Danger To The Old Lady Of Threadneedle Street? The Bank Restriction Act And The Regime Shift To Paper Money, 1797-18211

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Abstract

The Bank Restriction Act of 1797 was the unconventional monetary policy of its time. It suspended the convertibility of the Bank of England's notes into gold, a policy which lasted until 1821. The current historical consensus is that it was a result of the state's need to finance the war, France's remonetization, a loss of confidence in the English country banks, and a run on the Bank of England's reserves following a landing of French troops in Wales. We argue that while these factors help us understand the timing of the suspension, they cannot explain its success. We deploy new long-term data which leads us to a complementary explanation: the policy succeeded thanks to the reputation of the Bank of England, achieved through a century of prudential collaboration between the Bank and the Treasury.

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