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Demanding 'credible commitment': public reactions to the failures of the early financial revolution[1]

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North and Weingast's notion of 'credible commitment' arguably offers a reasonable understanding of the factors that allowed the development of a trusting relationship between the state and its potential creditors over the long term. Yet, they failed to recognize the difficulties that were encountered along the way. This article highlights some of those difficulties and shows that at times when credible commitment was in doubt, supporters of the financial revolution held the government to account through the published media and by direct action. This is important for two reasons. First, the contemporary debate regarding the financial revolution, as it is presented by some historians, may lead us to presume that there would have been little public outcry had the government reneged on its debt. Indeed, we might argue that hostility towards financiers had always made default popular with many segments of the population. Yet, clearly opinion was not quite so one-sided and the reaction against potential default was considerable. Second, the fact that the public creditors were willing to act to protect themselves shows that credible commitment was not just created from above by the Glorious Revolution and the subsequent development of the institutions of government; it was demanded from below by the people who invested in the financial revolution.

> War is quite changed from what it was in the time of our Forefathers; when in a hasty Expedition, and a pitch'd Field, the Matter was decided by Courage . . . now the whole Art of War is in a manner reduced to Money . . . that Prince, who can best find Money to feed, cloath, and pay his Army, not he that has the most Valiant Troops, is surest of Success and Conquest.[2]

One of William III's first acts on taking the English throne was to plunge the country into an expensive and bloody war against Louis XIV's France. As the conflict dragged on, public expenditure rose. The state was able to increase revenue through taxation, but nonetheless its outgoings easily outstripped its income.[3] The funding shortfall was met initially through short-term borrowing, but by 1692 the government's credit was deteriorating and the military and economic outlook becoming increasingly bleak. What was needed, therefore, was a means of raising substantial amounts of money immediately and deferring the

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[2] Davenant, *Essay*, pp. 26–7.
[3] According to Brewer, *Sinews of power*, p. 89, average tax revenues during the Nine Years' War were £3.64 million per annum, almost double the revenues obtained prior to 1688.

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day of reckoning by funding the loans over the long term.[4] This need was met through a series of new and innovative measures that included the sale of life annuities and lottery tickets and the use of the great moneyed companies, the Bank of England and the new East India Company, both to raise capital through the issue of shares and for the provision of direct loans. The innovations of the 1690s, although in the short term costly and inefficient, attracted the funds of a wide variety of domestic and foreign investors and did lay the foundations for the evolution of an effective system of state finance.[5] They have rightly been labelled a 'financial revolution'.

In 1989 North and Weingast offered an account of why investors were willing to commit their capital to the financial revolution.[6] They suggested that it was Parliament's assumption of control over the nation's finances after the Glorious Revolution that convinced the subscribers to the first long-term English national debt that their investments would be safe.[7] What made the difference was the fact that investors were now committing to a state, rather than sovereign, debt and that interest and annuity payments were backed by the appropriation of tax revenue and guaranteed by Act of Parliament. Of course, Parliament itself might have acted as irresponsibly as the previously unreliable Stuart monarchs but, according to North and Weingast, its incentives to do so were reduced by the 'fundamental institutions of representative government emerging out of the Glorious Revolution of 1688'.[8]

North and Weingast's argument has been contested on a number of points. It has been shown that much had already been done to improve English public finances between 1643 and 1688.[9] Other scholars have demonstrated that secure property rights existed in England prior to 1688, and thus the Glorious Revolution was by no means a significant turning point in relations between debtors and creditors.[10] Further research has shown that, in spite of its supposed institutional advantages, the British government's borrowing costs were not significantly lower than those of its nearest European rivals.[11] More recently, Flandreau and Flores have offered a significant challenge to the notion that institutions facilitate good governance and allow states to manage their relationships with their creditors effectively. Their work argues that investors operating under conditions where access to reliable information about borrowers is limited develop alternative means to scrutinize and test reliability. As such, it demonstrates that representative institutions are not always necessary to establish credibility and suggests that the 'democratic advantage' view of sovereign borrowing put forward by neo-institutionalists may be flawed.[12]

[4] Quinn, 'Tallies or reserves?', p. 41, also argues that difficulties in raising short-term funds spurred innovations in public finance.

[5] Dickson, *Financial revolution*; Brewer, *Sinews of power*; Murphy, *Origins*.

[6] North and Weingast, 'Constitutions and commitment'.

[7] See Roberts, 'Constitutional significance', for details of the financial settlement imposed on William III after the Glorious Revolution.

[8] North and Weingast, 'Constitutions and commitment', p. 804.

[9] Roseveare, *Financial revolution*; Braddick, *State formation*; P. K. O'Brien, 'Fiscal exceptionalism: Great Britain and its European rivals from Civil War to triumph at Trafalgar and Waterloo', London School of Economics working paper, 65/01 (2001).

[10] Clark, 'Political foundations'; Carruthers, *City of capital*.

[11] Sussman and Yafeh, 'Institutional reforms'.

[12] Flandreau and Flores, 'Bonds and brands'.

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Yet, in spite of these, and a number of other, challenges, North and Weingast's paradigm retains a powerful hold on the imaginations of those scholars considering questions of sovereign borrowing and economic development. Moreover, while challenges to North and Weingast have indeed been many, we do still lack a detailed understanding of the nature of the English state's relationship with its creditors during the early financial revolution. This article aims to fill that gap in our knowledge. It will demonstrate that North and Weingast's understanding of the early financial revolution was flawed and their account of the establishment of credible commitment is incomplete. They argued that commitment was offered from above by the institutions of government. The rest of this article will show that, before 1720 at least, Parliament in fact proved itself little better than the Stuart monarchs at honouring its financial obligations. Credible commitment, therefore, was not offered from above. It had to be demanded from below by the people who invested in the government's debt.

In order to demonstrate that point, section I will first provide an overview of the failures of the early financial revolution. Section II will then detail how discontent with the government's management of the public finances was expressed in print and explain how contemporaries thought the state should act in order to make its promises credible. The final section will consider the means by which England's early public creditors punished the failures of the financial revolution and the steps they took to protect their investments.

