

Credit, credibility and the circulation of Exchequer Bills in the early Financial Revolution

Abstract: The Exchequer Bills were a key component in Britain's financial revolution of the 1690s. Using a range of archival sources not examined in previous work, this article argues that closer study of how these bills were given credit and circulation between 1696 and 1698 can offer a more nuanced reading of the mechanisms which helped to create credible commitment in this period. Though proper institutional design did help to give the bills credit, it was only one part of a wider series of informal measures used by the Treasury to secure subscribers for the fund for circulating the bills and to manage the emission of bills to prevent high discounts. This reflects the fact that credit and credibility in this period were influenced by a wide range of factors, including commercial advantage, patriotism and the example offered by other investors, all of which could be manipulated by the Treasury to promote the credibility of the Exchequer bills. Proper institutional and financial incentives were therefore not the only factors which could create credible commitment in Britain's financial revolution.

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Among the many experiments in the early stages of England's financial revolution in the 1690s were Exchequer Bills. Originally intended as a form of government paper currency backed by the general credit of the English state, they became a short-term paper security that served as the Treasury's main instrument for raising working credit during the eighteenth century, and one of the principal elements of the fiscal-military state. More immediately, they enabled the English state to get over the destructive monetary and credit crisis it faced between 1696 and 1698, perhaps the most serious financial crisis it would meet until the French invasion of 1797 and the suspension of conversion by the Bank of England. The Exchequer bills were therefore one of the most important hinges on which the early financial revolution turned, and a detailed study of how they were given credit and credibility and brought into circulation can shed important light on this revolution. In recent years, approaches taken from new institutional economics have been applied to official records to argue how financial institutions were created in the 1690s that for the first time built confidence in public credit within markets composed of rational economic actors. These institutions were clearly important in successfully introducing the Exchequer bills into circulation, but reading the private and unofficial papers of the officials handling this business shows that they also operated within a wider financial environment marked in fact by private deals and *ad hoc* measures more typical of earlier years. The bills therefore obtained credit and credibility by a combination of formal and informal measures, undertaken unofficially by key politicians and bureaucrats but in their official capacity, showing that work on the institutional construction of financial credibility is incomplete and even misleading without some understanding of the wider measures used.

By April 1696 the English government was close to total financial exhaustion. Nine years of war had drained the nation's coffers, and the combined effects of a prolonged trade slump, the remittance of vast amounts of money overseas for the army, and the recall and recoinage of the nation's money from circulation in 1695 and 1696, made it nearly impossible to borrow money to keep the navy at sea and the army in the field (Dickson, 1967: 46-57, Jones, 1988: 23-6, 95-161, Waddell, 2015: 318-51, Kleer, 2017: 186-92). The temporary boost provided by the foundation of the Bank of England in 1694 had subsided, and the stumbling start of its putative successor, the National Land Bank, seemed to presage disaster (Dickson, 1967: 56-7, Horsefield, 1960, Kleer, 2008: 70-103). Charles Montagu, Whig politician and Chancellor of the Exchequer, wrote to William Blathwayt, the Secretary at War at the king's side in Flanders, that 'faction and party ... has broken all proper credit, ... so that whereas formerly the paper money in London was more than all the cash in England, at present no bill or note will pass in payment'.¹ Blathwayt also had letters from his friend the earl of Ranelagh, paymaster-general of the army, who told him that 'we are, at least, in as miserable a condition as to want of money ... [and] what can be done to relieve us in this fatal extremity I cannot see'.² The solution was suggested by Montagu, who proposed that the government circulate its own paper money, called Exchequer Bills, which would overcome the shortage of coin and provide a breathing space until the war was over and enough revenue brought in to redeem the bills in coin. This article will examine first how these bills sat within the wider English financial revolution, then identify the measures used to support their credit, by leaning on people to invest and by manipulating the supply of bills, to support the improving institutional design.

Montagu intended that his Exchequer bills would be issued by the Exchequer as the main cash-keeper of the English state, backed by its general credit, and would then circulate throughout the country until taxes came in to redeem them. They would be accepted in payment of taxes and carry a moderate rate of interest, about 4 per cent, both intended to promote circulation. The bills were therefore to be both a currency and a credit instrument, which Montagu hoped would replace the Land Bank and make good its promise to raise £2.564 million for the use of the nation. The same act that created the Land Bank in April 1696 gave permission for the Treasury to issue £1.5 million in bills if the bank proved unsuccessful, which it did (Dickson, 1967: 364-8, Kleer, 2017: 96-114, 150-203, Clapham, 1945 vol. i, 38-9, 54, Horwitz, 1977: 167, 175-82). Yet, contrary to the predictions of Douglass North and Barry Weingast that issuing a paper instrument backed by parliamentary authority was sufficient to make it ‘credible’ and to give it circulation, these bills likewise proved an embarrassing failure (North and Weingast, 1989: 803-32, Coffman and Neal, 2013: 1-19). As Richard Kleer, Georges Gallais-Hamonno, Christian Rietsch, Anne Murphy and others have shown in their studies of other financial innovations in this period, to make these credible to rational investors it was necessary to structure them properly, so that their returns to investors outweighed the risk (Kleer, 2008: 70-103, Murphy, 2005: 227-46, Kleer, 2015: 179-203, Gallais-Hamonno and Rietsch, 2013: 259-77). The Malt Lottery Loan of 1697, for instance, did not sell more than 1,763 of its 140,000 tickets because it was poorly designed and only offered a return half that of comparable investments Gallais (Gallais-Hamonno and Rietsch, 2013: 259-77). Dickson argued that this first tranche of Exchequer bills was also ‘not very skilfully designed’, offering holders only 5 per cent interest compared to other investments paying 7 per cent or more, and it also lacked adequate funds for repayment: one of the

