CIPUSON

AN INQUIRY

INTO THE

PRINCIPLES

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POLITICAL ECONOMY.

BEINGAN

ESSAY ON THE SCIENC

Domestic Policy in Free Nations.

IN WHICH ARE PARTICIPARTY CONSIDERED POPULATION, AGRICULTURE, TRADE, INDUSTRY, MONEY, COIN, INTEREST, CIRCULATION, BANKS, EXCHANGE, PUBLIC CREDIT, AND TAXES.

By Sir JAMES STEUART, Bart.

Ore trahit quodcumque potest atque addit acervo. Hor. Lib. 1. Sur

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AN INQUIRY

INTO THE

PRINCIPLES

OF

POLITICAL ECONOMY.

BOOK IV. OF CREDIT AND DEBTS.

PART L.

OF THE INTEREST OF MONEY.

INTRODUCTION.

COME now to inquire into the principles of credit; a fabject already introduced in the 27thchapter of the fecond book, where I examined the nature of circulation, and pointed out the principles, which direct a flatefman when and how to retard or accelerate its aclivity, according as the political intercfls of his people may require.

In that chapter the object was, when and how either to extend or reftrain the ufe of credit, according to political circumflances. The queftion now comes to be, what that credit is; upon what

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it is founded; what the various forcies of it are; what the methods of eftablifting and extending it, while in its infancy and vigor; how to fuftain it when overfiretched; and laft of all, how to let it fall as gently as pollible, when by no human prudence it can be longer fupported?

Many political writers in treating of credit, reprefent it as being of a very mylterious nature; owing its eftablifument to a confidence not eafily accounted for, and difappearing from the flighteft unfavorable circomftances.

That credit, in its infancy, is of a very delicate nature, I willingly allow; as alfo that we have many examples which confirm the fentiments of thofe who believe it to contain, in itfelf, fomething very myflerious: but this proves no more, than that, in fuch cafes, credit (as I confider it, and as it will appear really to be) has not been properly eltablifted. The caufe of confidence has had nothing in it but opinion, and when this is the cafe, credit is but a fladow; a thir vapor, which may be dillipated by the familet breath of wind.

They all agree that credit is no more than confidence, but they do not examine how that confidence is to be eftablified on a folid foundation.

The operations of credit are incompatible with the involved contracts of the law, and with the fpirit of intricate land-fecturities. The policy of fuch contracts was analogous to the manners of the times which gave them birth. Trade is a late refinement, in moft nations of Europe, and induftry is fill a later: the beginnings of both are flow, imperceptible,

INTROD. POLITICAL ECONOMY.

and obfcure. The inftruments by which they are promoted, are the lower claffes of a people; fuch individuals appear to be of very fmall confequence; and yet it is by the accumulation of many fmall things only, that this huge fabric is erecled.

To eftablift that credit, which is neceffary for carrying on fo great a work, a flatefman mult lend his hand. He muft give a validity to mercanitle obligations, which have no name in his law books : he muft fupport the weak againft the flrong: he muft reform the unwieldy procedure of courts of jultice: he muft facilitate the fale of property : he muft eftablift the credibility of merchants books regularly kept: he muft difcourage frauds, and fupport fair dealing.

When fuch a plan is once eftablished, confidence will find a bafts in the property of every individual who profits by it. When it is not eftablished, credit will appear like a meteor: intelligent and crafty men will avail themfelves of it, and thereby dazzle the eyes of the public, with gilded fchemes of opulence and profperity; mankind will fly to induftry. confidence will be eftablifhed ; but as there will be no method of determining the bounds of that confidence, the promoters of the fcheme will profit of . the delution: confidence will vanifh; and the whole will appear to have been a mystery, a dream. Is not this a reprefentation of many projects fet on foot fince the beginning of this century ? What were the South Sea's and Miffifippi's, but an abufe of confidence? Had ever the caufe of confidence

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been examined into, would ever fuch extravagant ideas have arrived at the height they did?

Credit therefore mußt have a real, not an imaginery object to fupport it; and although I allow that in all operations of mecanalic credit, there mußt be fomething left to chance and accident; yet that chance mußt bear a due proportion to the extraordinary profits reafonably to be expected from the undertaking.

From this it appears, what an uleful fpeculation it is to inquire properly into the nature of credit; to deduce with accuracy the principles upon which it is founded; to banih myltery from plain reafon; to fhow how every the molf furpriling effect of credit, whether tending to the advantage, or to the hurt of fociety, may eafily be accounted for; and, which is the molf uleful of all, to point out how fuch effects may be forefeen, fo as either to be improved or prevented.

In going through fo extensive a fubject, as a deduction of the principles of credit, method is very neceffary; and when a detail is long, fubdivisions are very convenient. I have, upon this account, divided this book into four parts.

The first shall be fet apart for deducing the principles which regulate the rate of interest; because this is the basis of the whole.

The fecond, for the principles of banking; under which I fhall have an opportunity to unfold the whole doctrine of domeflic circulation.

The third, for those of exchange; which is equally well calculated for carrying on foreign circulation;

CHAP.1. FOLITICAL ECONOMY.

and as to what regards debts, and the borrowing of money, with all the confequences which they draw along with them, thefe important objects will furnifh ample matter for

The fourth and laft part, which fhall treat of the principles of public credit.

These premised, I proceed to the definition of credit.

CHAP. I.

What Gredit is, and on what founded.

CREDIT is the reasonable expectation entertained by him who fulfils his fide of any contract, that the other contracting party will reciprocally make good his engagements.

To illuftrate this, we may fay with the lawyers, that as all contracts may be reduced under one of the following heads, Do ut des, do ut facias; facio ut des, facio ut facias; to he who actually gives or performs his part, is the creditor, or the perfon who gives credit; and he who only promifes to give or perform, is the debtor, or the perfon who receives it.

Gredit, therefore, is no more than a well eflablighted confidence between men, in what relates to the fulfilling their engagements. This confidence muft be furpported by laws, and eflabilithed by manners. By laws, the execution of formal contracts may be enforced : manners, alone, can introduce

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that entire confidence which is requilite to form the fpirit of a trading nation.

Credit, in its infancy, muß be fupported by flatutes, and enforced by penalties; but when it is once well eftablihed, every recoulde had to law, is found to wound the delicacy of its conflution. For this reafon we fee, that in certain nations, the legislator wifely excludes the ordinary courts of juffice from extending their rigid jurification over mercantile engagements: they leave to the prudence and good faith of men verfed in commerce, to extricate the combinations which refult from fuch tranfactions: becauge they are to be interpreted more according to the conflant fluctuation of manners, than to the more permanent influtuations of pofitive law.

The more the jurifdiction of the flatefinan is unlimited; or in other words, the lefs the power of any fovereign is reflrained, by the laws and conflitution of the flate he governs, the more it behaves him to avoid every flep of adminification which can make his authority be felt in cafes where credit is concerned. It he flould happen, for example, to be a debtor himfolf, he muft take good care never, to appear in any other light to his creditor. The moment he puts on the fovereign, the fame moment all confidence is loft. For the ferealons, we have hitherto had few examples (I might perhaps have faid none at all) where credit has been found permanently folid, under a pure monarchy.

But we must observe, at the same time, that the Rability of credit is not incompatible with that form

CHAP. I. POLITICAL ECONOMY.

of government. At certain times, we have feen credit make a furprifing progrefs in France; and it has never fuffered any check in that flate, but from acts of power, which I think have proceeded more from inadvertency, and want of knowledge, than from a defign of defrauding creditors. Thefe may be looked on as blunders in adminittration; becaufe they have conflantly difappointed the purpofe for which they were intended. Let me prove this by fome examples.

The arret of 21 May 1720, (of which we fhall give an account hereafter) deftroyed in one day the whole fabric of credit, which had been crected in France during the courfe of three years; and which in fo fhort a time had mounted to a height hardly credible. I fay, that in one day this inadvertent flep (for no real injury was intended) deftroyed the credit of 2,697,048.000 livres of bank notes, (above 120 millions fterling) and of 624,000 actions of the Eaft India company, which (reckoned at 5000 livres a piece, the price at which the company had laft fold them) amount to 3,120,000,000 livres, or above , 140 millions fferling. Thus at one blow, and in one day, 260 millions fterling of paper currency, payable to bearers, was ftruck out of the circulation of France ; by an ufelefs and inadvertent act of power, which ruined the nation, and withered the hand which ftruck it : an event too little underftood. and too little remembered in that kingdom.

This plainly appears from their late conduct; for in the end of 1759, at a time when the credit of France was in fo flourishing a fituation as to have

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enabled her to borrow, that very year, near 200 millions of livres; and when there was a profpect of being able to borrow, in the year following, a. far greater fum, the flutting up what they called their coilfe d'amortifgment, for the fake of withholding '22 millions of livres intereft due to the creditors, furuck all credit with foreigners dead in one infant.

Thefe examples thow what fatal confequences follow a misjudged exercife of power in matters of credit.

On the other hand, the rapid progrefs of credit in France before the Millflippi, and the flability of it from 1726 to the year 1759, abundantly proves, that nothing is more compatible than monarchy and confidence. All that is wanting is the eflabilitment of one magim in government; to wit, that the King's power is never to extend fo far, as to alter the fmalleft article of fuch flipulations as have been made with thofe who have leat money for the fervice of the flate.

Maxims in government bind the monarch and the legiflature, as laws bind fubjects and fubordinate magiftrates: the one and the other ought to be held inviolable, fo far as they regard credit; or confidence will be precarious.

What has supported the credit of Great Britain, but the maxim conftantly adhered to, that the public faith pledged to her creditors is to be inviolable?

Does any one doubt, but the legiflature of that nation may fpunge out the public debts with as much eafe as a king of France? But in the one kingdom, the whole

CHAP. II. POLITICAL ECONOMY.

nation muft be confulted as to the propriety of fuch a ftep; in the other, it may be done at the infigation of a fingle perfon, ignorant of the confequences: but I hope to make it appear; before the conclution of this book, that it is impoffible to form a (uppofition, when a flate can be benefited by deliberately departing, for one moment, from the faith of her engagements. A national bankruptcy may (no doub) happen, and become irreparable; but that muft be when the flate is emerging from a fignal calamity, after having been involved in ruin and confusion.

Confidence, then, is the foul and effence of credit, and in every modification of it, we fhall conflantly find it built on that bafis; but this confidence muft have for its object a willingnefs and a capacity in the debtor to fulfil his obligations.

CHAP. II.

Of the Nature of Obligations to be performed, in Confequence of Credit given.

WE have already faid, that all obligations contracted with a view to be performed in future time, confift in doing or giving fomething, in confideration of fomething *done*, or given.

When actions only are flipulated in contracts, credit (in a flrich acceptation of the term) is little concerned; becaufe no adequate fecurity can be given for performing an action: fuch contracts fland 'wholly upon the willingnels and capacity of acting, which depend more upon the pe/ou than upon the faculties of the debtor. To fupply that defect, we fee penalties ufually flipulated in fuch cafes; which reduce the contracts to an alternative obligation of either doing or giving.

We fiall therefore throw out the confideration of the fift altogether, as being foreign to our purpole; and adhere to the latter, which is the true object of credit. Again,

In all obligations to give any particular thing, there is conflantly implied an alternative allo; to wit, either the thing flipulated, or the value {id quad interc/l, according to the lawyers} this muft be relative to money; which is the common price of all things in commerce among men.

Thus we have brought credit to the object under which we are to confider it, viz. the obligation to pay mousy, either for value received, or for fome confideration relative to the parties, which may be the juft eround of a contract.

Gredit and debts are therefore infeparable, and very properly come to be examined together in this book.

When money is to be paid at a diftant period of time, the obligation may either be, 1. for one precife fum; or 2. for that fum with intereft, during the interval between contracting and fulfilling the obligation.

The lending of money without intereft, was very common, before the introduction of trade and induftry. Money then was confidered as a barren flock, incapable of producing fruit; and whenever

CHAP-II. POLITICAL ECONOMY.

the quantity of it, in any country, exceeded the ufes of circulation, the remainder was locked up in treafures. In that light, the exacting of intereft for it appeared unreafonable.

Things are now changed : no money is ever locked up; and the regular payment of intereft for it, when borrowed, is as elfential to the obtaining of credit, as the confidence of being repaid the capital. Thefe periodical payments are a conflant corroboration of this confidence; fo that it may be faid, with truth, that he who can give good fecurity, to pay to perpetuity, a regular intereft for money, will obtain credit for any fum, although it fixed appear evident, that he never can be in a capacity to refund the capital.

The reafon of this may be gathered from the principles already deduced, and from the plan of our modern economy.

We have faid in the fecond book, that the current money of a country is always in proportion to the trade, induftry, confumption, and alienation, which regularly takes place in it; and when it happens that the money already in the country is not fufficient for carrying on thefe purpoles, a part of the folid property, equal to the deficiency, may be melted down (as we have called it) and made to circulate in paper. That fo foon again as this paper augments beyond that proportion, a part of what was before in circulation, mult return upon the debtor in the paper, and be realized anew.

Now let us confider what is underftood by realized. By this term is meant, that the regorging

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paper, or that quantity of currency which a nation policifies over and above what is necellary for its circulation, mult be turned into fome finape whereby it may produce an income; for it is now a maxim, that no money is to be fuffered to remain ufclefs to the proprietor of it.

When this *regorging* paper then comes upon the debtor in it, if he fhould pay the value of it in hard fpecie, how would the condition of the creditor be improved ?

We suppose the credit of the paper equal to the credit of the coin within the country. We also fuppofe that the paper has fo flagnated in the hands of the bearer, that he can neither lend it, or purchafe with it any fpecies of folid property, within the country . capable to produce an income : for if any way of difpoling it ufefully can be found, this circumftance proves that circulation is not, at that time , fully flocked ; confequently, the money does not regorge. But let us fuppofe that it does regorge; then he must either oblige the debtor in the paper to pay in coin, and lock that up in his coffers, as was the cafe of old; or he must fend his coin to other countries, where circulation is not fully flocked, and where an income may be bought with it. This conftantly happens when circulation is either overftocked, or when the quantity of it begins to diminish in a country.

Let me next fuppofe, that in a country reafonably Rocked with money, a fudden demand for it, far beyond the ordinary rate of circulation, fhould oceur: fuppofe a war to break out, which abforbs,

CHAP. II. FOLITICAL ECONOMY.

in a flort time, more money than, perhaps, all the coin in a nation can realize. The flate impoles a tax, which, let me fuppole, may produce a fum equal to the intereft of the money required. Is it not very certain, that fuch perfons who found a difficulty in placing their regorging capitals, will be better pleafed to purchafe a part of this annual intereft, than to lead it to any perfon who might pay it back in a flort time; by which repayment the lender would again be thrown into the fame inconvenience as before, of finding a proper outletfor it? This is a way of realizing fuperfluous money, more effectual than turning it into gold or filver.

When I fpeak, therefore, of realizing paper money, I underfland either the converting it into gold and filver, which is the money of the world; or the placing of it in fuch a way as to produce a perpetual fond of annual interfl.

Were public borrowing, therefore, to work the effect of bringing the *i* noney in circulation below the proportion required for carrying on alienation, then an obligation to repay the capital would be neceflary, and complaints would be heard againft the flate for not paying of their debts; becaufe thereby the progrefs of induftry would be prevented. But when the operations of credit are allowed to introduce a method of creating money anew, in proportion to the demand of induftry, then the flate has no occafion to pay back capitals; and the public creditors enjoy far better conditions in their annual income, than if the capitals were refunded.

Let me illustrate this by an example.

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We mult take it for granted, that in every nation in Europe, there is a fum in circulation equal to the alienation which goes on actually at the time. We must also take it for granted, that the amount of all debts whatfoever, public and private, paying intereft to the clafs of creditors, is a very great fum : now let us fuppofe, that the clafs of debtors fhould be enabled (no matter by what means) to pay off what they owe, in coin; would not, by the fuppolition, a fum nearly equal to that coin immediately fall into flagnation, and would it not be impoffible to draw any income from it? This was exactly the cafe of old. The coin far exceeded » the uses of circulation, and ftagnated in treasures. Wars brought it out ; becaufe then circulation augmented; peace again cutting off thefe extraordinary demands, the coin ftagnated again, and returned to the treasures.

What is the cafe at prefent?

Money and coin are never found to furps the ufes of circulation in commercial countries. When war comes, which demands an extraordinary fupply, recourfe is had to borrowing upon intereft; not to treafures: and the defire of purchafing this intereft, which we call an anouity, draws treafures even from the cnemies of those nations who have the belt credit. Again, at the end of a war, in place of an empty treafure, as was the cafe of old, we find a huge fum of public debts. As economy filled the treafury then, for economy mult pay off the debts now:

From what has been faid, it plainly appears,

CHAP. III. POLITICAL ECONOMY.

that intereft is now become fo abfolutely effential to credit, that it may be confidered as the principal requifite, and balls on which the whole fabricflands: we fhall therefore begin by examining the origin and nature of intereft, and alfo the principles which influence the rate, and regulate the fluctuations of it.

CHAP. III.

Of the Interest of Money.

SHALL leave it to divines and cafuifts to determine how far the exacting of intereft for money is lawful, according to the principles of our religion.

The Jews, by-the laws of Mofes, were forbid to lend at intereft to their brethren, but it was permitted to lend to fit angers. *Deut*, chap, xxii. ver. 19, 20. This was one of the wifeft political influtuions to be met with in for remote antiquity, as we fhall hereafter explain.

In the primitive ages of chriftianity, the lending at intereft was certainly reputed to be unlawful on moft occafions. That fpitt of charity, to all who were in want, was fo warped in with the doctrine of our religion, that a borrower was conflantly confidered to be in that fination. Trade was hitle known; trading men were generally ill looked upon; and thofe who deviated fo far from the fpirit of the times, as to think of accumulating

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wealth by the ufe of their money, commonly degenerated into ufurers.

In the middle conturies, when a minaken zeal animated chriftianity with a moft ungodly thirft for the blood of infidels, the lews were, in every nation in Europe, almoft the only money lenders. This circumflance full more engaged the church to datcher thunder againft this practice; and the loan upon intereff never took root among chriftians, until a fpirit of trade and indufty formg up in Italy in the time of the Lombards, and forcad itelf through the channel of the Hans-towns over feveral nations.

Then the church began to open her eyes; and faw the expediency of introducing many modifications, to limit the general anathema against the whole clafs of money lenders. At one time it was declared lawful to lend at intereft, when the capital fhared any rifque in the hands of the borrower; at another, it was found allowable; when the capital was not demandable from the debtor, while he paid the intereft : again, it was permitted, when the debtor was declared by fentence of a judge, to be in mora in acquitting his obligation : at laft, it was permitted on bills of exchange. In fliort, in most Roman catholic countries, interest is now permitted in every cafe almost, except in obligations bearing a flipulation of intereft for fums demandable at any time after the term of payment; and it is as yet no where confidered as effential to loan, or demandable upon obligations payable on demand.

Expediency

CHAP.III. POLITICAL ECONOMY.

Expediency and the good of fociety (politically fpeaking) are the only rule for judging, when the loan upon intereft fhould be permitted, when for-While people borrowed only in order to pro. bid. cure a circulating equivalent for providing their neceffaries, until they could have time to dispose of their effects ; and while there was feldom any certain profit to be made by the ufe of the money borrowed, by turning it into trade, it was very natural to confider the leader in an unfavorable light : becaufe it was fuppofed that the money, if not lent, must have remained locked up in his coffers. But at prefent, when we fee to many people employed in providing flores of neceffaries for others, which, without money, could not be done; forbidding the loan upon intereft, has the effect of locking up the very inftrument (money) which is necellary for fupplying the wants of the fociety. The loan, there. fore, upon intereft, as fociety now flands composed, is eftablished, not in favor of the lenders, but of the whole community; and taking the matter in this light, no one, I fuppofe, will pretend that what is beneficial to a whole fociety fhould be forbid, becaufe of its being proportionably advantageous to fome particular members of it.

If it be then allowed, that the loan upon intereft is a good political inflitution, relative to the prefent fituation of European focieties, the next queftion is, to determine a proper flandard for it, fo as to avoid the opprefilion of futurers, on one hand, and on the other, to allow fuch a reafonable profit to the lender,

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as may engage him to throw his money into circulation for the common advantage.

This quefition leads us directly to the examination of the principles which regulate the rate of intereft; and if we can difcover a certain rule, arifing from the nature of things, and from the principles of commerce, which may dired: a flatefinan how to eftablift a proper regulation in that matter, we may decide with certainty concerning the exact limits, between unbarful and pinching ufury, exacted by a vicious fet of men, who profit of the different which men have aright to expect for the ufe of their money, lent for carrying on the circulation of trade, and the employment of the lower claffes of a people, who mult fulfihl by their indulty or labor.

CHAP. IV.

Of the Principles which regulate the Rate of Intereft.

WE must now recal to mind the principles of demand and competition, fo fully deduced in the fecond book, in order to answer the following question, viz.

What is the principle which regulates, at all times, the just and adequate rate of interest for money, in any particular state?

I answer, That at all times, there is in every state a certain number of perfons who have occasion to borrow money, and a certain number of perfons

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who defire to lend: there is also a certain furm of money demanded by the borrowers, and a certain furm offered to be lent. The borrowers defire to fix the intereft as *low* as they can, the lenders feck, from a likel principle of felf-intereft, to carry the rate of it as high as *likey* can.

From this combination of interefls arifes a double competition, which fluctuates between the two parties. If more is demanded to be borrowed, than there is found to be lent, the competition will take place among the borrowers. Such among them who have the moft prefling occufion for money, will offer the higheft intereft, and will be preferred. If, on the contrary, the money to be lent exceeds the demand of the borrowers, the competition will be upon the other fide. Such of the lenders, who have the moft prefling occafion to draw an intereft for their money, will offer it at the loweft intereft, and this offer will be accepted of.

I need not launch out into a repetition of what has been faid concerning the influence of double competition, in fixing the price of commodities: I fuppofe thofe principles underflood, and well retained, by thofe who read this chapter; and confine myfelf here to what is peculiar to the demand for money.

The price of commodices is extremely furduating: they are all calculated for particular ules; money ferves every purpole. Commodities, though of the fame kind, effering goolned's: money is all, or ought to be all of the fame value, relative to its denominations. Hence the price of money (which is

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what we express by the term *interefl*) is fufceptible of a far greater flability and uniformity, than the price of any other thing.

We have flown in the 48th chapter of the fecond book, in examining the principles which regulate the prices of fubficnce, that the only thing which can fix a flandard there, is frequent and familiar alienation. The fame holds true of money. Were we to fuppofe a flate, where borrowing and lending are not common, and where the laws fix no determinate intereft for money, it would hardly be poffible to afcertain the rate of it at any time. This was the cafe of old.

Before the reign of Henry VIII. of England, anno 1545, there was no flature regulating the rate of interch in that Kingdom. The reason is very plain. In those days there was little circulation, and the borrowing upon intercfit was confidered as a mortal fin. The confequence of this was, that ulturers, having nothing but conficience to reflrain them, carried the price of their money to a level with the prefing occafion of fpendthrifts, while others, from friendfhip, lent for no intercft at all. Henry fixed the rate of intercft at 10 per cont. and his coremporary, Francis L of France, anno 1522, (who was the firlt who borrowed money in a regular magner upon the town-houle of Paris) fixed the intercft at the rath penny, that is, as 8 1/3 per cont.

In those days, it was impossible for a flatefman to determine any just rate for intereft; and accordingly we find biftory filled with the extortion of ufurcrs, on one hand, and the violence and injustice

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of Princes and minifters towards those who had lent them money, on the other: was it ihen any wonder, that lending at intereft was univerfally cried outagainft? It really produced very little good, and wasthr caafe of manifold calamities to a flate. When, the Prince borrowed, it was when in the moft urgent diftrefs: those who lent to him, forefaw the danger of being plundered if they refused, and of being defrauded as foon as the public diftrefs was over: for this reafon they exacted the moft exorbitant intereft: the confequence was, that the people were loaded with the moft grievous taxes, and the tax-gatherers were the Prince's creditors, to whom fuch taxs were affigned.

In our days, trade, induftry, and a call for money for fuch purpofes, enable the borrower to enrich himfelf, to fupply the wants of the ftate, and to pay his intereft regularly.

If we compare the two fituations, we fhall find every difadvantage attending the former, and every advantage connected with the latter.

Without good faith there is no credit; without credit there is no borrowing of money, no indultry, no circulation, no bread for the lower claffes, no luxury, not even the conveniencies of life, for the rich. Under thefe circumfances, there can be no rule for the rate of intereft; becaufe borrowing cannot be frequent and familiar.

In proportion, therefore, as borrowing becomes frequent and familiar, the rule for fixing the rate of a legal intereft becomes more practicable to a flatefman. Let me take a flep farther.

We have fuid, that it is the fluctuation of the double competition between borrowers and lenders, which occalions the rice and fall of the rate of intert®; I much now point out the principles which occalion this fluctuation.

Were the intercells of trade and induftry fo exacily eftablished, as to produce the fame profit on every branch, the money borrowed for carrying them on, would naturally be taken at the fame rate; but this is not the cafe: fome branches afford more, fome lefs profit. In proportion, therefore, to the advantages to be reaped from borrowed money, the borrowers offer more or lefs for the ufe of it.

Befides the clafs of men who borrow in order to profit by the loan, there is another clafs, who horrow in order to diffpate. The first clafs never can offer an intereft which exceeds the proportion of their gains: the fecond clafs, finding nothing but want of credit to limit their expende, become a prey to ufurers. Were it not then upon account of thefe laft, there would be no occalion for a flatute to regulate the rate of interoft. The profits on trade would firske an average among the induftrious claffes; and that average would fall and rife, in proportion to the flourishing or decay of commerce.

Let us next examine the principles which prevent the monied men from committing extortions, and which oblige them to lend their money for that rate of intereft which is in proportion to the profits upon trade and indufity.

In every country there is found a fum of money (that is, of circulating value, no matter whether coin or paper) proportioned to the trade and induftry of it. How this fum is determined, and how it is made to augment and diminifi in proportion to induftry, we have already explained in the z6th chapter of the fecond book: we are now to examine fome of the confequences which refult from the accidental flagmation of any part of it to the prejudice of alicaution; and we muft flow bow the loan upon intereft is the means of throwing it again into circulation.

There are in every flate fome who (peed more, and fome who (pend lefs than their income. What is not (pent mull flagmate; or be lent to thofe who fpend more than the produce of their own funds. Were the first clafs found foto preponderate, as to require more money to borrow than all that is to be lent, the confequence would be, to prevent the borrowing of merchants; to taile interf lo high as to extinguift trade; and to defroy indufty; and thefe refources coming to fail, foreign commodities would be brought in, while exportation would be flopt, money would difappear, and all would fail into decay.

This, I believe, is a cafe which feldom happens; becaufe the rife of intereft (as flates are now formed) has fo much the effect of depreciating the value of every fpecies of folid property, that fpendthriffs are quickly flripped of them, by the growing accumulation of that canker worm, intereft; their ruin terrifies many from following fo hurtful an example, and their property falling into the hands of the exter clafs, who fpend lefs than their income; thefa

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new poffeffors introduce, by their example, a more frugal fet of manners. This may be the cafe in countries where trade and induity; have been introduced; and where the operations of credit have been able to draw a large quantity of fold property into circulation, according to the principles deduced in the chapter above referred to. But in nations of idlenefs, who circulate their equion 10, and who are deprived of the refource of credit, high intereft prevents them from emerging ont, of their floth; the lutle trade they have, continues to produce great profiss, which are incompatible with foreign commerce: this may, indeed, make the coin they have created for ho me cooffunction; but cau bring nothing from abroad.

On the other hand, when trade and induity flourift, and a monied intereft is formed, in confequence of melting down of folid property, and itill more when a flate comes to contract great dubs, were the money lenders to attempt to raife the rate of intereft to the flandard of the fpendthifts, the demands of trade, &c. would foon be cut/off: the flagnation would then fwell for full in their hands, that it would in a manner choke them, and is a lattle time intereft would fall to nothing. Whereas by come using themfelves with the flandard of trade, the largert fupplies (provided for the borrowss) enfly had a vent, without raifing the rate of intereft for high as to be hurtful to any intereft within the flue.

Add to this, that the advantage of realizing, into lands, fo unftable a property as money, muft naturally throw the proprietors of it into a competition

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for the lands which diffipation brings to market; and fo by raifing the value of thefe, they, with their own hands, defeat the confequences of the diffipation of fpendthrifts, and hurt their own intereft, to wie, the rife of the price of money. From a combination of thefe circumitances, lenders become obliged to part with their money at that rate of intereft which is the moft confiftent with the good of commerce.

We have hitherto preferved our combinations as fimple as pollible. We have furgefled no extrinific obftacle to borrowing and lending. If money is to be lent, 'and if people are found who incline to borrow, we have taken it for granted, that circulation will go on; and that the flagnations in the hands of the lenders, will find a ready vent by the diffusion of the other clafs: we mult now take a flep farther;

The fpendthrifts muft have credit; that is, they muft have it in their power to repay with intereft what they have borrowed: any impediment to credit, has the effect either of diminibing the demând for money, and confequently of lowering the rate of intereft, or of introducing unlawful ufury. If we fuppofe the rate of intereft well determined, and ufury prevented by a regular execution of good laws, it is very certain, that a flatefman by hurting the eredit of extravagant people, will keep the rate of intereft within due bounds.

If, therefore, we find the laws of any country, in our days, defective in eftablifting a facility in fecuring money on folid property, while the rate of intereft fands higher than is confiltent with the

good of trade, and with public credit; we finuld be flow in finding fault with fuch a defect. The motives of flatefimen lie very deep; and they are not always at liberty to explain them. An example of fuch clogs upon credit are entails upon lands, and the want of proper regifters for mortgages.

Did the dillpation of landed men tend to promote foreign trade, fuch clogs would be pernicious: but if the tendency be to promote domefic luxury only, and thereby raife the price of labor and induftry, the cafe is widely different. This obfervation is only by the bye. Our object at prefent extends no farther, than to point out, that the diffipation of landed mea, and the credit they have to borrow money, influences, not a little, the rate of intreck in every modern flate.

. Thefe are the general principles which, arifing from things themfelves, without the interpolition of a flatefman, tend to regulate the rate of intereft in commercial nations.

CHAP. V.

Of the Regulation of Interest by Statute.

FROM the principles deduced in the preceding chapter, we have feen how, without the aid of any hw, the intereft of money, in a trading nation, becomes determined, from natural caufes, and from the irrefilible effects of competition.

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Butas there is no country in the world fo entirely given to commerce, as not to contain great nombers of people, who are totally unacquainted with it, a regulation becomes neceffary to reftrain, on one hand, the frenzy of thofe, who, lifening to nothing but the violence of their patheness, are willing to procure money at any rate for the gratification of them, let the political confequences of their diffupation prove ever fo hurful; and on the other, to protect thofe who, from neceffity, may be obliged to fubmit to the leavy opprefilion of their ufurous creditors.

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Laws reftraining ufury, are directly calculated for the fake of those two claffes, not engaged in commerce, and indirectly calculated for commerce itfelf; which otherwife might receive a wound through their fides.

In entering upon the fubject mentioned in the title of this chapter, I think we may agree in this, that hitherto all regulations made concerning intereft, have been calculated either for bringing it down, or for preventing its rife. The diffreds which may come upon a flate, by its falling too low, is a phenomenon which has not yet manifefted itfelf in aay modern flate, by any fymptom I can at prefet

Now if it be true, as I think it has been proved, that the operations of demand and competition work irrefultible effects in determining the rate of intereft in commercial flates; the flatefman who is above to make a regulation, muft keep thefe principles conflandy in his eye.

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If we examine the writings of thofe who have treated of this fubjeck with intelligence (among whom, I think, Child has a right to fland in the foremoft rank) we fhall find very little attention beflowed upon that moft neceffary and ruling principle.

He hys it down as an axiom, that low intereft is the f and ot tade, in which he is certainly right; but he feams to think, that it is in the power of a keilfature, by flatne, to bring intereft down to that level which is mufl advantageous to trade; and in this I differ from him. I mufl do him the jutice to fay, that he no where directly affirms that proposition; but by fuggetting none of the inconveniences which may follow upon an arbitrary reduction of intereft by flatuce beleaves his reader at liberty to fuppofe, that the lowering of it is folely in the hands of a flatefnan.

It is very plain, from the hiftory he has given us of the fucceflive rates of interefl in targhand from 10 to 6 per cent. that without the interpolition of flatures, fuch diminutions would not, in that period, have taken place, from the principle of competitiant: but I am not fo clear that, at this time, when't trade is fo well underflood, and credit fo generally efablified in may nations of Europe, that a like adminifuation would work effects equally advantageous.

It is with great diffidence I prefume to differ from Child upon this fubject; and I find a fenfible fatisfaction in perceiving that my principles bring me fo very near to his fentiments on this matter.

CHAP V. POLITICAL ECONOMY.

The firong arguments in favor of Child's opinion, are grounded upon facts. He fays, that when interefl was brought down by flattute, anno 1625, from 10 to 8 per cent. that in place of producing any bad effect, it had that of bringing it full lower immediately afterwards; and the fame thing happened, anno 1650, when it was reduced a fecond time by flattute, from 8 to 6 per cent. at which rate it flood at the time he wrote. Thefe facts 1 give credit to, and fall now account for them, from the confequences of fudden revolutions.

When a law is made for the reduction of intereft, all debtors immediately profit by it. Upon this, the creditors mult either fubmit, or call in their capitals. If they fubmit, land immediately riles int its value. If they call in their capitals, they mult have an outlet for lending them out again, beyond the limits of the jurificition of the legiflature. Now this outlet was not then to be found; becaufe credit was no where well eflabilited, except in Holland, where intereft was full lower.

They were, therefore, obliged to fubmit, and thus interefl was violently brought down by flatute; and a great advantage refuted from it to the commercial interefls of England.

The fubfequent fall of intereft, in the natural way, is thus eafily accounted for.

The confequence of lowering the intereft, was, that the price of land role feveral years in purchafe : the landed men, who had long groaned under the heavy intereft of 10 per cent. finding their lands rife from 12 years purchake to 15, upon reducing the "
PRINCIPLES OF BOOK IV. P. I.

intereft to 8 per cent. fold off part of their lands, and cleared themfelves. The natural confequence of this was, to make money regorge in the hands of the monied men; to diminish the number of borrowers; and confequently, to bring the rate of intereft fill lower.

One fudden revolution produces another. When intereft is brought down by flatute, the price of land mult rife by a jerk; and landed men will fuddenly profit of the change in their favor. When it Talls gently, by natural revolutions in the flate of demand, the effects are more infenfible; the flarper fighted only profit of it; others, from expectation of a full greater rife in the price of their lands, neglect to fell in the proper point of time; and may perhaps be difuppointed from a new fluetuation if avor of morey. This is at prefent actually the cafe in Great Dittain, fince the peace of 1762.

Thefe facts freak firongly in favor of Child's opinion, that it is expedient to have recourfe diredly to the flatute, whenever there is a profpect of advancing the interefis of trade by a reduction of intereft.

It is impofible to reply to matters of fact: all, therefore, I have to alledge in favor of my own opinion, is, that it is more confiftent with the very principles in which both Child and I agree; it implies no fudden revolution, and will, in a fhort time, operate the fame effecd.

The method of proceeding, according to my principles, is flortly this.

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Since it is agreed on all hands, that low intereft is the foul of trade, and the firmeft bafis of public credit; that it rifes in proportion to the demand of borrowers, and finks in proportion as money is made to regorge in the hands of the monied intereft;

The flatefman fhould fet out by fuch fteps of adminification as will difcourage borrowing, in those who employ their money in prodigality and diffipation, as far as may be confiftent with the intereft of the lower claffse employed in fupplying home confumption, according to the principles laid down in the fecond book. 'He fhould abflain from borrowing himfelf, and even from the molt cogent motives. By this he will, in a fhort time, gently reduce the rate of intereft. Then by flatute he may bring it down a little, but not for very low as the foregoing operations may have reduced it; contenting himfelf with having farther reftricted the extent of the ordinary flatuations.

