
“Money is a good soldier, sir, and will on”
– The Bank of England in the Peninsular
War, 1807 – 1814

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Abstract

This thesis examines the role of the Bank of England during the Peninsular War. Between 1807 and 1814, Britain was involved in a war in the Iberian Peninsula against Napoleonic France. Due to changes in the British monetary system in the late eighteenth century, the Bank of England became increasingly attached to the British state and its ability to wage war. This, however, often led to arguments between the Bank and the government. Despite this, this thesis will demonstrate that the Bank of England saw itself as self-consciously part of the British state and was a vital part of the victory in the Peninsular War.

Ce mémoire examine le rôle de la Banque d'Angleterre au cours de la Guerre d'indépendance espagnole. Entre 1807 et 1814 la Grande-Bretagne fut impliquée dans une guerre dans la péninsule ibérique contre la France napoléonienne. En raison de changements dans le système monétaire britannique à la fin du XVIIIe siècle, la Banque d'Angleterre acquit progressivement un rôle de plus en de plus important dans l'État britannique ainsi que dans la capacité de celui-ci à faire la guerre. Cependant, ceci mena souvent à des disputes entre la Banque et le gouvernement. En dépit de cela ce mémoire démontrera que la Banque d'Angleterre s'identifiait comme faisant partie de l'État britannique et elle joua un rôle vital dans la victoire de la Guerre d'indépendance espagnole.

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Section 1: Introduction – The Bank of England in the wars against France, 1792 – 1807.

Between 1793 and 1815 Britain fought an almost uninterrupted war against France, first in the French Revolutionary Wars, and later in the Napoleonic Wars. The most important theatre for the British during these wars was the Iberian Peninsula, where Britain, Portugal and Spain fought against the French between 1807 and 1814. It was the one place where the British government deployed an army of considerable strength and size and the only place where the British Army managed to inflict meaningful defeats upon the French. The conflict marked the turning point in the war against France because Britain made the transition from a defensive and primarily maritime strategy to one that demanded a large commitment of soldiers to Europe. This war added considerably to Britain's ever-increasing wartime debt, which had been mounting since the start of hostilities in 1793. The Bank of England was an institution that was fundamental to ensuring that this war did not ruin Britain financially. The Bank was not, however, simply an organ of the British government. It remained a legally independent entity, and its court of directors (the highest decision-making body in the Bank) had their own aims and goals, as well as legal obligations to the Bank's shareholders. Despite this, a memorandum from the Bank succinctly demonstrates the relationship between the Bank and the state during the Peninsular War:

[O]n the occasion of Lord Wellingtons [sic] glorious victory over the French near Salamanca there was an illumination for three nights...accordingly a double row lamps, a crown and a W hung with lamps (In that part of the front opposite Bank Street) were displayed in lieu of the patent lamps.¹

¹ Bank of England Archives (BEA), *Accountant's Department: Chief Accountant's Personal Diary* vol. 1 (1791-1818), Aug 18. Under section 'T'

The Battle of Salamanca (July 22, 1812) was an important victory for the British. Wellington's successful attack inflicted large number of casualties on the French and allowed British troops to liberate Madrid. The directors, like much of Britain, were undoubtedly pleased by this success. Yet the celebrations ran deeper than mere patriotism. By 1812, the Bank was fully immersed in Britain's war effort, and a key part of the machine that was working towards victory. It also clearly saw itself as having a key role in securing the British victory as part of the British state. This thesis will assess the role of the Bank of England during the Peninsular War and demonstrate that it was self-consciously part of the victory over the French.

The Peninsular War was by no means the first war in which the Bank had been invested. It had been set up in 1694 expressly to help William III fund his wars against France in the aftermath of the Glorious Revolution of 1688.² Its founders were, as John Giuseppi put it, "members of the leading city livery companies, many were members of Parliament, many were directly associated with the government of the City – of the first twenty-six members of the Court of Directors, six subsequently became Lord Mayor."³ As the eighteenth century progressed, an increasing number of directors of the Bank also became members of Parliament.⁴ Thus the cornerstone of British wartime finance was political from its inception. Those who controlled the Bank were also willing to flex their political muscles. For example, the Bank tried to stop Queen Anne from sacking then Prime Minister Lord Godolphin, arguing this would ruin British public credit.⁵ The political leanings of the Bank were initially Whig.⁶ This was because while the

² John Giuseppi, *The Bank of England, a History from Its Foundation in 1694* (Chicago: H. Regnery Co., 1966), pp. 8-11

³ *Ibid*, p. 9

⁴ D. Stasavage, "Partisan Politics and Public Debt: The Importance of the 'Whig Supremacy' for Britain's Financial Revolution", *European Review of Economic History* 11, no. 1 (2007), p. 130

⁵ H. V. Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820" in *The Bank of England: Money, Power, and Influence 1694-1994*, ed. Richard Roberts and David Kynaston (Oxford: Clarendon Press, 1995), p. 7

⁶ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, p. 40

Whigs had been instrumental in creating the Bank, the Tory party had tried to dissolve it.⁷ Yet the overtly party-political nature of the Bank of England did not last. The eighteenth century instead saw the Bank focus on “profits and survival.”⁸ The General Court of Proprietors, made up of stock holders who owned a certain amount of stocks and voted on key decisions, lost its party-political edge. As the relationship between the government and the Bank stabilized, the directors took over the key decisions. Although the general court continued to meet it usually simply reaffirmed decisions already made by the directors.⁹

Yet although the Bank became less party-political, it became increasingly enmeshed in the British state. Between 1691 and 1740, the Bank (as well as the East India Company and the South Sea Company) provided the majority of funding for Britain’s wars, such as the War of the League of Augsburg and the War of the Spanish Succession. Although after 1740 the government also relied on public subscriptions floated on London’s currency markets, the Bank remained integral to British wartime finance. In the run-up to, and during, the Napoleonic Wars it became primarily responsible for the state’s unfunded debt. Unfunded debt was loans that were not linked to specific taxes. These loans were miniscule compared to Britain’s overall debt. During the Peninsular War it reached its height (in proportion to the funded debt) in 1813, at only £44.8 million, or 7.3% of the total national debt. Between 1793 and 1815 it peaked at £60.3 million, or 8.1% of the total debt, in 1815.¹⁰ These short-term loans were, however, often incurred to fund specific problems and were seen, so described by Boyd Hilton, as the “hanging

⁷ Stasavage, "Partisan Politics and Public Debt: The Importance of the 'Whig Supremacy' for Britain's Financial Revolution", pp. 124, 129

⁸ John H. Wood, *A History of Central Banking in Great Britain and the United States* (Cambridge; New York: Cambridge University Press, 2005), p. 3

⁹ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, p. 59

¹⁰ B. R. Mitchell, *British Historical Statistics* (Cambridge; New York: Cambridge University Press, 1988), p. 601

sword of Damocles, threatening National Bankruptcy.”¹¹ During the Peninsular War it was the Bank’s ability and willingness to absorb these loans that made it invaluable to the government and it was these loans that made the Bank the rock upon which British wartime finance was based, and thus a key part of Britain’s fiscal-military state.

Despite, however, Lord North’s famous description of the Bank as, “to all important purposes the public exchequer”, the Bank was never secure in this position, even during the Napoleonic Wars.¹² There were still members of Parliament who were uneasy about its close ties to the government.¹³ For example, “one opposition politician, George Tierney, could claim in the Commons that William Pitt’s government was ‘the slave of the monied interest.’”¹⁴ This was after Pitt’s refusal to reveal the outstanding advances by the Bank to the government.¹⁵ The relationship between the government and the Bank was often highlighted by conflict and this continued during the campaign in the Iberian Peninsula. The government’s ability to legally dissolve the corporation gave it leverage over the Bank. This allowed the government to renegotiate terms with the Bank, obtain new loans, or ask the Bank for other aid, which over the course of the Napoleonic Wars it did, often against the wishes of the company.¹⁶ For example in 1800, fearing that a new bank was to be set up in London, the Bank was forced to seek an early extension to its charter.¹⁷ It also continued to face attacks from those within government.

William Huskisson, the under-secretary of war, criticized the loan to the emperor of Austria in 1796. He argued that British financial “entanglements” were to some extent governed by a

¹¹ Boyd Hilton, *A Mad, Bad, and Dangerous People? : England, 1783-1846* (Oxford: Oxford University Press, 2006), p. 114

¹² Philip Geddes, *Inside the Bank of England* (London: Boxtree, 1987), p. 57

¹³ Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820", p. 7

¹⁴ *Ibid.*, p. 7

¹⁵ Frank Whitson Fetter, *Development of British Monetary Orthodoxy, 1797-1875* (Cambridge, Mass.: Harvard University Press, 1965), p. 61

¹⁶ J. Broz and R. Grossman, "Paying for Privilege: The Political Economy of Bank of England Charters, 1694-1844", *Explorations in Economic History Explorations in Economic History* 41, no. 1 (2004), p. 15

¹⁷ Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820", p. 8

“prevailing party” in the Bank.¹⁸ Further attacks would be launched against the Bank throughout the Peninsular War. Although the British government relied on it between 1807 and 1814, the Bank’s position was not unassailable. Its existence, to some extent, was contingent on its ability to serve the function politicians required of it.¹⁹

The Bank, therefore, became involved in the war against France almost immediately. It was primarily responsible for two things: regulating the British economy during the war and providing the government with wartime finance. These dual obligations meant that the Bank had to perform a constant balancing act that was exacerbated by the decision to wage war in the Iberian Peninsula. The Bank’s ability to do both, however, demonstrates not only the key role of the Bank in the conflict but that the Bank clearly saw itself as part of the British state. Initially, Britain’s wartime finance requirements involved sending large amounts of reserve gold abroad to fund Britain’s European allies against France.²⁰ In 1794, the Bank provided a £400,000 loan to the Dutch Stadtholder William V of Orange-Nassau.²¹ Prime Minister William Pitt also instructed the Bank to supply the Prussian government with £600,000 in specie to cover the subsidies for April and May of that year, with a further £120,000 being sent in July.²² Meanwhile the Bank also provided short-term loans to the government, something that the Bank was very nervous about doing. The Bank wrote to Pitt in 1795, stating that the loaning of money on the anticipation of taxation,

[h]as caused the Bank considerable anxiety. In 1795, for instance, the total rose to over £13,000,000 (exclusive of the Permanent Debt of £11,686,600). The Bank was seriously uneasy, and represented to the Chancellor of the Exchequer that, though desirous at all times of giving every assistance and accommodation to the Public Service, they wished he would make his

¹⁸ C. R. Fay, *Huskisson and His Age* (London; New York: Longmans, Green, 1951), p. 69

¹⁹ Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820", pp. 10-11

²⁰ John M. Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815* (Cambridge: Harvard University Press, 1969), p. 86

²¹ *Ibid*, p. 41

²² *Ibid*, p. 45-58

financial arrangements for the ensuing year so as not to depend on them for any further assistance.²³

Regardless, the Bank continued to perform this role, as it would throughout the Peninsular War.

The Bank also had to manage the general financial health of the nation. The start of the war in 1793 led to an immediate economic shock, resulting in a run on the Bank. The directors dealt with this as they had with previous runs: they restricted the issue of bank notes and raised the discount rate between notes and bullion. (Discounting a bill is, as John Giuseppe describes it, “the purchase of bills of exchange before they fall due at somewhat less than their face-value, the difference being the buyer’s fee for obliging the seller.”²⁴) This tinkering restored confidence by 1794.²⁵ Despite this, in 1797 the Bank of England was forced to suspend cash payments, meaning that the Bank would no longer exchange paper money for coin or bullion. This was the most important financial decision of the Napoleonic Wars as it effectively based the English economy on paper money (although bank notes were not formally made legal tender until 1811).²⁶ This crisis was the result of a number of factors. Pitt’s strategy of funding Britain’s allies with subsidies had led to high taxation and increased interest rates. This led to a fall in the value of the pound.²⁷ The problem was so severe that by 1796 the directors of the Bank, trying to maintain the financial health of the nation, were begging Pitt not to guarantee another large loan.²⁸ The depreciation of the pound was only exacerbated by the French decision to return to the gold standard after a failed attempt to rely on paper money. People began to send gold to

²³ BEA, "A Statement of the Capital of the Bank of England, and of the Debt Due from the Government to the Bank, from 1694 to 1897" in *the Bank Capital and The Permanent Debt* (Accountant's Department: Miscellaneous Records, 1795), p. 1

²⁴ Giuseppe, *The Bank of England, a History from Its Foundation in 1694*, p. 4

²⁵ *Ibid*, p. 74

²⁶ Hilton, *A Mad, Bad, and Dangerous People? : England, 1783-1846*, p. 31

²⁷ Karl F. Helleiner, *The Imperial Loans; a Study in Financial and Diplomatic History* (Oxford: Clarendon Press, 1965), pp. 1-60

²⁸ Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, pp. 78, 80

France so as to profit from the discrepancy in currency prices.²⁹ All these problems reached their climax in 1797 when a small French force landed at Fishguard in Wales. While this attack was quickly suppressed, it resulted in a massive run on the Bank and the government was forced to issue an Order in Council to suspend payments.³⁰ The Bank did not collapse, however, after London's merchant community issued a declaration in which they guaranteed that notes issued by the Bank would be accepted as payment across Britain.³¹ By 1799, the Bank's stock of bullion was once again at a healthy £10 million.³² Yet this change meant that the Bank was now overseeing an effectively fiat currency system, presenting it with new challenges.

This crisis had not been entirely caused by advances from the Bank or by the government's foreign expenditure. Bank note circulation was less in 1797 than it had been four years earlier.³³ It was the internal movement of currency, primarily to Ireland, and not government subsidies that was the main cause of the drain of hard currency. This had started in 1795 but continued through 1796 and 1797.³⁴ Another factor was, ironically, the hoarding of gold by individuals in fear of a French invasion.³⁵ As a result of the suspension the Bank became explicitly considered as a bank of last resort. As Sir Francis Baring wrote, "[I]t is the great repository of the spare cash of the Nation ... It is subject, on that Account, to be called on for Cash, directly or indirectly, by those who are in Want of it."³⁶ He was echoed in support by Henry Thornton, a banker and a member of Parliament.³⁷ As H.V. Bowen points out, the Bank of England was not set up as a central bank. As he writes, "the bank had neither been established,

²⁹ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, pp. 74-75

³⁰ Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, pp. 86-87

³¹ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, p. 76

³² Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, p. 89

³³ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 18

³⁴ *Ibid*, p. 19

³⁵ *Ibid*, p. 21

³⁶ *Ibid*, pp. 22-23

³⁷ *Ibid*, pp. 22-23

nor consciously developed, with central banking features in mind.”³⁸ Despite this, its ability to issue money that was not tied to gold resulted in the Bank being more closely tied to the British state than ever before. This was reinforced by the Napoleonic Wars as a whole, and especially by the Peninsular War.

Between 1800 and the outbreak of war in the Iberian Peninsula, the Bank oversaw a rise in inflation, estimated at 3% by modern analysis. This occurred while the value of bank notes fell by 2% on the Hamburg market. Some commentators blamed this on the increasing bank note liquidity, which dramatically increased after 1797.³⁹ Although Pitt’s income tax of 1799 and the Peace of Amiens (between 1802 and 1803) helped to limit inflation and the depreciation of the pound, it had a lasting effect on Britain’s ability to wage war. In response, the government turned to the Bank to offset the difficulties caused by the suspension.⁴⁰ In January of 1802, Prime Minister Henry Addington asked for an advance of £500,000 on exchequer bills. He stated that he would not ask for further assistance unless the market could not absorb the bills.⁴¹ This did not take very long. On January 4, 1803, the government once again asked the Bank to purchase £2 million of exchequer bills.⁴² Further requests continued throughout 1803.⁴³ These requests demonstrate that the government was using the Bank to prop up the state’s finances. When exchequer bills became too highly discounted or investors were too slow to buy them, the Bank was asked to purchase them. This not only provided the government with useable money but also artificially supported the price of the government securities. This increased British credit and

³⁸ Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820", p. 1

³⁹ Wood, *A History of Central Banking in Great Britain and the United States*, pp. 8-13

⁴⁰ *Ibid*, p. 40

⁴¹ BEA, Court Of Directors, "Court Papers," (London, 7 Jan 1802 - 24 Jun 1802), (folios 1 – 82) Reference number G6/141, folio 3. N.B – For the sake of clarity the Court Of Director’s Court Papers will be referenced using the Bank of England’s internal referencing system.

⁴² BEA, G6/143 (folios 1 – 66, 1803, January 6 – April 28), folio 6

⁴³ The government requested the Bank purchase exchequer bills in June and winter to a total of £2.5 million. see BEA, G6/144 (folios 1 - 88, 1803, May 5 – August 25), folio 16 and BEA, G6/145 (folios 1 – 56, 1803, September 1 – December 29), folio 20

maintained the value of its paper money and thus the government's ability to borrow. The Bank was able to do this because, although the government had to bring funded loans to Parliament, the government's unfunded debt was not regulated until the 1819 Bank of England Act.⁴⁴

This aspect of the Bank's role in financing the war was not necessarily formalized; a letter from Pitt (when he was the prime minister) to the Bank in December, 1804, reveals the perhaps tenuous basis for this role. He wrote,

I have to request the favor of you to lay before your court the observations which I wish to bring under their consideration, respecting the advances I have requested from them under the Vote of Credit. As the express Authority given to the Bank of England, by the last clause of the Act for the Vote of Credit, to advance money under that act, is confined to the case of actual invasion, a doubt may certainly be entertained whether the general Authority given in the first Clause to the treasury to receive Loans from any body corporate ... be held sufficient to justify the Bank to make advances in any other case than that of Invasion; but, at the same time, it appears to me that such a strict construction would be wholly inconsistent with the general object and intention of the Act itself; and as I am unable to trace any ground on which the concluding Clause was introduced in the Act of 1803 ... from which it was into that of the present year ... I am led to suppose that it must have proceeded from inadvertence or mistake.⁴⁵

As he went on to say, this was done, "to avoid a difficulty from the letter of the law, which has thrown an unintentional embarrassment in the way of the Public Service."⁴⁶ The Bank's role was, if not illegal, at least murky. As the demands of government increased (especially in the Peninsular War), the Bank tried its best to resist the requests it disagreed with as it tried to balance the needs of the government with its overarching responsibilities to the British state.

This relationship can be best characterized as a dialogue.⁴⁷ An example of this "dialogue" can be seen when Pitt demanded the unclaimed dividends from the Bank in 1790. The Bank rejected this but the directors, supported by the general court, decided to offer the government a perpetual loan if Pitt agreed to drop his bill, which he did. This act secured the Bank's credit and

⁴⁴ BEA, "A Statement of the Capital of the Bank of England, and of the Debt Due from the Government to the Bank, from 1694 to 1897", p. 1

⁴⁵ William Pitt the Younger, "Secretary's Department: Letters to the Bank from William Pitt", 1 (1785 - 1805), pp. 58-68

⁴⁶ Ibid, p. 68

⁴⁷ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, pp. 72-73

it retained a 7% dividend in 1792.⁴⁸ These disagreements continued into the war. For example on January 5, 1793, the Bank told Pitt that if gold continued to be exported at the current rate, they would be forced to demand the repayment of their loan while also stopping their advances to the government.⁴⁹ Luckily specie started flowing back into the Bank when the war began. While the Bank was happy to comply with government needs, it was not a subservient party, and these arguments demonstrate that the Bank was aware of its overall responsibilities to the British economy that went beyond simply providing the government with what it wanted.

Despite the inflationary trend by the start of the Peninsular War in 1807 prices were, as J. Clapham writes, “only a shade higher than they had been in 1798.”⁵⁰ Despite this there were other problems that the Bank had to deal with as part of its overarching role as the *de facto* regulator of British finances. Although the restriction had made it illegal to mint more silver coins, silver currency was needed to pay for small personal transactions as even small denomination bank notes were impractical.⁵¹ People, however, still feared a French invasion and were hoarding cash. This led to mounting circulation problems. In 1804 the Bank was forced to start circulating purchased Spanish dollars. These were stamped with the king’s head in order to make them legal tender.⁵² This was done because from 1800 onwards large scale coinage became impractical due to “external drains of treasure.”⁵³ Dealing with the problem of maintaining Britain’s internal currency supply became one of the most important things the Bank would do during the war. Despite these issues the Bank managed to maintain its own bullion supplies in

⁴⁸ Ibid, pp. 72-73

⁴⁹ W. Marston Acres, *The Bank of England from within, 1694-1900* (London: Oxford University Press, 1931), pp. 264-265

⁵⁰ J. H. Clapham, *The Bank of England, a History*, II vols., vol. II (New York: The Macmillan Company, 1945), p. 19

⁵¹ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, p. 57

⁵² Acres, *The Bank of England from within, 1694-1900*, pp. 299-300

⁵³ Clapham, *The Bank of England, a History*, II, p. 4

the years before the Peninsular War. In 1794 the Bank held £7 million of bullion.⁵⁴ After 1797, the Bank recovered its losses and between 1806 and 1807 the Bank retained around £6 million of “treasure” in the vaults.⁵⁵

This need to maintain British credit and provide an adequate supply of money to the British people meant that the Bank could not allow the war to consume all of Britain’s specie, either in subsidy payments or to pay for the armed forces. This responsibility led to a conflict with the Duke of Wellington, the overall commander of the British Army in the Iberian Peninsula. Between 1807 and 1814 he and the government were often on one side, with the Bank on the other. These arguments, as this thesis will show, reveal, however, a conscious awareness by the Bank that it had an overarching duty to the British state, which often resulted in internal conflicts with the government. Nevertheless, these disagreements never prevented the Bank from carrying out its duties during the Peninsular War.

