

Scott's financial ruin – and how he redeemed himself

Walter Scott is ['the man who gave Scotland a sense of itself,' according to the](#) ~~described on the~~ website which listed the festivities during the 250<sup>th</sup> anniversary year of his birth ~~as the~~ [man who gave Scotland a sense of itself](#). It is true, ~~his~~ ~~his~~ novels popularised a romantic view of the country's landscape and history and his choreography of the visit of George IV to Edinburgh in 1822 established tartan as its iconic motif – even persuading the portly king to wear a mini kilt. Scott was a national treasure in his time, as famous and successful at home and abroad as perhaps only J. K. Rowling is in our age.

Yet his relevance to us now goes beyond his marketing wizardry or his genius with the pen. At the height of his power and prestige he was financially ruined in circumstances that seem familiar today. Like some modern financial titans, he brought many others down with him, including one of his best friends. But, unusually in this or any age, Scott accepted his guilt and spent his remaining years working to redeem his reputation and repay those who lost money in his downfall. As a morality tale it has a reasonably uplifting ending – even if some of those who shared his fate have not been treated so kindly by history.

The years preceding Scott's crisis had many echoes of our own. By 1825 he had ridden a decade-long boom stimulated by low interest rates and easy credit to amass an apparent fortune and a place in society well above that which a working legal clerk and part-time provincial judge might be expected to hold. He earned huge amounts from his writing – initially epic poems like *Marmion* and *The Lay of the Last Minstrel*, then a series of romantic historical novels, named after his first story, *Waverley*.

His productivity was astonishing: in the ten years up to 1824 he published 19 books, including some of his most famous, *Ivanhoe*, *Rob Roy* and the *Bride of Lammermoor*.

They sold in their tens of thousands and enabled him to force his publisher to pay him big advances. The £88,000 Boris Johnson was reported to have been paid for a yet-to-be delivered book on Shakespeare would have been loose change to Scott, who could regularly demand sums equivalent to £1 million in today's money – on one occasion for four books for which he hadn't yet thought of a title or a subject.

He was a man of property, building an elegant bow-fronted townhouse in Edinburgh's fashionable New Town and Abbotsford, his fantasy castle on the bank of the river Tweed in the Scottish borders. He was well-connected politically, a confidante of Tory ministers, and on good enough terms with the richest man in Britain, the Duke of Buccleuch, to be able to borrow money from him when the need arose.

He was in demand as a businessman – governor of one insurance company, director of another. Chairman of a new technology start-up (the wrong technology as it happened, his Oil Gas Company lost out to coal gas in offering energy to light streets and houses). He had been made a baronet by a grateful monarch after leading an expedition to rediscover the Crown Jewels of Scotland – carelessly lost in the cellars of Edinburgh castle at the time of the Act of Union in 1707. He was president of the august Royal Society of Edinburgh,

founded by many of the leading figures of the Scottish Enlightenment, including Adam Smith, the father of modern economics.

But if Scott had read Smith's seminal work, *The Wealth of Nations*, he had not learned its lessons, any more than had the chief executives of the banks that went bust in 2008 or any other of the 21<sup>st</sup> century financial disasters. In 1776 Smith had warned against the lure of easy credit and the pitfall of "fictitious bills" which could bring down both the lender and the borrower. Yet 50 years later Scott was issuing such bills himself – and 250 years later banks and financial companies were trading complex financial instruments which turned out to be worthless pieces of paper.

Scott had a phenomenal ability to earn money, but an even greater ability to spend it. He lived in great style and encouraged his French wife to be lavish with the household expenses. He entertained regularly and was generous to his family and friends – buying his eldest son commissions in the Hussars and the many uniforms to go with them; and guaranteeing a lease on the Adelphi Theatre, London, for his friend the actor-manager Daniel Terry. But it was Abbotsford, his house on the Tweed, which was the largest drain on his income.

It was the sort of country seat he believed the descendent of illustrious border Scotts ought to have. Beginning with a modest farm, he paid over the market price to secure neighbouring land until he had amassed a sizeable estate. He commissioned a substantial baronial hall, but he kept enlarging it. Each new room had to be over-decorated and furnished in a style which reflected his longing for a past age of adventure and chivalry. The walls hung with tapestries and artworks, the ceilings embossed with the armorial bearings of his ancestors. He collected artifacts of dubious provenance: the skull of Robert the Bruce, the musket of Rob Roy.

However much Scott romanticised them, his forebears had in truth been little more than cattle thieves and murderers. As his spending outstripped his earning power, Scott resorted not to theft, but to borrowing and deviousness to fill the gap.

His first venture was to try to cut his Edinburgh publisher, Archibald Constable out of the profits of his books by setting up a publishing business of his own. Scott's involvement was kept secret and he enlisted the naïve but willing John Ballantyne, brother of Scott's schoolfriend James, to front it. Their first venture, *The Lady of the Lake*, produced big profits, but rather than leave the money in the business, Scott spent it. The company might have succeeded had it stuck to publishing his own works, but he made a series of disastrous editorial decisions, resulting in a warehouse full of unsold books and a mountain of debt.

These included the poetry and correspondence of Anna Seward, 'the Swan of Lichfield,' who had died in 1807, naming Scott as her literary executor with instructions to bring out her collected works – some of which Scott himself described as 'absolutely execrable.' They were a financial disaster. In 1813 the company was hopelessly in debt, mostly to James Ballantyne, Scott's printer. Fearing bankruptcy and inevitable exposure, he borrowed from the Duke of Buccleuch, paid the firm's creditors and quietly closed it, slinking back to Constable.

