funds was, however, not limited to the combined £125,000, with article four of the proposition stating:

> That all the other debentures now in the possession of either society or which may hereafter be purchased by any of them shall be Common to both, societies [each] paying ane equal share of the purchase money.[105]

[104] 'Proposition', undated, RBS, REQ/11/8
[105] Ibid

The proposition also indicates that the Edinburgh proprietors were very aware that they too stood to gain if the royal charter was granted to the London Society, but that this would come at a cost, stating that they would be required to pass ‘the sole and entire Power of doeing and transacting all and every thing they may do and perform in virtue of the charter of incorporation in England’ to the London branch.[106]

It appears that as the plan for the proposed union evolved, the amount that a combined fund might generate also increased. A short note of less than 300 words which outlines the terms of the union, begins by laying out the finances of each society, by which point the London society now had ‘£150,000 stock of which £135,000 [was] in debentures and the remainder in cash’. The Edinburgh Society, meanwhile, held less stock, but the note’s author, Monzie, planned to ‘double their stock and by making every £1000 tuo theyl have lykewayes £150000’. The aim, despite the disparity in stock, was to unite the societies on an equal footing by taking ‘the debentures belonging to both and divid[ing] them’.[107] The Edinburgh Society was then required to ‘pay down the price of the debentures or annuity which comes to them upon that division’, with ‘all debentures that shall be purchased for the future ither at London or here [Edinburgh] by either society shall be common to both’.[108]

A further proposal containing a far more detailed merger

[106] Proposition’, undated, RBS, REQ/11/8
[107] Proposal for uniting the Equivalent and Edinburgh Societies, undated, RBS, REQ/11/9
[108] Ibid

between Edinburgh and London, entitled ‘Heads of ane agreement between the proprietors of the subscribed equivalent debt and the Edinburgh society’, appears to lead on from this short note. It states that ‘each society shall have a stock of £ 150,000’, to be made up of £15,000 cash, £62,500 in Equivalent debt, and £72,500 in subscriptions. Of this, the £62,500 in Equivalent debt was to be kept by each society ‘constantly in their respective rights’, but all ‘stock or debentures over and above’ this figure ‘whither already in their possession or hereafter to be purchased by either society shall belong to the tuo societies in common and what ever profit or improvement shall be made thereof to be divided equally’.[109] As profit would be made for both parties the cost of defraying the operations undertaken by the corporation was to be split.

By February 1720 Monzie had been dispatched to London to discuss the merger. The Edinburgh Society were clear on his instructions:

> [he was] in conjunction with Mr Drummond [to] use [his] best endeavours to come to a settlement with the proprietors of the Subscrybed stock of equivalent debentures, upon such terms as either have been allready suggested to Mr Drummond, or such others as may be for the interest of the society.[110]

The ‘Mr Drummond’ referred to here is either John or William, two Scottish brothers who each possessed Equivalent stock in London. Both

[109] ‘Heads of ane agreement between the proprietors of the subscribd equivalent debt and the Edinburgh society’, undated, RBS, REQ/11/10

[110] Instructions of the Edinburgh Society to Mr Patrick Campbell of Monzie Advoct, 2nd February 1720, RBS, REQ/11/16

operated within a network of prominent friends. William's correspondence appears in the papers of John Clerk of Penicuik, one of the commissioners appointed in 1707 to oversee payment of the original Equivalent sum. Writing to Clerk from Paris in December 1719, Drummond details his contact with economist and financier John Law, stating 'Mr Law is very civil to me, but has it not now in his power to make me gain because there are no more new subscriptions to be [had]', referring to shares in Law's Mississippi System. He also indicates that Law's successes in France had perhaps come as a surprise to the Scots projector himself, claiming 'the stocks are so very high that even Mr Law never believed they would come near that price'.[111] It is, however, more likely that the 'Mr Drummond' referred to in the Edinburgh Society's instructions is, John, with William's dealings with the London-based Society for the Subscribed Equivalent Debt appearing to go through his brother, who accepted payment of dividends on his behalf.[112]

John Drummond was a merchant with impressive financial connections. He was one of the largest holders of Equivalent stock in London, holding just over £3516 in 1718, this increased by £1000 in 1720 when William transferred stock to him.[113] At this time only six members of the Society for the Subscribed Equivalent Debt held more

[111] Letter from William Drummond to John Clerk of Penicuik, 5th December 1719, GD24/3/436, National Archives of Scotland
[112] Warrants for Dividends paid to members of the London Society (for the Subscribed Equivalent Debt), Instructions to the society from William Drummond, 14th July 1719, RBS, REQ/13
[113] Transfer Book for the London Society, transfer receipt no. 195

stock than the Scotsman. Monzie and John Drummond would also later become directors of the new Equivalent Company when a charter was eventually granted in 1724, so we might assume that John is the Drummond referred to in these instructions.