By 1807 Napoleon was, as Charles Esdaile writes, “at the zenith of his power.”⁵⁶ He had crushed Austria at the battles of Ulm and Austerlitz, and Prussia at Jena and Auerstedt. Napoleon’s military ascent reached its peak on July 14, 1807, when he destroyed the Russian army at the battle of Friedland. The following treaties, those of Tilsit and Berlin, saw Napoleon cement his influence over Germany while he secured Russian passivity by granting Alexander an honorable peace. Napoleon stood triumphant over an expanded French empire and a nominally compliant Europe.⁵⁷ The only remaining belligerent power was Britain. Yet while the Royal Navy, after the Battles of the Nile (1798) and Trafalgar (1805), was supreme at sea, Britain had no way to dislodge Napoleon from France. Instead, Britain focused on blockade and colonial

⁵⁴ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 18

⁵⁵ Clapham, *The Bank of England, a History*, II, p. 9

⁵⁶ Charles J. Esdaile, *The Peninsular War: A New History* (London: Allen Lane, 2002), p. 1

⁵⁷ *Ibid*, pp. 1-2

seizure.⁵⁸ In response Napoleon focused on creating a European-wide trade blockade to starve Britain into submission. By 1807, this was slowly reaching fruition. The blockade was designed to stop British imports entering Europe, and all British ships and their cargo were pronounced fair game for the French navy. The British responded to this policy (known as the Continental System) with similar legislation: Portland's ministry (from March, 1807 to October, 1809) reacted aggressively. Direct trade with France was made illegal while anyone who wished to trade with France had to go through Britain and pay duties on the goods, even if the trade had nothing to do with Britain.⁵⁹

To add to Britain's problems even by 1807 the war lacked secure political support. Between 1791 and 1807 Britain had four different governments. While the Duke of Portland's cabinet was more focused on the war than the previous government, the prime minister was weak. Napoleon, it seemed, could simply wait for Britain to buckle under the economic and political strain of the war.⁶⁰ Yet Napoleon was apparently not prepared to wait. Portugal, one of the last remaining openings for British trade, seemed like an obvious target. Napoleon offered the ruling family of Portugal, the Braganzas, an ultimatum: close your ports to Britain or face the consequences. Portugal was reliant on British trade as the value of its colonial empire had been slowly diminishing, and responded to Napoleon's threat with lip service. The Portuguese government informed the British that they had no desire to end their profitable relationship.⁶¹ Napoleon, annoyed by the lack of Portuguese alacrity and unimpressed by this duplicity, began an invasion in November of 1807, aided by a then compliant Spain.⁶²

⁵⁸ Ibid, pp. 2-3

⁵⁹ R. J. B. Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815* (2013), pp. 234, 434

⁶⁰ Esdaile, *The Peninsular War: A New History*, pp. 3-5

⁶¹ Ibid, p. 6

⁶² Ibid, p. 8

Spain, despite being an ally of France since 1795, was in just as precarious a position as Portugal. Although still a strong power, Spain faced large structural problems. Its rural and aristocratic population was resistant to the changes that the first minister, Manuel de Godoy, wanted to introduce and its colonial possessions were also in financial decline. This was compounded by Napoleon's requests for money and troops. Finally, the country's political elite was split between the king's party and those aristocrats who resented Godoy's influence and saw his modernizing moves as an attack on their privileges. These elites supported the heir to the throne, Prince Ferdinand. A plot to overthrow Godoy and the king and replace him with Ferdinand saw this political rift explode. Napoleon saw this as an opportunity to intervene in Spain. He no longer trusted Spain as an ally and he perceived it to be squandering a large and wealthy empire.⁶³

Despite France's quick march into Portugal, the Portuguese government was able to obtain the speedy support of the British. The British navy secured the contents of the Portuguese treasury and the royal family, taking them to Brazil. Yet despite conquering Portugal, Napoleon was unwilling to leave Spain alone. French soldiers began moving into Spain, and the Spanish government quickly formulated plans to evacuate as they frantically sought an explanation from Napoleon. After his previous attempt at a coup, Ferdinand was put under Napoleon's personal protection. He assumed this meant he could take the throne and tried to depose his father. After clashes between different parts of the Spanish polity, the royal guard openly revolted and the king was forced to abdicate on March 24, 1807, a move that was initially strongly supported by the Spanish people. This was all that Napoleon needed. He summoned Ferdinand and his father

⁶³ Ibid, pp. 7-27

to France and simply demanded the throne for himself. Faced with insurmountable odds, they agreed.⁶⁴ On May 6, Ferdinand abdicated the throne and declared Napoleon king.⁶⁵

Leading up to the abdication Napoleon had secured key parts of Spain. He had also dispersed the Spanish army, meaning that Spanish soldiers could not threaten his *de facto* occupation.⁶⁶ He thus thought himself able to simply assume control of Spain and finally deny Britain access to mainland Europe. Yet on May 2, even before Ferdinand had formally abdicated, the people of Madrid revolted against the French. Although this was brutally repressed, as May came to an end further uprisings occurred across Spain.⁶⁷ These uprisings led to the creation of political *juntas*, patriotic local governments, which coalesced to help organize resistance. Soon, individual *juntas* started petitioning Britain for help. Two deputies from the Asturian Junta were received at the Admiralty on June 6, requesting financial and military assistance which Britain duly agreed to provide. More requests followed as other *juntas* sent representatives to Britain.⁶⁸ Spain was in open revolt against France, and Britain had a new ally in the fight against Napoleon and a new theatre in which to wage war.

Before the Spanish revolution occurred, the British government considered a number of ways to continue the war against France. It had, for example, considered invading Spanish colonies in the Americas to provide markets for British merchants. By 1807, however, direct invasion plans had been abandoned.⁶⁹ After the fall of the Ministry of All the Talents (the weak coalition that had preceded Portland's government), plans to reinvade specific parts of Latin America were considered. Many politicians favored the capture of key ports for the security of

⁶⁴ Ibid, pp. 30-35

⁶⁵ Ronald Fraser, *Napoleon's Cursed War : Spanish Popular Resistance in the Peninsular War, 1808-1814* (New York: Verso, 2008), p. 54

⁶⁶ Ibid, pp. 9-10

⁶⁷ Ibid, pp. 56, 83-85, 107

⁶⁸ Ibid, pp. 130-131

⁶⁹ Martin Robson, "Britain, Portugal and South America in the Napoleonic Wars Alliances and Diplomacy in Economic Maritime Conflict", I.B. Tauris, pp. 196-197

British trade. Nascent political problems with the USA, which led to the 1807 Embargo Acts, only seemed to reinforce the need for a port in the Americas.⁷⁰ Even as late as April, 1808, the cabinet was considering an invasion in order to ensure, as Martin Robson puts it, “British commercial dominance of the South American continent.”⁷¹ These plans, which fully demonstrate the importance of financial matters in the British war effort, were only finally put aside when Britain realized the extent of the Spanish revolt in the summer of 1808.⁷²

The war in the Iberian Peninsula presented Britain with new military, political and fiscal obstacles which it had to overcome, all of which involved the Bank of England. Before the Peninsular War, Britain had pursued a primarily maritime strategy.⁷³ The focus of successive governments had been to attack France (and her allies) where it was feasible. This strategy saw Britain engage the French colonial empire, further buttressing the British economy against the trade disturbances that resulted from the war. When Britain did deploy its army on the mainland it was often to perform discrete tasks, such as the destruction of the Dutch fleet at Copenhagen in 1801. Britain relied on her European allies to do most of the large-scale fighting against France between 1792 and 1807. Britain could not match the manpower of Austria or Russia and made up for this deficiency with fiscal aid. The Peninsular War, however, meant a change from this previous strategy. The massive costs this added to the British war effort posed both new fiscal and political problems for the British state, and this inevitably affected the Bank of England. Historians have, as Bowen writes, “[l]ocated the Bank at the very heart of the various economic and fiscal processes that contributed to the emergence of Great Britain as a first-rank imperial and military power, supported by unrivaled and sophisticated systems of state bureaucracy and

⁷⁰ Ibid, pp. 198-200

⁷¹ Ibid, p. 201

⁷² Ibid, p. 234

⁷³ Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815*, pp. 68-69, 94, 196, 239

public finance.”⁷⁴ But, despite the importance of the Bank in the victory over the French there is a lack of scholarship on its role during the Peninsular War, specifically when assessing the intersections between the effects of finance and politics on the war effort.

One of the broad categories of analysis that historians of the Peninsular War have addressed is the specific political problems that successive British governments faced when trying to wage the war. Charles Esdaile, for example, has examined the politics of the war and suggested that political support for the war against France was still wavering by 1807.⁷⁵ Christopher Hall agrees, arguing there was no unified political support due to faction-fighting within Parliament.⁷⁶ Huw Davies, like Esdaile, demonstrates how the British political classes could affect the war.⁷⁷ His analysis specifically highlights the divisions within the cabinet.⁷⁸ Davies also highlights that Wellington’s victories were politically important in buttressing support for the war, which is in line with Esdaile and Hall's point that there was a lack of political unity over the war.⁷⁹ Ian Fletcher furthers this analysis, and shows how officers would write to their political allies back in England, contributing to the criticism of Wellington and leading to disputes about his overall efficacy.⁸⁰ Patrick K. O’Brien, however, disputes that war finance was ever a part of this political issue. His key argument is that the House of Commons continuously voted to fund the war.⁸¹ While Davies integrates *some* analysis of wartime finance

⁷⁴ Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820", p. 1

⁷⁵ Esdaile, *The Peninsular War: A New History.*, p. 6

⁷⁶ Christopher D. Hall, *British Strategy in the Napoleonic War, 1803-15* (Manchester: Manchester University Press, 1992), pp. 53, 55

⁷⁷ Huw J. Davies, *Wellington's Wars : The Making of a Military Genius* (New Haven: Yale University Press, 2012), pp. 97-98

⁷⁸ *Ibid*, pp. 100-101

⁷⁹ *Ibid*, p. 153

⁸⁰ Ian Fletcher, *The Peninsular War, 1808-1811 : An Eyewitness History* (London: The Folio Society, 2007), pp. 106-107

⁸¹ Patrick K. O'Brien, *The Industrial Revolution and British Society* (New York: Cambridge University Press, 1993), p. 136

into his political narrative, these arguments, however, do not touch on the Bank's influence in discussions of war finance, or on its role to the state.⁸²

Other large British corporate institutions, in comparison, have received more thorough treatments. For example, Bowen has shown that, even beyond legislation, the government had a large influence on the East India Company, and vice versa.⁸³ For example, when the company faced bankruptcy, it received monetary support from the government at the height of the war, including £1.5 million in 1810 and £2.5 million in 1812.⁸⁴ The directors of the company, Bowen argues, had a huge impact across the British financial world.⁸⁵ The Bank's role in these loans or its overall influence on the political situation is once again not mentioned. Clearly there is room for a similar analysis of the Bank of England, given its importance during the war.

Britain's overall financial situation during the war is another concern. Charles Esdaile argues that one potential reason for the Peninsular War was that the occupation of Portugal cut off key markets for Britain.⁸⁶ Davies agrees with Esdaile methodologically, placing the conflict within the context of Britain's economic struggle against Napoleon.⁸⁷ Hall also adopts this argument, highlighting how the war affected the value of British trade with Portugal.⁸⁸ He also

⁸² Davies, *Wellington's Wars : The Making of a Military Genius*, pp. 123-125. For example, when questioning the political union between the government and Wellington, he mentions that Lord Liverpool rebuffed Wellington's needs for specie in the winter of 1810-11. Davies writes that Lord Liverpool told Wellington he needed to start winning battles in order to justify requests for more money.

⁸³ H. V. Bowen, *The Business of Empire : The East India Company and Imperial Britain, 1756-1833* (Cambridge: Cambridge University Press, 2006), p. 130

⁸⁴ *Ibid*, p. 36

⁸⁵ *Ibid*, p. 134

⁸⁶ Esdaile, *The Peninsular War: A New History*, pp. 88-89

⁸⁷ Davies, *Wellington's Wars : The Making of a Military Genius*, pp. 78-79

⁸⁸ Christopher D. Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814* (London; : Chatham, 2004), p. 116. Trade was around £1.5 million in 1810, rising to £4.7 million and £3.5 million in 1811-1812. His analysis includes Spain, and demonstrates how important the Iberian markets were for British trade (by 1812 the Spanish trade was worth £4.5 million.)

agrees that finance remained an overriding concern for British politicians throughout the period.⁸⁹ The Bank's role as the premier financial regulator, however, is not touched upon.

The role of the merchant class is another issue that many historians have dealt with. J. E. Cookson argues that Britain's trading power, and the system of credit built upon it that was propping up the war, could always collapse during this period. This led to patriotic financial support for the war, often in the form of donations, which was to some extent focused around the City of London.⁹⁰ Hall also argues implicitly that British merchants, despite this support, also caused problems for the British government as the war started in 1807.⁹¹ The East India Company, for example, was forced to start importing bullion back into the country.⁹² The Bank of England, however, despite its position at the heart of British credit, is not touched upon in the overall analysis of wartime finance. Given its interests in the export of bullion, this seems inadequate. For example, Clive Emsley, who argues that Britain fought the war as effectively as the French primarily due to an efficient taxation policy, does not assess the Bank of England despite its role within this system as a regulator of currency and specie.⁹³

Another related topic that seems to have importance in the literature is how the British government dealt with its continuing monetary crises. Hall, for example, draws attention to the problem of the value of British paper money.⁹⁴ He argues that the value of paper money was linked to the decision to immediately commit £2.5 million of specie to the rebel Spanish juntas.⁹⁵ Yet he does not explain how this was linked to Britain's overall monetary policy. For example,

⁸⁹ Hall, *British Strategy in the Napoleonic War, 1803-15*, pp. 16-18

⁹⁰ J. E. Cookson, *The British Armed Nation, 1793-1815* (New York: Oxford University Press, 1997), pp. 211-212, 217-218

⁹¹ Hall, *British Strategy in the Napoleonic War, 1803-15*, pp. 16-18

⁹² Bowen, *The Business of Empire : The East India Company and Imperial Britain, 1756-1833*, p. 257

⁹³ Mark Philp, *The French Revolution and British Popular Politics* (New York: Cambridge University Press, 1991), p. 113

⁹⁴ Hall, *British Strategy in the Napoleonic War, 1803-15*, p. 18

⁹⁵ *Ibid*, p. 174

Britain was able to grant £11 million of subsidies in 1813.⁹⁶ Hall is, despite this, one of the few academics to discuss the Bank, although he does not go beyond mere description.⁹⁷ Davies also fails to really examine the political or financial reasoning behind some of the decisions he describes. For example, he fails to explain how Lord Bathurst was able to order the Bank to release its gold supplies to Wellington, an issue this thesis will address.⁹⁸ Fletcher does discuss the issue of the monetary crisis somewhat, arguing that money shortages posed a real threat to the stability of the army. He does not, however, explain these monetary shortages other than acknowledging their existence.⁹⁹ Finally, J.W. Fortescue, writing in 1911, demonstrates how some elements of government funding are misunderstood by arguing that “bills upon England were hardly negotiable.” As we shall show this was far from the truth and, in fact, the value of British bills fluctuated throughout the war, the Bank playing a key role in this.¹⁰⁰ This scholarship, while demonstrating the importance of money during the war, fails to adequately include the Bank of England in its analysis. When it is included, it is treated in most cases simply as an aspect of the government. This was, however, not the case.

The final vector of analysis that many academics look at is Wellington’s self-professed constant need for money. Hall draws attention to this issue but he does not explain whether these demands were justified or how they influenced the decisions of ministers.¹⁰¹ Ward, however, does recognize that it was political forces above all that expedited the system of supplying money to Wellington.¹⁰² Michael Glover expands on this by going into detail about how the

⁹⁶ Ibid, pp. 199-200

⁹⁷ Ibid, p. 20

⁹⁸ Davies, *Wellington's Wars : The Making of a Military Genius*, p. 155

⁹⁹ Fletcher, *The Peninsular War, 1808-1811 : An Eyewitness History*, p. 114

¹⁰⁰ J. W. Fortescue, *British Statemen of the Great War, 1793-1814*, The Ford Lectures (Oxford: Clarendon Press, 1911), p. 225

¹⁰¹ Hall, *British Strategy in the Napoleonic War, 1803-15*, pp. 20-21

¹⁰² Stephen Ward, *Wellington's Headquarters; a Study of the Administrative Problems in the Peninsula, 1809-1814* (London: Oxford University Press, 1957), p. 16

Treasury fit into the structure of the armed forces.¹⁰³ These books, however, do not make an argument about how Wellington's needs involved the Bank. In a similar vein, Jan Read assesses but does not explain why Parliament was not willing to send Wellington the money he wanted or whether the Bank was involved in these decisions.¹⁰⁴

Hall, however, disagrees with Read and seems to suggest that Wellington's financial needs were well met, at least in hindsight.¹⁰⁵ The Bank's role in this, however, is ignored. Fletcher agrees with Hall, arguing that Wellington often wrote boring letters about money, and they were not just outpourings of need.¹⁰⁶ Fortescue raises an interesting point, which is not developed, and is an excellent example of how the scholarship lacks any real analysis of the Bank of England and its role in the Peninsular War. Fortescue writes that Wellington wondered why, if private traders could get money into the peninsula, the government could not. In response, the government stated that the Bank needed it for their own ends.¹⁰⁷ What these ends were, and the greater role of the Bank, are ignored.

Historians are often lucky enough to stand on the shoulders of giants. Yet as this review has shown, the Bank of England's role in the course of the Peninsular War has not been examined with the rigor that it deserves. Most historians seem to treat it as if it was formally part of some sort of civil service, despite its legal independence. Many also fail to properly analyze its actions, simply referencing it when they discuss Wellington's lack of specie. The Bank was, however, a complex institution that was part of the complicated tapestry of British statesmanship during this period. Using documents accessed from a number of archives, specifically the Bank

¹⁰³ Michael Glover, *Wellington's Army in the Peninsula, 1808-1814* (New York: Hippocrene Books, 1977), pp. 14-16, 18-19

¹⁰⁴ Jan Read, *War in the Peninsula* (London: Faber, 1977), pp. 155-156

¹⁰⁵ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, pp. 130-131

¹⁰⁶ Fletcher, *The Peninsular War, 1808-1811 : An Eyewitness History*, pp. 99-110

¹⁰⁷ Fortescue, *British Statesmen of the Great War, 1793-1814*, pp. 253-254

of England Archive but also the British Library and the Rothschild Archive, this thesis will show that the Bank was self-conscious about its role within the state and that it performed this role with great ability.

This thesis will run through the chronology of the Peninsular War, starting in 1808, and look at how the Bank acted to ensure that the war was won. It will cover the key moments of crisis the Bank faced, such as the 1810 bullion report, and demonstrate that the Bank always consciously worked to ensure victory. The concluding section will assess the now famous role of the Rothschild family in securing Wellington specie as he marched into France. Some historians have suggested that the reason that the British government used the Rothschilds in 1814 was due to the inability of Britain's old institutions, including the Bank of England, to find the necessary money.¹⁰⁸ By re-assessing this event using documents from the Bank of England and contextualizing this event within the Peninsular War as a whole, this thesis will suggest a new interpretation that integrates rather than excludes the Bank.

Assessing institutions that take on the role of formal central banks is of great importance because, as John H. Wood states, "Their position at the center provides a unique perspective on the progress of events, and their responsibility for day-to-day policy gives their exchanges with governments insight into policy in practice."¹⁰⁹ This is true of the Bank of England, despite the fact that it was *not* formally Britain's central bank in the nineteenth century. By the end of the Napoleonic period the Bank had become, over the 127 years between 1688 and 1815, a well-oiled part of the British financial machine, and maintained the public debt which adequately

¹⁰⁸ See Hilton, *A Mad, Bad, and Dangerous People? : England, 1783-1846*, p. 224. See also Hall, *British Strategy in the Napoleonic War, 1803-15*, p. 20; Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, pp. 263-264; Niall Ferguson, *The House of Rothschild* (New York: Viking, 1998)

¹⁰⁹ Wood, *A History of Central Banking in Great Britain and the United States*, p. 2

funded what has been called by O'Brien the "new hundred years' war."¹¹⁰ This was a role that was self-consciously cemented during the Peninsular War.

¹¹⁰ O'Brien, "Fiscal Exceptionalism: Great Britain and Its European Rivals; from Civil War to Triumph at Trafalgar and Waterloo", Department of Economic History (Department of Economic History: London School of Economics, 2001), p. 8

Section 2: From Gold to Paper, 1807-1810

The British war effort in the Iberian Peninsula began with the previously mentioned agreement to provide the revolutionaries with funds. On June 12, 1808, Foreign Secretary George Canning promised the Spanish insurrectionists that Britain would give them anything they needed.¹ The government immediately sent 237,000 dollars.² The British decision to take advantage of the Spanish revolution marked what has been described by Clapham as the “second phase in the currency and banking history of the suspension [of convertibility of paper into bills].”³ In the lead up the war, as Britain’s financial situation deteriorated, the government continued to ask the Bank to purchase exchequer bills, which it did.⁴ In March of 1806, Henry Petty and Lord Grenville (the chancellor of the exchequer and prime minister, respectively) wrote to the Bank and asked for a loan of £1 million that was not to be repaid until six months after the “ratification of Definitive treaty of Peace at the rate of three percent interest.”⁵ They argued that because the Bank was making money from the public service, it should comply with government needs.⁶ Although the Bank was happy to agree with this request, this further tied the Bank to British military success and set a dangerous precedent for the Bank and its shareholders. In January 1808, only months before the start of the Peninsular War, the government’s continued financial needs caused a series of disputes between the government and the Bank.

On January 11, 1808, Chancellor of the Exchequer Spencer Perceval wrote to the Bank suggesting a formal modification of their current agreement. He proposed, like Pitt had

¹ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, p. 59

² *Ibid*, p. 68

³ Clapham, *The Bank of England, a History*, II, p. 20

⁴ The Bank purchased £1 million of exchequer bills in June and a further £2 million on August 27, 1807. See BEA, G6/154 (folios 1 – 82, 1807, January 1 – June 25) folio 82, G6/155 (folios 1 – 96, 1807 July 2 – December 31) folio 29

⁵ BEA, G6/151 (folios 1 – 78, 1806, January 2 – April 24)., folio 45

⁶ BEA, G6/151 (folios 1 – 78, 1806, January 2 – April 24)., folio 45

previously, that the Bank give the government £500,000 of the unclaimed dividends on top of the £376,739 it had already advanced. Secondly, Perceval wanted the management fee that the Bank charged on the permanent debt lowered. He proposed a new scale for the charges: “When the total amount of Debt unredeemed shall exceed £400 million, and not exceed £550 millions, the Bank shall receive an allowance for management, at the rate of £340 per million, upon the whole of such debt.” If the government increased its debt beyond £550 million, the management fee would be dropped to £300 per million.⁷ He also requested that the Bank provide a £3 million loan with zero interest, of which the “principal to be secured by Exchequer Bills[.]” This meant that the Bank would hold exchequer bills as down payment for the loan. These were to be “payable twelve months after the ratification of a definitive treaty of peace”. The alternative proposal was that the Bank, during every year of the war (including the present), pay the government “the sum of £150,000 sterling.”⁸ Perceval favored the loan, but made it clear that *any* agreement would not preclude them for asking for more money, stating,

the present arrangement, if carried into effect should not be construed to preclude His Majesty’s Government (with the sanction of Parliament if necessary) from using in such a manner as they might think proper for the public Interest, and consistent with any existing engagement with the Bank, any excess of Balance over and above the said Ten millions, if it should appear that such excess was likely to be permanent and of sufficient magnitude to call for some application of it, by which, without interfering with the arrangement now proposed to the Bank, it might be rendered productive of advantage to the public.⁹

The directors of the Bank were disturbed by these requests. To start with, despite the previous support they had provided the government, the directors were divided about the amounts the government was asking for. On the fourteenth they met to discuss the request, and an unnamed director proposed an amendment that would see the Bank only providing a £2 million loan. Although this was rejected, it *was* seconded. This demonstrates there was

⁷ BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folio 9

⁸ BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folio 9

⁹ BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folio 9

opposition to the government's plans and concerns with how much the Bank had already lent the government, especially given that Perceval's proposed loan would not bear interest until after the war.¹⁰ Another point of disagreement was over the rates to be charged on the managed debt. These charges were profitable for the Bank; by 1807 they generated £265,000 a year.¹¹ The Bank responded with a counter-proposal. The directors wanted the rates set at £340 per million upon debts between £400 and £600 million, inclusive. This raised the top-level bracket by £50 million. The reduced £300 per million rate would then only count on debts above the £600 million, instead of starting at £550 million.¹² Finally, the Bank requested that, should government debt held by the Bank fall below £300 million, the management fee would be raised to £500 per million. Perceval rejected this proposal, arguing that Parliament would never agree to a higher rate than had been established in 1791. Instead he proposed that they discuss this only if it were ever to happen.¹³

Eventually, however, both parties agreed on the management rates and the loan. Yet what remained a problem for the Bank was the issue of unclaimed dividends. The Bank issued dividends from its profits to shareholders. Some shareholders, however, had not claimed their dividends and thus Perceval wanted to seize £500,000 of them from the Bank. The Bank was unwilling to give these to the government. It was concerned that this would affect the Bank's creditworthiness, as this depended on having dividends on hand at all times to pay off their shareholders.¹⁴ The Bank was also concerned about the legality of this request. The Bank's Committee of Treasury reported on January 19 that the sums Perceval had proposed seizing were

¹⁰ BEA, "Court of Directors: Minutes," (Bank of England, 9 April 1807 - 6 April 1809), p. 166

¹¹ Denis Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812* (Manchester: Manchester University Press, 1963), p. 321

¹² BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folios 14 – 15

¹³ BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folios 14 – 15

¹⁴ BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folio 36

actually current dividends and there was not £500,000 of unclaimed dividends.¹⁵ Perceval did not think the distinction should matter as his proposal stipulated that the Bank would still have £100,000 to pay out as dividends. Perceval argued that “the only consideration ought to be that there shall be no moment in any quarter in which risk should exist if any demand that may have accrued, whether in the current or any preceding, not being satisfied as soon as made. In the proposed arrangement this consideration is amply provided for.”¹⁶ Yet the Bank was more concerned with the wider issue of the credibility of the Bank and the Bank’s ability to serve the state. The directors, almost certainly remembering the 1797 crisis and the threat it had posed to British economic stability, was clearly concerned about making sure the Bank maintained its creditworthiness even if this resulted in conflict with the government.

