Land Bank Proposals 1650-1705

Charlie Landale
Senior Sophister

The land bank proposals of the late 17th century are often overlooked when the origins of monetary thought are discussed. Charlie Landale provides a clear and detailed analysis of a number of such proposals, convincingly arguing that the thinkers behind them had identified many of the ideas underlying contemporary theory on the role of money in an economy. He concludes that they deserve greater recognition for their contribution to monetary economics.

An Introduction

During the 1690s and early 1700s, economics was still in its embryonic stage. Relatively little consideration had been given to what the nature and functions of money were. This is unsurprising if we look at the world through the lens of the late 17th century. Money was made of metal, and there was therefore no scope for creating more money without finding new supplies of silver and gold. There were two types of wealthy individual: moneyed men and landed men.

The land bank proponents were early contributors to the economic debate. In their pamphlets the principal problem that they identified was the sluggish economy. They all agreed that the situation could be improved and saw the best means of improvement as an increase in the supply of money. Rather than doing this as the Spanish and Portuguese did by sailing to the new world and bringing back vast quantities of precious metals, they proposed using the banking model that had succeeded in Amsterdam and Venice. According to Schumpeter, they "fully realised the business potentialities of the discovery that money - and hence capital in the monetary sense of the term – can be manufactured or created"(1954: 321). Britain, which was not rich in terms of gold and silver, had plenty of potential in its land. Therefore, a land bank appeared to be a sensible suggestion.

None of the land banks that were set up succeeded. Their proponents, however, contributed important ideas to monetary economics and fuelled the early development of the subject. As Vickers observes, "theoretical discussion moved away from the nature and value of money to the consideration of the function and importance of monetary circulation and money-holding and payment habits"(1968: 30). In this essay, I consider those ideas in their contemporary context. I will avoid being drawn into the mechanics of their business proposals and focus on the implications of their economic theories.

William Potter's Early Proposal

William Potter has been labelled as the "forerunner of the land-bank projectors" (Schumpeter, 1954: 292). Writing in 1650, he was some 40 years ahead of the other proponents in publishing the Key of Wealth and then The Tradesman's Jewel, a condensed version of the former. His proposal hinged on the idea of merchants issuing collateralised credit. Once the reader cuts through the tangle of his prose, his theory is modern. He makes the observation that "this revolution of commodity, is proportionable to the revolution of money, or that which passes for such" (1650: 5). This sentence elegantly contains three important ideas. First, that economic activity is linked to the volume of money in a system. Potter believed that this was a highly elastic relationship, an idea that is reinforced later when he says: "if money could be increased… it would be a means suddenly to ingrois all the trade and richs that the world could afford for money" (1650: 6). Secondly, his use of the word "revolution" implies that the flow of money is circular. Thirdly, that gold and silver are not the only forms of money. This is perhaps what gave rise to Schumpeter's assertion that Potter was antimetallist in an era where gold and silver were the dominant forms of currency (1954: 292). What constituted money was not important for Potter. He viewed it as a medium to facilitate trade.

One way that merchants were overcoming the problem of a lethargic economy was by issuing private credit. However, this was a relatively risky solution that did not fully solve the problems associated with a shortage of money (Potter, 1650). Murphy describes what Potter was identifying as market participants' inability "to express [their] notional demand as effective demand… there was a cash-in-advance requirement" (1997: 47). Potter believed that this problem could be overcome by increasing the supply of money. This need not cause rampant inflation. In fact, Potter believed that "where trade is extraordinarily quick, commodities may be afforded at much lesse rate, and yet tradesmen gain much more per annum than otherwise" (1650: 26). In short, greater economic activity would drive down prices because merchants could make the same profits from higher sales and lower prices. This is not his only use for the word "quick". He describes how trade will be increased and debts will be paid off more quickly by the "quick and thick revolution of bills" (1650: 14). Potter identified the velocity of circulation as a factor in determining economic activity. This final contribution is not mentioned in any of the other land bank proposals. Although it is not fleshed out, it highlights Potter's understanding of the nature of money and puts him amongst the very first monetary economists.

Dr H. C.'s Obsession with Land

It was not until some years later that the land bank was discussed again. The most prolific author and vociferous advocate of such a bank was Dr Hugh Chamberlen, a man of medicine whose family was credited with the invention of gynaecological forceps (Murphy, 1997: 50). His critics would argue that he should not have erred from medicine into the realm of monetary economics. However, his proposals, the bulk of which he made in the 1690s, give some important insights into the workings of the 17th century mind. Horsfield best describes the main thread of Chamberlen's proposals: "to capitalise a 100 year annuity for 100 times its annual value, create bills for the capital sum" (1960: 157).

