

# 'THE PROJECTING AGE'

## WILLIAM PATERSON AND THE BANK OF ENGLAND



Canny Scot? A contemporary pen and wash drawing of the Bank of England's founder.

**David Armitage** looks at the pyrotechnic career of the founder of the Bank of England (300 years old this summer) and his contribution to the Financial Revolution that arguably launched Britain on the road to economic pre-eminence.

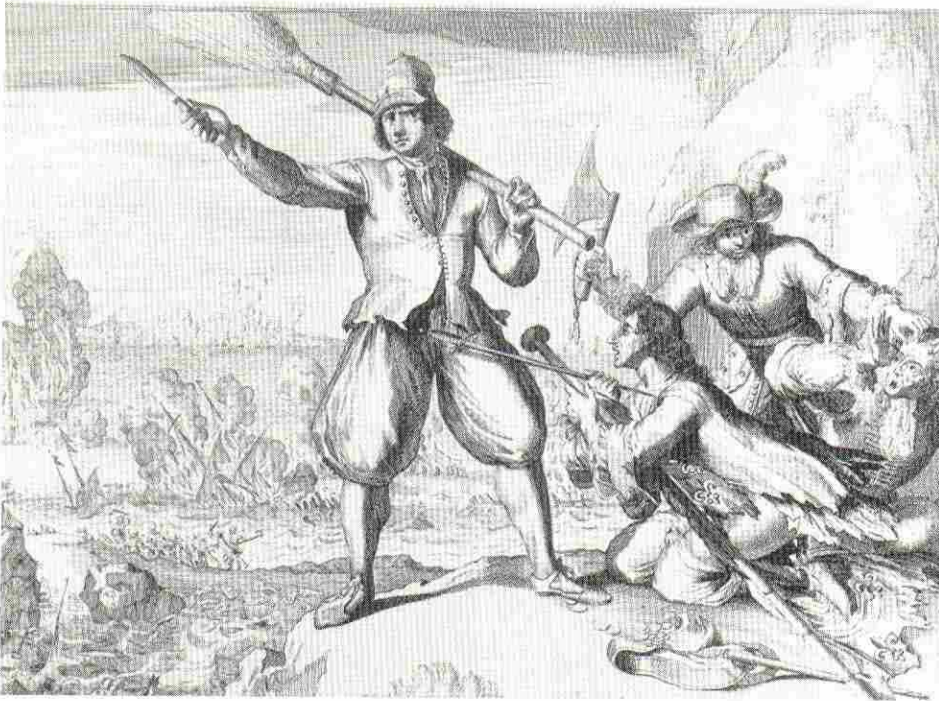
Every schoolchild once knew that Britain rose to greatness with a roll of revolutions, variously English and Glorious, Puritan and Scientific, Financial and Industrial. Yet quite which did the most to propel Britain to pre-eminence has been as much a matter of contention as whether any of them took place at all. Revisionists and sceptics have cut Britain's revolutions down to size as rebellions or evolutions, but this pruning has left one revolution flourishing all the more vigorously. The Financial Revolution in England – first so called by P.G.M. Dickson in 1967 – was a late-comer onto the his-

toriographical stage, but in recent times it has stolen the show. The undeniable fact that by the mid-eighteenth century England had grown from a bystander in European power-politics to the major player demands explanation: the strength of Britain's institutions of public finance and revenue-collection provides a large part of the answer.

Eighteenth-century Britain became, in John Brewer's phrase, a 'fiscal-military' state like Prussia or France, able to command vast domestic resources of tax and credit in order to underpin the pursuit of international war. The second Hundred Years' War between

France and England – from William III's wars to the battle of Waterloo – demanded the commitment of huge resources of blood and, especially, treasure. Taken together, the institutional innovations compelled by those wars amounted to a revolution in public finance which took off in the 1690s. Even before any putative industrial revolution, therefore, those institutions which answered to the imperatives of war had long since supplied the indispensable platform on which pre-eminence would be raised.

