

CHAPTER I

INTRODUCTION

THE war against Napoleon was the greatest struggle through which the United Kingdom has ever passed, as he was our most powerful enemy; we remember Trafalgar and Waterloo as our greatest victories, but yet the most deadly warfare was carried on by other means. Napoleon was powerless to attack us by sea after 1805, and the British Government could not be tempted, at least until the Spanish Insurrection of 1808, to risk a large force on the continent. But the navy which protected our shores and the subsidies which procured us foreign allies, were both dependent upon the commercial prosperity of the nation, and since an immense part of our commerce was carried on with states which were under Napoleon's control he was able to devise an indirect attack upon our financial resources. After Trafalgar certainly, the direct attack on our marine was hopeless, and the Emperor therefore turned to the slower and more complicated scheme of strangling British trade by excluding it from the European market. The Continental System was a failure, and has on that account been very generally condemned, in what seems to

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me to be rather exaggerated language, as a huge mistake from the beginning, a blunder all the greater and more memorable as having been made by so remarkable a man. In his *History of British Commerce* Leone Levi speaks of it even more strongly. "Strange infatuation," he exclaims, "and how many states took part in this mad act of vindictiveness!" Still he is constrained to admit that "none suffered more from it than England herself¹," and England's sufferings are acknowledged to have been almost overwhelming. But yet she emerged triumphant, and more modern writers point to one special part of Napoleon's policy as accounting for this. Mr Rose, in discussing the safety of our present food supply, has laid the greatest stress upon the fact that in the Napoleonic wars no attempt was made to cut off our supplies of corn. So far was this from being the case, that Napoleon was anxious to send corn into the country as a means whereby to effect our ruin. "We must also be thankful for another strange blunder committed by Napoleon....He allowed 2,000,000 quarters of wheat to come to us in the year 1810. The only explanation of this strange blindness of his, in presence of the most favourable opportunity of his life, seems to be this. He clung to the crude old Mercantilist theory that imports weakened a state while exports strengthened it²." Again in the *Monthly Review* for March 1902 Mr Rose says, "Napoleon believed the effect of sending those imports to our shores would be to weaken us. His economic ideas were those of the crudest section of the old Mercantilist School. He believed that a nation's commercial wealth consisted essentially in its exports,

¹ Leone Levi, *Hist. Brit. Commerce*, p. 114.

² *Lectures on History of the XIXth Century*, p. 75.

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Audrey Cunningham

Excerpt

[More information](#)

INTRODUCTION

3

while imports were to be jealously restricted because they drew bullion away. Destroy Britain's exports and allow her to import whatever his own lands could well spare, and she would bleed to death. Such, briefly stated, was his creed. At that time wheat fetched more than £5 the quarter; and our great enemy imagining the drain of our gold to be a greater loss to us than the incoming of new life was gain, pursued the very policy which enabled us to survive that year of scarcity without a serious strain."

No doubt Napoleon was mistaken in his calculations. We, looking back to his time, know that his great scheme miscarried, but I hope to show that, although the result was failure, Napoleon's plans may have been more reasonable and laid on a more intelligent foundation than is generally admitted; that he was not misled by crude economic theories which were already out of date, but that he directed his attack upon a point where we were then, and indeed still are, most vulnerable, and adopted measures which were not haphazard but were well calculated to bring it to a successful issue. At Trafalgar his attack upon the naval power of Britain had completely failed, he could not invade us with his armies but he could still attempt to paralyse the government by destroying our European trade and so undermining public credit and fomenting a social revolution, which might overthrow the state from within. It appears to have been his deliberate aim to render the maintenance of the gold reserve impossible, and so to bring down the whole fabric of British credit; and the Continental System on the one hand and the permission to export corn to the British Isles on the other, were quite compatible with this object.

