The Great Debasement of Henry VIII and Edward VI

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In the early stages of the development of our monetary system there was much incentive for rulers of countries to secretly debase the value of their coinage in order to generate wealth. In 15th and 16th century continental Europe, such debasements were common amongst rulers financing wars and the excesses of their courts. Catherine Downey investigates what can arguably be titled the greatest debasement of all – the coin alteration implemented under Henry VIII and continued under Edward VI.

Introduction

"there is no surer symptom of a consumption in state than the corruption of money" -Sir Robert Cotton[1]

Although possibly best known for his multiple wives and policies to take over possession of the monasteries, Henry VIII also played a major role in the history of monetary policy. The monetary regime he followed has been analysed as one of the greatest coin alterations for state/personal profits in history, and thus has been christened 'The Great Debasement of Henry VIII and Edward VI'.[2]

The great debasement of Henry VIII and Edward VI exemplifies how the greed of a ruler can transform sound monetary policy to completely undermine the currency of a kingdom. The backdrop of war is an example of a situation which often places a kingdom in a compromising position. This essay will examine how attempts to keep the currency within the realm under the auspices of war eventually evolved into what is now known as 'The Great Debasement'. The initial coin alterations were of sound monetary policy, designed to keep English coins from being sucked into the currency vacuum which had been created in continental Europe. The King's power over the currency, and the proliferation of debasement on the continent created the perfect opportunity for the king to profit from debasing the coinage. Thus Henry's weakness manifested itself in what is often viewed as one of the largest debasements in history. This essay will first examine the incentives for a debasement in a contemporary context. Through an

[1] McCullock p.3 in the essay *Alteration of the coin*, the authorship of which is not for certain and it has also been suggested that the author could be Sir Thomas Roe.
[2] Although the alteration of the coin is known as The Great Debasement of Henry VIII and Edward VI, due to the young age of his son when he took over the thrown, and his later reversal of policy, the Great Debasement if most often attributed to Henry VIII.

historical trace of the profits reaped by the king, and the opinions of contemporary writers, I will contrast the costs and benefits of such policies. Finally, I will examine some of the influences the historical understanding of this incident has had on monetary policy since the contemporary period.

An Historical Perspective of The Great Debasement

"In concept a coin is a piece of gold or silver, the weight and fineness of which is guaranteed by the ruler by whose authority it was issued. Rulers, including Henry VIII, could and did cheat."[3]

The monetary rule of King Henry VIII can be easily divided into two periods. The first period reached from his induction to the thrown in 1509 until 1542. The second period continued from here and stretched to the end of his reign. This later period is the beginning, although not the entirety of, The Great Debasement. For the alteration of the coin extended into the early stages of his young son's rule.

From the end of the initial period of his rule, and including the early part of his son Edward VI's reign, the intrinsic value of the currency was depleted to less than 1/3 of its initial value. In the case of certain coins the intrinsic value drooped to less than 1/6 of the initial value. A major result of which was a necessity to increase the frequency and intensity of the debasements. A process which would eventually remove a large portion of the common currency of transaction from the country due to an overvaluation of silver in the bimetallic ratio, (compared to the rates prevailing on the continent.) The debasement of the coins caused a lack of general acceptance of the new currency, and hoarding and illegal coinage of the old more pure substance. These factors combined to lower the quantity of coinage coming into the mint to be recoined. This in turn dictated a greater magnitude of debasement in order for the mint to reap the same profits from the recoinages. The result was the production of coins with increased proportions of alloy and decreased acceptance. The coins had such a high proportion of alloy in them near the end of this period, that they began to turn red from the amount of copper in them. This phenomenon, and criticism of current monetary policies were captured by the epigrams of John Heywood:[4]

Of redde Testons.

These Testons looke redde: how like you the same?
Tis a token of grace: they blush for shame.