Treasury Lords told Blathwayt in July 1696 that they were now wholly reliant on the credit of the bills, ‘and that we cannot propose to establish [it] any further at present than we have the money to support it’ (Dickson, 1967: 368, Jones, 1988: 24, Sundstrom, 1992: 76, Desan, 2014: 337-41). Because people refused to give the bills credit or to take them in payment from the government, only £160,000 of the £1.5 million could be issued, and within twelve months most of the bills were not longer in circulation. This suggested to Dickson and others that subsequent tranches of Exchequer Bills emitted after 1697 succeeded because they gave much better returns and more security than their predecessors, and therefore that credible commitment was largely a product of improved institutional design.

However, recent work by Carl Wennerlind, Christiane Desan and many others has emphasised that credit in this period was not always a rational calculation made by investors possessing perfect information, but a perception or belief reached on the basis of inadequate information and subject to manipulation by political, social and cultural forces (Desan, 2014: , esp. pp. 295-304, 322-38, Wennerlind, 2011: 83-122, 161-234). This has mirrored other work within new institutional economics itself recognising that actors might display ‘bounded rationality’, arising either from their possession of imperfect or incomplete information or the countervailing impact of various non-economic incentives and inducements, such as political advantage or social advance (Deringer, 2015: 646-56). Anne Murphy’s recent study of private stock-trading and initial public offerings in the 1690s, for instance, has demonstrated that stocks and shares were traded rationally through networks of brokers and investors who nevertheless possessed limited information, despite the rise of a public sphere which offered the investors the tools to keep themselves informed and

sometimes even to demand creditable conduct from the state (Dickson, 1967: 486-97, Murphy, 2009: 89-136, 161-219, Murphy, 2013: 178-97). Other studies of the Mississippi and South Sea bubbles of 1719 and 1720 have likewise reassessed each as examples of bounded rationality rather than mass hysteria, where most investors acted rationally given the limited, contradictory and misleading information that had to hand (Deringer, 2015: 651-5; Shea, 2007: 73-104; Paul, 2011: 12-23, 75-87; Yamamoto, 2016: 327-57; though see also Dale, 2004). Credit was therefore as much a product of sentiment and perception as rational calculation, yet the historiography of English public credit still focuses on the institutional foundations for credible commitment proposed by North and Weingast. The theoretical or conceptual architecture they created therefore depends for its validity upon an empirical foundation which is now being challenged and reassessed, but so far only for the growth of private credit or commercial in the 1690s. This article focuses on public or governmental credit in the same period, taking as its starting point the fact that even Montagu recognised in 1696 that public credit rested on far broader foundations than mere institutional structures, and that it would be necessary to adopt a variety of unofficial or informal measures to give the new Exchequer bills credit and circulation.

'We are now come to the experiment of our Exchequer bills ... and we must set our shoulders to it to make them pass', he told Blathwayt on 23 June, '[but] 'tis a terrible prospect and I have yet no comfort nor hopes of being successful, for all credit is so utterly destroyed'.³ Rather than simply letting the market set their value, he instead attempted to make arrangements with merchants in major commercial towns such as Norwich, Newcastle, Bristol and Exeter who would circulate the bills by accepting them and paying them out, as a 'little Bank', which he considered 'the most difficult

thing that was ever brought about’.⁴ By September there was an ‘Exchequer Bank’ in Exeter which agreed to circulate the bills for one per cent commission, offering them to local merchants in return for cash or bills of exchange and cashing them on demand.⁵ Montagu also asked Blathwayt to persuade the king, William III, as the Stadtholder of the United Provinces, to order merchants there to accept the bills; ‘it would do the whole thing’, he begged, ‘and give them such a reputation as would enable us to turn all to money’.⁶ Yet popular confidence in the credit of the bills remained low. Ranelagh told Blathwayt on 6 June that they lacked credit and credibility because they had no real security and could not be turned into money at will. People were therefore unwilling to accept them, even at very high rates of discount, since there was no guarantee that they would be able to sell them again, or exchange them with the government for cash. ‘If there be not a fund of three or four hundred thousand pounds in the Exchequer to answer them, who shall [?agree] to turn those bills into money’, Ranelagh wrote, ‘... and where to find that fund is the difficulty’, since the money market was in ‘a tottering condition’.⁷ One of the Lords of the Treasury made the same point directly to the king (Horsefield, 1960: 124). This principle of a fund that would give the bills credibility by ‘circulating’ or committing to answer a proportion if they were presented for payment was essentially the same principle of partial- or fractional-reserve banking which had supported the introduction of Bank of England notes only a few years before, and had occurred to Montagu as well, who wrote to Blathwayt on 17 July with his proposal (Kleer, 2017: 207-8, Horsefield, 1960: 122-4).⁸ A memorandum he drew up around this time shows the expedients that Montagu already had in mind.