Monzie recognised that the uniting of the societies would be beneficial to both groups. In a letter dated March 1720, he stated to an Edinburgh proprietor of Equivalent stock, that:

> [t]he corporation here (in London) can turn their stock and credite to better account than can be done by the society at Edinburgh …'tis true there are opportunities of making great profits at London which are not at Edinburgh 'tis equally true that great losses may be made at London which cannot at Edinburgh.[114]

The Edinburgh proprietors would also greatly profit if a royal charter was granted to the London Society, who in turn would also find itself with access to the Bank of Scotland, if the Edinburgh Society's attempts on the bank were successful.

Unification at this time, however, was not to be. It must be assumed that the same financial shocks that prevented the London Society from being granted a royal charter also disrupted union talks, as proprietors shifted their priorities away from the Equivalent societies as they attempted to rescue other financial interests.

[114] Letter to a proprietor of the Equivalent debt 14 March 1720, RBS, REQ/11/11

Attaining a charter and the formation of the Royal Bank of Scotland

It was not until 1724 that a charter of incorporation between the two societies was granted, and even then, it was not as had been originally requested by the London Society in 1719. With a capital stock of £248,550, the charter incorporated the two societies into one company. The thirteen directors of the new company included Campbell of Monzie, prominent judge and politician, sir Hew Dalrymple, Patrick Crawford, later one of the first directors of the Royal Bank of Scotland, and John Drummond. Included within the first group of directors were also numerous financial associates of William Paterson, such as merchant James Campbell, at one time a director of the Company of Scotland, and Paul D'Aranda, an English merchant who following Paterson's death was named as sole executor over the his estate.[115] Some directors who were not Scots were still part of a close network that can be linked to Drummond; such as Edward Harrison, one time governor of Madras, and later a chairman of the East India Company, where he was part of a small group containing Drummond and Chandos that 'very nearly completely controlled the direction of the Company's affairs'.[116] London was undoubtedly the centre of the new Equivalent

[115] Watt, *The Price of Scotland*, p.44 & 70, J.S. Barbour, *A History of William Paterson and the Darien Company*, (Edinburgh 1907) P.224-225, and W. Paterson, *The Writings of William Paterson, Founder of the Bank of England; with Biographical Notices of the Author, his Contemporaries, and his Race*, S. Bannister (ed), Vol. 1 (London, 1858), p. cxli – the writings are also dedicated to a 'Paul Daranda', this appears to be the father of Paterson's executor.

[116] G. K., McGilvary, *East India Patronage and the British State: The Scottish Elite and Politics in the Eighteenth Century*, (London, 2008), p.5

company, with 210 of the 238 shares being held in the capital; a branch office was established in Edinburgh to carry out Scottish business. The charter granted was, however, extremely limited, only allowing the company to collect and administer the sum of £10600 previously settled by statute for defraying the costs of interest on debentures and administration, no banking rights were granted.

The network of men operating around the Equivalent, however, again exerted their influence. Drummond associates Argyll and Ilay lobbied for the Equivalent Company to be given the right to organise banking, whilst Robert Walpole, to whom Drummond granted favours via his EIC directorship, and who by then was *de facto* prime minister of Great Britain, also backed a revised charter. In 1727 this was granted, and just over £111,000 in Equivalent stock was transferred into subscriptions for the new business, named the Royal Bank of Scotland.[117]

The bank became another arm by which the Argyll's could exert control over Scotland.[118] Ilay – the planet around which much of Scotland's public and private spheres orbited - became its first governor, holding the office for a decade after 1727; it is worth noting that at this time Ilay was also instrumental in attaining the monies which had been stipulated in the Articles of Union, for encouraging the Scottish industries, with a new commission from the crown to distribute

[117] The rest remained as stock with the Equivalent Co.
[118] Emerson, *An Enlightened Duke,* p.236

the annual sum of £2000 sterling per annum due to Scotland.[119] Monzie became one of the first directors at the bank, occupying the position from 1727 until 1751.[120] London banker Andrew Drummond was one of the first proprietors of RBS stock, exchanging his £500 of Equivalent stock for that of the bank in 1727. He increased his holding to £1000 in 1742, purchasing stock from John Drummond, and continued to draw dividends until 1746.[121] Whilst John himself had held £2000 in the new bank's stock.