As for example: let us fuppofe intereft limited by law to 5 per cent. and that by good management the fate may be enabled to borrow enfly at 3 per cent. I believe there would refult a notable advantage, in reducing the legal rate to 4 per cent. and were it brought down to 3 per cent. there might follow a very great inconvenience to landed men, in cafe a war floudd fiddenly occafion a revolution in favor of money.

The difference then between Child and me, is, that I am more ferupulous than he, in introducing refitaint into political economy; and my only reafon againft applying the flatute, as he propofes, is for fear of the immediate bad effects which might follow (in many ways impollible to be forefeen) upon a fudden and violent revolution, in a point fo excoffively delicate as public credit.

In his days, credit was not fo well clabilined, nor was it firetched as at prefent: it was more acaccultomed to violent flocks, and could bear a rougher treatment. But in order to come the better to a thorough knowledge of this matter, let us examine into what might be the confequence, if Great Britain floudd, at this time, bring down, by flatute, the rate of interefl below the level of the flocks, which Itake to be the belt rule of determining the prefent value of money; and this is all on the bett method of examining the expediency of Child's method of ducing interefl, under the prefent combination of all our policical circumflances.

CHAP. VI.

What would be the Confequence of reducing, by a British Statute, the legal Interest of Money below the prefent level of the Stocks.

WHEN Great Britain borrows money upon the public faith, the rate of intercel is always flipulated, and thefe flipulations muft be religioufly fulfilled, or credit will be at an end.

The regulations then proposed to be made, must only refer to contracts of loan entered into by private parties.

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The current value of money, I think, is belt to be determined by the price of flocks. If a 4 per cent fells at par, moncy may be faid to be then as 4 per cent. If the fame flock falls to 89, then the value of money rifes to near 41/2: if the fame flock rifes to 114, then the value of money falls to about 31/53, and foi in proportion.

According, therefore, as flock is found to rife; the price of money falls, and vice verfa.

Suppole, then, the price of money to be at 4 percent. and that government flouid pafs a law, forbidding any man to lend at above 3 per cent, what would be the confequence ? This is exactly the expedient proposed by Child: money then was at 6 per cent. and he propoles, by a law, to bring it, all at once, to 4, without alledging that money was then commonly got by private convention at fo low a rate.

Would not the confequence be, that the creditors of private people would demand their money, in order to get 4 per cent. in buying flock, and would not this additional demand for flocks make them rife? I anfwer in the affirmative, unlefs money could be employed abroad, fo as to produce at leaft 4 per cent. to the lenders, free of all charge of commifion, &c. I fit could not, I have little doubt; but that money would foon fall to the legal intereft of 3 per cent. land would rife to 49 years purchafe ; and landed men would profit of the rife, as Child fays was the cafe in his time. The whole inconvenience would be limited to the immediate effects of the fudden revolution; which would occafed

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fo great a run upon the landed intereft, as to reduce them to an utter incapacity of anfwering it. This might be, in fome meafure, prevented, by a claufe in the act, allowing a certain time for the liquidation of their debts. But who will pretend to foretel the immediate confequences of fo great a flagnation of credit, and borrowing on land fecurity? The purfes of all monied people, would, for fome time at leaft, be fast shut against their demand. What a fhock again, would this be to all inland trade. what a difcouragement to all the manufacturing intereft, what diffrefs upon all creditors for accounts furnified, and upon those who supply daily wants ! I think, even fuppoling that in a year or two, the first effects might come to difappear, and a notable advantage refult, in the main, to the commercial intereft of Great Britain, yet the diffrefs in the interval might prove fo hurtful, as to render it quite intolerable. The common people who live by the luxury of the rich, in the city of London, and who are conftantly acted upon by the immediate feelings of prefent inconveniences, might lofe all patience ; and being blown into a ferment, by the address of the monied intereft (whofe condition would be made to fuffer by the fcheme) might throw the flate into confusion, and imprefs the nation with a belief, that high intereft for money, in place of being hurtful, was effential to their profperity.

I have faid above, that fuppoling the money drawn from debtors, could not be placed abroad, free of all deductions, at a rate equal to the then value of money (huppoled, for the fake of an example to be at 4 per cent.) that then money would fall to 3 per cent. and the flocks would rife in proportion.

But let us fuppofe (what perhaps is the matter of fact) that the extensive operations of trade and credit, do actually fix an average for the price of flocks, from the value of money in other nations in Europe. Would not then the confequence of bringing down the rate of legal interest, below that level, be, to fend out of the kingdom all the money now circulating on private fecurity, real and perfonal? Would not this deftroy all private credit at one blow? Would it not have the effect of preventing, among individuals, the loan upon intereft altogether? What would become of the bank of England, and all other banks. whole paper in circulation is all in the hands of private people ? Is not every man who has a bank note. a creditor on the bank, and would not the fame intereft which moves other creditors to exact their debts, under fuch circomftances, alfo move many holders of bank notes, to demand payment of them? Would not a run of that nature, only for a few weeks, throw the whole nation into the most dread. ful diftrefs? May we not even fuppofe, that upon fuch an occasion, the monied interest (from a certainty of difappointing the intention of government in making the law) might form a combination among themfelves to lock up their money, even although it should remain dead in their hands for a few months? What would become of the improvement of land? Is there an industrious farmer any where to be met with, who does not borrow money. which he can fo profitably turn to account upon

his farm, even though he receives it at the higheft legal intereft? Thefe and many more inconveniences might manifel themfelves, were government to force down the value of money, contrary to the ordinary operations of demand and competition: and to what purpofe have recourfe to authority, when it is moft certain, that without any fuch expedient the fame end may be compalled?

If it be true, as I believe it is, that in flates where credit is fo well eflablished, that their funds or public debts are commonly negociated abroad, there is an average fixed for the value of money, by the operations of credit over the commercial world: and if it be true, that no law can be framed fo as to reftrain mercantile people, and those who make a trade of money, from turning it to the beft account; then ell that fhould be proposed by government, is, to preferve the value of it at home, within that ftandard. For which purpofe, nothing more is neceffary than to prevent the competition of the diffipating clafs of inhabitants, from diffurbing the rate which commerce may eftablift from time to time. This is accomplified by the methods above hinted at. and which in the next chapter fhall be more largely infifted on. If, by prudent management, the conventional rate of intereft, can thus be brought below the legal, then there will be no harm in diminifiing the latter by ftatute, not however quite fo low as the conventional flandard; but to leave a reafonable latitude for gentle fluctuations above it. From what I have faid , I ftill think I had reafon to object

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to Child's plan for forcing down the intereft by flatute: and had he lived at this time, I am perfuaded he would have come into that opinion,

CHAP. VII.

Methods of bringing down the Rate of Intereft, in Confequence of the Principles of Demand and Competition,

HOPE the arguments ufed in the foregoing chapter will not be confirued as an apology for the high intereft of money.

I entirely agree with Sir Jofiah Child, that low intereft is the foul of trade; the molt active principle for promoting induftry, and the improvement of land; and a requilite, without which it is hardly poffible that foreign commerce can long be fupported.

This propolition I take to be at this time univerfally admitted to be true; and did there remain, concerning it, the veftige of a doubt in the mind of any one, the writings of many, much more capable than I can pretend to be, and among the reft, the author juft now cited, are fufficiently capable to remove it. I fhall not therefore trouble my reader with a chapter upon that head, but only obferve, that the terms *high* and *low* are conflantly relative. Here the relation mult be underflood to regard other flates, becaufe when we fpeak of a *rate* of intereft, we are forpofed to mean fomething general in the country we are fpeaking of : accordingly, if we could fuppofe

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that, within the fame flate, the rate of intereft flould be lower in one city than any where elfe, that circumflance would give an advantage to that city in all its mercantle operations.

I muft farther obferve, for the fake of connecting this part of our fubject with our general plan, that the low intereft for money is most effential to fach flates as carry on the most extensive foreign commerce.

In the infancy of industry, and before trade comes to be established, it is very natural that the coin of the country fhould be found in a great measure locked up in treasures: high interest tends to bring it forth, and in that refpect works a good effect.

In proportion as alienation augments, money comes to be multiplied, by the melting down of folid property, as has been explained; and then the bulinefs of a flatefman is to contrive expedients for bringing the rate of it as low as pofible, in order to fupport foreign trade; and to rival all neighbouring nations, where intereft is higher. When foreign trade again comes to decline, from the multiplication of abufes introduced by luxury, low intereft ftill continues ufeful, for fupporting public credit, fo necelfary for defending a nation againft her enemies.

If money confifted only in the precious metals, which are not to be found in every country, but mult be purchafed with the produce of indufty, and brought from far; and if no other expedient could be fallen upon to fupply their place for the ufes of circulation; then the polifiers of thefe

CHAP. VII. POLITICAL ECONOMY.

metals would in a manner be mafters to eftablif what rate of intereft they thought fit for the ufe of them.

But if that be not the cafe, and if money can be made of paper, to the value of all the folid property of a nation, (fo far as occafion is found for it, by the owners of that property) the ufe of the metals comes to be in a manner reduced to that of ferving as a flandard, for afcertaining the value of the denominations of money of accompt; perhaps for facilitating the circulation of fmall fams, and for paying a balance of trade to other nations.

When this is the cafe, a flatefman has it in his power to increafe or diminifi the extent of credit and paper money in circulation, by various expedients, which greatly influence the rate of intereft.

The progrefs of credit has been very rapid fince the beginning of this century. This has been almoft entirely owing to the mechanical combinations of trading men. Lawgivers have hitherto had but imperfed notions concerning the nature of it; and there fill remains, in the womb of nature, fome mighty genius, born to govern a commercial nation, who alone will be able to fet it on its true principles. Let us in the mean time fpeculate concerning them.

We have faid, and every body feels, that intereft falls in proportion to the redundancy of money to be lent.

Now what is this money but property, of one kind or other, thrown into circulation? I fpeak of trading nations, who are not confined to the quanticy of their fpecie alone.

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PRINCIPLES OF

Βοοκ ΙV. Ρ. ι

When a man of property wants money, does he not go to a bank, which lends upon mortgage, and by pledging his fecurity, does he not receive money, which is in the fame inftant created for his ufe ? Do not those notes circulate as long as they are found neceffary for carrying on the affairs of the nation? that is to fay, the accompts of debtors and creditors of all denominations ; and as toon as the quantity of them exceeds that proportion, they flagnate, and return on the debtors in them. I the bank) who is enabled to realize them, becaufe the original fecurity is flill in their hands, which was at first pledged when the notes were iffued. This realization is commonly made in the metals; becaufe they are the money of the world : they are real and true riches, as much as land; and they have this advantage over land, that they are transportable every where.

Now, does it not appear evident, that what we have been deferibing is a round - about operation, which it is poffible to florten?

I beg of my reader, that he may attend to one thing; which is, that I am not here treating of, or proposing a plan, but laboring in the deduction of principles in an intricate fubject.

I fay, when landed men go to fuch a bank, and receive paper for a land fecurity, that this operation may be flortened.

Do not the notes he gets fland (though that is not expreffed) upon the fecurity of his land? Now, can any man aflign any other reafon but cuftom, why his own notes, carrying expressly in their bofom

CHAP. VII. FOLITICAL ECONOMY.

the fame fecurity, might not be iffued, without his being obliged to interpole the bank between the public and himfelf: And for what does he pay that intereft ? Not that he has graturoufly received any value from the bank; becaufe in his obligation he has given a full equivalent for the notes; but the obligation carries intereft, and the notes carry none. Why? Becaufe the one circulates like money, the other does not. For this advantage, therefore, of circulation, not for any additional value, does the landed man pay intereft to the bank.

Had landed men, and not merchants, invented this method of turning their property into circulation, and had they been all alfembled in one body, with a legislative authority, I imagine they would have had wit enough to find out that a land bank was a thing pradicable in its nature.

Suppofe they had agreed that all their lands fhould be let by the acre, and that land property-fhould be eftermed at a certain number of years purchafe, in proportion to the rate of intereft at the time, where would be the great difficulty in paying in lands?

This is only a hint, to which a thoufand objections may be made, as matters fland: all I fay, is, that there is nothing here againft principles; and though there might, in every way fuch a plan could be laid down, refult inconveniencies to the landed, intereft, yet ftill thefe inconveniencies would hardly counterbalance that of their being obliged to pay intereft for every penny they borrow.

It is demanded, what advantage would refult to the nation from fuch a regulation?

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I answer, that by it all the borrowings of landed men would be ftruck out of the competition at the moncy-market. The money'd intereft alone would borrow among themfelves for the purpoles of trade, (for money'd men do not borrow to fquander) and landed men would confequently pay with their own paper, in every cafe, where now they borrow in order to pay. Thus intereft would be regulated by the demands of trade; and the rate of it would not be diflurbed by the competition of fpendbrifts.

Who can 1y how far the confequences of fuch a fcheme might reach? Might not landed men begin in time to ifue notes by way of loan, at a very inconfiderable intereft? But I do not incline to carry my fpeculations frather: perhaps what has been faid may appear fulficiently aerial.

If a fatefmann fhall find every modification of this idea impracticable; either from his own want of power; or of combination, or, which is more probable, from the oppolition of the moneyd intereft, he muft take other meafures for firking out, as much as pollible, the competition of fpendthrifts at the money-market. Entails, and lame fecurities, are good expedients; though they are productive of many inconveniencies. His own frugal economy in flate affairs will go much farther than any fuch triffing expedients.

Did a nation enjoying peace, although indebted perhaps 140 millions fterling, begin by paying off but a per cent, of their capital yearly, belides the current intereft; while no neighbouring faite was borrowing any; what would intereft fall to in a flort

CHAP. VII. POLITICAL ECONOMY.

time I It may be anfwored, that the confequence would be, to enrich other nations; becaufe the regorging money would be fent abroad. Is any flate ever enriched by their borrowing? And in what does fuch lending to foreigners differ from the nation's paying off their foreign creditors? Will not the return of intereft from abroad compenfate, protanto, the fums fent out for the like purpofe?

But if it be faid, that the confequence will be to enable other nations to bring down their own rate of intereft 1 allow it to be fo; and fo much the better, as long as it remains proportionally lower with us; which it muft do, as long as we can lead abroad. We have faid, and I believe with truth, that as credit is now extended, a general average is flruck every where upon the value of money: confequently, the lower intereft is found abroad, the lower fitil it will remain at home, as long as merchants and exchangers fubfith.

From this circumflance of the average on the rate of intereft, the Dutch muft, I think, have loft the great advantage they formerly enjoyed, from the low rate of it in Holland, in proportion to their neighbours.

In Child's time, they were familiarly buying up fugars in London, above the price paid by Englifth fugar-bakers; and, notwithflanding the additional freight and charges, they grew rich by their trade, while the others were hardly making any profit. This he accounts for, from the low rate of their intereft He fuppoles both Dutch and Englifth to have carried on this trade with borrowed money;

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for which the first paid 3 per cent. and the other 6 per cent.

. But at prefert, were it poffible to get 6 per cent, for money in London, what Durchman would lend bis father a fulling at 3 per cent? The English flocks are as currently bought and fold, may, all the flockjobbing tricks are practifed with the fame fubtlety at Amfterdam as in Ghange-Alley: from which I conclude, that a great part of the advantage of low intereft is now loft to that nation; and I conclude farther, that it is the common intereft of all trading nations to bring it as low as poffible every where.

Another caufe of high intereft proceeds from certain clogs laid upon circulation, which proceed merely from cuftom and prejudice. Of this nature is the obligation of debtors to pay in the metals, nothing but coin being a legal tender.

The only foundation for fuch; a regulation was the precarioufine's of credit in former times. Were all the circulating paper in a nation fecured by law, either upon the lands or revenue of the country appropriated for that purpole, there could be no injuftice or inconvenience in making paper (fo fecured) a legal tender in all payments. Again, how extraordinizy mult import on any reafonable man, that the fame paper which paffes on one fide of a river, fhould not pafs on its oppofite bank, though running through the fame country?

The reafon indeed is very plain: the fubaltern jurifdictions are different; and the debtors in the paper are different: but if the paper of both flood

CHAP. VIII. POLITICAL ECONOMY. 45

upon a fecurity equally good, what is to hinder both to be received as a legal tender in all payments over the kingdom? Should not little private objects of profit among bankers (who are the fervants of the flate, and who are fo well pail for their fervice) be over ruled, when the confequences of their difputes are found to be fo hurtful? But of this more, when we come to fpeak of banks.

The only occasion where coin is neceffary in the liquidation of paper, is for payment of the balance of trade with foreign nations. Of this alfowe fhall treat more at large, when we come to the doctrine of exchange. But furely nothing is fo ill judged, as to create an imaginary balance within the fame flate; or rather, to permit money -jobbers to create it; at the expense of railing intercft, and hurting trade, in the very places where it flands in the greateft need of encouragement.

From thefe principles, and others which naturally flow from them, may a flatefinan fleer a very certain courfe, towards bringing the rate of intereft as low as the profperity of trade requires, or the principles of double competition between borrowers and lenders will permit.

CHAP. VIII.

Is the Rate of Intereft the fure Barometer of the State of Commerce?

SOME political writers are fond of every expedient to reduce within a narrow compais many queftions, which being involved in intricate combinations, cannot be reduced to one principle. This throws them into what I call (yftems; of which we have an example in the queftion now before us.

There is nothing more difficult than to determine when commerce runs favorably, and when infavorably for a nation. This would not be the cafe, were the rate of intereft the juft barometer of it. I have found it however advanced, that nothing more is neceffary to be known, in order to effimate the relative profits upon the foreign trade of two nations, than to compare the common rate of intereft in both, and to decide the preference in favor of that nation where it is found to be loweft.

We may fay of this propolition, as of the courfe of exchange; the lownels of intereft and exchange are both exceedingly favorable to trade; but they are no adequate measure of the profits ariling from it.

The beft argument in favor of this opinion with regard to intereft is, that the nation which fells the cheapeft at foreign markets is conflantly preferred; and, confequently, where the ufe of money is the loweft, the merchant can fell the cheapeft.

Infver, that this confequence would be juft, were all trade carried on with borrowed money, and were alk difference of the price of the materials or first matter, the case in procuring them, the promptitude of payments, the industry of the manufacturer, and his dexterity, reckoned for nothing. But fuch advantages are frequently found in these articles, as to be more than fufficient to counterbalance the additional interest which is paid for the

CHAP. VIII. POLITICAL ECONOMY.

money employed in trade. This is fo true, that we fee the dexterity alone of the workman (living in an expensive capital, where the charge of living may be double of what it is in the country) enabling him to underfel his competitors every where: the fame may be true with regard to the other articles. Farther, how far is it not from truth to fay, that all trade is carried on with borrowed money? When the term trade here made use of, is properly underftood, we shall fee, that a very inconsiderable part of its object is carried on with borrowed money, in any country in Europe; and that part which is carried on with borrowed money is not fo much clogged by the high rate of interest, as by want of punctuality in payments. A merchant who can turn his money in three months, borrows as cheaply at 6 per cent. as another who turns his in fix months, when he borrows at 2 per cent.

The object of trade is produce and manufacture. If any one will confider the value of thefe two articles, before they come into the hands of merchante, and compare this with the money borrowed by farmers and manufacturers, in order to bring them to market, the proportion will be very fmall.

Do we not fee every day, that ingenious workmen, who obtain credit for very fmall fums, are foon enabled, by the means of their own induftry, to produce a furprifing value in manufactures, and not only to fubfit, but to increafe in riches? The intereft they pay for the money borrowed is inconfiderable, when compared with the value, created (as it were) by the proper employment of their time and talents.

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If it be faid, that this is a vague affertion, fupported by no proof; 1 andwer, that the value of a man's work may be efficianted by the proportion between?the manulacture when brought to market, and the inft matter. Nothing but the firft matter, and the inftruments of manufacture, can be confidered as the objects of borrowed money; unlets we go fo far as to effimate the nouriflment, and every expende of the manufacturer, and fuppofe that thefe are alfo fupplied from borrowed money. To affirm that, would be turning arguments into cavil.

The object, therefore, of borrowed money for cartying on trade, is more relative to the merchant than to the manufacturer. Borrowing is neceffary for collecting all this product and manufacture into the hands ofmerchants. This, no doubt, is very commonly the operation of credit : intereft of money, here, comes in, to indemnify the giver of credit, for the ule of money : but this intereft is only due from the time the borrower pays those from whom he collects, to the time he receives payment from those to whom he fells. This interval it is of the highest importance to the merchant to fhorten. In proportion as it is long, and in proportion to the rate of intereft, he must raife his profits; and in proportion as payments are quick and regular, and intereft low, he may diminifi them Whether merchants do regulate their profits, in all commercial nations, according to the exact proportion of the refpective rates of interest, and promptitude of payments among them; or whether thefe are determined by the circumstances ٥f

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of demand and competition in the feveral foreign markets where the trade is carried on, I leave to merchants to determine. All I full remark is, that a well founded credit, and prompt payments, will do more fervice to trade, than any advantage trading men can reap from the different rate of intereft in different countries.

It muft not be concluded from this, that low intereft is not a very great advantage to trade; all I contend for, is, that it is not the barometer of it.

Another circumftance which puts nations, in our days, much more on a level than they were in former times, I have already hinted at. It is that general average which the great loads of national debts, and the extention of credit, through the feveral nations of Europe, who pay annually large fums of intereft to their creditors, has eftablished. Let me fuppofe the Dutch, for example, to have fixed, by placard, the tate of their intereft, at 3 per cent. I fay, that fo foon as the general average of intereft comes to fland above that rate ; from the price of public funds in England and France, we may fafely conclude, that their trade cannot be carried on with any very confiderable fum of money borrowed at 3 per cent. The confequence then must be, to fend the money which regorges in the hands of the frugal Dutch, into other countries, where it can produce a better return, exclusive of all expenses of remitting and drawing. What the confequences of this lending to foreigners may be to Holland. fhall be afterwards examined.

To conclude; I believe it will be found, that Vol. IV. E

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what has led fome to believe that low intercft is the barometer of commerce, has been owing to this; that in fome of the moft commercial countries and cities intercft has been found to be lower than in great kingdoms: but *that*, I imagine, is entirely owing to the frugality of their manners, which cuts off the borrowing of the rich for the fake of diffipation. When this is accomplifted, trade alone being what abforbs the flagnations of the frugal, the price of intercft will fall to that rate which is the beft proportioned to the profits upon it: but this alfo will be lcfs and lefs the cafe every day, in proportion to the credit and circulation of public funds in different nations.

CHAP. IX.

Does not Intereft fall in Proportion as Wealth increases?

ANSWER in the affirmative : providing it be fuppofed that diffipation does not increase in proportion to the wealth. Now in a general propolition, fuch as this which flands at the head of our chapter, that very neceffary provido is not attended to, and thus people are led to error. It is the manners of a people, not their external circumflances as to riches, which render them frugal or extravagant. What, therefore, depends upon the fpirit of a people, cannot be changed, but in confequence of a change of that fpirit.

If the rate of intereft be high, from a tafte of dif-

CHAP. IX. POLITICAL ECONOMY.

fipation, let foreign trade throw in what loads of money it may, intereft will ftill ftand high, until manners change. Every clafs of a people has their peculiar fourit. The frugal merchant will accumulate wealth, and the prodigal lord will borrow it. In this fituation, internal circulation will be rapid, and lands will thift hands. If this revolution thould prove a corrective to diffipation, by vefting property in those who have contracted a firm habit of frugality, then an augmentation of wealth may fink the rate of intereft. But if, on the contrary, the laws and manners of the country do diftinguifh claffes by their manner of living, and mode of expenfe, it is ten to one that the industrious and frugal merchant will put on the prodigal gentleman, the moment he gets into a fine country feat, and hears himfelf called Your honor. In certain countries, the memory of paft induftry carries a dreg along with it, which nothing but expensive living has power to purge away.

Let this fuffice at prefent upon the fubject of intereft: it is fo connected with the doctrine of credit, that it will recur again at almost every step as we go along.

AN INQUIRY

INTO THE

PRINCIPLES

O F

POLITICAL ECONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART II.

OF BANKS.

CHAP. I.

Of the various Kinds of Credit.

WE have already pointed out the nature of credit, which is confidence; and we have deduced the principles which influence the rate of intereft, the effential requilite for its fupport.

We come now to treat of domeftic circulation; where we are to deduce the principles of banking. This is the great engine calculated for carrying it on.

That I may, with order, inveftigate the many combinations we fhall here meet with, I mult point out wherein banks differ from one another in point of policy, as well as in the principle upon which their credit is built.

CHAP. I. POLITICAL ECONOMY.

If we confider them relative to their policy, I divide them into banks of circulation, and banks of depofit. This every one underftands.

If according to their principle, they are effablifhed either on private, or mercantile, or public credit.

This laft division I must attend to in the diffribution of what is to follow; and therefore it is proper to fet out by explaining what I underftand by the terms I have here introduced.

imo, Private credit. This is eftablified upon a fecurity, real or perfonal, of value fufficient to make good the obligation of repayment both of capital and intereft. This is the moft folid of all.

2000, Mercantile credit. This is chablined upon the confidence the lender has, that the borrower, from his integrity and knowledge in trade, may be able to replace the capital, advanced, and the intereft due during the advance, in terms of the agreement. This is the moft precarious of all.

3*ia*, Public credit. This is eftablifhed upon the confidence repofed in a flate, or body politic, who borrow money upon condition that the capital flahl not be demandable; but that a certain proportional part of the fum flahl be annually paid, either in lieu of intereft, or in extinction of part of the capital for the fecurity of which, a permanent annual fund is appropriated, with a liberty, however, to the flate to liberate itelf at pleafure, upon repaying the whole; when nothing to the contrary is flipplated.

The folidity of this species of credit depends upon, circumflances.

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The difference between the three kinds of credit lies more in the object of the conlidence, and the nature of the fecurity, than in the condition of the borrower. Either a private man, a merchant, or a frate, may pledge, for the fecurity of a loan, a real or a moveable fecurity, with an obligation to refund the capital. In this cafe, the obligation flands upon the folid bafis of private credit.

Either a private man, a merchant, or a flate, may firike out projects which carry a favorable appearance of fuccels, and thereupon borrow cooliderable fums of money, repayable with intercel. In this cafe, the obligation flands upon a mercantile credit.

Eicher a private man, a merchant, or a flate, may pledge (for the fecurity of money borrowed) a perpetual annual income, the fund of which is not their property, without any obligation to refund the capital: fuch obligations fland upon the principles of public credit.

I allow there is a great refemblance between the three fpecies of credit here enumerated: there are however fome characteriftic differences between them.

1mo, In the difficulty of eftablishing and supporting them.

Private credit is infeparable. in fome degree, from human fociety. We find it fubfilting in all ages: the fecurity is palpable, and the principles on which it is built are fimple and eafy to be comprehended. Public credit is but a late invention: it is the infant of commerce, and of extensive circulation. It has fupplied the place of the treafures of old, which

CHAP. I. POLITICAL ECONOMY.

were conflant and ready refources to flatefmen in cafes of public diffrefs: the fecurity is not palpable, nor readily underflood, by the multitude; as it refls upon the flability of certain fundamental maxims of government. Mercantile credit is full more difficult to eflabilith; becaufe the fecurity is the moft precarious of any: it depends upon opinion and fpeculation, more than upon a fund provided for repayment of either capital or intereft.

ado, They differ in the nature of the fecurity and object of confidence.

Private credit has a determinate object of confidence, viz. the real exiftence of value in the hands of the debtor, fufficient to fatisfy both capital and intereft. Public credit has the vifible fecurity of a fund appropriated for the perpetual payment of the intereft. Mercantile credit depends wholly upon the integrity, capacity, and good fortune of the debtor.

3tio, The third difference is with regard to the cafe of transfer.

Public debts fland generally on the fame bottom. No part of the famefund is better than another: the price of them is publicly known, and the fecurities are laid in the moft convenient way for transfer, that is, circulation, without confent of the debtor. This is far from being the cafe in private fecurities. Nor is it the cafe in the mercantile, except in bills payable to order, in which cafe alone, the creditor can effectually transfer without the confent of the debtor.

40, The fourth difference is difcovered in the Rability of the confidence. E 4

* Nothing can flake private credit, but an appearance of infolvency in the very debtor. But the bankrupty of one confiderable merchant, will give a very great flock to mercautile credit over all Europe: and nothing will hure public credit, fo long as the flipplated intereft continues regularly to be paid, and fo long as the funds appropriated for that payment remain entire.

From what has been faid, I hope the three fpecies of credit have been fufficiently explained; and from what is to follow, we fhall feel the utility of this diffribution.

CHAP. II.

Of private Credit.

PRIVATE credit is either real, perfonal, or mixed.

Real fecurity or credit, every body underflands. It is the object of law, not of politics, to give an enumeration of its different branches. By this term we underfland no more than the pledging an immoveable fubject for the payment of a debt. As by a perfonal fecurity we underfland the engagement of the debtor's whole effects for the relief of his creditors. The mixed, I have found it neceffary to fuperadd, in order to explain with more facility, the fecurity of one fpecies of banks. The notes iffued by banks upon private credit, fland upon a mixed fecurity : that is, both real and perfonal. Perfonal, for an sub-gradfect the banker, and the

CHAP. II. POLITICAL ECONOMY.

banking flock pledged for the fecurity of the paper: and in the fecond place, upon the fecurities, real and perfonal, granted to the banker for the notes **he** kn⁴s, which afterwards enter into circulation.

The tuling principles in private credit, and the bulk on which it refls, is the facility of converting, ino money, the effects of the debtor; becaufe the capital and intereft are conflantly fuppofed to be demandable. The proper way, therefore, to fupport this fort of credit to the utmod, is to contrive a ready method of appretiating every fubject affectable by debts; and fecondly, of melting it down into fumbolical or paper morey.

In former times, when circulation was confined, the fehrme of melting down the property of debtors, for the payment of creditors, was impracticable; and accordingly we fee that capitals fecured on land property were not demandable. This formed another species of credit, different from any we have mentioned; which only differed from public credit in this, that the folid property producing the income. was really in the hands of the debtor. This fubdivision we have omitted, as its basis refts folcly upon the regular payment of the intereft. Of this nature are the contracts of conftitution in France. and the old infeftments of annual rent in Scotland. There are few nations, I believe, in Europe where a veftige, at leaft, of this kind of fecurity does not remain.

In order, then, to carry private credit to its greateft extent, all entails upon lands fhould be diffolved; all obligations flould be regularly recorded in public

regifters; the value of all lands fhould be afcertained, the moment any fecurity is granted upon them ; and the flatefman fhould interpofe between parties, to accelerate the liquidation of all debts, in the fhortefl time, and at the leaft expense possible.

Although this method of proceedings be the moft effectual to fecure, and to extend private credit, yet it is not, at all times, expedient to have recourde to it; as we have abundantly explained in the 27th chapter of the fecond book; and therefore I fhall not here interrupt my fubjeck with a peedlefs repetition.

CHAP. III.

Of Banks.

IN deducing the principles of banks, I fhall do the beft I can to go through the fubject fyftematically.

I have divided credit into three branches, private, mercantile, and public. This diffribution will be of ufe on many occafions, and fhall be followed as far as it will go, confidently with perfpicuity: but as I have often obferved of fubjects of a complex nature, they cannot be brought under the influence of a few general principles, without running into the modern vice of forming fyftems, by wire-draw. ing many relations in order to make them anfwer.

The great operations of domeftic circulation are better difcovered by an examination of the principles upon which we find banking eftablished, than by any other method I can contrive. It has been by inquiry into the nature of thofe banks which are

CHAP. III. POLITICAL ECONOMY.

the molt remarkable in Europe, that I have gathered the little knowledge I have of the theory of circulation. This induces me to think that the beft way of communicating my thoughts on that fubject, is to lay down the refullt of my inquiries relative to the very object of them.

After comparing the operations of different banks in promoting circulation, I find I can divide them, as to their policy, into two general claffes, viz. thofe which iffue notes payable in coin to bearer; and .hafe which only transfer the credit written down in their books from one perfon to another.

Those which issue notes, I call banks of circulation; those which transfer their credit, I call banks of deposit.

Both indeed may be called banks of circulation, becaule by their means circulation is facilitated; but as different terms ferve to diffinguifi ideas different in themfelves, thofe I here employ, will anfwer the purpofe as well as any others, when once they are defined; and circulation undoubtedly reaps far greater advantages from banks which iffue notes transferable every where, than from banks which only transfer their credit on the very fpot where the books are kept.

I fhall, according to this diffribution, first explain the principles upon which the banks of circulation are conflituted and conducted, before I treat of the other.

This will lead me to avail myfelf of the division 1 have made of credit, into private, mercantile, and public : becaufe, according to the purposes for which a bank is eftablifhed, the ground of confidence, that is, the credit of the bank, is fettled upon one or other of them.

In countries where trade and indufty are in their infancy, credit muft be little known; and they who have fold property, find the greateft difficulty in turning it into money, without which induftry cannot be carried on, as we have abnordanily explained in the 25th chapter of the fecend book; and confequently the whole plan of improvement is difformaticed.

Under fuch circumflances, it is proper to effablifth a bank upon the principles of private credit. This bank mult iffue notes upon land and other fecurities, and the profits of it muft arife from the permanent intereft drawn for the money leat.

Of this nature are the banks of Scotland. To them the improvement of that country is entirely owing; and until they are generally effabilited in other countries of Europe, where trade and induftry are little known, i will be very difficult to feet thole great engines to work.

Although I have repreferred this fpecies of banks, which I hall call banks of circulation upon mortgage, as peculiarly well adapted to countries where indufty and trade are in their infancy, their ufefulnefs to all nations, who have upon an average a favorable balance upon their trade, will fufficiently appear upon an examination of the principles upon which they are eftablifted.

It is for this reafon, that I have applied myfelf to reduce to principles all the operations of the Scotch

CHAP. III. POLITICAL ECONOMY.

banks, while they were in the greateft diftrefs imaginable, from the heavy balance the country owed during the laft years of the late war, and for fome time after the peace in 1763. By this I flatter myfelf to do a particular fervice to Scotland, as well as to fuggeft hints which may prove ufeldl, not only to England, but to all commercial countries, who, by imitating this effabilitment, will reap advantages of which they are at prefent deprived.

For thefe reafons, I hope the detail I fhall enter into with regard to Scotland, will not appear tedious, both from the variety of curious combinations it will contain, as also from the lights it will caft upon the whole doctime of circulation, which is the prefer object of our attention.

In countries where trade is eflabilited, induftry flourifing, credit extensive, circulation copious and rapid, as in England, banks upon mortgage, however uleful they may prove for other purpoles, would notanswer the demands of the trade of London, and the fervice of government, fo well as the bank of England.

The ruling principle of that bank, and the ground of their confidence, is mercantile credit. The bank of England does not lend upon mortgage, nor perfonal fecurity: their profits arife from difcounting bills; loans to government, upon the faith of taxes, to be paid within the year; and upon the credit calh of thole who deal with them.

A bank fuch as that of England, cannot therefore be eftablished, except in a great wealthy mercantile city, where the accumulation of the smallest

profits amount, at the end of the year, to very confiderable fums.

In France, under the regency of the Duke of Orleans, there was a bank erected upon the principles of public credit. The ground of confidence there, and the only fecurity for all the paper they iffued, were the funds appropriated for the payment of the intereft of the public debts.

It is for the fake of order and method, that I propole to explain the principles of banking, according to this diftribution. I mult however confefs, that although I reprefent each of them as having a caule of confidence peculiar to itfelf, to wit, either private, mercantile, or public credit; yet we fhall find a mixture of all the three fpecies of credit entering into the combination of every one of them.

Banking, in the age we live, is that branch of credit which beft deferves the attention of a flatefman. Upon the right eftabliftment of banks, depends the profperity of trade, and the equable courfe of circulation. By them * folid property may be

* Solid property, here, is not taken in the frickfl acceptation. In countries of commerce, where banks are generally eth-blifted, every denomination of good perfinal fecurity may be confidered as folid property. Thufe who have perfonal eftates may obtain credit from banks as well as landed men; becaule thefe performl etates are fecured either onlands, or in the funds, or in efficit which contain as real a value as lands. An thefe being affected by the focurities which the proprietors genus to the bank, as if they confifted in lands. In fully cite of this nature, it is neeffaily to extend our combinations, in proportion to the circumflances under which we reafon.