His reasons for opening a bank based on land credit are important. He says: "credit, rightly founded upon land, must evidently be more secure than any other sort of credit" (Chamberlen, 1696: 2). This statement is critical when we try to understand the proponents of the land bank. They believed that land had the most stable value of all assets. Credit was an important way of trading. The problem with credit was that merchants would only sell on credit to those they knew and trusted. Chamberlen, like Potter, proposed that this situation could be improved by having a universal credit based on something with a very stable value: land. The land bankers were a set of pre-physiocratic economists. Whilst land produces a steady income over a long period, however, it offers poor short term rewards. In a world where money was becoming increasingly important it is understandable that there should be some way for land owners to raise money based on the value of their land. However, due to the illiquid nature of the asset, the bank was bound to run into trouble. Anyone who took a loan from Chamberlen's bank secured with their land simply transferred their liquidity issues to the institution.

Chamberlen attracted plenty of contemporary criticism, particularly over his rather arbitrary calculations of security and rent. In A Bank Dialogue between Dr. H. C. and a Country Gentleman, the Country Gent says of the Doctor's arithmetic: "this is as plain as that 1 and 2 makes 5" (Anonymous, 1696: 3). Despite this abuse, and the failure of the Office of Land Credit in 1699, he continued to publish pamphlets on the subject in Ireland and Scotland, but never raised enough support to found another bank.

John Briscoe Lends to the Government

The next most prolific of the land bank projectors was John Briscoe. In many respects, his proposal was similar to Chamberlen's, and appeared around the same time in 1694. The bank was once again based on the future rental income that could be expected from land. Rather than 100 years income, however, Briscoe only used 20. Unsurprisingly, he was accused by Chamberlen of plagiarism (Horsfield, 1960: 180). Despite the fact that Horsfield describes Briscoe's major contribution, A Discourse of the Late Funds, as "a lengthy and chaotic work" (1960: 181), it contains some modern theory that puts it ahead of any of Chamberlen's writings. Briscoe believed that the new investment opportunities offered in the forms of the Million Act, the Lottery Act, and most importantly the Bank of England were drawing money out of trade and into the government's accounts. In his opinion, his bank would allow trade to flourish and give the government the opportunity to borrow at a lower rate than they were able to from the Bank of England. The rate at which the government was borrowing money, he believed, would lead to the "ruin [of] the trade of the kingdom" (Briscoe, 1694: 3).

As with Potter and Chamberlen, Briscoe made the link between an increase in the supply of money and greater economic activity. According to him, the new bills would be "to all intents as useful as money; it will be (as it were) an introducing so many fresh-monied men into the Kingdom with several millions more than was before, for the supply of their majesties" (1694: 7). Motivated by finding a means for the government to borrow at a low rate of interest, he was simultaneously concerned with improving the capital of the land owners: "gentlemen will have an opportunity of improving their estates by building, planting, draining or watering their land" (1694: 8). It is not until we get to Nicholas Barbon that the idea of capital is explored in greater detail, but there is an implied understanding of the link between investment and increased productivity here. Briscoe managed to secure over £100,000 in land subscribed to his bank, but it ultimately failed after 1696 as a consequence of a lack of liquidity in much the same way that Chamberlen's did (1960: 194).

Asgill and Barbon: Money and Capital

The last of the land bank proponents to found a bank, albeit another unsuccessful one, were John Asgill and Nicholas Barbon. They briefly worked with Briscoe, and then, in the spirit of the age, they both accused him of plagiarism and were accused by him of copying his ideas (Schumpeter, 1954: 292). Their banking model was closer to a modern building society where a pool of savings was used to make advances on mortgages (Horsfield, 1960). Asgill goes some way in defining the characteristics of money in Several Assertions Proved. He specifically states five that would make land securities suitable as a form of money: they have value; they are durable and incorruptible; they are divisible; the value of each can be certified by a stamp; and they are deliverable (1696: 18). He also offers further insight into the 17th century economist's relationship with land and its importance by stating "what we call commodities is nothing but land severed from the soil… man deals in nothing but earth" (1696: 21). It is easy to see why he considered land to be a suitable security for credit. Several Assertions Proved is a logical pamphlet, even if we now know some of the theory to be wayward. At the end, Asgill acknowledges the dangers of economics as a science:

> "To argue from a chain of positions, successively depending upon one another, which is the most dangerous way of arguing, because if one position happens to be false, it variates all that follows."
>
> (1696: 78)

Perhaps a great deal of the current difficulties that the financial world faces could have been avoided if decision makers had kept this in mind.