The bank begun its business briskly, and by March 1729, £138,530 in notes had been issued. By the same date it also had £86,500 sitting in its vault, with another £69,500 being deposited and withdrawn in the same period. The bank was also been the source of significant financial innovation when it provided the first known overdraft facilities in 1728.[122] The bank's undertakings had been supported by the capital provided by the converted Equivalent debentures of just over £111,000. This amount, along with the remaining sum that had not been converted into RBS stock, totalling £248,550, plus all outstanding monies relating to the annual interest payments, was not paid by the British government until 1850, by which point RBS had grown its capital to £2 million.[123]

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[119] Article 15, *The articles of Union* 1707; The new agency being termed the 'Commissioners and Trustees for Improving Fisheries and Manufactures in Scotland'
[120] N. Munro, *The History of the Royal Bank of Scotland, 1727-1927*, (Edinburgh, 1728), p.397-398
[121] Ibid, p.331/2
[122] RB/714/1Ledgers of the transactions of The Royal Bank of Scotland, 1 January 1728 – 25 March 1731, RBS
[123] RB/257/1, *Scroll General Balance, 1851*, RBS

1727: Year Zero

An important point to consider is why the founding of an institution like RBS happened in 1727 and not sooner? Afterall the Bank of Scotland's monopoly on Scottish banking had lapsed in 1716, but this did not provoke a wave of new bank formations in the country. Even the bank itself did not attempt to renew its monopoly, believing that one bank was all the country could accommodate.[124] As outlined above, the end of the bank's domination coincided with a slump in its business as the initial opportunities brought by the Union began to fade. The background to this was also that the bank's reputation had been tarnished by its association with the Jacobite cause. Despite the bank withholding funds from the cause during the uprising itself, the treasurer at the bank, David Drummond, had in the wake of the '15 instituted a fund to support Jacobite prisoners of war.[125] Whether fairly, or unfairly, the institution was linked with Jacobitism, and rumours circulated that the bank was disillusioned with the current administration, with the allegation that it had refused to lend the government funds in 1715.[126] The bank fought back from the slump, however, and through its good management weathered the storm caused by the bursting of the South Sea and Mississippi Bubbles in 1720. As detailed above, during this time the institution also fought off multiple

[124] L. H. White, *Free Banking in Britain: Theory, Experience and Debate, 1800-1845*, second edition, (Cambridge, 1984), p.22
[125] A. I. MacInnes, 'Union, Empire and Global Adventuring with a Jacobite Twist, 1707-53' in A. I. MacInnes and D. J. Hamilton (eds), *Jacobitism, Enlightenment and Empire, 1680–1820* (Abingdon, 2014), p.131
[126] Saville, *Bank of Scotland*, p.91

attempts at takeover from the Equivalent societies, whilst also rejecting an attempt by the struggling London-based Royal Exchange Assurance Company to invest significant sums into the bank.[127]

The strength shown by the bank was down to its leadership. The governor since 1697 had been David Melville, 3rd earl of Leven, holding the office until his death in 1728. Leven's tenure has been described by Richard Saville as epitomising 'the Presbyterian ideal of the cautious approach to lending and discounting'.[128] Through his leadership the bank saw off the challenges outlined above as well as reignited threats from the monetary ideas of Law, after *Money and Trade* was republished in mid-1720. This of course occurred at a time when Law was still riding high over his French banking system before its collapse at the end of that year. Leven held firm, rejecting the ideas of Law and the push for a second Scottish bank. Changes were coming for the bank, however, as the Argathelians interest flexed its muscle following the 1724 charter granted to the Equivalent Company. Leven later petitioned George II in 1727, stating that the charter for RBS had been signed by the late George I shortly before his death earlier that year, and that this had not yet been passed by the Seal of Scotland. Leven requested a hearing on the matter in order to request the charter be annulled; this did not happen.[129]

As has been outlined here, the economic provisions of the

[127] J. Armour, Proposals for making the Bank of Scotland more useful and profitable: and for raising the value of the land-interest of North-Britain, (Edinburgh, 1722)
[128] Saville, *Bank of Scotland*, p.41
[129] *Copy of a Signature for a New Bank* (the Royal Bank of Scotland), (1727) p.29-35