The proposal opened by rehearsing the collapse of public credit and the need for a substitute instrument for circulation. Exchequer bills would serve, and could best be kept in circulation ‘by a general consent and agreement’ among all people to accept and receive them. Officials could be publicly ordered to receive them as legal tender for taxes, but merchants also needed some way to know that other merchants would accept the bills, ‘whereby they might know one another’s mind and mutually join in the understanding and so be secure of having those bills accepted on one hand which they receive on the other’. Having established the importance of public confidence in circulating the bills, which was not necessarily tied to institutional design, Montagu suggested that subscribers sign a public indenture pledging to accept and receive the Exchequer bills up to a certain sum, which would also ‘give those who are willing to assist the Government in this exigency an opportunity to express those intentions’. All the subscribers would also pay in one-tenth of their subscription, creating a fund of £250,000 ‘which will be sufficient capital to answer all demands at the Exchequer if the subscribers circulate them as is proposed’, and receive interest. To secure this fund though Montagu proposed to place pressure on the political and monied elite, including the Lords Justices of the kingdom, the Privy Council, and the Lord Mayor and Court of Aldermen of the City of London, as well as the livery companies and also the Jews and goldsmiths in Exchange Alley, ‘that they may either come in and assist or show their unwillingness to help the Government’. Though recognising that some form of institutional fund was necessary to set public fears at ease and to create confidence that the Exchequer bills could be answered in cash if necessary, Montagu therefore also saw that public confidence and credit rested on a far broader basis and that this might be supported by persuading prominent political and financial figures or

trendsetters to invest, as a patriotic rather than necessarily profitable act, to give other investors the confidence to do the same (Horsefield, 1960: 124).

The act authorising a new tranche of £1.5 million Exchequer Bills in April 1697 also therefore permitted the Treasury to raise a fund by subscription to circulate them, in return for a generous rate of interest which recognised the competition for funds at a moment when the money markets were in freefall (Dickson, 1967: 369-73, Clapham, 1945 vol. i, 55). This could be smaller than the tranche itself because the intention was to persuade holders to keep the bills in their hands, so the fund would only need to answer the bills that they chose to present; it would therefore operate on the principles of a fractional-reserve bank. In this period the Bank of England tried to maintain a cash reserve of 10 to 20 per cent to back the notes in circulation, and the Treasury proposed that this First Subscription be set at the same level of £400,000 or roughly a quarter of the £1.5 million Exchequer bills in circulation, though because only £100,000 of this subscription would be paid up at the start, the actual ratio was closer to six per cent (Kleer, 2017: 33-54, Clapham, 1945 vol. i, 41-2, Desan, 2014: 304-8, 322).⁹ Careful institutional design was therefore crucial, both to persuade investors to subscribe and to reassure the people holding Exchequer bills that the fund would encash them on demand. Subscribers were offered a rate of interest of 7.6 per cent on their money, equivalent to more than thirty per cent on the initial paid-up capital, and to protect the interests of the government, subscribers and bill holders the business would be handled at arm’s length by twelve Trustees, six of them appointed by the Treasury and six elected by the subscribers. To prevent people with Exchequer bills immediately presenting them all for payment, the Treasury agreed to take them in repayment of taxes to encourage their circulation, so the Trustees would only have

to encash bills tendered in repayment of loans to the public or taken by the revenue in payment of taxes (Dickson, 1967: 370-3, Jones, 1988: 67). ‘Otherwise the subscription money would not last one day’, wrote Sir James Bateman, an important Whig financier, to Richard Hill, the deputy-paymaster in Flanders, ‘for all men that were possessed of Exchequer bills would immediately come for their money’ (de Krey, 1985: 151-2, Cruickshanks, Handley and Hayton, 2002 vol. iii, 147-9).¹⁰ The letters from Bateman and Ranelagh show that besides these various institutional mechanisms intended to build public confidence in the bills and the circulation, the Treasury also employed a number of informal mechanisms to maintain their credit, ranging from putting unofficial pressure on leading merchants and financiers to secretly manipulating Exchequer bill issues to prevent any erosion of confidence.

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By the time that the necessary act was passed in April 1697 and the subscriptions for the circulation could begin, the entire English fiscal-military system had advanced from its state of exhaustion twelve months before to one of seeming paralysis and imminent expiration (Dickson, 1967: 57, Clapham, 1945 vol. i, 54-6, Horwitz, 1977: 184-91). Bateman reported to Hill on 2 April that the Treasury could not pay any of its debts. ‘I do believe their minds and wills are good, but they want the means to effect it’, he said, ‘and such necessities I find they are under that those who have ready money may have anything they please to ask for it’.¹¹ The discount on government paper was higher than it had ever been, and the catastrophic collapse of public credit seemed imminent. One week later he noted ‘all their dependence is on the Exchequer notes’, but that only a mere £50,000 of the £400,000 necessary for the

circulation had been subscribed.¹² Despite the attractive terms offered, few were thus immediately willing to act as subscribers. Bateman informed Hill the next week that Exchequer bills still lacked credibility. 'I fear the same evil and ill conveniency of buying, selling and discount will attend them as does at present our Bank notes', he said, 'and I fear they'll not answer their design or expectation, for the subscriptions goes on very slowly and few people have writ but those in places and dependent on the court'.¹³ Even on 20 April he reported that subscriptions had been received for only half the fund, 'yet all people agree 'tis the common interest to promote making them up to £400,000 for a fund to circulate those bills'.¹⁴ Closer examination of the methods used to fill the First and Second subscriptions of April and July 1697, when the danger to public credit was at its height, confirms that the ministry was worried about the consequences for the public credit and the conduct of the war if they did not and leant on its allies, as Montagu had proposed in 1696, to encourage subscriptions.