The Financial Revolution has not escaped the revisionists. They have argued that there was no miraculous take-off in the years after 1688-89: the major developments in banking, public finance, and credit of that period were continuous with at least three decades of earlier, albeit slower, institutional innovation. Financial evolu-



A 1692 engraving celebrating the Anglo-Dutch naval victory over France at the battle of La Hogue. The unprecedented demands of William III's wars against Louis XIV acted as a catalyst for new financial mechanisms for the British state.

tion had marked the years since 1660, though the pressures of England's entry into its first sustained continental military commitments since the mid-fifteenth century quickened the pace of change to revolutionary speed. Yet none of this would have been possible without the major institutional changes which gave the English a strong Treasury, the mixed blessing of a National Debt and – most memorably of all to that mythical schoolchild – the great physical symbol of Britain's monetary muscle, the Bank of England, which was chartered 300 years ago next month on July 27th, 1694.

The financial innovations of the late seventeenth century made revolutionaries of some unlikely characters. These were ingenious, persuasive and vigorous men who made up what Macaulay later called 'a crowd of projectors, ingenious, absurd, honest and knavish, who employed themselves in devising new schemes for the employment of redundant capital' in the decades after the Restoration, and who truly came into their own under the new pressures of the Williamite wartime economy. Daniel Defoe, in his *Essay on Projects* (1697), thought his own time 'The Projecting Age', and indiscriminately listed among those who pretended to 'the Despicable Title of Projector' the inventors of diving-bells and turn-pikes, windmill-makers and stock-jobbers, saltpetre-men and bank-promoters. Even contemporaries had difficulty in telling apart the honest

and the dishonest, the ingenious and the absurd, from the crowd of lively minds. Among them was a charismatic Scotsman with a varied background in colonial and Continental trade, a silver tongue, and a few guiding conceptions for projects which he peddled ceaselessly around Europe. This was William Paterson, promoter of the Hampstead Water Company, guiding light in the failed Scottish attempt to colonise Panama in the 1690s, reformer of the public credit, propagandist for Anglo-Scottish Union, and government agent: to his enemies 'the Pedlar, Tub-preacher, and at last Whimsical Projector'; to his admirers the apostle of free trade, a wronged commercial genius and, above all, father of the Bank of England and hence leading financial revolutionary.

The life and projects of William Paterson are revealing of the fluid culture of institutions and information which mushroomed in Britain after the Glorious Revolution. Paterson was born into agricultural obscurity in Skipmyre, Dumfriesshire, in 1658 and died enriched after long embitterment in London in 1719. In between, he had travelled to Brandenburg, Amsterdam and the Baltic, had attempted to settle in central America, and had pursued his projecting and mercantile careers in both England and Scotland. The accelerating pace of financial innovation, the pressures of international trading rivalry and European war, and the lop-sided relationship between the

kingdoms of England and Scotland all presented Paterson with opportunities for projecting and self-promotion. He swayed the hard-headed trading cities of northern Europe with his ideas, and convinced the substantial people of Scotland to float a sizeable chunk of their capital on an uncertain venture in a central American swamp. He made the commonplace idea of a bank of public credit believable and gave substance to that idea in the institution of the Bank of England. He hobnobbed with Europe's money-men in the coffee-houses of London and Amsterdam, and corresponded with William III from Hampton Court.

Yet despite the variety of his interests, the strength of his commercial contacts, and the fertility of his imagination, Paterson retreated in anger, failure or ignominy from almost all of his major projects. He lasted barely nine months as a Director of the Bank of England, and only a little longer as a Director of the Company of Scotland Trading to Africa and the Indies. He was disgraced and disappointed in almost every enterprise of his life, and ended that life pursuing those whom he felt had failed to give him his due. Within a culture where strength of personality counted for as much as force of invention, it seems that Paterson was doomed to live by his wits and die by others' disapproval.

The driving ideas of Paterson's career as a projector remained remarkably consistent: the reform of public credit, the promotion of trade, and the plantation of a colony at Darien on the isthmus of Panama. Yet consistent also was his indifference about the likely beneficiaries of his schemes: in the end, he seemed careless whether the interests benefited by his various projects were even compatible with one another. He resigned from the Bank of England's Court of Directors after a major conflict of interest was uncovered. The Scottish attempt to colonise Panama antagonised the English, and made it evident (to the English at least) that the trading interests of England and Scotland could not be allowed to remain independent. Finally, his propaganda for the Union between England and Scotland which was ratified in 1707 cut him off from many of his former Scottish allies, who had drawn upon his eloquence and expertise in the interests of Scotland alone when looking towards a central American trading venture. Add all of this to Paterson's earlier projecting in Holland and the commercial city-states of

northern Europe, and it becomes clearer both how he could be so successful in the short run, as well as why he was so often distrusted and reviled in his thirty years of economic entrepreneurialism.