Treaty of Union unintentionally became central in creating the capital which underpinned RBS in 1727, but the effects of Union in the two decades which followed it were also important in other ways. Tom Devine has interrogated the contemporary views of Scots after 1707 and the subsequent historiography, and concluded that 'the nation's economy after Union was not in ruins; indeed there had been some modest recovery from the miseries of the 1690s and, though some activities were hit badly, others prospered'.[130] Devine points out that taxation in Scotland between 1707 and the 1750s did increase fivefold, but modern estimates calculate that twenty per cent at most of this increased burden actually left the country, the majority being funnelled into civil and military expenditure.[131] He also makes the case that whilst English competition after 1707 badly affected finer Scottish woollens, that this sector had been in trouble prior to Union. In addition, some other industries, such as brewing and paper-making which were also struggling, were doing so quite possibly as a result of the 'ill years' of the 1690s, rather than because of the effects of 1707. On the other hand, some sectors flourished, with Union allowing for the development of southern markets for Highland goods, particularly cattle, but also timber, fish and slate.[132] So for Devine, the impact of Union on trade and industry was a mixed bag. As the events of 1713 (outlined above) and the social unrest of (the about to be discussed) 1720-25 display,

[130] T. M. Devine, 'The Modern Economy: Scotland and the Act of Union', in Devine, C.H. Lee and G.C. Peden (eds), *The Transformation of Scotland: The Economy since 1700*, p.27
[131] Devine, 'The Modern Economy', p.24
[132] Ibid, pp.17-24

however, many contemporaries were unprepared to take the rough with the smooth.

Urban crowds had caused less problems in the opening quarter of the eighteenth century than they had during the preceding century.[133] It appears that following 1707 the new administration pushed for firm rule, and when this was achieved it became generally indifferent to events in Scotland. By the early months of 1720, however, this was beginning to change as food riots spread up and down the east coast of Scotland. From Linlithgow, along the Forth Estuary, up through Dysart, around the East Neuk of Fife, through Dundee and on to Montrose, the violence was widespread, and lives were lost. The research undertaken by Whatley into these events has revealed a situation directly driven by grain shortages but aggravated by a series of secondary issues linked to Union.[134] Whatley argues that claims that the impact of the Union 'was broadly neutral in the short-run or that patterns of life were "little affected" by it ignore its impact on the urban labouring classes as well as on proto-industrial workers in the surrounding countryside'.[135] He highlights the increased duties imposed on linen at Westminster in 1711 and 1715, as well as the new taxes on imported salt that were put in place in 1707, and the later decline of Fife fishing later in the 1710s. He does admit that while there were signs of an improvement in Scottish external and coastal trade 'from or even prior to the Union', that this in

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[133] Whatley, *Scottish Society,* p.186

[134] C. A. Whatley, 'The Union of 1707, Integration and the Scottish Burghs: The Case of the 1720 Food Riots' in *The Scottish Historical Review,* Vol. 78, No. 206, Part 2 (Oct., 1999), pp. 192-218

[135] Ibid, p.207

the main benefited merchants, with the domestic manufacturing economy remaining stagnant until the late 1720s.[136] Thus for Whatley, if the unrest that emerged in the east during 1720 had a political dimension 'this derived from deep dissatisfaction with the Union of 1707'.[137]

These events marked the beginning of five years in which pockets of unrest sporadically erupted in Scotland. Anti-enclosure riots emerged in Dumfries and Galloway during much of 1724, whilst in June of the following year unrest broke out across Scotland, from Elgin in the north-east to Ayr in the south-west, and Dundee in the east to Glasgow in the west, all driven by the Malt tax. Many in the urban population had become incensed by the imposition, which had again raised its head after the debates of 1712/13.[138] People took to the streets and brewers throughout the west of Scotland went on strike.[139] Perhaps the most significant rioting was in Shawfield, Glasgow, during which the house of Glasgow member of parliament, Daniel Campbell, was ransacked after rumours abounded that he had supported the tax; eight civilians being killed by soldiers in the process.[140]