CHAF. III. POLITICAL ECONOMY.

melted down. By the means of banks, money may be conftantly kept at a due porportion to alienation, If alienation increases, more property may be melted down. If it diminifhes, the quantity of money ftagnating, will be abforbed by the bank, and part of the property formerly melted down in the fecurities granted to them, will be, as it were, confolidated anew. Thefe muft pay for the country the balance of their trade with foreign nations. Thefe keep the mints at work; and it is by their means. principally, that private, mercantile, and public credit, is supported. I can point out the utility of banks in no way fo ftriking, as to recal to mind the furprifing effects of Mr. Law's bank, eftablifhed in France, at a time when there was neither money. or credit in the kingdom. The fuperior genius of that man produced, in two years time, the most furprifing effects imaginable; he revived industry; he eftablished confidence : and showed to the world. that while the landed property of a nation is in the hand of the inhabitants; and while the lower claffes are willing to be industrious, money never can be wanting. I must now proceed in order, toward the inveftigation of the principles which influence this intricate and complicated branch of my fubject.

PRINCIPLES OF

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CHAP. IV.

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Of Banks of Circulation upon Mortgage or private Credit.

BANKS of circulation upon mortgage or private credit, are those which iffue notes upon private fecurity, payable to bearer on demand, in the current coin of the nation. They are conftituted in the following manner.

A number of men of property join together in a contract of banking, either ratified or not by nublic authority, according to circumftances For this purpole, they form a flock which may confift indifferently of any fpecies of property. This fund is engaged to all the creditors of the company, as a fecurity for the notes they propole to iffue. So foon as confidence is effablished with the public, they grant credits, or cafh accompts, upon good fecurity; concerning which they make the proper regulations. In proportion to the notes iffued in confequence of those credits, they provide a fum of coin, fuch as they judge to be fufficient to answer fuch notes as fhall return upon them for payment. Nothing but experience can enable them to determine the proportion between the coin to be kept in their coffers, and the paper in circulation. This proportion even varies according to circumstances, as we shall afterwards obferve.

The profits of the bank proceed from the intereft paid upon all the fecurities which have been granted to it.

GHAP. IV. POLITICAL ECONOMY.

to it, in confequence of credits given, and which remain with it unretired.

Out of which multbe deducted, first, the charge of management; fecondly, the loss of interest for all the coin they preferve in their coffers, as well as the expende they are put to in providing it; and thirdly, the expense of transacting and paying all balances due to other nations.

In proportion, therefore, as the intereft upon the bank focurities exceeds the lofs of intereft on the coin in the bank, the expenfe of management, and of providing funds abroad to pay balances, in the fame proportion is their profit; which they may either divide, accumulate, or employ, as they think fit.

Let it be obferved, that I do not confider the original bank flock, or the intereft anting from *itat*, as any part of the profits of the bank. So far as regards the bank, it is their original property; and fo far as regards the public, it ferves for a collateral fecurity to it, for the notes iffued. It becomes a pledge, as it were, for the faithful difcharge of the truft repofed in the bank: without fuch a pledge, the public could have no fecurity to indemnify it, in cafe the bank fhould iffue notes for no permanent value received. This would be the cafe, if they thought fit to iffue their paper either in payment of their own private debts, for articles of prefent confumption; or in precarious trade.

When paper is iffued for no value received, the fecunity of fuch paper flandsalone upon the original capital of the bank, whereas when it is illued for value received, that value is the fecurity on which Vor. IV.
BOOK IV. P. z.

it immediately flands, and the bank flock is, properly fpeaking, only fubfidiary.

I have dwelt the longer upon this circumftance, becaufe many, who are unacquainted with the nature of banks, have a difficulty to comprehend how they flould ever be at a lofs for money, as they have a mint of their own, which requires nothing but paper and ink to create millions. But if they confider the principles of banking, they will find that every note illued for value confumed, in place of value received and preferved, is neither more or lefs, than a partial fpending either of their capital, or profits on the bank. Is not this the effect of the expense of their management? Is not this expense paid in their notes? But did ever any body imagine that this expense did not diminish the profits of banking? Confequently, fuch expense may exhault thefe profits, if carried far enough; and if carried ftill farther, will diminish the capital of the banking flock.

As a farther illuftration of this principle, let me fuppofe, an honeft man, intelligent, and capable to undertake a bank. I tay that fach a perfon, without one fluiling of flock, may carry on a bank of domeflic circulation, to as good purpofe as if he had a million; and his paper will be every bit as good as that of the bank of England. Every note he iflues, is feeured on good private fecurity; that fecurity carries intereft to him, and flands good for the notes he has iffued. Suppofe then that after having iffued for a million flerling, all the notes flould return upon him in one day. Is it not plain,

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that they will find, with the honeft banker, the original lecurities, taken by him at the time he ifficed them; and is it not true, that he will have, belonging to himfelf, the intereft received upon thefe fecurities, while his notes were in circulation, except fo far as this intereft has been fpent in 'carrying on the bufinefs of his bank ? Large bank Rocks, therefore, ferve only to eftablift heir credit; to fecure the confidence of the public, who cannot fee into their adminifration; but who willingly believe, that men who have confiderable property pledged in fecurity of their good faith, will not probably deceive them.

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This flock is the more neceffary, from the obligation of paying in the metals. Coin may be wanting, upon fome occafions, to men of the greateft landed property. Is that any reafon to fufpect their credit? Juft fo of banks. The bank of England may be polfefied of twenty millions flering of good effects, to wit, their capital; and the fecurities for all the notes they have iffued; and yet that bank might be obliged to flop payment, upon a fudden demand of a few millions of coin.

Runs upon a bank well eftablified, betray great want of confidence in the public: and this want of confidence proceeds from the ignorance the greateft part of men are in, with regard to the flate of their affairs, and of the principles upon which their trade is carried on.

From what has been faid, we may conclude, that the folidity of a bank which lends upon private fecurity, does not fo much depend upon the extent

Fa

of their original capital, as upon the regulations they obferve in granting credit. In this the public is nearly interfled; because the bank fecurities are really taken for the public, who are creditors upon it in virtue of the notes which circulate through their hands.

CHAP. V.

Such Banks ought to iffue their Notes on private, not mercantile Credit.

LET me, therefore, reafon upon the example of two bankers; one iffues his notes upon the beft real or perfonal fecurity; another gives credit to merchants and manufacturers, upon the principles of mercantile credit, which we have explained above; the notes of the one and the other enter into circulation, and the queftion comes to be, which are the beft? If we judge by the regularity of the payment of notes on prefentation, perhaps the one are as readily paid as the other. If we judge by the flock of the two bankers, perhaps they may be equal, both in value and folidity; but it is not upon either of thefe circumflances that the queftion depends. The notes in circulation may far exceed the amount of the largeft bank flock; and therefore. it is not on the original flock ; but on the fecurities taken at iffuing the notes, that the folidity of the two currencies is to be effimated. Those fecured on private credit, are as folid as lands and perfonal eflates; they fland upon the principles of private

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credit. Those fecured on the obligations of merchants and manufacturers, depending upon the fuocels of their trade, are good or bad in proportion. Every bankruptcy of one of their debtors, involves the bank, and carries off either a part of their profits, or of their fock. Which way, therefore, can the public judge of the affairs of bankers, except by attending to the nature of the fecurities upon which they give credit *.

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CHAP. VI.

Ufe of fubaltern Bankers and Exchangers.

HERE it may be urged, that the great ufe of banks is to multiply circulation, and to furnifi the induftrious with the means of carrying on their traffic: that if banks infit upon the molt fold furcties before they give credit, the great utility of them mult ceafe; becaufe merchaits and manufactures are never in a fluation to obtain credit upon fuch terms.

This argument only proves, that banks are not.

*It muß be obferveß, that in this extuple, the hanker wheiffust his notes upon mercantile focurity, is fuppoled to grant a permanent loan to the merchant or manifecturer, as he would do to hole who pledge a perfonal focurity. This is totally request to the principle of bands fecured on mercantile credit. Such banks never grant loans for indefnite duration, upon my fecurity whittoever. They will not even difoont a bil lof exchange, when it has above two months to run. alone, fufficient for carrying on every branch of circulation. A truth which no body will controvert. But as they are of ufe in carrying on the great branches of circulation, it is proper to prevent them from engaging in fchemes which may deftroy their credit altogether.

I have obferved above, that this method of iffuing notes upon private focurity, was peculiarly well adapted to countries like Scotland, where trade and induftry are in their infancy.

Merchanis and manufacturers there, have confluer occafion for money or credit; and at the fame time, they cannot be fuppoled to have either real or perfonal eftates to pledge, in order to obtain a loan directly from the backs, who ought to lend upon no other fecurity.

To remove that difficulty, we find a fet of merchants, men of fubliance, who obtain from the banks very extensive credits upon the joint real and perfonal fecurity of themfelves and friends. With this affifiance from the bank, and with money borrowed from private people, repayable on demand, fomething below the common rate of intereft, they fupport the trade of Scotland, by giving credit to the merchants and manufacturers.

To this fet of men, therefore, are banks of circulation upon morrgage to leave that particular branch of bufinefs. It is their dury, it is the intereft of the country, and no lefs that of banks, that they be forported in foufful a trade; a trade which animates all the commerce and manufactures of Scotland, and which confequently promotes the

CHAP. VI. POLITICAL ECONOMY.

circulation of those very notes upon which the profits of the banks do arife.

Thefe merchants are fettled in all the moft confiderable towns: they are well acquainted with the flock, capacity, indultry, and integrity of all the dealers in their diffrich: they are many; and by this are able to go through all the detail which their bufnefs requires; and their profits, as we fhall fee prefently, are greater than thole of banks, who lend at a flated intereft.

The common denomination by which they are called in Scotland, is that of bankers; but to avoid their being confounded with bankers in England (whofe bulinefs is very different) we fhall, while we are treating of the doctrine of banks, call them by the name of exchangers, fince their trade is principally carried on by bills of exchange.

As often as thefe exchangers give credit to dealers in any way, they conflantly flate a committion of J_2 per cert, or more, according to circumflances, over and above the intereft of their advance; profits, which greatly furpafs thefe of any bank. One thoufand pounds credit given by a bank, may not produce ten pounds in a year for intereft : if given by a banker, to a merchant, who draws it out, and replaces it forty times in a year, there will aife upon it a committon of 20 per cent, or 200

This fet of men are expoled to rifks and loffes, which they bear without complaint, becaufe of their great profits; but it implies a detail, which no bask can defeend to.

Thefe exchangers give way, from time to time;

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and no effential burt is thereby occafioned to national credit. The lofs falls upon thofe who lend to them, or truft them with their money, upon precarious fecurity; and upon merchants, who lay their account with fuch riks. In a word, they are a kind of infurers, and draw premiums in proportion to their rifks.

To this fet of men, therefore, it fliould be left to give credit to merchants, as the credit they give is purely mercantile; and to banks alone, who give credit on good private fecurity, it fliould be left to conduct the great national circulation, which ought to fland upon the folid principles of private credit.

From this example we may different the juftnefs of the diffunction I have made between private and mercantile credit : had I not found it neceffary, I would not have introduced it.

C H A P. VII.

Concerning the Obligation to pay in Coin, and the Confequences thereof.

In all banks of circulation upon mortgage, the obligation in the note is to pay in coin, upon demand: and in the famous book of Mr. Law, there was a very neceffary claufe added; to wit, that the coin was to be of the fame weight, finenefs, and denomination, as at the dare of the note. This was done, in order to prevent the inconveniencies

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which might refu't to either party, by an arbitrary raifing or finking the denominations of the coin; a practicle then very familiar in France.

This obligation to pay in coin, owers its origin to the low flate of credit in Europeat the time when banks firlt began to be introduced; and it is not likely that any other expedient will foon be fallen upon to remove the inconveniences which refut from it in domeflic circulation, as long as the generality of people confider all money, except coin, to be falle and fictitious.

I have already thrown out abundance of hints, from which it may be gathered, that coin is not abfolutely neceffary for carrying on domeftic circulation, and more will be faid on that fubjed, as we goalong. But I am here to examine the nature and confequences of this obligation contracted by banks, to difcharge their notes in the current coin of the country.

In the firft place, it is plain, that no coin is ever (except in-very particular cales) carried to a bank, in order to procure notes. The greateft part of notes iffue from the banks, of which we are treating, either in confequence of a loan, or of a credit given by the bank, to fuch as can give fecurity for them. The loan is made in their own notes; which are quickly thrown into circulation by the borrower; who borrowed, becaufe he had occafion to pay them away. In Like manner, when a credit is given, the bank pays (in her notes) the orders fhe receives from the perfon who has the credit: in this manner are notes comonoly iffued from a back.

Coin, again, comes to a bank, in the common courfe of circulation, by payments made to it, cither for the interest upon their loans, or when merchants and landed men throw the payments made to them into the bank, towards filling up their credits; and by way of a lafe depolir for their money. Thefe payments are made to the bank in the ordinary circulation of the country. When there is a conflictable proportion of coin in circulation, then the bank receives much coin; and when there is little, they receive notes which are offered for payment; but whenever a draught is made upon them for the money thrown in a sabove, they pay in paper.

As we are here fearching after principles, not after facts, it is out of our way to inquire what may be the real proportion of coin preferved by banks of circulation, for anfwering the demand for it.

Mr. Megens, a very knowing man, and a very judicious author, lately dead, who has write a fnail treatife in the German tongue, tranflated into Englifth, under the title of *The Univerfal Merchant*, delivers his fentiments concerning the proportion of coin preferved in the bank of England, which I fhall here tranferibe in the tranflator's words. Sect. 65-

The bank of England confifts of two forts of creditors, the one of that fet of men, who, in King William's time, when money was fearce and dear, lent the public 1,200,000 pounds, at 8 per cent. intereft, and 4000 pounds were allowed them for charges, amounting in whole to 100,000 pounds a year, an exclutive right of banking as a corporation

for 13 years, under the denomination of the proprietors of the bank; and which, for obtaining prolongation of their privileges, has been fince increafed by farther loans to the public at a lefs intereft, to near the fum of 11,000,000 pounds, which if we compute the intereft at 3 per cent. (as what they have more on fome part anfwers incident charges } it produces 230,000 pounds a year; and as they divide annually 5 per cent, to their proprietors, which is 550,000 pounds, it is evident that they make a yearly profit of 220,000 pounds, out of the money of the people who keep cafh with them, and thefe are the other fort of creditors : and as for what money the bank lends to the government, they have for the most part but 3 per cent. interest, I conclude that the credit cafh they have in their hands may amount to 11,000,000 pounds, and thereout is employed in loans to the government, difcounting of bills, and in buying gold and filver 7,333,333 1/3 pounds, which at a per cent, intereft or profit, will amount to the above 220,000 pounds, and remains 3,666,666 2/3 pounds in cafh, fufficient for circulation and current payments. And experience has evinced, that whenever any miltruft has occafioned any run upon the bank for any continuance, and the people not finding the treafure fo foon exhaufted as they furmiled, it flowed in again faster on the one hand than it was drawn out on the other.

This gentleman lived long in England. He was very intelligent in matters relating to commerce; and his authority may, 1 believe, be relied on as much as on any other, except that of the bank iffelf; which, it would appear, has fome intereft in keeping those affairs a fecret.

We fee by his account, that the bank of England keeps in coin 1/3 of the value of all their notes in circulation. With this quantity, bulkneds is scarried on with great finoothnels, owing to the profperity of that kingdom, which feldom owes any confiderable balance to other nations.

But the confequence of the obligation to pay in coin, is, that when the nation comes to owe a balance, the notes which the bank had iffued to fupport domeflic circulation only, come upon it for payment of a foreign balance, and thereby the coin which it had provided for home demand only, is drawn out.

It is this circumflance, above all others, which diftreffes banks of circulation. Were it not for this, the obligation to pay in coin might cafily be difcharged; but when in virtue of this pure obligation, a heavy national balance is demanded of the bank, which has only made provision for the current and ordinary demand at home, it requires a little combination to find out, at once, an eafy remedy.

This combination we fhall, in the following chapters, endeavour to unfold: it is by far the moft intricate, and at the fame time the moft important in the whole doftrine of banks of circulation.

Another inconvenience refulting from this obligation to pay in coin, we have explained in the third book. It is, that the confusion of the English coin, and the lightness of a great part of it, obliges

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the bank of England to purchafe the metals at a price far above that which they can draw back for them after they are coined. We have there flown the great profit that might be made in melting down and exporting the heavy fpecies. This profit turns out a real lofs to the bank of England, which is conflandly obliged to provide new coin, in proportion as it is wanted. This inconvenience is not directly felt by banks, in countries where there is no mint ethabilited.

Here then is another bad confequence of this obligation to pay in the metals, which a proper regulation of the coin would immediately remove. In countries which abound in coin, banking is an eafy trade, when once their credit is well eftablifield. It is only when either a foreign war, or a wrong balance of trade has carried off the metals, that the weight of this obligation to pay in coin is feverely felt.

CHAP. VIII.

How a wrong Balance of Trade affects Banks of Circulation.

It is commonly faid, that when there is a balance due by any nation, upon the whole of their mercantile tranfactions with the reft of the world, fuch balance most be paid in coin. This we call a wrong balance. Those who tranfact the payment of this balance, are those who regulate the courfe of exchange; and we may fuppofe, without the least

danger of being deceived, that the courfe is always higher than the expense of procuring and transporting the metals; becaufe the overcharge is profit to the exchanger, who without that profit could not carry on his bufnefs.

These exchangers, then, must have a command of coin; and where can they get it fo eably, and fo readily, as from banks who are bound to pay in it?

Every merchant who imports foreign commodities, muft be fuppofed to have value in his hands from the fale of them; but this value muft confift in the money of the country: if that be muftly bank paper, he muft give the bank paper to the exchangers for a bill, whole bufinefs it is to place funds in thole parts upon which bills are demanded. The exchanger again (to fupport that fund which he exhaufts by his draughts) muft demand coin from the banks, for the notes he received from the merchant when he gave him the foreign bill.

Befildes the wrong balances of trade transfided in this manner, which banks are conflantly obliged to make good in coin, every other payment made to foreigners has the fame efficient. It is not becaufe it is a balance of trade, but becaufe it is a payment which connot be made in paper currency, that a demand is made for coin. Coin we have called the money of the world, as notes may be called the money of the good a structure of the first the first structure when we pay a balance to foreigners; the laft is full as good when we pay among our felves.

It is proper, however, to obferve, that there is a

CHAP. IX. POLITICAL ECONOMY.

great difference between the wrong balance of trade, and the general balance of payments. The first marks the total lofs of the nation when her imports exceed the value of her exports; the fecond comprehends three other articles, viz. I. the expense of the natives in foreign countries; 2. the payment of all debts, principal and intereft, due to foreigners, 3. the lending to other nations.

Thefe three I call the general balance of foreign payments : and thefe added to the wrong balance of trade may be called the grand balance with the world.

Now as long as the payment of this grand balance is negotiated by exchangers, all the coin required to make it good, muft be at the charge of banks.

How then is this coin to be procured by nations who have no mines of their own?

CHAP. IX.

How a grand Balance may be paid by Banks, without the affiftance of Coin.

D ID all the circulation of a country confift in coin, this grand balance, as we have called it, would be paid out of the coin, to the diminution of it.

We have faid that the acquifition of coin, or of the precious metals, adds to the intrinfic value of a country, as much as if a portion of territory were added to it. The truth of this proposition will now foon appear evident.

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We have allo faid, that the creation of fymbo, lical money, adds no additional wealth to a country, but only provides a fund of circulation out of fold property; which enables the proprietors to conflume and to pay proportionally for their confumption: and we have flown how by this contrivance trade and indultry are made to flouifa.

Nlay we not conclude, from thefe principles, that as nations who have coin, pay their grand balance out of their coin, to the diminution of that fpecies of their property, ion ations who have melted down their folid property into (fymbolical money, muft pay their grand balance out of the fymbolical money; that is to fay, out of the folid property of which it is the fymbol?

But this folid property cannot be fent abroad; and it is alledged that nothing but coin can be employed in paying this grand balance. To this I anfwer, that in fach a cafe the credit of a bank may flep in, without which a nation which runs flort of coin, and which comes to owe a grand balance muft quickly be undone.

We have faid that while exchangers tranfact the balance, the whole load of providing coin lies upon banks. Now the whole fold property melted down, in their paper, is in their hands; becaufe I confider the fecurities given them for their paper, to be the fame as the property itfelf. Upon this property, there is a yearly intereft paid to the bank: this intereft, then, muft be engaged by them to foreigners, in lieu of what is owing to them by the nation; and when once a fund is borrowed upon it abroad,

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the reft is eafy to the bank. This fhall be further explained as we go along.

I do not pretend that the common operation of providing coin, when the grand balance is againft a nation, is as fimple as I have reprefented it. I know it is not; and I know alfo, that I am not in any degree canable to explain the infinite combination of mercantile operations necessary to bring it about; but it is no lefs true, that thefe combinations may be fhortened: becaufe when the whole of them have been gone through, the transaction must land in what I have faid; to wit, that either the grand balance must be paid out of the national ftock of coin, or it must be furnished by foreigners upon a loan from them; the intereft of which muft be paid out of that part of the folid property of the nation which has been melted down into paper. I fay farther, that were not all this folid property, fo melted down, in the hands of banks. who thereby have established to themselves an enormous mercantile credit; there would be no poffibility of conducting fuch an operation: that is to fay, there would be no poffibility for nations to run in debt to nations, upon the fecurity of their refpective landed property.

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CHAP. X.

Infufficiency of temporary Credits for the Payment of a wrong Balance.

If A V E faid, that when the national flock of coin is not fufficient to provide banks with the quantity demanded of them, for the payment of the grand balance, that a loan muft take place. To this it may be objected, that a credit is fufficient to procure coin, without having recourse to a formal loan. The difference I make between a loan and a credit confifts in this, that by a credit we underfland a temporary advance of money, which the perion who gives the credit expects to have repaid in a flort time, which interefl for the advance, and commiftion for the credit; whereas by a loan we underfland the lending of money for an indefinite time, with interefl for during non-payment.

Now I fay, the credit, in this cafe, will not anfiver the purpole of fupplying a deficiency of coin; unlefs the deficiency has been accidental, and that a return of coin, from a new favorable grand balance, be quickly expected. The credit will indeed anfwer the prefent exigency; but the moment this credit comes to be replaced, it mult be replaced either by a loan, or by a fupply of coin; but, by the fuppoficion, coin is found to be wanting for paying the grand balance; confequently, nothing but a loan, made by the lenders either in coin, in the metals, or in a liberty to draw, can remove

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the inconvenience; and if recourfe be had to credic, inftead of the loan, the fame difficulty will recur, whenever that credit comes to be made good by repayment.

Upon the whole, we may conclude, that nations who owe a balance to other nations, mult pay it either with their coin, or with fold property; confequently, the acquifition of coin is, in this particular, as advantageous as the acquifition of lands; but when coin is not to be procured, the transfmillion of the fold property to foreign creditors is an operation which banks mult undertake; becaufe it is they who are obliged either to do that, or to pay in coin.

CHAP. XI.1

Of the Hurt refulting to Banks, when they leave the Payment of a wrong Balance to Exchangers.

WE have feen in a former chapter, how exchangers and banks are mutually affiftant to one another: the exchangers by fwelling and fupporting circulation; the bank by fupplying them with credit for that purpofe. While parties are united by a common intereft, all goes well: but intereft divides, by the fame principle that it unites.

No fooner does a nation incur a balance againft itfelf, than exchangers fet themfelves to work to make a fortune, by conducting the operation of paying it. They appear then in the light of political

ufurers, to a fpendthrift heir who has no guardian. The guardian fhould be the bank, who, upon fuch occafions, (and upon fuch only) ought to interpofe between the nation and her foreign creditors. This it may do, by conflictuing itfelf at once debtor for the whole balance, and by taking foreign exchange into its hand, until fuch time as it fhall have diftributed the debt it has contracted for the nation, among thofe individuals who really owe it. This operation performed, exchange may be left to thofe who make that branch their bufnefs, becaufe then they will find no opportunity of combining either againft the intereft of the bank or of individuals.

When a national bank neglects fo neceffary a duty, as well as fo neceffary a precaution, the whole clafs of exchangers become united by a common intercft againfl it; and the country is torn to pieces, by the fruitlefs attempt it makes to fupport itfelf, without the help of the only expedient that can relieve it.

Those exchangers having the grand balance to transfact with other nations, make use of their credits with the bank, or of its notes, to draw from it their coin, in order to export it. This throws a great load upon the bank, which is conflantly obliged to provide a fufficient quantity for anfwering all demands; for we have laid it down as a principle, that whatever coin or bills are neceffury to pay the grand balance, in every way it can be transfacted, it mult ultimately be paid by the bank; becaufe whoever wants coin for any purpole, and has

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bank notes, can force the bank to pay in coin, or ftop payment.

It cannot, therefore, be faid, that exchangers do wrong; nor can they be blamed, in drawing from the bank whatever is wanted for the purpole of paying to forcigners what is their, due; that is, what is jufily owing to them. If they do more; they mult hurt themfelves; becaufe whatever is fent abroad more than is due, mult conflitute the reft of the world debtors to the country which fends out their coin. The confiquence of this is to turn exchange againft foreigners, and to make it favorable for the nation which is creditor. In this cafe, were the readions that they gain, by fending it out when they are debtors.

It is very common for banks to complain, when coin is hard to be procured, and when large demands are made upon them; they then alledge unfait dealings againft exchangers; they fall to work to climate the balance of trade, and endeavour to flow that it is not in reality againft the country.

But alas! this is nothing to the purpofe; the balance of trade may be very favorable, although the balance of payments be greatly againft the country; and both muft be paid, while the bank has a fuilling of cafh, or a note in circulation. So foon again as the grand balance is fairly paid off, it is impofible that any one can find an advantage in drawing coin from a bank; except in the fingle cafe of melting down the heavy fpecies, in nations which give

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their coinage gratis. Of this we have treated at fufficient length in another place.

Banks may indeed complain, that men of property are fometimes fending their money out of the country, at a time when it is already drained of its coin; that this raffes exchange, and hurts the trading intereft.

Exchange mult rife, no doubt, in proportion as the grand balance is great, and difficult to be paid: But where does the blame lie? Who ought to provide the coin, or the bills for paying this grand balance? Have we not flown that it is the bank alone who ought to provide coin for the ready anfwering of their notes? Have we not faid, that the method ofdoing this is by facrificing a part of the intereft due upon the obligations in their hands, fecured upon the folid property of the country, and by the means of forcign loans upon that fund, to procure either the metals themfelves, or a power to draw on thofe places where the nation's creditors refule?

Which of the two has molt reafon to complain, the bank, becaufe the inhabitants think fit to fend their effects out of the country, being either forced fo to do by their creditors, or chufing fo to do for their private advantage; or the creditors of the bank, and the country in general, when, from the obfructions the bank throws in the way, when required to pay its notes, exchange is forced up to an exorbitant height; the value of what private merchants owe to ftrangers is raifed; and when, by difcouraging trade in their hands, a general flop is, put to manufactures and credit in general?

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In a word, the bank has no reafon to complain, unlefs they can make it appear, how any perfon, exchanger or other, can find an advantage in feading coin out of the county, at a time when there is no demand for it; or when there is no near profpect of it, which is the fame thing? To fay that a principle of public fpirit fhould prevent a perfon from doing with his property what is moft to his advantage, in favor of faving fome money to a bank, is fuppoling the bank to be the public, inflead of being the fervant of the public.

Another argument to prove that no profit can be made by fending out coin, except when the balance is againft a country, is, that we fee all runs upon banks ftop, the moment exchange becomes favorable. Were there a profit to be made upon fending off coin, independently of the debts to be paid with it, which cannot be paid without it, the fame trade would be profitable at all times. As this is not the cafe, it follows, that the principle we have laid down is juft; to wit, that the balance due to foreigners mu/f be paid by banks, while they have **@** a note in circulation; and when once it is fairly paid by them, all extraordinary demands mu/f ceafe.

We now proceed to another point, to wit, What are the confequences to circulation, when a great balance draws away a large quantity of coin from the bank, and fends it out of the country?

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CHAP. XII.

How the Payment of a wrong Balance effects Circulation.

THAT I may communicate my ideas with the greater precifion, 1 muft here enter into a fhort detail of fome principles, and then reafon on a fuppofition.

It has been faid, that the confequence of credit and paper.money, fecured on folid property was to augment the mafs of the circulating equivalent, in proportion to the ufes found for it

Thefe uses may be comprehended under two general heads. The first, payment of what one owes; the fecond, buying what one has occasion for: the one and the other may be called by the general term of ready-money demands.

Whoever has a ready-money demand upon him, and property at the fame time, ought to be furnified with money by banks which lend upon mortgage.

Now the ftate of trade, manufactures, modes of living, and the cuftomary expende of the inhabitants, when taken all together, regulate and determine what we may call the mafs of ready money demands, that is, of alienation. To operate this multiplicity of payments, a certain proportion of money is neeffary. This proportion again may increafe or diminifu according to circumftances; although the quantity of alienation flould continue the fame.

To make this evident, let us fuppofe the accounts

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of a whole city kept by one man; alienation will go on without any payment at all, until accounts are cleared; and then nothing will be paid, but general balances upon the whole. This however is only by the bye. The point in hand is to agree, that a certain fum of money is neceffary for carrying on domeftic alienation; that is, for fatisfying readymoney demands: let us call this quantity (Å).

Next, in most countries in Furope, (1 may fay all) it is cuftomary to circulate coin, which, for many ufes, is found fitter than paper, (no matter for what reafon); cuftom has eftablifted it, and with cuftom even flatefinen mult comply.

The paper-money is generally made payable in coin; from cultom alfo. Now, according to the manners of the country, more or lefs coin is required for domeflic circulation. Let it be obferved, that hitherto we have not attended to foreign circulation, of which prefendly: and I fay, that the manners of a country may make more or lefs coin neceffary, for circulating the fame quantity of paper; merchants, for inflance, circulate much paper and little coin ; gameflers much coin, and little paper: one example is fufficient.

Let this quantity of coin, neceffary for circulating the paper-money, be called (B), and let the paper be called (C); confequently (A) will be equal to the fum of (B) and (C). Again, we have faid, that all balances owing by nation to nation, are paid either in coin, in the metals, or in bills; and that bank paper can be of no ufe in fach payments. Let the quantity of the metals, coin, or bills

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going out or coming into the country for payment of fuch balance, be called (D).

Thefe fluort defignations premified, we may reafon with more precifion. (A) is the total maß of money (coin and paper) neceffary at home: (A) is compofed of (B) the coin, and of (C) the paper, and (D) flands for that mafs of coin, or metal, or bills, which goes and comes according as the grand balance is favorable or unfavorable with other mations.

Now, from what has been faid, we may determine that there fhould at all times remain in the country, or in the back, a quantity of coin equal to (B); and if this be ever found to fall fhort, the bank does not difcharge its duty. It is unneeffary to determine what part of (B) fhould be locked up in the bank, and what part fhould remain in circulation: all we need to fay is, that it is the profit of banks the mfelves cannot determine that queftion is all we need to fay is, that it is the profit of banks to accuftom people to the ufe of paper as much as poffible; and therefore they will draw to themfelves as much coin a steby can.

When a favorable balance of trade brings exchange below par, and brings coin into the country, the confequence is, either to animate trade and induftry, to augment the mafs of payments, to fwell (A), and ftill to preferve (C) in circulation; or to make (A) regorge, fo as to fink the intereft of money below the bank lending price; and then people will carry back the regorging part of (C) to the bank, and withdraw their fecurities; which is confolidating, as we have called it, the

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property which had been formerly melted down, for want of this circulating equivalent (money).

This is conflantly the confequence of a flagnation of piper, from an overcharge of it, thrown into circulation. It returns upon the bank, and diminifhes the mafs of their fecurities, but never that of their coin.

From this we may conclude, that the circulation of a country can only abforb a determinate quantity of money (coin and paper); and that the lefs ufe they make of coin, the more ufe they will make of paper, and vice ver(a.

We may also conclude, that when trade and alienation increase, *ceteris paribus*, fo will money; that is, more folid property will be melted down; and when trade and alienation diminifh, *ceteris paribus*, fo will money; that is, fome of the folid property formerly melted down, will confolidate, as we have called it.

Thele vicifitudes in the mafs of circulation are. not peculiar to paper currency. In countries where nothing circulates but the metals, the cafe is the fame; only the operation is more aukward and expenfive. When coin becomes fcarce there, it is hardly poffible, in remote provinces, to find any credit at all: and in the centre of circulation, the ufe of it (intereft) mult rife very confiderably, and fand high for fome time, before even intelligent merchants will import bullion to the mint; which is the only bank they have to fit it for circulation. When the metal is coined, then men of property are enabled to borrow, or to fell their lands. On the other hand, when a favorable balance pours in a fuperfluity of coin, and at the fame time cuts off the demands of trade for fending it abroad, it frequently falls into coffers; where it becomes as ufclefs as if it were in the mine; and this clumfy circulation, as I may call it, prevents it from coming into the hands of thofe who would have occafion for it, did they but know where to come at it. Paper, on the other hand, when banks and trade are well eftablished, is always to be found. Thus, in an inflant, paper-money either creates or extinguifhes an interefl equal to its value, in favor of the poffeffor. No part of it lies dead, not for a day, when employed in trade : it is not foo focin.

We must now suppose a bank established in a country which owes a balance to other nations.

In this cafe, the bank mult poffefs, or be able to command, a fum of coin or bills equal to (B) and (D); (B) for domeflic, and (D) for foreign circulation.

Thofe who owe this balance $\{D\}$, and who are fuppofed to have value for it, in the currency of the country, in order to pay it, mult either exhault a part of (B), by fending it away, or they mult carry a part of (C) to the bank, to be paid for incoin. If they pick up a part of (B) in the country, then the coin in circulation, being diminified below its proportion, the poffedfors of (C) will come upon the bank for a fupply, in order to make up (B) to its former flandard. Banks complain without reafon. If they carry part of (C) to be changed at the bank, for the payment of (D), they thereby

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diminifi the quantity of $\{C\}$; confequently there will be a demand upon the bank for more notes, to fupport domeflic circulation; becaufe thofe which have been paid in coin are returned to the bank, and have diminified the mafs of $\{C\}$; which therefore muft be replaced by a new melting down of folid property.

Now \hat{I} muft here obferve, that this recruit, iffued to fill up (C) to the level, is an addition made to the maß of fecurities formerly lodged with the bank; and reprefents, not improperly, that part of the landed property of a country which the bank muft difpofe of to foreigners, in order to procure from them the coin or bills neceflary for anfwering the demand of (D).

When notes, therefore, are carried to the bank for payment of debts due to the bank, they then diminifi the mals of folid property melted down in the fecurities lodged in the bank; but when notes are carried to the bank, to be converted into coin or bills, for foreign expontation, they do not diminifi the mafs of the fecurities : on the contrary, the confequence is, to pave the way for the augmentation of them; becaulte I fuppofe that the notes, fo given in to the bank, and taken out of the circle, are to be replaced by the bank to domeflic circulation, to which they belonged; and the bank mult be at the expense of turning the value of thefe addinal fecurities granted for them into coin or foreign bills.

Is not this quite confiftent with reafon, fact, and common fenfe ? If a country contracts debts to foreigners, is it not juft the fame cafe as when one man contracts a debt to another in the fame fociety ? Much not the ultimate confequence of this d. bbc, that it muft be paid, either with the coin, with the moveables, or with the folid property of the debtor, transferred to the creditor, in lieu of the money owing ?

When a nation can pay with its coin, or with its effects, (that is to fay, with its product and manefactures) the operation is cafily and mechanically performed by the means of trade: when thefe objects are not fulficient; or when land, or an annual and perpetual income out of it, must make up the deficiency; then more faill and expende is required; and this expende falling upon banks, makes their trade lefs lucrative than in times when commerce fands at par, or is bringing in a balance.