Perceval, tired of the Banks stubbornness, threatened to use an act of Parliament to make the Bank acquiesce to his demands. On February 5 Perceval wrote to the Bank, stating that,

with respect to the unclaimed dividends I will distinctly state the difference which has arisen between us upon that point, and will submit to parliament the propriety of adopting an arrangement under that head, according to my notion of what is right upon this subject, but only without founding it on the consent of the Bank, but expressly noticing the circumstance which has imposed upon the Court of Directors the necessity of declaring themselves unauthorized to give their concurrence.¹⁷

The Bank, threatened with legislation, finally gave in.¹⁸ Despite this argument, the Bank continued to support the government and its creditworthiness by purchasing exchequer bills throughout early 1808.¹⁹ As the war in the peninsula developed, the Bank bought more bills after further requests by the government.²⁰ Given that the Bank was happy to support the government

¹⁵ BEA, "Court of Directors: Minutes", pp. 186-190

¹⁶ BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folio 36

¹⁷ BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folio 41

¹⁸ Clapham, *The Bank of England, a History*, II, pp. 48-49

¹⁹ The Bank purchased £1 million of exchequer bills in February and £2 million in April. See BEA, G6/156 (folios 1 – 90, 1808, January 7 – March 31), folio 38 and G6/157 (folios 1 – 98, 1808, April 7 – August 25), folio 12

²⁰ BEA, G6/158 (folios 1 – 79, 1808, September 1 – December 29), folio 18 and G6/158 (folios 1 – 79, 1808, September 1 – December 29), folio 71

by purchasing large amounts of government debt, why did the directors argue over the issue of £500,000? This issue revolved around the creditworthiness of the Bank. The Bank recognized that its ability to finance the war relied on the perception that it was separate from the government. If the Bank was happy to break the law when the government asked its debtors and international financiers would lose trust in it and the money it issued. Resisting the government increased its trustworthiness because it demonstrated that it was independent. This then allowed it to support the very same government it was arguing with. Helping the government was also ultimately in the Bank's self-interest as it hastened victory and thus ensured that the debts the government owed it would be paid back more quickly. The British government and the Bank of England were entwined in a positive feedback loop that would only grow closer as the Peninsular War continued. The Bank was clearly conscious of this relationship as part of its responsibilities to the state. It would, however, lead to continued tensions between the government and the Bank as each tried to ensure their respective needs were met.

Canning's decision to support Spain and Portugal by flooding the Iberian Peninsula with hard money resulted in immediate problems that the Bank had to deal with. Over the course of 1808, Britain sent a total £2.5 million of specie in aid.²¹ This was done to avoid a discount on British paper money and, as a result, the government only sent £187,000 in treasury bills.²² This renewed subsidy program led to a drain on the Bank's supplies. Between August 1808 and August 1809, the Bank's specie reserve went from £6 million to £3.6 million, and this caused new conflicts between the government and the Bank.²³ This drop was not, however, just due to export by the government. The war had caused a general scarcity of bullion, resulting in increased prices. This meant that it was often more profitable for private individuals to sell it in

²¹ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, p. 131

²² Hall, *British Strategy in the Napoleonic War, 1803-15*, p. 20

²³ Clapham, *The Bank of England, a History*, II, p. 19

foreign countries then keep it in the Bank, especially considering the limitations caused by the Restriction Crisis of 1797.²⁴ Meanwhile, the opening of the Portuguese colonial empire led to a trade boom which lasted from 1808 to 1809. This contributed to the general lack of specie as demand for gold by merchants increased.²⁵

Despite the drop in gold supplies and its increasing price the government continued to send it frequently, at least in the initial stages of the war. On July 5, 1808, for example, 839,806 dollars were sent to the junta of Galicia, while on the ninth a further 500,000 were sent to the junta of Asturia. Between the middle of 1808 and the beginning of 1809, a total of £3.5 million of cash was sent to the Iberian Peninsula.²⁶ This money was not just being sent as subsidies. The British Army, which entered Portugal in July with Wellington at the head, also needed hard cash to pay the troops and to pay the locals for requisitioned supplies. Thus, as Hall puts it, “bullion and coin was as much of a commodity as gunpowder.”²⁷ This meant that as the war progressed, while the early stages were marked by large cash deliveries for the army, finding specie became increasingly hard and remittances of cash began to slow down. This started to cause large problems for both the government and Wellington (and eventually the Bank of England).²⁸

The inability to continuously supply the British army with specie was somewhat dependent on the geography of the Iberian Peninsula. Between 1808 and 1811, Wellington’s army operated primarily near the coast.²⁹ This meant that Wellington could always be supplied by the navy. When he thrust deeper into the peninsula, however, and began operating in Spain he was less reachable by sea. This meant that as well as general supply issues he often faced

²⁴ Ibid, p. 19

²⁵ Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815*, p. 406

²⁶ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814.*, pp.131-132. Between June and August of 1809, Wellington received 300,000 dollars, 209,909 ounces of silver and 17,948 ounces of gold in coins.

²⁷ Ibid, p. 130

²⁸ Ibid, pp. 131-132

²⁹ For the sake of clarity, I will refer to Arthur Wellesley as simply Wellington, given that it is by this title that he is most known.

problems with getting his much needed gold.³⁰ Yet the supply of money was not simply dependent on shipping or geography — Wellington's cash supply was a deeply political issue. It was the Treasury that was in charge of army pay and supply.³¹ This meant that the Treasury played, as Ward puts it, a "dominant part" in the organization of the army. It released the ordinary funds that Parliament had voted for as well as the extraordinary revenue which was used to pay for unplanned costs of war.³² The ordinary funds were handed over to the paymaster-generals, two political appointments, who distributed the money for the British Army's normal expenses. The extraordinary revenue, however, was given to a treasury official called the commissary-in-chief, who had subordinates to make payments during a campaign.³³ These commissary-generals could draw bills of exchange upon the Treasury (treasury bills), and these bills were always payable by and at the Bank of England.³⁴ This meant that the chancellor of the exchequer, a politician, controlled the money supply and decided how much money the army received. The prime minister, first the Duke of Portland, (then Spencer Perceval and finally Lord Liverpool) also oversaw key issues of military funding.³⁵

The government, however, was ultimately reliant on the Bank of England. As Richard Roberts put it, "public finance and the institutional mechanisms designed to service the spiraling national debt were forged in an atmosphere of ongoing conflict and crisis... the bank's primary role was to help the state with the process of securing and deploying resources."³⁶ The government had, according to Joshua Moon,

³⁰ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, p. 6

³¹ Ward, *Wellington's Headquarters; a Study of the Administrative Problems in the Peninsula, 1809-1814*, p. 4

³² *Ibid*, p. 5

³³ *Ibid*, p. 6

³⁴ Norman J. Silberling, "Financial and Monetary Policy of Great Britain During the Napoleonic Wars", *The Quarterly Journal of Economics* 38, no. 3 (1924), p. 223

³⁵ Joshua Lee Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814* (Norman, OK: University of Oklahoma Press, 2011), p. 9

³⁶ Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820", p. 5

only two immediate sources of money to fund Wellington's army. The first of these was for the Bank of England to issue interest bearing bonds and give the proceeds to the treasury for distribution —Wellington was one of several recipients. The other, and more immediate, was for Wellington to order his commissariat to sequester (in exchange for promissory notes drawn upon the bank of England) money from the major trading centers of Gibraltar, Cadiz, and Lisbon.³⁷

This system, however, often resulted in disputes between the army and the government.

Wellington and his staff felt that the Treasury and the commissariat had failed to raise enough gold for them in the peninsula while they withheld British money in England.³⁸ The Bank, prior to the Peninsular War, had in fact purchased large amounts of cash on behalf of the government as there had been a glut of Spanish dollars on the market before 1808.³⁹ For example in April, 1808, the Bank was able to sell £2.5 million worth of dollars to Barings Bank.⁴⁰ Even when the war started the Bank was still able to purchase large sums. In June, the Bank purchased a further 5 million dollars.⁴¹ The Bank continued to provide this service to the government as the war began in order to perform the second part of its obligations to the state. It was not for want of efforts by the Bank that the government lacked access to specie.

Despite this, issues arose when Wellington's demands for more money conflicted with the Bank's duties to the rest of the British economy. The Bank was already aware of this problem in late 1808. On October 6, 1808, the governor of the Bank informed the chancellor of the exchequer that, although he had sent the 500,000 dollars that had been requested by Assistant Secretary of the Treasury George Harrison, the Bank was concerned. The governor argued that holding vast sums of silver for the government at all times would inconvenience the Bank financially, as it would not be able to sell it to others who has a use for it, such as merchants and

³⁷ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 104 -105

³⁸ *Ibid*, p. 105

³⁹ For example on March 11, 1807, the Bank was told by the government to deliver £412,501 worth of dollars to the East India Company on their behalf. See BEA, "Incoming Letters - Sundry H.M Treasury Letters", in *Chief Cashier's Office* (Bank of England, 1804 - 1807), unnumbered reference

⁴⁰ BEA, "Secretary's Letter Book", (Bank of England, 1 January 1808 - 9 October 1812), folios 7-8

⁴¹ *Ibid*, folio 10

traders. The governor suggested that the Bank could sell the government its entire stock, £600,000 of dollars and £900,000 in ingots, “to be paid for on delivery.”⁴² The Bank had a duty to serve the British economy and by the end of 1808, despite the needs of the British Army, it could not simply serve the government at the expense of the other parties in the fiscal-military state. By December, 1808, while the Bank agreed to give the government foreign gold coins, it was not willing to send more than £100,000 due to its own internal needs.⁴³ The Bank was forced to start balancing the needs of the government with the needs of the wider economy as the initial glut of gold ran out.

Wellington soon started complaining about this lack of specie. One of the primary causes of these disputes was that Wellington expected total loyalty from his subordinates.⁴⁴ Moreover, as a military commander, he was only concerned with waging war; the larger concerns of the British economy were not something he had to consider. This single minded pursuit of victory, however, naturally came into conflict with the traditional power structures that determined the army’s funding. But this was not the only aspect of the institution that was politicized, nor was it the only political aspect of the army that had effected Wellington. In August, Wellington had been removed from his command after he won the battle of Vimeiro. He was replaced by General Dalrymple — not because of Dalrymple’s ability, but because of political concerns. Given the army’s system of seniority, Wellington was deemed too junior to command the number of troops committed to Portugal in 1808, especially because there were more senior generals who had a greater claim to the command. General Moore had been considered, but Canning, who liked Wellington, did not like Moore. This meant that the Horse Guards not only had to find another general, but he had to be more senior so as not to dishonor Moore. They thus

⁴² Ibid, folio 17

⁴³ Ibid, folio 19

⁴⁴ Ward, *Wellington's Headquarters; a Study of the Administrative Problems in the Peninsula, 1809-1814*, p. 1

selected the rather unqualified Sir Hew Dalrymple, who was not a political threat.⁴⁵ Wellington was thus forced to navigate the complicated political structure of his command at all times, an aspect of warfare he hated.⁴⁶ Wellington's arguments with the government over specie were only one aspect of a series of conflicts he had with his political masters.

While Wellington can perhaps be forgiven for demanding more money, the government was trying its best to fund him. Barings Bank had secured 1.5 million dollars from Mexico in May, 1808, but this had been used up by that summer, much of it sent to the Portuguese government and Spanish juntas. High demand for specie was compounded by the problems mentioned above. This meant that by the autumn of 1808 the Treasury struggled to find any money. Perceval and Huskisson had estimated that the maximum they could send during 1808 was 5 million dollars, but by September they only had 200,000 remaining. On October 5, the Treasury board took the drastic measure of simply sending every dollar to the peninsula, ignoring demands from other areas. Despite this, the cash was soon used up by the British Army and its Iberian allies as the costs of the war spiraled out of control.⁴⁷

Meanwhile, politics continued to haunt Wellington. In the wake of the battle of Vimeiro, Dalrymple had signed the much maligned Convention of Cintra. While this formalized the French withdrawal from Portugal, Dalrymple had agreed to evacuate French troops with British ships. Wellington, alongside Dalrymple, had been summoned back to England to face a court martial over this debacle. Wellington was eventually cleared of all wrongdoing and sent back to Portugal in April, 1809. Despite this, further operations in the peninsula were not guaranteed.⁴⁸

⁴⁵ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 15

⁴⁶ Wellington hated politics, at least in 1807. Even though he had been elected as an MP in April, 1807, he demanded that he be sent back to active duty as soon as possible, something he told his friend Castlereagh in the summer, 1807. See John Bew, *Castlereagh : Enlightenment, War and Tyranny* (London: Quercus, 2011), p. 222

⁴⁷ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 336-337

⁴⁸ Hall, *British Strategy in the Napoleonic War, 1803-15*, pp. 69-70, 172

The Austrians had been preparing for war against France (which was declared in March, 1809) and they were urging Britain to support them. In light of this new opportunity the British government considered changing their strategy away from the peninsula. The cabinet decided to attack Walcheren, an island near the naval base of Antwerp. This was motivated by two reasons. Firstly, Viscount Castlereagh wanted to support Austrian attempts to fight Napoleon. The second reason was because Spanish and Portuguese merchants were, as Moon writes, “reluctant to accept bills, and due to exchange rates on specie, it was hoped that any force sent to the Low Countries would be able to obtain supplies and money at a low, local rate or requisition supplies for itself.”⁴⁹ The government was aware of the financial constraints it had to contend with and Huskisson argued that attacking Walcheren bypassed the monetary problems they faced in the Iberian Peninsula.⁵⁰

The Bank, trying to both maintain the British economy and secure the army specie, was also strongly against anything that kept the price of specie high. The price of silver had skyrocketed in relation to the pound and, even before Wellington returned to the peninsula, the Bank had begun trying to stop the government from pushing the price even higher with its large purchases. On January 4, 1809, the governor wrote a letter to George Harrison. The Governor “Ha[d] to comment, that an interference in the purchase of bullion, at this market, opposes his wish and expectation of keeping the price of doubloons[...]as he finds purchases have taken off, at a higher price, the doubloons that remained.”⁵¹ The Bank was, as this letter demonstrates, concerned that the government’s attempts to provide for Wellington were causing dramatic rises in the price of available silver. Despite this, the Bank did not let these concerns stop it from performing their functions for the state, and the Bank continued purchasing foreign currency at

⁴⁹ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 31

⁵⁰ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 339

⁵¹ BEA, "Secretary's Letter Book", folio 22

the government's request.⁵² By February 24, the Bank had purchased £59,556 of doubloons for the government. The government, perhaps listening to the Bank's concerns, was not simply willing to throw money at the specie problem, and they would not buy foreign coinage if it was too expensive. Unfortunately, the price had risen so high by this point that the Bank was sometimes unable to purchase it at the price the government wanted to pay.⁵³

Despite attempts by the Bank to purchase cash, the campaign of 1809 saw Wellington continue to face money problems for a number of reasons. When he arrived back in Portugal the most important source of cash was facilitated by the sale of treasury bills by a private gentleman called Sir James Duff, who sold them in Cadiz. This highlights the lack of fiscal organization within the British war machine.⁵⁴ One of the main problems, according to Moon, was Wellington's senior commissary officer in Lisbon, John Rawlings. Rawlings wanted to supply the British Army with the Portuguese dollars that the Portuguese used to purchase British imports. His proposal, however, required a demand for British goods that was lower in reality than what his plan required. Unfortunately, because Rawlings was not technically under Wellington's command, Wellington could not order him to change the plan. Wellington was forced to complain to Rawlings' superior, Huskisson, who would not replace Rawlings.⁵⁵ It was not entirely Rawlings' fault that this plan did not work. By 1809, British efforts to secure specie were hindered by a group of financiers called 'the cab' which forced up the price of dollars. This meant that British currency could buy fewer and fewer dollars as the price increased.⁵⁶ The British command in Portugal, faced with increasingly expensive dollars, started arguing that the

⁵² The Bank purchased 1200 doubloons in January, 1809. On February 9, the Bank purchased a further 8,710 dollars, and purchased more doubloons on February 24. See *ibid*, folios 23, 24, 25

⁵³ *Ibid*, folio 25

⁵⁴ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 105

⁵⁵ *Ibid*, p. 43

⁵⁶ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 335

only way to raise more specie was to issue bills of exchange.⁵⁷ Huskisson, however, disagreed. As a result, Wellington found his war chest empty upon his return.⁵⁸

Rawling's plan was not totally flawed. The British intervention in the Iberian Peninsula had resulted in an economic boom. As Clapham writes, "in the feverish and uncertain economic life of those war years ... the opening of Brazil and other parts of south America to British trade after the Portuguese royal family had sailed for Rio ... gave the signal for a frenzy of speculative exporting."⁵⁹ Britain was completely dependent on trade in order to fund her war effort, which was getting ever more expensive.⁶⁰ This trade, which contributed much-needed tax revenue to the British war effort, was so important that the British government forced ships to sail in convoy.⁶¹ The Continental System, however, had been effective in creating a slump in British trade.⁶² The new trade routes opened by the war thus ensured that British goods could enter European markets and bypass Napoleon's Continental System, hurting the French economically. Between 1808 and 1814, 404 convoys left Britain for the Iberian Peninsula.⁶³ Trade with the region was worth £1.7 million in 1807 and reached almost £6.7 million by 1810.⁶⁴ By 1812, the Iberian Peninsula as a whole was receiving almost 20% of British exports.⁶⁵ Some historians, however, have rightly argued that this trade was not the most important factor in meeting Britain's financial needs. As O'Brien points out, although revenue from trade increased by a factor of three between 1688 and 1815 tax receipts multiplied by a factor of fifteen. The state's increased ability to gather taxes on trade was ultimately more significant than the trade itself,

⁵⁷ Ibid, p. 338

⁵⁸ Ibid, p. 338

⁵⁹ Clapham, *The Bank of England, a History*, II, p. 120

⁶⁰ Bew, *Castlereagh : Enlightenment, War and Tyranny*, p. 227

⁶¹ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, p. 121

⁶² Bruce Collins, *War and Empire : The Expansion of Britain, 1790-1830* (New York: Longman, 2010), p. 269

⁶³ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, pp. 111-112, 113

⁶⁴ Hall, *British Strategy in the Napoleonic War, 1803-15*, pp. 93-94

⁶⁵ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, pp. 115-116, 117

especially when securing Britain's permanent debt.⁶⁶ Despite this, while increased taxation was necessary to pay off the interest on the funded debt, Wellington's army needed the specie that trade generated.

Regardless, this trade was not sufficient to secure Wellington the specie he wanted, a problem exacerbated by the actions of the Bank of England which *had* to keep the rest of Britain supplied with cash. In 1809, due to speculation caused by the opening up of the Iberian and Latin American markets, the Bank of England continued to increase its advances to the British private sector.⁶⁷ This, however, although stimulating the British economy, led to further price rises as the large issue of Bank notes had an inflationary effect on world markets. These price increases also coincided with the increased subsidies to the peninsula nations and Austria.⁶⁸ The result was a large depreciation in the rate of the exchange between British paper and foreign currencies.⁶⁹ The Bank was, however, aware of this inflationary effect.

A committee had been appointed on January 5, 1809, to inspect the discounts and "such regulations as may appear to them expedient on the subject of Discounts in general."⁷⁰ Its report, written on February 9, 1809, compared 1809 with 1804, when the last committee sat. The committee concluded a number of problems. To start, the discounts were up. Moreover, the total amount discounted that year had also risen by over £2 million.⁷¹ This document demonstrates

⁶⁶ O'Brien, "Fiscal Exceptionalism: Great Britain and Its European Rivals; from Civil War to Triumph at Trafalgar and Waterloo", p. 10

⁶⁷ Andreas Michael Andreades, *History of the Bank of England, 1640 to 1903* (New York: A.M. Kelley, 1966), p.219

⁶⁸ Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, p. 367

⁶⁹ Nathan Sussman, "William Huskisson and the Bullion Controversy, 1810", *The European Journal of the History of Economic Thought* 4, no. 2 (1997), p. 239

⁷⁰ BEA, G6/159 (folios 1 – 100, 1809, January 5 – April 27), folio 27

⁷¹ BEA, G6/159 (folios 1 – 100, 1809, January 5 – April 27), folio 27. In January 1804, the Bank had discounted 1,340 bills but by January of 1809, this figure was up to 1,394. In 1804, the total discount in January had been £12,556,000 while in January, 1809, it was at £14,587,000.

that the Bank, to some extent, saw itself as an aspect of the state and had a duty to Britain over and above its duties to its shareholders. In a letter the governor of the Bank wrote,

the enquiries of your committee, incline them to think that the proportion of notes to bills is increasing;- and that the acceptances of Brokers are discounted to too large an amount;- for it cannot escape the observation of your committee that in the present state of the commerce of the country *many articles are driven greatly above their ordinary value* [emphasis my own]; but it must be expected that in the course of time trade will return to its natural level;- and whenever that period arrives, Individuals who are holders of such high priced articles, must unavoidably be great sufferers.⁷²

He also recognized that if the Bank continued to provide such relaxed discounts, it might cause the public to resent the large issue of bank notes, in a way predicting the issues raised by the bullion committee.⁷³ The report proceeds to list suggested regulations that would limit discounts, or at least control them.⁷⁴ While it is not clear whether the Bank instituted these changes, it demonstrates that the Bank was not only aware of the problems it had to deal with in satisfying its dual role to the state but that it was conscious of this role.⁷⁵

The Bank was aware of these new economic problems caused by the war, but could not immediately offer a solution. Despite the large gold shipments that characterized the first year of the war in the Iberian Peninsula, a long term war could potentially cause huge problems for a nation that relied on bills of exchange as the principal mode of funding its armed forces. With the Restriction Crisis, the increased note liquidity and the scarcity of worldwide gold supplies, the value of British money became ever more closely linked to the British state's credit rating. Supporting a resurgent Austria offered Britain a potential way to end the war quickly, thus dealing with most of the financial problems it faced. In response to these plans, Wellington argued that sending troops and resources to Walcheren would dilute his forces in the peninsula.