During this turbulent period, the spectre of Jacobitism continued

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[136] Ibid, pp. 206-208
[137] Ibid, p208
[138] A. Gibson and T. C. Smout, 'Scottish Food and Scottish History, 1500-1800', in R. A Houston and I. D. Whyte (eds), *Scottish Society, 1500*-1800, (Cambridge, 2005), p.77
[139] A. I. MacInnes, 'Scottish Jacobitism: in Search of a Movement', in T.M. Devine and J. R. Young (eds), *Eighteenth Century Scotland: New* Perspectives¸ (East Linton, 1999), p.77
[140] V. Wallace, 'Presbyterian Moral Economy: The Covenanting Tradition and Popular Protest in Lowland Scotland, 1707–c. 1746', *in The Scottish Historical Review*, Vol. 89, No. 227, Part 1 (April 2010), p.62

to raise its head. Whilst there is little to link the igniting of events to the cause – indeed we should note Whatley's word of caution that not every occasion of unrest in the early-eighteenth century was the effect of Jacobitism - there was a fear that Jacobites may take the opportunity to undermine the British government.[141] In the aftermath of Louis XIV's attempts to raise Jacobite discontent in Scotland in 1708, with French regiments headed by James Francis Edward Stuart reaching the East Neuk of Fife in late March of that year, as well as the turmoil of 1715, and the more recent failed invasion of Spanish Jacobite forces in 1719, the administration was concerned.[142] It met the challenge by laying the task of returning Scotland to order at the door of Ilay.

The influential Scot arrived in Edinburgh from London in mid-August 1725, and within a month had persuaded striking brewers to restart production and to pay their taxes. Walpole had invested Ilay with all the power he needed to curtail a rowdy Scotland.[143] With his aims accomplished Ilay sought to use his influence with Walpole to call in the money that had been promised as support to Scottish industries in the Treaty of Union twenty years earlier.[144] There was a recognition that a connection between idleness and popular unrest existed, and it was hoped that by reviving Scotland's ailing economy, civil unrest might be

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[141] Whatley, 'The Union of 1707, Integration and the Scottish Burghs', p.203

[142] D. Szechi, *1715: The Great Jacobite Rebellion*, (New Haven, 2006), p.78; and S. Murdoch, *The Terror of the Seas?: Scottish Maritime Warfare 1513-1713*, (Boston, 2010) p.304/5; and Whatley, 'The Union of 1707, Integration and the Scottish Burghs', p.204

[143] R. L. Emerson, *Academic Patronage in the Scottish Enlightenment: Glasgow, Edinburgh and St Andrews Universities*, (Edinburgh, 2008), p.293

[144] A. I. MacInnes, *A History of Scotland*, (London, 2015), p.112

prevented in the future. With this in mind, Ilay's request was soon granted. As fears over the Bank of Scotland's Jacobite links continued, that institution was snubbed when it came to the administration of the funds. Instead, a new body designed to issue grants to encourage Scotland's manufacturing and fishing industries, the Board of Trustees for Fisheries, Manufactures and Improvements in Scotland, was erected. Ilay and his associates were at the very centre of the new trading authority, which, driven by a spirit of improvement, became central to the Scotland's economic policies. The Scottish linen industry would benefit greatly from the body's support, leading to the formation of the British Linen Company in 1746, an institution driven by Ilay associate Milton. In 1727, however, it was a signal that significant change had occurred in the British administration's attitude to Scotland, and that the country to the north could no longer be overlooked.

Conclusion

The original Equivalent amount of £398, 085 10s had been quickly paid, with the full amount almost gone within two years. Many creditors, however, were still to be remunerated. It was this shortfall in funding that laid the foundations for the new bank. The bank's formation occurring as a consequence of a process set in motion by the Anglo-Scots Union of 1707, and the payment of the Equivalent; this of course was not the intention, but this is what happened.

The shortfall in the original Equivalent sum, along with the disappointing returns from the 'arising equivalent', had led to the issuance of interest-bearing debentures to cover outstanding debts. And despite these paper 'IOUs' being unredeemable, and with interest payments which were difficult to secure, a market grew up around them as they were bought and sold throughout Britain. The £248,550 due to debenture holders did not exist as money, instead it was in the form of long-term promissory notes with vague promises of imbursement. Importantly, however, the debtor was the British government, and there was confidence in its ability to repay.

The British government repaid the outstanding Equivalent sum of £248,550, plus all outstanding monies relating to the annual interest payments, in 1850, the Equivalent Company was then dissolved the following year.[145] Yet a bank had been formed from this payment, with working capital of £111,000, 123 years earlier. The economic ideas which had been used in the formation of RBS – novel concepts of what constituted money, and the value in old debt – had been employed in the establishment of English and French institutions in the thirty years or so prior to 1727, but it was only at this time that they were put into practice in Scotland. As has been detailed here, however, the formation of RBS was significantly different from the debt-for-equity swaps seen elsewhere. In the Scottish case it was not a government coming to an agreement with a company to exchange public debt into company equity, rather it was private individuals who held government debt that drove the project. In particular, the network with Drummond, Monzie, and Ilay, and their acquaintances, at its core, as well as the financial

[145] RB/257/1, *Scroll General Balance, 1851*, RBS

associates of William Paterson, who succeeded in capitalising abstract assets into stock to underpin a new Scottish bank.