The extraordinary military and commercial circumstances of the late seventeenth century provided a wealth of opportunities for men of Paterson's stamp. Particularly in the wake of the Anglo-Dutch wars, and with the rise of mercantilism as promoted by Louis XIV's controller of finance, Colbert, in France, it was clear that international rivalry was no longer to be conducted along primarily dynastic or confessional lines: trade was now the major reason of state. It became a cliché among economic writers that commercial and military power were now inextricable from one another: money was now the sinews of war, because commerce was the major interest to be fought for between nations. It was no longer sufficient to have an extensive population to keep up a large, productive work-force at home and cannon-fodder abroad: now it was essential to be able to finance a complex military machine to defend and extend a nation's trading interests. As Paterson wrote to William III, 'Nations ... now so feelingly find, how much Money Commands all things, and particularly the sword, and have reason to know, that whatever might be formerly yet the Wars of these times are rather to be Waged with gold than with Iron'.

William's successful invasion of England in 1688, and the recognition of his and his wife Mary's claim to the thrones of England and Scotland in 1689, had made the necessity of finding money for the nations of Britain peculiarly pressing. William had not disinterestedly pressed his claims to the English and Scottish thrones solely to defend the Protestant interest in Britain against the popish machinations of James II: it was essential that he should be able to secure the British kingdoms on his own side against the potential universal monarchy of Louis XIV's France in the brewing struggle which became the Nine Years' War (1688-97). The waging of that war demanded the commitment of untold gold. New ideas and novel institutions would be needed to stiffen the sinews of war, and the projectors rushed to invent them, encouraged by the receptive Whig Junto.

The informality with which many major state institutions were first imagined is one of the most surprising features of Britain after the Glori-

ous Revolution. As John Brewer has noted, 'Policy was ... more usually initiated by interested parties and active Members of Parliament than by government officials'. The flurry of projects and position papers on matters of state produced in the 1690s was continuous with a culture of counsel, particularly on economic matters, that had been flourishing since at least Elizabethan times, and which had peaked at earlier times of stress, such as in the 1620s and the 1650s. The early 1690s were especially fertile for projecting largely because of the distortion of the English economy by the demands of war, the damage wreaked upon its international trade and by an excess of floating capital. England in the 1690s had no Colbert pulling the strings of the state finance and trade; it developed no departments of government in its universities like Prussia: instead, it took flexible alliances of persuasive projectors, ministers of the crown and Parliamentary lobbies to furnish the institutional overhaul of the state. By the middle of the eighteenth century, the British population was the most heavily-taxed in Europe, but direct taxation alone was not sufficient to pay for the first wars fought on a planetary scale in world history. To finance such conflicts took both excise revenue and, pre-eminently, an unparalleled system of public credit. The expansion of trade,

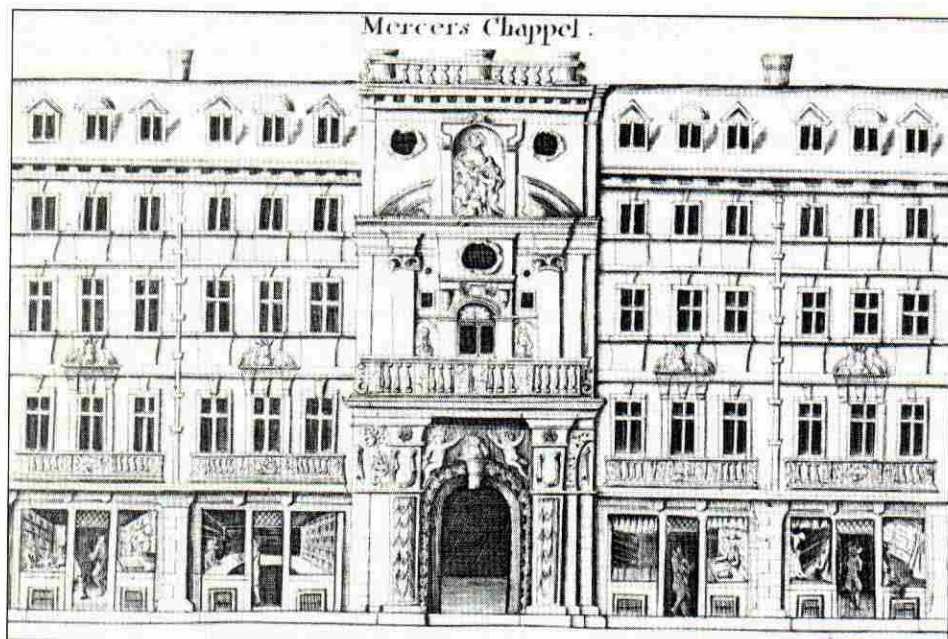
**Mr Moneypenny: Charles Montagu, the Chancellor of the Exchequer, who worked with Paterson on the launch plan for the Bank of England.**