Were trade to run conflantly againft a country, the confequence would be, that the whole property of it would, by degrees, be transferred to foreigners. This the bank of St. George at Genoa has operated with regard to Corfica, as has been obferved. But in that cafe, banks never could neglect laying down a plan whereby to avoid the lofs they cafually fuftain, when fuch a revolution comes fuddenly or unexpectedly upon them.

The method would be, to eftablish an annual fubfoription *abroad*, for borrowing a fum equivalent to the *grand balance*; the condition being to pay the interest of the fubforiptions out of the revenue of the country.

If the fecurity offered be good, there is no fear but fubfcribers will be found, while there is an onnce of gold and filver in Europe.

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The bank of England has an expedient of another nature, in what they call their circulation ; which is a premium granted to certain perfons, upon an obligation to pay a certain fum of coin upon demand. This is done with a view to answer upon preffing occafions. But England being a profperous trading nation, which feldom has any confiderable grand balance against her, except in time of war, when the public borrowings fupply in a great meafure the deficiency, as fhall be alterwards explained) this bank circulation is turned into a job; the fubfcriptions being lucrative, are distributed among the proprietors themfelves, who make no provision for the demand; and were it again to come, (as has been the cafe) the fubfcribers would, as formerly, make a call on the bank itfelf, by picking up their notes, and pay their fubfcriptions with the bank's own coin.

To obviate this inconvenience, which was feverely felt in the year 1745, the bank of England flouid have opened a fableription in fome foreign country, Holland, for example; where file might have procured large quantities of foreign coin : faoh a feafonable fupply would have proved a real augmentation of the metals; the fupply they got from their own domelife fableribers was only fictitious *.

* At this time there was another circumflance, befries thé demand of a blance to be paid abroad, which diftr.ff.ed the bank, viz. a fufpicion which took place, that if the rebellion had fucceeded, the credit of the bank would have toraily failed.

This very cafe points out the great advantage of banks upon mortgage of private credit.

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But banks in profperous trading nations fit down with cafual and temporary inconveniencies; and exchangers carry on a profitable trade, whether the nations be gaining or lofing all the while. For fuch nations, and fuch only, are banks advantageous. Were banks eflabilited in Spain, Portugal, or any other country which pays a conflant balance from the produce of their mines, they would only help on their ruin a little fafter.

In the infancy of banking, and in countries where the true principles of the trade are not well underflood, we find banks taking a general alarm, whenever a wrong balance of trade occafions a run upon them. This terror drives them to expedients for fupporting their credit, which we are now to examine, and which we final find to have a quite contrary tendency.

The better to explain this combination, we muft recal to mind, that the payment of the grand balance in coin or bills is unavoidable to banks. We have faid that this balance is commonly paid by exchangers, who pick up the coin in circulation; a thing the bank cannot prevent. This we have called exhaulting a part of (B): the confequence of this is, to make the proprietors of (C) come upon the bank, and demand coin for filling up (B): to this the bank muft also agree. But by thefe

We have faid, that the credit of fuch banks ought to be eft billned upon the principles of private fecurities only. If their notes be iffued upon folid property, then no rebellion can influence them: but of this more hereafter.

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operations (C) comes to be diminified, below the level neceffary for carrying on trade, induftry, and alicnation: upon which I have faid there commonly comes an application to the bank to give more credit, in order to fupport domeflic circulation, which if complied with, more folid property is confequently melted down.

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This fwells the mafs of fecurities, and raifes (A) to its former level. But here the bank has an option to refue more credit: in the former operations it had none. Now if the bank, from a terror of being drained of coin, flould refue to ilfue notes upon new credits; for the demands of domeltic circulation; in this cafe, I fay, they fail in their duty to the nation, as banks, and hurt their own intereft. As to their duty to the nation, 1 flull not infit upon it; but I think I can demonftrate that they fail in point of combination , with refpect to their own intereft, and that is enough.

I fay, then, that as long as there is one fingle note in circulation, and any part of a grand balance owing, that note will come upon the bank for payment, without a pofibility of its avoiding the demand. Refuling therefore credit, while any notes remain in the hands of the public, is refufing au intercft which may lelp to make up the paft loffes: but of this more hereafter.

In the next place, 1 think I have demonstrated, that fo foon as the grand balance is paid, it is impossible that any more demauds for coin can come upon the bank for exportation. Why then fhould a bank do fo figual a prejudice to their country, as

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to refue to lend them paper, which the ready-money demands of the country mult fulpend in circulation? And why do this at fo great a lofs to themfelves? It has been faid above, and I think with juftice, that this recruit, iffued to fill up circulation, adds to the maß of bank fecurities, and very properly reprefents that part of the income of the folid property of the country, which the bank muft difpole of to foreigners, in order to procure from them the coin or bills neceffary for anfwering the demand of payment of a gread balance.

In this light nothing can appear more imprudent, than to refuse credit.

A bank is forced to pay to the laft farthing of this balance; by paying it, the notes that were neceffary for circulation are returned to them; and they refule to replace them, for far that their fupplying circulation floud create a new balance againft them! This is voluntarily taking on themfelves all the lofs of banking, and rejecting the advantages.

Such management can only be prudent when the circulating notes of a bank are very few, and when the balance is very great. In that cafe, indeed, were the thing pollible, it might be prudent to give over banking for a while, till matters took a favorable turn. But if we fuppofe their notes to exceed the balance due, then all the hurt which can be done is done already; and the more notes are iffued, and the more credit is given, fo much the better; becaufe the intereft upon all that is iffued above the balance, mult be clear profit to the bank.

CHAP.XII. POLITICAL ECONÓMY.

To bring what has been faid within a narrower compast, and to lay it under our eye at once, let us call the domeftic circulation of a country, where a bank is eftablifued, (A).

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The fpecie itfelf, to carry it on, (B).

The balances to other nations, (D).

The bank muft have a command of credit and coin equal to the fum of (B) and (D). If they have the value of (D) in any foreign place, where a general circulation of exchange is carried on; then they have only occalion for (B) at home, and can furnish bils to the amount of (D).

If (D), in confequence of bills drawn, fhall come to be exhaufted, the bank must replace it again, by new contracts, to firangers.

But as foon as $\{D\}$, is paid, 'either in coin or in bills, then whatever coin is drawn from the bank, and fent away by private people, (exchangers, & c) muß form a balance due to the country; which balance will render exchange favorable, and will occafion a lofs to thofe who fent away the coin. In this cafe, the more credit the bank gives, fo much more will their profits increafe.

To conclude: Let banks never complain of those who demand coin of them, except in the cafe when it is demanded in order to be melted down, or for domeflic circulation, which may as well be carried on with paper.

And fo foon as a demand for coin to pay a foreign balance begins, it is then both the duty and intereft of all good citizens to be as alliftant as polfible to banks, by contenting themfelves with paper

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for their own occafions, and by throwing into the bank all the coin which cafually falls into their bands. As to duty, I fhall offer no argument to enforce it. But I fay it becomes a national concern to affift the bank; becaufe the lofs incurred by the bank in procuring coin, falls ultimately on every individual, by railing exchange; confequently, prices, by raifing the intereft of money to be borrowed; and laft of all, by conflictuing a perpetual intereft to be paid to foreigners, out of the revenue of the folid property of the country. Upon fuch occafions, a good citizen ought to bluft at pulling out a purfe, when his own intereft, and that of his country, flould make him fatisfied with a pocket book.

CHAP. XIII.

Continuation of the fame Subject: and of the Principles upon which Banks ought to borrow Abroad, and give credit at Home.

IN every quefition relative to this fubject, we muft return to principles. This is the only fure method of avoiding error. The intelligent reader, therefore, muft excute flort repetitions, and confider them as a facrifice he is making to thole of flower capacities, to whom they are uteful.

The principle of banking upon mortgage, is to lend and give credit to thole who have property, and a defire to melt it down. This is calculated for

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the benefit of trade, and for an encouragement to induftry. If fuch banks, therefore, borrow, it mult be done confiftently with the principles upon which their banking is founded. If the borrowing flould tend to deftroy thofe advantages which their lending had procured, then the operation is contrary to principles, and abulive. So much for recapitulation.

While trade flourifhes and brings in a balance, banks never have occafion to borrow; it is then they lend and give credit. This, I believe, we' may take for granted.

When the country where the bank is eftablified begins to owe a balance to other nations, the bank, as we have feen in the laft chapter, is obliged to pay it in coin or in bills. We have there flown, that in fuch cafes it is inconfiftent with their principles and intereft, to withhold lending and giving credit, fo far as is neceffary for keeping up the fund of circulation to that flandard which alienation and ready money demands require.

To refufe credit, and at the fame time to borrow at home, mult then, at first fight, appear to be doubly inconfiltent. But in order to fet this point in the clearest light 1 am capable, 1 shall reason upon a fupposition analogous to the fituation of the Scotch banks, and by that means avoid abstraction as much as 1 can.

Let me then fuppofe that Scotland, during the laft years of the war ended in 1763, and ever fince (1 write in 1764) from the unavoidable diffrefs of the times, was obliged, 1. to import confiderable.

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quantities of grain in fome bad years; 2. to refund the English loans of money fettled there in former times; 3. to furnifli fome of the inhabitants with funds, which they thought fit to place in England; 4. to pay the amount of additional taxes impofed during the war; while, at the fame time, feveral of the ordinary refources were withdrawn; fuch as, 1. a great part of the industrious inhabitants who went to fupply the fleets and armies; 2. the abfence of the ordinary contingent of troops; and 2. the cutting off feveral beneficial articles of commerce. Let me suppose, I fay, that from a combination of thefe loffes incurred, and advantages fufpended, Scotland has loft annually, for eight. years paft, two hundred thousand pounds. I am no competent judge of the exactnels of this eftimate. it is of no confequence to the argument; but I think I am far beyond the true computation.

On the other hand, let me fuppofe, that the fum of currency in paper, fufficient (with the little coin there was) to circulate the whole of the alicenations in Scotland, {that is to fay, the whole dometic circulation, fuppofing no balance to be owing to England or other countries) to be one million flerling. I am perfuaded I am here below the true eliminet.

Is it not evident, from this fuppofition, and from the principles we have been deducing, that unlefs the banks of Scotland had alienated annually in favor of England, a fund for paying the intereft of two hundred thefind pounds capital, and either brought down the coin, or Siven bills on London

for the fum of that capital every year; that the million of Scots currency would have been-diminified in proportion to the deficiency; and would not the confequence of that be, *ceteris paribus*, to bring the currency below the demand for it; and, confequently, to hurt trade, and alienation?

Now fuppofing the banks, inflead of providing, in England, a fund equal to this geend balance, (as I have faid they flouid do) to remain in conflernation and inactivity, giving the whole of their attention to the providing coin and bills to fupply the demand of exchangers, whofe bufinefs it is to fend out this annual balance, what will the confequence be?

I answer, that if the banks, in such a cafe, do not follow the plan I have proposed, the confequence will be, that two hundred thoufand pounds of their paper will be, the first year, taken out of the domeftic circulation of Scotland ; will be carried to the bank, and coin demanded for it. If the coin is found in the bank, it is well; it goes away, and leaves the paper circulation of Scotland at 800,000 l. This void muft occasion applications to the bank for credits to fupply it. Is it not then the intereft of the bank to fupply it? We have faid in the former chapters that it is. But now let us fuppofe it objected, that if banks fhould iffue notes at ' fuch a time, their cash having been exhausted, they would be obliged to ftop altogether, upon a return of those notes iffued upon additional credits.

To this I repeat again, becaufe of the importance of the fubject, that notes iffued to fupport the

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demand of circulation never can return upon the bank, fo as to form a demand for coin; and if they do return, it muft be in order to extinguift the fecurities granted by thofe who have credit in bank (I except always that regular demand for coin, at all times neceflary for circulating the paper for domefice ufes) and if thofe notes return of themfelves, without being called in, this phenomenon would be a proof that circulation is diminifhing of itfelf: but fuppofing fuch a cafe to happen, it is plain that fuch return can produce no call for coin ; becaufe when the notes return it is not for coin , but for acquitting an obligation or mortgage, as has been oliten repeated.

Notes are paid in, I fay, becaufe circulation has thrown them out. Now if circulation has thrown them out as fuperfluous, it never can have occafion for coin in their flead; becaufe coin anfwers the fame purpofe.

But then it is urged that they do not return, becaufe circulation has thrown them out, but becaufe coin is wanted: be it 60. Then we mult fay, that circulation is not diminifhed, as we at first fuppofed; but that the return of another year's balance, makes a new demand for coin needfary.

Now 1 afk, how the withholding this 200,000 *l*. from circulation, after the first year's drain, can prevent the balance from returning? There are by the fuppolition flill 800,000 *l*. of notes in the country; will not exchangers get hold of two hundred thouland out of this fund, as well as out of the million? For he who over, mult pay, that is, mult

circulate. It is only the circulation of the industrious, of the rich, in fhort buying, that is to fay, voluntary circulation, which is ftopped for want of currency: paying, that is, involuntary circulation, never can be ftopped : debtors muft find money , as long as there is any in the country, were they to give an acre for a fhilling, or a houfe for half a crown. Now those who owe this foreign balance are debtors; confequently, they must draw 200,000 l. out of circulation, the fecond year as the first, whether the ftandard million be filled up or not. The withholding, therefore, the credits demanded upon the first diminution, has not the least effect in preventing the demand for coin the year following: it only diftreffes the country, raifing exchange, and the intereft of money, by rendering money fcarce; and what is the most abfurd of all, it deprives the bank of 10,000 l. a year intereft, at 5 per cent. upon 200,000 l. which it may iffue anew.

Suppole again, that a fecond year's demand for a balance of 200,000 *l*. comes upon the bank : if the coin is out, as we may fuppole that after fuch a drain it will not be in great plenty, expedients mult be fallen upon: In fuch a cafe, if the bank does not at once fairly borrow at London (without any obligation to repay the capital) a fum of 200,000 *l* and pay for it a regular intereft, according to the rate of money, with an obligation to pay, as government does, half-yearly, on the change of London, it will be involved in expedients which will create a, monffrous circulation of coin in the bank, perbaps double of the fum required, and all thofe

operations will land in the end (as to the bank) in paying the intereff of this found out of the mafs of its fecurities or flock. If the bank fhould borrow this zecoco *L* in London, in the manner we have faid, the circulating fund of coin will be no wild iminified; there will be no call extraordinary, no rifing of exchange; the bank will have *this* in its hands; and if it rifes, it is the bank, not the exchangers who will profit by ic

But let us fuppofe that inftead of this, it fhould have recourfe to temporary credits upon which the capital is conftantly demandable, or to other expedients still less effectual for answering the call which is to come upon it for the fecond year's balance: what will be the confequence ? To this I answer, that those merchants, or others who owe the balance, will apply to exchangers for bills, for which they must pay a high exchange: thefe bills will be bought from the exchangers with notes. (taken out of circulation) and will reduce this to 600,000. I. the exchangers will carry thefe to the bank and demand coin. If the bank fhould make use of an optional claufe, to pay in fix months, with intereft at f per cent. the exchangers will obtain fix months credit at London, and in confequence of that, their bills will be honored and paid. This credit cofts them money, which is added to the exchange : the bank, at the end of fix months, pays in coin, which in the interval it must provide from London. It pays alfo fix months intereft upon the paper formerly prefented by the exchanger : add to the account, that bringing down the coin muft coft the bank at leaft 12 fhillings per hundred pounds.

and as much more to the exchanger who receives it in order to fend ait back again; and after all thefe intricate operations which have coft fo much trouble, ill blood, stagnation and diminution of circulation, expende in exchange to the debtors of the balance. ftrefs of credit upon exchangers for procuring fo large advances with committion, &c. ex, penfe to the bank in providing coin, expenfe to the exchangers in returning it; after all, I fay, the operation lands in this : that 200,000 / of notes, taken out of the circulation of Scotland, returns to the bank who must have provided, at last, either coin, or credit at London for them. This return of 200,000 l. of notes does not diminifh the mafs of those obligations lodged in the bank , in virtue of which they are creditors upon the proprietors of Scotland : confequently, the bank has conftituted itfelf debtor to England for those funds which have been torn from it in the manner above defcribed : confequently, had it, by a permanent loan, conftituted itfelf voluntarily debtor to England from the beginning, it would have paid no more, nay lefs than it has been obliged to pay; circulation would not have loft 200,000 / and the bank would have had the interest of 200,000 & added to its former fecurities, which would compendate (pro tanto at leaft) the expense of borrowing that fum in England upon a permanent fund. Inftead of which it compenfates the interest of a temporary loan, with the fame fum of interest taken out of the fecurities in its hand. If, therefore, from an ill grounded fcar of iffuing as much paper as is demanded, it

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fhall withhold it, there refults to itfelf a lofs equal to the intereft of what it refufes to lend; that is to fay, there is a *lucrum ceffons* to the bank of the intereft of this 200,000 l, at 5 per cent. or at 100,000 la year; which other banking companies will fill up, and thereby extend their circulation.

If, befides refufing credits, it fhould call in any part of those already given, it ftill diminishes circulation: but then by that operation it diminifhes the mafs of its fecurities, and fo diminifhes the fum of the interest annually paid to itfelf. If it goes farther and borrows money at home, fuch loans will be made in its own paper, which will diminifh farther the mais of circulation; and if it goes on recalling the credits and mortgages, will foon draw every bit of its paper out of circulation, and remain creditor upon Scotland only for the balance it has paid to England on her account. Such are the confequences, when a bank which lends upon private fecurity withholds credit, at a time when a national balance is due, and when applications are made to it for new credits, to fill up the void of circulation occafioned by the operations uled for the payment of the balance: fuch also are the additional fatal confequences, when to this it adds fo inconfistent an operation as that of borrowing in its own notes, or recalling the credits it had formerly given.

By the first step it only appears passive in allowing natural causes to destroy both the bank and the nation, as I think has been proved.

By the fecond, it is active in deftroying both itfelf and the country.

What benefit can ever a bank which lends upon private fecurity reap by borrowing within the country of which it is the centre of circulation; nay, what benefit can it ever reap from withholding its notes from those who can give good fecurity for them!

Every penny it borrows, or calls in , circumfcribes its own profits, while it diffreffes the country. After all the combinations 1 have been able to make, 1 can difcover but one motive which (through a falle light) may engage a bank to this ftep, to wit, jealoufy of other banks.

As this fpeculation is defigned to illustrate the principles of circulation, from circumstances relative to the prefent state of the Scotch banks, let us call things by their names.

The banks of Edinburgh refemble, more than any other in Scotland, a national bank. Let me then fuppofe all that can be fuppofed, viz. that the abundance of their paper has given occation to leffer banks to pick up from *them* every fhilling of that thefe leffer banks have ever had; and that thefe have had the addrefs allo to throw the whole load of the balance upon thofe of Edinburgh: let this be fuppofed, more cannot, 'and let us allow faither, that this mult ever continue to be the cafe. In thefe circumfances, what motive can the banks of Edinburgh have for withholding credit from thofe who are able to give fecurity? What motive can they have for borrowing up their own notes?

Indeed I can account for this plan of management in no other way than by fuppoling, that, difgufted at the long continuance of an unfavorable balance of trade againft their country, and vexed to find the whole load of it thrown upon themfolves, they have taken the refolution to abandon the trade, and are taking this method of recalling their paper altogether.

Let me fuppofe the contrary, and I final not be able to diffeover how it is pollible that fuch a conduck can turn to their own advantage, throwing out all confideration of the public good, which for fome time, no doubt, mult be greatly hurt by it.

As long as any confiderable quantity of their notes is in circulation, and that the principal exchangers refide at Edinburgh, they never cap avoid the lofs of paying the balance; and by refußing to fill up the void occafioned by the return of their notes, they deliver the whole profit of replacing them to the other banks, their rivals.

Let me next effimate the loffes they fulfain by furnifning coin to the other banks, and for the payment of the balance; and then compare thefe with what they lofe by not keeping circulation full.

I finall fuppofe the balance to colt them two hundred thousand pounds per annum; and I finall fuppofe that all the leffer banks put together have occafion for two hundred thousand pounds in their chefts; Is not this computation far above what can polibily be fuppofed?

Will it be allowed that if the banks of Edinburgh willingly fubmit to pay the whole of the bills of exchange demanded on London, for this

balance, they will have at leaft the preference in replacing that fum to circulation?

If they pay the balance of 200,000 *l* a like fum of their notes mult come in to them, without diminilhing one fhilling of the intereft paid upon the fecurities lodged in their banks; confequently, the only lofs incurred is the difference between the intereft they receive, which is 5 per cent. and what it would coft them to borrow a like fum in London, and to remit the intereft of that fum four times a year.

Now the value of a 4 per cent, is at prefent about 96; fo in paying 20 s. per quarter on the change of London, the Edinburgh banks may have at London a capital of 96 l. Let me call it only 94 l. fuppoling their credit not to be quite fo good as that of the funds. I think it as good to the full; and I am fure it is fo. At this rate, the 200,000 l, will coft them an intereft of 8510 L inftead of the 10.000 L which they will receive for the like fum added to their former fecurities. Now I fuppole that they have recourfe to exchangers to remit this intereft, and that they pay for it 5 per cent. (which is an abfurd fuppolition, as they will have the exchange entirely in their own hands) and that they give all the bills for the 200,000 l. at par, (alfo a ridiculous fuppofition } the 5 per cent. on \$510 l. is 425 l. 10 s. which added to the intereft, makes 8935 1. 10 s. fo that after all, they will have upon the whole transaction 1064 4 10 s. of profit.

Next, as to the lofs incurred in furnifhing 200,000 *l*. to the other banks: If this coin be demanded of

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them by those banks, the demanders must, for this purpole, draw 200,000 % of Edinburgh notes out of the circulation of Scotland; which I have fuppofed may be replaced in fome little time by the Edinburgh - banks; confequently, if this fum alfo be borrowed at London, there will refult upon this operation, as well as upon the laft, a profit of 1061 l. 10 s. But then indeed they must be at the expense of bringing down the coin borrowed, at 1 & s. per 100 l. becaufe those banks will infift upon having coin, and refuse bills on London. This will coft 1200 /. from which fleduct the profit of 1064 L 10 s. gained by the first operation, remains of loss upon this laft transaction 135 /. 10 s. no great fum *. Does it not follow from this reafoning, that the banks of Edinburgh will have the whole bufinefs of exchange in their own hands? What exchanger then will enter into competition with them? The domettic transactions with the merchants and manufacturers of Scotland will be their only bufinefs. Farther .

* We are not to fuppofe that this year's balance of goo,good *i* is trayers to continue. We have feen how its hans been occasioned by a cour's of unfavorable circumfancer, which have run Scotland in debt; we have feen how the banks may interpole their credit, a norder to still the country in paving it; and we fhall fee, befare we difmifs this folick, how they will be enabled to repay it, and feet Scotland free, by a return of a favorable balance upon their commerce. Let it then be remembered, that all thole contractions in England are properly the d-base of Scotland, not of the banks. Scotland, hierefore, and not the banks, muth be at all the experise thereby incurred. Thefe points fhall be explained as we go along.

What

What prevents the banks of Edinburgh to have offices in every trading town in Scotland, where their notes may be regularly paid on prefentation, and new credits given as circulation demands them?

The only objection I can find to this plan of banking, is the difficulty of finding credit at London to borrow fuch large fums.

This, I think, may also be removed, from the plain principles of credit. If the banks of Edinburgh enter into a fair coalition, as they ought to do, I think, in order to form really a national bank. totally independent of that of England; may they not open a subscription at London, and establish a regular fund of their own, as well as any other company, fuch as the India, or South Sea? By borrowing in the beginning at a finall advance of interest above the funds, and paying as regularly as government does, will not all those who make a trade of buying and felling flock fill their loan, tather than inveft it in any other carrying a lefs intereft? And if the whole land fecurities, and ftocks of those banks at Edinburgh be pledged for this loan, will it not fland on as good a bottom as any fund upon earth? And can it be doubted but parliament will encourage fuch a fcheme, upon laying the affairs of Scotland and the banks properly before them ?

By this means they will really become a national bank : becaufe England feems at prefent to be to Scotland, what all the reft of the world is to England. Now, the bank of England has no fuch fund of credit on the continent, that I know; and were Vul. 1V. T

that country to fall into as great diffrefs, by a heavy balance, as Scotland has been, fhe would find as many difficulties in extricating herfelf by domefic borrowings, bank - circulation, &c. as Scotland has found by the like domefile expedients. She would then be obligged, for her relief, to have recourfe to a fund opened in Holland, Spain, or Portugal, like to what 1 propole for Scotland with refpect to England.

I have heard it alledged, that the whole diftrefs occafioned to the banks and circulation of Scotland, was occafioned by a falfe ftep taken by them, fome years ago; at the time when the lownefs of the Englifin funds, and a prospect of a peace, occafioned great remittances, from Scotland, and a withdrawing of the large capital of, perhaps, goo,oo *l* owing in Scotland to Englifin perfons of property.

At that time, it is faid, the banks imprudently launched out in giving extensive credits to the debtors of thofe capitals, and to thofe who wanted to remit the funds they had fecured in the hands of people who could not pay them; that this threw a load of paper into circulation, which it could not fufpend, being far beyond the extent of it; and that, confequently, the paper came back upon the bank; produced a run for coin, which foou exhausted, in a manner, all that was in Scotland; and that the country has never been able to recover idelf fince.

This reprefentation is plaufible, and has an air of being founded on principles : in order therefore

to ferve as a further illustration of the fubject of circulation, I fhall point out where the fallacy lies.

It is faid the banks did wrong in giving thole credits. I fay, they did right; but they did wrong in not providing against the confequences.

Had they refufed the credits, the English, and other creditors would have fallen directly upon their debtors, and obliged them to pay, by a fale of their lands, at an under - value; which, I think. would have been an infinite lofs to Scotland. la this way the price would have been paid in bankpaper, taken out of circulation; for we have faid, that he who owes must pay, be the confequence what it will. This paper would have come upon the banks at any rate; and being a balance due to ftrangers, must have been paid by the banks. The banks therefore did right to fupply the credits demanded; but then they might have forefeen that the whole load of paying those debts would fall upon them; which they being in no capacity to do, fhould have immediately pledged in England, the intereft of the credits they had given out, after supplying the want of Scots circulation, and when the notes came in, they would have had at Lon." don the capital of that interest prepared for paying them off, and no inconvenience would have been found.

The only thing then the banks feem to have misjudged, was the granting those credits too haftily, and to people who perhaps would not have inveftes their facility in giving credit.

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Banks therefore fhould well examine the flate of circulation, and of the grand balance, in difficult times, before they give credit. If circulation be full they may, with juffice, fulpect that the credits are demanded with a view of expediency, to transport property out of the country, which otherwife might have remained. But in favor of circulation, or in favor of what might be exacted by foreign creditors, banks never can misjudge in giving credit; becaufe, if they fhould refuse to do it, they in the first place incur a lofs themfelves; and in the fecond place, they diminifh the fund of circulation, and thereby hurt the country. Now when, at fuch times, a credit is afked or given, that demand is a warning to banks to prepare; and by preparing they are ready, and no lofs is incurred.

Upon the whole, it is an unfpeakable advantage to a nation to have her foreign debts paid by her bank, rather than to remain exposed to the demands of private foreign creditors; becaufe; when a bank pays them, I suppose her to do it upon a loan in the funding way, where the capital is not demandable by the creditor; whereas when private citizens are debtors to ftrangers, the capitals are always demandable; and when a call comes fuddenly and unexpectedly, the country is diffreffed. What would become of Great Britain, if all her debts to ftrangers were demandable at any time? It is the individuals who owe, in effect, all that is due to foreigners; because they pay the interest : but they pay this interest to the public; and the public appears as the debtor to all ftrangers, who have no

right to exact the capital, although the flate may fet itfelf free whenever it is convenient.

I have faid above, that after all the combinations I had been able to form, I could difcover but one motive to induce a bank to with-hold credit at a time when it was demanded for the ufe of domeflic circulation, viz. jealoufy of other banks. What my combinations could not then difcover, my inquiries have fince unfolded.

It is faid, that the banks finding fo great a propenfity in the inhabitants of Scotland to confume foreign manufactures and produce, fell upon this expediency of calling in the old, and of refufing hew credits, in order to cut off fuch branches of burtful luxury and expende.

Could the execution of fuch a plan prove a remedy againft the vice complained of, this circumflance alone would more clearly demonstrate the utility of banks upon mortgage, than all **lave** been able to fay in favor of that elabliftment.

Let us therefore have recourfe to our principles, in order to difcover what influence a bank can have in this particular.

We have diffinguished between necessary and voluntary circulation: the necessary has the payment of debts; the voluntary has buying for its object.

We have faid that he who owes is either a bankrupt, or muft pay, as long as there is a fhilling in the country.

But he who buys, or inclines to buy, mu/l have money, or he can buy nothing; for if he buys on credit, he then falls immediately into the former category, and mu/l pay. 1 3

PRINCIPLES OF

By with holding money for the ules of circulation, which banks may do for fome time, buying may be ftopped; paying never can.

Now if themafe of money in circulation is brought fo low, that the higher claffes of the people, who confume foreign productions, canuot find money to buy with, what are we to fuppofe will be the cafe with manufacturers, and with the merchants who buy up their work? Could this operation of the bank affect the higher claffer only, by curbing their anti-particit expenders, without affecting the lower claffes, by curbing their induftry, 1 fixed think it an admirable diffeovery. If it even could be made to affect thofe merchants and fixed, for as to diffeourage them from carrying on that bufnefs, there would refult from it a notable advantage.

But alas! wherein are they hurt? They trade in fuch commodities, not becaufe they are bad citizens, but becaufe they are freemen, and feek profit wherever the laws permit.

Perhaps, they find more difficulty than other people in forcing coin from the bank, as matters fland: perhaps, they are loaded with opprobrious appellations for extorting fuch payments from the bank: perhaps, their credits with the bank are recalled. But muft not thofe who buy from them, pay them? And muft not the bank give coin, or bills, for the notes they receive, when prefented for payment? Why, therefore, throw difficulties in the way? All the world knows, that no human engine can prevent a merchant from laying all the expends of his trade upon the confurmer. Correct the tafte of the

confumers, and you may flop the trade: no other reftraint will be of any confequence. But in order to correct the tafts of confumers, do not deprive them abfolutely of money; becaufe the money the landlord receives, comes from the farmer, for the price of his grain, &c. Would it be a good fcheme for preventing foldiers from drinking brandy, to cut off their fublifence - money? Give a drunkard but a penny a day, it will go for liquor; and thofe who are fond of foreign clothing, will take the price of it from their belies, to put it on their backs.

If this fcheme of the banks' with-holding credit, proves, at prefent, any check to thole dealers in Englith goods, it will be but for a very fhort time. They have been taken by furprife; and, perhaps, thrown into inconveniences from an unexpected change of bank-management; but as long as there is a demand for fuch commodities, there will be a fupply; and when people owe, they mult pay. No operation of a bank can prevent this.

I muît, therefore, according to principles, difapprove of this public - fpirited attempt in the banks of Edinburgh; becaufe, if it fhould fucceed, it will have the effect of ruining all the trade and induftry of Scotland, in order to prevent the fale of Englifh goods: and if it does not fucceed, which is more than probable, from the affiduity of other banks in fupplying credit, it will have the effect of ruining the banks of Edinburgh themfelves.

This flep, of calling in the bank-credits, and opening a fubscription for a loan, is represented by others in a light somewhat different.

By thefe it is alledged, that in the beginning of the year 1762, when the Edinburgh banks withdrew J4 of all their cafh accompts, and opened: a fubfoription for borrowing. in their own notes, at an intereft of 4, and even 5 per cent. the demand for money, to fend to England, was not occafioned by the great balance owing by Scotland, but to the high premium money then bore at London; becaufe, fays the author of a letter to J...F.....

"This demand arifes from a profit on carrying money to London. as a commodity, and not as a balance of trade."

It is not eafy to comprehend how there could be much profit in carrying money to London at 3 per cent. lofs by exchange, from Scotland, where it bore 5 per cent. intereft.

It is true, that at certain times, there were confiderable profits made upon flock - jobbing; by which fome won, and others were ruined. lagree, that the country was greatly hurt by the folly of thofe who played away their own property, and by the roguery of others, who borrowed that of their neighbours, with an intention of gaming at their rifk. But is this a vice which any bank can correft, while it has a note incrudation ?

If, therefore, it was a fentiment of patriotifm which moved the banks to fuch a plan of conduct, I fay they thereby did more hurt to indultry, by contracting circulation, than good to Scotland, by attempting a thing which was beyond their power to accomplifi.

If they were moved to it by a principle of felfprefervation, I fay they loft their aim, by cutting off their own profits, which would have done much more than indemnify them for the lofs of borrowing at London, at the time when money there was hardeft to be got: for whatever exorbitant expense of exchange gameflers may incur, to procure ready money to play with, the rate of the flocks at that time never was fo low, as to afford a profit upon money remitted at 3 per cent. lofs by exchange, while that money was bearing 5 per cent. intereft at home.

The lowelf rate of flocks was in January 1762. Towards the end of that month 3 per cents. fell to $6_{31}/3$: this makes the value of money to be about 4. 128. per cent. In these funds, certainly, no body could invest, with profit, money fent from Scotland.

After the new fubfcription had been open for fome time, forip indeed, or 4 per cent. fell in this month fo low as 74 1/8, that is, money rofe to 5.4 per cent. whereas had forip flood at the proportion of the 3 per cents. it flould have been worth about 83: but at the beginning of a war with Spain, when the minds of men were depreffed, and filled with apprehensions, and when a new loan was perhaps expected at a higher interest than ever government had given, was it natural for people to be fond of investing in a 4 per cent. fock, which was to fall to 3 per cent. in a few years?

Befides, let us examine the profit to be made by invefting even in that funds 100 l produced

in Scotland 5 l. intereft, that capital remitted to London at 3 per ceil. exchange, was reduced to 97 l. : now if 74.5 l. produced 4 l. the produce of 97 l. would be about 51.45. Would any man for the fake of 1/5 per cent. advance of intereft on money remitted, ever think of fending large fums to London to be invefted in a falling flock?

I allow that, upon opening fubferiptions, great profit was foneutness made by thofe who contracted with government, and who received the fubferiptions at prime coft. But this profit depended entirely upon the fubfequent rife of the fubfeription, when the original fubferibers brought is firft to market; as allo from the finall fums they had advanced: this operation was over before the end of January 1762. The finalnefs of the fum advanced, upon which the profit was made, and the minifierial intereft which was needfary to obtain a fhare in thofe fubferiptions, rendered it extremely difficult for people in Scotland to fhare in the profit two remiting large fums in the proper point of time.

Farther, might not the banks, in the flort period during which fuch large profits were made, had they had the exchange in their hands, have raifed it fo high as to fruftrate the attempts of our Scots gamelters? If i be faid, that exchangers would have difappointed them, by giving it lower; I anfwer in the negative: becaule to that fet of men exchange will rife, of itfelf, in proportion to the value of money in the place to which people incline to remit it. And could money at any time bring in, at London, 20 per cent. interefl, exchange upon that place would rife univerfally in proportion.

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The only motive, not already mentioned, for fending money to London at this time, under fo great difadvantages, was the profpect of a great rife upon the ftocks, in the event of a peace. Upon which I obferve, that the value of that probability was included in the then price of flock; and had the probability of a peace, in January 1762, been great. ftocks would have rifen in proportion : him, therefore, who vefted his money in ftock, by remitting from Scotland at that time, upon an expectation peculiar to himfelf, I confider as a gamefter, and as an ignorant gamester too; because he was giving odds upon an equal bett. This every man, does. who, without any profpect of a profit peculiar to himfelf, pays a high exchange to bring money to a market, where he buys at the fame price with those who pay no exchange at all.

From the confiderations, I am led to differ from the ingenious author of the letter to J. F. Efq; who fays, "That in the prefent cafe" (the circumftances operating in January 176a,) " the demand" [for money to remit to London) " is unlimited, and no " provision the banks can make can be of ufe; on the " contrary, could they find a treafure, fuppofe of a " million, it would only ferve to increase it; be-" caufe this demand arifes on a profit on carrying " money to London as a commodity, and not as " the balance of trade."

