

UPTON TEA QUARTERLY

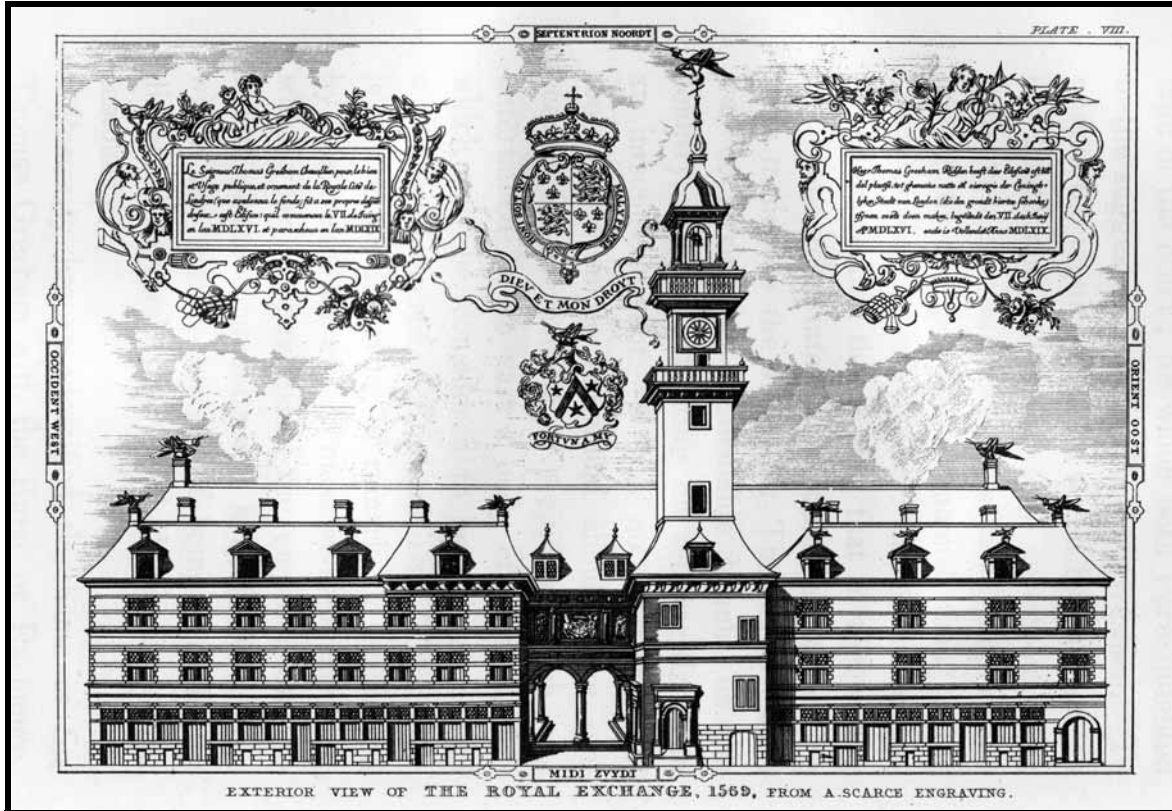
Vol 17 No. 2

Hopkinton, Massachusetts

Spring, 2008

Reversals of Fortune in the Tea Industry

Part VII: The Royal Exchange and the Bank of England



Exterior View of The Royal Exchange, reproduced from a rare engraving of 1569.

From: *The Life and Times of Thomas Gresham, Knt.* by John William Burgon

“When fire consumed the City in September 1666, it destroyed two buildings which, above all others, had embodied its secular and religious nerve centers, the Royal Exchange and St Paul’s Cathedral. The rebuilding of these two proud edifices was to be the cause of much debate between the City and the Crown. [...] Time was the critical factor, and the renaissance of the Royal Exchange was crucial as the supreme symbol to present to the world that, for the City of London, it was ‘business as usual’. The Exchange was rebuilt in two years, while other buildings, vital for the City’s prosperity and safety, were not replaced with the same sense of urgency.”

Excerpted from: *Edward Jerman*, by Helen Collins. Published by The Lutterworth Press, London, 2004

Please turn to page 46.

Reversals of Fortune in the Tea Industry, Part VII

At the end of the seventeenth century, England and France were at war. In fact, the period between 1689 and 1819 marked a series of skirmishes between these rivals that is sometimes referred to as the *Second Hundred Years War*. While Spain, Austria, and the Dutch Republic played important roles in alliances and battles, this period was ultimately a contest twixt France and England.

In 1700, the population of France was over 19 million, while that of England was less than 7 million. With little more than a third of France's population, England enjoyed nearly 70% as much foreign trade. This imbalance of per-capita foreign trade was not lost on Louis XIV, who had declared war against England as early as 1666. Ostensibly in support of the Dutch, who were at war with England over maritime trade, Louis' true aspirations were on a far grander scale.

In *The Rise and Fall of the British Empire*, Lawrence James states:

Britain was always the stronger power because, at times of crisis, she could raise huge amounts of money without resort to additional taxation...