1—2

Foreign payments were a continuous difficulty to our government. Napier describes the financial troubles which had come to be severely felt in 1809 by the British forces in the Peninsula; they were insufficiently provided with boots, transport and other necessaries, and the soldiers' pay was in arrears. Desperate efforts were made to provide the £200,000 a month which were needed, but Napier explains that "in all commercial places the exchange rose against England because of her great and increasing paper issues; and those issues, the extravagant supplies to Spain, and the Austrian subsidy, rendered it impossible to provide specie for the army, save by purchasing it all over the world with treasury bills and at an enormous loss. This evil, great in itself, opened a wide door to fraud, and made the war between France and England not so much a glorious contest of arms as a struggle between public credit and military genius, victory being to the first nearly as pernicious as defeat."

Throughout the war the Bank was never in a state to pay out quantities of gold, and by ruining our export trade Napoleon might do away with the resources which saved our government from the constant necessity of sending gold abroad to meet their foreign expenses, the navy, the garrisons, the subsidies, the interest on that part of the Debt held by foreigners; by allowing imports those expenses might be increased. Sir Philip Francis, the reputed author of Junius's letters, writing in 1810 when the System was in full swing, points to the restriction of continental trade as the cause of the scarcity of specie which was causing such anxiety at that time. "All this amount must go in gold and silver, unless the favourable state of your trade with the continent and elsewhere gives

INTRODUCTION

5

you a foreign credit, which may help to supply you with part of the sum wanted to answer these demands¹." The Emperor's policy was to destroy the continental trade which was necessary to prevent such a drain of gold as would have been disastrous.

Napoleon did not of course put on record any definite scheme of this kind, but his true motives were not by any means always revealed even to his most trusted ministers. Mollien professes ignorance of his real policy in undertaking the Russian campaign², and contemporaries were no more certain than present day historians whether the forces gathered at Boulogne in 1805 were really aimed at England or at Austria³. We cannot expect to find conclusive evidence as to the reasons for his policy, but there are indications of his probable aim. To increase the foreign drain on Great Britain and to prevent her meeting it in anything but specie would have seemed sound policy. To this end activity in French shipyards which must call forth corresponding outlay on the part of the enemy was worth while. Corn, as Napoleon himself wrote, was in scarcity years of the first necessity—hence the export of corn to Great Britain might be permitted. If at the same time her export trade were prevented, the result would be the export of gold, the diminution of the reserve, and in the end the collapse of credit.

A policy of this kind was not impracticable then, and is still possible to-day. Our credit system and the small amount of our gold reserve are the subject of grave

¹ Francis, *Reflections on the abundance of paper in circulation and the scarcity of Specie*, p. 6.

² Mollien, *Mémoires*, III., pp. 112—13, 122—3.

³ Rose, *Eng. Hist. Rev.*, 1893, p. 712, n. 19.

anxiety, and no measures have ever been taken to guard against an attack upon them. The difficulties in which the system of credit might become involved in case of a serious European war have never, according to Sir R. Giffen, been adequately considered, because there has been none since the system reached its full development¹. In 1805 it existed in Britain only, and though it gave her extraordinary resources, it also created a new source of danger for the state. Both its strength and its weakness were fully recognised by the Chevalier de Guer, a French writer with whose work we know that Napoleon was familiar, and the foundations of British financial and commercial power was a favourite subject of investigation with students of the time, whether friendly or hostile to the chief enemy of Napoleon's empire. The aim of the present essay is to consider some of the ideas current in France upon this subject, and to show not only that Napoleon was interested in them, but that they were calculated to appeal to him in consequence of his own experience.

As a preliminary it is necessary to try and consider how the English financial system would appear in France. In those days credit was an instrument much less understood than at present, and in French experience it had been found a most dangerous one; in the light of history the scheme of an attack on credit seemed much more likely to be rapidly successful than it really was. The practical experience of French governments during a century had been such as to lead to the belief that credit rested on an uncertain foundation, and that when it failed the con-

¹ *The Times*, 26 March 1908.

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Audrey Cunningham
Excerpt
[More information](#)

INTRODUCTION

7

sequences were most disastrous. Napoleon had himself experienced the effects of such a collapse in his early and impressionable years.

Finally, his policy was so far successful as to cause the very gravest distress and ruin in Britain. The last part of the essay will be concerned with the results of the Continental System, with the general distress caused by it and its effect on the national credit, and with the reasons why, in spite of the strain it caused, it ultimately failed to attain its object.