Chapter 7

Conclusion

The historiography surrounding the Financial Revolution has been undoubtedly Anglocentric.[1] The works in this field have viewed the period as one of significant change in England, with the emergence of new financial institutions, financial instruments, and financial practices. In recent years, work has emerged in which the agency of peripheral actors in the Financial Revolution has begun to be considered.[2] Despite the appearance of these new perspectives, however, Scotland on the whole remains poorly-served. Understanding the character of the Scottish Financial Revolution has therefore been at the core of this thesis.

The Scottish revolution has been framed as an event which occurred both in and outwith the territory of Scotland. It has been defined as a series of events intermittently linked to the state, but that were by no means inextricably tied to it. Past histories which have viewed the British financial revolutions as a means of state-building and

[1] P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756*, (London, 1967); H. Roseveare, *The Financial Revolution, 1660-1760*, (London, 1991); J. Brewer, *The Sinews of Power: War, Money and the English State, 1688-1783*¸ (New York, 1989): newer works have sought to address this, but even in these Scotland has not been well-served; see D. Carey, and C. J. Finlay (eds), *The Empire of Credit: the Financial Revolution in the British Atlantic World, 1688-1815*, (Dublin, 2011); and C. I. McGrath, and C. Fauske, (eds), *Money Power, and Print: Interdisciplinary Studies on the Financial Revolution in the British Isles*, (Newark, 2008)

[2] See Carey, and Finlay (eds), *The Empire of Credit*); C. I. McGrath, and C. Fauske, (eds), *Money Power, and Print: Interdisciplinary Studies on the Financial Revolution in the British Isles*, (Newark, 2008); and P. Walsh, *The South Sea Bubble and Ireland: Money, Banking and Investment, 1690*-1721, (Woodbridge, 2014).

funding the fiscal-military state have been challenged. This thesis has instead highlighted financial innovation occurring in the years between 1688 and 1727 as being frequently driven by individuals or groups separate from government. However, while novel economic schemes were promoted independently of the state, the case study of Scotland displays that without government backing, both before and after the union of 1707, it became almost impossible to implement a new project.

Events in Scotland appear initially to have matched English progress, certainly in the very earliest years of the revolution. The first half of the 1690s saw a boom in joint-stock offerings in both countries, including the establishment of the Bank of England in 1694 and the Bank of Scotland a year later. By 1700, however, as England forged ahead, developments in Scotland halted. Of the forty-seven Scottish joint-stock companies that had been in existence in 1695, only twelve were still trading by the end of the century.[3] New ideas were still being promoted in Scotland, but these ideas were presented to an administration that had become reluctant to engage in new financially innovative schemes.[4] This shift in attitude was as a direct consequence

[3] D. Watt, 'The Company of Scotland and Scottish Politics, 1696-1701', in S. Adams and J. Goodare (eds), *Scotland in the Age of Two Revolutions*, (Woodbridge, 2014), p.212; and W. R. Scott, *The constitution and finance of English, Scottish and Irish joint-stock companies to 1720*, (Cambridge, 1910), p.356

[4] A number of works appeared in the years directly preceding the union of 1707, all were rejected by the Scottish government, as examples see: A. Brown, *An essay on the new project for a land-mint, proposing a proper and practicable scheme and expedient and how to put the same under due and regular management, in this conjuncture; not only for the speedy supplying the present scarcity of money; but also for the advancing of trade and other national improvements*, (Edinburgh, 1705); A. Brown, *A second Essay concerning the Land Mint : shewing, that the present necessity, and want of Gold and Silver money, absolutely requires this, or the like Remedy, and that very speedily ... By the author of the Character of the true publick Spirit*, (Edinburgh, 1705); .W. Seton, *Some thoughts, on ways and means for making*

of the Company of Scotland's unsuccessful attempt at establishing a colony at Darien. The failure to claim territory on the narrow tract of land which connects modern day North and South America caused significant economic difficulties in Scotland. Of the £400,000 subscribed by Scots, £153,000, close to £2 million scots, had actually been paid and was therefore lost to the nation.[5] So much Scots capital was tied up in the venture, that there was little left with which to support a secondary market in shares, so unlike the later South Sea or Mississippi booms where share prices had been inflated and bought and sold for vast sums, no bubble was created in Scotland. Despite this compensating feature of events, however, the fallout was still severe.