France was less fortunately placed when it came to waging war. It was impossible for her governments to harness national resources effectively, thanks to a system of public finance which had become ossified and grossly inefficient.

Historians frequently focus on the brilliant military strategies and decisive battles of this era. But, as one historian has stated, it was becoming obvious by this time that wars were won with gold, rather than with iron.

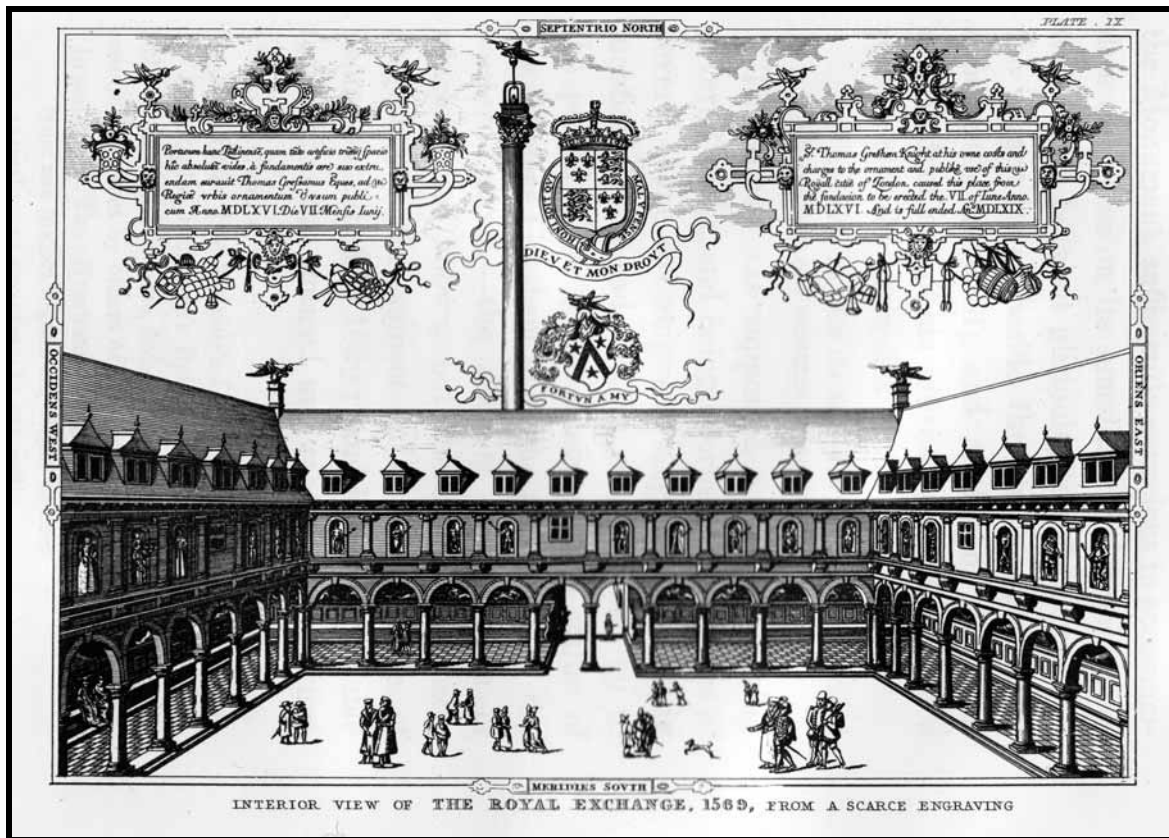
Britain's capacity for outspending France on warfare during the eighteenth century was partially due to the relatively early introduction of *Dutch-style* modern finance. The English monarchy had witnessed the power of

modern finance as early as the reign of young King Edward VI, when Thomas Gresham, acting on behalf of the crown, applied his skills on the Antwerp currency exchange to reverse the downward spiral of a devalued English pound. In a strategy that might be considered illegal currency manipulation today, Gresham convinced King Edward to fund the systematic purchase of substantial sums of English currency at the Antwerp exchange, even as the pound was decreasing in value. Gresham knew that such purchases would stabilize the pound, and attract other speculators. As the value of the pound rebounded, Gresham continued to buy until the pound had nearly recovered all its losses. According to John Francis (*History of the Bank of England*, London, 1847):

He [Gresham] found means in a short space to raise the exchange from sixteen shillings Flemish for the pound sterling to twenty-two shillings, at which rate he discharged all of the king's debts, and by this means money was rendered plentiful and trade prosperous, while the credit of the crown became established on a firmer basis abroad than it had ever been before.

Gresham was quick to take credit for the restoration of the pound. Even if his role was less than history records, it is clear that his mastery of finance was highly advanced, and that his experience with commerce and foreign exchange was substantial. He used his wealth and influence to convince Queen Elizabeth to grant him the right to build (at his own expense) a London Exchange, modeled after the Antwerp Bourse in precise detail, with the addition of several large *Gresham Grasshoppers*. The figures on page 1 and 47 show these details.