⁷² BEA, G6/159 (folios 1 – 100, 1809, January 5 – April 27), folio 27

⁷³ See Section 3

⁷⁴ BEA, G6/159 (folios 1 – 100, 1809, January 5 – April 27), folio 27

⁷⁵ BEA, G6/159 (folios 1 – 100, 1809, January 5 – April 27), folio 27

Wellington, aware of the government's cost-cutting priorities, provided a plan for a cost-effective alternative in Portugal. His plan stated that the Peninsular War would only cost £1 million a year, a very low figure in the context of Britain's ongoing struggle with Napoleon. This estimate would turn out to be completely erroneous. In response, however, the cabinet, although continuing with its plan to attack Walcheren, ultimately decided to maintain an army in Portugal.⁷⁶ Yet Wellington still desperately needed financial support from the government. By mid-June, the impasse with Rawlings and Huskisson (mentioned above) resulted in Wellington writing instead directly to his political ally Castlereagh. In the letter he described the army's want of money and he told Castlereagh he was in debt for £200,000, and again asked for an immediate £100,000.⁷⁷ According to Moon, while this request "was well beyond the Treasury's capacity, Wellington was not bluffing."⁷⁸ In response to his lack of funds, Wellington stopped campaigning. Finally, on June 15, he received a delivery of cash, although not from London. This was instead Spanish money he had received on his arrival in Lisbon that he had sent to get changed into Portuguese currency. This, however, was still not enough to pay his debts to the Portuguese.⁷⁹

Neither the Bank nor the government can be blamed for not finding the money Wellington needed to fight the war at this point. Wellington had warned the government about his proposed expenses immediately after his return to Portugal. On May 5, he had informed Huskisson, then junior secretary to the Treasury, that he had found only £100,000 of the £400,000 he had expected (the money that he sent to be changed).⁸⁰ Wellington informed

⁷⁶ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 31

⁷⁷ Arthur Wellesley Duke of Wellington, *The Dispatches of Field Marshal the Duke of Wellington: During His Various Campaigns in India, Denmark, Portugal, Spain, the Low Countries, and France, from 1799 to 1818*, XIII vols., vol. IV (London: John Murray, 1837), pp. 413-414

⁷⁸ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 43

⁷⁹ *Ibid*, p. 44

⁸⁰ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 338

Huskisson that his expenditure was going to be £200,000 per month, £50,000 of which would be needed to pay his troops (and thus needed to be in cash). Finally, he informed Huskisson that his yearly expenditure would be £2.5 million instead of the £1 million he had proposed.⁸¹ Despite the fact that he had misled the government, he then proceeded to ask Huskisson for an immediate shipment of £100,000 in cash with extra monthly shipments to keep his army solvent (the same sum he mentioned to Castlereagh above).⁸² Wellington soon ran out of money and, in order to pay of his debts, he was forced to convince the wine merchants of Porto to lend him money. This led to censure from the Portuguese Regency Council in Lisbon, and he was forced once again to write to Huskisson to inform him about his mounting debts and lack of cash.⁸³

Huskisson faced real problems when trying to secure a supply of specie as the 1809 campaign continued. His major problem was finding the specie that Wellington demanded. Huskisson estimated that this would cost £6 million every year due to depreciation of the pound and the scarcity of specie. The second problem he faced was the cost of the war on the British people. In 1809 the army cost Britain £17.5 million, and the 1809 budget had included a further £11 million loan as well as a £3 million vote of credit.⁸⁴ Although the 1809 budget did not require new taxes the government knew that if expenditure was not curtailed, an additional £2.5 million of taxation revenue would have to be found.⁸⁵ Huskisson did not think the British people would pay this, and he thus looked to peace with France so as to end the blockade that was limiting revenue-generating trade. Ultimately, Huskisson believed that the war would destroy the British economy unless radical measures were taken to curtail spending. His

⁸¹ Wellington, *The Despatches of Field Marshal the Duke of Wellington: During His Various Campaigns in India, Denmark, Portugal, Spain, the Low Countries, and France, from 1799 to 1818*, IV, pp. 302-303

⁸² Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 40

⁸³ *Ibid*, pp. 41-42

⁸⁴ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 357

⁸⁵ *Ibid*, p. 358

memorandum advocating this plan of action was forwarded to the king by the prime minister, as Moon writes, “a testament to Huskisson’s influence with the government.”⁸⁶

As well as threatening Wellington’s continued operations with his plans for fiscal conservatism, Huskisson threatened the ability of the Bank to serve the state. He was a leading bullionist (a faction that advocated the return to the gold standard as had been the norm pre-1797).⁸⁷ This was not a radical position, even in 1809. Huskisson was part of the established liberal faction of the Tory party which favored a political economy of monetary orthodoxy and free trade, as opposed to the protectionist system that was in place.⁸⁸ Huskisson’s presence in the government, however, demonstrates the political weakness of the cabinet during the first years of the war. While the administration formed by Perceval in the autumn of 1809 was “to be the basis for British government for the next seventeen years”, the Portland ministry was weak. It looked so precarious that many politicians, including many prominent MPs, would not to join the cabinet. This explains why even after ten years of war, there were a number of anti-war politicians in power.⁸⁹

To compound these problems the Peninsular War was not going well. The Battle of Talavera, between July 27 and 28, 1809, left the British Army badly mauled. While a technical victory, the British army suffered 25 percent casualties and Wellington was unable to follow up the victory and had to consolidate his position. Meanwhile the army still lacked money to pay the troops. Without the regular shipments of money that had been typical of the early 1808 glut, the army could not “operate efficiently.”⁹⁰ Moreover, Austria’s defeat at the Battle of Wagram (July

⁸⁶ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 44-45

⁸⁷ Daniele Besomi, "Paper Money and National Distress: William Huskisson and the Early Theories of Credit, Speculation and Crises", *The European Journal of the History of Economic Thought* 17, no. 1 (2010), p. 52

⁸⁸ Nathan Sussman, "William Huskisson and the Bullion Controversy, 1810", *ibid.* 4, no. 2 (1997), p. 238

⁸⁹ Norman Gash, *Lord Liverpool : The Life and Political Career of Robert Banks Jenkinson, Second Earl of Liverpool, 1770-1828* (Cambridge, Mass.: Harvard University Press, 1984), p. 77

⁹⁰ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 38-39

5 – 6, 1809) removed any chance of a quick victory, and there was the belief that Napoleon would soon invade Portugal, meaning that Wellington would be forced to retreat.⁹¹ Wellington responded to this lack of cash by directly complaining in letters that the cabinet was indifferent to his problems.⁹²

This was not the case, but by the summer of 1809 it was clear that the wartime finance policy had to be changed. Huskisson, as previously mentioned, sent Perceval a long memorandum explaining that Britain had to cut wartime and military costs and instead focus on a truly defensive war. The Peninsular War and Britain's other wartime costs were bleeding the country dry.⁹³ In response, Perceval promised Huskisson that this plan would serve as the foundation of his wartime finance plans.⁹⁴ Despite his political convictions, however, Huskisson was successful in supplying Britain with money. Over the course of 1809 he secured the entire balance of the Mexican treasury and 6 million dollars from Spanish merchants using bills of exchange against the Treasury.⁹⁵ Despite this, when he left the government at the end of 1809, Perceval was, thanks to his more affable personality, better able to deal with Wellington.⁹⁶ This, at least, reduced one aspect of tension between the government, the Bank and the army as the problems of funding the Peninsular War became ever more pressing.

The result of the stagnating campaign and Huskisson's memorandum was that by late 1809 Wellington's main source of finance came from the expanded sale of treasury bills to Lisbon. Although the Treasury eventually investigated the private merchants involved (see above) in 1810, Wellington vigorously defended them, arguing their local knowledge was helping him

⁹¹ Ibid, p. 62

⁹² Ibid, p. 39

⁹³ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 343-344

⁹⁴ Ibid, pp. 360-361

⁹⁵ Fay, *Huskisson and His Age*, p. 69

⁹⁶ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 331

secure his needed funds.⁹⁷ Despite this successes, Wellington did not like being dependent on foreign money markets for his specie supply. He worried, correctly as it would turn out, that the rates between the bills of exchange and gold were dependent on his victories, and he felt that this method of funding the army was unreliable in the long run.⁹⁸ Luckily Wellington's old friend and political ally Castlereagh came to the rescue. According to Moon, Castlereagh simply told Wellington that a shipment of £230,000 was being sent to him.⁹⁹ Moon does not explain if this was cash or bills, or how this was decided. Castlereagh did, however, repeat Huskisson's warning and told Wellington that the government could only send a further £100,000 until a new shipment of dollars came in from South America.

By this point the glut of money sent in 1808 had been exhausted and Wellington was provided just enough money to continue the war. Moon argues that "as long as he [Wellington] was victorious, financial support continued..."¹⁰⁰ This was an unfortunate result of British reliance on credit at this stage of the war.¹⁰¹ As had been recognized as early as 1793, Britain's credit was fragile and dependent on political decisions — decisions that could undermine trust in Britain's credit network and cause the system to collapse overnight. Thus the British government and other parts of the British state (such as the Bank) had a duty to protect this credit network.¹⁰² This to some extent explains the funding boom and bust that Wellington constantly faced. Victories would result in increased funding but defeats would lead to public discussions about curtailing spending and thus the preservation of Britain's creditworthiness. Throughout this transition from funding Wellington primarily with gold to paper, the Bank of England continued

⁹⁷ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 105

⁹⁸ *Ibid*, p. 105

⁹⁹ *Ibid*, p. 46

¹⁰⁰ *Ibid*, p. 47

¹⁰¹ Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, pp. 221-223

¹⁰² Besomi, "Paper Money and National Distress: William Huskisson and the Early Theories of Credit, Speculation and Crises", p. 64

to do its part by supporting government's credit as the pound collapsed against the price of gold. On June 27, 1809, Perceval requested that the Bank purchase £2 million of exchequer bills.¹⁰³

Later, in September, the Bank agreed to again purchase a further £2 million of exchequer bills.¹⁰⁴

Yet the Bank, while aiding the government by purchasing exchequer bills, was also trying to keep the British economy running. On August 22, 1809, the Lords of the Committee of the Privy Council informed the Bank that, in addition to the previous £50,000 worth of dollars the Bank had issued to provide for the public demand, they authorized a further issue of 100,000 dollars valued at 5 shillings each.¹⁰⁵ The Bank, with its responsibilities to the British people and merchant community, was forced to use silver that Wellington desperately needed. On November 25, 1809, the committee allowed the Bank to issue a further £300,000 of dollars. They agreed with the Bank that the 100,000 dollars previously issued had not satisfied the public's need for coin.¹⁰⁶ The Bank was trying its best to fulfil both its roles (regulating the British economy during the war and providing the government with wartime finance). Its desire to maintain British credit and liquidity and support the state, however, came into direct conflict Wellington's needs for specie, despite the fact that both were helping to buttress British credit.

In December of 1809, Wellington was once again faced with financial problems. He informed the new Secretary of State for War and the Colonies Lord Liverpool, who replaced Castlereagh after the later resigned over his duel with George Canning over the failed Walcheren expedition, that the Portuguese government was £980,000 in debt. Liverpool's relationship with Wellington, who had enjoyed according to John Bew, Castlereagh's "unquestioning support,

¹⁰³ BEA, G6/160 (folios 1 – 96, 1809, May 4 – August 31), folio 28

¹⁰⁴ BEA, G6/161 (folios 1 – 66, 1809, September 7 – December 28), folio 13

¹⁰⁵ BEA, G6/160 (folios 1 – 96, 1809, May 4 – August 31), folio 89

¹⁰⁶ BEA, G6/161 (folios 1 – 66, 1809, September 7 – December 28), folio 48

soon deteriorated.”¹⁰⁷ The government was reluctant to supply Wellington with money. The government had spent large amounts of specie on the Walcheren expedition and there remained a large discount on British paper money.¹⁰⁸ Despite these problems, Lord Liverpool did his best to supply Wellington with the money. Wellington needed this to pay the Portuguese troops, as the Portuguese government could not afford to. Lord Liverpool, perhaps in an attempt to solidify his relationship with Wellington, also promised a further £300,000 for the British Army in the peninsula. Lord Liverpool, however, remained concerned about whether the war would continue.¹⁰⁹ Given the political, military and financial problems the war had faced in the later part of 1809 it is likely that the army would have been evacuated during the winter of 1809 - 1810, had it been left to a vote of Parliament. It was the cabinet, above all, who defended Wellington. Yet the decision to maintain him in the Iberian Peninsula came with the realization that England could never win a total war against France, simply because of their lack of manpower. As Norman Gash points out, the war was a diversionary tactic, rather than part of a wider decision to mount pressure on Napoleon.¹¹⁰

As the year came to end, the Bank had to deal with other problems caused by the war. 1808, as mentioned above, saw a surge in the circulation of bank notes which was to continue until 1811. This was principally due to speculation regarding plans for South America, and was the focus of the Bank’s discounting. Many merchants were speculating that the newly opened colonies would create large markets and new sources of profit.¹¹¹ This resulted in a large issue of bank notes as merchants took out loans in order to finance their new plans. This trend was

¹⁰⁷ Bew, *Castlereagh : Enlightenment, War and Tyranny*, p. 270

¹⁰⁸ Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815*, pp. 407-408

¹⁰⁹ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 63-64

¹¹⁰ Gash, *Lord Liverpool : The Life and Political Career of Robert Banks Jenkinson, Second Earl of Liverpool, 1770-1828*, pp. 81-82

¹¹¹ Clapham, *The Bank of England, a History*, II, pp. 20-21

readily endorsed by the Bank. The directors feared that if they limited bank note issue and tried to check the boom, they would undermine the country's resurgent economy and cause a commercial crisis. Limiting access to credit might have, for example, made people doubt Britain's economic strength. Thus would have caused a further drop in the price of British paper money and hurt the government's war effort. This problem was compounded by the decision to start funding the Peninsular War using bills of exchange as the initial gold ran out. These factors led to a huge rise in the price of bullion, exacerbating the export of it to the continent. This inflationary trend resulted in the setting up of the bullion committee of 1810.¹¹²

The first years of the war, therefore, saw Britain move away from using bullion and begin relying on bills of exchange. This ultimately tied the Bank of England ever closer to the military aspect of the war. The Bank also struggled to perform both of its roles to the state, which were at times contradictory. Funding Wellington often took precedence for the government, but while the initial glut of gold in 1808 had satisfied his immediate needs the decision to rely on paper money and Wellington's incessant demands for specie meant that the Bank was moving towards a conflict with the government. Despite this, the opening years of the war led the foundation for a close working relationship between the Bank and the government. The Bank continuously tried to support the government policies and wartime needs by purchasing exchequer bills while simultaneously serving the needs of the British public and merchant community. All of this was done with the recognition of its responsibilities to the state. This relationship would be ever strengthened when the Bank came under assault at the beginning of 1810 by those who wished to see a return to the gold standard.

¹¹² Acres, *The Bank of England from within, 1694-1900*, p. 302

Section 3: The Crisis of the Bullion Committee and the continuing War, 1810 – 1811

In 1810, the Bank faced the largest assault on its privileges during the Peninsular War. After two years of increasing inflation and a failing exchange rate between the pound and foreign currencies, some politicians sought an answer to Britain's mounting economic woes.¹ Despite the financial planning in the close of 1809 to ensure that Britain could continue the war indefinitely, the public became increasingly wary about the amounts of British paper money in circulation. This issue was first raised in Parliament by Francis Horner on February 1, 1810. Horner called for a select committee to investigate, amongst other things, the shortage of bullion. Although Perceval (now both prime minister *and* chancellor of the exchequer) defended the Bank by arguing that note issue was not the cause of inflation, instead blaming war expenditure, interruptions to trade and other factors, he was too focused on the fallout of the Walcheren expedition. He could not, therefore, devote his time to deal with the issue of money and agreed to the creation of a committee to investigate the problem.² The bullion committee, formally titled the Select Committee on the High Price of Gold Bullion, was appointed on the first of February.³ The committee's purpose was to discover the reason for the high price of gold.⁴ Perceval, however, did not pay attention to its composition.⁵ The result was a committee that although full of economists, lacked government or Bank supporters. Only two members were ministers (Perceval and George Rose), and Rose had to withdraw while Perceval was often busy. The result was, as Denis Gray put it, a "packed" committee.⁶

¹ Wood, *A History of Central Banking in Great Britain and the United States*, pp. 9-10

² Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 368-369

³ Wood, *A History of Central Banking in Great Britain and the United States*, pp. 9-10

⁴ Clapham, *The Bank of England, a History*, II, pp. 23-24

⁵ Clive Emsley, *British Society and the French Wars, 1793-1815* (New York: Macmillan, 1979), p. 151

⁶ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 368-369

The creation of the bullion committee was to some extent the result of structural changes to the British economy that had begun in 1797. The period of 1707 to 1800 had been marked by a small premium on gold and gold bullion and paper money traded at roughly equivalent rates. This period of long term price stability had also been marked by a lack of depreciation. British currency, backed by gold, maintained a stable price when compared to other European currencies. This, however, did not last during the Napoleonic Wars. As the war continued, the currency markets became more and more volatile. Between 1809 and 1811 there were, for the most part, large increases in the price of silver and gold.⁷ This transition bucked a hundred year trend in gold prices, and was a turning point in British economic history. The committee, however, was more interested in the specific actions of the Bank of England. Politicians and financiers argued that the Bank's ability, since 1797, to lend as much money as it wanted was the main reason for the inflation.⁸ This attack on the Bank occurred simultaneously as the Opposition once again leveled broadsides at the campaign in the peninsula, a campaign now reliant on British credit. A series of debates in the House of Commons regarding increased subsidies for Portugal indicated that the government's majority was under threat and they began to lose votes to the Opposition. While the debates did not focus on Wellington's performance, there was the fear that if Wellington lost an important battle the government would be forced to call off the war when faced with this increased criticism in Parliament.⁹ Wellington's fears had been borne out – political support for the war had become contingent on his ability to win.

The inquiry by the Select Committee on the High Price of Gold Bullion lasted from February to April, 1810.¹⁰ The committee started by summoning witnesses, such as gold dealers,

⁷ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 27

⁸ Wood, *A History of Central Banking in Great Britain and the United States*, p. 10

⁹ Bew, *Castlereagh : Enlightenment, War and Tyranny*, p. 275

¹⁰ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 370-371

brokers, and merchants in order to ascertain the overall strength of the pound.¹¹ The Bank had not been consulted on the committee, and there had been no direct vote by the general court as to how to proceed or respond to these enquiries. Despite this, the governor and the deputy governor were instructed to find out how the chancellor was planning to respond to the report, and the governor and the deputy governor did, in fact, give evidence to the committee.¹² Clearly preoccupied with more pressing issues, as shall be seen below, their weak and lackluster testimony caused damage to the Bank's position. Both admitted that the Bank did not accept that circulation had anything to do with the state of the exchanges: They stated that the Bank had not regulated its issue based on the state of the pound in foreign exchanges or on the difference between the mint price and the market price for gold.¹³ The governor, according to Wood, was quite unconcerned with macro-economic concerns and instead focused on finance. The Bank would also not accept that the value of its paper money was affected by the rate it was issued at.¹⁴ By the time that Perceval recognized the direction the committee was going, the damage had already been done: the report, which was published in June, 1810, was strictly bullionist and it directly attacked the amounts of notes the Bank had issued.¹⁵ Despite this there was a silver lining of sorts: the report did not concern itself with, or criticize, the government's (steadily increasing) war expenditure.¹⁶

The report recommended a resumption of cash payments as soon as possible, overturning the 1797 restriction.¹⁷ The overtly political nature of this criticism is noteworthy. Previous calls to resume cash payments had been linked with a permanent peace with France. For example, the

¹¹ Wood, *A History of Central Banking in Great Britain and the United States*, p. 14

¹² Clapham, *The Bank of England, a History*, II, p. 25

¹³ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 370-371

¹⁴ Wood, *A History of Central Banking in Great Britain and the United States*, p. 19

¹⁵ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 370-371

¹⁶ *Ibid*, p. 372

¹⁷ Clapham, *The Bank of England, a History*, II, pp. 23-24

anti-war Whig politician Charles James Fox had called on the Bank to limit its discounts and resume payments in gold only months after the Restriction Act had passed.¹⁸ The recommendations from the committee, however, were not simply mere political posturing by the Opposition, nor were they meaningless. The committee was composed of politicians from a variety of different backgrounds. One of the members sat in the cabinet, while another was a member of the governing party and had been a cabinet member (Spencer Perceval was the prime minister at the time while Huskisson remained an MP). Henry Thornton was the brother of one of the directors of the Bank (although he has been accused of being more lenient on the Bank because of this).¹⁹ Finally, Francis Horner, who had moved for the creation of the committee in the first place, had a reputation of being protectionist. He had previously criticized Adam Smith's *Wealth of Nations* in 1794, and the way the free trade ideas it contained were celebrated.²⁰ The committee, therefore, was made up of established politicians and thus its recommendations had weight and influence. It could not be ignored by the government.

One of the main problems the Bank's critics had with the Bank was its secrecy. It did not, for example, offer any regular reports until 1832. Instead, it provided the government with secret information while releasing limited and often highly confusing documents to the public.²¹ This meant that it could lend the government money which would not affect its public credit, as no one actually knew how much it had lent at any time except the governors and the government (as we have seen). The government, unsurprisingly, vigorously defended this system even when under pressure from Parliament, as demonstrated by Pitt in the 1790s.²² Another issue the bullion

¹⁸ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 30

¹⁹ Sussman, "William Huskisson and the Bullion Controversy, 1810", p. 259

²⁰ Richard F. Teichgraeber, "Less Abused Than I Had Reason to Expect: The Reception of the Wealth of Nations in Britain, 1776-90", *The Historical Journal* 30, no. 02 (1987), p. 365

²¹ Wood, *A History of Central Banking in Great Britain and the United States*, p. 11

²² *Ibid*, p. 11

committee was concerned with was the effect of the ongoing war on the price of gold. The Peace of Amiens (which lasted from 1802 to 1803) and Pitt's income tax had stabilized inflation. As a result, in 1808 the Bank's liabilities had only been twenty percent higher than in 1801, despite the resumption of hostilities, while its gold stock had been replenished after the run of 1797. The British decision to intervene in the Iberian Peninsula in 1808 changed this. David Ricardo *et al* blamed the resulting high price of gold and the increasing inflation on the Bank.²³

The bullion committee led to an explosion of different opinions in print literature. Almost all of it, however, focused on the Bank of England's expanding credit as the source of the inflation. David Ricardo and John Wheatly, for example, argued that even though foreign expenditure and subsidies could cause depreciation, there would have been less inflation had the Bank limited its expansion of credit. Other supporters of resumption recognized that foreign remittances and payments caused problems for the Bank's credit policies.²⁴ Huskisson, in a pamphlet he wrote after the publication of the report, stated that he was not necessarily against the war but instead the way it was financed.²⁵ These attacks on the Bank posed a direct attack on the government's wartime financing policies. While it must be noted that this was only "parenthetical" discourse which was attached to discussions about much larger economic issues, the fact that they were had at all demonstrates a clear anti-Bank feeling.²⁶ The report and the resultant debates criticizing the system used to finance the army meant the ability of the government to wage war was under threat. Any limitations to the Bank's power could have hamstrung a government that relied on the Bank not only to manage the permanent debt but to support the paper money on which Wellington relied.

²³ Ibid, pp. 12-13

²⁴ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 47

²⁵ Fay, *Huskisson and His Age*, pp. 72-73

²⁶ Besomi, "Paper Money and National Distress: William Huskisson and the Early Theories of Credit, Speculation and Crises", p. 50

The committee's report, which was published in June, 1810, strongly condemned the Bank's position and argued that the lack of convertibility had resulted in the Bank lending to the point of excess.²⁷ Its primary authors were Huskisson, Thornton and Horner.²⁸ Huskisson, who had left the cabinet in the late summer of 1809 sided with the opposition Whigs in his condemnation of the Bank.²⁹ The report was largely based on David Ricardo's ideas.³⁰ Ricardo had been a stock-jobber in the City, and while the relationship between the City and the Bank of England had been somewhat cordial throughout the war, there had been conflicts when the needs of the City conflicted with the needs of the government. For example, in the lead up to the 1797 restriction, the Bank had acted against the interests of the City. Fearing further requests for gold by the government to pay for subsidies to the allies as well as more loans, the Bank limited their discounting of bills. This decision was attacked by city merchants but they were ignored by the Bank. When the government eventually asked for more money for subsidies, although the Bank complained, they complied.³¹ Huskisson, in fact, pointed out that a resumption of convertibility would benefit the trading and manufacturing classes.³² Many merchant, however, supported the restriction, despite Huskisson's warnings that the current speculative boom would end in a slump that would hurt these merchants.³³ Huskisson (and the other members of the committee) assumed that the Bank was simply acting in a self-interested manner.³⁴ This was not the case, as the rest of this section shall demonstrate.

²⁷ Wood, *A History of Central Banking in Great Britain and the United States*, p. 19

²⁸ Besomi, "Paper Money and National Distress: William Huskisson and the Early Theories of Credit, Speculation and Crises", p. 52

²⁹ Nathan Sussman, "William Huskisson and the Bullion Controversy, 1810", *ibid.*4, no. 2 (1997), p. 241

³⁰ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, p. 79

³¹ Acres, *The Bank of England from within, 1694-1900*, pp. 269-271

³² Besomi, "Paper Money and National Distress: William Huskisson and the Early Theories of Credit, Speculation and Crises", p. 57

³³ Nathan Sussman, "William Huskisson and the Bullion Controversy, 1810", *ibid.*4, no. 2 (1997), p. 246

³⁴ *Ibid.*, p. 244

The Bank directors rejected the report's claims and continuously argued that monetary expansion could not influence prices or exchange rates.³⁵ Modern theorists have argued that the bullion committee's recommendations were financially far stronger than the rejections the government and the Bank offered. Moreover, despite the blistering assault on its privileges the Bank defended itself in a rather lackluster way. The governor and the deputy governor did not offer cogent economic arguments and their counter-arguments remained weak even after the report was published: most of the Bank's supporters focused on, as Fetter put it, "denunciations of the French" and they did not provide "the answer to the country's monetary problems."³⁶ The government and the Bank were not willing to criticize their own policies but were far happier to pin the blame on the enemy, probably because they understood that ultimately the war was the cause of all of the financial and economic problems.