I

North and Weingast saw the constitutional changes of 1688/9 as a necessary condition for the financial revolution and claim there was a consequential 'sharp change in the willingness of lenders to supply funds [which] must reflect a substantial increase in the perceived commitment by the government to honour its agreements'.[13] This assumption is incorrect. As many historians have emphasized, the Revolutionary settlement was merely one in a series of reforms that had laid the groundwork for the financial revolution.[14] Arguably it was the introduction of the Excise in 1643 that first created a secure base for borrowing. During the 1660s George Downing's introduction of Treasury Orders built on those foundations. Treasury Orders were essentially promises to pay when tax revenue became available and, unlike other credit instruments of the time, they were legally negotiable. Thus they were an important step towards financial stability. Equally, it was Downing who first linked loans to particular tax revenue streams, thus increasing the credibility of the debt.[15]

In spite of this progress, it is nevertheless clear that, at the outbreak of the Nine Years' War, the English state still did not have an adaptable borrowing strategy at its disposal. It was, for the most part, reliant on funds from wealthy individuals and, as such, the system of public borrowing was open to abuse, costly, and not fit for the business of generating war finance. Thus, as the war with France dragged on without much hope of a decisive English victory and the usual lenders began to

[13] North and Weingast, 'Constitutions and commitment', p. 805.

[14] Roseveare, *Financial revolution*; Carruthers, *City of capital*; Braddick, *State formation*; O'Brien, 'Fiscal exceptionalism' (see above, n. 9).

[15] Braddick, *State formation*, p. 258.

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withdraw support, a change in the nature of state finance became both essential and inevitable. However, the financial revolution was by no means the smooth and straightforward transition implied by North and Weingast's account. Put simply: while the financial settlement imposed on William III might have allowed the post-Glorious Revolution Parliament to gain power over the nation's finances, Parliamentary control was not all that was necessary for the establishment of credible commitment. Parliament had to learn to manage long-term financing and, just like any other borrower, to build a reputation for financial probity.[16] This was no easy task. With little established expertise in the Treasury, ministers were reliant upon independent projectors and interested members of the public for fund-raising, and sometimes tax-raising, schemes and therefore projects, although generally innovative, were not always well researched and fit for purpose. The tontine loan floated in 1693, for example, was too complex to attract the attention of the inexperienced and cautious English investor. Annuities and lottery schemes were simpler and had a more immediate appeal to a broad range of investors. But annuities schemes, as the Dutch had already discovered, were a very costly basis for a system of state borrowing.[17] The Million Lottery of 1694 was an excellent means of attracting the funds of the small investor but was equally costly and its administration was impossibly complicated and time-consuming.[18] The establishment of the Bank of England was effective but left the state negotiating with a new institution that was also answerable to shareholders and, as such, could not just be the puppet of government. These schemes were the choice of a state eager to raise money and desperate to make an immediate appeal to a wider investing public. For those purposes, they had to be attractive and returns had to be high, but the inevitable consequence was unmanageable administrative complexity and great expense.

The costs incurred were, indeed, intended to be offset by the appropriation of tax revenue. As we have seen, this was not a new phenomenon, having first been used by Downing during the 1660s. But then, because tax funds seldom yielded expected revenues, it had clearly not acted as a cast-iron guarantee on short-term debt. The situation was the same in the 1690s and throughout much of the early eighteenth century. Owing to its inexperience in managing long-term finance, the Treasury was 'timid' in its assessment of the state's financing needs and Parliamentary committees were often reluctant to vote for the necessary funding.[19] Parliament also lacked the facilities to make a systematic study of patterns of consumption and thus arrive at clear estimates of prospective yields, making it reliant upon the overly optimistic calculations of potential tax yields provided by projectors and political arithmeticians.[20] The difficulties of tax collection further diminished and delayed receipts at the Exchequer.[21] The result was that income frequently fell well short of overall commitments and deficiencies in tax funds arose which inevitably led to short-term suspensions of interest and annuity payments. This occurred most notably during 1696 and 1697 when a deficit of

[16] Dickson, *Financial revolution*, p. 47. See also Stasavage, 'Partisan politics'.
[17] 't Hart, '"Devil or the Dutch"'.
[18] Murphy, 'Lotteries in the 1690s'.
[19] Hill, 'Change of government', p. 398.
[20] Dickson, *Financial revolution*, p. 349.
[21] Hill, 'Change of government', p. 398.

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around £5 million was recorded.[22] The situation was similar between 1708 and 1710 when funds to pay the armed forces were greatly in deficit, leading to delays of months and sometimes years in payment and consequent significant discounts on most forms of short-term government debt.[23]

These deficits, delays, and suspensions, because they related not only to short-term debt but also to the new instruments of long-term debt and therefore involved the capital of many people, must be viewed as seriously as the Stop of the Exchequer in 1672.[24] The Stop is often cited as an example of the unreliability of the financial promises of the mid-seventeenth-century sovereigns while the financial crises of the mid-1690s and 1710s tend to be ignored. Yet the latter surely demonstrate that the state's promises were, at this time, equally compromised.

Attempts to reduce the cost to Parliament of managing its debts, most notably through the establishment of a Land Bank in 1696 and the later and more infamous activities of the South Sea Company, created their own problems. The former attempt will be dealt with in detail in the following sections and the latter is too familiar to need repeating here, but both serve to illustrate that the management of long-term financing was not straightforward; that, lacking relevant skills, the Treasury turned often to outside help of dubious quality; and that political antagonism significantly and negatively impacted upon the design of England's early system of state finance.

Political antagonism particularly marred the state's initial relations with the Bank of England. North and Weingast might cast the Bank of England in the role of overseer of the public finances, and indeed the Bank was later to cast itself in that role. By the late eighteenth century its directors would refer to the Bank as 'the Grand Palladium of Publick Credit'.[25] Nevertheless, the Bank was initially established as a temporary institution, having been granted only an 11-year charter in 1694. Because of its temporary status, prior to 1720 at least, it was undermined by government-sponsored rivals, initially the Land Bank and later the South Sea Company. The Bank's vulnerability to political tensions was further demonstrated in 1710 and 1711 when the entire system of public credit was thrown into disarray once more by the ever-increasing costs of war, financial crisis, and a move to Tory government. Tories resented the control exerted by moneyed men over the government, so much so that some spoke openly of abolishing the Bank of England. In short, the new Tory government was not expected to maintain the state's financial commitments willingly.

Outside of these direct political rivalries, because the Bank was not permanently established until 1844, its directors were periodically placed in the position of having to renegotiate the Bank's charter and hence its relationship with the state.[26]

[22] Dickson, *Financial revolution*, p. 354.

[23] Hill, 'Change of government', p. 398.

[24] The Stop amounted to a suspension of debt payments, calculated in 1677 to be in excess of £1.3 million. The obvious victims were the small group of goldsmith-bankers who controlled lending to the Crown and for whom there was little public or Parliamentary sympathy, but, of course, the customers of those goldsmith-bankers also suffered severe losses. It is also worth noting that the victims of the Stop did not achieve full redress until the early eighteenth century, by which stage, although it was certainly Parliament who affirmed their property rights, it had taken more than 10 years of Parliamentary control over the public finances for that to happen; Carruthers, *City of capital*, pp. 12–17.