As in 1706 and 1710, when the ministry used its allies in the City to help float two war loans for the Habsburg emperor in Austria, a web of personal influence underlay the formal structures of public credit (Graham, 2018). For instance, the Treasury had made informal contact beforehand in March with the Court of Directors of the East India Company, the largest trading company in England and one of the biggest single investors in public debt (Dickson, 1967: 50). The directors had debated 'a paper of a proposal for reviving the credit of this nation by giving a currency to the Exchequer Bills', and secured permission from the shareholders to bargain with the ministry.¹⁵ After four weeks of negotiations with the duke of Shrewsbury and earl of Portland, key figures in the ministry, 'who recommended it to them with some earnestness to use their interest with the Generality [i.e. shareholders] to promote the subscriptions

now afoot’, the directors eventually agreed to sign up for £40,000 or one-tenth of the whole subscription if the Treasury allowed them to use the bills rather than cash to pay customs duties.¹⁶ The Company may have been induced to subscribe not only by this direct pressure but also by growing public demands for a ‘New’ East India Company and by a recognition that the Whig ministry by hold back if the company proved willing to loan money to the public (Horwitz, 1977: 178, 190-1, 232-4, Chaudhuri, 1978: 432-6). Politics and finance therefore overlapped, and the Company made a rational choice that reflected its wider circumstances, rather than the specific institutional design of the new Exchequer Bill system.

The Lord Mayor of London was likewise told by the secretary of state on 20 April that ‘the king regards the subscriptions to the Exchequer bills as a matter of exceeding moment to his service and to the advancement of the public credit and interest at this time, and therefore desires you will earnestly promote the same with the Common Council [of the City of London]’. He added to the mayor that ‘you and the city have here as seasonable an opportunity as could be wished to give a very signal proof of your affection and zeal to His Majesty and the public by your hearty and ready performance herein’, playing on the same sense of patriotism and obligation that Montagu had proposed to use in 1696.¹⁷ The earl of Wharton, another member of the Whig ministry, likewise attended the City directly ‘to dispose people’s minds right’ (Horwitz, 1977: 191, 216). The Lord Mayor and the Chamberlain or treasurer of the City of London duly subscribed £5,000 between them.¹⁸ The Bank of England agreed with the Treasury on 19 April that if they could appoint six of the twelve Trustees they would recommend to their shareholders to allow the bank to subscribe £50,000, ‘and further several of the Directors will subscribe over and above in their particular

persons, and also will promote the subscriptions of the several members of the General Court' (Clapham, 1945 vol. i, 54-5).¹⁹ Unexpectedly, the shareholders refused, but money was still subscribed because the king put informal pressure on the directors to meet their patriotic obligations. 'Several of us have writ £2,000 each as particular men, for he told us he could not go out of the kingdom until it was done', Bateman told Hill, 'for until it is, things are at a stand, but, this over, all things will revive', making it their patriotic duty to subscribe money for the circulation.²⁰

The list of subscribers to the First Subscription clearly demonstrates that Montagu made extensive use of political influence to find investors. Out of the £430,450 or so underwritten by 449 individuals, more than £90,000 came from leading figures in the ministry and the upper reaches of the fiscal-military state, including the Lords of the Treasury, various revenue commissioners, departmental treasurers and receivers, and senior Exchequer officials.²¹ For instance, the financier and Treasury commissioner Sir Stephen Fox subscribed £8,000, 'undertaken at least in part in order to inspire confidence in the rest of the investing community' (Clay, 1978: 232-3, 241-4). 'The Lords of the Treasury and all the officers of the revenue were subscribers', one anonymous commentator later noted, '(and those officers who would not subscribe ... must lose their places)', such as the financier Sir Robert Clayton, who was dismissed as a commissioner of customs in May, 'great notice being taken of his discouraging the subscriptions which are to be the foundation for issuing Exchequer Bills' (Melton, 1986), though why he was discouraging subscriptions remains unclear.²² The East India Company subscribed £40,000, as noted above, and although the Bank of England failed to convince its shareholders to make a corporate subscription, the individual directors privately offered over £30,000 in total. Nearly £50,000 was also

invested by the remittance contractors who sent money to the army in Flanders, such as Sir Solomon Medina, as one of a number of loans he made in the 1690s to support English public credit (Rabinowicz, Tapiero and Rabb, 1974: 28-31).²³ A closer study would undoubtedly identify many more, who subscribed either directly or on behalf of others. For instance, the third-largest single subscription of £10,000 came from John Germaine, a Dutch favourite of William III (and suspected of being his illegitimate son), who was possibly acting as the king’s agent (Cruikshanks, Handley and Hayton, 2002 vol. iv, 13-14). As Bateman noted, well over half of the First Subscription therefore came from major officials, ‘in places and dependent on the court’, or else from contractors who could expect to receive in payment the same Exchequer bills they were helping to circulate and therefore had an interest in keeping up the value and credit of the Exchequer Bills that they now held.²⁴