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CHAP. XIV.

Of optional Claufes contained in Bank Notes.

 Λ S we are examining the principles upon which banks of circulation upon mortgage, which iffue notes payable in coin, are eftablished in Scotland, it is proper to take notice of every circumfance which may arife from the extensive combination of the interest of trade and circulation, especially when we find fuch circumfances influencing the policical welfare of fociety.

An optional claufe in a bank note is added to prevent a fudden run upon banks, at a time when more coin may be demanded of them than they are in a capacity to pay.

Banks noi regulated by flatute, are private conventions, in which the parties may include what conditions they think fit. Banks, therefore, may infert in their notes, the conditions they judge moß for their own advantage. Thus, they may either promife peremptory payment in coin upon demand, or they may put in an alternative, that in cafe they do not chufe to pay in coin, they may pay in bills, or in transfer of their flock, or in other circulating paper not their own ; or they may lipulate a certain fpace of time after the demand, with interefl during the delay. All thefe alternatives are inferted, in order to avoid the inconvenience of running flort of coin, and of being obliged to flop payment altogether.

We have faid above, that the profits of banks

confift in their enjoying the fame intereft for the notes they lend, as if the loan had been made in gold or filver. This is a very great object, no doubt; but the policy of nations has eftablifted it, and therefore we final (uppofe it to be an uncontroverted principle.

In which ever way, therefore, an optional claufe is inferted, it fhould be fuch as to cut off all profit from the back, upon all paper preferted for payment, from the time of prefentation; and every artifice ufed to fufpend the liquidation of the paper, to the advantage of the bank, and prejudice of the bearer. fhould be confidered as unfair dealing in the bank, and prohibited by law.

When the optional claufe has no tendency to precure advantage to the bank, in prejudice of the holder of the paper (except fo far as the holder is thereby deprived of the ufe of coin, which on certain occafions cannot be fupplied by the paper) it becomes the duty of a flatefman to examine how far it is expedient to fuffer fuch flipulations to be inferted, in a money which is calculated to carry on the mercantile interefl of the nation.

Banks, we have faid, are the fervants of the public, and they are well paid for their fervices. Although the notes iffued by them are not commonly made a legal tender in payment; yet the confequence of a well effabilithed bank, is to render them to effential to circulation, that what is not a legal obligation becomes one, in fact, from the force of cuftom.

Let us therefore examine the advantages which refult to banks from this optional claufe, and the lofs which refults to a nation from their ufe of it, and then compare the advantages with the inconveniences, in order to determine whether or not it is expedient to permit fuch obstructions in the circulation of, paper.

The advantage which banks reap is confined to that of gaining time, at the expense of paying intereft. The interest paid by them is an aukward operation. They receive intereft for the note ? becaufe they have in their poffellion the original fecurity given for the notes when they were first isfued; and they begin to refund this intereft to the holder of the note from the time they make use of the optional claufe. Could the banks, therefore, borrow coin in a moment, and pay the fame intereft for the coin which they pay to the holder of the note, they would certainly never make use of this optional claufe. But this coin is not to be found in a moment: and the banks, to fave themfelves the trouble. and the expense of augmenting the fund of coin. or of procuring a fund out of another country ; upon which they might draw for the payment of that national balance, which, by becoming banks, they tacitly engage to pay for the nation, render the credit of individuals precarious with ftrangers. and raife a general diftruft of the whole fociety which they ought to ferve. Here then is a very great lofs refulting to a nation from the eftablifhment of banks. Were no bank eftablished, no merchant would contract a debt to ftrangers, without forefeeing the ready means of difcharging it with the coin circulating in the country. In proportion

as this coin came to diminifh, fo would foreign contractions of debt diminifh alfo. Thus credit, at leaft, might be kept up, although trade might be circumfcribed, and manufactures be difcouraged. Now when, in order to advance trade and encourage manufactures , a ftatefman lends his hand towards the melting down of folid property, and countenances banks fo far as to leave that operation to them, with the emolument of receiving interest for all their paper; and when, in order to facilitate the circulation of this paper, the very inhabitants concur in throwing all their specie into a bank, is it reafonable to indulge banks fo far as to allow them to add an optional claufe, which difappoints the whole fcheme, which flops trade, ruins manufactures, raifes the intereft of money, and renders the operation of melting down property quite ineffectual for the purpofes which it was intended to anfwer? Farther.

The lofs a bank may be at, in providing coin, is fufceptible of eflimation, let it be brought from ever fo diflant a country; becaufe we know that the quantity to be provided, never can exceed the value of the grand balance. But who can eftimate the lofs a nation fuftains, when an interruption is put to carrying on trade and manufactures? When the induftrious claffs of inhabitants are forced to be idle for a fhort time, the confequences are hardly to be repaired: they flarve, they defert; the fpirit of induftry is extinguifhed; in flort, all goes to ruin.

Befides, when banks do not lay down a well digefted plan for paying regularly, and without complaining, this grand balance due to ftrangers, they are forced to have recourfe to expedients for preferving their credit, more burdenfome, perhaps, thus what is required of them; and not near fo ethechual for removing the inconveniences complained of.

The expedients they fall upon to obtain credit, coin, and bills, are fo various, and fo complicated, that they alone are able to explain them.

Sometimes we fee them entering into contracts with private merchants and exchangers, (*living among themflows 1*) who engage for a certain premium to furnifh coin as it is demanded. The confequence of this, is, to expofe the bank to a new demand for coin, from the very contractors, in order to fulfil their engagements; an abufe we have taken notice of above, in fpeaking of the bank circulation of England.

Let us fuppofe that thefe undertakers for coin do really fet out by doing in part what banks flould effectually do themfelves, that is, by bringing from another nation, the coin which they are to fupply. What is the confequence? The banks pay the undertaker for this coin in their own notes. Did they only engage to pay a certain intereft for the coin fo provided, then the end would be accomplified, with the additional expende to them of paying the undertaker for his expende, trouble, and profit. But if they, inflead of paying intereft for the coin fo furnified, thall iffue their notes for the full value of it, fuch notes can never enter into domeflic circulation, fo as to be fufpended in it is it vere; because

becaufe it is not domeftic circulation which has demanded them : they mult then return upon the bank, either from the very hand who received them, or at leaft, after a fhort circulation; and thus draw out again the whole coin furnified by the undertaker. This produces a prodigious circulation of coin; and induces people to imagine that either the grand balance is inexhauftible, or that the premium upon money at London is very high, or that people can contrive a ficitious balance, as a means of profiling upon coin, after the balance has been actually paid *.

This method of providing coin is abfolutely delufive, and opens a door to infinite abule. Thofe who furnifi the coin to the bank, are either in the combination againft the bank, and draw it out as faft as they throw it in; or they are not in the combination: if they are in the combination, they profit by it; if they are not, they are hurt by their contract, and other exchangers draw the advantage; but the bank is equally a lofer in both cafes.

Let me fuppofe that they are not in the combination, and that they honefly procure the coin at their own expense. If they are paid in notes for the coin they furnifly, we mult fuppofe that the coin they have procured, is not in confequence of

* The directors of the bank of England have had recourfe to a like expedient with as little fuccels. They ufed, during the war, to buy up, with their paper, the coin brought in by privatcers; and sfire they had been at this trouble, the notes they had given for it returned upon them, and drew it out sgain.

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a loan, but of a credit given them in the place from which the coin is fent: for I never can fuppofe that any merchant will borrow coin upon a loan, and lie out of fo large a capital while he has bank notes in his hand to pay up what he has received. If he has procured this coin upon credit, will not this. when it comes to be replaced, augment the grand balance against the nation in favor of the country or city which granted that credit? And must not that balance be paid by exchangers out of the coin received by the bank? If, therefore, we fuppofe that the undertaker does not draw out the very coin he had just delivered into the bank, will not exchangers do it for him; will not they be ready with notes, as foon as the coin is lodged in the bank, to draw it out, and fend it off, in order to furnish the undertaker with bills to fill up his credit, for the coin he had received from people refiding in the place to which the exchangers have fent coin, to be ready to answer their draughts? Does this differ in the leaft from what is called drawing and redrawing, which is fufficient to ruin any man, and muft not a like practice ruin a bank, by raifing exchange to a monftrous height?

This being the cnfc, the intercft and the beft method of preventing fuch abufes, is to oblige banks to pay upon demand, in coin or bills, at the option of the holder of the note. This will force them into the method of providing them; to will, fairly borrowing money from nations to whom we owe, and paying a regular intercft for it, without an obligation to refund the capital, until the grand balance

fhall take a favorable turn; in which cafe, the banks will regorge with coin drawn from ftrangers, and thefe ftrangers will then find as great an intereft in ' being repaid, as the bank found in borrowing from *them*, while the balance was in *their* favor.

We have faid, that a flatefman fhould oblige all public banks to pay regularly upon demand, in coin or bills, at the option of the holder of the note. But then he mult facilitate to them the means which he has in his power, of providing themfelves with the coin, or bills demanded.

For that purpofe, he muft, firft, provide them with a mint, for how, without a mint, can a bank convert into coin the metals it may provide from other countries? Next, he must put that mint under fuch regulations as to cut off all profit from moneyjobbers, who will be ready to draw coin out of the bank the moment they find the leaft advantage in tampering with it. In order to prevent this abufe, a reafonable rate of coinage fhould be imposed, according to the principles laid down in the third book; and when banks have occasion to pay a ba- lance out of the nation's coin, a drawback for part of the coinage flould be given them. This draw back will fupport the value of the coin, and the lofs of the remainder will engage them to export bullion preferably to coin, when it is to be found: and if no drawback were given, the coinage would be totally loft to the bank.

When this deduction is given, the coin must be melted down, and stamped in bars at the mint; both in order to prevent frauds in the drawbacks,

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and to difappoint firangers who receive it at the price of bullion, from gaining the price of coinage when they return it back. And in the laft place, all light coin fhould be banifhed out of circulation, and made to pask by weight for bullion, at the current price of the market. All banks fhould both receive and deliver coin by weight, when the fums are fo confiderable as to require full bags of coin to pay them. It is not here neceffary to repeat what has been faid upon this fubject at fo much length in another place.

The method of facilitating to banks the means of providing bills for the payment of foreign balances, is, fecondly, to alfift them in procuring loans beyond the diffrict of their own circulation. If government fhall be fatisfied that the intention of demanding fuch loans, is to enable the bank to interpofe their credit in favor of the trade and induftry of thofe who circulate their paper, and who have no way of paying fuch balances, but with their folid property; in that cafe, government will, undoubtedly, affift the bank in obtaining loans for fo national a purpofe, by declaring the fecurity upon which they defire the loan to be good, and by becoming anfwerable to the public for the folidity of it.

CHAF. XV. POLITICAL ECONOMY.

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Of fubaltern Banks of Circulation, and of their Competition with one another.

WE have hitherto treated of the principles which influence national banks of circulation, we now come to examine fome peculiarities attending banks of a fubaltern nature, which for the molt part truft to the national bank for all fupplies of coin; and when this refource fails them, they are thereby involved in difficulties which are not eafily got the better of. Befides this inconvenience, to which all fubaltern banks are fubjed?, they are frequently expofed to competition with one another.

A national bank enjoys fuch great advantages from the flability of its credit, and the regularity of its operations, that it is not eafy for any other private company to eftablish themfelves upon the fame folia fivstem.

When any banking company is eftablished, which draws is fupport from a national bank, the facility of carrying on the bufneds by fog reat an aftifance, naturally engages other companies to imitate their example. From thence arifes a competition. All fuch banks begin to confider the circulation of their own diftrict as their undoubted property, and they look with an eye of jealoufy upon every note which does not carry their own mark.

The great point of their ambition is to gain credit with the national bank; and could they obtain

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of that company to receive their notes, or to give them credit for their draughts, in cafes of neceflity, they would be at their cafe; becaufe the national bank would then be at the whole expende of providing coin and bills, and they would have nothing to think of, but to extend the fphere of their own circulation.

With refpect to all thefe fubaltern focieties, the national bank will no doubt fleer an equal courfe, I fuppofe every one to be fettled upon good fecurity; without which they do not deferve the name of banks.

In proportion to their flocks, and according to the flate of the national balance, they may, as well as any private perfon, on many occafions, draw confiderable fupplies of coin from the national bank, without lying under any obligation to it; becaule when exchange is low, they can realize any part of their flock into coin, out of the national bank, at very little lofs, excepting the intereft of it: for intereft muft always be reckoned upon every guinea which lies in their cheft.

Did thefe banks confider one another in a proper light, they muft fee in an inflant that the folidity of every one is equally good; becaufe I now fuppofe them all flanding upon the principles of private, not mercantile credit, as above explained.

What benefit then can they polfibly reap from their mutual jealoufies, from gathering up each other's notes, and coming with a run upon one another from time to time? The confequences of this will be, to oblige themfelves and others to preferve

for domeflic circulation a larger quantity of coin than is neceffary, and thereby to diminifu their own profit: to take up their attention in providing againft their own reciprocal attacks, and thereby negled the providing a fupply for that demand which is indifienfable; to wit, the payment of the grand balance due to other nations; at which time the refource of the national bank will certainly fail them. The managers of every one of them will pretend that it is they who are faddled with this burden; but the nature of the thing fpeaks for itfelf.

Wherever this grand balance is tranfacted, the exchangers refiding in the place will have recourfe to the bank there (fablified; and if there be more than one, that which pays with the greateft readinefs will have the beft credit, the moft notes in circulation, and the largeft profits upon the whole. If any one is found flow, or difficult in paying its paper, exchangers will be the more punctual in making their demand for payment, and they will even be averfe to receiving fuch notes from their correspondents.

Every man who has occafion for credit from a bank, will apply to that whofe notes are the moft efteremed. In fhort, there will be profic, in the main, to the bank which pays the beft, although I allow that a 'particular times there may be fome additional inconveniences, unlefs a regular plan be laid down on the principles above deduced.

This however is a vague reafoning; becaufe the matter of fact is not known. All that can be faid with certainty, is, that while no public regulation is

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made with regard to banking, every one will carry on the trade according to his views of profit; and private animofities between different companies, will only tend to diffrefs the nation and themfelves, as experience has, I believe, difcovered.

If, as matters fland, a very great inconvenience refults to Scotland from the want of a communication of paper credit with England, and if thereby an exchange of 4 and even 5 per cent. has been paid for bills upon London, becaufe all the coin of the country is locked up in banks; I afk what would be the confequence, if banks had their will in banifbing from the circulation of their own diffrict. every other notes but their own? In that cafe, we might, in a fhort time, find an exchange of 4 and 5 per cent. between Fife and Lothian, between Glafgow and Ayr, and fo of the reft. What would then become of manufacturers, who could not difpole of their work at the diftance of a few miles. without having recourfe to exchangers for their payment? If fuch an abufe were once allowed to creep in, there would be no other remedy but to deftroy banks altogether, and throw the little coin there is into circulation.

On the other hand, when banks are in a good underflanding, when they are eftablifhed on folid principles, when their paper is iffued on proper fecurity, the public is fafe; and in every little diffrid, under the wings of their own bank, there will arife a fet of exchangers, who will give credit to merchants and manufacturers, and who will have reeourfe to their own bank for the [coin or bills

neceffary for their occasions. This will naturally divide the payment of the grand balance among them, in a due proportion to their circulation.

I fhall now confider the principles which may direct a ftatefman to fettle banking upon mortgage on a proper footing, to ferve every national purpole.

CHAP. XVI.

Of fome Regulations proper to be made with regard to national Banks.

FROM what has been faid, we may conclude, that were a national bank upon mortgage, eftablifhed on a plan calculated to anfwer the purpoles of the most extensive domefric circulation, it might be regulated in the following manner.

Imo, Let a large flock of property, of one fpecies or other, be provided, in order to gain the confidence of the public, and let it be pledged for the payment of all the notes.

2do, Let all folid property intended to be melted down into paper money, be first conflictuted in fuch a manner as to be eafily fold, and in the mean time fecured to the company, for their advance, preferably to every other perfon, and let it be of a revenue fully fufficient to acquit the intereft for ever.

3tio, The capitals due to the bank must not be demandable by the bank, as long as the interest is regularly paid.
4to, Every one who conflitutes his property ac. cording to the regulations, must be entitled to a proportional credit from them.

5to, All bank fecurities must be pledged in the hands of government for the intercft of whatever money the bank may borrow with their confent, beyond the diftrict of their own circulation.

6to, Government must fupport the bank in proportion to the extent of their funds.

7to, Let bank notes be payable to bearer, either in coin, or in inland bills to the value, or in a transfer of a corresponding intereft at — per cent. all in the option of the holders.

Were fuch regulations eflabilited, the borrowing from banks would become very eafy; any man who is mafter of his property, though incumbered with debts, might put it into bank regulation, might raile upon it what fum he thought fit, with which all his debts might be paid off; he might even give credit upon it to thofe who otherwife are not in a fituation to obtain it: for which credit given, a profit in the rate of intereft might be allowed to him. Were a plan concerted confiftently with the principles which have faggefted this general fletch, all borrowing and lending of money would foon centre in the bank. Securities would be eafy, and expende greatly avoided.

A national bank, when rightly conflituted, may however be fafely indulged in more extensive methods of circulating their paper than upon land fecurity. The bank of England is allowed by charter to iffue notes for difcounting bills of exchange.

it may trade in gold and filver, may advance money to government upon the fecurity of taxes impofed and levied within the year. But it is in general debarred commerce, and every precarious object of traffic. Thereafon isplain. The paper it iflues becomes the property of the nation, and may form in a fhort time the greateft part of the currency of it. In fuch a cafe, were the bank expoded to lof fes by trade, or infolvency of debtors for great fums, the whole credit of the nation might be ruined, and all the lower claffes of the manufa luring inhabitants undone, before fuch a blow could be repaired.

Under proper regulations, bank paper might be made a legal tender in every payment: in which cafe it is hardly pofible that any confiderable demand for coin fhould ever be made upon them, except for the payment of the grand balance.

This national bank may have different offices, in different cities within the kingdom, and thefe will make fubaltern banks both ufclefs and unprofitable. It might even be flipulated, that a certain proportion of bank flock, in the name or for the behoof of any city, fhould entitle that city to a proportional part of the adminiftration within their own diffrit. As thefe are only fpeculations, not plans, I need not fet about removing objections, which are conflantly many and well grounded. whenever any new efkabiliment or innovation is propofed. All I aim at is to fet this principle in a clear light, to wit, that it is the intereft of every trading flate to have a fufficient quantity of paper.

well fecured, to circulate through it, fo as to facilitate payments every where, and to cut off inland exchanges, which are a great clog upon trade, and are attended with the rifk of receiving the paper of people whofe credit is but doubtful.

For this purpofe, I have proposed that inland bills fhould be demandable from the bank at par, as well as specie.

It would be an admirable improvement upon this fcheme, to make a like regulation as to foreign bills. However, this speculation is referved for another opportunity. All I shall fay, at prefent, upon that head, is, that as we have feen how the whole national balance must be paid by banks (who circulate paper payable in coin on demand, and who confequently muft, on fome occafions, draw the metals from abroad for that purpofe, in order to fill up the void made by exchangers, who fend them out) and it would, I think, be fhortning, in fome meafure, that operation, and be a means, at the fame time, of indemnifying the bank in this respect, to regulate matters fo, that all foreign exchanges might be tranfacted there at fixed rates, according to the place where the exchange is to be made, without erecting any monopoly for that purpole in favor of the bank, or depriving any one of the liberty to deal in exchange, who can afford it at more reafonable terms than the bank; but of this more when we come to the doctrine of exchange.

CHAP. XVII.

When and in what cafe Banks fhould be obliged to keep open Books.

IF no national bank be eftablifhed under proper regulations, and entre liberty allowed to every one to take up the trade who can iftue his notes. I think it would be againft all principles of good policy not to oblige fuch banks to keep open books, to be infpected regularly by fome authority or other; in order to fee upon what fecurity that paper flands, which is the inftrument of commerce, a part of every mai's private property, and which, if any part of it fhould once fail, either through the knavery, mifconduck, or misfortume. of a particular company, would caft a general diferedit upon all paper, and be a means of bringing on thofe calamities which we have foo fene mentioned.

I know the ordinary objection against this, is, the inconvenience of throwing open the focrestand mysteries of trade. As to the mysteries of trade, this point shall be examined in another place. But here, I fay, there is no question of trade in which any risk is implied : and if any one can suppole, that, at any time, the affairs of a bank are in fo ticklifth a fluation as not to bear infpection, that very fupposition fhows how neceffary it is not to permit fuch a bank to continue this circulation. The only infpection, in which the public is interefled, is to know the quantity of notes iffued, and the extent and nature of the fecurities pledged for them. They have no bufnefs to examine the flate of their cafit, or of particular people's credit. They may be without a fulling in their coffers, and full their paper be as good as if they had a million. Such an infpection, as I propole, would rather confirm than flake their credit, but it would be a means of preventing them from launching out into fpeculations in matters of commerce, which is not their diffrid; and from groming with national property.

If it be faid, that this infpection would lay open the affairs of many private men, debtors to the bank, I andwer in the negative; becaufe no man's credit is hurt by his having a cafh account, and no infpection is requifite, as to the flate of that accompt with the bank. The credit may be cither quite full, or quite exhaufted; this particular interefis no body but the parties themfelves; but it is effential to know upon what fecurity the credit has been given; becaufe every man who has a note of fuch a bank in his poffetion, has a very good title to be informed concerning the fecurity on which it flands.

It is not fufficient to fay, that the holder of the note, if he doubts of the fecurity, may demand payment. It is not here the intereft of any individual, but that of the public which is attended to: and if, according to the principles of common reafon, it be juft, that a creditor fhould have it in his power to watch over the abilities of his debtor, fo as to fecure his payment; certainly it is equally juft, that the public (which I confider here as the

creditor) fhould be made certain, that what is circulating with as great facility as the King's coin, contains a real value in it. Would it be a good anfwer from any man who held a piece of falfe money in his hand, for the use of circulation, to fkreen himfelf, by alledging that if it be falfe, no body need to take it. It is the right of every man to detect falfe coin; but it is the right of government only to detect falfe paper: becaufe law only can authorize fuch an inquifition. Does not the charter of the bank of England eftablish this right in government? If the bank be confined to certain particular branches of folid trade, where little rifk is incurred, might not government examine, when neceffary, whether thefe regulations have been obferved, and how can this be done without fuch an infpection as is here recommended?

CHAP. XVIII.

Is it the Interest of Banks to grant Credits and Cass Accompts to Exchangers and others, who make a Trade of fending Coin out of the Country?

THE anfwer to this queftion is very flort. From the principles we have deduced, it is plain, that it is both the office and intereft of banks to give credit to all who can give good fecurity for it.

The caufe of doubt upon this queftion, arifes only from certain inconveniences which have been of late, experienced in Scotland; but which never would have been felt, had banks attended to their true intereft, in providing funds to anfwer the demands of thofe who are either obliged, or who find an intereft in paying off what the nation owes upon the grand blance to foreigners.

To fet this matter in a clear light, let me fuppofe that, fome time ago, the banks had at once withdrawn all the credits granted to exchangers; and opened a fubfeription for a loan of money, equal to what they might estimate the fum borrowed by that fet of men within the country, for the fake of carrying on their bulinefs.

According to principles, thefe two operations fhould go hand in hand: the recalling the credits would, no doubt, have greatly diffreffed exchangers; but as long as they could find money to borrow from private hands, that inconvenience would have been leffened. Befides, I apprehend that the late cultom among exchangers, of borrowing at 4 per cent, owes its existence to the difficulty they felt in obtaining extensive credits from the bank ; and if this be the cafe . then there has been a lucrum ceffans to the bank of 5 per cent. upon the amount of all these borrowings; because exchangers, I apprehend, would prefer a credit from the bank at 5 per cent. to a loan at 4 per cent. payable on demand, according to the occasions of those who keep their money with them.

The most effectual method, therefore, to hurt exchangers, would have been to have recalled all their credits, and offered to borrow, upon the fame terms, what was lent to them. The

The execution of fuch a plan would, I think, have been, 1. diametrically opposite to the interest of the banks; 2. would have occalioned fuch a run = upon exchangers, as to throw them into great diftrefs; and 3. would have ended in the total ruin of the trade of Scoland.

. That fuch a plan is diametrically opposite to all principles of banking, I fuppose, is by this time fufficiently underflood.

That it would have occafioned a run upon exclangers, is pretty certain: becaufe however good their credit might be, it muft be acknowledged to be inferior to that of the banks; and therefore $n\sigma$ body would prefer them for debtors, to the bank, upon the fame terms.

The third confequence is as evident, upon a fhort reflection, as the other two. The run upon the exchangers would have obliged them to make a call upon all the merchasts and dealers in Scotland, to whom they gave credit: for which purpole, and for which alone, they find an intereft in borrowing at [6 high an intereft as *Aper cent*.

The call, then, made by the exchangers upon their debtors, is neither more or lefs than a call upon the money employed in the trade of Scotland.

Now we have faid, that whoever owes mufl pay. The merchants of Scotland owe to exchangers; the latter are prefied by their creditors, and mufl paywith what they have, which confifts in money only: when that is exhaufted, they muft flut up floop. T/ey again call upon the merchants, who mufl pay with that they have. This confifts in goods;

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and in the manufactures of Scotland; and thefe they mull fell at any price. There may not be time fufficient to export with advantage. To whom then muft they fell? To people within the country, who have no money to buy with; becaufe credit is withheld by that body which only can give it. I conclude with the old faying of the law.

Unum quodque codem modo folvitur quo colligatum e/t.

The beft method to eftablift credit in an induftrious nation, is a bank properly regulated . and the beft methods to ruin it effectually, when eftablifted, are the inconfiftent operations of fuch a bank.

CHAP. XIX.

Application of the Principles above deduced, towards forming the Policy of Circulation.

FROM the principles above deduced, there arife three principal objects of attention.

The first, the circulation of paper for domestic uses.

The fecond, the method of providing coin for that purpofe.

The third, the method of paying foreign balances.

Thefe three objects are abfolutely different in their nature, and they are influenced by different principles. The confequence of bleading them together, is to render the fubject, which is abundantly intricate

in its own nature, ftill more dark and perplexed. What is to follow has no relation to any plan propofed for execution; it is only intended as a farther illuftration of the general principles which influence this branch of my fubject.

1mo, As to the circulation of paper for domeftic ufc.

It has been faid, that the great utility of banks of circulation upon mortgage, was to facilitate the melting down of folid property; in order to enable every one who has property, to circulate *the capital* of it for the advancement of indultry.

For this purpole he comes to a bank, pledges the capital he wants to melt down, and receives for his obligation, bearing intereft, paper money which bears none.

This paper money, I fuppole to be as folidly fecured as the principles of private credit can make it. I fuppole the bank to be eftablished by authoriity, according to the regulations already mentioned, and the notes made a legal tender in every payment of dome/fic debts; by which I underftand debts payable within the country.

From thefe data, I fay, that the regular method by which the bank fhould acquit the obligation in the notes, is by refloring the fecurity granted at iffuing the notes, if they be returned by the debtor in it; or by a transfer of a fum of intereft equivalent to the notes, if they are prefented by any other. All farther obligations laid upon banks to pay in coin, or inland bills, is only an

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equivalent expected from them in lieu of their great profits *.

When paper iffued for domeftic circulation returns to a bank, were it not for the profits on their trade; I fee no reafon why a bank fhould pay in any other (pecies of property than what it received; and if, by the intereft they receive for their notes, they are abundantly indemnified for all the difference between paying in coin and in transfer, I think the public would be a gainer to differed with that obligation in lieu of an abatement of intereft; which would be an advantage to commerce, not to be counterbalanced by the other.

¹ Farther, the bufinefs of providing coin is totally different from that of fupporting domeftic circulation: it is founded on different principles: it

* It mußt here be obferved, that in every country where there is a national coin ethablifted, it is abfoutely neceffary to connect with it the denomination of the paper; in order to affix a deceminate value to thefe denominations. This may eafily be done without implying, as at prefent, an obligation on the bank to realize into coin every bit of paper in circulation.

The intereft, therefore, of the credits given by the bank, may be demandable from the debtors in coin; and the transfers of intereft made by the bank, to thole who bring in notes for payment, may allo be demandable in coin from the bank.

These payments will bear a fmall proportion to the paper in circulation, as interest must be very low; and coming at fixed terms of payment, provision will easily be made for them.

This regulation will fupport the coin of the country, and as the *intercfl* of all the paper becomes demandable in coin, the intrinfic value of the *intercfl* will effectually fupport the value of the capital.

requires men of a particular genius to conduct it: the difficulties to be met with are not conftant; and therefore cannot form a regular branch of bank adminifiration.

2do, The method of providing coin for domeftic circulation is the business of mints, not of banks.

I have, in the third book, treated very fully of the doctrine of coin and of minus. I have flown the difference between money, which is the fade for reckoning value, and coin, which is certain denominations of money, realized in a proportional weight of the precious metals. I have flown how neceffary a thing it was to impofe the price of coinage upon the metals manufactured into coin: and I have faid, that it was inconfiftent with all principles, to alledge that the metals, when coined, flould thereby acquire no additional value.

The expense, therefore, of providing the metals fhould be thrown upon those who want coin ; and the mint flould be obliged to convert gold and filver into coin, upon the demander's paying the coinage.

This coin loaded with the price of coinage, never will be fent abroad to pay a foreign balance; never will be locked up in banks, which will have hitle occafion for it. It will, therefore, remain in circulation, and ferve thole purpofes for which the inhabitants think fit to employ it.

This coin, I fay, never will be exported, as long as any uncoined metals can be found in the country: and if upon a national diffreds it is thought fit to facilitate the exportation of it, the flate may (as we observed above) appoint the mint to receive it

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back, in order to melt it down into ingots, flamped with the mark of fterling, repaying to the bearer -- per cent. of the coinage.

glio, The trade of paying off foreign balances will then become a particular branch of bulinefs: of which we fhall treat more at large, when we come to examine the principles of exchange.

All that is neceffiry to be faid in this place, is to recal the principle we have mentioned above, viz- that when a nation cannot pay in her metals, manufactures, and natural produce, what the owes to fitrangers, file mult pay in her folid property; that is. the mult mortgage the revenue of fuch property, for a capital borrowed out of the country, which expital the mult employ for the payment of her foreign debts.

This operation then should be performed by a regular and systematic plan.

CHAP. XX.

Objections to this Doctrine.

THAT bank notes can never be received as fpecie, but from a perfuation that they may be exchanged for it on demand.

To this, I anfwer, that it is fufficient they be received as value; and that they anfwer every purpofe in carrying on alienation. The ufe of money is to keep the reckoning between parties, who are

folvendo; the ufe of fpecie or coin is to avoid the inconvenience of giving credit to perfons who perhaps may not be fo.

When merchants make delivery in accompt, they then give credit to their cultomers: when they fell for bank bills, they give credit to the bank: when they are paid in coin, they give credit to no body; becaufe they receive the real value in the coin. Where then is the difference between receiving the real value, and receiving an obligation for it, concerning the validity of which every one in the country is perfectly faisfiel?

Is there a merchant, in any country in the world who will fell one farthing upon a hundred pounds cheaper to a perfon who pays in coin, than to another who pays in good paper; unlefs the extrinfic circumflances of the country fhould, at that time, give an advanced price to the *metal* of which the coin is made.

Money, we have faid, ought to be invariable in its value: coin never can be fo, becaufe it is both money and merchandize: money, with refpect to the denomination it carries by law; merchandize, with refpect to the metal it is made of.

But it is urged, that if I have coin I may pay any where within the commercial world, at the expense of transportation, and infurance. I grant this to be true.

But I anfwer, that the principal ufe of coin, is, not to fend it out of the country, but to keep accompts clear among inhabitants within the country. If there be a variation in the value of coin, according to

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sircumftances, that variation must affect the inhabitants in their transactions. No one can gain upon this coin, without fuppoling a relative lofs to fome other. whether they perceive it or not. Muft not this difturb all reckoning? Muft it not difturb prices? Since at different times. I may be paying the fame denominations of coin for the fame commodity; and yet be paying, really, more value at one time than at another. Is not then the most invariable money the best calculated for the interest of trade, and profperity of manufactures? Whence arife complaints againft paper money, and regrets for want of coin? They iffue from those who both with to profit of the rifing value. of the metals contained in the coin , and who endea. your to perfuade the public, that its intereft, and not their own, is their object.

What a triffe is a foreign balance, let it be ever fo great, compared with the whole alienations of a country ! Is it reafonable to difturb the harmony of all domeftic dealings, in order to furnish an opportunity to a few clear - fighted people, who can, upon fome occafions, profit of the fluctuating value of the fubstance of which the coin is composed, to the prejudice of the ignorant? If the country owes a balance to other nations, let it be paid : nothing fo just ; nothing fo effential to the intereft of the country which is the debtor. If the precious metals are the most proper vehicles, as I may fay, for conveying this value, let them be procured and fent off; but never let us fay, that becaufe fome of our money may be made of that metal, that all our money fhould be made of it; in order that those who transact the balance

may have an 'opportunity of fending our metals away with greater eafe, and thereby of depiving us of the means of carrying on alienations among ourfelvés. Let every one that has coin fent it away: nothing can be more juft; nothing more confiltent with principles: but let him fend it away as a manufacture; carrying in its bofom the price of making it, which he has paid, and for which his foreign creditors will make him no allowance.

Exchangers run to the coin of the nation, for paying, with the leaft expende to themfelves, the balance they are about to tranfact. When that refource is cut off by the impofition of coinage, the nation will preferve at leaft her darling fpecie; and then exchangers will be obliged, by the beft of all compulions, their own intereft, to think of other expedients; builton, manufactures, and natural produce. And when all thefe come to fail, a regular plan mult be laid down, and authorized by government, for obtaining credit in other countries, by mortgaging the revenue of the folid property of the kingdom; according to the principles we fhall difeover when we come to treat of exchange.

PRINCIPLES OF

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CHAP. XXI.

How by a return of a favorable Balance the Bank may be enabled to pay off the Debts due to Foreigners, and thus deliver the Nation from that Burden.

WE have faid, that the kanks in contracting debts, and mortgaging the property of Scotland to frangers, for the payment of a grand balance, really acted as the guardians of the public, by interpoling their credit, and by conflituting them. felves as debtors for the whole; taking for their relief, porportional fecurities upon the effects of individuals.

We have also pointed out how, by this operation, the mass of bank - fecurities comes to be greatly augmented.

Before the payment of any balance for the behoof of Scotland, the fecurities in the hands of the bank can only be equal to the notes in domeflic circulation, and accumulated profits thereon. Let this be called (A). In porportion as thefe notes come back upon the bank, in a demand for bills to pay balances, in the fame proportion is there a fum of fecurities added to the former mafs (granted upon new credits given for filling up the void thereby occafioned to circulation) which quantity I fhall call (B).

(A) then reprefents the fecurities equivalent to the notes in circulation.

(B) reprefents the fecurities equivalent to the debts contracted by the bank in favor of ftrangers.

Now let us fuppofe trade to become favorable; or that the intereft of the money, which the natives had fent abroad, to inveft in foreign countries, begins to flow back : what will be the effect of this?

I fay, that this balance will be paid to Scotland, either in coin, or in the metals, or in produce, or in manufactures, or in bills.

In every cafe, it must be supposed to be beyond the confumption of Scotland; otherwife it will not be a balance in their favor. Whatever part of it, therefore, proves to be beyond the confumption of Scotland, will be turned into money. This money must either confist in the metals, or in foreign bills. If it confift in the metals, it will, if coined, fill up, pro tanto, a part of circulation ; this will make a proportional part of bank paper return upon the bank, and extinguish a proportional part of their fecurities; which we have called (A). But then there will be more coin in circulation than formerly; confequently, more coin will enter into payments made to the bank than formerly. But we must suppose, that before this favorable turn of commerce, there was coin enough both in the bank and in the country for the ufes of domeftic circulation; confequently, the bank will fend off this fuperfluity of coin, and with it they will refund a part of the debt they formerly contracted.