The lack of interest displayed by the Scottish government between 1700 and 1707 in backing new economic projects, was matched by the new British government from 1707 onwards. The new administration showed little deference to existing Scottish institutions – a situation which is made clear by the case of the earl of Lauderdale's time as general of the Scottish mint detailed in chapter five, and by the abolition of the Privy Council in 1708 - and until 1727 no financial

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this nation a gainer in foreign commerce; and for supplying its present scarcity of money, (Edinburgh, 1705); J. Clerk, *The circumstances of Scotland consider'd, with respect to the present scarcity of money: together with some proposals for supplying the defect thereof, and rectifying the ballance of trade*, (Edinburgh, 1705); J. Hodges, *Considerations and proposals for supplying the present scarcity of Money, and advancing Trade*, (Edinburgh, 1705); J. Armour, *A Premonitor Warning: or advice by a true lover of his country unto all whole hands this may come*, (Edinburgh, 1702); H. Chamberlen, H., & J. Armour, *Proposal by Doctor Hugh Chamberlen, and James Armour for a Landcredit*, in A. E. Murphy, & C., Sugiyama (eds.), *Monetary Theory, 1601-1758*, Vol. 4, (London, 1997); and J. Law, *Money and trade considered, with a proposal for supplying the nation with money*, (Edinburgh, 1705)

[5] Whatley, and Patrick, *The Scots and the Union*, p.173: at this time £1 sterling was equivalent to £12 scots, as such £153,000 converts to over £1.8 million scots

institutions were given the go ahead in the country. So, while in England new financial institutions were formed, a growing stock market was augmented with new offerings, and a speculative boom emerged with the South Sea Company during the 1710s, in Scotland financial innovation ceased for almost three decades.

This work has shown, however, that despite the seeds of Scotland's Financial Revolution being planted in barren soil in the 1690s, that Scotsmen, as part of a global Scots community, were involved in the circulation of novel financially innovative ideas outwith the territory of Scotland. This included pushing through the Loan Office in New Jersey, promoting a bank in France, Germany and Austria, various endeavours by London-based Scots, and the sharing of ideas across continents. The formative years of the Scottish Financial Revolution were therefore markedly different from those of England. This has made defining Scottish events difficult. This research has made the case that following the aborted attempts at Financial Revolution in the 1690s, Scotsmen promoted innovative schemes beyond the country's borders. Scotland's Financial Revolution between 1700 and 1727 was therefore one of ideas and of foreign projects.

These ideas circulated freely between Scotland and England, back and forth across the Atlantic, and across the channel into continental Europe. Scottish involvement can easily be found. The transatlantic exchange of ideas highlighted in chapter two indicates that even if the Scottish state was unwilling to implement new financial schemes in the earliest years of the eighteenth-century, that these ideas were still inspiring Scots to promote novel economic models.

John Law in particular, was an important member of the global Scots community. An important contribution of this work to the historiography around Law is the case that is made for his being active in 1701 as part of a European network working on financial projects. The proposals made to the French administration for a national bank clearly originated from the mind of Law – so similar are the ideas and the style.[6] Previously, the 1704 proposal for an English land bank had been regarded as the Scotsman's first foray into political economy, this is no longer the case.[7]

The ideas that Law then went on to promote in Scotland in 1705 were an important contribution to the country's economic debate on the eve of union.[8] As we have seen, however, his land bank proposal was rejected out of hand by the country's administration who decided that the 'forceing [of] any paper credit by an act of parliament was unfit for this nation'; this did not, however, stop Patrick Campbell of Monzie from preparing a land bank proposal for the British government in 1708, plagiarized from Law's rejected proposal of three years earlier.[9] Following Law's rejection in Scotland he made an attempt at establishing a land bank in France in 1706-07, before later endeavoring

[6] Ms. 2342/5/4, *Memoire au sujet de l'Etablissement d'une banque en France* ; and Ms. 2342/5/5 *Memoire pour l'Etablissement d'une banque publique, pour le bien et commodite du commerce, et en veu de rendre l'argent commun en* France

[7] J. Law, *John Law's 'Essay on a Land Bank*', A. Murphy (ed), (Dublin, 1994)

[8] Law, *Money and trade considered, with a proposal for supplying the nation with money*, (Edinburgh, 1705)

[9] *RPS*, 1705/6/36. Date accessed: 25 May 2015; . Monzie, *A Land Money*, (1708), National Library of Scotland, 1.814(13); see chapter five for an overview comparison of Monzie and Law's works.

to found a bank in the model of the Bank of England in Turin in 1712.[10] It was not until Law's third attempt at erecting a French bank that he was successful, and between 1715 and 1720 his system boomed before spectacularly collapsing. And whilst he never achieved the implementation of his ideas in Scotland personally, as chapter six argues, it was the economic ideas of Law, among others, which underpinned the Royal Bank of Scotland.