At the same time, the government and the Bank had other problems to deal with. By the start of 1810 the government was running out of cash to give to Wellington. As a result more and more of his funding was being supplied by treasury bills. This resulted in a discount of 25 percent by 1811.³⁷ Yet while this meant that Wellington was increasingly reliant on the credit of the Bank to secure needed specie, there was little the government could do. This dependence occurred as the Bank was massively expanding its credit to help support merchants trading with Brazil, resulting in the further depreciation of the pound.³⁸ Yet the government still sent Wellington money. In 1810, while they sent £5.4 million in treasury bills, they also sent £679,079 in cash. Despite this, Wellington called for even more hard money.³⁹ Unfortunately the Bank also had to worry about internal circulation. Far from caring about the bullion committee,

³⁵ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 53

³⁶ *Ibid*, p. 54

³⁷ George D. Knight, "Lord Liverpool and the Peninsular War, 1809 - 1812", (Florida State University, 1976), p. 121

³⁸ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, 366-367

³⁹ Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, p. 232

which was focused on the Bank's large issues of notes, the main concern for the Bank was its services to the state, specifically its ability to provide Britain with a usable coinage. On February 23, 1810, the Privy Council again agreed with a request from the Bank to issue a further £500,000 of dollars.⁴⁰ Britain's internal demands continuously diverted silver away from the army, yet the Bank had to fulfill its obligations to *all* of Britain.

Wellington, however, still complained about his lack of cash. In March he asked why the Treasury could not just buy bullion to send him in Lisbon.⁴¹ There had been a crash in the money markets of Cadiz, Gibraltar and Lisbon which resulted in a further depreciation of British paper money. The Treasury, still working from their September cost estimates that were much better, panicked.⁴² In response Lord Liverpool informed Wellington in April that he was sending 564,000 dollars from England.⁴³ Money problems haunted Wellington to the point that by June he asked the navy to provide weekly or fortnightly sailings between Lisbon, Cadiz and Gibraltar in order to keep the cash flowing.⁴⁴ To add further complications, Wellington's expenses were skyrocketing as the war effort expanded. In 1810 the expenditure for the Peninsular War was in excess of £6 million, £3 million more expensive than the 1809 campaign.⁴⁵ The increasing costs in 1810 meant the government was forced to appeal to the Bank, which was inundated by requests from Perceval for help. Clapham writes that in response the Bank demonstrated a, "reluctant but invariable acquiescence... [I]n March of 1810, Perceval was begging them to purchase surplus exchequer bills... this continues in August and November, up until February of

⁴⁰ BEA, G6/162 (folios 1 – 81, 1810, January 4 – March 29), folio 55. These were issued to the same standard as those of 1804, all valued at 5 shillings.

⁴¹ Arthur Wellesley Duke of Wellington, *The Dispatches of Field Marshal the Duke of Wellington: During His Various Campaigns in India, Denmark, Portugal, Spain, the Low Countries, and France, from 1799 to 1818*, XIII vols., vol. V (London: John Murray, 1837), pp. 587-588

⁴² Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 345

⁴³ Knight, "Lord Liverpool and the Peninsular War, 1809 - 1812", p. 121

⁴⁴ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, p. 131

⁴⁵ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 98

1812.”⁴⁶ Despite this, evidence from the Bank does not demonstrate a one sided “begging”, as the relationship between the two institutions grew ever more close and complex.

The bullion committee seems to have been barely acknowledged by the Bank, at least in the archival material that has been considered in this thesis. Of far larger concern was its struggle to fulfill its dual responsibilities to the state and to the government. The Bank continued to supply Wellington the best it could, despite the fact that it had to provide for him and the people back in Britain. On April 10, 1810, for example, the Bank informed Harrison that they had secured 132,700 dollars for the use of the army. Further demonstrating their self-conscious role as part of the British state the Bank was not making any money out of this service. The Bank supplied silver to the government at the price it was purchased at. The Bank only charged a management fee. Despite the large demand for silver throughout the world, the Bank was not profiting from currency arbitrage when the purchase of silver was vital for the success of the nation.⁴⁷ Although the Bank was a private company, they were self-consciously part of the British state machine.

Despite this cash injection the government still struggled with Wellington’s incessant demands for money. On April 27 Perceval summoned the Treasury council to consider future needs. While Perceval was satisfied that they could provide Wellington with what he needed in the near future, he wanted long-term estimates. The council, however, could only conclude that they would have to ship gold piecemeal, further demonstrating how chaotic the market was. Wellington, despite his earlier protestations, would have to rely on bills of exchange to get dollars from Cadiz. The fluctuating money markets caused much confusion for both Wellington and those trying to finance him. The Treasury had managed to raise £440,000 more than they had

⁴⁶ Clapham, *The Bank of England, a History*, II, p. 33

⁴⁷ BEA, "Secretary's Letter Book", folio 48

estimated Wellington needed. This was, however, a short-lived success. Wellington soon raised his estimates, requesting £300,000 per month instead of the £235,000 he had earlier suggested. His estimates continued to rise: By the summer Wellington said he needed roughly £420,000 per month. This problem became even more pressing when he explained that there were no dollars available to purchase with bills of exchange.⁴⁸ The inability of the government to supply Wellington was hardly their fault. Wellington continuously raised his estimates, putting a huge strain on those who sought to plan the war, the Bank included.

In response to these needs Perceval once again summoned the Treasury board in July. They concluded that they needed to raise 11 million dollars a year in order to meet Wellington's latest demands. This would have been impossible even if they used all of the dollars in the country, which they could not. Although the Bank had been urged to buy all the dollars it could, some had to be made available for internal circulation. The committee decided that the solution was to continue to raise more money using bills of exchange. The committee suggested that Wellington raise £300,000 a month on bills and they told him that they would send an expert to help him do this. Wellington resumed his opposition to this plan, arguing that there was no cash available for him to buy with the bills.⁴⁹ Despite this, Commissary-General Drummond was sent to Wellington and was reasonably successful: he reached Lisbon late in August and managed to raise £5 million from bills of exchange, £4 million more than was raised in 1809. By 1811, the government spent £9 million in the peninsula, of which over £8.5 million was raised by bills.⁵⁰ By this point the war was entirely dependent on British, and therefore the Bank's, credit.

This reliance on bills resulted in the government asking for the Bank to purchase more bills which unsettled the Bank. On August 7, 1810, Perceval wrote to the Bank governors and

⁴⁸ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, pp. 346-347

⁴⁹ *Ibid*, pp. 348-349

⁵⁰ *Ibid*, pp. 348-350

asked them to purchase £2 million of exchequer bills.⁵¹ A similar request was repeated in September. The directors seem to have recognized the close proximity of these requests. In the corner of the folio detailing the September request there are a number of notes written in pencil, working out how much of the last loan had been paid off. The notes suggest that the government had “paid off” £1,321,700 of the last loan by September 17.⁵² This type of note, however, does not appear on other previous requests for loans, perhaps suggesting that the Bank was concerned at that point about the amounts that the government was requesting and the short intervals between requests. These concerns were most likely in response to the threat of the bullion committee, which was still going on (see below) and the effect it would have on the value of their paper money.

These requests were not a simple administrative nicety on the government’s part. While the Bank supported the government and saw itself as part of the British fiscal-military state, support for the government was not necessarily always forthcoming. The Bank had a history of resisting requests made by politicians, especially during times of war, when the Bank’s loans were not always being used in a manner with which the Bank agreed. During the American War of Independence, for example, large sums of gold had been sent to the colonies. These shipments had continued even after peace was signed with the nascent USA in 1783. The Bank had expressed their dislike of this situation and in May of 1783, the Bank restricted further advances to the government and restricted issue due to the continued shipments of gold.⁵³ By 1810, the Bank seemed to be heading the same way. In a draft letter from the Bank an unknown writer mentions the loans that the Bank had provided to the government. The letter is unsigned, with the

⁵¹ BEA, G6/164 (folios 1 – 77, 1810, August 2 – October 18), folio 12

⁵² BEA, G6/164 (folios 1 – 77, 1810, August 2 – October 18), folio 46

⁵³ Acres, *The Bank of England from within, 1694-1900*, pp. 261-262

only name given as “Goldsmid S C” on the back page.⁵⁴ The letter seems to be a draft of an action in the court of directors:

[R]esolved, That this court, whilst it laments the necessity of the application, being impressed with a sense importance to public credit with which the measure submitted to its consideration is involved is of opinion, That this proposal may be complied with, under the indemnity of the Bank in case of loss, which [someone, the names are scratched out] has offered to propose to parliament.⁵⁵

The Bank was clearly aware and worried about the large amount of loans it was providing to the government, yet at the same time understood its role within the state to provide the government with financial support. This draft, however, never made it to the General Court of Proprietors.

If the government was aware of these grumbings it did not seem to stop it inundating the Bank with requests. On October 1, 1810, Perceval once again requested the Bank purchase £1 million of exchequer bills.⁵⁶ Yet the Bank became ever more concerned with these requests. On October 8 the governor appeared to reiterate his concerns about the loans. He wrote in a note that, with regards to the purchase of these exchequer bills, it was “always understood that this is a temporary measure.”⁵⁷ Moreover, the needs of the Peninsular War meant that the government became increasingly unable to pay back these loans. At the end of December, Perceval wrote that though he supported the Bank’s assistance, the government wanted to extend the repayment date on their loan to the “5th day of April 1811.”⁵⁸

The problems resulting from the decision to fund Wellington using primarily paper money were exacerbated by the effects of the bullion committee’s report. The report, which started circulating in September, 1810, caused a depression in the stock market.⁵⁹ There was

⁵⁴ BEA, "Directors Annual Lists (with Biographical Notes)" (Bank of England, 1694 - 1908), p. 116 Goldsmid is not listed as a director, so perhaps this was written on his advice or with him in mind.

⁵⁵ BEA, G6/164 (folios 1 – 77, 1810, August 2 – October 18), folios 58-6

⁵⁶ BEA, G6/164 (folios 1 – 77, 1810, August 2 – October 18), folio 70

⁵⁷ BEA, "Secretary's Letter Book", folio 57

⁵⁸ BEA, G6/166 (folios 1 – 82, 1811, January 3 – March 21), folio 14

⁵⁹ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 373

widespread agreement with the bullionist argument that the Bank was offsetting its loans to the government with new issues of notes and there were calls for other banks, and even for private investors, to take on government debt.⁶⁰ With this slump of the pound the Bank's ability to purchase exchequer bills, which was propping up the government's credit, became ever more needed. If the bills of exchange lost value Wellington could not buy gold with paper money, jeopardizing the campaign. In December, perhaps to mollify the Bank's fears about the large loans the Bank was being asked to take on, the chancellor informed the governor that Parliament was unlikely to act upon the bullion committee's report.⁶¹

Despite the chancellor's confidence that the report's recommendations would be rejected, Perceval once again asked the Bank to purchase £2 million of exchequer bills on 31st January, 1811.⁶² Specie was seemingly unavailable: by 1811 the British troops had not been paid for two months while the muleteers that transported supplies were six months behind in pay. Wellington was so paranoid about his funding situation that he began to suspect this denial of money was a plot by the government to end the war in the peninsula without having to expose themselves politically.⁶³ Wellington had also asked for a £1 million increase in the subsidy for the Portuguese.⁶⁴ This proposal, however, faced opposition from the Whigs in March. This pressure resulted in Lord Liverpool writing to Wellington to explain that the government was considering changing to a defensive war in the face of this harsh criticism as Lord Liverpool was scared that Wellington's offensive plans would be too expensive to fund.⁶⁵ By April Wellington was unable to pay for food with his own money and was relying on supplies brought to him by the navy.

⁶⁰ Ibid, p. 374 – ironically this drop led to the suicide of Abraham Goldsmid, one of the largest owners of government debt, and the Bank had to bail out his debtors.

⁶¹ Acres, *The Bank of England from within, 1694-1900*, pp. 341-342

⁶² BEA, G6/166 (folios 1 – 82, 1811, January 3 – March 21), folio 42

⁶³ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, p. 130

⁶⁴ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 97

⁶⁵ Ibid, p. 98

This was both expensive and time consuming, despite being done to save cash supplies.⁶⁶ The threat posed by the bullion committee and its effects on the value of British bills of exchange seriously threatened Britain's ability to wage war. Moreover, the Bank's continued purchasing the government's exchequer bills, which somewhat propped up their value, demonstrates that the Bank was fundamental to the British war effort.

The year 1811 was also extremely hard economically for many British people. British exports shrank when merchants lost access to the US and Baltic markets while the South American market collapsed due to an oversaturation of goods. The amount of goods simply sitting in warehouses was so large that the government offered merchants £6 million in 5% exchequer bills to stop them from selling goods that had been destined for South America at a loss.⁶⁷ To compound these problems the pound further weakened on international markets.⁶⁸ This not only affected Wellington's ability to get cash but Britain as a whole. The silver shortage and the increasing price of foreign currency meant that the Bank faced increasing problems in maintaining the internal circulation. The dollars that the Bank issued became worth more than their stamped value which meant it was more profitable to melt them down and sell them as bullion. This led to a huge surge in demand for silver dollars. As they were the only real currency that people who did not use bills could get their hands on, supplies had to be sent across Britain. Demand immediately outstripped supply and presented another problem for the government and the Bank, both which desperately needed bullion.⁶⁹

In response to this crisis the Bank acted quickly to ensure that there was not a massive drain of currency from the country. On March 8, 1811, the governor and deputy governor of the

⁶⁶ Ibid, p. 107

⁶⁷ Neville Thompson, *Earl Bathurst and the British Empire, 1762-1834* (Barnsley: L. Cooper, 1999), p. 45

⁶⁸ Markus A. Denzel, *Handbook of World Exchange Rates, 1590-1914* (Farnham; Burlington: Ashgate, 2010), p. 20

⁶⁹ Acres, *The Bank of England from within, 1694-1900*, pp. 307-308

Bank attended a meeting with the Committee of Council “appointed to take into consideration the state of the coins of this Kingdom.” The meetings went on for some days and they discussed, amongst other things,

the effect which the present advanced price of Bullion was likely to have on the circulation of Bank Dollar tokens. They represented that at the time when the Bank Dollar Tokens were first issued at five shillings each, their intrinsic value did not exceed four shillings and nine pence; whereas at present, these tokens are worth five shillings and two pence half penny.⁷⁰

After these discussions The Bank and the Privy Council agreed to receive the dollars at a higher price, treating the tokens as being worth 5 shillings and six pence. This would stop them from being put out of circulation and melted down.⁷¹ While this maintained the internal currency and satisfied the need to have internal circulation it meant that more specie was tied up in Britain, away from Wellington.

Wellington’s victory at the Fuentes d’Onoro on May 5, 1811, however, meant that the Opposition could not continue to harangue the government in Parliament. The so-called Whig party or, more accurately, a loose confederation of oppositional groups, began to decline in power and their stance towards the war started to change.⁷² The victory allowed the government to convince Parliament to increase the subsidy to Portugal.⁷³ £400,000 of this was dedicated to paying Wellington’s army, while the government also secured a further £400,000 pounds from foreign trade. This meant that Wellington was financially secure, at least for the time being.⁷⁴

This victory also destroyed any chance that the bullion committee’s recommendations, which had been referred to a committee of the whole House of Commons a day after

⁷⁰ BEA, G6/166 (folios 1 – 82, 1811, January 3 – March 21), folio 73

⁷¹ BEA, G6/166 (folios 1 – 82, 1811, January 3 – March 21), folio 73

⁷² Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 97

⁷³ *Ibid*, p. 99

⁷⁴ *Ibid*, p. 107

Wellington's victory, would succeed.⁷⁵ In the end it came down to political considerations and the needs of the government while it was at war. The Bank had made it clear that as well as rejecting any limitation on bank note issue they would not "stint the chancellor for the sake of the exchanges." The Bank, perhaps fearing that although they had £3.3 million of gold in their vaults an end of suspension would drain them dry, demonstrated its loyalty and recognized its historical responsibility to provide funding for the state above all else.⁷⁶ One cannot ignore the Bank's self-interest entirely in this matter: As the report demonstrated, the Bank was making money from the restriction, something that the authors saw as problematic.⁷⁷ Yet the Bank's rejection of the committee's proposals was supported by Perceval and the cabinet, which agreed with the Bank's position. The Bank's position was not simply adopted out of self-interest but one that was seen as a necessity by those in power. Horner finally moved sixteen resolutions to be passed on April 16. Nicholas Vansittart, future chancellor of the exchequer and supporter of the government, responded with his own seventeen resolutions on the twenty-fourth. Vansittart's resolutions proposed that Parliament adopt the stance that it was the wartime interruption of trade, not the increased issue of paper money, which had caused the high price of bullion. The debate in Parliament between these two sets of resolutions began in early May. The debate was exemplified by unintelligibility, confusing financial jargon, statistics, and much that was not relevant or even decipherable. There were numerous arguments, all of various lengths and levels of complexity, some self-contradictory. It was Perceval's focus on the war, however, that crystalized the issue. Perceval argued that despite the monetary theory behind the committee the

⁷⁵ Acres, *The Bank of England from within, 1694-1900*, pp. 341-342

⁷⁶ Clapham, *The Bank of England, a History*, II, p. 25

⁷⁷ Sussman, "William Huskisson and the Bullion Controversy, 1810", p. 245

most important consideration was that Britain was at war and thus needed to issue paper money in order to win. On May 9, Horner's resolutions were defeated.⁷⁸

Instead, Parliament adopted a resolution which stated that the high price of bullion was a result of "Napoleon's Berlin decrees, excluding British trade on the continent, the interruption of trade with the United States, poor harvests and greater expenditure on the war."⁷⁹ This was despite the attempts to condemn the Bank.⁸⁰ The Bank, as demonstrated by their interactions with the government, knew the only way to get specie was to buy it on international markets, and this was going to be hard and expensive given the circumstances of the war. Yet, they were in a position where they had to buy it. It was the only medium that could be used to properly fund the armies and the fleet, pay for the import of food and maintain the internal circulation. Vansittart, in delivering these resolutions, confirmed the government's support for the Bank and the war. As Clapham recognized, they were "a declaration that we [the British] would not so submit."⁸¹ The recommendations from the bullion committee were, in the end, rejected by the political class of England: The motion to resume cash payments within six months of the war's end, or within two years at most, was rejected by Parliament 180 - 45. While a gold standard was preferable in peace Parliament was not willing to interfere so directly with wartime financing and the needs of the state.⁸² The support from key members of the government, who were in favor of a total-war approach, resulted in the adoption of Vansittart's bill. This instead postponed a return to cash payments until a final end of the war.⁸³

⁷⁸ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 378

⁷⁹ Giuseppi, *The Bank of England, a History from Its Foundation in 1694*, p. 79

⁸⁰ Sussman, "William Huskisson and the Bullion Controversy, 1810", p. 247

⁸¹ Clapham, *The Bank of England, a History*, II, p. 29

⁸² Wood, *A History of Central Banking in Great Britain and the United States*, p. 20

⁸³ Bew, *Castlereagh : Enlightenment, War and Tyranny*, p. 290

Although the government had settled the bullion question, a showdown with the Bank over the government's inability to pay its debts was brewing. The government had already been unable to pay back its debt on May 5 and it again requested that the loan (which had originally been due on October 18, 1810) be once extended, this time to July 5, 1811.⁸⁴ While the Bank agreed to this, on May 15 Perceval wrote to the Bank requesting a further purchase of exchequer bills to the sum of £2 million, further increasing the burden on the Bank. Perceval explained that this request was because they had postponed the vote on the formal loan in Parliament, presumably due to the debates over the bullion committee's resolutions and the subsidy to Portugal.⁸⁵

On May 16, the same day the letter was received, the directors of the Bank drafted a resolution (demonstrating the urgency of their request). This was sent to Perceval, who responded to it on the twentieth. In his response, Perceval reveals that he had

not found It in my power to reduce the amount of exchequer Bills in the hands of the Bank at that period, as the continued demands for the public service, and the difficulty of disposing the exchequer bills, under the impression made upon the market (which I trust will be temporary) by the issue of the commercial exchequer bills have rendered it impractical for me to comply with the desire of the Bank, except by borrowing a larger sum than I have thought it advisable, upon a full consideration of all circumstances, to recommend to parliament to save by way of a Loan for the service of the present year.⁸⁶

He went on to apologize for the amount of exchequer bills in the Bank's hands: "I trust that this Explanation will be satisfactory to the court of Directors, and that they will impute that it [is] to the urgency of the public Service only, and not to any want of attention on my part to their representation that the amount of exchequer bills in your hands has not been diminished."⁸⁷

⁸⁴ G6/167 (folios 1 – 81, 1811, March 28 – May 9), folio 46

⁸⁵ G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 10

⁸⁶ G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 13

⁸⁷ G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 13

Despite, however, these continued protestations about the amount the Bank was being asked to purchase the government, or more specifically Perceval, was adamant about the needs of the state:

With respect to the condition upon which it is declared in the last of the Resolutions which you transmitted to me, that the court can alone consent to make the advance requested by my letter of ____ this month, I am under the necessity of stating to you that I could not venture, without great danger of disappointing your court, to receive, upon such a condition, the accommodation for the public which I have requested of you. The circumstance of which I have already alluded to renders it so uncertain when the market for exchequer bills may return to its former state, and the payments which may in the meantime be required for the great [branches?] of the public service are so considerable, that I cannot expressly undertake to withdraw from the Bank, within the period of three months, an amount of exchequer bills equal to that which I now propose to them to make advances upon: neither can I positively say that I shall be able to effect any material reduction in the amount held by the Bank in the course of subsequent months of the present year. But I request you will assure the Court of Directors that my attention will not fail to be earnestly directed to this important object, and that I will endeavor, as much as the circumstances of the public Service may permit, to diminish or keep down the advances of the Bank; and I trust that with this assurance the Court of Directors will waive any express condition, and consent in the usual manner to accommodate the Public by the advance of the two millions which are likely to be so much wanted at the present time.⁸⁸

The Bank had tried to demand reductions of exchequer bills, but the government would not do so at the time. Clearly they had a different understanding about what was the best course of action as the cost of the war continued to mount.

A draft letter found in the Bank archives demonstrates how annoyed the Bank was by Perceval's response. Despite this annoyance, the letter is all crossed out, indicating that the Bank never sent such a harsh letter. Regardless, the feelings were there:

Resolved, That the said letter [the one sent on May 20, 1811] does not answer the expectations of this Bank; and if it were not from an apprehension that the Public Service would be seriously impeded, the application could not be acceded to [...] resolved, that the governor and the Deputy Governor be desired to press the Chancellor of the Exchequer, as often as they have any communications with him, to do all in his power from time to time to reduce the sum total of the advances made by the Bank on Exchequer Bills.⁸⁹

⁸⁸ G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 13

⁸⁹ G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 15

Despite this draft, on May 23, 1811, the directors, despite their “considerable reluctance” agreed to Perceval’s proposal based on the fact that he promised to reduce the amount of exchequer bills held by the Bank.⁹⁰ The Bank and the government, despite this argument, had come to an agreement based on the needs of the state. The debate on the bullion issue had led to big problems in financing the war. Treasury agents, for example, had experienced problems negotiating government debts in foreign money markets as the value of the pound tumbled. Had the bullionists won and made the government start resuming cash payments, it is possible that Britain would not have been able to support its subsidy payments or fund Wellington in the Iberian Peninsula. When it came down to it, while the Bank and the government were often at loggerheads over *specific* fiscal decisions, they responded to existential threats as a united force. In a final victory for the Bank, Bank notes were finally made legal tender in 1811,⁹¹ and in the election of 1812 two members of the bullion committee, George Tierney and Francis Horner, lost their seats in the House of Commons.⁹² The failed efforts of the bullion committee, while demonstrating the Bank and the government still fought over certain issues, clearly showed that when it came to fundamental issues that affected the fiscal-military state, the Bank saw itself first and foremost as part of the state. It was not going to let the issue of the government’s unpaid loans affect this given that they were a necessity.

The bullion committee had posed a real threat to the Bank. As the archival material demonstrates, however, the Bank had far more pressing concerns throughout the period. It was more concerned, it seems, with making sure that the needs of the state were met. Given that this meant supplying Wellington with specie and making sure there was an adequate supply of coins for the internal circulation, this created other problems for the Bank to deal with that were more

⁹⁰ BEA, "Secretary's Letter Book", pp. 91-92

⁹¹ Emsley, *British Society and the French Wars, 1793-1815*, p. 153

⁹² R. G. Thorne, *The House of Commons, 1790-1820*, vol. I (London: Secker & Warburg, 1986), p. 229

important to it than the bullion committee. This crisis also fully demonstrates the link between the government and the Bank. As has been shown, the government was depending on the Bank to maintain the value of its paper money, something that started to worry the Bank as 1811 progressed. Yet, while this crisis demonstrated the close ties between the Bank and the government as aspects of the British state, its defeat resulted in further disputes between the two parties over aspects of state finance.