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[3] Chown, p. 52

[4] Tawney, p.179

Henry's monetary regime was exemplary for the first 16 years of his reign. During this period his coinage policies closely followed those of his father, the extent of which is exemplified in the fact that during this period his father's image still adorned the coins. This is a deserved homage to Henry the VII, considering his amazing feat of restoring the quality of the coinage. Especially considering the coins he inherited from Richard III, which had suffered clipping, sweating, and other adulteration at the hands of the people during The War of The Roses (1455-1485).[5] His son failed to learn from his father's experiences and strong beliefs in the need for a reputable coinage. The fact that Britain was in the rare situation of having a high quality domestic currency should have been seen as a point of pride and strength, and not an opportunity to sink into the depths of the coin alteration which ran rampant on the continent. It certainly did not justify one of the greatest acts of monetary treason in history.

The ability to debase coins and have them circulate at face value depends greatly on the reputation of the state, and the ruler under which they are coined. Regardless of reputation, though, an alteration of the coin will show in the value at which the currency is accepted for general transactions. A sound currency will normally circulate in tale particularly if the issuing authority is politically strong, as in Anglo-Saxon England, but a debased, or heavily clipped coinage will cease to be trusted and the coins will be accepted at least by the sophisticated, only in specie.[6] The initial debasement of the coins under the Reign of Henry VIII came in August 1526. The foreign pressure placed on the currency resulting from a proliferation of debasements in continental Europe was too much for the coin to bear. In an attempt to avoid an outflow of coin and bullion, the government raised the prices of all English coins by one-tenth. This motive is exploited in the initial proclamation of the debasement by the mint:

"For as much as coyness of moneys as well of gold as of silver be of late days raised and enhanced both in the realm of France and also in the emperors Low Countries and in other prates unto higher prices then the very poi, weight, finesses and valuation of the same, and otherwise then they were accustomed to be currant, by meanness whereof the money of this our realm is daily and of long season hat been by sundry persons, as well as our subjects as strangers, for their particular gayne and lucre conveyed out of this realme into the partes beyond the seas, and so is likely to continue more and more, to the great hinderance of the generallity of our subiectes and people and to the no little impovrishing of our said realme, if

[5] Davies, p. 100
[6] Chown, p. 12

the same be not speedely remedied and forseene: we after long debating of this matter with you and sundry other of our councell, and after remission made unto outward princes for reformation thereof, and finding finally no manner of remedy to be had as their handes, have by mature deliberation determined, that our coyness and moneys as well of gold as of silver shalbe by our officers of our minte from henceforth made of such finesse, allay, standard and value, as may be equivolent, correspondent and aggreable to the rates of the valuacion enhaunced and raised in outward partes, as is afore specified." [7]

Although this initial 'crying-up' can be considered sound monetary policy, simply accounting for normal wear and tear on the coins, it is the post-ceding policies which define this move as a precursor to monetary turmoil. The enhancement of the coins only created greater pressures on the currency, as speculation began about the true 'hardness' of English currency. This speculation was quickly quieted, as in November, Henry affirmed by raising the coins further, what was to be the monetary legacy of soft coinage under his regime. This was greatly manifested in the switch from the Pound Tower to the Pound Troy. At the same time a new silver penny bearing Henry VIII's portrait of 10 grains of silver to the old 12 grains was coined. These measures in combination resulted in a plentiful supply of silver to the mint.[8]

In addition to manipulating the money supply, control was also asserted in the form of attempts at price controls. A proclamation was issued 'forbidding any person to raise the price of any goods or merchandise under the colour of money being enhanced'.[9] This period still does not begin The Great Debasement, as the policies undertaken until now can be regarded as mere measures upon which to keep the currency within the country and serving it's basic functions as money. The devaluations and debasements can be seen merely as precautionary measures needed to take account of the use and misuse of coins which occurred in this century.[10]

The Great Debasement breaks from the earlier period as the measures implemented can no longer under any circumstances be considered necessary to 'adjust' the circulating currency. These policies could neither be seen as part of a

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[7] Tawney, p. 176-177
[8] Chown, p. 42
[9] Chown, p. 42
[10] A common practice of the period is 'clipping' the coins, or removing some the valuable metal from their edges. Jevons estimates this normal wear and tear to be around 2-2.75%.

larger European trend of coin debasement which was creating a vacuum on the continent, and had to be adjusted to keep metallic coins in the country for use as a medium of exchange. This period preceding The Great Debasement only sufficed to give Henry a taste for the possibilities. It was the run he took with these which characterises The Great Debasement.