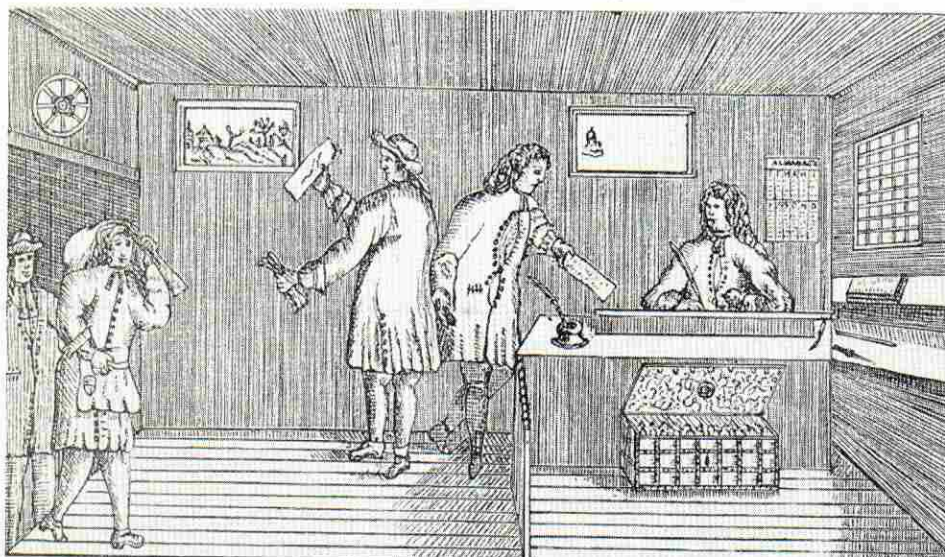
which would increase the excise, and the creation of the Bank of England, which would underwrite the National Debt, were accordingly leading ideas of the Projecting Age, and Paterson was as tireless as any in promoting them.

The Bank of England was far from the firstborn among Paterson's brainchildren, though it was the only one to survive infancy. From the mid-1680s, he promoted a variety of enterprises in England and in Europe, ranging from a plan to supply London with water from reservoirs in Hampstead to the Panama project. Water-works and the West Indies take us far from the Bank of England. Nevertheless, they put Paterson's initial involvement with William's war-effort into its proper perspective within his career as a projector. The blueprint for the Bank of England was not the longest-cherished of Paterson's projects, though he had been pushing it for some three years before Parliament ultimately legislated for its foundation in April 1694. Banks – particularly public banks – were largely unknown quantities in Britain at this time, and were associated with foreign finance and republican governments such as those in Venice and Amsterdam. When Paterson returned to England from his own European peregrinations in the spring of 1691, he quickly set about promoting the idea of a fund of public credit. In October 1691, he wrote to the king's Secretary of War, William Blathwayt, on behalf of the 'Society at the Sun Tavern on the Bankside of the Royall Exchange', to urge on 'his Majesty or one of the Lords of the Treasury their Proposals for Raising the sume of four Millions for the use of the publick', though what methods were to be used to accumulate such an amount were left unclear. With the costs of the war against France spiralling, and interest-rates rocketing, Parliament summoned a committee in January 1692 to 'receive Proposals for raising a sum of Money ... upon a Fund of perpetual Interest'. Paterson was among the first to submit a plan, though it was rejected by the committee. The committee wound up inconclusively, and Parliament turned instead to other new forms of long-term borrowing based on lotteries and life-insurance.