Forcing interested parties to assist the Treasury therefore supported the credit of the Exchequer bills, both by advertising their firm financial backing and by setting up an informal structure of shared incentives that complemented institutional measures and made it too expensive for either side to default on their obligations. Desan and Kleer have proved that similar structures were used to build public confidence in other new instruments, such as the Bank of England bills in 1694: ‘public officials and individual holders cooperated to institutionalise them’, Desan notes, ‘... [and] it [they] gained stability from the reciprocity of their obligation.’ (Desan, 2014: 308-20) The Second Subscription of July 1697 to circulate a further tranche of £1.2 million Exchequer bills was set up on a similar basis. Bateman told Hill on 2 July that the bills would not circulate until they could secure another subscription, ‘[and], if it takes effect, they will be more acceptable. But this will require time, and uncertain if we

succeed or no’.²⁵ Abbott told Hill on 9 July that that £90,000 had already been subscribed ‘and I doubt not we shall have a large subscription’, but this was because Montagu and the Treasury were already at work behind the scenes.²⁶ Letters were sent on 8 July to the Bank of England and East India Company in the same terms as before, asking them to subscribe directly as a patriotic duty and to recommend it to their shareholders, ‘looking upon it as a matter highly serviceable to the government ... [and] Their Lordships being sensible of what good effect the Company’s example hath formerly been on the like occasion’.²⁷ The directors of the East India Company managed to extort further concessions before they would subscribe another £40,000, but payments remained slow, and Montagu confessed to Blathwayt that ‘the old artifices are playing over again and endeavouring to confound all’.²⁸ Due to some ‘some unlucky accidents ... [and] malicious contrivances’ which he unfortunately did not describe in greater detail, it took until 30 July to assemble some £360,000, whereon he wrote with relief that ‘now we are again afloat’.²⁹ The same informal efforts were therefore needed even in the second tranche of subscriptions, despite the success of the first, in order to find enough subscribers to maintain credibility.

Experience also showed that it was not enough simply to assemble the subscription, as the Exchequer Bills had to be fed gradually into the financial markets to avoid a ‘glut’ that would exhaust the ability of secondary markets to absorb them, leading to heavy discounts on the bills that would reduce their value. For instance, Bateman and his remittance consortium were owed £200,000 for funds they had sent to the army in Flanders, but the Treasury had delayed issuing them the first tranche of Exchequer bills, and so, he informed Hill on 7 May, ‘we must wait and hold the candle to see others first dispose of theirs, great parcels being already issued out for several

purposes, and the greediness people have of turning them into money makes them run already at an 8 per cent discount’.³⁰ An anonymous commentator later noted that this ‘brought discredit upon the bills’, and Bateman wrote to Hill that the rate of discount might soon double to 15 or 16 per cent. Matters did not improve over the next week. ‘Many of them are already issued out and there is really abroad too great a glut of them’, Bateman wrote ‘... [and] whether ‘tis too many coming abroad or the scarcity of money or the value those who have put on’t, but these bills I am told are run to 6, 7 and 8 per cent discount ... and I fear the £400,000 subscription will not be a sufficient fund to answer the quantity of these bills as they come in’.³¹ An letter from Ranelagh to Blathwayt written at roughly the same time made a similar point. ‘Exchequer notes have been offered to the parties ... but not one of them will accept them, so that now we are forced to try all manner of ways to turn those bills of the Exchequer into money, which we shall not be able to do without a considerable loss’, he said, ‘and it is to be feared that the allowing of this loss will bring a disrepute upon our Exchequer Bills, which is the thing in the world we ought to avoid, especially at their first setting out’.³² If the discount continued to rise contractors would either refuse to accept the bills or immediately present them to the trustees for encashment, bankrupting the fractional fund assembled to circulate the bills, destroying their credit, and thereby undermining English public credit and the entire war effort.

Troubling signs of this began to appear in May. ‘There is a very pressing occasion for money at this time to be applied for payment of wages to seamen’, the Treasury wrote to the Court of Directors of the Bank of England on 3 May, for example, and noted that lending £50,000 on the bills would be ‘a very acceptable service, and we doubt not will tend as well to the interest of the Bank as to the good of the public’, but the

directors refused to make the loan.³³ Bateman wrote to Hill on 25 May that the Treasury would not allow him 'the common discount' on the bills he was offered in payment, and he had thus refused to accept them at a 10 per cent loss.³⁴ 'I am heartily sorry for it', he told Hill, '... [but it] would have been greatly to my loss, and I believe you would not have me suffer for my readiness in serving you'.³⁵ The Bank was similarly reluctant to accept the bills (Clapham, 1945 vol. i, 56, 58-9). When even a loyal contractor like Bateman refused to accept the bills he was helping to circulate, the collapse of public credit must have seemed imminent, although Montagu asserted otherwise in his letter to Portland on 18 May, writing that 'your Lordship has a very wrong account of the Exchequer bills, for they are in great credit and pass current in most payments at par with money'.³⁶ Some persons had indeed been forced to dispose of them at a discount, 'but that went not far and has hurt them much less than could be imagined, considering the great quantities we have been forced to issue at once'. He also sent a hopeful note to Blathwayt on 25 May that the bills 'do as well as could be expected from so new a thing, under a great opposition', though he admitted that the Treasury had been required to issue so many that the fund for circulating them was almost exhausted, putting their credit at risk.³⁷