Through all this chain of reafoning, we must always suppose the money in circulation to be a determinate fum , otherwife the fuperadding this foreign balance in coin will not occafion, as we have faid, a return of a proportional part of the bank paper.

In the next place, let us fuppofe this favorable balance to confult in foreign bills, upon London, Amfterdam, &c. Thefe will be difcounted by the bank, and notes iffued for them. The bills will be fent off by the bank, in order full to extinguilh a part of what is owing to foreigners. Thefe notes, again, being fuperfluous to circulation, which we fuppofe to be full, will return upon the bank and ftill diminifh the maßs of (A).

By thefe operations we fee how (A) will be conflandly diminifiling; but then in the fame proportion we fee how the mafs of foreign debts will alfo be diminifiling: confequently (B), which was engaged for them, will be returning to be the free property of the bank; and as we fuppofe no variation upon the fum in circulation, we may confider this as a fort of converfion of (B) into (A), and when all (B) fhall be thus converted into (A), then the debt formerly contracted by the bank, in favor of Scotland, will be totally paid off by the fame method (only inverting the operations) by which it was contracted.

CHAP. XXII.

Of Banks of Circulation established on mercantile Credit.

HAVE examined, with all the care I am capable of, the nature of banks calculated for the melting

down of folid property, and converting it into paper for the ufe of circulation.

The nature of fuch banks is but little known in countries where they have not been eftablifhed, and a diftinct account of them may fuggeft bints, which in time may prove uleful.

People who do not employ their thoughts on the theory of trade and credit, are apt to overlook objects of real utility; and thole who do, have feldom the opportunity of being informed of the cuftoms of different nations. Were my experience greater, or had I more opportunities to dive into the receffes of this great object, the work I now prefent to the public would better defirve its attention.

I now proceed to a deduction of the principles upon which are founded thofe banks which are principally calculated for the ufe of commerce; and as the ground-work of my inquiry, I fhall trace fome of the principal operations of the bank of England.

The eftabliftment of this great company was formed about the year 1694. Government at that time having great occalion for money, a fet of men was found who lent to it about 1,200,000 Å. Aterling, at 8 per cent. for the exclusive privilege of banking for 13 years; with this additional claule, that 4000 Å. Iterling, per annum, flould be given them to defray the expense of the undertaking. This fum of 1,200,000 Å. Iterling, was the original bank flock. It has been funct interfaced to 11,000,000 Å by farther loans to government, for the prolongation of their privileges; as has been taken notice of in the 16th chapter of the fecond part.

This flock, as in banks of circulation upon mortgage, is only to be confidered as a fubfidary fecurity to the public for the notes they iffue: were it the principal and only fecurity for their paper, this bank would then be founded on the principle of public, not of mercantile credit; under which laft denomination we are going to point out in what the nature of it differs from those we have already explained.

It is a rule with the bank of England to iffue no notes upon mortgage, permanent loan, or perfonal fecurity. Theprincipal branches of their bufuefs may be comprehended under four articles, viz. 1. The circulation of the trade of London: 2. The exchequer bufunefs of Great Britain: 3. The paying the interfel of all the funds transferable at the bank : 4. Their trade in gold and filver. I fhall now flortly explain the nature of thefe four great operations; and firft as to the circulation of the trade of London.

When we fpeak of the circulation of trade we underftand the circulation of money paid on the account of trade.

The great occupation of the London merchants engages them to fimplify their bufinefs as much as poffible. For this, they commit to brokers every operation which requires no peculiar talents or ingenuity in the merchant himfelf; and, for a like reafon, they commit to the bank and private bankers the care of their caft.

A Scots merchant begins by drawing money from

the bank, for which he pays intereft: a London merchant begins by putting money into the bank, for which he draws no intereft at all.

A London merchant, therefore, can give no order upon the bank, unless at a time when he has money lodged in it.

If he has occalion for money at any time, he fends to the bank the bills he has, before they become due, and the bank difcounts them at certain rates, according to their nature.

If it be a foreign bill, the bank in difconating it, retains of the fum, at the rate of 4 per cent, per annum, for the time the bill has to run; but if the bill be at a longer day, than 65 days, they will not difconn it. So in this cafe, the merchant muft keep his bill until its within 65 days of the term of payment.

The reafon for this is evident : the fecurity upon which fuch bills fland, is purely mercantile. The nearer, therefore, the payment is, the lefs rifk the bank incurs from the failure of thofe who are bound in it.

The intention of this operation of difcounting bills, is plainly to employ the cafh in the bank in a way to draw an intereft for it; but as merchants allow their money to lie dead for as flort a time as they pofibly can, the bank muft have quick returns for what they advance upon difcount, in order to be confantly ready to anfwer all demands. This is no lofs to the bank, and a prodigious advantage to trade, as I hall briefly, explain.

The bank is conflantly receiving cafh from every perfon who keeps their cafh with it. This occafions a conflant fluctuation of payments, which of courfe

must leave at all times a confiderable fum of other people's money in the bank; because it never is in advance to any one.

By long pradice in the trade, this fum of money becomes determinate: let us call it the average money in the hands of the bank. It is then with this average-money alone, that the bank can difcount bills. Now if the trade of London does afford bills to be difcounted at different dates within 60 days, fufficient to abforb the whole average-money of the bank, appropriated for difcounting this branch of bufinefs would not go forward with the celerity required for the trade of London, did the bank indulge merchants for ar as to difcount a longer day.

From this we learn another reafon why the bank of England difcounts no bill which has more than 60 days to run. The firft, mentioned already, is for the greater fecurity of payment; and the fecond, which we now difcover, is in order to be able to difcount more bills than otherwife they could do, did they difcount at a longer day.

As 1 am here upon the fubject of difcounting bills of exchange by the bank of England, an operation it has in common with all the private bankers in the capital, I mult anfwer a queftion I have frequently heard propofed.

How it happens, that in a city of fo great trade as London, it is poffible that people flould be found even among merchants, who allow their money to remain in the hands of bankers without intereft; when in Scotland, a place of fo little trade, intereft may always be got for money for the floureft time?

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The answer to this queftion is to be derived from the very principles of trade itfelf.

The money which merchans have either in the hands of the bank, or of bankers, though very confiderable at all times, is in perpetual fluctuation: it cannot then be leut to any but a banker, who would conclent to pay intereft for the fums in hand-But no fuch banker can be found, nor ever will be found, usual all the bankers in London confent to finch arcgulation. The reafon is plain. One principal ufe the bankers make of the average-money in their hands, is the difforming of bills. Who then could my intereft for money, and diffound, in competition with others of the fame trade, who have it for nothing ?

But fuppofe the bank, and all the bankers in town. fhould come to the refolution of giving intereft for the money in their bands, what would be the confequence?

I answer, that upon such a alteration, difcount would rife above the prefeat rates, to the great prejudice of the trate of the nation; and bankers would lend the money in their hands upon a more precarious fecurity for the fake of a higher intereft.

All the landed men who refide in London, and many other wealthy people, not concerned in trade, conflantly keep their money either in the bank, or in fome banker's hand, without intereft: this enables bankers in general to difcount foreign bils at 4 per cent. as has been faid, even when the rate of intereft is rather above that flandard. Vot. IV.

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This is, as it were, a contribution from the rich and idle, in favor of the nation.

Let, therefore, gendemen who have much idle money, think of any other expedient than that of obtaining intereft for it, from thole who difcount bills in London. Not one of them can alford to do it, and thrive by his bufnefs; and the hurt which would refult to trade in general, will conftantly be a fufficient bar againft a general refolution for that purpofe.

What has been faid, will, I hope, prove fatisfactory as to the refolution of the queftion above propoled, fo far as regards London. It remains to be anfwered, how thole who fupply the place of bankers in Scotland, and even the banks themfelves, can afford to pay intereft for any fum put into their hands for a fhort time.

I answer, that as to the Scotch exchangers, as we have called them, the profits on their trade admit of borrowing money at intereft, which that of the bank of England and private bankers cannot do. If thefe laft can gain 4 or 5 per cent. by difcounting of bills, it is all they can honefly expect: every other employment of the money in their hands is precarious, either as to the fecurity or promptiude of calling it in, to answer the demands which are made upon them.

As to the Scotch banks, we have feen how directly contrary to all principles it is, to borrow money in Scotland. How it diminifhes the profits upon their own trade, and hurts the circulation of the country; but although it diminifhes their

profit, it carries along with it no politive loss to them, as would be the cafe with a London banker, who would pay intereft for all the money in his hands, when he never can draw any back, except for that part which we have called the average

Every London banker is obliged to have a certain fum of calh conflantly in his cheft, the intereft of which would be all loft, did he pay for it: whereas the exchangers in Scotland never have a failling by them; and when any demand is made upon them, they draw the money from the banks, in confequence of their credit by calh accompts.

Befides foreign bills, which the bank of England difcounts at 4 per cent, they alfo difcount inland bills, and notes of hand between merchants in London, at 5 per cent.

The inland bills to be difcounted at the bank must all be payable in London. The bank calls in no money from any diftant quarter of the kingdom. As the difcounting of notes of hand between London merchants might operate the fame effect. as if the bank flould advance them money upon perfonal fecurity, in cafe the notes were drawn for obtaining credit, in place of paying money really due between the merchants, in the course of bufinefs, the clerks of the bank keep a watchful eye over this branch of management, and, by examining the reciprocal draughts of merchants between themfelves, they eafily acquire a knowlegde of the state of their affairs, and are thereby enabled to judge how far it is expedient to launch out in difcounting either the notes or bills wherein they are concerned. M 2

I final not pretend to affign a reafon why, in the price of difcourt, the bank makes a difference of 1 per cent, between foreign and inland bills of exchange. It may either be an indulgence and encouragement to foreign trade; or it may be upon the confideration of the better fecurity of foreign bills, which commonly pafs through feveral indorfations before they are offered to be diffounted at the bank.

I come next to the circulation between the bank and the exchequer.

The bank of England is to the exchequer, what a private perfon's banker is to him. It receives the cafh of the exchequer, and anfwers its demands.

Caîn comes to the exchequer from the amount of taxes. The two great branches of which are the excife and cuftoms. To explain this operation with the more diftinctnefs, I fhall take the example of the excife.

The excife is computed to bring in annually from London, and the fifty-two collections over all England, nett into the exchequer, above four and a half millions fterling.

The fifty-two collectors fend the amount of their collections to London eight times a year, almost entirely in bills. As the fame may be fail of the remittances of all the other taxes, we may from this circumfance obferve by the way, that London alone mult conflantly owe to the country of England a fum equal to all the bills drawn upon it; that is to fay, to all the taxes which the country pays: a circumfance not to be overlooked, from

which many things may be learned, as will be taken notice of in the proper place.

The bills fent by the fifty-two collectors, are drawn payable to the commillioners of excife; they indorfe them to the receiver general; he carries them to the bank as they fall due, and gets a receipt for the amount; this receipt he carries to the exohequer, who charge it in their account with the bank, and deliver tallies to the receiver general for the amount of his payments; thefe tallies he delivers to the commilfioners of excife, who enter them in their book of tallies. This operation is performed once every week, and ferves as a difcharge from the commilfioners to the receiver general.

The bank, again, keeps an account with the exehequer, which is fettled once every day, by two elerks, who go from the bank to the exchequer for that purpole. When coin is wanted by the exchequer, for payments where bank-notes will not answer, the coin is furnified by the bank; when paper will ferve the purpole, paper is iffued.

Befoles this operation in the receipt of taxes, the bank advances to government, that is to the exchequer, the amount of the land or other taxes impofed, which are to be levied within the year. This we fee is a loan upon government fecurity for a flort term, quite confilent with the principles upon which the bank is established. The large sums the bank is conflantly receiving of public money, and the great affishance it obtains from thence in carrying on the other branches of their trade, enable it at prefent to make advances, of money to government M 3

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at a per cent. It observes the fame rule with refpect to the great companies of the Fall Indies, and South Sea, for the fame reafon: but no advances are made to private people; and in diffcounting of bills and notes of hand, the regulations above mentioned are adhered to.

Thus the whole amount of taxes is poured into the bank, in the manner we have been deferibing.

The bank afo keeps the transfer books of all the funds negotiated at the bank, and out of the public money in its hand, it pays the intereft of thofe debts, for which government allows to the bank a fum proportionate to the expense of that branch of management.

When the bank, as a company, lends to government upon a permanent fund, the capital whereof is not demandable, this operation is foreign to their bufinefs as a bank, and is conducted by the company, as an article of management of their private property.

Let us now examine by what channels their notes enter into circulation, and the fecurity upon which they fland.

When iffued in the difcount of bills, they fland upon the principles of mercantile credit, and depend upon the goodnefs of the bills difcounted. When iffued upon the faith of taxes to be paid within the year, they fland upon the fecurity of that payment, which is of a very complex nature, as any one may perceive. As long as the inhabitants of England confume excifeable goods, the excife will be paid: as long as trade goes on, cuftoms will

be paid: and as long as government fublifts, the collateral fecurity of the flate will ferve to make up all ideficiencies in the amount of taxes. No fecurity, therefore, can be better than the notes of the bank of England, while government fublifts. The loffes that great company meet with from bad debts, 1 am informed, are very inconfiderable.

The greateft rifk the bank runs, is in diffcounting bad bills; but by the extent of their bufinefs in this branch; and by circulating the cafh of all the merchants who keep accounts with them, they acquire fo perfect a knowledge of the ftate of their afairs, that it rarely happens that any one can fail for very confiderable fums, without the bank's having a previous notice of it. A fudden lofs may no doubt happen, without a poffibility of being forefeen; but the matter of fact proving that their loffse upon bad bills are inconfiderable, we may thence infer, that there is but little myfkery to the bank, with regard to the credit of London merchants.

I come now to the laft branch of their management, to wit, their trade in gold and filver.

For the circulation of bank notes, coin is neceffary. We have feen, in treating of the Scotch banks, how coin is brought in: to wit, in confequence of all the payments made to the bank, in which there muft be a proportion of coin equal to what is found in common circulation. What is not paid in coin, comes in, in their own notes, which are thereby taken out of the circle; and

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confequently make place for a fubfequent fupply, which iffues in the manner we have deferibed.

In times of peace, and a favorable balance of trade, the bank fuffiers little by the obligation it is under to pay in coin, except lo far as the great confufion of the prefeit currency affords an occafion to money-jobbers to melt down the new guineas. The excent of this traffic I am no judge of , and the bank no doubt has an intereft in preventing it as far as the laws have provided a remedy againft in.

But when large payments are to be made abroad, the diffrefs of the bank is no doubt very great.

In Scotland, the banks, upon fuch occasions, are totally drained of coin. They have no market for the metals; becaule they have no mint to manufacture them into coin. It is different with refpect to the bank of England; their diltrefs proceeds from another caufe.

The exportation of the heavy guineas in time of war, and of a wrong balance upon the trade of England, leaves circulation provided with a light currency, in which the bank is obliged to pay their notes; and the intrinfic value of the gold in which they pay, regulates the price of the metals they are obliged to buy at market. If they provide them themfelves from abroad, they muft pay the price of them in bills of exchange. But then the lightnefs of the currency at home, finks the value of the pound flerling, as it raifes the value of the ounce of gold and fliver. So the only confiderable lofs they incur, is in providing the metals, which muft ever be confiderable, fo long as the old guineas remain in circulation.

The lofs upon coining filver is ftill greater than upon gold; becaule, befides the lofs memred by reafon of the lightnefs of the gold, the mettak in the filver and gold coin of Great Britain, are not proportional to the value they bear in the London market, where they have been bought, as has been fufficiently explained already in another place *.

It is with great diffidence that I propole an expedient to a company fo knowing in the arts and feience of trade, for preventing, in a great measure, this lofs in providing the metals for the ufe of circulation. The bank is directed by long experience, and by knowledge of many facts and circumfances hid from me; and which, therefore, I cannot combine into a theory founded chiefly upon reafon.

The expedient I propofe has been pointed out in the preceding parts of this inquiry, and I only recapitulate it briefly in this place, to recal it to mind while we are on the fubject of the bank of England.

First, then, while the coin is of unequal weight, the value of the currency never can be permanently the fame. Did the bank ferioully fet about forming a plan for the reformation of the coin, I have no doubt but government, as well as the voice of the nation, would go along with it in forwarding the execution of fo noble a defign.

The fecond flep I would recommend, is that government fhould enable the bank to eftablifh a fund in Holland, Antweyp, Hamburgh, and perhaps at Cadiz and Lifbon, for borrowing (though at a

* See Book III. Chap. 21. Queft. 7.

high intereft) fums of money equal to what may be due by England to the continent upon certain emergencies.

I cannot pretend to lay down any plan for this operation; but I proceed upon this principle: that if on like occafions the British government can find credit to borrow fo large fums for the ufes of war, at a very moderate intereft, furely the bank of England may imitate her example for the ufes of trade; and had fhe a credit abroad. upon which fhe could draw, I think it mult follow, that the coin of the uation might be kept at home.

I have been an eye witne's to large fums in new Englifh guineas thrown into the melting pots of Dutch mints, for the fmall profit of lefs than, *i per cent*, gained by coining them into ducats. A fmall duty impofed upon coinage in the Englifh mint, would prevent this practice abroad; and then Britifh coin would come fafe back again, upon every return of a favorable balance on their trade. At seprefer, it downshows home in bullion, which the bank muft buy dear; the flate muft coin at a confiderable expenfe; and the bank after all muft give it to circulation at the mint price, which is many per cent. below prime coft, as matters have flood for feveral years.

From this review of the conflitution of the bank of England, and of the principles upon which it is founded, we may different wimpoffible it is, that banks upon morgage-and private credit, can ever receive any confiderable affiftance from it; and how groundlefs all infinuations concerning its jealoufy of fuch companies muft be.

A more natural object of its jealoufy is that of the London bankers, who carry on a trade fimilar to its own, in many refpects, and who, in the courfe of their bufinefs, draw from it very large quantities of coin.

This, however, occasions no ill will on the part of the bank. The trade of London requires the alifhance of all the bankers there, as well as of the bank. Were it otherwife, the bank, by difcounting bills at a lefs profit, might foon oblige them to that up fhop. In this view of the matter, the drawing coin from the bank cannot be prevented.

The bankers call for no more than their bulinefs requires. Could the bank, therefore, circulate the whole trade of London, the confequence would be, to iffue as much coin as at prefent: and the coin which iffues from bankers, like to that which iffues from the bank, if it be for the ufes of domeftic circulation, returns to the bank in proportion as it iffues: and if it be for payment of a foreign balance, the bank knows well that the expense of providing for *that*, nuft hand uponit, in fpite of every method to prevent it.

I muft now explain the difference between the effects produced upon the circulation of coin, by the operations of banks effabilithed upon mortgage and private credit, and by those of the bank of England, which we have faid to be eftablished upon mercantile fecurity.

The confequence of a bank upon mortgage, is to fill the nation with paper money, and to reduce the quantity of coin to the loweft fum poffible. For the truth of this propolition, I appeal to the experience of Scotland, and of Rome, where banks upon mortgage, and moveable pledges, are found eftablifhed. From thefe facts, and from the principles of their conflictution, which is to melt down property into money, it follows, that when the credit of fuch money is well eftablifhed, the coin, which is the money of the world, will be employed in trading with the world, and the paper, which is the money of the fociety.

The confequence of this, is, that when the balance of trade runs againft a country where banks upon morgage are eftabilited, the coin firft gees out, and when, by borrowing, it can be brought back, the intereft paid for the coin borrowed, adds an additional balance againft the country, until the whole revenue of it becomes the property of other mations. From this we may conclude, that the eftablifhment of fuch banksis as dangerous a weapon in the hands of an idle nation, as an extensive credit is to the family of a young fpendthrift.

But let us confider the confequences of fuch banks to an indultrious people, who preferve, upon the average of their trade, a favorable balance with other nations.

The coin, then, goes out to return, and ferves as a check upon the courfe of exchange. I here fuppofe proper regulations in the mint, and an entire liberty to export coin. Permitting the exportation of coin where you have a mint, for paper to fupply its place, and a favorable balance on your

trade to bring it back, is like eftablifting two fhops for the courfe of exchange. If the exchanger will not ferve trade at the price of transportation and inforance, the coin will do it for him.

In fuch a country, a bank, properly eftablifhed, will find great profit upon the intereft of their notes, notwithflanding of the obligation to provide, at all times, the quantity of coin neceflary for circulation. All the great objects of trade will then be fulfilled; the reft muft be left to the operation of political cases.

If the balance of the trade of fuch a country flould have the effect of bringing in an addition of coin. which, because of the paper, would become unneceffary for circulation ; this coin, or the value of it, will either be added to their ftock in trade. or will be lent to other nations. This is the cafe of the Swifs: they are an industrious and a frugal people; they receive annually from their trade, and from the fervice of their citizens in many countries in Europe, a conftant addition to their wealth. more than their trade demands, which they lend to their neighbours; by thefe means they increase the revenue of the fociety; and this increase has effects almost fimilar to an extension of their territory; because it is a means of increasing their population beyond the proportion of the natural produce of their lands; and the food they import from Germany and other countries, is paid with the money which arifes from the interest of what they have All thefe operations are the confelent abroad. quences of credit and circulation.
$I_{\rm II}$ a country where a mercantile bank is effablished, the melting down of property is greatly circumforibed; and confequently coin becomes more neceflarv.

We have often faid, that a circulating value (money) muft conflantly bear a proportion to alienation. Circumflances will determine what proportion of coin and what proportion of paper will be needfary for carrying it on. Thefe circumflances, under banks of circulation upon mortgage, multuply paper fo much that little coin is required.

Let us now examine how far the paper of a mercantile bank, like that of England, tends to fupply the demand of circulation.

' Were no bank eftablifhed at London, all bills would be paid, or difcounted in coin.

The bank, therefore, melts down into papermoney all the bills difcounted by them, and throws it into circulation.

It also melts down into paper all the fums it advances either to government, or to the great trading companies. In this respect it acts upon the principle of banks upon mortgage.

It also melts down into paper all the interest upon the public funds discounted at the bank. All this fum of paper iffues from the bank into the city of London, and proportionally supplies the circulation of that great capital.

Let us next examine how this paper can find its way into the country of England, there to supply the use of coin.

The whole confumption of London for meat,

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beer, fire, and an infinity of articles of manufacture for domeftic use and foreign exportation, comes from the country of England.

Did the country owe nothing to London, the fums due for those commodities would be fent into the country in the current circulation of London, which, by what we have feen, abforbs a very large quantity of paper.

But we have faid above, that the whole amount of taxes, almost is remitted to London in bills : this could not be the cafe, were not the capital confantly indebted to the country. This circumftance confines the circulation of bank-notes chiefly to London, and fome other cities, to which the inhabitants of London refort, and whither they carry in their pockets the money of the capital, viz. banknotes. For these reasons, bank notes can never be common in the country; and if, at any time, a fcarcity of currency there, proves hurtful to induftry, the defect cannot be remedied but by eftablifhing banks of circulation upon mortgage in the principal towns of England.

It may be here objected that fuch a regulation in England, where there is already fo great a bank fettled on different principles, might draw along with it the following hurtful confequences, viz.

1mo, By multiplying the circulation of paper it would fend off the coin.

2do, The taxes would be paid in this paper, which could not be received at the bank of Eng-- land, and that would throw the whole nation into confusion.

To which I anfwer, 1. That if the coin were fent off, it would return, as has been faid, while the trade of England flourifles: and 2. That this new bank-paper coming in place of the coin, would no more be fent to London than coin is fent now. The debts due by the country for taxes, would be compendated by the reciprocal debts due by London for fubfiltence, &c. and the compendation would go on as at prefeat by bills: but were the cofe otherwife, and did a change of circumflances oblige the holders of the country-notes would conflandy, as is the cafe in Scotland, have recourfe to the bank eff-blifted in the diffrief, for the coin wanted to be fent to London.

When I accidentally, as at prefent, happen to apply a principle to a particular cafe, whereby an innovation is implied, I conflatty fear a fecret rebuke from many impatient readers. I therefore beg a little indulgence upon account of my good intention, which is only to fupport ideas to be approved of, or rejected by thofe who have the capacity to form plans upon them, and power to put them in execution.

CHAP. XXIII.

Of the first Establishment of Mr. Law's Bank in France, in the Year 1716.

N deducing the principles of credit, I have it chiefly in view, to fet in a fair light, the fecurity upon

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upon which paper - money is eftablished: and as I imagine, this important branch of my fubjedt will fill be rendered more intelligible, by an example of the abufe to which this great engine of commerce is expoled, I now propole to give my reader a fhort account of the famous bank of circulation fift eftablished in France, by Mr. Law; but afterwards profituted (whether by defign, or by fatality, I final for here determine) to ferve the worft of purpoles; the defrauding the creditors of the flate, and a multitude of private perfons.

So dreadful a calamity brought upon that nation, by the abule of paper credit, may be a warning to all flates to beware of the like. The boft way to guard againft it, is to be apprized of the delution of it, and to fee through the fprings and movives by which the Milfilippi bank was conducted.

After the death of the late King of France, Louis XIV. the debts contracted by that Monarch were found to extend to 2000 millions of livres, that is, to upwards of 140 millions flering.

It was propoled to the Duke of Orleans, regent of the kingdom, to expunge the debts by a total bankruptey. This propolal he rejected nobly; and inftead of it, eftablifhed a committion (called the V_1/a) to inquire into the claims of fuch of the nation's creditors as were not then properly liquidated, nor focured by the appropriation of any fund for the payment of the intereft.

In the courfe of this commiffion, many exorbitant frauds were difcovered; by which it appeared,

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that vaft fums of debt had been contracted, for no adequate value paid to the King.

After many arbitrary proceedings, this commiffion threw the King's debts, at laft, into a kind of order.

Thole formerly provided for were all put at 4 per cent. The creditors to the amount of fix hundred millions, which had not been liquidated, nor provided for, had their claims reduced, by the commifilon, to two hundred and fifty millions; for which they obtained notes of flate, (Billets d'état, as they were called) bearing an intereft of 4 per cent. allo.

Thele operations performed, the total debts of the late King were reduced to the fum above mentioned; to wit, two thouland millions; bearing an intereft of 4 per cent. or eighty millions per annum.

From the neceffities of government, and the diftreffed fituation of the kingdom, this intereft was ill paid: and there hardly remained, out of an ill paid revenue, wherewith to defray the expente of the civil government.

About this time Mr. Law prefented to the Regent the plan of a bank of circulation.

For the better underflanding this affair of Mr. Law's bank, and the views he had in eftablifting it at that time. I muft give a flort account of the moft material variations of the French coin, before and after the King's death, ift September 1715; which I fhall make as flort as poffible, confiftently with perforcinty.

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CHAP. XXIV.

Account of the variations of the French coin, fome time before and after the death of Louis XIV.

IN 1709; there was a new general coinage in France; by which operation the King gained 23 if is per cent. upon all the specie coined. (Dutor, vol. i. p. 104.)

Out of the marc of flandard gold were coined 30^{-1} louis d'ors, of 20 livres denomination each. Out of the marc of flandard fliver, 8 crowns, of 5 livres /denomination each: fo that the fliver was put at 40 livres the marc. — But.

By edict of the month of September 1713, the old King appointed a diminution of the denomination of filver and gold coins; by which, after eleven fuccefilve changes, the coin of France was ordered to be brought down, from 40 livres the mater, to 32: fo that the 8 crowns; which were called 40 livres in the month of September 1713, by the 2d day of September 1715, the day after the King's death) were to be called only 28 livres. I fay called, because certainly the crowns had fuffered no variation but in their name.

On the 13th of August 1715, (a few days before the King's death) he illued a declaration; ordering that for the future the coin should remain at 28 kyres per marc.

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From this I conclude, that his intention was to leave, at his death, the coin of his kingdom of the fame flandard he had found it to be at the beginning of his reign, and at which he had preferved it invariably, during the flourithing flate of his kingdom, for the fpace of 46 years; that is, until the year 1689.

He could not fail to be fenfible of the infinite prejudice occafioned to debtors and creditors by the variations he had practifed upon the coin from 1689.

To this flandard, then, it was brought the very day after his death, and no fooner: therefore his debt of two thoufand millions of livres fhould regularly be effimated according to that rate; or at about 40 fhillings flerling for every 28 livres: 40 fhillings being, within a trifle, the value of 8 ounces or one marc of flandard florer; Paris weight.

At this rate of conversion, the two thouland millions were equal to 124,857,140 l. fterling.

Soon after the King's death, on the ad of January 1716, the new miniftry iffued an edict, which totally deftroyed all. This was the moft extraordinary operation, I believe, ever invented; and to it was owing the eftablifiment of Mr. Law's bank: I mult therefore explain it.

There had been no general coinage fince 1_700 ; the louis d'or had then been coined at zo livres, and the crowns at s, as has been faid. The edict of zd January 1716, ordered a new general coinage, on the fame footing, both as to weight, finenefs, and denomination, as that of 1709; the only difference was, that the firft had an old man's head upon it; the other had that of a child of fix years old.

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By this first operation, there was an end put to the former diminutions on the denomination of the coin; which was now raifed again to 40 livres the marc, as in 1750° . This is nothing:

There being no difference between the old coin and the new, except the flamp, the old coin was called in, and a new face was flamped on the very fame pieces. But when the louis d'ors were called in, they were received at the mint at no more than 16 livres; and by a flroke of the wheel, they were, in an inflant, converted into 20 livres, the denomination of the new coin.

Thus a perfon who brought 20 old louis d'ors to the mint, received back 16 of his own 20, new flamped, and no injultice was faid to be done, from this demonstration of ministerial algebra, viz. 16 + 20 = 20 + 16. Can any thing be more clear and instructive! Some of my-readers may not give credit to this; but it is true neverthelels.

Under thele circumftances, it was natural for the inhabitants to wifit to difpole of their old coin, at any other market than at the King's mint. They did what they could to fnuggle it to Holland; where the induftrious Dutchman flamped a to livre piece with the head of a child, as well as the King of France could do, and fent it back to France for

* Here is also an operation upon debts. The day before this edict, that is, the if of January 1716, the value of the King's debts was (as has been faid) above 142 millions fterling: but an edict comes, railing the coin to 40 livres per marc; and confequently, reducing the debts to the value of 100 millions flerling.

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a 20 livre piece. Thefe operations were prevented as well as government could; and every method was tried to force in the old coin to the mint.

Mr. Law judged this a very proper occasion to form the plan of a bank of circulation, upon the principles we have already explained.

He gave in his fcheme to the Duke of Orleans; by whom it was approved of; and the bank was established the 2d of May of the fame year 1716.

The first thing Mr. Law did, was to buy up with bank-notes this old coin, at a price above what the mint gave, but many per cent. below the proportion of its value: his paper (payable in the new coin at 40 livres per marc) was run upon for this, as well as other realons; and an immence profit enfued.

This anecdote, I think, is curious, and tends to unfold Mr. Law's combinations, in the propofal he made to the Duke of Orleans for ersching a bank at this period of time.

CHAP. XXV.

Continuation of the Account of Law's Bank.

HE bank accordingly was established in favor of Law and Company, by letters patent, of the ad of May 1716. The Company was called, the General Bank; and the note run thus:

The bank promifes to pay to the bearer at fight - livres, in coin of the fame weight and

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finenels with the coin of this day, value received at Paris.

The firft fund of this bank confifted in 1200 actions (or fhares) of one thoufand crowns, (or goos livres) bank - money; in all fax millions; the crown being then 5 livres, 8, to the marc; filver coin at 40 livres per marc, as has been faid; which makes this fivre juft worth one fhilling flering; co.fequently, the fhares were worth 2,0.1 fterling, and the bank - flock worth 2,0.000.

By the claufe in the note, by which the bank was obliged to pay according to the then weight and finenefs of the coin, thole who received their paper were fecured againft the arbitrary meafures common in France of raifing the denomination of the coin; and the bank was fecured againft the lowering of it. In a fhort time, moft people preferred the notes to the coin; and accordingly they palled for 1 per cent. more than the coin itelf.

This bank fublified, and obtained great credit, until the 1ft of January 1719: at which time the King reimburfed all the proprietors of the flares, and took the bank into his own hand, under the name of the Royal Bank *.

Upon this revolution, the tenor of the note was changed. It ran thus: The bank promifes to pay

* Here the bank departed from the principles of private and mercantile credit, upon which Law had formed it, and proceeded upon thofe of public credit. Fund France is the credit of the Sovereign; the folidity of which depends upon the maxims which he follows in the couprie of his administration.

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to the bearer, at fight, - livres, in filver coin, value received at Paris.

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By this alteration, the money in the notes was made to keep pace with the money in the coin ; and both were equally affected by every arbitrary variation upon it. This was called, rendering the paper momoie fixe; becaufe the denon mations contained in it did not vary according to the variations of the coin : I should have called it monnoie variable; becaufe it was expoled to changes with selpect to its real value.

Mr. Law Arenuoufly oppofed this change in the bank - notes. No wonder ! it was diametrically oppofite to all principles of credit. It took place, however; and no body feemed diffatisfied : the nation was rather pleafed : fo familiar were the variations of the coin in those days, that no body ever confidered any thing with regard to coin or money, but its denomination : the confequences of the variations in the value of denominations, upon the accompts between debtors and creditors, were not then attended to; and the credit of the notes of the royal bank continued just as good as that of Mr. Law; although the livres in this contained a determinate value; and the livres in that could have heen reduced at any time to the value of halfpence. by an act of the King's authority, who was the debtor in them. Nay more, they in fact flood many variations during the course of the fystem. without fuffering the fmalleft difcredit. This appears wonderful; and yet it is a fact.

Political writers upon the affairs of France at this

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period, fuch as De Melon, Savarie, Dutot, and others, abundantly certify the incredible advantage produced by the operations of Nr. Law's back; and the chain of events which followed, in the years 1710, and 1720, when it was in the King's hands, flow to what a prodigious height credit arofe upon the firm foundation laid by Mr. Law *.

⁶ Dicto, forcing of the great value of paper in rotes and actions, there out feveral reflections, in the paffice I am now to transforbe from him, which, at the fame time that they prove the great advantages refulling to France from the effab tiltment of credit among them, abundantly evince how lame this author's ideas were concerning the principles of paper credit, and of circulation. He faye, (vol. ii. p. 200.) "*This paper* was indeed just fo much " real value, which credit and confidence had created, in " favor of the fate: and by this fum was circulation auge" mented, independently of all the coin which was then " in France."

"Upon this revolution , Plenty immediately difplayed " herfelf through all the towns, and all the country. She there relieved our citizens and laborers from the oppref-" fion of debts , which indigence had obliged them to " contract : fhe revived industry : fhe reftored that value " to every fund, which had be n fufpended by those debts; " fhe enabled the King to liberate himfelf, and to make " over to his fubjects, for more than fifey-two millions of " taxes, which had been imposed in the years preceding " 1719; and for more than thir:y-five millions of other " duties, extinguished during the regency. This plenty " funk the rate of intereft ; crushed the usurer ; carried " the value of lands to eighty and a hundred years pur-" chafe; raifed up flately edifices both in town and coun-" try; repaired the old, which were fal'ing to ruin; im-" proved the foil ; gave a value to every fruit produced by " " the carth, which before that time had none at all. Plenty

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But alas ! the fuperftructure, then, became fo far beyond the proportion of the foundation, that the whole fabric fell to ruin, and involved a nation, juft emerging from bankruptey and inanition, into new calamities, almost equal to the former.

As long as the credit of this bank fubfifted, it appeared to the French to be perfectly folid. The bubble no foomer burft, than the whole nation was thrown into aftonifument and commanion. No body could conceive from whence the credit had forung; what had created fuch mountains of wealth in fo floret a time; and by what witcheraft and fafeination it had been made to difappear in an infant, in the floret period of one day.