[25] Bank of England Archives (hereafter BEA), minutes of the Committee of Inspection, M5/213, fo. 178.

[26] Broz and Grossman, 'Paying for privilege'.

At any of those renegotiations, Parliament might have perfectly legitimately repealed the Bank's charter or substantially changed the terms of its role in the system of public finance to the detriment of the institution itself and its shareholders and creditors. The point to be made, and made forcefully, is that during the early financial revolution the Bank of England might have stood as a focal point for discontented investors and provided a strong voice for their views but it was not yet permanently established. Thus, the institution that North and Weingast describe as 'an additional, private constraint on its [Parliament's] future behavior' was in fact a temporary measure; its status was contested, its monopoly at risk, and it remained highly vulnerable to the whim of Parliament.[27]

The above-mentioned tensions in the system of public finance, even when not leading to the suspension of interest and annuity payments, naturally acted to undermine the state's financial credibility. This is not just the judgment of hindsight; the pamphlet literature and recorded actions of the public creditors seem to confirm this and to show that, far from being viewed as a credible debtor, the English Parliament was often judged to be financially incompetent and untrustworthy; in fact no more credible than the sovereign. What is interesting in this respect is how those who had already committed their capital to the state reacted when it became clear that their trust was misplaced. They did not merely assume that all was lost; instead they acted to protect themselves and their investments and, through publications, petitions, and public action, scrutinized the handling of the public finances, questioned proposed changes to the relationship between themselves and the state, and challenged potential defaults.

II

Evidence of public concern about the integrity of the state's financial promises has generally been neglected by scholars who have instead focused on the opinions and activities of those who mistrusted or even feared the consequences of the financial revolution.[28] Those arguments rested chiefly on the ideas that the new financial market would encourage speculation, disrupt markets, and divert men away from honest trade. Others suggested that the public funds were a political trick designed to tie creditors to the post-Glorious Revolution regime and that the end result would be a diversion of power away from the landed interest and into the hands of the directors of the main moneyed companies.

There was, however, a substantial minority of writers who recognized that sound public credit played a key role in creating a strong economy and provided the means for Britain's successful prosecution of the wars against France. They often took the government to task for not paying proper attention to the maintenance of strong public credit. But before detailing the arguments of those who were dissatisfied with the state's financial performance, it is worth noting that those who wished to publicize their dissatisfaction with the government had to be aware of the potential consequences. The lapsing of the Licensing Act in 1695 had allowed the expansion of the published media but the freedom it offered was merely the

[27] North and Weingast, 'Constitutions and commitment', p. 821.

[28] See, for example, Dickson, *Financial revolution*; Brantlinger, *Fictions of state*; Pocock, *Virtue, commerce and history.*

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freedom to 'publish and be damned'.[29] Publishers continued to be fined, pilloried, and imprisoned for producing items that were offensive to the government of the day, meaning that those who did venture to put their criticisms in print risked much. Samuel Grascome's anonymously published *Account of the Proceedings in the House of Commons* which detailed the 'very great Anger against the Parliament' caused by the privations of the Recoinage was condemned as 'false, scandalous and seditious, and destructive of the freedom and liberties of Parliament'. It was ordered to be burned by the common hangman and a reward of £500 was offered to anyone who could discover its author.[30]

The risk of harsh punishment meant that most writers were far more guarded than Grascome. But, although respectful in tone, criticism of the handling of the public finances was common, and it is clear that the blame was laid firmly at Parliament's door. Indeed, writers sometimes began by invoking the promises made in the Acts of Parliament that had created the public funds. One pamphleteer asked the government to remember that the Acts had been presented to investors as 'a true Prospect of the Advantages [they] were to enjoy' and had offered 'Certainty and Assurance' about the returns offered. Similarly, he asserted that the Bank of England's monopoly was protected by its charter and by the fact that 'common Experience confirms us, That the Crown never grants the same Things twice'.[31] There is a thinly veiled reference to the Land Bank here and a (perhaps understandable) conflation of Crown and Parliament which must indicate that the distinctions historians make between state finance and sovereign finance were not recognized by all in late seventeenth- and early eighteenth-century society.

There is some evidence to show that these references to the promises that had been made were not just idle assertions. It is known that copies of the Acts of Parliament relating to the funds were distributed, and retained by investors. Thomas Sandes wrote to Cornelius Huys on the subject of the Million Lottery: 'y^t you may bee sure you have right don you in all things & y^t you may better understand ye whole business of said lottery wee have doe here inclosed send you abbreviation of ye act of Parlement concerning ye same'.[32] Thomas Bowrey, a London merchant and an active investor during the 1690s, retained a number of copies of the Acts relating to his various investments in the public funds. Bowrey noted as being in his library the 'Act on Beer & Annuity of 14 p. C., 1692', which related to the issuance of annuities; the 'Act. Excise on Salt & Beer & for y^e Lottery 1694', detailing the Million Lottery; the 'Act Tonage on Ships & Excise on Beer & for y^e Bank, 1694', outlining the establishment of the Bank of England; and the 'Act on Salt for E. India Co:, 1698', relating to the establishment of the New East India Company.[33] The public creditors, therefore, were scrutinizing the state's credit in the same way they might scrutinize the credentials of a private person to whom they had lent money. They were checking the terms of the agreement and retaining the Acts of Parliament as a form of contract to be held up in case of default.

[29] Gibbs, 'Government', p. 87.
[30] [Grascome], *Account*; Appleby, *Economic thought*, pp. 239–40.
[31] Anon., *Reasons for encouraging*, p. 3.
[32] BEA, papers of John Browne and Thomas Sandes, Merchants of London, letter book May 1692–April 1696, M7/3, 17 Apr. 1694.
[33] Guildhall Library London (hereafter GLL), papers of Thomas Bowrey, MS 3041/9, iii.