Parliament's first rebuff did not discourage Paterson. One of his contemporary defenders wrote that 'Mr Paterson ... ceas'd not, Night or Day, Sunne or winter, to do his utmost in promoting his Proposal, and after every Repulse to bring it about again'.



Big trees from little acorns: the Bank's first offices at Mercer's Hall in Cheapside and (below) an interior view of the Bank's operations c.1695.



But Paterson was only one of many of the crowd of projectors with plans in their pockets: the 'projector-general' Charles Montagu, Chancellor of the Exchequer from May 1694 and later Earl of Halifax, received some seventy-nine proposals for means of long-term borrowing. Many of the outlines of the plan finally accepted by Parliament in 1694 – a fund for long-term public borrowing, a bank to administer it, the mortgaging of future revenue for payment of interest to investors, and some form of paper currency – were popular among the projectors. The plan which Parliament finally accepted was drawn up by Paterson, his associate Michael Godfrey, and Charles Montagu, then the Treasury Commissioner. The Tunnage Act of April 1694 mortgaged excise revenue of £140,000 a year, of which £100,000 was to be used to pay 8 per cent interest on a loan of £1,200,000 put up by individual sub-

scribers. If half of that £1,200,000 were subscribed by August 1st, 1694, the Act made provision for the incorporation of a 'Bank of England' under royal charter. The books opened on June 21st, 1694, and – famously – were filled within twelve days. With its promised capital secured, the Bank was chartered on July 27th, and opened at once for business at the Mercers' Hall in Cheapside. Paterson was among the first directors, Sir John Houblon was its first governor, and Michael Godfrey was its deputy governor. As *Some Observations Upon the Bank of England* (1695) remarked, the Bank had been instituted:

... under such Advantagious Circumstances, as are not only surprizing at home, but sufficient to amaze all Europe; A suitable Improvement whereof may reasonably alter all the Measures of Christendom.

Paterson himself did not remain

with the Bank long enough to oversee the desired effect of tipping the scales of international financial – and hence military – power in favour of William and the Protestant interest in Europe. The minute-book of the Court of Directors, the Bank's central administrative body, for 1694-95 tells a tale of Paterson's overreaching, the Court's censure, and his final ignominious resignation.

Subscriptions to the Bank had dried up many of the reserves of excess capital which had been flooding London in the first years of the 1690s, but this in itself did not prevent the floating of other joint-stock enterprises. With his usual nose for a scheme, and his characteristic artifice, Paterson became involved in promoting a plan to benefit London's orphans by means of a large, interest-bearing fund. The Directors of the Bank could only see this as a threat to their own commercial interests and the investment pool which supplied the infant Bank. They called Paterson before them and informed him of their displeasure. Paterson failed to account for his actions to their satisfaction; he was pushed into resigning from the Court and sold his stock. His active involvement with the Bank ended in retreat and disgrace. Through a sympathetic pamphleteer he told the world 'that he was the first, and perhaps the greatest Benefactor of the Bank; [and] that besides the Labour of several Years, he had expended, lost, and been damnify'd more than Five Thousand Pounds in promoting thereof'. The wounded, self-aggrandising tone, the extravagant claims to unrewarded achievements, and the bitter assertions of financial loss were all songs Paterson would sing again later in his life, after the collapse of his designs in Darien.

The Darien colony was Paterson's King Charles' head, a dazzling obsession he forced upon anyone who would listen, and to which he immediately returned after his retreat from the Bank. He told William III that he had been promoting his Panamanian plan since 1685, and he dated his interest in 'matters of general trade and public revenue' to the same time. In 1687, he was reportedly peddling his plan 'to Erect a Common Wealth and Free port in the Emperour of Dariens Countrey' in the coffee-houses of Amsterdam. In 1690 Paterson apparently inspired the foundation of an 'Americæse Compagnie' in Brandenburg with the aim of colonising Darien, though it came to nothing. Only in the aftermath of his chastened retreat from his ill-starred

association with the Bank of England did Paterson finally make his dream come true when he persuaded the Company of Scotland Trading to Africa and the Indies to put its substantial capital behind his colonial scheme in 1698. Even after the collapse of that venture in 1700, he stayed true to his vision of an entrepôt on the Isthmus and in 1710 he assured his paymaster, Robert Harley, that 'in all my thoughts for the good of this Island the Indies is always included'.