Section 4: Bickering over Bullion; disputes between the Bank and the government, 1811 - 1812

In the wake of the bullion committee's defeat there was only limited discussion of monetary policy and theory between 1811 and 1815. This was despite the continuing discount of the British pound on the Hamburg exchange and the high price of specie.¹ This can perhaps be attributed to the adoption of the pro-government narrative after the debate over the bullion committee's recommendations.² This lack of discourse, however, is strange considering that by 1811, according to Moon, the government had once again run out of money to fund the war. In 1811 the cost of the war had reached £11 million. Seventy-five percent of this had to be funded through the sale of treasury bills. The discount on these, as has been mentioned, was at twenty-five percent by this point.³ This problems was compounded by the fact that British trade stagnated from late 1810 to early 1812.⁴

The inability for the Bank to secure specie was not simply an issue of cost but due to problems in the supply chain. There had been revolts in the Spanish gold and silver mines in the Americas while the Continental System continued to hinder Britain. These problems were further made worse by the imminent threat of war with the USA as well as Britain's new alliance with Russia, both of which drained gold from the Treasury.⁵ Despite these problems, it must be pointed out that treasury bills had reached their highest discount at the height of the bullion committee, between October 10 and October 19, 1810.⁶ Thus by 1811 the discount on bills was actually improving even as the price of gold continued to rise. Meanwhile, the costs of the war

¹ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 27

² Fetter, "The Politics of the Bullion Report", *Economica* 26, no. 102 (1959), pp. 99-100

³ Sherwig, *Guineas and Gunpowder; British Foreign Aid in the Wars with France, 1793-1815*, p. 255

⁴ Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815*, p. 392

⁵ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 105

⁶ Knight, "Lord Liverpool and the Peninsular War, 1809 - 1812", p. 120

continued to mount. In 1811, public expenditure reached £85 million, while the interest payments on exchequer bills and the national debt grew to £35 million.⁷

With all of these economic woes it is not surprising that Roger Knight describes the twelve months from the spring of 1811 to the spring of 1812 as “the nadir of the British experience.” While the navy reigned at sea the army remained in a critical condition. Europe had been at peace for two years while the Peninsular War still “looked like it would be lost while the French economy seemed healthier than the English. Meanwhile in February of 1812 it was revealed that besides the £3.5 million deficit, there was also £42 million of unfunded exchequer bills.”⁸ Simultaneously, the Bank and the government were once again disagreeing about the correct monetary policy to follow. Although the suspension had meant that the Bank did not have to exchange all bills for gold, they had been able to issue gold in exchange for small amounts of paper money. On the June 2, 1811, a letter from Perceval to the Bank revealed a new conflict over this issue and how it was draining hard currency from the Bank. Perceval wrote that he had received the resolution from the court of directors dated May 30, in regards to the

inducement held out to individuals by the high price of gold, to apply for payment of sums under five pounds in Guineas, to a much larger amount than they heretofore used to do; and suggesting, whether, as this drain may continue to increase without any benefit to the immediate circulation of this country, it may not be proper to bring in a bill in the present session, to put the Bank in the same situation in which it was placed by the first restriction act.⁹

The Bank was clearly worried about this drain of bullion as it was not being used as currency. As a result the Bank requested that more limitations be placed on the public and requested that they be able to halt any further payments in gold.

⁷ Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815*, p. 389

⁸ *Ibid*, p. 248

⁹ BEA, G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 29

Perceval, however, disagreed with the Bank. He wrote that though he had considered their request, the Bank had not stated how it was inconvenienced. Given this, Perceval could not give “any absolute opinion” and requested more information. Despite this, he had

no difficulty in saying, that unless those payments were likely to be carried to so considerable an extent, as to be seriously inconvenient to the Bank, I should think, that it would be by no means advisable, that such an application should be made to parliament in the present session.¹⁰

As we shall see in section 5, this was perhaps to allow the Rothschilds to continue smuggling gold to Wellington.

Despite Perceval’s rebuff the Bank continued to lobby the government to try and stop the drain of coins. Another letter from Perceval, dated June 12, revealed that he was trying his best to help the Bank but he still felt “it to be my duty to express my strong disinclination to bring forward, at present, the Bill which the court recommended.” Perceval would not try and legislate this problem unless he was sure it was causing damages to the Bank. This stemmed from “an apprehension of the disadvantages obviously belonging to the introduction of it under all the circumstances of the present period.” Perceval preferred that this issue be dealt with the following year unless the Bank provided him with better information.¹¹ Simultaneously the internal circulation of currency remained a problem. The Bank once again asked for permission to issue more silver dollars, presumably to protect their decreasing gold supplies. On June 11, 1811, the Privy Council agreed with the Bank’s proposal to issue £200,000 of silver tokens, valued at three shillings each and to issue an additional £500,000 valued at one shilling and sixpence.¹² The Bank’s gold reserves had gone from £7.9 million in February of 1808 to £3.6

¹⁰ BEA, G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 29

¹¹ BEA, G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 35

¹² BEA, G6/168 (folios 1 – 85, 1811, May 16 – July 18), folio 46

million in 1811.¹³ This drop in gold posed a real problem for the Bank. It had to maintain its gold reserves in order to maintain the value of the notes it issued, despite the suspension. This, however, came up against the government's policy of increasing liquidity so as to provide cash for Wellington in order to reduce the discount on bills. The whole problem was underscored by the fact that, if the government restricted further withdrawals from the Bank, it might make people think that the Bank was running out of cash and reignite the fears that had led to the run on the Bank in 1797. Despite this dispute, the Bank continued to purchase large sums of cash for the government throughout June rather than purchase it all for itself.¹⁴ These purchases continued throughout July, with varying success.¹⁵

The silver supply was fluctuating wildly at this point, and the Bank struggled to supply both the needs of the Peninsular War and the internal needs of the country. This meant that long term supply predictions became incredibly difficult. For example the Bank informed Perceval in July that many local towns were reporting a dearth of silver tokens but it did not have enough to send them any more.¹⁶ Yet by the twenty-third the governor told the Treasury that the Bank had secured enough dollars to not only keep the mint well supplied to coin dollars but had 500,000 in reserve, "for any purpose [the] government may wish to apply them." Despite this, the Bank was aware that coining new dollars could not meet the public demand.¹⁷ These 500,000 dollars were sent, despite the needs of the country, to the army.¹⁸

As well as the continuing specie problem the Bank also had to deal with the fact that the government was not paying off their debts quickly enough. Although Perceval had promised to

¹³ Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815*, p. 409

¹⁴ BEA, "Secretary's Letter Book", pp. 74-75. For example on June 26, 1811, the Bank purchased 82,000 ounces of silver in addition to their previous purchase of 184,000 ounces in dollars.

¹⁵ *Ibid*, p. 93. On July 11 the governor informed Perceval that he had only been able to purchase 100,000 dollars due to the high demand but he promised to purchase more as soon as possible.

¹⁶ *Ibid*, p. 96

¹⁷ *Ibid*, p. 97

¹⁸ *Ibid*, p. 99

reduce the amount of bills the Bank held in May, On August 27, 1811, he asked the Bank to purchase a further £2 million exchequer bills. Although he stressed he was trying to reduce the amount the Bank held, he was only able to promise a limited reduction after October 10 unless something radical happened to the public market that would allow the government to sell them there.¹⁹ Although the Bank agreed to this request on August 29, the Bank was “reluctant” and the directors urged Perceval to get rid of as many bills on the market and not rely on the Bank.²⁰ This was, however, ignored. In late November Perceval once again asked for the Bank to purchase a further £2 million of exchequer bills.²¹ Throughout this dispute, thanks to fluctuating silver supplies, the Bank continued to purchase bullion for the government.²² By October 18, the Bank held 282,000 dollars for the government.²³

Although the Bank’s continued purchases of silver demonstrate its self-conscious role within the British state, the argument over the bills remained unresolved. On November 21, 1811, the governor and deputy governor of the Bank informed Perceval that they would only buy the £2 million of exchequer bills if the chancellor made arrangements over the next year to reduce the number of bills the Bank held.²⁴ Finally, on December 31, Perceval relented and wrote that, “I beg leave to assure you that in the arrangements for next year (1812) I shall have under my serious consideration some plan for the reduction of the amounts of exchequer bills in your possession.” Yet at the same time, he requested that the Bank purchase a further £1 million of exchequer bills.²⁵ Perceval refused to do what he said he would.

¹⁹ BEA, G6/169 (folios 1 – 102, 1811, July 25 – December 26), folio 23

²⁰ BEA, "Secretary's Letter Book", p. 112

²¹ BEA, G6/169 (folios 1 – 102, 1811, July 25 – December 26), folio 72

²² BEA, "Secretary's Letter Book", pp. 116-117, 121. In early September, due to an increase in the supply of dollars, the Bank considered lowering its offering price. There was enough that by September 6 the Bank had secured enough for a steady supply of silver tokens. Despite this towns, such as Birmingham, still requested more.

²³ *Ibid*, p. 137

²⁴ BEA, G6/170 (folios 1 – 84, 1812, January 3 – March 19), folio 9

²⁵ BEA, G6/170 (folios 1 – 84, 1812, January 3 – March 19), folio 6

Ironically, although the Bank and the government squabbled for much of the year, 1811 was a year of relative calm for the British army due to Drummond's ability to raise money using bills. This perhaps explains why they had the time to argue.²⁶ Despite this by December of 1811 Wellington was broke again. Lord Liverpool was forced to inform him that the predicted shipments of gold from the East India Company had failed to deliver the gold that was expected and no more money would be forthcoming.²⁷ Further demonstrating the volatility of the bullion market and the speculation around it, Lord Liverpool blamed the fact that the shipment expected to bring in 10 million dollars had only had delivered 1 million dollars.²⁸ Lord Liverpool stressed that he had tried to use all available sources of money but the government remained unable to help.²⁹ In order to deal with his financial problems, Wellington asked if he could sell interest-bearing exchequer bills in the peninsula.³⁰ An interest-bearing bond was different from a simple treasury bill. Whereas a treasury bill was effectively a cheque that could be redeemed at a certain time and place, an interest-bearing bond was a tradable commodity that generated income.³¹ The Treasury and Lord Liverpool disagreed with this idea. Firstly, John Herries, the commissary-in-chief (responsible for dealing with Wellington's finances from 1811 to 1816) and Lord Liverpool wanted a cautious fiscal policy and they feared that the sale of these bonds outside of England would lead to forgery which could hurt British trade and government credit. Wellington, however, was adamant that he could not wage war effectively under the current financial constraints. Eventually, in the spring of 1812, the government decided that the Treasury would issue 1,000 dollar certificates. These would bear 5 percent interest and could be sold in return for

²⁶ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 351

²⁷ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 107

²⁸ Arthur Wellesley Wellington, *Supplementary Despatches and Memoranda of Field Marshal Arthur, Duke of Wellington*, XV vols., vol. VII (Millwood, N.Y.: Kraus Reprint Co., 1973), pp. 211-210

²⁹ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 107

³⁰ Knight, "Lord Liverpool and the Peninsular War, 1809 - 1812", p. 127

³¹ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 107-108

dollars.³² The aim was to sell them as flexible long-term investments, given that investors could redeem them in either pounds or dollars. Herries was hoping that the European merchant community would hedge on Britain's success. Although Wellington thought this was inadequate, he did not object to the plan.³³

By the end of 1811, as previously mentioned, the speculative boom ended and prices started to stabilize.³⁴ In 1812, in response to this economic slowdown and increasing inflation, there was growing pressure to relax the Orders in Council that were limiting trade and increasing the chance of war against the United States.³⁵ They had alienated Congress, which had banned all American trade with the British and the French.³⁶ In response to increasing criticism, Castlereagh suspended the orders in June of 1812.³⁷ Earl Bathurst was also appointed as the secretary of state for the war and colonies in June. A political moderate, Bathurst was a good fit for this position after his position as the president of the board of trade.³⁸ He was also a strong supporter of the Peninsular War but understood he had to balance the country's other needs with the political desire to win.³⁹ Despite this, the repeal of the Orders in Council did not prevent the declaration of war from the United States, embroiling Britain in another costly conflict, further increasing the stress on the already fragile British fiscal machine.

The price increases on gold and silver continued to hinder the government's ability to fund Wellington. Wellington's efforts to raise money using bills was hindered by a group of

³² Arthur Wellesley Duke of Wellington, *The Despatches of Field Marshal the Duke of Wellington: During His Various Campaigns in India, Denmark, Portugal, Spain, the Low Countries, and France, from 1799 to 1818*, XIII vols., vol. IX (London: John Murray, 1837), pp 107-109

³³ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 108-109

³⁴ Sussman, "William Huskisson and the Bullion Controversy, 1810", p. 240

³⁵ Bew, *Castlereagh : Enlightenment, War and Tyranny*, p. 302

³⁶ The *United States Non-Intercourse Act* of 1809

³⁷ Bew, *Castlereagh : Enlightenment, War and Tyranny*, p. 302

³⁸ Thompson, *Earl Bathurst and the British Empire, 1762-1834*, p. 27

³⁹ *Ibid*, p. 51

currency speculators based in Malta who were trying to drive up the price of gold.⁴⁰ Herries, however, blamed Wellington and assumed that Wellington had underestimated the amount of money he could get locally.⁴¹ In response, Herries often overruled commands that Wellington gave to his commissary officers on the ground.⁴² Among the first letters Wellington sent to the newly appointed Lord Bathurst reiterated his need for cash to pay his troops, despite Herries' meddling. Coin, Wellington argued, was far cheaper in the long run than using treasury bills which remained discounted. The problem was that their remained worldwide problems in finding specie. From 1801 to 1804, the annual importation of dollars had reached 39 million. In 1810 - 1812 it was down to a mere 17.4 million.⁴³ As a result gold imported into England was worth 42 percent more in bullion form than it would be worth if it were turned into coinage by 1812.⁴⁴ Speculators had also realized they could make large profits selling it instead to Russia.⁴⁵ Finally, Napoleon had adopted a strategy of selling goods to England only in exchange for gold in order to drain more gold from the nation. As a result, despite the benefits of cash, Britain had to rely on bills.⁴⁶ Perceval, however, was somewhat receptive to Wellington's needs. In March 1812, he allowed the commissary agents on the ground to raise money by issuing bills of exchange and to buy specie at higher-than-market prices.⁴⁷ This, however, further distorted the market.

Meanwhile, the argument between the Bank and the government over the issue of the bills held by the Bank was only getting worse. On February 20 the governors wrote to the directors to tell them that they had met with the chancellor and he "had expressed his intention of

⁴⁰ Ibid, p. 57. This probably refers to the "the cab" mentioned in section 2.

⁴¹For example see Wellington, *Supplementary Despatches and Memoranda of Field Marshal Arthur, Duke of Wellington*, VII, pp. 318-319

⁴² Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 106

⁴³ Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, pp. 133-134

⁴⁴ Thompson, *Earl Bathurst and the British Empire, 1762-1834*, p. 56

⁴⁵ Ibid, pp. 56-57

⁴⁶ Knight, "Lord Liverpool and the Peninsular War, 1809 - 1812", p. 119

⁴⁷ Gray, *Spencer Perceval; the Evangelical Prime Minister, 1762-1812*, p. 351

making such arrangements in the supplies of the year as would probably tend to the reduction of the Exchequer bills in the hands of the Bank, to an amount not less than two, or more than four millions.”⁴⁸ Yet in a letter, sent on March 16, 1812, from Perceval stated,

the urgent demands on Government, which will not admit postponement, and the impossibility of raising money sufficient for the payment of them, by the sale of Exchequer Bills in the public market at this particular period, compel me to request you will represent to your court that it will be a great accommodation...to purchase Bills [to the sum of £2 million].

Perceval promised to make arrangements for the payment of £3 million of bills already held by the Bank out of money raised by the loan for that year.⁴⁹ On March 19 the governor informed Perceval that, although the directors had agreed to this request, it was “on the express condition that in his financial arrangements the Chancellor of the Exchequer will make provision for a further reduction of the amount of exchequer bills held by the Bank according to the minute of the 20 February last.”⁵⁰ The short term needs of the government were causing conflict with the Bank as it struggled in the increasingly worse financial situation. Meanwhile, the Bank struggled to get specie for the government. In a letter to Herries sent on March 23, the governor wrote to say that he did not think he could supply Herries’ with £25,000 of silver tokens as the Bank was “extremely concerned it is not at present convenient to supply you with so large a quantity; since the public demands for the internal circulation of the country still continue very pressing and absorbs all the silver they can collect.”⁵¹ The Bank was increasingly under pressure as the government struggled to fund the twentieth year of war in a worsening economic situation.

These financial problems resulted in renewed political opposition due to the cost of war. In early 1812 the Opposition again questioned the commitment of England’s gold reserves and

⁴⁸ BEA, G6/170 (folios 1 – 84, 1812, January 3 – March 19), folio 50

⁴⁹ BEA, G6/170 (folios 1 – 84, 1812, January 3 – March 19), folio 81

⁵⁰ BEA, "Secretary's Letter Book", p. 158

⁵¹ Ibid, p. 159

pushed for peace.⁵² To add to the government's woes, as well as internal fiscal problems, by April, 1812, Wellington was once again heavily in debt and was begging for more money. Wellington's need for money was even more important to him than the military challenges of waging war. According to Jan Read, money was of "more immediate concern to Wellington" than the effectiveness of a number of diversionary attacks.⁵³ These diversions included attacks against Marshall Drouet in the west of Spain by General Hill as well as Admiral Popham's attacks in the north of Spain.⁵⁴ Despite the support the government provided militarily, however, it continued to demonstrate inflexibility and confusion over the issue of money. For example, Wellington's acting commissary-general, Bisset, was criticized by Herries for buying 400,000 dollars' worth of specie in Gibraltar for a higher price than was available in Lisbon. The Treasury argued, somewhat ridiculously, that they were worried this might interfere with the army's ability to get specie at Lisbon. Probably fearing further political attacks over the cost of the war they apparently ignored the fact that lack of specie meant that Wellington needed money from wherever he could get it.⁵⁵ On June 9, 1812, Wellington responded to a letter sent by Herries admonishing his actions in the peninsula. Wellington argued that though he was "aware of the value of money in this country and authorize[d] to purchase very little whatever which can be procured from England" he justified his purchases by citing the necessity of the army, despite the fact that it broke the rules.⁵⁶ Wellington was willing to risk censure by his political masters over the issue of specie, demonstrating how dire the situation was at this time. Yet these purchases drove the price of gold up ever further.

⁵² Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 111

⁵³ Read, *War in the Peninsula.*, pp. 186-187

⁵⁴ *Ibid*, pp. 186-187

⁵⁵ Knight, "Lord Liverpool and the Peninsular War, 1809 - 1812", p. 129

⁵⁶ Rothschild Archive London (RAL), T37/162: "Spottiswood & Herries Papers," (London: The Rothschild Archive, 8 January 1812 - 17 June 1851).

Many viewed the 1812 campaign as a prelude to disaster. Although Wellington's previous military successes meant that public censure was almost impossible, opposition members privately attacked Wellington and the war. They continued to argue that the war would drain Britain of money, and the War of 1812 only exacerbated these economic problems.⁵⁷ Once again, by the summer of that year, the fact that Britain was fighting a global war led to continued financial difficulties for those fighting the Peninsular War. As a result of the increased costs and the poor state of British credit the government increased its requests to the Bank to purchase exchequer bills. In mid-May the government requested that the Bank purchase £5 million pounds worth.⁵⁸ A week later the government asked the Bank to purchase a further £1 million of bills.⁵⁹ To make things worse, on the May 11, 1812, Perceval was assassinated. After some internal political squabbles, however, Lord Liverpool became prime minister in June and Lord Bathurst took over at the war department. This was good news, as upon taking office, Bathurst promised Wellington the country's full support in fiscal matters.⁶⁰

As these political squabbles occurred throughout the summer, the Bank continued to provide the government with specie for both Wellington and the internal circulation, such as the large purchase they made in May. Yet this did not help Wellington. The Bank had been forced to discontinue the issue of tokens because there was a lack of silver.⁶¹ This large shipment was therefore retained in order to provide for Britain, and not sent to the army. Although the Bank did purchase a further 200,000 dollars for his use, they stressed that there was a constant demand for internal circulation.⁶² The Bank was trying to balance the needs of both the internal

⁵⁷ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 104

⁵⁸ BEA, G6/171 (folios 1 – 64, 1812, March 26 – May 21), folio 56

⁵⁹ BEA, G6/171 (folios 1 – 64, 1812, March 26 – May 21), folio 60

⁶⁰ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 112-133

⁶¹ BEA, "Secretary's Letter Book", p. 182. In a letter to Lord Bathurst on May 15, 1812, the Bank informed him that while they had 800,000 dollars from the East India Company, there was no gold.

⁶² *Ibid*, p. 186

circulation and Wellington's military costs. Failure to supply either would lead to the ruin of both, and thus the Bank found itself performing a dangerous tightrope walk as it tried to maintain its position within the state. The fact that it did not purchase any dollars or specie for its own vaults demonstrates its commitment to this duty.

Even in this late stage of the war, however, bellicose members of the government did not seem to realize the severity of this problem or understand the balancing act the Bank was compelled to perform. On May 20, 1812, the Bank wrote to Lord Bathurst again to explain to him their problems with the large purchases of gold made for Wellington:

[T]he advanced price of silver bullion occasions some anxiety on the part of the Bank, lest their exertions during the last 6 months to assist the circulation of the country should be counteracted by external causes. A very improvident contract at Malta has varied the price of silver in London market to 6/2 and half per ounce. And enacted a great demand for dollars to send to the Mediterranean. Should this continue and the price be further advanced it will enact great difficulty to keep our tokens in circulation. We have worked up our stock of silver at the mint.⁶³

The Bank tried to explain that the government's current strategy was creating a vicious cycle. Further purchases of specie led to higher prices which meant that people could profit more from the sale of bullion. This reduced the amount of silver being used in circulation, further reducing Britain's cash supplies. This then would inevitably lead to more purchases of silver to maintain Britain's cash supplies. In effect, this meant that the entire system became ever more reliant on the credit of the government, and ultimately on their ability to win the war. Although the discount on British bills was going down, the now almost total reliance on them meant that any wavering in confidence could lead to the collapse of the economy.

Yet in order to fulfill his promise to Wellington, Bathurst proposed a new scheme that would force the Bank of England to release its bullion reserves to the government.⁶⁴ Bathurst

⁶³ Ibid, pp. 186-187

⁶⁴ Thompson, *Earl Bathurst and the British Empire, 1762-1834*, pp. 57-59

argued that this would solve the problems the government faced when trying to purchase gold on the open market and it would also prevent further price raises by massively increasing liquidity.⁶⁵ Legislation from the seventeenth century had allowed people to export foreign gold and silver coin and bullion, but did not permit the export of British coin or gold bullion melted from that coin. This had stopped the government from sending British gold out of the country (but not certain traders who were happy to make money by breaking the law).⁶⁶ It was this legislation that Lord Bathurst was planning to circumnavigate.

In August and September, 1812, Bathurst and the rest of the ministry invoked a provision of the 1797 Restriction Act which allowed them to issue British coin to pay for troops who were not residing in the country. Bathurst was willing not only to go against the Bank but also against precedent and the law to support Wellington, as this measure had never been used to justify sending British gold overseas.⁶⁷ The Battle of Salamanca in August, 1812 (see section 1) allowed the government to push through a further £2 million of taxes to bolster its war finance as the country fully supported Wellington's new victory. Despite this, the government was still asking the Bank for help. The government asked the Bank for a further £100,000 of foreign gold for Wellington on September 11, 1812.⁶⁸ Meanwhile the government also asked the Bank to buy a further £2 million of exchequer bills on September 22.⁶⁹ Despite this, Wellington was still short of cash after the battle. In response, the government acted quickly to deal with the reluctant Bank as Wellington's summer victories gave the government the needed political capital.⁷⁰

⁶⁵ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 112-113

⁶⁶ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, p. 4

⁶⁷ Thompson, *Earl Bathurst and the British Empire, 1762-1834*, p. 59

⁶⁸ BEA, "Secretary's Letter Book", pp. 217-218

⁶⁹ BEA, G6/173 (folios 1 – 56, 1812, August 20 – October 29), folio 26

⁷⁰ Thompson, *Earl Bathurst and the British Empire, 1762-1834*, p. 59

Lord Bathurst, in response to Wellington's money problems, sent the Bank a copy of a minute from the Privy Council proposing the order to seize £400, 000 of their gold to use in the peninsula. The governors chose to summon the full court of directors because this was "so important and in some respects novel." In a draft letter to Lord Bathurst, the Bank revealed its position towards these requests while demonstrating a conscious understanding of its position as part of the British state. Far from offering a visceral rejection of this idea, the Bank was once again concerned with the legality of the request based on their reading of the Restriction Act:

It is desirable that no doubts should remain in the breast of any individual as to the true intent and meaning of the clauses in the restriction acts. It was resolved likewise that Sir Arthur Piggott, Council to the Bank, be requested to attend at this House for the purpose of a conference and in order to obtain his opinion on the clauses.