That was not the end of Scott's underhand dealings. He persuaded James Ballantyne to set up a printing business with Scott as the dominant secret partner. He ensured a steady stream of lucrative business by insisting that Constable use Ballantyne to print all his books – and he solicited print jobs from friends without disclosing his own financial interest. Both companies – Ballantyne and Constable – their London publishers and agents, Hurst Robinson & Company and Scott himself prospered during the boom years, constantly expanding their businesses and enhancing their opulent lifestyles on borrowed cash.

Discounting trade bills was a major form of lending in 18<sup>th</sup> and 19<sup>th</sup> century Britain. Adam Smith made a distinction between genuine bills – where a businessman who knew he had money coming in payment for services provided or goods delivered, could issue a bill (essentially a handwritten IOU) to a bank as security for borrowing. The discount the bank applied was the interest payment and varied according to the creditworthiness of the borrower.

But there was another sort of bill which Adam Smith branded as fictitious – the “accommodation bill.” Two individuals – say Walter Scott and Archibald Constable – would write bills to each other promising to pay, say, £1,000 in three months' time. No money changed hands, but both now had the security to go to their bank and borrow cash at a discount. When the bills expired the money could either be repaid, or more likely, new bills issued and the debt rolled over. It wasn't just Scott and Constable who indulged in this dubious practise, so did Ballantyne, Hurst Robinson, hundreds of other companies and thousands of individuals.

There were many opportunities to use the funds to make more money. Foreign governments and companies claiming to own gold and silver mines in South America issued their prospectuses in London. Firms supposedly exploiting new technologies like gas lighting, railways and steamship services offered shares; and to facilitate the exchange of cash for paper a new type of financial professional appeared – the stockbroker.

Inevitably fraudsters emerged to separate the gullible from their borrowed money. The most notorious was Gregor MacGregor, a soldier who had fought in the Peninsular War against the French, but then went to South America where he said he had been a general in the army of Simon Bolivar, the liberator of several states from Spanish rule.

In gratitude, MacGregor claimed to have been given a state of his own, Poyais in Central America, which had a benign climate, a friendly population and established civil institutions. All it needed was investment. He issued bonds, with interest payments to be met from the duty on Poyais exports. Early investors did receive payments, but as Poyais did not exist this must have been what we now call a Ponzi scheme – although it was 60 years before the birth of Charles Ponzi. Displaying an inventive streak worthy of Scott? [maybe worth making some such link?] MacGregor personally saw off two ships from London and Leith, taking settlers to the new land, and exchanged their sterling for “Poyais dollars.” They found an undeveloped jungle and many died of disease, but before the survivors returned MacGregor had escaped to France to try the same scam again.

The bubble burst at the end of 1825. There had been a bad harvest, meaning that grain and other foods had to be imported and paid for in gold. The Bank of England, fearing a balance

of payment crisis, suddenly tightened credit, refused to discount the bills of a number of fringe lenders and precipitated a crash which brought down 60 English banks. Paradoxically Scotland, which had a more robust banking system, suffered much less, but that was not enough to save Scott.

Joseph Robinson, partner in his London agents, had been speculating in the market for hops using borrowed money and as prices fell could not sell his holding or repay his enormous loans, which he had guaranteed through his firm. Like most others at the time, it was not a limited company, but a partnership, where each of the partners was personally liable for the debts of the firm.

Hurst Robinson was locked in a spiral of overdue bills with Constable, Scott's publisher, which in turn owed money to Ballantyne, his printer. Each had guaranteed the borrowings of the others. As one card [after another](#) fell, so the whole house collapsed. All three companies were private partnerships and one by one their principals were bankrupted, their homes were sold and their possessions seized. The last man standing was Scott, who found himself liable for debts of all three firms as well as his own borrowing.

Ashamed and guilty, he feared he would lose everything, have to resign from his legal duties, escape abroad "and lay my bones far from the Tweed," where his ancestors were buried. His despair was worsened by the death of his wife, but he rallied and summoned the imagined courage of his Scott predecessors: "I find my eyes moistening and that will not do. I will not yield without a fight," he wrote in his journal. Facing defeat, earlier Scotts had looked to their sword [s-hands](#), but Walter found redemption in his [writing-handpen](#).

He begged his creditors not to bankrupt him. Scott turned to his school and university friend Sir William Forbes, son of the father of the same name and now the senior partner in the eponymous private bank. With Scott's lawyer, John Gibson, he persuaded the banks to set up a trust, which would benefit from all Scott's assets and his future earnings. Despite his disgrace and his grief over the death of his wife, Scott pledged to redeem the debt. His town house and contents were sold. Scott had the embarrassment of eating off his own crockery on his own dining table, [which had been bought when he dined with their purchaser --](#) his lawyer [by](#) Gibson. Abbotsford, which he had made over to his oldest son, was saved and the creditors allowed him to live and write there for the remainder of his life.

In his last six years, Scott produced nine books – the first two, the novel *Woodstock* and a multi-volume life of Napoleon, alone paid off 15 per cent of the outstanding amount and by the time he died in 1832 it had been reduced by half. The entire debt was repaid by 1847, with the sale of his remaining copyrights.

His reputation was secured and his grateful creditors contributed to the gothic memorial which still dominates Edinburgh's Princes Street. How many of today's fallen financial stars will find themselves immortalised in marble or have their birthdays celebrated in 250 years' time?