In fact the state of affairs was very bad indeed and the Treasury was therefore forced to adopt a deeply hazardous expedient. Bateman had noted to Hill on 11 May that Francis Eyles, a major Whig merchant in London and the agent to Messrs Clifford of Amsterdam, the leading remittance contractors for the army, had presented two bills of exchange worth £20,000 to the Treasury for payment.³⁸ These had been drawn by Hill in Flanders as part of his desperate attempts to raise money for the English army there. 'They told us plainly to talk of money was impossible, but in part of payment

they would give three or four thousand in Exchequer Bills’, Bateman wrote, adding on 25 May that Clifford and Eyles were refusing, like him, to accept the bills in payment at such enormous discounts, ‘for no man will take paper for money without allowing the difference or discount they give it at’.³⁹ The largest single remittance contractor in Flanders, on whom the army and the king now urgently relied, seemed to be about to abandon his support for the British troops, and desperate times therefore called for the most desperate measures. Ranelagh wrote to Blathwayt on 1 June that he had been given instructions by the Treasury to make good the losses from discount that Clifford might suffer from taking the Exchequer bills in payment for Hill’s notes.⁴⁰ ‘But this must be kept a great secret’, he warned Blathwayt, ‘for should it take air we must prepare to allow a discount for all Exchequer Notes [sic] ... than which nothing can be more fatal, especially at a time when we are labouring all we can to make our bills equal to money, which certainly in real value they are’. So secret were these instructions that they were not even entered in the Treasury’s minutes or into the letter that William Lowndes, their secretary, wrote to Blathwayt that night.⁴¹ Eyles had subscribed £3,000 towards the First Subscription in May 1697 and was one of the twelve Trustees for Circulating the Exchequer Bills, which no doubt gave him additional leverage in his demands for a special exception to be made that would keep the support of a key commercial ally.

Because such *ad hoc* and informal measures were not included in official records, the importance of these measures has hitherto been overlooked by historians focussed on institutional factors, but it is clear that it was only the combination of such measures which enabled the Trustees and Treasury to maintain the credibility of the bills and hold up their value until relief arrived. Montagu was able to report on 6 July that the

public credit was more ‘enervated’ than usual, ‘[but] I am more and more in hopes that we shall set up paper credit as high as ever’, since confidence would rebound as soon as the peace cut government spending and taxes and enabled trade to be restored.⁴² By mid-August it was becoming clear that negotiations at Rijswick would produce a peace, and he therefore told Portland that ‘the news from your side is so good that all credit mends [*i.e.* improves] every day, and after ages will not believe how great an alteration has been made in one year’.⁴³ Ranelagh commented to Blathwayt two weeks later that the Second Subscription had doubled to £670,000 in a few days and might soon reach its target of £800,000, ‘which is an undeniable evidence that our credit recovers to a miracle’.⁴⁴ When news arrived that the Peace of Rijswick had been signed on 20 September, confidence in English public credit was restored almost at once, and Bateman told Hill that it would be easy enough for the Treasury to raise their loan of £200,000 to meet the costs of disbanding the army, ‘[as] they will now readily find people enough to supply them withal, all things being exceedingly mended and will yet daily grow better’, though Montagu confided to Blathwayt that this loan had still required a trip to the City to encourage investors (Horwitz, 1977: 194, 199).⁴⁵ By October, Bateman was able to report to Hill, with a sense of triumph, that ‘all things mend, and money seems as plenty [*sic*] as ever’.⁴⁶ The English state had therefore successfully made it across the financial abyss that it had encountered in 1696 and 1697, but only, as will have become clear, with the assistance of a raft of informal measures that were intended to maintain confidence in public credit even as its financial foundations began to tremble.

This is not to dismiss the importance of effective institutional design in encouraging subscribers to come forward to invest in the circulation, by providing a competitive

rate of interest and appropriating reliance sources of taxation for repayment. Public confidence was undoubtedly strengthened by the creation of the Trustees who could be trusted to represent the interests of the subscribers to the Treasury and secure the necessary funds; for example, in January 1698 they petitioned the Treasury to allot fresh revenues to pay the bills being presented to them for payment, ‘otherwise the consequences may be very fatal ... [as] if these specie bills are not punctually paid as hitherto they have been, such a defect would shake the whole credit of the nation’.⁴⁷ Yet this would probably have made no difference if the Trustees had not also been men of considerable political weight, drawn from the monied interest and the upper reaches of the state, which allowed them to compete against other departments with their own urgent demands on the Treasury, though we lack the sources to assess this. It is also probably significant that the Trustees staffed their office with veteran officials from the Treasury and Exchequer, including the secretary Lionel Herne, the cashier Samuel Edwards, and the assistant cashier Richard Taylor (Dickson, 1967: 370n). One writer later noted that there had been a continual communication between the Trustees and the officials of the Exchequer, where the bills were initially presented for payment, ‘so they, knowing beforehand, would provide money according ... [or] stop the Tallies and Orders of Loan for a week or more, until the subscriptions were called in to furnish money’.⁴⁸ This practice of frantically robbing one fund to pay another was contrary to the strict appropriation or hypothecation of taxes which supported the credit of paper instruments by providing a reliable and secure fund for them, but were clearly deemed necessary, and point to a wider nexus of administrative linkages that cannot now be recovered but which also served to support the credit of the bills by making money available to holders when it was urgently needed.