But the result was that

the Governor reported to the court that the desired conference had been held with Sir Arthur Piggott, at which many of the directors attended, when the preamble of the first restriction act, and the clauses of the several subsequent acts were deliberately considered, and the result of his opinion was that the order was compulsory on the Bank.⁷¹

The Bank, however, hesitated in fulfilling this request:

A motion was made and seconded that this court feels it to be its indispensable duty to represent to the Lords of His Majesty's privy council that the stock of Bullion in their possession is materially diminished in consequence of the great amount of Bullion with which the Government has been supplied since the restriction made in 1797 on the cash payments of the Bank, amounting to more than ten millions sterling and also by the drain made by the public for payments of fractional sums under £5 [...] Every means in the powers of the Directors has been used to supply this reduction, but in consequence of the state of the exchanges with foreign Countries, and the scarcity as well as high price of bullion in all parts of Europe and America its endeavors have been ineffectual.⁷²

The Bank stressed that Bathurst's request would require an issue of guineas and continue to drain the Bank of its specie. The Bank tried to convince the government that this should be only carried out if it were truly necessary: "The directors deem it their duty to represent to his

⁷¹ BEA, G6/173 (folios 1 – 56, 1812, August 20 – October 29)., folio 39 – note: a draft. Undated, but the dates match up with Bathurst's requests. There are edits, and it is not signed. Pencil edits have been ignored because it is unsure whether these are later additions.

⁷² BEA, G6/173 (folios 1 – 56, 1812, August 20 – October 29)., folio 39

majesty's council that this measure can only be justified by the most extreme State necessity, and they think it the more incumbent to declare this as their deliberate opinion, lest expectations should be entertained by His Majesty's Government of the practicability of continuing this mode of supply."⁷³ Yet, despite these regrets, they acquiesced:

Resolved therefore that the said loan be complied with; but this court disclaiming unequivocally every political bias in their quality as Directors and earnestly desirous to facilitate the operations of Government [...] Yet cannot supply so large a portion of the Gold Coin of the Realm to be drawn from them, for the avowed purpose of being exported without an expression of regret, and a suggestion whether the advantage expected may not be more than counterbalanced by the urgent necessity in public affairs which the measure proclaims, as it will be obvious that this mode of remittance would not be resorted to till all others failed.⁷⁴

The Bank revealed how this might affect the British economy, clearly demonstrating the self-conscious responsibility they felt they had:

Being moreover fully convinced that the unlimited confidence which continues to be placed in this house (under circumstances unprecedented) is at least in part owing to the prevailing belief that the vaults contain abundance of treasure in store, against the day when it may be safe to take off the restriction and meanwhile to be issued occasionally as provided for in the act, for the purposes of internal circulation. This court are not without serious apprehension that alarm may be taken at the measure in question, and they are of opinion that if adopted it will be expedient to withdraw the powers now vested in the Directors to pay in specie the fractional sums under five pounds which has for some time been the means of systematically draining the Bank of its specie. Resolved, that the chairs do communicate the substances of these resolutions to the first lord of the treasury and the Chancellor of the Exchequer and the question being put, the same was carried in the affirmative. Resolved, that the governors being instructed to communicate to the first lord of the treasury, in confidence, the state of the cash and the bullion in this house, in explanation of the Resolution of this day, and that he do also communicate to him the amount of Bullion that has been delivered to the government and to the public in payments under five pounds, since the restriction was passed.⁷⁵

The Bank understood that they had to maintain supplies of gold so as to prepare for the day when the restriction was ended. If the Bank was thought to be losing this cash and did not, in fact, have enough gold to pay out then the public and other investors in British securities would lose faith in the institution. Ultimately it was the supposed specie supplies in the Bank that were

⁷³ BEA, G6/173 (folios 1 – 56, 1812, August 20 – October 29), folio 39

⁷⁴ BEA, G6/173 (folios 1 – 56, 1812, August 20 – October 29), folio 39

⁷⁵ BEA, G6/173 (folios 1 – 56, 1812, August 20 – October 29), folio 39

keeping public credit afloat. The Bank, far more than the government, understood the problems that would result from this decision, especially when combined with the drain of small denomination coins, and how this would affect the Bank's creditworthiness. This was the very same creditworthiness that was allowing Wellington to use bills in the peninsula, the very person the government was trying to help by seizing the Bank's gold. Although this draft was not sent (or, at least, the archival material does not indicate it was sent), the Bank still tried to dissuade the government from this decision. For example, the Bank informed the government on October 9, of the £14,600,000 of gold and silver that the Bank had already given to the government.⁷⁶ This issue marks the lowest point in the relationship between the Bank and the government. On October 15, the governor told the directors he had met with Lord Liverpool and delivered their last resolution (presumably the one mentioned in the draft above). As well as reiterating the amount of gold that the Bank had already given the government since 1797, the governors had told Lord Liverpool that he should have laid this issue before Parliament, as per the requirements of the Restriction Act. Lord Liverpool is reported to have said he would do this.⁷⁷ Parliament, however, was never consulted and this note clearly demonstrates how badly their relationship had deteriorated. The Bank clearly threatened the government by mentioning the illegality of this decision because of their failure to inform Parliament. The government, on the other hand, was deceiving an institution upon which it relied to win an ever costly war.

On the same day, presumably after the previous letter was sent, there was another dramatic change. The governor wrote to the chancellor of the exchequer enclosing the legal opinion of the Bank's lawyer regarding the aforementioned minute from the Privy Council.⁷⁸ The

⁷⁶ BEA, "Secretary's Letter Book", p. 220

⁷⁷ BEA, G6/173 (folios 1 – 56, 1812, August 20 – October 29), folio 52. The Bank had loaned the government £14.6 million, exclusive of the £3,483,408 of silver tokens it had provided.

⁷⁸ BEA, "Secretary's White Letter Book", (Bank of England, October 1812 - December 1816), p. 1

Bank's lawyer had decided that the minute did not "conform to the act of Parliament".⁷⁹

Importantly, however, the governor never tried to undermine the government by bringing this up with members of the Opposition, nor did they leak it to the press. There is no evidence in the letters sent by the Bank that it attempted to inform anyone outside of the government about this disagreement. The Bank was simply explaining that it would not act based on a copy of a minute because it was not enough to compel the Bank to act. Instead a formal Order in Council must be issued and the governor informed Lord Bathurst that Lord Liverpool was content with it being a formal order.⁸⁰ This echoes their discussions in 1807, when the Bank expressed concerns about the legality of issuing current dividends (see section 2). The focus was on ensuring that the Bank was seen to be acting legally.

By the end of October, with support from Lord Vansittart (the new chancellor of the exchequer) and Lord Liverpool, the Bank had agreed to supply Wellington with £100,000 a month for the next 4 months, as well as an initial £176,500 in August.⁸¹ In doing this Bathurst exposed himself to legal repercussions. Herries disagreed with this decision, arguing that Bathurst had not explicitly stated how the money should be spent even though the legislation only permitted British specie export for troop payments. This move was risky. According to Moon, "challenging the powerful Bank of England and establishing no restriction on the use of money" could have led to Bathurst being censured in Parliament.⁸² Luckily for him, the Opposition was never made aware of this arrangement and the Bank of England agreed to ship the £400,000 "in return for the promise that the demand would not be repeated."⁸³ The

⁷⁹ Ibid, p. 2

⁸⁰ Ibid, p. 2

⁸¹ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 113

⁸² Ibid, p. 113

⁸³ Ibid, p. 113

government agreed, and planned to rely on imports of gold from India to satisfy its needs.⁸⁴

These debates are key to understanding how the relationship between the Bank and the government had developed throughout the war: while the Bank felt confident enough to defend its own interests and fight the government they made sure it remained an internal issue. These were discussions over matters of state. Moreover, this dispute occurred at a time of military success. Much like the arguments over the exchequer bills (see section 3), the conflicts between the Bank and the government took place during periods of relative calm when they could afford to enter into such disputes. Moreover, the Bank was most concerned about the legality of the order. It had to cover itself but it never really tried to stop the government from taking the gold.

After these negotiations Bathurst then went further than the law allowed, and told Wellington that he could use the money any way he saw fit.⁸⁵ The Bank's relationship with the government, despite this series of disagreements, did not stop normal business. On October 23, 1812, the governor wrote to Vansittart about a request for the Bank to purchase gold for the government, and specifically how the increasing price of gold and silver was altering their buying practices.⁸⁶ Yet, while the Bank was able to purchase some gold, it was not often in the form the government wanted, as there were many people trying to buy specific forms of gold, such as Portuguese doubloons.⁸⁷ The Bank continued to inform the government about purchases of gold and from the summer of 1812, the Bank started purchasing any and all supplies they could find. Yet the needs of the government were insatiable.⁸⁸ These large purchases failed to resolve the problem of balancing the needs of the British Army and those of Britain's internal

⁸⁴ Thompson, *Earl Bathurst and the British Empire, 1762-1834*, p. 60

⁸⁵ *Ibid*, p. 59

⁸⁶ BEA, "Secretary's White Letter Book ", p. 5

⁸⁷ *Ibid*, p. 7

⁸⁸ The Bank purchased 1,000 ounces of foreign bar gold and 400 pieces of Portuguese gold on October 31. By November they had purchased £105,000 in gold, but were instructed to purchase more. By November 3, they had purchased a further £36,000 of Portuguese gold coin. See *ibid*, pp. 10, 13

economy. By mid-November, The Bank informed the government that unless something was done the current rate of issue of silver tokens (£10,000 per week) would run out in either December or the beginning of the following January. The Bank was concerned that it had no new information regarding new shipments of silver, and the only potential source of more dollars was a shipment from Buenos Aires that was supposedly carrying 500,000. The governor requested that the Privy Council seriously consider the problem of the mounting circulation issue.⁸⁹ Although the Bank was able to send the commissary-in-chief £163,826 worth of gold late in November and they kept purchasing specie in December, there was so little silver available that they could not purchase any dollars to provide for Ireland's circulation.⁹⁰

The critical shortage of bullion resulted in the government asking the Bank to purchase more exchequer bills. In late November Vansittart and Lord Liverpool again asked the Bank to purchase £2 million of exchequer bills.⁹¹ Yet the government refused to discuss the issue of the drain of specie from the Bank, despite the fact that they had seriously aided this by claiming the £400,000 in October and the fact that the Bank had requested that they address this as part of their agreement to provide the money (see above). In the face of increasing costs the government seemed to be blind to the needs of the state and the role the Bank played. In a draft memorandum, dated December 12, 1812, the governor informed the directors that he had been to the Privy Council's Committee of Coin and he had drawn attention to previous resolutions made by the court of directors, "respecting the drain of gold in fractional payments under five pounds." The chancellor of the exchequer, however, was not inclined to believe it would be "expedient" to introduce any clause on this subject into Lord Stanhope's Gold Coin Bill which was then being discussed in the House of Commons. Instead, Vansittart argued that it would be better "to bring

⁸⁹ Ibid, p. 13

⁹⁰ Ibid, pp. 15, 17, 19

⁹¹ BEA, G6/174 (folios 1 – 42, 1812, November 5 – November 31), folio 18

in a separate bill in February for this purpose when the house [illegible] meet after the holidays.”⁹² This refusal to deal with the issue had been ongoing for over a year, and the Bank was no closer to a favorable resolution, despite their continued assistance to the government.

As the year 1812 came to an end there was no end in sight for the Bank as it continued to worry about the needs of the country. The government refused to deal with the Bank’s problems while relying on it to prop up their paper currency issue and keep it well supplied with gold. On December 15, the governor sent a letter to the navy, asking about their planned expenses and their need for silver tokens, as the Bank wanted to issue a further sum to the London bankers. The admiralty responded that it probably needed around £5,000 pounds worth of tokens to carry him to January of 1813.⁹³ By January, the specie crisis had grown so critical that the Bank had to refuse further requests for tokens.⁹⁴ 1812 had seen the Bank simultaneously collaborating and fighting with the government, yet the year closed with the Bank once again, having served its purpose, being ignored by the government while it tried to deal with states mounting fiscal problems. Yet 1813 would mark the turning point of this conflict, and demonstrate how truly valuable the Bank had been in winning the war.

⁹² BEA, G6/174 (folios 1 – 42, 1812, November 5 – November 31), folio 23

⁹³ BEA, "Secretary's White Letter Book ", pp. 20-21

⁹⁴ Ibid, p. 24

Section 5: The Final Hurdle; Wellington's Victory and the Role of the Bank, 1812 - 1814

With the involvement of the European powers, the Napoleonic War reached its peak. Yet despite the focus of the conflict moving to west and central Europe as Russian troops chased after Napoleons retreating army, gold supplies continued to be sent to the Iberian Peninsula.¹ Between November 19, 1812 and July 15, 1813, more than £990,000 of specie was sent to Lisbon.² The Bank played a major part of this.³ Yet despite these remittances by 1813 Wellington was speculating about whether he could continue operations due to his lack of hard money.⁴ This lack of gold was inevitable. While the value of British bills had been increasing, 1813 saw the price of gold on the Hamburg exchange reach its maximum.⁵ Britain still struggled to fund the war, and its already huge debt grew larger. Baring's Bank, for example, took on the majority share of a £28 million pound loan in 1813.⁶ The costs of war were ballooning even as the war reached its climax.

The problem of British credit remained an issue for the government and the Bank. The government continued to rely on the Bank to prop up the value of its bills which remained discounted. For example on February 4, 1813, Lord Liverpool and Vansittart wrote to the Bank to say that the government might find it difficult to raise the amounts they needed to pay the costs of the war by simply selling exchequer bills on the market. They requested that the Bank

¹ Gash, *Lord Liverpool : The Life and Political Career of Robert Banks Jenkinson, Second Earl of Liverpool, 1770-1828*, pp. 97, 107

² Hall, *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, p. 136

³ BEA, "Secretary's White Letter Book", p. 26, 29. For example, the Bank informed the chancellor of the exchequer in January that it had £57,000 worth of foreign gold for the government.

⁴ *Wellington's Navy : Sea Power and the Peninsular War, 1807-1814*, pp. 130-131

⁵ Fetter, *Development of British Monetary Orthodoxy, 1797-1875*, pp. 62

⁶ Peter E. Austin, *Baring Brothers and the Birth of Modern Finance* (London: Pickering & Chatto, 2007), p. 11

“make an advance of one million in exchequer bills in case it shall be found necessary.”⁷ Once again, they promised that if the Bank did this, the government would make provisions to ensure repayment out of the new public loan for that year.

Similar requests continued through the spring. On March 3, the Bank was informed that the government could not raise money by selling bills to the public and asked the Bank to buy a further £2 million of exchequer bills, again promising to pay them back out of next year’s loan.⁸ The governor reluctantly agreed to these requests but made it clear “that it be recommended to the Court of directors to comply with the above application on condition that the amount of the purchases of exchequer Bills which may be made thereon, and also upon the application of the 4th February last for the purchase of one million of exchequer bills be repaid out of the early installments of the loan for the present year.”⁹ The Bank was growing ever more concerned with the amount of bills it was purchasing even as the government asked for it to purchase more.

As well as continuing to purchase bills, the Bank also bought large amounts of gold for internal circulation and for use in the Peninsular War, despite the fact that the Bank’s stocks were still being drained.¹⁰ This was to be sent directly to Wellington.¹¹ The Bank still did not argue against buying gold for Wellington despite the rising price of gold and the problems these large purchases were causing to Britain’s internal circulation. On March 28, for example, the governor met with Lord Liverpool about buying £500,000 of bullion from Hamburg. The Bank was concerned that with Wellington’s needs in the peninsula only growing larger, the Bank had to ensure it was not competing with other parts of the government for gold. The governor was

⁷ BEA, G6/175 (folios 1 – 81, 1813, January 7 – April 8), folio 22

⁸ BEA, G6/175 (folios 1 – 81, 1813, January 7 – April 8), folio 39

⁹ BEA, G6/175 (folios 1 – 81, 1813, January 7 – April 8), folio 40

¹⁰ BEA, "Secretary's White Letter Book ", p. 30. On February 10, 1813, the Bank asked the government for confirmation to purchase £300,000 pounds of gold as the price had gone up again.

¹¹ Ibid, p. 34, 37. The amount only amounted to £200,000, probably due to the discount on British bills and the price of gold.

clear about his fear: “We are under some apprehension that the measures which we had previously taken to obtain a large supply of silver from Hanau, may be counteracted by the subsequent arrangements of some of the departments of Government, it becomes necessary that we should come to some understanding upon this important subject.”¹² This was dealt with on April 9, 1813, when the Bank and key members of the government adjusted their plans to ensure they were not competing for the same gold supplies.¹³ Yet the fact that this only been implemented in the spring of 1813 demonstrates a serious disconnect between the Bank and the government. As has been demonstrated earlier, the Bank was more perceptive of the country’s overall fiscal health while the government seemed to remain fixated on winning the war, often to the point that it was willing to ignore monetary issues, especially after Huskisson had left the government.

There was a real fear that the new direction of the war, and the involvement of Austria, Prussia and Russia, would lead to increased costs for the British. The collapse of France’s empire at the end of 1813 resulted in Britain once again providing subsidies for the European powers. In 1813 Russia and Prussia were given £2 million, while a further £1 million was set aside for Austria. In total Britain supplied £11 million of aid between March and November of 1813.¹⁴ These subsidies led to increased fears about gold supplies. The main concern was the continued high price of gold and how to avoid pushing its price up. The Bank considered different approaches. On April 17, 1813, the Bank appointed an agent in Hamburg and asked him to secure £25,000 of gold coin. In order to avoid destabilizing the market they made him use

¹² Ibid, p. 43

¹³ Ibid, pp. 50-51

¹⁴ Hall, *British Strategy in the Napoleonic War, 1803-15*, p. 200

foreign coin to purchase the gold, as per Herries' requests.¹⁵ Despite this, it seemed impossible to keep the price stable given the huge sums of specie the Bank was purchasing.¹⁶

This caused tensions between the Bank and Herries, who was annoyed by the continued price increases. On April 29 the Bank informed him that "we have here, on government account, about 18,000 ounces of ducats and, 20,000 French crowns & 11,000 Guilders" but the price of dollars had again moved up.¹⁷ On May 1 the Bank was forced to defend its purchases in Hamburg, arguing that they did not affect the exchange rate because their agent had not drawn any bills on the Bank.¹⁸ Yet the price of dollars continued to rise. While shipments continued to arrive, such as the shipment from Jamaica on May 7, the demand for dollars was higher than ever, further limiting the amount the Bank could get.¹⁹

The Bank was also expected to purchase large sums of exchequer bills as the government remained unable to pay the debt it owed the Bank. In a meeting on April 7 about reducing the bills held by the Bank, the government argued that £5,800,000 had "already been stipulated to be repaid out of the first installment of the loan for the present year." Lord Liverpool and Vansittart, however, despite claiming to want to further reduce the amount, could not elucidate concrete plans until they knew the results of a plan to raise £6 million by way of debentures.²⁰ Yet on May 19 they asked the Bank to purchase a further £2 million of exchequer bills.²¹ A similar request was made in June.²² As the war reached its peak, the Bank's *de facto* role as the government's lender of last resort was only further entrenched and its willingness to continue to support the

¹⁵ BEA, "Secretary's White Letter Book ", p. 54

¹⁶ Ibid, pp. 54, 56. Contrast the £25,000 bought in Hamburg with the £150,000 of gold and 447,000 dollars they sent to Lisbon in late April.

¹⁷ Ibid, p. 61

¹⁸ Ibid, p. 63

¹⁹ Ibid, p. 65

²⁰ BEA, G6/175 (folios 1 – 81, 1813, January 7 – April 8), folio 77

²¹ BEA, G6/176 (folios 1 – 81, 1813, April 15 – June 24), folio 40

²² BEA, G6/176 (folios 1 – 81, 1813, April 15 – June 24), folio 58

government demonstrates a conscious understanding of that role, despite the way the Bank was being treated by the government.

1813 also saw Bathurst go back on his previous promise to the Bank (see above). The Bank was again forced to give a further £300,000 to the government in the spring, despite the government's 1812 promise that it would not trouble them again.²³ The Bank, in response, asked the government to deal with their specie problem. As the regulator for the entire British economy, the Bank was concerned that the cost of the war, as well as other British financial problems, were rapidly resulting in Britain running out of usable money. The price of Spanish dollars was very high, and this prevented the Bank from buying them to use as tokens. In 1808, dollars had been 7.2 percent above par but by 1813 they were 38.3 percent above par. At the same time, the Bank's cash reserves had fallen from £6.4 million to £2.6 million, according to Norman Silberling.²⁴ (Although, the Bank's reserves never went below £2 million until February 1815).²⁵ The Bank went as far as to suggest that cotton wool from the USA should not be imported as it had to be paid in cash. Although this proposal failed, it demonstrates how serious the Bank thought the problem was.²⁶ These problems were compounded by the foreign subsidies that Britain was offering her new allies, which cost £10 million in 1813.²⁷

Yet on June 9, 1813, the government finally seemed ready to accede to the Bank's demands. As Liverpool wrote,

having reason to believe we shall be enabled to pay off the greatest part (if not the whole) of the exchequer bills in your possession, dated in the months of May and June 1812, before [it] will be necessary to advertise the payment of those dated in July of the same year; and conceiving that such a measure would be much more agreeable to your court than exchanging them for others, as stated in our letter to you of the 26th of May last, to which you have been

²³ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 113

²⁴ Silberling, "Financial and Monetary Policy of Great Britain During the Napoleonic Wars", p. 227, table V

²⁵ Clapham, *The Bank of England, a History*, II, p. 19

²⁶ Acres, *The Bank of England from within, 1694-1900*, p. 309

²⁷ Bew, *Castlereagh : Enlightenment, War and Tyranny*, p. 315

pleased to consent; we request that such bills may not be sent to the office of the paymasters of exchequer bills in pursuance of the advertisement for that purpose, but be retained in your possession till the later end of July next, unless the treasury shall have been enabled previously to pay them off.²⁸

The government finally decided to pay off some of its debts, although it had taken almost a year to agree to do so and would take even longer to actually implement. Yet this had come too late.

On June 10 the Bank's Committee of Treasury resolved the following:

That this committee, conformably to the resolution of the court of directors of the 20th May last must have declined to recommend to the court any further advances on Exchequer bills, and note the chancellor of the Exchequer by his letter of yesterday's date engaged, that exchequer bills, dated in May & June 1812 to the extent of five millions, should be paid in money instead of being exchanged for other Bills conformably to the Resolution of the court of 27th May last- the committee, in full reliance that this will be carried into effect, recommend to the court a compliance with proposal now made.²⁹

In effect, the Bank was not willing to purchase any more bills until the government paid off the bills they already owned. They were no longer willing to take on the government's short term debts, clearly a result of the constant drains on their supplies and their fears for the British fiscal system.