The Company of Scotland, like the Bank of England, was a child of the projecting age. Yet while the early 1690s were years of under-used capital in England, they saw only economic desperation in Scotland. Desolated by famine and bad weather, Scotland suffered a Biblical tally of seven lean years whose ill-effects were attributed largely to depopulation and impoverishment wrought by William's wars which benefited only Anglo-Dutch interests. A group of Anglo-Scottish merchants founded the Company of Scotland in 1693 primarily to circumvent the monopoly of the East India Company, but when the English Parliament crushed the Scots Company's attempt to find capital in England, its fortunes became Scotland's alone. The stampede to invest in the Company – which took place barely a year after the Bank of England's subscription rush – was



Isaac Wood's portrait of Sir John Houblon (1632-1712), the first governor of the Bank of England (also featured on the new £50 note just issued in Britain to mark the Bank's tercentenary).

*Trans. Do. In London the 27 July 1694*

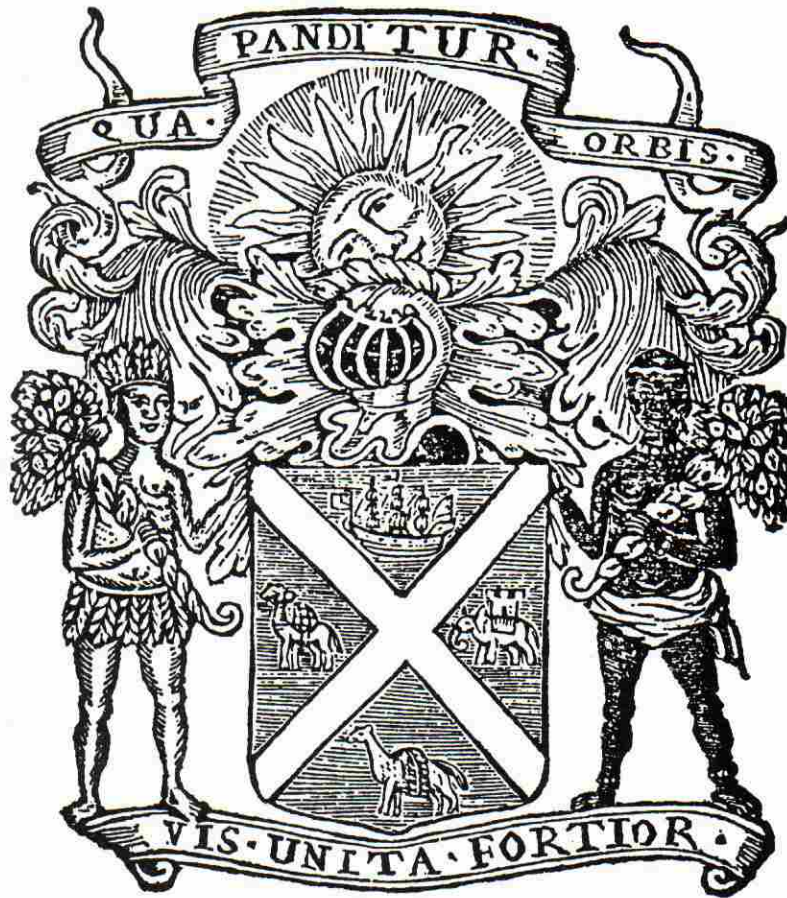
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*Friday the 1. of August 1694*

(Left) A page from the first subscription list to the Bank – its £1.2 million launch target being met in less than two weeks.

unparalleled, in Scotland at least. Even before anyone there knew what the Company was designed to do, £400,000 of stock was snapped up, the equivalent of a sixth, or perhaps even a quarter, of the country's available capital. Once again, the persuasiveness of Paterson was a factor in creating a financial furore.

Paterson was among the ten directors named by the 1695 Act of the Scottish Parliament which formerly instituted the Company. (This barely six months after his resignation from the Bank of England). He persuaded his fellow-directors that they should follow his Panamanian plan as the main enterprise of the Company. The colony was to be a free port, with religious toleration to encourage settlement. Such a tolerant trading-post at Darien, he argued, could provide Scotland with a fountain of goods and excise duties drawn from the trade of both hemispheres: a canal might even be cut to ease transportation across the Isthmus of Panama: 'Thus this Door of the Seas, and the key of the universe ... will of course enable its proprietors to give Laws to