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[More information](#)

CHAPTER II

FRENCH EXPERIENCE IN REGARD TO CREDIT

To the student of financial history France furnished numerous examples of the paralysis of government from lack of funds and of the failure of national credit. Financial difficulties had often hampered the French government, and the eighteenth century in particular was one long struggle against impending bankruptcy.

Colbert was strongly opposed to the funding system, but Louis XIV introduced it in spite of him in 1672 and a large debt was soon accumulated¹. Louis' wars, and especially the War of the Spanish Succession, were an immense strain upon the country, which had also been robbed of its most industrious citizens by the Revocation of the Edict of Nantes in 1685. By 1713 the interest on the debt was already in arrears, and in that year it was forcibly reduced; this was in reality a partial bankruptcy². In spite, or perhaps because of the most desperate expedients, such as that of altering the nominal value of the coinage, the inevitable crash came in 1715. According to Martin's account the distress in the country was terrible,

¹ J. R. MacCulloch, *Taxation and Funding*, Part III., ch. i., p. 413.

² Martin, *Histoire de France*, xvii., pp. 107—8.

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Audrey Cunningham

Excerpt

[More information](#)

FRENCH EXPERIENCE IN REGARD TO CREDIT 9

and in the summer of that year it seemed as if the situation could grow no worse; there was neither public nor private credit, no ready money for the state, and any part of the revenue which was not pledged was anticipated from the following years. Neither work nor consumption could be carried on for want of currency, the speculators who farmed the taxes were the only men who had capital and the money they collected was locked up in their coffers; others squandered their money at Paris in barren luxury, and usury was supreme. The alternations of high and low prices for commodities finally crushed the people. "Riots broke out for food not only among the civil population but even in the army. Factories were languishing or closed; beggary was rife in the towns. The fields were deserted, the land lying waste for want of manure and implements and of the stock which had perished in 1709; houses were falling to ruin. Monarchic France seemed ready to perish with her aged king¹."

Such was the condition of the country when Louis XV began to reign, and the government of the Regency was not fit to cope with the situation; the debt steadily increased in spite of the Duc de Noailles' efforts to improve matters, and his failure made way for John Law. Law had been much interested in the founding of the Bank of England in 1694, and had studied the credit system of Amsterdam, and he conceived the idea of a paper circulating medium, while the actual metal should be acquired by the state². After some hesitation, he was entrusted with the management of the finances and his success was immediate and marked; France began to recover from the

¹ Martin, *Histoire de France*, xvii., pp. 110—11.

² *Ibid.*, pp. 224 sqq.

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Audrey Cunningham

Excerpt

[More information](#)

10 FRENCH EXPERIENCE IN REGARD TO CREDIT

former blow and to find the advantages of a system of credit. Trade was resumed and expanded rapidly, great schemes of colonisation were started, and wonderful prosperity seemed at last to be in store for France. But the hope was short-lived; the notes declined in value in spite of the most violent measures which the government could devise to keep them up. Three years were sufficient to expose the famous system, and its fall was great, as its promise had been high. The magnitude of the disaster made an impression upon the popular mind which could never be effaced and implanted in the French a distrust of banks with any government connection¹ and of credit which did much to prevent them from deriving from it the legitimate benefits which it could have conferred. But the times were not propitious, and when at last experiments in banking were resumed their success was never more than temporary. The Banque Royale, the Caisse d'Escompte of 1767 and the Caisse d'Escompte of 1776 all failed, the last being swallowed up in the cataclysm of 1793, and as late as 1806 Napoleon's cherished institution, the present Banque de France, was obliged to suspend payment for a time, after a troubled existence of five years. Advances to government were the invariable cause of the difficulties of these institutions², and the strength of the prejudice existing against any connection with the state is witnessed by the vehemence with which the founders of the Banque de France protested their independence of it³. The government on its side had long been in constant need of financial

¹ Forbonnais, II., p. 425.

² A. Courtois, *Histoire des Banques en France*, pp. 84, 88, 91, 108, 117—19.

³ *Ibid.*, p. 113.