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Critics also warned Parliament that, as in the case of any private individual, creditworthiness would be undermined if promises were not kept. Hence one writer cautioned that 'taking away, changing or altering any Parliamentary Funds without . . . free and voluntary Consent, will render them precarious and uncertain, and by a natural consequence destroy their Credit and Esteem'. He went on to assert that ill-using the public creditors would create distrust. This was no short-term problem; indeed 'all Publick-spiritedness will infallibly vanish at the remembrance of the Ingratitude shewed'.[34] The ultimate consequence of this would be the destruction of the public funds and an inability to defend the nation against its enemies. Indeed, as another pamphleteer asserted, 'Money being the Basis of the War, in the Modern Way of carrying such Things on in the World, it had long since been a receiv'd Maxim . . . That the longest Purse, not the longest Sword would be sure to Conquer at last'.[35]

The Bank of England stood out among the new funds as a target for attack and so writers were often occupied by the perceived need to protect its integrity. Its fiercest critics argued that the Bank would contribute to 'the impoverishing all Ranks and Degrees of People in the Kingdom, save those alone that are immediately interested and concerned in it'.[36] Most affected, it was alleged, were the gentry and the nobility who, already burdened by high taxes, feared that the Bank would contribute to further falls in the value of land and rents.[37] Equally, it was argued that the taxes exacted from the landed interest paid dividends and annuities to the public creditors. The author of *Angliae Tutamen* asserted 'the great Dividends the *Bank* has already made, and is preparing to make . . . tell all the World in honest *English*, that one Part of the Nation preys upon t'other'.[38]

Its defenders saw the Bank in quite a different light. Aside from the dividends and potential capital gains available to shareholders, it was argued that the Bank offered more general advantages for the English economy. William Paterson, and others, noted that the Bank would bring down the rate of interest and increase the availability of capital. Michael Godfrey also pointed to the fact that the Bank continued to lend at reasonable rates despite the fact that the country was in the midst of an expensive war that necessitated the export of significant quantities of bullion overseas. He asserted that without the Bank of England and its services the war might well be lost.[39]

Without reputation the Bank could not continue to provide these advantages to the economy. In this respect, comparisons were drawn with private bankers. It was argued that for a private banker to be trusted:

> Men believe that such a Banker hath a good Foundation, is a careful, cautious, and honest Man; that he hath an Estate to satisfy every Creditor, and will not dispose or alienate any part of it . . . that [he] doth not launch out his money in many Foreign Adventures, or on doubtful Projects, or uncertain Funds.

[34] Anon., *Letter to a friend*, p. 2.
[35] Anon., *Chimera*, p. 2.
[36] Anon., *Some considerations offered*, p. 9.
[37] Anon., *Proposal for a subscription*.
[38] Anon., *Angliae Tutamen*, p. 7.
[39] Godfrey, *Short account*, p. 3.

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The only way that the Bank of England could establish such a reputation, the author continued, was through the support of Parliament which was after all responsible for the funds that maintained the Bank.[40]

Reputation was to be gained not only through honouring promises but also through sound management: in other words, by protecting the cost-effectiveness and efficiency of those promises. In *An essay upon publick credit*, published in 1710, Daniel Defoe wrote in defence of the Tory government's handling of the country's finances and had no hesitation in highlighting Parliament's earlier shortcomings. Indeed, he identified reasons for the failure of public credit in the 1690s as the deficiencies in the funds allocated to repay loans and the failure to supply those deficiencies. He argued that this problem was judged by the public to be the result of Parliament's incompetence and had resulted in the reduction of 'Tallies on those Funds to intollerable, unheard of Discounts, to the Ruin of all that we called Credit'. He further asserted that the revival of public credit depended upon 'the Parliament and the Queen contin[uing] to preserve those Funds from Deficiencies, to make good such as happen, and to support the Vigour and Honour of the Publick Management'.[41] Parliament and the monarch, moreover, received regular reminders of their duty to preserve the integrity of the public funds. In 1710 the Duchess of Marlborough wrote to Queen Anne to remind her of the extent to which the City valued good and consistent government. She noted: 'I have lately heard for the honour of my Lord Treasurer from all the considerable men in the city, which is, that if he should be removed, they would not lend a farthing of money'.[42] Taking a rather different stance, the prescient Archibald Hutcheson wrote in March 1720 that given the lack of real foundation behind the rise in South Sea stock and the problems he identified with the scheme itself, it was 'the duty of the British Senate, to take all necessary precautions, to prevent the ruin of many thousands of families'.[43]

A rather more unexpected consequence of the published scrutiny of the public finances was guarded support for the less desirable elements of the financial revolution. Thus, while private lottery schemes were widely condemned because they encouraged speculation and 'tak[e] away Money, and los[e] it quite from Servants, and such as have but a little', Thomas Neale, the inventor of the Million Lottery, justified the scheme by asserting that it enabled the government to access the capital of those without the means to invest in annuities or the Bank of England.[44] Moreover, investment in this lottery was widely touted as a patriotic duty. Even the *Athenian Mercury*, which was no friend to lotteries, still considered the Million Lottery to be acceptable because it was necessary for the defence of the nation.[45]

Similarly, although stock-jobbing and speculation were condemned even by the most ardent supporters of the financial revolution, it was understood that liquidity was essential. As John Houghton argued in 1694, 'who will have a Share, if to save

[40] Anon., *Letter to a friend*, p. 1.
[41] Defoe, *Publick credit*, pp. 17–18, 28.
[42] Quoted in Hill, 'Change of government', p. 400.
[43] Quoted in Dale, *First crash*, p. 82.
[44] Neale, *Profitable adventure*.
[45] *Athenian Mercury*, 16 Oct. 1694.

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his Life, Estate or Freedom, he might not part with it . . . ?'.[46] But, of course, liquidity depended on an active market, as Daniel Defoe recognized when in 1719 he reported the opinion of one stock-jobber thus:

> if the Government takes Credit, their Funds should come to Market; and while there is a Market we will buy and sell; there is no effectual way in the World, says he, to suppress us but this, *viz.* That the Government should first pay all the publick Debts, redeem all the Funds, and dissolve all the Charters, *viz.* Bank, South-Sea, and East-India, and buy nothing upon Trust . . . [47]

Such arguments reasserted themselves whenever the issue of regulation was raised. Thus, an attempt in 1694 to introduce legislation to control the secondary market in financial instruments prompted a petition from 'several Merchants, on behalf of themselves, and divers other Merchants and Tradesmen in and about the City of London, and elsewhere' who asserted, albeit without providing specific details, that the Bill would ruin trade.[48] In 1697, a pamphleteer similarly argued against restrictions being placed on the market when he published a list of the legitimate uses to which derivative instruments (time bargains, puts, and refusals) had been put during the period of the recoinage.[49] Over time such arguments developed and grew in sophistication. In 1733 it was argued that restrictions on the market would lead to a small group controlling the funds, which would force foreign buyers out, lead to a loss of liquidity and an increase in transaction costs, and ultimately destroy the public funds. The consequences could be disastrous for the nation because, if the difficulties of trading in the national debt increased, the public might be 'unwilling to engage in any new Loan, when the Emergencies of the State may require [its] Assistance'.[50]