-III-

The measures adopted to circulate Exchequer Bills between 1696 and 1698 therefore helped the English state out of a deep crisis that might potentially have stopped the financial revolution dead, and the new British fiscal-military state with it. Like the Louisquatorzian state between 1710 and 1712, which Guy Rowlands has indicated faced a similar crisis, the emergency was resolved by the desperate application of both formal and informal measures intended to solve the problem at any costs, rather than the more measured and rational solutions that could be employed after 1698 as the English economy revived, and taxation and public credit with it. Bateman wrote to Hill in March 1698 that the Exchequer bills were now 'much more esteemed than they were', to the point where the Treasury was paying them out at par, 'so I doubt [not] they'll be difficult to come by for that they serve their turn as well as money'.⁴⁹ By the end of 1699 more than half the bills had already been cancelled, rising to 60 per cent by 1700 and 70 per cent by 1701, though annual contracts for circulating this tranche of bills continued until all the bills had been cancelled in 1709 (Dickson, 1967: 371).⁵⁰ The number of trustees fell to three, one of them Sir James Bateman, and his letters to Hill made no further mention of Exchequer bills except as profitable investments.⁵¹ The bills had become routine, even mundane, and could therefore be resurrected with relatively little fuss between 1707 and 1711 when the Treasury once again tried to introduce a government paper money and credit instrument into circulation to address a growing shortage of specie, though this time the Bank of England took over the business of circulation, forming a reciprocal nexus of mutual advantage that persisted into the nineteenth century (Dickson, 1967: 373-92,

Clapham, 1945 vol. i, 64-72, 78, 79, Kleer, 2015: 179-203, Binney, 1958: 127-31).

Although they never became a substitute for Bank notes that Montagu had hoped they would be, the Exchequer bills would nevertheless be one of the most important and successful experiments in public finance in the 1690s and thus the wider narrative of ‘credible commitment’ first introduced by North and Weingast, and this study has therefore suggested the need to reassess further how this was achieved.

Credibility was clearly crucial in keeping the Exchequer bills in circulation despite the near-collapse of English public and private credit in 1696 and 1697, but the letters and private correspondence of key figures shows that it did not arise simply because the bills were backed by parliamentary taxation, or even thanks to improving institutional design which struck a better balance between security, profit and risk, as North and Weingast might have predicted. The Treasury also employed a number of informal measures, ranging from private negotiations with key investors and the concession of reciprocal advantages to the secret manipulation of public opinion by regulating the flow of bills. As Desan has recently concluded from her own study of England’s financial revolution in the 1690s, its instruments and institutions therefore did not emerge simply as a result of the rational and unmediated operation of market forces. ‘In fact, there was no invisible hand at work in the dawn of capitalism’, she notes, ‘[and] the fingerprints of public authority, along with those of its business allies and the larger community, were all over the new medium’ (Desan, 2014: 328). Even at the heart of the English financial revolution of the 1690s examined by Dickson and North and Weingast, which provided the empirical case study on which their broader argument for the institutional factors surrounding credible commitment was based, state structures were therefore only one component in ensuring the circulation of new

instruments such as the Exchequer Bills. There were, in other words, no easy and unproblematic linkages between English political and financial institutions, rational markets, and the growth of 'credible commitment' after 1688, suggesting that an approach based solely in institutional factors is ultimately incomplete.

Endnotes

¹ British Library, London, UK [hereafter BL], Additional MS [hereafter Add. MS] 34335 f. 2r-v, Charles Montagu to William Blathwayt, 29 May 1696. All dates are ‘old style’.

² Baker Library, Harvard Business School, Kress MS [hereafter BAL, Kress MS], Earl of Ranelagh to William Blathwayt, 9 June 1696

³ BL, Add. MS 34335 f. 7r, Charles Montagu to William Blathwayt, 23 June 1696. For the financial and political context, see above n. **Error! Bookmark not defined..**

⁴ BL, Add. MS 34335 f. 7r-v, 10v, Charles Montagu to William Blathwayt, 23 June 1696, 3 July 1696. Kler p. 204. The Bank of England considered a similar proposal ‘for circulating Bank notes in the west of England’ in September 1696: CLAPHAM, J. H. (1945). *The Bank of England: a history*. Cambridge: Cambridge University Press

⁵ *Calendar of Treasury Papers (1596-1728)*, ed. REDDINGTON, J. (6 vols, London, 1868-89) vol. i, 545-6; *Calendar of Treasury Books (1660-1718)*, ed. SHAW, W. (32 vols, London, 1904-62) [hereafter CTB] vol. xi, 268

⁶ BL, Add. MS 34335 f. 7v-8r, Charles Montagu to William Blathwayt, 23 June 1696

⁷ BAL, Kress MS, Earl of Ranelagh to William Blathwayt, 9 June 1696.

⁸ University of London, Senate House Library, London, UK [hereafter UoL], MS 65, Memorandum by Charles Montagu, circa 1696. For Blathwayt, see BL, Add MS 34355, Charles Montagu to William Blathwayt, 17 July 1696. For the Bank of England and fractional reserve banking, see below 9.

⁹ The minutes of the East India Company show that the full subscription was eventually called up between May and December 1697: BL, IOR/B/41, f. 174, 180, 183, 185, 187, 189, 202, 211, 232.

¹⁰ Henry E. Huntington Library, San Marino, California [hereafter HL], HM 78009, Sir James Bateman to Richard Hill, 25 May 1697.

¹¹ HL, HM 78001, Sir James Bateman to Richard Hill, 2 April 1697.

¹² Beinecke Rare Book and Manuscript Library, Yale University, New Haven, Connecticut [hereafter BEL], Osborn MS 31, Box 1, Folder 5, Sir James Bateman to Richard Hill, 9 April 1697

¹³ HL, HM 78002, Sir James Bateman to Richard Hill, 13 April 1697

¹⁴ HL, HM 78003, Sir James Bateman to Richard Hill, 20 April 1697

¹⁵ BL, IOR/B/41 (East India Company, Court of Directors Minute Book) f. 155, 156 (19 March 1697, 22 March 1697)

¹⁶ BL, IOR/B/41, ff. 167-9 (10 April 1697, 12 April 1697, 14 April 1697, 16 April 1697); CTB vol. xii, 6, 7.