The period of debasement at fraudulent levels was manifested in the final four coinages of Henry VIII's reign, and the entire six coinages of his son's reign. Despite initial defenses claiming these were justified to counter balance a large out-flow of coin, and the need to finance the war, the monetary policy became fuelled by greed. The revenues earned exceeded the need in the second justification, and, as the bimetallic ratio was so far eschewed from the same measure on the continent, it actually added to the large scale outflow of silver - the currency of transactions.

Following the debasement, there were many attempts to return the coinage to its original standards. Edward VI's follower, Elizabeth found good reason for this, and put great efforts into the project.

"Her highness weyinge and consideringe the state of this her realme and crowne in tyme past, the greate expenses of her Auncestors by reason of their warrs, and their abilities not onely to support the same, but also to leave greate treasure behind them: And conferring therewith all her longe and happy peace (in which tymes princes grow rich) and the great want and insufficiencie of her reuennues and treasures to supply the ordinarie charge and defence of her dominions: she could not but with greate care studdie theruppon, and devise for remedy of the same. And after sondry debatementes and consultations with her selfe, she is by divers reasons induced to conceiue, that the greatest and almost the only cause thereof hathe proceded by the inhauncements of the coigne in the tyme of her father and brother, and that the only remedy therof is to reduce the monies to the auncient standerd..."[11]

The realisation of a need to return to a harder currency is intertwined with defence of past policies. The true judgement on the monetary rule of Elizabeth's predecessors can be seen in the reference to kings of prior eras who managed to fight wars and still leave great stocks of treasure.

The Costs and Benefits of Debasement

[11] Tawney, p. 193

"I must distinguish the monies of gold and silver, as they are Bullion or commodities and as they are measure: One the extrinsic quality, which is at the king's pleasure as all other measures to name; the other the intrinsic quality of pure metal, which is in the Merchant to value. As there the measure shall be either lessened or , enlarged as is the quantity of the commodity that is to be exchanged."
-Sir Robert Cotton

The great debasement influenced many facets of the economy. The benefits for the government of such a policy are numerous. Henry VIII was not as frugal as his father, his military successes had been dearly bought, and substantial sums had to be remitted to Flanders.[12] An increase in the exchange rate caused the relative magnitude of this debt to increase. The kingdom struggling with dealing with these war debts, and with the debasements still flourishing on the continent turned to the easiest way to repay a debt- coin more money with a constant face value, but a lower portion of valuable metal, and thus a lower intrinsic value. The negative repercussions which resulted from such a devaluation outweigh the benefits in the long run. One of the major costs associated with debasement and enhancement was due to the fact that crown land was all leased out on long-term leases. In the case of debasement rent on these lands would be paid back to the king in the new money. Thus the king was receiving back the devalued money which he had introduced into circulation, a situation which lowered the scope for increased debasement without detection. As the people realised that the new money did not have the intrinsic value of the old money, a dual exchange system came about. The system created was characterised by a dual acceptance, where a gold coin could not be exchanged in the market for a silver coin of equal face value. The major cause of this was the artificially low rate the mint gave for silver, which resulted in a vacuum effect, whereby most of the system's silver was siphoned onto the continent. The new money was accepted on the market, at an exchange much greater than the official rate. This dual system accelerated with the subsequent debasements as the reputation of the sovereign's monetary policy disintegrated with each repeated reinforcement of it's lack of stance for a 'hard' currency. A vicious circle developed from this as subsequent debasements were necessarily of increasingly great magnitudes to counter-balance the stabilising forces created by society. The government's inability to completely control the repercussions of their monetary alteration is one influence which leads to the need for debasements of increased magnitude to reap equal benefits.