Nicholas Barbon was similarly clear in his writing. His major contribution, which Briscoe touched on briefly, was the concept of stock. In A Discourse of Trade, he states that "interest is the rent of stock, and is the same as the rent of land" (1690: 31). If the return from stock was the same as the return from land, then again it makes sense that Barbon should believe that land was a good asset to use as a basis of credit. Schumpeter states:

> "if the reader is to understand the history of interest theory during the nineteenth century, and some part of it even during the first four decades of the twentieth, it is absolutely necessary to realise fully what this means."
>
> (1954: 329-330)

Barbon realised that people did not want money for its own sake. They wanted what they could buy with money. Hence, he was saying that the monetary element was unimportant and paving the way for the 'real' analysis of the 19th century (Schumpeter, 1954: 330). For this reason, Arthur Monroe describes him as "the only downright supporter of the fiat theory" in the 1690s (1966: 115). Barbon also understood the importance of a high level of trade for governments, and made the link between a high level of consumption and a buoyant economy: "the chief causes that promote trade… are industry in the poor and liberality in the rich" (1690: 62). According to Vickers, making this link "places Barbon's work in the forefront of his time" (1968: 86-87). Sadly, this made no difference to the fortunes of the bank that he and Asgill set up, and it failed in 1699 due to liquidity issues much like the others. The concepts of consumption and capital are at the centre of basic economics today. Barbon lays them out neatly in A Discourse, and he is perhaps rather overlooked in the study of the history of economics as a serious contributor to the field.

Scottish Synthesis

The last proponent of a land bank whom I wish to consider in this essay was described by Schumpeter as " in the front rank of monetary economists of all time" (1954: 295). He is referring to John Law. Where the others identified important economic problems in relative isolation, Law produced two works that were a synthesis and improvement of all of their theories. The first was an Essay on a Land Bank, discovered by Murphy relatively recently. He describes it "in many respects [as] a treatise on money and not a general theory of employment and money" (1997: 50). To this end, Law does not propose an expansion of the money supply in the Essay. Instead, he considers land backed securities as an alternative to metallic money. The major leap forward that Law makes is his definition of money: "money is used as the measure by which goods are valued, as the value by which goods are exchanged, in which contracts are made payable, and payments are made" (1994: 55). The use of the word 'by' rather than the word 'in' implies that Law views money as something distinct from commodity. Murphy sums up Law's identification of three functions of money from this definition as "(1) a measure of value, (2) a means of payment, and (3) a standard of deferred payments" (1997: 54). Law apparently leaves out the fourth function, that of the store of value. However, as the Essay is predominantly concerned with the stability of the value of money, and one function that is identified is the deferred payment function, Murphy (1997) suggests that Law surely implied this. Another addition to the definition of money that Law made was a second category of money. This had a less stable value, and performed the function of exchange or payment at a point in time, but was unable to be used in the long run as a measure of value or means of deferred payment. According to Law (1994), the reason that land would be a good security to back money is that, unlike silver, the supply of land is fixed. As this is the case, the supply of money is predictable and hence the value of money is too.

Law's Essay on a Land Bank was a relatively simple precursor to Money and Trade, his proposal to the Scottish parliament for a land bank. As the title suggests, this pamphlet links economic activity and money in no uncertain terms:

> "Domestick trade depends on the money. A greater quantity employs more people than a lesser quantity. A weak'ned sum can only set a number of people to work proportion'd to it, and 'tis with little success laws are made, for employing the poor or idle in countries where money is scarce."
>
> (Law, 1705: 13)

Law was demonstrating his macroeconomic abilities here, identifying a clear link between employment, and in a broader sense trade, and money supply. This was one of three objectives of this pamphlet. The nature of money, a second objective, was considered to a certain extent in An Essay on a Land Bank. The final objective was "the policy issue of how to produce a new monetary structure capable of expanding the money supply" (Murphy 1997: 80). His analysis of banks' effect on the supply of money gives us part of the answer to this question. He says: "the use of banks has been the best method yet practis'd for the increase of money" (1705: 36). As the quantity of money drives domestic and foreign trade, the bank performs a key role in Law's economic model. Indeed, there were many more issues that Law touched upon, such as the interventionist nature of his proposal to fiddle with foreign exchange rates. This lead Schumpeter (1954) to comment that Law gave birth to the idea of managed currency. Whether or not this is true, he certainly made the greatest contribution to monetary economics of all of the Land bank proponents.

Conclusion

None of the land banks that were proposed were embraced by the respective parliaments in the same way that the Bank of England or the Bank of Scotland were. Perhaps the politicians of the day understood the great flaw of all of the scheme: that land can fall in value just like any other asset. Notwithstanding, the contribution that the land bank projectors made to the understanding of money was significant. They began a debate on the definition, characteristics and functions of money, identifying the importance of money with respect to economic activity, and this in turn with the wealth and power of government. They linked money to the macro economy and issues such as employment. They paved the way for the conception of money as capital and opened the door to currency management.

All of these issues are relevant in the post-financial-crisis world, where the definition of money is contracting (Coggan, 2011). The debate now rages around what has real value. The creation of money in response to the credit crisis was unprecedented in terms of scale, and went some way to reinstalling confidence. However, quantitative easing cannot continue forever. Perhaps we will see a return of the security backed credit that the land bank projectors proposed. Whatever happens, their contribution to monetary thought is an important one, which is rather overlooked in the study of the subject.

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