Gresham's Exchange was destroyed by the *Great Fire of London* in 1666. According to Samuel Pepys, the only artifact that survived was a "picture" of Sir Thomas Gresham. His diary entry on 5 September includes, "The Exchange, a sad sight, [with] nothing stand-



Interior of The Royal Exchange, From *The Life and Times of Thomas Gresham, Knt.* by John William Burgon

ing there of all the statues and pillars, but Sir Thomas Gresham's picture in the corner." It is likely that Pepys was referring to a figure of Gresham, which Burgon describes as "a statue of Sir Thomas Gresham near the north end of the western piazza... that when, in the great fire of 1666, the Exchange was consumed, and the statues of kings displaced by the violence of the conflagration, that of Sir Thomas Gresham, the founder, alone retained its station uninjured."

Shortly thereafter, the Exchange resumed operations at Gresham College, which was founded by an endowment in Gresham's will. Meanwhile, a new and expanded Exchange was to be erected at the site of the original. The contract for the design and construction of the new Exchange was awarded to Edward Jerman, the architect responsible for rebuilding some of the most prestigious buildings

after the Great Fire. Upon Jerman's untimely death in 1668, the project was continued by Thomas Cartwright. By September 1669 the Exchange was open for limited use, and construction was finished in 1671.

One of the most readable accounts of the Great Fire, and the subsequent rebuilding of London, is Adrian Tinniswood's *By Permission of Heaven*. To quote Tinniswood:

Jerman's greatest single contribution to the rebuilding was the new Royal Exchange, an institution which until the Fire had been one of London's most important buildings, a centre of trade and commerce more vital to the existence of the City than either of the other two major architectural landmarks, St Paul's and the Guildhall.... Thomas Gresham's Royal Exchange had been rebuilt,... and for a community which revolved around commerce, a restored Exchange was a renewed City.

Before the end of the century, the war with France would create a fiscal crisis. According to Mayhue, “the outbreak of war with France in 1689 stretched William III’s resources to the limit. By 1694 he was spending £2.5 million per year on the army alone. Three years later the national debt exceeded £15 million.” As yet, the source of “huge amounts of money” that could be raised without “resort to additional taxes” (to which Lawrence James referred) had not been established.

Besides tax revenue, the English government had traditionally secured loans from goldsmiths and wealthy lords for unusual expenses, such as war funding. But wars were becoming more expensive and more expansive. Servicing the war debt would require a formal banking system that consolidated the wealth of the country, making it available to the government for “loans” as required.

Dozens of banking concepts were discussed and rejected. A wealthy Scotsman by the name of William Patterson finally submitted the winning proposal. Patterson’s bank would be formed as a corporation, with funding provided by shareholders who would enjoy the dividends earned through interest paid on the loans.

A valuable reference on the history of the Bank of England is Andraé Andréadès’ *History of the Bank of England 1640-1903*. The work was first published in 1901 as Andréadès’ thesis (for which he earned his degree in Political and Economic Sciences from *La Sorbonne*.) It is now available as a digital reprint.

As a Greek who was educated in Paris, Andréadès presents the Bank’s history with brilliant candor and lucidity. In his introduction, Andréadès states:

The Bank of England is the oldest of the European national banks. Established in 1694, it has seen the great banks which preceded it disappear one by one and has witnessed the collapse of many later foundations. At present day it still remains the most famous, and from many points of view, the most original bank in the world.

A very slight study of English history shows the importance of this great institution to the Government and to the English nation. The loans made by the Bank to William III. and Queen Ann enabled England to regain that position among European nations which she had to all appearances hopelessly lost. The English government sought help from the Bank on the eve of all the eighteenth century wars, and on the day of reckoning which followed the insanities of the Land Bank and the South Sea Bubble. ... The London commercial world, which was until 1694 a prey to usurers and without even a safe place of deposit for its money, has shown its gratitude to the Old Lady of Threadneedle Street by the eagerness with which she has defended her in times of danger.

The stage was set for Great Britain to assume her role as leading Western European superpower. The *Dutch Golden Age* was ending, and France would be harnessed by excessive debt, the service of which would be borne largely by the poor. Growing frustration and disenfranchisement of the proletariat would culminate in the French Revolution.

Britain, too, was neither free from internal strife, nor altercation between classes. However, for the next two centuries more vectors would be aligned toward order than toward chaos. The guilt that many Britons felt over the execution of Charles I possibly made perseverance seem preferable to revolution. Perhaps the tragedy of the Great Fire lent a spirit of unity to the nation. In the end, it was the combination of political reforms and economic stability that allowed the true potential of Britain to be realized.

In 1669 the East India Company imported 143½ pounds of tea. Imports increased slowly, up to 120,000 pounds in 1701. Just twenty years later imports would exceed one million pounds. By this time, the real race was on, and Great Britain would achieve astonishing success.

Our series on *Reversals of Fortune in the Tea Industry* will continue in the next issue of the *Upton Tea Quarterly*.