¹⁷ HARDY, W. J. and E. BATESON (eds.), *Calendar of State Papers, domestic series, of the reign of William and Mary* 11 vols. (London, 1895-1937) vol. viii, 114.

¹⁸ See below n. 21 for Edmund Clarke (the Lord Mayor) and Thomas Cuddon (the Chamberlain).

¹⁹ Bank of England Archives, London, UK [hereafter BEA], G4/2 (Court of Directors Minutes), p. 221 (19 April 1697).

²⁰ HL, HM 78003, Sir James Bateman to Richard Hill, 20 April 1697

²¹ This paragraph is based on UOL, MS 65, ‘A list of subscribers to the contract for lending money to circulating bills authorised by Parliament to be issued at the Exchequer for £1,500,000’. Officials have been identified using SAINTY, J. C. (1972). *Treasury officials, 1660-1870*. London: Athlone Press [for the] University of London, Institute of Historical Research, and SAINTY, J. C. (1983). *Officers of the Exchequer*. London: Swift

²² *Calendar of the Manuscripts of the Marquis of Bath* (5 vols., London, 1904-80) vol. iv (Prior Papers), p. 112; BL, Harley MS 6838 f. 86r, ‘The History of Exchequer Bills’. This is undated, but its reference to the recent Fourth Subscriptions for the Circulation (f. 87r) dates it to March or April 1698.

²³ These have been identified based on Richard Hill’s accounts in Shropshire Archives, Shrewsbury, UK, Attingham MS [hereafter SA], 112/1A/1, ‘General Account Book’, 1692-1700.

²⁴ HL, HM 78002, Sir James Bateman to Richard Hill, 13 April 1697

²⁵ BEL, Osborn MS 31, Box 1, Folder 4, Sir James Bateman to Richard Hill, 2 July 1697, 6 July 1697

²⁶ SA, 112/1/533, Mordecai Abbott to Richard Hill, 9 July 1697. This letter is dated 1696, but has been re-dated to 1697 on the basis of internal evidence.

²⁷ CTB vol. xii, 57; BL, IOR/B/41, ff. 186-187 (9 July 1697, 14 July 1697)

²⁸ BL, IOR/B/41 ff. 188-9 (20 July 1697); BL, Add. MS 34335 f. 43r, Charles Montagu to William Blathwayt, 16 July 1697

²⁹ BL, Add. MS 34335 f. 45r, Charles Montagu to William Blathwayt, 30 July 1697

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- ³⁰ BL, Harleian MS 6838 f. 88r; BEL, Osborn MS, Box 1, Folder 4, Sir James Bateman to Richard Hill, 9 April 1697; HL, HM 78002 and 78006, Sir James Bateman to Richard Hill, 13 April 1697, 7 May 1697
- ³¹ HL, HM 78008, Sir James Bateman to Richard Hill, 14 May 1697
- ³² BAL, Kress MS, Earl of Ranelagh to William Blathwayt, [undated, but circa mid-1697].
- ³³ CTB vol. xii, 151; BEA, G4/2 f. 224r (4 May 1697)
- ³⁴ HL, HM 78009, 78010, Sir James Bateman to Richard Hill, 25 May 1697, 28 May 1697.
- ³⁵ BEL, Osborn MS 31, Box 1, Folder 4, Sir James Bateman to Richard Hill, 18 May 1697.
- ³⁶ Nottingham University Library, Nottingham, UK, Portland MS [hereafter, NUL], Pw A 937, Charles Montagu to the Earl of Portland, 18 May 1697
- ³⁷ BL, Add. MS 34335 f. 27r-v, 28r, 35v, Charles Montagu to William Blathwayt, 25 May 1697, 18 June 1697.
- ³⁸ HL, HM 78007, Sir James Bateman to Richard Hill, 11 May 1697
- ³⁹ HL, HM 78007, Sir James Bateman to Richard Hill, 11 May 1697, and HM 78009, Sir James Bateman to Richard Hill, 25 May 1697
- ⁴⁰ BAL, Kress MS, Earl of Ranelagh to William Blathwayt, 1 June 1697
- ⁴¹ CTB vol. xii, 33, 193
- ⁴² BL, Add. MS 34335 f. 41r-v, Charles Montagu to William Blathwayt, 6 July 1697
- ⁴³ NUL, Pw A 940, Charles Montagu to the Earl of Portland, 13 August 1697
- ⁴⁴ BAL, Kress MS, Earl of Ranelagh to William Blathwayt, 27 August 1697
- ⁴⁵ HL, HM 78013, Sir James Bateman to Richard Hill, 28 September 1697; BL, Add. MS 34335 f. 57r, Charles Montagu to William Blathwayt, 1 October 1697
- ⁴⁶ HL, HM 78014, Sir James Bateman to Richard Hill, 19 October 1697
- ⁴⁷ TNA, T1/51/9, Trustees [for Circulating Exchequer Bills] to the [Lords of the] Treasury, 10 January 1698; TNA, T1/51/33, Trustees to Treasury, 2 February 1698.
- ⁴⁸ BL Harleian MS 6838 f. 86v
- ⁴⁹ HL, HM 78016, Sir James Bateman to Hill, 21 March 1698.
- ⁵⁰ TNA, E406/26 ff. 10v-17r
- ⁵¹ BEL, Osborn MS 31, Box 1, Folder 4, Sir James Bateman to Richard Hill, 9 August 1698, 13 September 1698; HL, HM 78021, 9 November 1698