[12] Chown, p. 41-42

One of the greatest limitations in the ability to profit from the recoinage, was a limit on the monarch's ability to remint on public accounts, which necessitates private minting. The first reason for this was that central Government revenues were small relative to national income. Second, due to large debts of a virtually perpetual state of war, public revenue was not large enough relative to public expenditure to allow for a temporal break between revenue receipt and expenditure to allow for reminting of public funds.[13] In addition to these two governmental factors, there was an incentive for the people to always pay their debts (including those accruing to the government) in coins which had been altered the most. This allowed a smaller scope for additional alteration of the coins which the government actually had the ability to ability to debase. These factors combined to necessitate private minting for additional profits from minting to be gained. Gould described the situation in which sufficient incentives were created for both public and private minting:

"... whereas the first approximation to a general precept in regard to the supply of gold or silver to the mint by the private citizen is 'recoin whenever current mint price exceeds mint equivolent of coins proffered', and equivolent formula applicable for reminting on government account would be 'recoin whenever current mint equivolent exceeds mint equivolent of coins proffered."

According to these rules, as the mint price was always rising, there were always previously coined issues at which the current mint price exceeded the mint equivalent. Therefore, there was always some incentive for private recoinage. The monarch, in setting the mint prices and equivalents, made sure always to profit.

A factor which effected the ability of the monarch to control the inflow of metal to be recoined, yet was largely out of his hands, was the specie export point. The possibility of this incidence stems from the fact that, when de facto value exceeded fiat value, a coin's purchasing power relative to other coins increased. As the coin could buy domestically more than the value attached to it, the incentive to export it was greatly reduced. Thus coins which actually circulated at a value greater than their fiat value, not only were unlikely to be reminted, but also were unlikely to be exported. Thus, an attempt by the government to 'cry--up' coins to a point where their fiat value greatly exceeded their de facto value in order to increase inflows to the mint, was partially counter-balanced by an increase in export flows of the coin. This argument assumes that the debased

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[13]Gould, p. 20

coins were accepted at fiat, or at least greater than domestic de facto value abroad, an assumption that often did not hold.

Debasement usually become obvious fairly quickly. Indeed, if the ruler was successful first time around, he would invariably go on repeating the exercise until he was found out. Success would depend on whether coins were in fact accepted 'in tale', i.e. at face value, or 'fiat value'.[14] Due to their larger relative values, less frequent use in exchange, and smaller portion of the money supply, gold coins were less likely to be accepted at fiat value. The authorities to some extent recognised and attempted to meet this problem. On two occasions the fiat values of the gold coins minted according to the standard of 23 Carats 3 1/2 grs. were raised to make them more realistic, having regard to the fine-gold content of these coins in comparison with the newer sovereigns minted according to lower standards.[15] Such measures demonstrate the government's inability to control the money supply and exchange value of coins, the major reason for the largest costs of debasement.

Influences of The Great Debasement Through History

"There was indeed ample practical experience of debasements and revaluations to stimulate attempts to analyse their consequences."
-Marian Bowley[16]

One of the positive aspects of these devaluations is the development of economic thought which it initiated. Many breakthrough works were based on explaining the tremendous fluctuation of both the intrinsic and face value of the currency. In a addition many well known writers tackled the complex question of the large-scale out flow of silver and the effect it had on economic transactions within the market. The problem of the ease of alteration was pondered, and the output of such thought has been the basis for independent central banks in many countries. A move which allows for a harder currency, as the independent agents of the central bank are not supposed to allow for political influence to affect monetary policy. The predecessor to the idea of a central bank, the idea of a land bank is a direct spin off the quest for independence from a ruler's power over the currency. A descriptive justification of this institution is given by John Law[17]:

[14]Chown, p. 12
[15]Gould, p. 22
[16]Bowley, p. 8
[17] Antoin Murphy lecture notes

"Though land be more uncertain in its quality than silver yet it is of more certain value because the changes silver is liable to, from its greater or lesser quantity and the greater or lesser demand for it ... so that a land money being more certain in its value and equally capable of being brought to a standard with silver is more qualified to be the measure by which goods are valued and the value in which contracts are made payable than a silver money."