The establishment of RBS in 1727 is an important milestone in the history of Scotland's Financial Revolution, with this work making the case that it was this institution that represents the true beginning of the Financial Revolution *in* Scotland. The framework offered here for understanding these events helps us to understand that Scotland's Financial Revolution was distinct from that of England or elsewhere and developed in three stages (these have been described above, but for clarity are outlined again). First, that which occurred in tandem with events in England, in the 1690s with the establishment of largescale institutions – the Bank of Scotland and the Company of Scotland – and the emergence of a number of other joint-stock offerings. These first vibrant shoots illustrate that financially confident Scots emerged from the Glorious Revolution, this confidence only faltering following the abandonment of the New Edinburgh colony at Darien in 1700. The subsequent financial fallout severely tempered the attitudes of the

[10] J. Law *Mémoire pour prouver qu'une nouvelle espèce de monnaie peut être meilleure que l'or et l'argent*, (1707); *Mémoire touchant les monoies et le commerce*, (1706); and *The Bank of Turin Manuscript*, (1710-12); for an overview see A. E. Murphy, *John Law: Economic Theorist and Policy-Maker*, (Oxford, 1997), pp.76-122

Scottish administration to back new economic projects, forcing a change in the nature of the nascent Financial Revolution in Scotland. The reluctance to back new projects was also echoed by the new British government after 1707, who showed little interest in Scotland's financial institutions.

In the wake of the Darien failure, the second phase of the revolution began. This was a period of ideas, debate and foreign endeavours. Scots at home engaged in substantial debate on economic matters in the opening years of the eighteenth century, as did the Scots global community. Those at home were met with an unwilling administration, whilst the second group, through the agency of men like John Law, William Paterson, John Drummond and William Burnet, pushed forward economic ideas beyond Scottish borders.[11] These ideas circulated in North America, Europe and England, where they evolved, expanded, and transformed into new models. Scotsmen operating elsewhere achieved significant things; the greatest achievement of Law was the establishing of a foreign financial system, while Burnet's pragmatic attitude and an understanding of human nature were crucial in his backing of the New Jersey Loan Office, despite the British administration clearly loathing the project. During this same period the development of financial institutions in Scotland halted. The hiatus

[11] Paterson's role in the formation of the Bank of England and the Company of Scotland has been outlined in chapter six, as has his role in the creation of the London Equivalent Society, but he also proposed an Orphan's Bank in London, built around a fund that would support the city's orphans (it was this plan that brought him into conflict with his fellow directors at the Bank of England), as well as being the man behind a tontine scheme undertaken by William III & II in 1693.

lasted for almost three decades before the final phase of Scotland's Financial Revolution began with the foundation of the Royal Bank of Scotland in 1727. This was the first new financial institution in Scotland since the Bank of Scotland in July 1695. It was this occurrence that marked the return of innovative financial ideas to Scotland - driven in no small part by the agency of Paterson and Drummond and underpinned by the ideas of Law - after a period of almost thirty years in which speculative Scots had been forced to operate outwith Scotland.

The next step in researching this field would be to investigate the significant changes which occurred in Scotland's financial sector following 1727. Looking in particular at the advancement of Scottish banking and the emergence of the country's multi-bank system in the second half of the eighteenth century.

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—, *Seasonable warning and serious exhortation to, and expostulation with, the inhabitants of Aberdeen, concerning this present dispensation and day of God's living visitation towards them*, (Aberdeen, 1672); *A Catechism and Confession of Faith, approved of, and agreed to by the general assembly of the patriarchs, prophets, and apostles, Christ himself chief speaker in and among them, which containeth a true and faithful account of the principles and doctrines which are most surely believed by the churches of Christ in Great*

Britain and Ireland, who are reproachfully called by the name of Quakers, yet are found in the one faith with the primitive church and saints, &c., (London, 1673).

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