Luckily for the government, the war decisively turned against Napoleon. On June 21, 1813, Wellington destroyed the French army at the Battle of Vitoria. On July 25, the French counterattack was blunted by Wellington in the Battle of the Pyrenees.³⁰ Four days later, the government was able to pay off nearly £7 million of exchequer bills held by the Bank using money from the loan voted by Parliament for that year, and the government told the Bank that it was working out how to pay off another £4 million.³¹ Yet despite this, Vansittart asked for a further purchase of £2 million so he could keep paying for "the great burden on the public."³²

Wellington had been proven correct: his military victories had become a key part of the way that

²⁸ BEA, G6/176 (folios 1 – 81, 1813, April 15 – June 24), folio 59

²⁹ BEA, G6/176 (folios 1 – 81, 1813, April 15 – June 24), folio 60

³⁰ Michael Glover, *Wellington as Military Commander* (Princeton, N.J.: Van Nostrand, 1968)., pp. 117-119

³¹ Acres, *The Bank of England from within, 1694-1900*, p. 347

³² BEA, G6/177 (folios 1 – 61, 1813, July 1 – September 30), folio 32

Britain funded the war as they directly influenced the value of British credit. With a victory in the Iberian Peninsula secured, British defeat looked impossible as the rest of Europe began rising against Napoleon. The government was thus finally able to pay off its debts as the value of British bills rose on the exchanges. British money, completely dependent on the credit of the Bank and buttressed by investors' belief that Britain would eventually win, was increasing in value as France slowly collapsed.

Yet while this victory pushed up the British government credit, there was bad news for the government on June 29 as well. The governor informed Herries that he was "very sorry to acquaint you that I do not think we can very speedily obtain the supply of Bar Silver you require.... The provisional Dollars you mention have been applied to a very important purpose, the currency of Ireland, the quantity of Bar silver we have of our own is very small, not amounting to more than one third of the amount you are in want of, & ive meant [to] keep some for our own use."³³ This dearth of silver continued to early August.³⁴ The amount of specie moving through the Bank was astronomical.³⁵ By the end of June, however, the Bank was out of silver.³⁶

The lack of silver was not simply because the Bank had to make sure that Britain was supplied with a medium of exchange. A letter from the Bank, dated June 28, 1813 to the commissary-in-chief, explained that there was simply no money in circulation: "I have received your letter, & I am sorry to inform you that it is not practical in the market to purchase at present any quantity of Napoleons or Ducats.... I find that of Ducatoons, French crowns, Dutch Ducats,

³³ BEA, "Secretary's White Letter Book ", p. 89

³⁴ Ibid, p. 91

³⁵ Ibid, p. 74. For example, in June the Bank had informed Harrison that it was holding £264,278 worth of gold and £302,537 of silver for him.

³⁶ Ibid, p. 72. This was because the Bank had to send silver to Ireland to provide for its internal currency needs.

Louis D'ors & Dollars. We can only spare you in all £57,000 or a little more. There are no Dollars at present in the market.”³⁷

Meanwhile, the Bank continued to try and deal with the drain of specie from its vaults. On July 1, 1813, the governor and deputy governor reported to the directors that they had spoken to Vansittart and Lord Liverpool about the continued drain of small denominations of gold from the Bank, but although Lord Liverpool and Vansittart supposedly wanted to deal with this problem, they thought passing a bill in Parliament would be unfeasible because it was about to go into recess.³⁸ The government had been parroting this line for almost a year and a half and it is clear they had no desire to stop the drain of money from the Bank, at least through legislation.

Despite the continued drain of specie and the problems it was causing the Bank continued to try and purchase as much bullion as possible for the Government. Yet the supply issues had resulted in continued wild speculation, resulting in misinformation and rumor. On August 11, 1813, the Bank informed the chancellor that £350,000 of gold had arrived for the government.³⁹ Yet on the seventeenth the Bank was forced to apologize for overstating their estimates: “I am exceedingly sorry to state in answer to your letter of 13th August that the report of a million of treasure being arrived by the East India fleet exclusive of what came to the company, is wholly unfounded.” Instead there was only “1000 ounces of gold and 70,000 Dollars’ worth altogether about £25,000 and there may be £10,000 more not brought to market.”⁴⁰ Despite this, they continued to purchase small amount despite the high price of dollars.⁴¹ These purchases

³⁷ Ibid., p. 82

³⁸ BEA, G6/177 (folios 1 – 61, 1813, July 1 – September 30), folio 5

³⁹ BEA, "Secretary's White Letter Book ", p. 92

⁴⁰ Ibid, p. 94

⁴¹ Ibid, p. 96. In late August the Bank purchased 580 ounces of bar gold and 980 ounces of doubloons.

continued throughout September, October and November.⁴² Despite this, the market was almost completely drained of bullion as the armies of Europe reassembled and this was causing huge problems for the Bank and its role in supplying the government with specie.

As a result the Bank decided that sending money to Wellington took precedence over the need to regulate the London market. This decision perhaps came after the Bank realized that with victory immanent they would not have to worry so much about the long term effects of the war on the British economy. In a letter dated November 20, 1813 the governor of the Bank wrote to the treasury, “In answer to your letter of the 17th... I beg to acquaint you that at the present time the Bank is under the necessity of restricting the issue of tokens, so much so that non are even issued to the London Bankers. I am sorry, therefore, that I cannot, at present, comply with you request of an increase of cash, for payment of the ordnance artificers.”⁴³ It is possible that, with the government still reliant on the Bank to purchase exchequer bills and unwilling to stop the drain of gold, the Bank sought to end the war as quickly as possible, understanding that Wellington’s victories would boost the value of the pound, allowing exchequer bills to be sold on the market and the government to pay off their debt to the Bank.

Yet this victory could not come quickly enough and the government continued to request the Bank purchase exchequer bills. On August 10, 1813, Vansittart was again forced to ask the Bank to purchase a further £2 million of exchequer bills. For the first time in the correspondence it was clear what the Bank was doing – propping up the government: “We hope that the present difficulty of sale is in part owing to temporary causes, and you must be sensible of the importance of preventing these falling to a discount which might be the consequence of forcing

⁴² Ibid, pp. 99, 102, 108. For example on September 10 the Bank purchased 1,445,000 new dollars for the government. On October 9 the Bank purchased 12,920 ounces of bar gold and 12,960 ounces of doubloons. On November 18, the Bank purchased 4060 ounces of doubloons.

⁴³ Ibid, p. 109

more upon the market than it will bear.”⁴⁴ The Bank had, of course, been doing this for much longer. Further requests followed.⁴⁵ Vansittart admitted that the reason for these continued requests was the “difficulty in disposing” of exchequer bills in the market. Vansittart, however, stressed that this was not due to a “defect in public credit, that it appears in a great degree to proceed from an increased Disposition to acquire funded property in preference to Exchequer bills. I am nevertheless aware of the inconvenience of repeated applications for the assistance of your court.”⁴⁶ Whether or not this was an issue of consumer confidence or simply because investors preferred different forms of investment, the government remained reliant on the Bank even as the war drew to a close. Yet the Bank was nervous about continuing to purchase government bills. On November 30, 1813, the governor pestered the chancellor about how he planned to repay the last two purchases of exchequer bills, mentioning that previous repayment had been made in cash.⁴⁷ Clearly the Bank did not want a repeat of the previous years when the government had failed to repay their loans in a timely manner.

As Wellington moved out of Spain and into France at the close of 1813 it became hard to supply him with specie. This problem was further exacerbated by the fact that he refused to pay the French he was requisitioning supplies from with paper money. Instead he chose to wait for cash, which was being shipped overland by his trusty mule team. By February 1814 the money supply had begun to flow.⁴⁸ This cash came from two main sources. The most lauded source was the House of Rothschild.⁴⁹ On January 11, 1814, Vansittart wrote to Herries, requesting that he

⁴⁴ BEA, G6/177 (folios 1 – 61, 1813, July 1 – September 30), folio 39

⁴⁵ BEA, G6/177 (folios 1 – 61, 1813, July 1 – September 30), folio 54. On September 8, 1813, the government requested the Bank purchase £2 million of exchequer bills.

⁴⁶ BEA, G6/178 (folios 1 – 57, 1813, October 7 – December 30), folio 11

⁴⁷ BEA, "Secretary's White Letter Book ", pp. 110-111

⁴⁸ Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, pp. 209-210

⁴⁹ There are numerous books that laud this support. See Knight, *Britain against Napoleon : The Organization of Victory, 1793-1815*, pp 412-413; Moon, *Wellington's Two-Front War : The Peninsular Campaigns, at Home and Abroad, 1808-1814*, p. 150; Frederic Morton, *The Rothschilds : A Family Portrait* (New York: Atheneum, 1962), pp.

ask Nathan Rothschild to supply Wellington's army in the south of France. Rothschild was to collect "in Germany, France and Holland the largest quantity of French Gold and Silver coins, not exceeding in value six hundred thousand pounds". Vansittart told Herries that the Rothschilds had been selected because it was impractical to use the Bank of England or any other channel. Herries was told to keep this plan as secret as possible, so much so that he was to phrase all of his requisitions for anything that Rothschild needed to do this job in the vaguest of terms so that the Treasury would not realize what was going on.⁵⁰ This need for secrecy was extended to other government agents buying specie. For example in a letter from Herries to George Burgmann, a commissary general to the Mediterranean,⁵¹ he told Burgmann that "it is undoubtedly very desirable that the nature of this operation should be concealed as long as possible from the money dealers on either side of the water."⁵²

There is, according to Niall Ferguson, a great deal of speculation as to why the Rothschilds were chosen to do this job. The first reason he posits is that there was a lack of competition. Although there were other banks able to do what the government needed, none were in as good of a position as the Rothschilds. The City of London was still reeling from the 1810 financial crisis, after the bullion committee's proposals led to a slump in government stocks. The second shock had been the annexation of the Amsterdam market by Napoleon. The second reason that Ferguson suggests was the appointment of Herries to the position of commissary-in-chief in October of 1811. Herries and Rothschild were close friends, and it is suggested that he

45-49; Herbert H. Kaplan, *Nathan Mayer Rothschild and the Creation of a Dynasty: The Critical Years 1806-1816* (Stanford, Calif.: Stanford University Press, 2006), pp. 81-89

⁵⁰ RAL, T37/8: "Spottiswood & Herries Papers"

⁵¹ A Commoner, *The Extraordinary Red Book: Containing a List of All Places, Pensions, and Sinecures; the Droits of the Crown and Admiralty; Rents of Crown Lands; the Expenditure of the Civil List; a List of Commissaries and Other Persons Indebted to the Public; with a Complete View of the Finance and Debt of Great Britain* (London: J. Blacklock, 1817), p. 54

⁵² RAL, T37/35 "Spottiswood & Herries Papers", p. 195

helped secure Rothschild the position of dominance he had over British financing.⁵³ Herries' career was resented as he moved quickly up the ranks, and he was distrusted because he was too compliant to the needs of the crown and too intimate with the Rothschilds, to the point that Huskisson refused to work with him.⁵⁴

The final reason that Fergusson proposes is that the Rothschilds had an answer to the problem of physically getting Wellington hard cash. In 1811, the Rothschilds had smuggled bullion from England to France. Although this broke English law, Egon Corti argues that the British knew the Rothschilds was doing this and simply feigned displeasure in order to allow him to continue. According to Corti, Nathan Rothschild was sending these large sums of cash to France to get gold to Wellington in the peninsula.⁵⁵ It was aid from the Rothschilds that meant Wellington could get around the issues posed by the group of financiers (the cab). According to Corti, because specie was hard to get from Britain (as we have seen), Wellington had to rely on the currency markets in Spain, Sicily and Malta. Currency brokers charged him exorbitant interest rates because Wellington gave them bills of exchange in return for cash and there was a large discount on paper. The Rothschilds dealt with this, according to Corti, by buying Wellington's paper issue and securing him cash by selling British gold in France in exchange for bills of exchange drawn on Maltese or Spanish bankers, which had far less of a discount.⁵⁶ The Rothschilds would use their gold to buy up bills drawn on London, which were cheap in France but expensive in London, making profit from foreign currency arbitrage. It is also possible that some of the bills that the Rothschilds were bringing back to England, which they had purchased

⁵³ Ferguson, *The House of Rothschild*, pp. 84-87

⁵⁴ Henry Roseveare, *The Treasury: The Evolution of a British Institution* (London: Allen Lane, 1969)., pp. 159-160

⁵⁵ Egon Corti, *The Rise of the House of Rothschild* (London: V. Gollancz Ltd., 1928)., p. 133

⁵⁶ *Ibid.*, pp. 134-137

in France, were Wellington's anyway, and had been sold by his creditors in Spain to French clearing houses.⁵⁷

To some extent this might explain why the British government refused to stop the withdrawals of small amounts of gold that the Bank was concerned with (see above), as even as early as March, 1811, James Rothschild shipped from Britain 100,000 guineas (illegally).⁵⁸ This is, however, speculation, and no Bank document examined implicates the Rothschilds nor suggests that the government knew about this. It does, however, explain why the Bank was ignored and perhaps warrants further investigation. Unfortunately, the letter between Lord Liverpool and Lord Vansittart discussing the exact reason for the choice of Rothschild appears lost, as no copy exists either in the Rothschild Archive or in the British Library where the rest of Lord Liverpool's and Vansittart's correspondence is now stored.

Regardless, as demonstrated by their success, the Rothschilds were well placed to carry out these transactions. They had permanent bases in both Frankfurt and London and the brothers could make business trips to Berlin, Prague and wherever else they needed to go in order to secure specie. The main problem they faced was the continued volatility of the pound. Any large amounts of money transferred from Britain to the continent caused a change in the rate of exchange, and people realized early on that any large purchases of foreign currency with bills drawn on London caused the pound to depreciate (thus the Bank's previous defense of its actions by arguing that their agents had not drawn bills on London). The bigger the deficit in the British balance of payments and the more it relied on bills, the more the pound depreciated. This was something that the Rothschilds promised to avoid by making sure that no one knew they were

⁵⁷ Ferguson, *The House of Rothschild.*, p. 84-87

⁵⁸ Corti, *The Rise of the House of Rothschild.*, p. 132

acting as agents of the British government, something the Bank could simply not do.⁵⁹ In effect, the Rothschilds were small (or discrete) enough to act in the way that the Bank could not after years of working for the government.

This approach seems to have worked. By March 27, 1814, Herries could report back to Vansittart that the purchase of £700,000 made by the Rothschilds had not affected the market or “excited any sensation.”⁶⁰ On the twenty-ninth Herries informed Harrison that,

the Bank has stopped purchasing but the brokers have continued to quote 108/the ounce per foreign bar. I commissioned Rothschild to ascertain at what price he could procure it and he has this day brought me the offer of about £50,000 at 104/per ounce. I plan to purchase it quietly without the Bank knowing anything of the matter, because at that price it will make us good ... as bills purchased on Holland and will by so much diminish our pressure upon the exchange. Do not mention the matter to any of the Bank people. They must have their wits very little about them when Harman [an associate of the Bank] is actually purchasing gold for coinage at this moment at 108/ounce and is content to thank you for it as a favor.⁶¹

Herries pointed out that the Bank was overcharging the government as there “is a difference of his [Harman’s] remittances and ours of about 5%.”⁶² Herries was not necessarily blaming the Bank nor accusing it of profiteering. Instead, the Bank’s institutional weight and the knowledge that it was working for the government meant that it could not get money for any less. As we have seen, it often tried to get the best deals for the government and was also concerned with keeping the price of gold down.

The ability of the Rothschilds to purchase cash more efficiently than the Bank seems to be the case. On December 15, 1813, the Bank informed the government that it had turned down 4500 Dutch Ducats because they were too expensive. Despite this, the Bank kept purchasing

⁵⁹ Ferguson, *The House of Rothschild*, p. 92

⁶⁰ RAL T37/372: "Spottiswood & Herries Papers"

⁶¹ RAL T37/40: *ibid*

⁶² RAL T37/373: *ibid*

gold, despite the stagnant market.⁶³ The Bank also continued to purchase coins: in early February the Bank informed the chancellor that it had purchased more doubloons and other coins, although there was a limit to how many French coins they could access.⁶⁴ The inability of the Bank to adequately get enough cash to secure the army with money was clearly the reason why the Rothschilds were chosen. Nathan Rothschild was formally charged with supporting Wellington on February 14, 1814, a clear response to the problems the Bank faced.⁶⁵

Yet, on January 12, 1814, the governor of the Bank reported to the directors a “communication” from the prime minister and the chancellor of the exchequer on “the subject of a notice intended to be served upon the Bank for an issue of Specie to the Extent of £400,000 for the Service of Lord Wellington’s army serving on the continent.” The governor then told the court that it was the opinion of the “Committee of Treasury that under the opinion of the Bank [committee?] taken in October 1812 upon the restriction act the court of Directors will not be justified in objecting to comply with such order.”⁶⁶ In a letter to Lord Liverpool of the same day the governor stated that he had presented the notice regarding the Order in Council and that the directors “are duly impressed with the extreme importance of the measures alluded to in a national point of view, & the court has authorized the deputy governor and myself to take immediate measure upon the subject, to comply with the order the moment it reaches our hands.”⁶⁷

On January 14, 1814, the Privy Council issued a letter. The Privy Council, on advice of Lord Bathurst, was informed that it is

⁶³ BEA, "Secretary's White Letter Book ", pp. 112, 115-116. For example on the sixteenth the governor informed the government that he had purchased more gold, such as 210 napoleons and 210 doubloons. On the January 5, 1814, the governor informed the chancellor that he about 10,000 ounces of gold in bars.

⁶⁴ Ibid, p. 116

⁶⁵ Ferguson, *The House of Rothschild.*, p. 88

⁶⁶ BEA, G6/179 (folios 1 – 89, 1814, January 6 – March 24), folio 15

⁶⁷ BEA, "Secretary's White Letter Book ", p. 118

necessary that a sum in specie should be issued for the service of such part of his Majesty's army as is now employed in France Spain and Portugal to the amount of four hundred thousand pounds. And the said Henry Earl Bathurst having moved this board that a order of council might be issued to enable the governors and company of the Bank of England to supply in specie the said sum of four hundred thousand pounds; upon consideration had of the same His majesty's Privy Council do hereby declare that it is necessary that such sum be accordingly issued by the said governors and Company and do hereby order that the governor and Company of the Bank of England do issue the said sum of four hundred thousand pounds, in exchange for an equal amount in Bank of England Notes to the commissary in chief of his majesty's forces or the service above mentioned and to be applied to the payment of His majesty's forces serving in France Spain and Portugal and that this order be transmitted to the governor and company of the Bank of England for their information and guidance and that the same be laid before the houses of parliament within three days after the sitting thereof.⁶⁸

In effect, a month before the government requested the help of the Rothschilds, the Bank had already supplied a vast quantity of their own specie supplies to Wellington. Once more, the Bank was willing to put their duty to the British state above their own needs; they were once again, despite their constant complaints, not only forced to give up even more of their gold supplies but also take on more exchequer bills. Far from turning to the Rothschilds because of the Bank's obstinacy, the Bank was trying its best to help the government.

A lot has been made of Rothschild supplying gold to Wellington's army as it moved into France. Yet from these exchanges it is clear that the Rothschilds were not the only ones supplying Wellington in these last crucial months. It is clear that the British government was using both the Rothschilds and the Bank. Perhaps this was to keep down the price of gold by making sure they did not know about each other. For example, on April 7, the governor again informed the chancellor of the exchequer that the Bank had declined to purchase 15,000 doubloons because they were too expensive, but he had purchased 3000 ounces of bar gold at a more reasonable price.⁶⁹ Silver purchases also continued in 1814 as the war came to an end. On February 8, 1814, the governor of the Bank informed Lord Bathurst that he had not only acquired

⁶⁸ BEA, G6/179 (folios 1 – 89, 1814, January 6 – March 24), not numbered

⁶⁹ BEA, "Secretary's White Letter Book ", p. 129

more coins, but also 150,000 pounds of bar silver, which would not interfere with the creation and distribution of the silver tokens.⁷⁰ To some extent, it appears that the Rothschilds were reliant on the Bank to use their substantial institutional weight to keep the price down, allowing them to purchase bullion more selectively, although the Bank was probably not aware of this.

The syncretic approach to finance taken by the government can be seen in a letter from Vansittart to Castlereagh on April 28, 1814. Vansittart explained that when he assessed the huge expenses he was “astonished that they have any way been surmounted.”⁷¹ He explained that the funding of allied powers was “injurious to the exchange” because “they were all anxious to obtain cash, and made their arrangements always in a hurry and often injudiciously.”⁷² Instead, “By lending them [the other nations] the greatest assistance practical and by our influence with the Bank and some very respectable houses concerned in the remittances, we have prevented their completion from producing effects so mischievous as it might otherwise have done.”⁷³ The main benefit was that the Rothschilds could obtain gold without upsetting the market, something that the Bank could not do.⁷⁴ Despite this, they worked in (unconscious) tandem to secure the needs of the British state.

This thesis has reviewed the role of the Bank of England during the Peninsular War and demonstrated the centrality of the Bank in defeating the French. Without the ability of the Bank not only to maintain the value of the pound but also to supply Wellington with silver in the first years of the war, it is hard to see how the war would have continued. The government, as demonstrated by its huge injection of cash in 1808, was unable to fully see the long-term fiscal

⁷⁰ Ibid., p. 121

⁷¹ British Library Additional Manuscripts (BL Add. Mss.) "Correspondence and Papers of the Rt. Hon. Nicholas Vansittart, Secretary to the Treasury in 1801, 1802, 1806; Chief Secretary to the Lord Lieutenant of Ireland in 1805; Chancellor of the Exchequer, 1812-1823; and Created Baron Bexley, 1 March, 1823. Bequeathed by Lord Bexley," (London, 1796-1844), p. 56

⁷² Ibid., p. 56

⁷³ Ibid., p. 57

⁷⁴ Ibid., p. 57

problems their strategy was causing and it was the actions of the Bank, as this paper has shown, that often kept the British economy and the army in the peninsula from collapsing. The continued purchases of exchequer bills meant that the value of the British pound was somewhat buttressed by the Bank, despite the depreciations caused by the restriction and the huge expanded note issue throughout the war. Wellington was reliant on British credit and had the Bank not been purchasing bills, often against their wishes, it is difficult to see how the situation would not have been much worse.

As we have seen, this often led to disagreements between the Bank and the government. The government was under huge pressure to win the war, and they sought to aid Wellington as much as possible. Wellington's victories, as this paper has briefly examined, not only secured political capital for the government but also boosted the value of the pound. All parties realized the importance of ensuring that Wellington was well funded, allowing him to win the war. This approach, however, had to be tempered by the Bank which, as the second pillar maintaining British credit, often adopted a far more cautious policy than the government. Wellington's immediate needs often conflicted with those of the Bank, despite the fact that both were striving for the same objectives and in fact contributing to Britain's creditworthiness. This explains the Bank's consistent desire to restrict gold withdrawals and their constant letters reminding the government about the need to maintain Britain's internal circulation.

Despite their conflicts, the Bank and the government often quickly joined together when faced with real threats. Their reaction to the bullion committee demonstrates that when faced with issues that would affect the British state, the two were inseparable. This relationship had existed before the Peninsular War, but was heightened by the fact that throughout the war British money was completely based on how much people trusted the Bank to eventually honor the

paper they had issued. It is also the case, as this thesis has demonstrated, that although there were substantial and important disagreements, such conflicts were always internal. The Bank never seriously tried to either disrupt the government nor to put its own interests above those of the state. The fights between the Bank and the government were often over specific policies or because the Bank had to inform the government about why the government's policies would hurt the overall health of the nation. This is not to say that the Bank was necessarily correct. The Bank was often overruled by the government, the same government that eventually won the Peninsular War. The Bank, however, could not have predicted these changes of fortunes. For example, Wellington's victories, while boosting British credit and the value of the pound, were out of the Bank's hands. In pursuing a cautious, long term strategy, at all times the Bank was working with the interests of the state in mind.

Previous authors have, when looking at the Peninsular War, often treated the Bank simply as an agent of the government (when they examine it at all). This paper has instead reimagined the Bank as self-consciously part of the state and an active participant in the war. The needs of the war, as well as the perhaps unique situation the Bank found itself in during that conflict (*vis-à-vis* the restriction situation), meant that it took upon far more power and responsibilities than before. Acting as a modern day central Bank and presiding over a fiat currency meant that the Bank had to make sure that it not only supported the government financially, but also maintained the British economy. Yet treating it as a mere agent of government does not fully explain the complex relationship it had with successive cabinets. As this paper has shown, it often fought and won its arguments with the government, and it had leverage and power over those in Whitehall. The fact that the directors devoted much of their time to both ensuring the stability of the country and providing for Wellington shows that the

Bank was an intrinsic part of the British victory in the peninsula and, moreover, by 1814, an intrinsic part of the British state as a whole.

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