During the 1750s an opponent of legislation expanded upon these themes and notably made the connection between the efficient functioning of the derivatives market and the ability of the fiscal-military state to raise funds quite explicit. First, he argued, public credit required an open market where people could complete their transactions with 'ease, readiness and dispatch'. Second, dealing for time (in other words, using derivative instruments) helped to maintain an open market. Third, there were insufficient non-derivative transactions to maintain the number of brokers necessary for an effective market. Fourth, if the government were to destroy the practice of jobbing 'the Market [would be] lost'. Last and most important, the loss of the market would result in greater harm to shareholders and the proprietors of the public funds and indeed to the government than did the existence of stock-jobbers.[51]

Pamphlets, broadsides, and the wording of petitions offer the clearest insight into the arguments used by supporters of the financial revolution, those of building reputation, sound management, and the need to protect the liquidity of the new financial system. But the impact of Parliament's failure to maintain the integrity of its financial promises was not just seen in the print literature. Significant numbers

[46] Houghton, *Collection for improvement*, 25 June 1697.
[47] Defoe, *Anatomy*, p. 2.
[48] *H. of C. Journals*, XI (1693–7), pp. 116, 123.
[49] Anon., *Reasons humbly offered, against a clause*.
[50] Anon., *Some considerations on public credit*.
[51] Anon., *Reasons humbly offered to the members*.

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of disillusioned and angry public creditors also met, particularly during times of crisis, to debate the state of the public finances. We know from the letters of Samuel Jeake, an East Sussex merchant and semi-active investor during the 1690s, that there were meetings of the holders of Million Lottery tickets in 1696. Jeake also attended many of the Bank of England's General Courts and his letters to his wife imply that General Courts were preceded by well-attended meetings and discussions with other stock-holders.[52] Moreover, the public creditors were not content just to debate the government's shortcomings. Many were willing to take action to protect their investments and to punish the failures of the financial revolution.

III

One of the most powerful actions a group can take against government is the withdrawal of its support.[53] It is clear that, although investors in the early financial revolution may have recognized the constraints of war and perceived support of the government to be a patriotic duty, they were not prepared endlessly to accommodate the state's demands. Indeed, the failure of the Malt Lottery in 1697 was a potent demonstration of the public's dissatisfaction with the government's handling of the financial system. Of the 140,000 tickets offered for sale, only 1,763 were sold.[54] The government recognized that the fault was theirs. As Charles Montagu, the Chancellor of the Exchequer, wrote to William Blathwayt, 'I was always fearfull of the success of a new Lottery when the old Tickets were not pay'd'.[55] This episode contradicts North and Weingast's assumption that, after the Glorious Revolution, investors were more willing to lend to the state. Indeed, it clearly demonstrates how vulnerable those early fund-raising ventures were and how quickly the entire edifice of public credit might have collapsed.

Further quantitative evidence of a lack of public faith in the early financial revolution is offered in Sussman and Yafeh's analysis of the costs of borrowing and composition of government debt before the middle of the eighteenth century.[56] In particular, they show that the state's ability to issue long-term debt remained constrained until around 1712.[57] They also demonstrate that the British government's cost of borrowing both relative to earlier periods under Stuart rule and, equally important, relative to its European allies and rivals, remained high until around 1730. Indeed, interest rates were actually higher after the Glorious Revolution than during the 1670s and did not return to levels seen under the rule of Charles II until the 1720s.[58] These findings confirm that investors' willingness to lend during the early financial revolution was limited and suggest that the British state's sound reputation for financial probity did indeed take many years to establish.

[52] East Sussex Records Office (hereafter ESRO), Frewen Family Archives, Jeake papers, *passim*.
[53] Weingast, 'Economic role', p. 26.
[54] Dickson, *Financial revolution*, p. 49. The state did not use lotteries again until 1710 but subsequently they were regularly used by the state throughout the eighteenth century and were not abolished until 1826; Raven, 'Abolition'.
[55] BL, Earl of Halifax's Letters on the Land Banks and Finance, 1696–1697, Add. MS 34,355, fo. 27.
[56] Sussman and Yafeh, 'Institutional reforms'.
[57] Ibid., p. 922.
[58] Ibid., pp. 908, 923.

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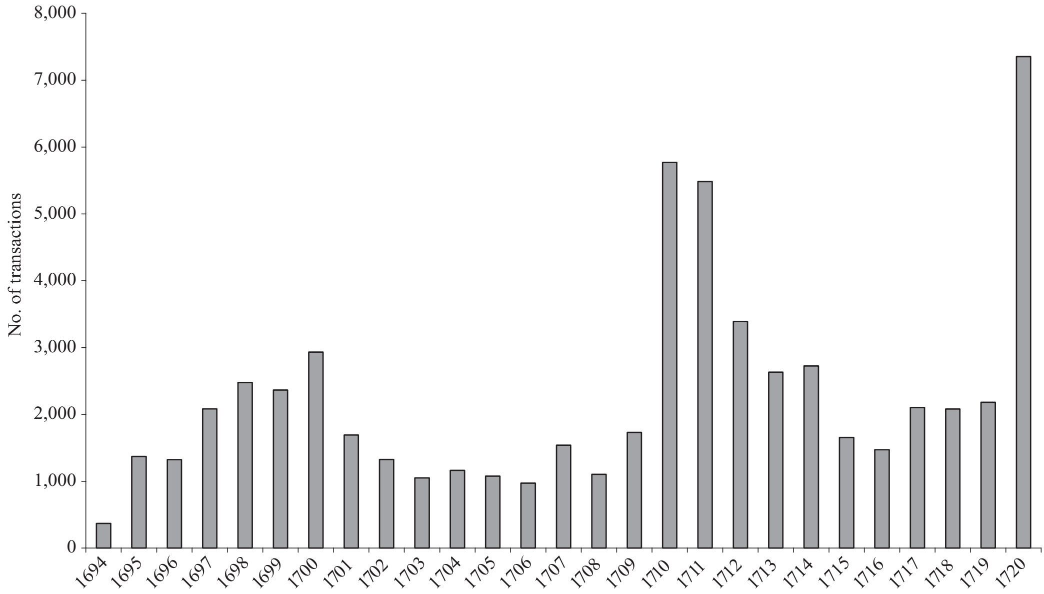

Figure 1. *Annual number of transfers of Bank stock, 1694–1720*
Source: Dickson, *Financial revolution*, pp. 529–30.

One positive consequence of the government's failure to keep up interest payments during the 1690s was the growth of a lively secondary market for the state's debt. As figure 1 demonstrates, in spite of falling prices and the cessation of dividend payments in 1696, Bank of England shares remained liquid. Perhaps more unexpected was the growth of a secondary market in those instruments of the new national debt that were not designed to be traded, such as Million Adventure lottery tickets and annuities.