Volumes have been fince writ in France, by men of fpeculation, in order to prove, that it was a want of confidence in the public, and not the want

⁴⁷ recalled thole citizens, whom milery had forced to feck ⁴⁶ their livelihood stand. In a word, riches flowed in from ⁴⁷ every quirter. Gold, filer; precious fhores, ontameters ⁴⁶ of all kinds, which contribute to lugary and magnificence, ⁴⁷ came to us from every country in Europe. Whether ⁴⁷ thefe prodigies, or marvellour effects, were produced by ⁴⁷ art, by-confidence, by fear, or by whim if you pleale, ⁴⁷ ore multigree, that and after, that confidence, that fear, or ⁴⁷ that whim, had operated all thefe *realities* which the ancient ⁴⁸ administration never could have produced.

"What'a difference in the fituation of France at the beginning of the regency, and the fituation in which fhe was in November 1719!

"Thus far the fystem had produced nothing but good : " every thing was commendable, and worthy of admiration." These are the fentiments of Dutot, concerning this fystem of paper credit.

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of a proper fecurity for the paper, which occafioned this downfal.

This, if we judge by what has been writ, has been the general opinion of that nation to this day : and fince it was found impollible, in France, to create confidence in circulating paper, which had no fecurity for its value, many people there, and fome even among ourfelves, conclude, that a great part of the wealth of Great Britain, which confilts in paper, well fecured, is falle and fictitions.

I fhall now proceed to fet before my reader the great lines of the royal Mifflippi bank lof France, from the 1ft of January 1710, to the total overthrow of all credit, upon the fatal 21ft day of May 1720. This was a golden dream, in which the French nation, and a great part of Europe was plunged, for the flort fpace of 5c6 days.

C H A P. XXVI.

Account of the Royal Miffifippi Bank of France; eflabli/hed on Public Gredit.

I N order to unravel the chaos of this affair in a proper manner, it will not be amifs to begin by giving the reader an idea of the plan which naturally might fuggeft itfelf to the Regent of France, from the hint of Mr. Law's bank. By the help of this clue, he will be the better able to conduct himfelf through the operations of this fylem, as the French call it.

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The Regent perceived, that in confequence of the credit of Law's bank, people grew fond of paper-money. The confequence of this, he faw, was, to bring a great quantity of coin into the bank. The debts of France were very great, being, as has been faid, above 2000 millions. The coin. at that time, in France, was reckoned at about 1200 millions, at 60 livres the marc, or 40 millions fterling. The Regent thought, that if he could draw either the whole, or even the greatest part of this 1200 millions of coin into his bank, and replace the use of it to the kingdom, by as much paper, fecured upon his word, that he fhould then be able to pay off, with it, near one half of all the debts of France: and by thus throwing back the coin into circulation, in paying off the debts, that it would return of itfelf into the bank, in the courfe of payments made to the flate; that credit would be thereby fupported, as the bank would be enabled to pay in coin the notes as they happened to return, in the course of domestic circulation.

This was both a plaufible and an honeft fcheme, relatively to a Duke of Orleans, whom we cannot fuppofe to have been mafter of the principles of credit; and véry pradicable in a country where there was fo great a quantity of coin as qomillions flerling, and a well eltablifted credit in the bank, which prevented all runs upon it from diffidence. Nothing but a wrong balance of trade could have occafioned any run for coin; becaufe, for the reafon already given, the paper bore for the molt part a premium of 1 per cent. above it.

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Accordingly, during the whole year 1719, the credit of the royal bank was without fulpicion, although the Regent had, by the laft day of December of that year, coined of bank-paper, for no lefs a fum than 769 millions, reckoning in 59 millions of paper, which had been formerly iffued by the general bank of Law and comparity: for which he had given value to the proprietors, when he took the bank into his own hands, as we have faid above.

I must here observe, that by this plan of the Regent, there was, in one fenfe, a kind of fecurity for the notes iffued. So far as they were iffued for coin brought in from the advanced value of the paper, this coin was the fecurity : in the fecond place, when the coin was paid away to the creditors of the flate, the Regent withdrew the obligations which had been granted to them ; and although I allow that the King's own obligation withdrawn, was no fecurity to the public, who had received bank - notes for the payment ; yet ftill the interest formerly paid to the creditors, was a fund out of which, upon the principles of public credit, the annual interest for the notes was fecured. Had, indeed, the French nation perceived upon what bottom the fecurity for the paper flood. during the year 1719, perhaps the credit of the bank might have been rendered precarious : but they neither faw it or fought after it : and the men of fpeculation were all of opinion, that as long as there was no more paper iffued by the bank than there was coin in the kingdom, there could be

no harm done. Of this any perfor who has read Dutot, de Melon, Savarie, and others, will be perfectly fatisfied *. And I defire no farther pioof of the total ignorance of the French in matters of this kind, than to find them agreeing, that bank

It is abonifhing to find how gravely Meffit, dc Melon and Duot realoned concerning the nature of paper morey, and the effects of changing the value of the coin. Tays both feemed to agree that a livre was a livre, whether it was the 28th or the 50th part of a marc of filter, whether it was decomination upon paper, well or ill focured, no matter which.

The whole reafoning turned merely on the queftion, who were robbed, and who fantaftically enriched by fuch abfurd operations upon the coin of a country?

The jargon of fuch men certainly contributed a great deal to darken the underflandings of the minifury at this time; and to make them believe that the affairs of money were infinitely more obfoure and more difficult to be underflood than they really are.

There are thou fands of examples where mankind, with the it leaning and reasions, have turned common functions in xtricable felence; this I think is a famous infrance of it: and it is rendering no finall fervice to the world, to dettroy, in a manner, what others have been at fo much pains to efablith. This is refloring common fend to its mative drefs, in which it becomes intelligible to every one.

I know very well that the minifity of France have now very different notions concerning paper credit; but thefe notions have not as yet reached the prfs, except in fome of the King's anfwers to the remonstrances of the parliament of Paris in 1760. Thefe anfwers were dictated upon found prin ioles, and do creat honor to the minifity.

The old notions still prevailed in the remonstrances of the parliament. This plainly appears from the proposal they made to the King, at that time, to iffue paper to the amount of

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paper is always good, providing there be coin in the nation to realize it, although that coin be not the property of the bank. [Dutot, p. 132, 133.] On the contrary; it is very evident from what has been faid, that although there fhould be a thoufand times more coin in a country than the bank paper, fill that bank paper mult be a mere delution, and, in fact, of no value whatforver, except fo far as the bank is polfelfed of the value of it in one fpecies of property or another.

And on the other hand, let the bank - paper exceed the quantity of coin in the proportion of a thousand to one, yet fill it is perfectly good and fufficient, providing the bank be poffelled of an equivalent value in any fpecies of good property. This I throw in here to point out how far the French were, at leaft at that time, and many years after, when Dutot and Melon wrote, from forming any just notion of the principles of banking. And, I believe, I may venture to fay, that the only reafon why banks have never been eftablifhed in France, is, becaufe the whole operation is ftill a mystery to them. I ground this conjecture upon an opinion of M. de Montefquieu, who thinks that banks are incompatible with pure monarchy; a proposition he would never have advanced had he

200 millions, which the parliament was to make good. An excodent to avoid doing that which right reafon demanded of them, viz. first to fecure a fund for the paper, and then to borrow upon that fund. This propofal from the parliament, and the King's rejecting it, proves that credit was then better underflood in the cablest than in the pairs.

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underftood the principles upon which they are eftablished.

The next remarkable and interefting revolution made upon this famous bank, was by the arreit of February 22, 1720; which confituted the union of the royal bank with the company of the Indies.

By this arrêt, the King delivered to that company the whole management of the bank with all the profits made by him fince the first of January 1710; and in time coming. Notwithflanding this cefition, the King remained guarantee for all the notes, which were not to be coined without an order of council: the company was to be refponible to the King at all times for their administration; and, as a fecurity for their good management, they engaged to lend the King no lefs than fixteen hundred millions of livres.

Here is the zera and beginning of all the confufion. From this loan proceeded the downfal of the whole fyftem. γ

But before I proceed to explain the fcheme of the Regent in thefe operations upour credit, I think it will contribute to the clearing up of the fubject in general, to premife fome flort account of the rife and progressof this great company of the Indies : and to give a flort abftract of fome of the molt memorable transfactions during the Nilfilippi fcheme, in the order of time in which they followed one another.

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CHAP. XXVII.

A fhort Account of the French Company of the Indies;

CARDINAL de Richlieu, that great minister to Louis XIII. was the first who established trading companies in France, auno 1628, about the time of the fiege of Rochelle.

He then fet on foot the companies of the Weft and Eaft Indics.

Several others, viz. one for Canada, one for the Leeward Iflands, and another for Cayenne, were fucceffively eftablified in the beginning of the reign of Louis XIV.

Thefe companies, before 1664, had frequently changed their forms, and had fucceeded very ill.

At that time the great Colbert was in the adminitration of the King's affairs. He engaged his mafter to think ferioufly of eftablifhing the trade of his kingdom upon folid principles; for which reafon all the undertakers of the former projects of commerce to the new world were reimburfed; and a new eftablifhment was made, called the *Compagnie des Indes Occidentales*.

This exclutive trade comprehended that of Canada, the Caribbee Inlands, Acady, Newfoundland, Cayenne, the French continent of America, from the river of the Amazons to that of Oronoko, the coafts of Senegal, Goree, and other places in Africa; the whole for 40 years.

The fame year, 1664, there was another company Vol. IV. O formed for the East Indies, of which we shall speak afterwards.

The greateft encouragement was given to thefe new eftabliftments. Large fums were advanced by the King for feveral years, without intereft, and upon condition, that if, at the end of that term, any lofs was found on the trade, it fhould fall upon the money due to the King.

On examining into the Weft India company's affairs, after ten years adminification, that is to fay, in the year 16/24, it was found, that inflead of profiting of their extensive privilege, by carrying on a regular trade themfelves, they had fold permiftions to private people to trade with them.

This abufe in the company had, however, infpired a tafte for trade among the French; which the King willing to improve, he reimbuffed to the company all their expendes, added their polletilons to his domain, and threw the trade open to his fubicfts.

Thus ended the first company of the West Indies, called by the French, the Compagnie d'Occident.

After the fupprefion of this company, the French trade to America was carried on and improved by private adventurers, fome of which obtained particular grants, to enable them to form colonies. Of this number was Robert Chevalier de la Sale, a native of Rouen. It was he who fird dicovered the river Miffilippi, and who propofed to the King, in 1683, to eftablift a colony there. He loft his life in the attempt.

Hiberville, a Canadian, took up the project; but foon died. He was fucceeded by Antony Crozat,

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in 1712, who had better fuccels but the death of the King in 1715, and the rifing genius of Mr. Law, engaged the Regent of France to make Crozat reinounce his exclusive privilege of trading. Upon which, by edich of the 6th of September 1717, was formed the fecond Compagnie d'Occident, in favor of OMr. Law: to which was added the fur trade of Canada, then in the hands of private adventurers, and the farm of the tobacco, for which he paid 1,500,005 livres a year.

I now come to the East India company.

I have already mentioned the effablishment of it by the great Colbert in 1664.

After his death, want of experience in thofe who fucceeded him, abule of adminification, careleffnefs in thofe who carried on the company's bufnefs, competition between different companies, and, in fhort, every obltacle to new eftablifhments, concurred with the confequences of the long and expensive wars of Louis XIV. to render all commercial projects ineffectual; and all the expense beflowed in eftablifhing thofe companies was in a manner loft.

In 1710, the merchants of St. Malo undertook the Eaft India company. It languilhed in their hands until 1719, and their importations were not fufficient to fupply the demand of France for India goods: for this reafon it was taken from them, and incorporated with Mr. Law's company of the Weft Indies, in May 1719.

By this incorporation was eftablished the great Company of the Indies, which fill (ublifts in France: the only monument extant of the famous and unfortunate Law. O z For the better underflanding, therefore, what is to follow, let us attend to fome hiftorical and chronological anecdotes, relative to the wonderful operations of this Miffifippi bank, and company of the Indies. Thefe I fhall fet down according to the order of time in which they happened, that my reader may have recourfe to them as he goes along.

Without the help of this table, I fhould be involved in a hiftory of thofe events, which however amufing it might be to fome readers, would be quite inconfiftent with the nature of this inquiry.

CHAP. XXVIII.

Chronological Anecdotes.

1709. A GENERAL coinage in France: the mare of flandard filver, worth two pounds fterling, put at 40 livres denomination.

September 1713. The late King reduces the denomination of the filver coin to 28 livres the marc, and the gold in proportion.

These reductions were made gradual and progreffive, and were finally to take place no fooner than the 2d of September 1715.

August 1715. The King declares, that in time coming, the coin was to remain stable at 28 livres the marc of fine filver.

September 1715. The King dies-

January 2, 1716. The Regent of France orders a new general coinage: raifes the filver coin to 40 liv. the marc, and calls down the old King's coin (though

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of the fame weight, finenefs, and denomination) 20 per cent.

May 1716. Mr. Law's bank effablished : banknotes coined; and the old coin bought up at great difcount.

September 6, 1717. Mr. Law's company of the Weft eftablished.

September 4, 1718. He undertakes the farm of tobacco.

September 22, 1718. The first creation of actions of the company of the West to the number of 200,000, fublic ribod for in flate billets, at the rate of 500 livres per action.

January 1, 1719. The bank taken from Law, and vefted in the King. At this time the number of banknotes coined amounted to 59 millions of livres.

April 22, 1719 A new coinage of 51 millions of notes; in which the tenure of the note was changed, and the paper declared *monnoie fixe*.

May 1719. Mr. Law's company of the Welt incorporated with the company of the East Indies; after which it was called the *Company of the Indies*.

June 1719. Created 50,000 new actions of the incorporated company; fold for coin at 550 livres per action.

June 10, 1719. Coined of bank-notes for 50 millions of livres.

June 17:9. The mint made over to the company for 50 millions.

July 1719. Created 50,000 actions as above, fold, for notes, at 1000 livres per action.

July 25, 1719. Coined of bank-notes for 240 millions.

August 1719. The company obtains the general farms: promifes a dividend upon every action of 200 livres: agree to lend the King fixteen hundred millions at 3 per cent. and have transferred to them 48 millions per annum for the interest of that fum.

September 12, 1719. Coined of bank-notes for 120 millions.

September 13, 1719. Created no lefs than 100,000 actions; price fixed at 5000 livres per action.

September 28, 1719. Created 100,000 more actions, price as the former, fixed at 5000 livres each.

October 2, 1719. Created 100,000 more actions, price as the former, at 5000 livres each.

October 4, 1719. Coincd by the Regent's private order, not delivered to the company, 24 000 more actions, which completed the number of 624,000 actions; beyond which they never extended.

October 24, 17 19, Coined of bank-notes for - 120 millions. Dec.mb. 29, 17 19, Coined of bank-notes for - 219 millions. January 1720. Coined of bank-notes for - 219 millions. February 1720. Coined of bank-notes for - 279 millions. February 22, 170. Incorporation of the bank with the company of the Indies.

February 27, 1720. A prohibition by which no one was to have in his cuftody more than 500 livres of coin.

March 5, 1720. The coin raifed to 80 livres per marc.

March 11, 1720. The coin brought down to 65 livres per marc; and gold forbid to be coined at the mint, or used in commerce.

March 1720. Coined of bank-notes for - 191 803 060 April 1720. Coined of bank-notes for - 792 474 720 May 1, 1720. Coined of bank-notes for - 642 395 130

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May 21, 1720. The denomination of the paper diminifhed by arrêt of council, which, in an inftant, put an end to all credit, and made the bubble burft.

At this period had been coined of bank-notes to the immenfe fum of

	- 2 696 400 000	,
Of which had been iffued	- 2 235 083 590	,
Remained in the bank	- 461 316 410	•
Dutot, Vol. I. p. 144-	Vol. II. p. 207.	

May 27, 1720. The arrêt of the 21ft of this month recalled, and the paper reftored to its full denomination.

May 29, 1720. The coin raifed to 82 livres 10 fols per marc.

June 3, 1720. 400,000 actions belonging to the Regent are burnt; and the 24,000 more, which were created October 4, 1719, fupprefied; alfo 25 millions of the intereft formerly granted to the company for their loan of 1600 millions, retroceded by the company, and conflituted again upon the town-house of Paris.

October 10, 1720. All bank -notes are ordered, by arrêt of this day, to be supprefied, if not brought to the bank before the 1ft of December following, in order to be paid in manner therein fpecified.

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CHAP, XXIX.

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Continuation of the Account of the Royal Bank of France, until the time that the Company of the Indies promifed a Dividend of 200 Livres per Action.

THESE things premifed, what follows will, I hope, be easily underftood.

So foon as the Regout of France preceived the wonderful effects produced by Mr. Law's bank, he immediately refolved to make ule of that engine, for clearing the King's revenue of a part of the unfupportable load of 80 millions of yearly intereft, idue, though indeed very irregularly paid, to the creditors.

It was to compais this end, that he beftowed on Mr. Law the company of the Weft Indies, and the farm of the tobacco.

To abforb 100 millions of the moft diferedited articles of the King's debts, 200,000 actions or flyres of this company were created. Thefe were rated at 500 livres each, and the fubfcription for the actions was ordered to be paid in *billets d'état*, fo much diferedited by reafon of the bad payment of the intereft, that 500 livres, nominal value in thefe billets, would not have fold upon change for above 160 or 170 livres. In the fubfcription they were taken for the full value. As thefe actions became part of the company's flock, and as the intereft of the billets was to be paid to them by the King, this was effectually a loan from the company to the King of 100 millions at *A per cent*.

The next ftep was to pay the intereft regularly

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to the company. Upon this the actions which had been bought for 170 livres, real value, mounted to par, that is, to 500 livres.

This was afcribed to the wonderful operations of the bank; whereas it was wholly owing to the regular payment of the intereft.

In May following 1719, the Faft India company was incorporated with the Weft India company : and the 200,000 actions formerly created, were to be entitled to a common fliare of the profits of the joint trade.

But as the fale of the first actions had produced no liquid value which could beturned into trade (having been paid for in flate billets) a new creation of 50.000 new actions was made in June 1710, and the fubfeription opened at 550 livres payable in effective coin.

The confidence of the public in Mir. Law, was at this time fo great, that they might have fold for much more: but it was judged expedient to limit the fubforiptions to this fum; leaving the price of the actions to rife in the market, a coording to demand, in fayor of the original fubficribers.

This money amounting to 27 500 000 livres in coin, was to be employed in building of flips, and other preparations for carrying on the trade.

The hopes of the public were fo much raifed by the favorable appearance of a most lucrative trade, that more actions were greedily demanded.

Accordingly in a month after (July 1719) another creation was made of 50,000 actions; and the price of them fixed at 1000 livres.

It must be observed, that all actions delivered by

the company of the Indies, originally contained an obligation on the company for no more than 4 per cent, upon the value of 500 livres, with a proportion of the profits on the trade; fo that the rife of the actions proceeded entirely from the hopes of thofe great profits, and from the finking of the rate of intereft; a confequence of the plenty of money to be lent.

But befides the trade, what raifed their value at this time, was, that juft before the laft creation of actions, the King had made over the mint to the company for a confideration of 50 millions of livres; and this opened a new branch of profit to every one interefield.

The fale of the laft coined actions taking place at toos livres each, fo great a rife feems to have engaged the Regent to extend his views much farther than ever. To fay that he forefaw what was to happen, would be doing him the greateft injuitice. He forefaw itnot, moft certainly, for no man could forefee fuch complicated events. But had he conducted himfelf upon folid principles; or by the rules which, we now fay, common honefty required, he certainly never would have countenanced the fubfequent operation.

The fourth creation of actions was in the beginning of September 1719.

In the interval between the third and the fourth creation, the Regent made over the general farms to the company, who paid three millions and a half advanced rent for them. And the company obliged themfelves to lend the King (including the 100 millionsalready lent upon the first creation of actions) the immende fum of 1650 millions at 3 per cent. that is,

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for 48 millions intereft. Now it is very plain, that before the month of September 1719, it was impoffible they could lend the King fo great a fum.

They had already lent him, in September 1718. 100 millions, by taking the billets d état for the fubfcription of the first creation of actions : the fecond creation had produced coin, laid out in mercantile preparations; and the third creation of actions, at the standard value, was worth no more than 50 millions of livres : this was their whole ftock. Where then could they find 1500 millions more to lend ?

I therefore conclude, that at this time, the combination which I am now to unfold, must have, more or lefs, taken place between the Regent and this great company.

The public was abundantly imbibed with the notion of the prodigious profits of the company, before they got polleflion of the general farms. No fooner had they got that new fource of riches into their hands, than they promifed a dividend of no lefs than 200 livres on every action, which was ten times more than was divided on them when at first created.

The confequence of this was, that (fuppoling the dividend permanent and fecure) an action then became as well worth 5000 livres as at firft it was worth 500 livres ; accordingly to 5000 did it rife, upon the promife of the new dividends.

But what could be the motive of the company to promife this dividend, only three months after their eftablifhment ? Surely, not the profits upon a trade which was not as yet opened. Surely, not the profits upon the King's farms ; for these profits it was greatly their intereft to conceal.

Their views lay deeper. The Regent perceived that the fpirit of the nation was too much inflamed, to fuffer them to enter into an examination of the wonderful phenomena arifing from the eftabilitment of the bank, and company of the Indies. If the company promifed 200 livres dividend, the public concluded that their profits would enable them to pay it; and really in this particular the public might be executed.

The plau, therefore, concerted between the Regent and the company feems to have been, to raife the actions to this great value, in order to fulpend a greater quantity of notes in circulation.

This was to be accomplified, r. by the Regent's purchafing the actions himfelf from the company; a. by borrowing back the notes he had paid for them, in order to fill up the loan which the company had agreed to make; g. to pay off all the public creditors with those notes fo borrowed back; and 4, when the nation was once filled with bauk-paper, to fell the actions he had purchafted from the company, to withdraw his own paper, and then deftrow it.

By this operation the whole debts of France were to be turned into actions; and the company was to become the public debtor, inflead of the King, who would have no more to pay but 48 millions of intereft to the company.

By this operation alfo, the Regent was to withdraw all the bank - notes which he had iffued for no other value but for the payment of debts, which notes were demandable at the bank; and for the future, he was to iffue no more (1 fuppofe) but for value preferved.

CHAP.XXX. POLITICAL ECONOMY.

СНАР. ХХХ.

Inquiry into the Motives of the Duke of Orleans in concerting the Plan of the Miffifippi.

NOW if we examine the motives of the Regent, with regard to this plan, and fuppofe that he forefaw all that was to happen in confequence of it; and if we alfo fuppofe that he really believed that the company never could be in a fituation to make good the dividend of 200 livres, which they had promifed upon their actions; in a word, if we put the worff interpretation upon all his actions, we muft conclude that the whole was a moft confummate piece of knavery.

But as this does not appear evidently, either by the fucceeding operations, or ultimate confequences of this fcheme, I am loch to afcribe, to that great mag, a fentiment fo oppofite to that which animated him, on his entrance upon the regency, when he nobly rejected the plan propofed to him for expunging the debts altogether.

I may therefore fuppofe, that he might believe that the company to whom he had given the mint, the tobaccor, the farms, and the trade of France, and to whom he foon after gave the general receipt of all the revenue, might by thefe means be enabled to make good their engagements to the public. I fay, this may be fuppofed; in which cafe jultice was to be done to every one; and the King's debts were to be reduced to 43 millions a year, inflexed of 80 millions.

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That this is a fuppolible cale, I gather from Dutot, who gives us an enumeration of the revenue of the company, Vol. I. p. 162. as follows:

Revenue of the Company of the Indies.

Interest paid to the com	pany	per	ann	um	•	48 000 000
Profits upon the gineral	farm	IS		•		15 000 000
Ditto upon the general	recei	ipt o	foth	er taxe	:s	1 500 000
Ditto upon the tobacco		•				2 000 000
Ditto upon the mint	-			-	•	4 000 000
Ditto upon their trade		•	•	-		10 000 000
						the second se

In all of yearly income - - 80 500 000

Now if we fuppofe the intereft of money at 3 per cent. this fum would answer to the capital of 2664 millions, which was more than all the debts of the kingdom, for which they were to become answerable.

Upon this view of the matter, I fay, *it was pof-fible*, that the Regent might form this plan, without any intention to defraud the creditors; and more I do not pretend to affirm.

I have faid that he purpofely made the company raife the price of their actions, in order to draw more notes into circulation.

To this it may be objected, that he might as well have paid off the creditors with bank-notes, without going this round - about way to work; and have left them to purchafe the actions directly from the company.

1 aufwer, that fuch an operation would have appeared too barefaced, and might have endangered the credit of the bank. Whereas in buying the actions which were run upon by every body, the flate only

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appeared defirous of acquiring a fhare of the vaft profits to be made by the company. Farther,

As the company appeared willing to accept of bank-notes from the flate, in payment of their actions, this manœuvre gave an additional credit both to the actions, and to the notes; a thing very neceffary to be attended to, in a fcheme which was calculated to bring about a total transformation of the fecurity for the King's debts.

I muft however obferve, that at the period concerning which we are now talking, {viz at the time the company promifed the dividend of zoo livres per adion) the plan we have been deferibing could not have been carried into execution.

There were at that time only 400,000 actions created, rated at 777 millions: of thefe were difpored of at leaft 250,000, to wit, the original 200,000; and the fecond creation of 50,000, fold for coin Befides, there were then only coined in bank-notes for 520 millions. So there was not a poflibility of executing the plan I have mentioned, as matters then flood.

It is from the fublequent operations of the fyliem, that it appears evident that this and this only could be the intention.

We fhall fee how the number of actions were multiplied, without any other view than to make the public imagine, that the funds neceffary for carrying on the trade of the company were immenfe.

The number of the actions fold to the public was very inconfiderable, compared with thofe fold to the Regent, and found in his hands at the blowing up of the fyltem. Befides, at the period when the number of actions was carried to the utmolt, viz. to 64, ecos, the bankmotes bore no proportion to their value; for, on the 4th of Odober 1719, when the laft creation of actions was made, the bank-notes did not exceed the fum above fpecified, to wit, 5; so millions.

But in tracing the progrefs of the fyftem upon the table, we perceive, that after the actions were once carried to their full number, (October ath, 1719) then the coining of bank-notes began at a moft prodigious rate; in fo much, that by the month of May 1720, they were increased from 520 millions, to above 2696 millions; and all this fum, except 461 millions, were found in circulation.

Farther : We fliall fee, that when the Regent and the company made out their accompts, there were found in the Regent's hands no lefs than 400,600 actions, which were burnt; and 25 millions of intereft upon the fum of money due by the King to the company, extinguified.

Thefe facts prove beyond a doubt, that thefe 400,000 actions had been bought with the notes coined pofterior to the 4th of October 1719; otherwife the actions could not have become the property of the flate.

Befides, it was acknowledged publicly, that the notes were coined for that purpole. (See Dutot, Vol. I. p. 144.) In the next place, it is evident, that the notes which had been given in payment for thofe actions, had been borrowed back, to fill up the loan of 1600 millions of livres; which the company never could have otherwife lent to the Kinz.

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King. And in the laft place, it is certain that the public debts were paid off with thefe notes, fo borrowed back from the company: becaufe we fhall find the notes in circulation at the blowing up of the fyftem, in May 1720; and we fhall fee how they were paid and withdrawn in October following.

This detail I own is a little long, and perhaps too minute: but I though it neceffary to prove the folidity of my conjectures concerning the Regent's motives in concerting this plan; which no French auchor, that ever I faw, has pretended to unfold, except by hints too dark to be eafily comprehended.

What is now to follow, will ftill fet my conjectures in a fairer light. We have feen already from the table, with what rapidity the creation of actions went on from the 13th of September to the 4th of October 1719. No lefs than 324,000 were created in that interval.

Why therefore create fuch immenfe quantities of actions, and fo far beyond the demand for them, but to throw duft in the eyes of the public; to keep up the fpirit of infatuation; and to pave the way for the final execution of the plan?

The actions being brought, by four fucceffive Vol. IV. P
creations, of the 13th and 28th of September, the 2d and 4th of October, to their full number, the company, during that interval, obtained the general receipt of the whole revenue. Thus, fays Dutot, vol. ii, p. 197, the company was intrufted with the whole revenue, debts and expenses of the flate, and all unnecellary charge was avoided in collecting and adminifering it.

In the month of November 1719, the credit of the bank, and of the company, was fo great, that the actions rofe to 10,000 livres. NovivithItanding, fays Dutot, vol. ii. p. 189. that the company did what they could to keep down the price, by throwing into the market, in one week, for no lefs than go millions: He afligns feven different reafons for this, which, all put to together, are not worth one; to wit, that the Regent was ready to buy up every one that lay upon hand, in concert with the company.

If the company had been inclined to keep down the price of the actions, they had nothing more to do than to deliver part of the valt number they fill had unfold, at the fandard value of 5000 livres, at which they were rated when created; and this would have effectually prevented their rifing to 10.000 livres.

But it was the intereft of the Regent, who was at that time well provided with actions, to ftockjob, and to buy with one hand, while he was felling with the other: thefe operations were then as well known in the ftreet called Quinquempoix, as now in Changealley.

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As a proof of the juffnels of my allegation, that the Regent was doing all he could to raife the price of the actions, Dutot informs us, in the place above cited, that the bank, at this very time, was lending money, upon the fecurity of actions, at 2 pr cent. If that was the cafe, how was it pofible that an action, with 200 livres dividend, flould fell for lefs than 10,000 livres, which is the capital corresponding to 200 livres, at 2 pr cent.

This is evident; and were it neceffary, it may be proved to demonstration, that the rife of the actions was the confequence of a political combination.

But if money, at that time, came to bear no more than 2 per cent. and if the company was able to afford 200 livres upon the action; where was the inequity of railing the actions to 40,000 livres? I confeis I can fee none, nor do I perceive either the impoffibility or improbability of the two poftulata, had matters been rightly conducted.

As to money's falling to 2 per cent. any man of 20 years old may expect to fee it, without a Mill/i/prie and as for the payment of the dividends, there never were in the hands of the public, nor ever could be, had all the creditors of the 2000 millions of public debts invelled in actions at 10,000 a piece, one half of 624,000 actions difpoled of: confequently, the 200 livres dividend would not have amounted, upon 312,000 actions, to more than 62,400,000 livres; and the revenue of the company, as we have feen, exceeded 80 millions a year.

This still tends to vindicate the Regent from the gross imputation of fraud, in the conduct of the Missifippi. P 2 But what fhould fiill more exculpate that prince, in the eyes of every impartial man who examines the whole conduct of the affair, is the uniform fentiments of the moft intelligent men in France concerning the doctrine of money and credit.

When we find Dutot, who wrote against the arbitrary change of the coin; and De Melon, the Regent's man of confidence and fecretary, who wrote for it, two perfons confidered in France as most able financiers, both agreeing, that during the operations of the fystem, money never was to be confidered but according to denominations; that there was nothing against good policy in changing the value of these denominations; and that papermoney, whether iffued for value, or for no value, of for the payment of debts, was always good. providing there was coin enough in France for the changing of it, although that coin did not belong to the debtors in the paper; when these principles, I fay, were adopted by the men of penetration in France : when we find them published in their writings, many years after the Regent's death, as maxims of what they call their crédit public : I think it would be the highest injustice to load the Duke of Orleans with the groß imputation of knavery, in the Miffifippi fcheme.

Law no doubt faw its tendency. But Law faw alfo, that credit fupported idelf on thole occalions, where it flood on the molt idelf in thole occalions, by bank-notes to the amount of more than two thoufand millions, illued in payment of the King's debts, without occalioning any run upon the bank, or

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without fuggefting an idea to the public that the bank fhould naturally have had fome fund, to make them good: he faw people, who were in poffeffion of a value in paper exceeding 6000 millions of livres, 60 to the marc, (Dutor, vol. ip. 144.) look calm and unconcerned, when, in one day, the coin, was raifed in its denomination to 80 livres in the marc; by which operation, the 6000 millions of the day before loft 25 per cent. of their real value. 'He faw that this operation did not in the leaft affect the credit of the bank - paper; because people minded nothing but denominations.

He faw farther, that by the operation propoled, the whole debt of the King would be transferred upon the company. He faw that thefe debts, being turned into bank - notes, would not be fufficient to buy above 200,000 actions, at the value they then fold for. He knew that the Regent, who had bought 400,000 of thefe actions at 5000 livres apiece, that is, at half price, would remain in poffeffion of 200,000 actions, after felling enough to draw back the whole of the bank-notes iffued for the payment of the debts ; and he faw that the company of the Indies had a yearly income of above 80 millions to enable them to make good their engagements : belides, he faw a power in the King to raife the denominations of the coin at will; without flocking the ideas of his people, by which means he might have paid the 2000 millions with one louis d'or. Put all thefe circumftances together, and I imagine that Law's brain was turned; that he had loft fight of all his principles ; and that he might believe that his former

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common fenfe, was, at that time, become abfolute nonfenfe in France.

That common fenfe may become nonfenfe, is a thing by no means peculiar to France, but quite peculiar to man.

I fhall offer but one argument more, to prove that the Duke of Orleans, and Law, could have no premediated defign of defrauding the public, by thefe wonderful operations; which is, that admitting the contrary, would be allowing them an infinite fuperiority of underflanding over all the reft of Europe.

Until the bubble burft, no body could know where it was to end: every thing appeared very extraordinary indeed; and the fatal cataftrophe might have been expected from the greatness of the undertaking, merely. But if there had been any roguery in the plan idelf, it mult have appeared palpable long before; becaufe the whole of the operations in which only if could confil, were public.

All the notes were created by public act of council; fo were the actions: the loan of 1600 millions to the King, by the company, was a public deed; fo was the alienation in their favor, of 48 millions for the intereft of that fum. Notes were avowedly coined in order to purchafe actions, (Dutot, Vol I. p. 144.) the creditors were avdwedly paid with bank-notes, at a time when it was forbid to have goo livres in coin in any perfon's cuftody; confequently, it was alfo forbid to demand coin for bank-notes.

Now all this was going on in the months of

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February, March, April, and the beginning of May 1720; and no fulpicion of any failure of credit. The coin allo was fometimes raifed, fometimes diminifhed in its value, and fill the fabric flood firm.

Under these circumstances, to fay there was knavery, is to fay that all the world were abfolutely blockheads, except the Regent and John Law:. and to that opinion I never can fubscribe.

It may feem furprifing that I flould take fo much pains to vindicate the two principal conductors of that fcheme. My intention is not fo much to do juftice to their reputation, which has been großly calumniated by many, who have written the hiftory of thofe times, as to prove, that an ill concerted fyftem of credit may bring ruin on a mation, although fraud be out of the quefilion : and if a nation be plunged into all the calamities which a public bankruptcy can occafion, it is but a fmall confolation to be affured of the good intentions of whofe who were the caute of it.

CHAP. XXXI.

Continuation of the Account of the royal Bank of France, until the total Bankruptcy on the 21ft of May 1720.

I NOW refume the thread of my flory. We left off at that period when the credit of the company and of the bank was in all its glory, (November $P_A = P_A$ 1719) the actions felling at 10,000 livres; dividend 200 livres a year per action; and the bank lending at a per cent.: all this was quite confiftent with the then rate of money.

In this ftate did matters continue until the 22d of February 1720, when the bank was incorporated with the company of the Indies.

The King full continued guarantee of all the bank notes, none were to be coined but by his authority: and the controller-general for the time being, was to have, at all times, with the *Prévot* des marchands of Paris, ready accefs to infpect the books of the bank.

As the intention, at the time of the incorporation, was to coin a very great quantity of notes, in order to buy up the actions; and to borrow back the money, in order to pay off the creditors; it was proper to gather together as much coin as poffible, to guard againft a run upon the bank: for which purpole the famous Arriet de Confeil, of the arth of February 1720, was published, forbidding any perfon to keep by them more than 500 lives in coin.

This was plainly annulling the obligation in the bank -paper, to pay to the bearer on demand the fum specified, in filver coin.

Was it not very natural, that fuch an arrit fhould have, at once, put an end to the credit of the bank. No fuch thing however happened. The credit remained folid after this as before; and no body minded gold or filver any more than if the denomination in their paper had no relation to

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those metals. Accordingly, many, who had coin and confidence, brought it in, and were glad to get paper for it.