This essay believed to be written in 1703-1704[18], uses the example of The Great Debasement to examine the effects of an alteration of the coin. He concludes that the alteration can undermine an economic system to the extent that metallic money is of such uncertain value that a new form of money is needed.[19]

The Great Debasement is often referred to even in modern work. Recently, attempts at prediction have created a long line of economic thought. The main interest has shifted with the implementation of imaginary money, from a focus on the loss of both the quantity and quality of metallic money, from a focus on the loss of both the quantity and quality of metallic money in circulation, to the effect on reputation of currency. The shift follows the transition of the true value of the currency from the pure metallic content to the reputation view of the issuing government's monetary policy. The greatest modern application of which has been the analysis of the potential viability of Economic and Monetary Union in Europe. Some of these modern studies give us a much greater understanding of, and ability to model the factors influencing the different steps of the Great Debasement. Chen and Giovanni conclude for their econometric model of EMU:

"The most important finding is that expected parity changes vary over time, and appear to be significantly related to a number of variables. The variables that have consistently high explanatory power are the length of time since last realignment (measuring the reputation of the central bank) and the deviation of exchange rates from central parity."

These observations infer that not only could the tremendous frequency and magnitude of devaluation undermined the coinage in England in this period, but also the great differential between the mint ratio and the actual market ratio of gold to silver. The model they present is estimated using data from EMS countries between 1979 and 1992. In terms of the great temporal differential and

[18] Antoin Murphy lecture notes

[19] Although Law's views were modified later to see land money as a compliment for metallic money, the idea of land money as a substitute continued to be championed by many.

the large differences in the functioning of the economy between this time period and that of evaluation between Chen and Giovanni with the contemporaries of Henry VIII and Edward VI is quite striking.

Conclusion

"When national debts have once been accumulated to a certain degree, there is scarce, I believe, a single instance of their having been fairly and completely paid. ...The raising of the denomination of the coin has been the most usual expedient by which a real public bankruptcy has been disguised under the appearance of a pretend payment"
-Adam Smith

The period of The Great Debasement marks an important period in the history of monetary policy. The possibility for monetary treason by a ruler, by way of altering the coin for crown profit or to avoid debt default, has long been acknowledged and often tried. The Great Debasement stands out as an attempt at the alteration of a magnitude never before implemented. By altering the coins on such a large scale, the long-term costs were made strikingly clear. There is much contained in this to be learned by students of monetary policy. The need to return the coin to ancient standards by Elizabeth is evidence of problems within the government monetary system after debasement. An analysis of this shows that in this situation money is not neutral. When money was injected into the system prices did change through the variance of accepted exchange value from the official value. In the long run those who gained were the hoarders who held onto coinage and precious metals, recoining when it was profitable. In the act of hoarding these people who tended to be rich landowners and merchants created room for a system of dual acceptance, and slowed down economic transactions, the net result often being to their detriment. This situation was counterbalanced by the greater magnitude of costs placed on the poor, especially agricultural workers, who had no ability to hold onto coinage and recoin when profitable. These workers still faced increased prices, and lack of acceptance of coins, and were plagued by the lack of silver, as this would often be the only form of currency in which they made transactions. Thus the fortunes of the workers in proportion fell more due to the debasement, and relatively pushed up the wealth of non-land owning merchants.

That these lessons have been learned is contained in the historical lack of post-ceding debasements of similar or greater scale. Beyond The Great Debasement there is much to learn from the measures taken to restore the value, and more important in today's monetary regime, the reputation of the currency. Later writers have been aware of this incident as is evidenced in their work, and as long as we continue to be aware of past lessons we will be unlikely to face the consequences of the situation from which they evolved again. Thus while creating great havoc for the contemporary citizens, the Great Debasement has illustrated in detail the consequences of an short-term economic solution such as a debasement.

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