Lottery tickets were potentially tradable because the prizes attached to them were paid in annual instalments over a period of 16 years. Even the losing tickets paid an annuity of £1 per year. Thus, they retained a value long after the lottery draw.[59] There is every indication that the market in Million Adventure lottery tickets emerged spontaneously initially to serve those who did not want to wait 16 years to realize their investments. But the market took on a new significance as Parliament began to fail to maintain annuity payments because it meant that investors who had lost faith in the state's financial credibility were not obliged to maintain their investments. It is, unfortunately, impossible to trace the full extent of the secondary market for lottery tickets, but, as may be seen in figure 2, Houghton's *Collection for improvement of husbandry and trade* provided constant prices for blank Million Adventure tickets up until 1702. The price variations seen here indicate significant activity.

Moreover, the market was able to offer investors a means of accessing not only their entire capital but also the individual annual interest payments. Frederick Herne, for example, was able to sell one future interest payment on his lottery

[59] Murphy, 'Lotteries in the 1690s', p. 232.

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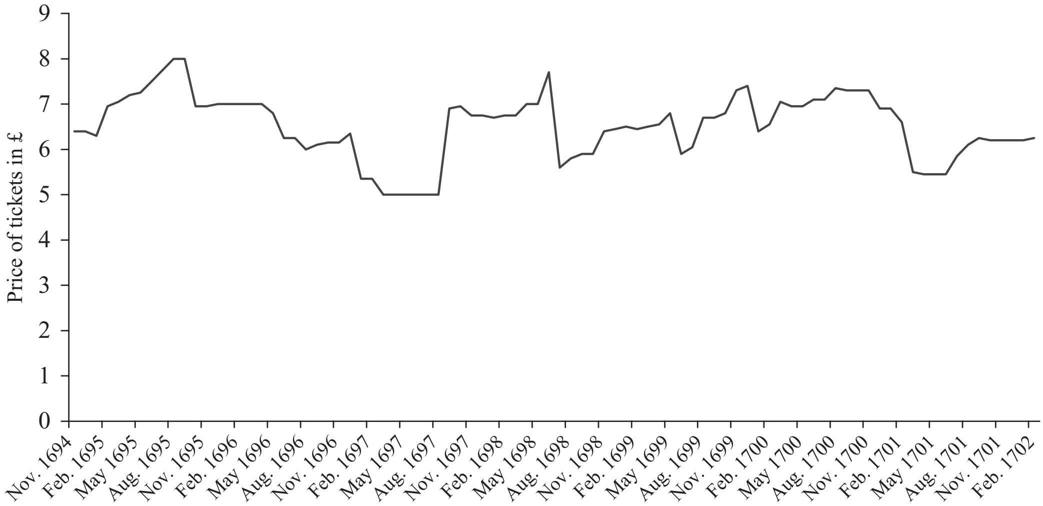

Figure 2. *Price of blank tickets in the Million Adventure lottery, 1694–1702*
Source: Houghton, *Collection for improvement* (1694–1702).

tickets for a sum of 17s. in the pound, thus satisfying an immediate need for money, but retaining the right to participate in future payments.[60] Samuel Jeake also informed his wife in 1697 that it was possible to exchange lottery tickets for government annuities which paid '14% . . . if y[e] security continue [after the peace]'.[61] This suggests that annuities were alienable despite the fact that it was difficult to assign a value to them as payments would continue to be made on the life of the original nominee. The market, therefore, enabled the public creditors to access their capital, albeit at a sometimes significant discount.

Those public creditors unwilling to bear the costs of liquidating their holdings and unable to wait patiently for credit to be restored took action to protect their interests. The holders of Million Adventure tickets, for example, sent a petition to Parliament demanding resumption of payments and reminding the government that 'the Credit and Honour of the Nation, and of Parliamentary Funds [were] concerned in the due Payment of these Lottery Tickets'.[62] During a later crisis, the South Sea annuitants took similar action, albeit in far more forceful terms. In the summer of 1721 it was reported that:

> the Annuitants . . . went up to the Parliament House with their Petition, which being order'd to lie upon the Table, they seem'd displeas'd thereat, and so great a Crowd of People assembled in the Lobby of the House of Commons, and Places adjacent, that the Houses sent for the Justices of the Peace and Constables of Westminster to disperse them . . . [63]

Indeed, the retribution exacted against the South Sea Company's directors and the substantial and timely reconstruction of the system of public debt in the aftermath

[60] GLL, Herne Family Papers, MS 6372, ii, fo. 12.
[61] ESRO, Jeake Papers, FRE 5330.
[62] Anon., *Case of the adventurers*.
[63] Quoted in Dickson, *Financial revolution*, p. 170.

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Table 1. *Attendance at meetings of the Bank's Court of Proprietors, 1694–7*

Date	*Directors attending*	*Generality attending*	*Date*	*Directors attending*	*Generality attending*
3 Aug. 1694	17	115	28 Aug. 1696	18	60
10 Aug. 1694	20	160	4 Sept. 1696	17	113
15 Aug. 1694	21	121	11 Sept. 1696	15	43
28 Sept. 1694	17	30	7 Oct. 1696	17	126
2 Nov. 1694	22	62	7 Dec. 1696	16	97
15 Dec. 1694	12	68	9 Dec. 1696	17	65
20 March 1695	24	27	12 Dec. 1696	17	61
26 April 1695	14	62	18 Dec. 1696	20	89
16 May 1695	22	140	2 Jan. 1697	22	116
24 July 1695	16	'diverse'	4 Jan. 1697	23	209
4 Sept. 1695	19	'diverse'	16 Jan. 1697	23	159
24 Sept. 1695	20	'diverse'	1 Feb. 1697	21	167
19 Dec. 1695	19	'diverse'	2 March 1697	20	114
10 Feb. 1696	20	'diverse'	10 March 1697	15	64
13 Feb. 1696	21	'diverse'	12 March 1697	16	74
17 Feb. 1696	17	'diverse'	15 March 1697	19	94
21 Feb. 1696	18	65	18 March 1697	20	102
25 Feb. 1696	16	103	22 March 1697	16	60
2 March 1696	17	42	26 March 1697	12	35
6 March 1696	20	12	30 March 1697	17	76
11 March 1696	16	15	21 April 1697	20	132
18 March 1696	18	60	23 April 1697	19	72
24 March 1696	17	98	5 May 1697	18	112
2 April 1696	21	150	16 June 1697	15	158
6 April 1696	23	138	21 June 1697	16	96
7 April 1696	24	129	3 July 1697	16	89
17 April 1696	18	31	16 July 1697	25	135
20 April 1696	16	33	20 July 1697	20	63
23 April 1696	15	49	19 Aug. 1697	18	27
29 April 1696	16	18	15 Sept. 1697	22	114
13 May 1696	17	88	9 Oct. 1697	21	75
27 May 1696	17	104	13 Oct. 1697	17	102
10 June 1696	18	81	22 Oct. 1697	18	81
20 July 1696	19	98	15 Dec. 1697	25	103
15 Aug. 1696	18	128	17 Dec. 1697	26	219
21 Aug. 1696	19	155			

Note: It is impossible to be precise about the numbers attending meetings since very often the list was completed with the phrase 'and others of the generality'. The numbers in this table, therefore, represent the minimum level of attendance.
Source: BEA, minutes of the General Court of Proprietors, G7/1, *passim*.

of the Bubble demonstrated quite forcibly the power of the public creditors' lobby and the responsiveness of Parliament to the demands of those who had invested in its debt.