A venture too far: the coat of arms of the ill-fated Company of Scotland trading to Africa and the Indies, whose sponsorship of the ambitious Darien colony project at Paterson's urging was to bring disaster to all those involved with it.

both Oceans and to become Arbitrators of the Commercial world'. Though an associate of Paterson's from his projecting days in Amsterdam warned that the potential – but unguaranteed – benefits of Scotland would only be outweighed by the opposition of the English and the Spanish, Paterson swayed the Company with his vision, the expertise in the area he claimed, and with the numerous books and papers on 'Discovery in Africa and the East and West Indies' he laid before them. He acted as the Company's agent in raising capital and ships in the principalities of northern Europe; and he later even took ship to Darien as one of the first wave of Scottish settlers in 1698. Yet, once again, Paterson fell out with his peers, and he was expelled from the Company's board of directors. Meanwhile, the Company's efforts on behalf of Scottish trading interests had predictably excited English reprisals and a military response from Spain, so that the Scots finally abandoned the venture in 1700.

The Darien colony collapsed; 2,000 lives were lost; and the upshot was a major crisis in Anglo-Scottish relations. Paterson had promoted the Darien venture as Scotland's royal

road to economic independence in a dog-eat-dog world of aspiring universal monarchs, not least of whom may have been William himself, who firmly opposed his northern kingdom's plans. After pressing the idea of an interventionist Council of Trade to direct Scottish commerce in 1700, Paterson soon switched his allegiances once more to support an incorporating Union between England and Scotland. In 1702, he went to the top and proposed the Darien venture once again, this time to the dying William, as a pan-British enterprise. Linked to reform of the public credit, and to Anglo-Scottish Union, he argued, the Panamanian trading-post would enrich a new-modelled British empire, 'whereof England is to be the centre country, and London to be the centre city'. William's united British kingdom would thereby be in a pre-eminent position 'to balance that growing greatness of the popish world which stands so formidably ranged under the banners of the house of Bourbon', the universal monarchy foreshadowed by the new threat of the French Dauphin's accession to the throne of Spain. His plea fell on William's deaf, and soon dead, ears, and Anglo-Scottish relations deteriorated still further in the shad-

ow of the War of the Spanish Succession.

The English government, and especially Robert Harley, heeded only Paterson's unionism, and he was sent to Scotland as a government propagandist in the run-up to the Treaty of Union in 1707, still nursing his wounds from the Company of Scotland. In 1700, the Marquess of Queensberry had thought Paterson just the person to write opposing any revival of the Scottish colonial plans, and by 1705, Paterson was speaking of the Company as 'a weapon which I was unfortunately concerned in the forming'. The Company was wound up under the terms of the Union, and reparations were paid to investors. Yet Paterson felt hard done by once more, and he spent much of the next decade of his life pursuing his claims to damages for his investment of time and money in the Company's foundation. Almost every session of the new Parliament of the United Kingdom of Great Britain – which Paterson's propaganda had helped to bring into being, and to which he was elected in 1708 (albeit on a double return, so that he never took his seat) – received a petition from the embittered projector. Only the intervention of George I secured what Paterson took to be his due in 1715. Though paid off at last, and financially well-padded in the final years before his death, Paterson had little concrete to show for all of his international projects. His memorials are a corner of a foreign land that is forever Scotland – Punta Escocés, just west of the Bahía de Caledonia, in present-day Panama; the Hampstead Ponds, which remain from his venture into water-works; and the Bank of England, which hides his paternity behind Soane's unblinking classical façade: an odd array of monuments to an ambiguous agitator in the seventeenth-century's pinstripe revolution.

#### FOR FURTHER READING:

P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit 1688-1756* (London, 1967); John Brewer, *The Sinews of Power: War, Money and the English State 1688-1783* (London, 1989); Henry Roseveare, *The Financial Revolution 1660-1760* (London, 1991); Sir John Clapham, *The Bank of England: A History*, vol. 1 (London, 1944); Saxe Bannister (ed.), *The Writings of William Paterson, Founder of the Bank of England* (3 vols., reprinted New York, 1968); David Armitage, 'The Scottish Vision of Empire: Intellectual Origins of the Darien Venture' in John Robertson (ed.), *A Union for Empire: The Union of 1707 in the History of British Political Thought* (Cambridge, 1994).

David Armitage is Assistant Professor of History at Columbia University.