Unlike most holders of public debt, investors in the Bank of England gained the protection of a company that was determined to defend its privileges and could negotiate with the government from a position of relative strength. But it is also evident that many shareholders were keen to ensure that the Bank fulfilled its duty of protection. As table 1 shows, during the crisis periods of 1696 and early 1697, when the threat from the Land Bank was at its height, there were regular and well-attended meetings of the shareholders.

Unfortunately the Bank did not continue to record attendance at meetings, but we can also observe shareholder activity through votes cast during the elections of directors. Figure 3 confirms that there was a noticeable increase in participation by

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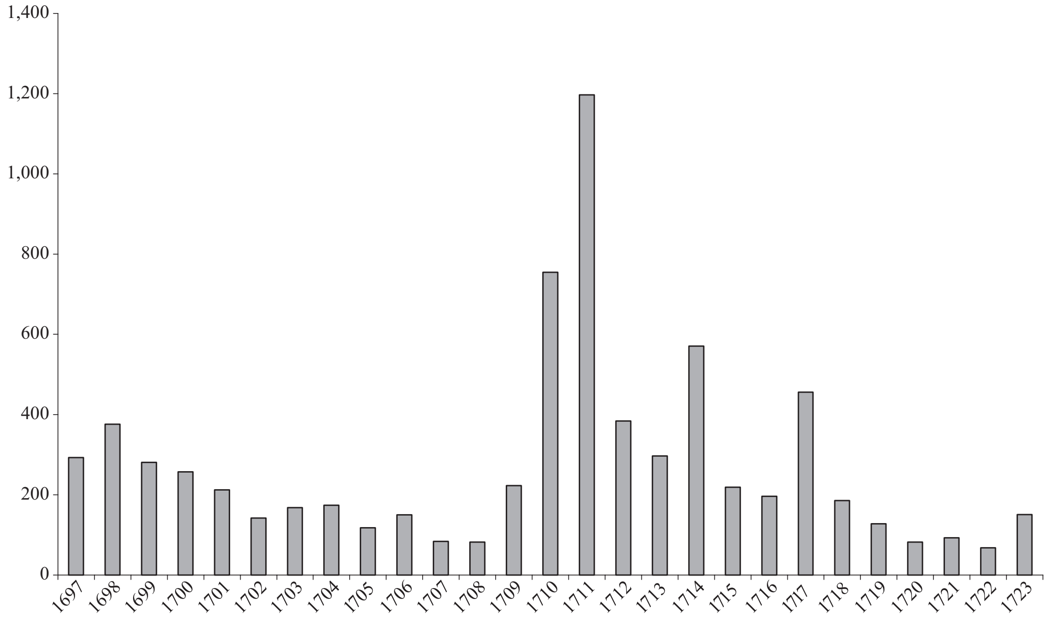

Figure 3. *Average number of votes cast for Bank governors and directors, 1697–1723*
Source: BEA, minutes of the General Court of Proprietors, G7/1–4, *passim*.

shareholders at times when the Bank's future was deemed to be under threat. Thus during 1697 and 1698 and in 1710 and 1711 shareholders were very active.

As noted above, in 1696 and 1697 shareholders' fears were aroused by the proposed establishment of the Land Bank and by the government's demands for additional funds. By that time the Bank had lent not only its initial £1,200,000 capital but also a further £800,000 and, it claimed somewhat petulantly, its resources were stretched to the limit.[64] Moreover, in spite of its growing dependence on the Bank, the state proved itself to be a poor friend. Interest payments had been delayed, and the taxes that had been set aside to support the Bank were repealed or diverted to other uses. Then in 1696 Parliament had committed the ultimate betrayal by supporting the setting up of the rival Land Bank. The Land Bank was supposed to lend the government £2,564,000, raised from subscribers. However, the scheme had two fatal flaws that ensured its ultimate failure. First, it sought to raise subscriptions in specie at a time when coin was scarce. Second, presumably in order to ensure that the new project was not overtaken by its rival, anyone with any connection to the Bank of England was prevented from investing in the Land Bank. This dramatically reduced the fund of capital from which the Land Bank could draw subscriptions. Ultimately, only £7,100 was subscribed to the project, of which only a quarter was paid in.[65] The threat of the Land Bank is often ignored because it proved so short-lived, but the Bank of England did take it very seriously. Moreover, the failure of the Land Bank did not relieve the stress on the Bank of England since, with rather admirable cheek, Parliament immedi-

[64] BEA, minutes of the General Court of Proprietors, G7/1, 4 Jan. 1697.
[65] Rubini, 'Politics'.

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ately requested that it supply the funds that the Land Bank had failed to raise and, in addition, consider engrafting the government's outstanding short-term debt onto its capital stock.[66]

The Bank's directors and shareholders, having clearly lost patience with the government's schemes, declined to lend the £2.5 million, noting that the government had failed to honour its previous obligations and that as a consequence the Bank 'cannot at present raise the Sume of £2,564,000 . . . apprehending, that in their present circumstances, should they undertake to raise so great a Sume, the Government would be disappointed'.[67] On the question of the engraftment of the short-term debt, however, they were more accommodating. One pamphleteer argued that 'this was far from a free and voluntary Consent' and offered three reasons for their willingness to engraft the tallies. First, he suggested, some shareholders were frightened that the government would withdraw its support unless the engraftment was agreed; second, some proprietors misunderstood what was involved in the process; and last, some proprietors agreed to the engraftment to serve their own ends.[68] The pamphleteer was certainly right on the last count. Many of the Bank's proprietors held short-term government debt and it is likely that they were keen to exchange debt dependent on degraded government credit for the slightly less tarnished guarantees offered by ownership of Bank stock. Moreover, the shareholders also rather shrewdly attached a number of demands to their agreement to engraft the short-term debt. The conditions started with an understandable demand that the interest and principal would be repaid on time, and included requests for the extension of the charter, for an agreement that the Bank should be exempted from taxation, and for measures to be passed to prevent the counterfeiting of the Bank's notes. Another of the most notable demands was that 'no other Bank, or any Constitution whatever in the nature of a Bank, be Erected or Established, permitted or allowed, within this Kingdome, during the continuance of the Bank of England'.[69] It was with this measure that the Bank won its monopoly.

In the following years relations between the state and the Bank became far more cooperative, but during 1710 the situation changed radically in the midst of another financial crisis and a shift to Tory government. At this time the Bank of England faced two threats: a deteriorating relationship with the state and the hostility of the London mob. Both were in some part the result of the Bank's own attempts to protect itself through manipulation of the political process. For the London mob, the Bank seemed to represent war-profiteering and the rise of the Whig moneyed men. Because of the seemingly high proportion of religious dissenters among the shareholders, the Bank was also resented by the more militant supporters of the Church of England. The supposed prominence of Huguenots, Dutchmen, Walloons, and Jews within the Bank also meant it became a target for the xenophobic tendencies of early eighteenth-century Londoners.[70] Resentment of the Bank of England manifested itself in threatened physical attacks on the Bank during the riots that accompanied the trial of Dr Sacheverell in 1710. Sacheverell

[66] BEA, G7/1, 2 Jan. 1697.
[67] Ibid., 4 Jan. 1697.
[68] Anon., *Letter to a friend*.
[69] BEA, G7/1, 4 Jan. 1697.
[70] Holmes, 'Sacheverell riots', pp. 61–2.

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was a High Anglican parson who had been impeached for 'high crimes and misdemeanours' as a result of a sermon in which he accused members of the government and the Church of England of accommodating dissenting religions and thus subverting the state.[71] In the midst of the rioting, the mob did not distinguish between the dissenters' chapels and meeting houses that were their main targets and the Bank. Indeed, papers distributed during the riots bore the slogan 'Down with the Bank of England and the Meeting-Houses; and God damn the Presbyterians and all that support them'.[72]

As Clapham notes, the militant Toryism of the mob was enough to cause agitation among the Bank's directors about the potential threats of Tory government. The Bank's directors tried in vain to counter this threat by influencing Queen Anne's choice of ministers. In mid-1710 they met with the dukes of Devonshire and Newcastle and the Queen herself to express in the strongest terms that changes in government might undermine the public's faith in the national debt.[73] As it became clear that Anne was not to be moved and as the financial crisis deepened, the Bank retrenched, withdrawing cooperation with the new government and in particular refusing to discount overseas bills of exchange, an action which deepened the financial crisis.

Tory propagandists, including Defoe, responded with a campaign which attempted to impress upon the Bank's directors, among others, that the sound management of the public finances was not the preserve of one political party nor was the Bank the only source of loans since 'Money will come in as naturally as Fire will ascend, or Water flow; nor will it be in the Power of our worst Enemies to prevent it'.[74] But, in reality, funds were scarce and it took a great deal of work to persuade a Tory Parliament to see the necessity of cooperation with the Bank and the moneyed men. That task fell to Robert Harley, Chancellor of the Exchequer from August 1710 and First Lord of the Treasury from May 1711. In spite of the hostility of his own supporters, he heeded the calls of those earlier pamphleteers who had emphasized the need to honour the financial promises made by the state. In consequence, he took a series of steps to encourage Parliament to vote in favour of schemes to cover shortfalls in previously established funds and to restore the value of exchequer bills. Harley also instituted a series of new funding schemes which provided the capital to settle the more urgent claims of the state's creditors.[75] These included a series of new lotteries and the later establishment of the South Sea Company.

The first of those new measures, the lottery loan of early 1711, was well received and indicated a return of confidence in public credit, but there was, however, one last Tory attempt to challenge the moneyed men's hold over the City. At the elections of the Bank's governor and directors in April of 1711 the Tory party made a concerted effort to capture the directorate. Their efforts were supported by Sacheverell, who purchased £500 stock in March, a sum sufficient to secure him a vote.[76] Against Tory efforts the Bank's shareholders turned out in force to

[71] Ibid., p. 60.
[72] Ibid., p. 64.
[73] Clapham, *Bank of England*, vol. I, p. 74.
[74] Defoe quoted in Hill, 'Change of government', p. 403.
[75] Hill, 'Change of government', p. 408.
[76] Clapham, *Bank of England*, vol. I, p. 75.

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support the institution and maintain the continuity of its management. As shown in figure 3, voting was extraordinarily high that year. Indeed, for the convenience of all those wanting to vote, the Bank 'thought it necessary to receive votes for the ensuing Elections upon the Days appointed from 9 in the Forenoon to 6 in the afternoon'.[77] The outcome of the election was a vote for continuity and a powerful expression of the willingness and ability of the Bank's shareholders to defend their interests.

IV

It was thanks to Robert Harley's careful handling of Parliament and the Bank of England that the system of public finance survived the crises of 1710 and 1711. Henceforth, it was acknowledged that public credit was dependent on good government, rather than the government of one party, and that even a Tory government had to rely upon the specialist services of the Bank of England.[78] Indeed, even the Act of Parliament that established the South Sea Company contained guarantees that there would be no infringement of the Bank's position or challenge to its monopoly. It is also rather telling that in the aftermath of the South Sea Bubble one disgruntled creditor was relieved to note: 'We have the satisfaction at last, to think that now our Properties are come again into . . . [Parliament's] Hands, where we have nothing to Fear, but everything to Hope'.[79] This is quite a change from that earlier period when it seemed there was everything to fear from placing trust in Parliament's financial integrity.

Yet this article has shown that it is necessary to reappraise the process by which faith in the British state's financial promises was established. To that end, the foregoing discussion has highlighted the failures of the early financial revolution and shown that at times when credible commitment was in doubt, the public creditors held the government to account through the published media and by direct action. This is important for two reasons. First, the contemporary debate regarding the financial revolution, as it is presented by some historians, may lead us to presume that there would have been little public outcry had the government reneged on its debt. Indeed, it might be argued that hostility towards financiers had always made default popular with many segments of the population.[80] Yet clearly opinion was not quite so one-sided, and the reaction against potential default was considerable. Second, the fact that the public creditors were willing to act to protect themselves shows that credible commitment was not offered from above by the Glorious Revolution and the subsequent development of the institutions of government; it was demanded from below by the people who invested in the financial revolution.

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[77] BEA, G7/2, 5 April 1711.
[78] Hill, 'Change of government', p. 411.
[79] Philips, *Appeal*.
[80] Macdonald, *Free nation*, p. 169.

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