The coin being collected in about a week's time, another *dirit de Conficil*, of the 5th of March, was ifiled, railing the denomination from 60 livres to 80 livres the marc. Thus, I fuppole, the coin which the week before had been taken in at 60 livres, was paid away at 80: and the bank gained 33 (*J per cent.* upon this operation. Did this hurt the credit of the bank-paper? Not in the leaft.

So foon as the coin was paid away, which was not a long operation, for it was over in lefs than a week; another Arreid de Confeli, of the 1th of the fame month of March, came out, declaring that, by the firlt of April, the coin was to be again reduced to 70 livres the marc, and on the firlt of May to 65 livres. Upon this, the coin, which had been paid away the week before, came pouring into the bank', for fear of the diminution which was to take place the firlt of April. In this period of about three weeks, the bank received about 44 millions of livres; and thofe who brought it in thought they were well rid of it.

It was during the months of February, March, and April 1720, that the great operations of the fystem were carried on.

We may fee by the chronological anecdotes in the 28th chapter, what prodigious fums of banknotes were coined, and iffued during that time. It was during this period alfo, that a final conclufton was put to the reimburfing all the public creditors with bank-notes: in confequence of which payment, the former fecurities grainted to them by the King, under the authority of the parliament of Paris, were withdrawn and annulled.

Here then we have conducted his icheme to the laft period,

There remained only one flep to be made to conclude the operation; to wit, the fale of the actions, which the Regent had in his cuftody to the number of 400,000.

These were to be fold to the public, who were at this time in pofferfion of bank - notes to the value of 2,235,083,590 livres. See the foregoing table.

Had the fale of the actions taken place, the notes would all have returned to the bank, and there have been defroyed: by which operation, the company would have become debtor to the public for the dividends of all the actions in *their* hands, and to the King for all those which might have remained in the hands of the Regent. These proportions we cannot bring to any calculation, as it would have depended entirely on the price of the actions during fo great an operation; and on the private conventions between the parties, the Regent and the company.

But alas! all this is a vain fpeculation. The fyftem which hitherto had flood its ground in fpite of the moft violent flocks, was now to tumble into ruin from a childifi whim.

In order to fet this ftroke of political arithmetic in the moft ludicrous light poffible, I muft do it in Duto's own words, uttered with a fore heart and in fober fadnefs.

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He had faid before, that the coin of France was equal to 1200 millions of livres at 60 livres the marc. This marc was now at 63 livres (in May 1720, as above) fo the numerary value, as he calls it. (that is the denomination) of the coin was now rifen to 1,20,000,000; but the bank - notes circulating in the month of May were carried to 2,606 400,000; then he adds.

"The 1300 millions of coin which were in France, " were very far from 2696 millions of notes. In " that cafe, the fum of notes was to the fum of " coin, nearly as 2 3/27 are to 1; that is to fay, " that 207 livres 8 fols 1 2/8 deniers in notes, was " only worth 100 livres in coin; or otherwile, that a " bank note of 100 livres, was only worth 48 " livres 4 fols 5 deniers in coin, or athereabouts." Would not any mortal conclude from this, that the whole fum of 1300 millions had been in the bank, as the only fund for the payment of the paper?

This is a labored equation, and from it we have a specimen of this gentleman's method of calculating the value of bank-paper: but let us hear him out.

"This prodigious quantity of money in circu-"I lation, fays he, had raifed the price of every "thing excellively: fo in order to bring down "prices, it was judged more expedient to diminifi-"the denomination of the bank-notes, than to raife "the denomination of the coin ; becaufe that di-"minified the quantity of money, this augmen-"ted it."

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This was the grand point put under deliberation, before the famous arrier of the 21 ft of May was given, viz. whether to raife the value of the coin, which did not belong to the banh, but to the French nation, to double the denomination it bore at that time, that is, to 130 livres the marc, by which means the 1300 millions would have made 2600 millions, or to reduce the 2600 millions of banknotes to one half, that is, to 1300 millions, he total denomination of the coin.

To fome people it would have appeared more proper, to allow matters to fland as they were, as long as they would fland, at leaft until the actions had been all fold off; but this was not thought proper. After a moß learned deliberation, it was concluded to reduce the denomination of all the paper of France, bank -notes as well as actions, inflead of raifing the denomination of the coin; and this becaufe prices were in proportion to the quantity of the denominations of money.

The arrét was no fooner published than the whole paper fabric fell to nothing. The day following, the 22d of May, a man might have flarved with a hundred millions of paper in his pocket.

This was a cataftrophe the like of which, I believe, never happened: it is fo ridiculous that it is a fubject fit only for a farce.

Here Dutot's lamentations and regrets are inimitable.

In one place he fays, "Credit was too far firet-" ched to be folid. It was therefore proper to facri-" fice one part, to give a folidity to the other.

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" Even this was done; but the confequences did " not correspond to the intention. Confidence, " which is the foul of credit, eclipted itfelf, and " the lofs of the bank note, drew on the lofs of " the action."

In another place he fays, "This arrêt of the a1ft " of May, which according to fome bleffoit léquite" (a very mild exprefilion! " delfroyed all confi-" dence in the public; becaufe the King had di-" minifhed one half of that paper money (the bank-" notes) which had been declared fixed."

Is it not a thoughnd pities that confidence flouid have difappeared upon fo flight a waund given to equity, only in the opinion of fome? For Dutot thought the operation perfectly confiftent with the principles of public credit.

He tells us, that a letter was writ to calm the minds of the people; and to flow them how abfurd it was, to allow the paper to be fixed, while the coin varied: but, fays he, "as there was a " revenue attached to the action, the value of that " a paper did not depend fo much upon the capital, " as on the fum of the intereft." Very juft. But were the dividends to fland at 200 livres, without fuffering the fame diminution as the action? And how was confidence to fubfift in a country, where the dipofal of a minifter?

The diminution upon the paper, by the arret of the 21ft of May, raifed a moft terrible clamor; and Law becare the execration of France, infread.⁴⁵ of being confidered as its faviour. He was banished, and reduced to beggary the fame day. What profit could either the Reget, or Law, have reaped from the fuccefs of fuch an operation ? Had the coin been raifed to 130 livres the marc, no hurt would probably have enfued, and the fame effect would have been produced.

Had matters been left without any change at all, no bad confequences would have followed : thefe exifted only in the heads of the French theorifls. There was, indeed, twice as much money in bank notes as in coin, in the whole kingdom of France: and what then?

When the Regent faw the fatal effects of his arrier of the ailt of May, he revoked it on the zyth of the fame month. On the zyth, he raifed the coint on 82 livres 10 fols in the mare, and re-effabilited all the paper at its former denomination : but, as Dutot has faid, confidence was gone, and was no more to be recalled. Nothing furprifes me, but that the lived fo long under fuch rough management.

Dutot, in talking of this augmentation of the coin, on the 20th of May, to 82 livres to fols, fays, "This operation was confiltent with the "principles of public credit, and advantageous: "They would have done better had they publed " the augmentation to 135 livres the marc; which " would have made the fpecie of France equal to " the fum of bank-notes." Thefe are his words, p. 165.

Are not thefe very fenfible principles, coming from a man who has writ a book, which indeed few people can underfland, in order to prove the great hurt of tampering with the coin of France?

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CHAP. XXXII.

Conclusion of the Miffifippi Scheme:

THE Regent, perfuaded that the blunder of the aift of May was abfolutely irreparable, fell to work next to clear accompts with the company.

He owed them 1600 millions capital, and 48 millions a year of interest upon it.

On the other hand, he had in his policifion no lefs than 400.000 actions, which at 200 livres dividend, which the company was obliged to pay, amounted to 80 millions a year.

How the Regent and the company fettled matters, I do not know precifely. This, however, is certain, that by the *arrêt* of the 3d of June 1720, the number of 400,000 actions, belonging to the Regent, were burnt; and 24,000 more which had been created by his particular order, the 4th of October 1719, and never delivered to the company, were fupprefield.

On the other hand, the company ceded 25 millions a year, of the 48 millions which had been transferred to them.

That fum was conflituted anew upon the town. houle of Paris, as a fund to be fubfcribed for by the proprietors of bank-notes, at the rate of a 1/2*per cent.* or as the French call it at the 40th penny. (Dutot, p. 168.) In confequence of this, 530 millions of bank-notes were fubfcribed for, and paid in , in the month of June 1730. 224

After the deftruction of the 400,000 actions, the credit of the bank - notes languified until the 10th of Odober 1720.

The object for which they were created was now gone. The whole febme of transferring the King's debts upon the company vanified in the conflagration of the actions. What was then to be done?

The back was at an end: 2235 millions of difcredited, back - notes in circulation, and a fmall fura of coin to make them good, was a fituation which no authority could long (upport.

The refolution then was taken to put a final conclution to this great affair; to bid a long farewel to credit and confidence; and to return upon the old fyftem of rents upon the town-houle of Paris; and of coming at money in the beft way they could.

We fhall now fee how this was accomplified; and from that form a pretty good guefs at the extent of the fraud committed, with refpect to the creditors of France; not fo much, I think, from any intrinfic defect in the Milfilippi folkeme, as from the diftrefs the nation was thrown into, by the ignorance of those who over -ruled John Law in conducing it.

We have feen how the actions were reduced to the number of 200,000; we mult now give an account of the deplorable fate of the bank-notes.

By the arret of 10th of October 1720, all bank, notes were entirely fupprefied; and it was declared, that after the 1ft of December following; they were to have no courfe whattoever. There

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Here follows the arrangement of this great affair " viz. the liquidation of 2,696,400,000 livres of banknotes as regulated by this arrêt.

1 mo, Of the above total of notes coined, there remained in the bank at that time,

for - - - 707,327,460 livres. 2do, Subferibed for at 2 1/2 per cent. in June 1720 - - 530,000,000 3tio, Carried to the bank by putate people as a fund of credit there 200,000,000

410, Paid in coin by the bank '90,000,000

1,527,427,460

This fum of notes was ordered to be burnt by the arrêt of the 10th of October.

The remainder ftill in the hands of the public, fays the $arr\dot{e}i$, was to the amount of 1,169,720,540livres, and the King declares, that the holders of them might employ them as follows:

1mo, In purchaing the remainder of the fubfcription of 25 millions of rents on the town-house of Paris, at 21/2 per cent. inde 470,000,000 livtes. • 2do, In purchasing a farther fum conftituted on the town-house of Paris, of 8 millions of perpetual annuities, at the rate of 2 per cent. or at the 50th penny 0. 400,000,000 31io, In purchaling a farther fum conftituted on the town-house of Paris, of 8 millions of life rent annuities, at 4 per

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cent. or at the 25th penny 100,000,000

Thefe fums	amo	untec	l to	970,000,000
Sum above	•	-	•	1,527,327,460

Together - 2,497,327,460 There ftill remained outftanding about 200 millions of bank - notes.

Thefe were ordered to be difpofed of in feveral different ways, mentioned in the *arrêt* of the toth of October; which it would be needlefs to mention, as it would require a long explanation to make the thing underftood: let it fuffice that there was an outlet provided for them, which brought in between 2 and 3 per cent.

Thus wee fee the conclusion of the whole affair.

At the beginning, the King's debts flood at 2000 millions capital, and 80 millions intereft very ill poid.

At the end of the fcheme there had

been coined of nores about - 2696 millions. Of which in the bank, October 10,

1720 - - 707 mil. And paid in coin 90

And paid in com 90

This fubftracted - - 797 millions.

There remained outftanding in

bank - notes * - - - 1899 millions.

* There are, however, in Figure at this day, many performs who are fill in polfeffica of large forms of thefe notes. This makes fonce peripe believer, that all the paper was called down without any equivalent given. The reafon of the notes remaining, is, that either the proprietors' neglected the occasion officated by the arise of the 10th of

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Add to this 100 millions ftill due by the King to the company for the billets d'état withdrawn in conftituting the first 200,000 actions which ftill fubfifted, and for which the company was to 1 receive 5 per cent. 100 millions. So the capital of the King's debts remained at 1990 millions. Balance gained by the whole operation I million. Confequently there was little or no fraud as to the capital . 2000 millions. Let us next examine the ftate of intereft. The intereft at the laft w.s. 1mo. Of rents conftituted in June 1720, on the town-house, at 2 1/2 per cent. or at the 40th penny 25 millions. 2do, Ditto of the 10th of October 1720, at 2 per cent, or at the 50th penny 8 millions. 3tio, Ditto at ditto upon lives at 4 per cent. or at the 25th penny 4 millions. 4to, Due to the company upon the original flock of 100 millions ftill paid them at this day at 5 per cent. 5 millions. 5to, For the 200 millions of credit

October, or that they were in hopes that perhaps the bank might again recover its credit. They were miftaken, and the notes are loft.

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at the bank, fuppofe at the rate	
of 3 per cent	6 millions.
to, For the laft 200 millions pro-	
vided for in different ways, sup-	
. pole at 2 1/2 per cent	5 millions.
to, Allowed to the company to	
indemnify them for the lofs they	
fustained by these arbitrary ways	
of reckoning with them , 80 mil-	
lions at 5 per cent. ftill paid them	4 millions.
	57 millions.

The intereft at first was 80 millions The interest at last was 57 millions

Defrauded by the fcheme 23 millions a year.

This is (as near as I can guefs at it) the flate of the French bankruptcy in 1720.

The creditors were robbed of 23 millions a year. I call it robbed, becaufe the intereft due to them was diminified by that fum, without their conferts, and in confequence of the moft arbitrary proceedings; whereas, had the fylem been conducted with ability, the whole of the debts would have been brought to an intereft of 48 millions, inflead of 57, and no body would have complained of injufice.

Money likewife might have been brought to 2 per cent. The 1600 millions borrowed of the company at 3 per cent. would then have been reduced to two; which would have brought the 48 millions of intereft, upon the whole, to 32 millions; and France, from being reduced to beggary by the King's wars, would have become the molt flouriflung flate in Europe.

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Let us next guess at what may reasonably be fupposed to have been the largest fum of coin ever collected in this bank.

I imagine that the far greater part of all the coin fuppoled to be in France during the Miflifippi fcheme, remained in private hands, without ever coming into the bank. My reafon for being of this opinion is,

Law never could have had more than the value of his original flock, and all the value of notes he had in circulation.

It is abfurd to imagine he ever fhould have had the half, or near it; but let me suppose it.

The bank flock was 6 millions. The notes he iffued were 59 millions. In all 65 millions. This is a trifle compared with 100 millions.

Next for the united bank. The time at which the greateft quantity of coin was collected, muft have been when all credit failed, that is, on the 21ft of May 1720.

At that time coin was taken out of commerce: every one was forbid to have above 500 livres in polieflion; and every operation had been uled to call it in.

At this time, we know that all the notes coined were iffued, except to the value of 461,316,410 livres.

Now we have feen that on the 10th of October following, there were in the bank to the value of 707,327,460 livres.

Q 3

Let me, therefore, fuppole, that from the 21ft of May to the 10th of October, the bank paid away in coin, the difference between these two fums; to wit, 246,011,050 livres .

Add to that fum what was

then in the bank . viz. 00.000.000

Sum 436,011.050 This fum is all we poffibly can suppose to have been in the bank on the 21ft of May, when credit failed.

We must reckon this fum of coin at 82 livres to fols per marc, the then value; which makes about 8,146,600 & fterling. A large fum, no doubt; but little more than 1/5 of 40 millions fterling, the value of 1200 millions of livres, at 60 to the marc. as has been faid. Confequently, either those 40 millions fterling were not then in France, or the greateft part of the fum had remained in private hands during this whole operation.

In this light I fee the Miffifippi fcheme. I may, no doubt, be miltaken in many things: the lights, or rather the glimmerings, by which I have been conducted through this inquiry, must plead my excufe.

But it is not fo much facts as principles, I have been inveftigating through this whole difquifition; and the imperfect account I have been able to give of the former, will at least point out, I hope, the notions which the French nation, at that time, had of the latter. If the contrast between French principles . and those I have laid down, tend to

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caft any light upon the fubject of paper credit in general, my end is accomplified: if they ever prove of use to mankind, I shall not think my labor loft.

C H A P. XXXIII.

Why Credit fell, and how it might have been fupported.

SHALL now make a few general obfervations upon the total and fudden fall of credit in France in May 1720: and I fhall fuggeft the means by which, I think, it might have been fuftained, even after all the preceding mifmanagement.

Was it any wonder that the French fhould be aftonifhed at this prodigious revolution, at this immenfe value of paper on the aift of May, and at the total diffredit of every bit of it the day following?

If there was a value, faid they, what is become of it? If there never was any value, how could a nation be fo decived ? This phenomenon has puzzled many a head; but the nature and principles of credit furnilh an eafy folution of it.

In deducing the principles of credit, we have flown that a permanent and well fecured fund of interefl is always equal in value to a corresponding capital.

The difference between a permanent and well fe-

Q 4

cured fund, and a precarious and ill fecured fund, confifts in this, that the first never can disappear, and the other may.

Now the fund, in this cale, was at first *real* and did exist, but it was rendered precarious, by a blundering administration: then credit failed, and in that convultion, the fund of interest was fraudulently diministred by an act of power.

Had the true principles of credit been underflood in France, the bank-notes and actions might have been fupported, even after the arrie to the arlt of May: and all the monftrous value of paper, raifed fo high by the low rate of intereft, might have been preferved: confequently that value, in capital, really exifted relatively to the rate of intereft.

As the object of the prefent difquifition into the principles upon which the Miffifippi feheme was conducted, is only intended as an illuftration of the principles of credit in general, I fhall first account for the wonderful phranomenon above mentioned, and then fhow how, in the greateft of all the French diffets, their credit might have been re-eflabilited in a more folid manner than ever.

As to the wonderful phenomenon of the prodigious wealth created by the fyftem, and annihilated, in one day, I anfwer, that there had been no creation of wealth at all, except in confequence of the fall of intereft.

imo, We have feen that at the death of the late King of France, the intereft of his debts amounted, to so millions. Was not this a fund which ought to have been made folid and permanent? Will any

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man fay, that a regular plan of paying this intereft was a meaus of creating new wealth? Certainly not.

2 do, Thefe debts were fecured by contracts of conflictution of annual rents upon the town-houle of Paris: a fecurity taken in the name of a peculiar creditor, which requires a form of law to transfer.

By the fcheme we have been explaining, all thefe fecurities were changed: and inflead of confitutions of rent, bank-notes, in which the King was equally debtor, were given.

Will any man fay, that this was the means of either increafing or diminifing the wealth of France? Certainly not. A man who has a good bond in his pocket is as rich before it is paid with banknotes as a fiter: but he has not fo much money in his hands; becaufe the bond is not money, and the notes are.

3tio, We have faid that the intereft of the King's debts amounted to 80 millions a year, at 4 per cent.

We have feen how the company of the Indies were provided with a fund equal to this fum, arifing from the 43 millions which the King paid for the loan of the paper with which the debts were to be paid, and from many other lucrative branches of revenue; which inftead of being burdenfome to the King, were, on the contrary, a means of augmenting his income, by the advanced rent the company gave for the different farms which produced them.

Had the public creditors, therefore, vefted their claims in actions, they would, in confequence of that operation, have become fharers in the fund of so millions a year, administered by themfelves (and they would then have been the company) open to be improved by trade abroad, and by a good administration at, home.

Had this fyftem been carried on in a plain eafy way, confiftently with common fenfe, the public creditors would have been paid; the King's revenue augmented; and it would have been put under a good and a cheep administration.

But when, by the abfurd operations of changing the denominations of coin and paper, and wantonly playing with every man's property, the creditors faw themfelves ftanding on the brink of a precipice; and finding, inftead of a good contract on the town - house of Paris, a bank - note put into their hands, which might be diminished in its value by one half every month, while at the fame time the coin might be raifed to double, it was very natural to fuppole, that the intention of the King's ministers was to withdraw from them totally these 80 millions, lefs or more, to which they were entitled : in which cafe, there was an annihilation indeed of all the notes; but there was no annihilation of wealth : for in that cafe, the wealth was ftill the fame, only it was transferred from the creditors to the King the debtor: that is, the creditors were defrauded.

On the other hand, flood the proprietors of the actions fold. Thefe were in ufe to make a traffic of buying and felling the 200,000 actions which had been in their hands ever fince September 1717, when they were find created, For we have flown, that

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the poflerior creation of actions by the united company, was a mere delution, as they were all found in the cutody of the Regent. The actions, 1 fay, were immediately put into a flate of flagnation; becaufe of the diferedit caft upon the bank - notes; with which it had been ufual to buy them.

500, I muft obferve, that the flagnation of a paper which carries no intereft, is equal to a temporary annihilation. The holder then is deprived of the ufe of his money; and he is not paid for the lofs he fuftains.

If, therefore, it had been poffible to have given a new activity to this bank-paper, without allowing it to die away, as it were, in this temporary fit of fainting, credit would have revived : all accompts would have been kept clear, for this is the ufe of paper money, and fo fhort a flock would hardly have been felt.

But the great damage refuling to the public, upon every occafion of this kind, proceeds from the delay in applying the proper remedy. When any paper is difcredited, it immediately falls in its value. The perfon then who is the original and real creditor for the whole value, and in whofe hands the paper is when it fuffers the difcredit, fells at difcount: this is an irretrievable loss to him; and when the paper recovers its credit again, either in part, or on the whole, the profit then belongs to the perfon who had bought it at difcount, and does not go to indemnify the real fufferer.

This was the cafe with refpect to the notes of the French bank: they were allowed to languish

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from the 21ft of May that they were difcredited, until the 10th of October, when their fate was decided, as has been faid.

Farther, we have feen, that this whole movement of credit had for its bafis 30 millions a year, originally paid to the creditors for their intereft. This fum anfwered to the capital of 2000 millions; becaufe at the old King's death, intereft was fixed at 4 per cent.

When, by the operations of the fyftem, all this capital was turned into money, that is, bank-notes, the regorging plenty of it made intereft fail to a *per cent.* confequently, the capital, which conflantly draws its value from the intereft paid for it, rofe to 4000 millions. We have faid that the total value of the paper rofe to 6000 millions; but we muft reflect, that above 2000 millions; but we muft reflect, that above 2000 millions is, but we muft notifications. So that both the notes and the actions muft not be reckoned as exisiting together.

Had the Regent fold the actions, he would have burnt 2000 millions of bank notes, and thus the value in paper would have remained at 4000 millions, fo long as intereft remained at 2 per cent; and had intereft fallen ftill lower, and dividends remained at 200 livres per action, the value of actions, and confequently of this capital of 4000 millions, would have rifen in proportion, juft as the value of the capital of the debts of Great Britain rifes and falls according to the rate of money; although the fame fum of intereft be paid to the creditors at all times.

This augmentation, therefore, upon the value of

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all capitals, during the Mifflippi, of lands as well as actions, was in confequence of the fall of intereft, and from no other artifice whatever. Lands in France, at that time, fold at 80 and 100 years purchafe. [Dutot, Vol. II. p. 200.].

When credit failed, and when all the circulating paper was thrown into a flate of flagnation, interefl rofe, in proportion to the deficiency of the fupply for the demands of borrowers. The value of capitals then diminifhed. But this might have happened from another caufe, had there been no bankruptcy, or intention to defraud creditors: a war might have produced it; or any circumflance which might have raifed the rate of intereft.

The rife, therefore, upon capitals, from the fall of intereft, I confider here as no acquifition of wealth: I reckon wealth to be that which is the annual produce of the capitals.

So much for the refolution of this wonderful phænomenon.

I must now show that in the height of the diftrefs, the confidence of the public was fill to be regained, and credit recovered, even after the fatal arrêt of the 21ft of May 1720.

I lay it down as a principle, that whoever has a fufficient fund, and pays intereft regularly for the money he owes, runs no rifk of lofing his credit.

So foon, therefore, as the Regent found that by his arrêt of the 21ft of May, all credit had diappeared; had he, upon the 27th of the fame month, or at the time he raifed the coin to 82 livres 10 folk per marc, ordered all bank notes prefented to the bank, either to be paid in coin, or marked in the books of the bank as bearing intereft at *a per cent*. I fay, credit would not have fuffered in any comparison to what it did. No body then would have fold a note at difcount; and had it been neceffary, he might have ordered the intereft to be paid monthly.

The authority I have for this opinion is Dutot, who fays, that upon opening the fubfcription of 25 millions in the month of June, the notes fell in their value 11 1/2 per cent. only.

Now the rate of this fubfcription was at 2 1/2 per cent. as we have fcen; confequently, if 100 livres of notes loft but 11 1/2 per cent. they were worth 88 1/2 livres in coin; but thefe 100 livres in notes were worth a 1/2 per cent. becaufe the fubfcription was open at that rate: confequently 88 1/2 livres in coin was alfo worth a livres 10 fols per emnum: confequently intereft, at that time, was at 2.825 per cent. that is, below 3 per cent. even after the bankruptcy.

Where then was the great harm? Where was the occafion to fly immediately to the deftruction of actions, which were in the Regent's own hand? A little patience, and good management, would have fet all to rights.

I would, therefore, have left the notes in circulation under this regulation, viz. that fuch as fhould be prefeated to the bank, hould have had a transfer of 2 per cent. paid quarterly; or a value, in actions, at 10,000 livres per action, which is the capital anfwering a dividend of 200 livres at 2 per cent. at

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the option of the holder: and in cafe intereft had come to fall fill lower, the price of actions might have been augmented.

I would have fet before the public a full and exact account of the company's funds. I would have banilhed all myftery from the affairs of credit. I would have regiftered a declaration in parliament, fetting forth.

1mo, That all future changes either upon the denominations of paper or coin, were contrary to the maxims of good government.

2do, That all flipulations between the King and his creditors were to be inviolable. And,

Stio, That the parliament of Paris fhould for ever remain invefted with an exclusive right to watch over thofe regulations in time to come; and I would have bound the parliament by a fpecial oath for that purpofe. I would even have had the King to take the fame oath : and he might have ratified it a this coronation in 1725.

By these fleps 1 should have vefted a new power in the Kings of France which they never had be fore: a power of baving money from their subjects, from their allies, and from their enemies: a power they have not, nor ever will have, until the principles of credit be better underflood among them.

Had fuch a plan been followed, I have not the leaft doubt, but that, t. The actions would have been fold at a very great advanced value above the flandard of 5000 livres, at which the Regent had bought them : a. That money would have come back to a per cent. and then, a. Had banks been eftablifhed upon a proper plan, eafe, with induftry, would long ere now have appeared in every corner of that kingdom.

How infinitely more eafy would it have been to eftablish such a plan in 1720 than at prefent? At that time the most difficult part of the whole was executed. The creditors had taken notes for their claims: the credit then was given. There was nothing to be done but to fupport it. The creditors were then at the mercy of the ftate : at prefent the flate is at the mercy of the creditors. Were fuch operations on coin to take place at prefent, as were then familiar; were the King at prefent to attempt to turn the conftitutions of rent, perpetual and lifeannuities, into any other form than what they have, the credit of France would be undone for a long time; and who knows what views of ambition a fituation fo deplorable might not ftir up in certain courts of Europe.

What ftate would pay its debts, if it *durft* do otherwife? And what ftate can diminifh its debts in any other way than by lowering the intereft upon them? But of this more in the proper place.

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CHAP. XXXIV.

How the dimini/hing the Denomination of the Paper in Circulation, by the arrêt of the 21fl of May 1720. deflroyed the Gredit of France, when the fame arbitrary Meafures taken, with regard to the Coin, had produced no fuch Effect.

HIS queflion is curious, and I shall endeavour to refolve it in the beft way I can, before I conclude this fubject.

The first thing to be done is to point out the immediate effects which refulted upon diminifhing the denomination of the paper; becaufe the destruction of the credit of France was not the immediate confeaucnce of this arret; but the ultimate effect of a chain of confequences which followed indeed very quick upon one another.

The paper had been declared , against the opinion of Mr. Law, by an Arrêt de Confeil of the 22 of April 1719, une monnoie fixe, as has been faid. Confequently, any diminution of its denomination was a plain infraction of the public faith. From this declaration in the arrêt of the 22d of April 1719, the public reaped one notable advantage, which was, that in borrowing and lending paper, every one was fure that the obligations contracted could be diffolved by reftoring the very fame species of property which had been received ; but by diminifhing the denomination of it, by the arret of the 21ft of May 1720, all fuch as were debtors, became obliged to difcharge their VOL. IV.

debts at the expense of double the fum of paper borrowed.

The immediate confequence, therefore, of touching the denomination of the paper, was, to flow the public that their fortunes in paper ware liable to the fame inconveniences as fortunes in fpecie; that is, that they might be increafed or diminified at pleafure. Upon this it was very natural for every one to endeavour to realize his paper, and put it into coinz fince, in pari cofu, it was better to have it in that which had fome intrinfic value, than in that which had none at all.

Of all the French paper, the notes were the moft eafily realized; becaufe there was contained in them a direct obligation upon the bank to pay them in coin. The actions again were more difficult to be converted; becaufe in order to realize them, it was neceflary to find people who were willing to give either notes or coin for them.

A run upon the bank, therefore, taking place, upon the arrêt of the 21ft of May, it was obliged to ftop payment: this occafioned a general alarm, and defroyed the confidence which the public had had in the flate, which is what we mean by public credit.

This point explained, it remains to flow why the augmentations and diminutions upon the fpecie flould not have ruined the credit of the paper.

100. The operations upon the fpecie affected the paper only indirectly; but the diminution upon the paper affected it directly.

The operations upon the fpecie only affected that part of the paper which was made to circulate as an

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equivalent for the [pecie; or in other words, that part which people realized, either, 1. with an intention to withdraw their funds altogether out of the fcheme; or 3. to profit of the operations upon the fpecie; or in the laft place, to procure fmall fums of money for common expectes.

Now as to the first, the number of those who wilhed to withdraw their flocks were inconfiderable, in proportion to the flock -jobbers; and therefore their interest could not affect the general credit; and the laft was inconfiderable in every refered.

As to the fecond, the government made it very difficult for the proprietors of notes to profit of the operations upon the coin. When it was to be diminifhed, the diminutions were advertifed fome time before they took place, and the diminution went on always by degrees. Thus people who had paper, with which they could trade in buying adions, conflandly rifing in their value, by the intrigues of the flate, when at the fame time the denominations of the coin were diminifing, did not carry their notes to the bank for two reafons.

The first, that the paper really gained by every diminution upon the denomination of the specie, in an exact proportion to the diminution. A livre in a bank-note, while the specie was diminishing by intervals from 80 livres the mare to 654he mare, gained regularly in the hands of the polfellor; whereas had he realized at any period but the last, the fubfequent diminutions upon the specie he had acquired with his paper would have affected the value of it.

Q a

The fecond was, that by realizing he deprived himfelf of the profit of ftock-jobbing.

The only way, therefore, for the proprietors of the paper to gain by the operations of the late upon the coin, was to guefs the time when the coin was to be raifed in its value: but this was impossible; for the rifing was fudden and unexpected; whereas notice was conftantly given of the fall, at fome diftance of time.

For example, the money was fuddenly raifed the 5th of March 1720, from 65 livres to 80 livres the marc; and the 11th of the fame month, notice was given, that on the 1ft of April following, it was to be brought down again to 70 livres per marc; and on the firft of May following, to 65 livres. The confequence of this was, that from the 11th of March, people were glad to carry money to the bank for notes, which were to fland at the fame denomination, whereas the filver was to diminifh on the 1ft of April.

Accordingly a great fum, above 44 millions, was brought in during this interval.

When the 1R of April came, and that the filver was brought to 70 livres the marc, thole who were in polifilion of the paper, were fill prevented from realizing; becaufe of the future diminution which was to take place. When this term was come, people had reafon to imagine that the filver would for fome time fland at 65 livres the marc; confequently, there was more to be gained in flock-jobbing with the notes, than in realizing them in fpecie, which, in order to make profit of it, mult have lain dead until

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a new augmentation; which was a very uncertain event. In flort, there was no run upon the bank from the if to the ark for the month of May, when the famous arrêt in que flien was given. Then inde d the run came on with violence, and payment was Ropt.

2do, The fecond reafon why the effects were different when the flate changed the denomination of the coin, from what they proved to be when the denomination of the paper was changed, I take to be this,

That in France the operations upon the coin had been familiar; and were expected by every body: and, perhaps, the very making the paper a monnoic fize, had for this reafon added to the credit of it. A moft furprifing thing! The flate took care always to gain, whether they raifed, or whether they diminifhed the value of the coin. The flock - jobbers, thet@ore, never minded the coin at all. If they could profit by an augmentation by forefeeing it, they realized; if they could fee a diminution before notice was given of it, then they bought paper.

The operations on the coin principally affected fuch as were either refpectively debtors or creditors, to people who were obliged to pay, or to receive their debts in fpecie; or who had a fixed revenue fpecified in a number of livres. There the diforder was great, as has been frequently oblerved.

stio, The operations upon the fpecie never could deftroy the intrinic value of it, however they might prevent the circulation of it for a fixed legal denomination ; therefore it remained under all combinations
of circumftances, a thing valuable to be acquired; and it ftill remained a commodity, defirable by all, and was therefore conftantly demanded

But a diferedit caft upon the paper had a different effect. The value *there* depended entirely upon the will of the flate, and every body faw that it was as eafy to annihilate it, as to reduce it to one half. The disferedit, therefore, had the effect of flopping *the demand for it*, that is, the currency : confequently, a run upon the bank immediately took place.

4to, The rendering the value of the paper precarious, made every polifilor of it ferk to realize it without cleay. The proprietors of the bank notes ran to the bank; and a run upon the bank, at a time when it could offer payment for the notes in no other value than actions, was a declaration of bankruptcy. Now it was the run upon the bank; it was this claim which the fubjects had a right to make upon the bank, for which the King was guarantee, which define even the credit of France; and it is very evident that no operation upon the fpecie could pollibly produce any fuch effect *.

In fhort, had this operation upon the paper been fufpended for a few months; had the people of France

⁹ If was a capital militake in this diminution upon the paper to make it gradual. Was it not evident that every mostal would feek to realize a note which was to diminifi his relue progreffirely every month? A note worth 10,000 livres, for example, the sad of May, was immediately reduced to 8000 livres, and the if to f July, was to be worth only 7,00. This was plainly folliciting a run upon the bank. The firoke thould have been fruck at once.

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been indulged in a little more time, their infatuation in favor of the actions would have carried them to employ all their bank-notes in the purchafe of thofe which remained in the hands of the flate. By this operation the far greater part of the nofes might have been withfrawn and deffroyed, and when the bank found themfelves in a futuation to anfwer the call of all thofe which afterwards remained in circulation, thenzhe flate might have boldly ventured to diminifu the price of actions: becaufe if that flop had occafioned a run upon the bank for the outflanding notes, there would have been coin enough to anfwer them at their full value; and this would have confirmed the credit of the bank more than any thing.

CHAP. XXXV.

How a Bank may be fafely established in France, as Matters fland at Prefent.

THE prerogative of the Kings of France is limited by no written law, becaufe he is acknowledged to be the legiflature of his kingdom; and the exercife of his power is only limited by maxims of flate. The first of which is, that he is to govern according to his laws, and not according to his ambulatory will.

Now, in making of laws, the parliament have a fort of negative, de facto, becaufe the whole regular and legal execution of every law is committed to them: and if they refuse to register it, they refuse to execute it; and a law without execution is, in fact, no law at all.

Q 4

When the King's will can be carried into execution by a fingle act of power, the authority of parliament is of no effect in preventing it. When this requires a train of f₁ flematical administrations, the concurrence of parliament, who hold the whole regular execution of the laws, is abfolutely necellary.

Banks of deposit and of circulation . fland, it muft be contelled, upon a very precarious footing, under fuch a government.

An order from the King is at any time fufficient to enumand any deposit of specie which can be made within the kingdom. While this is the cafe, no paper ean have any foldity, which draws its fecurity from fach deposit.

Coin, therefore, muſt be baniſhed from all banks in France: and the uſe of them ſhould be entirely limited to that of an office, for the keeping of reckonings between people who have folid property, and who may want, on a chouſand occaſions, to melt it down in favor of conſumption, trade, induſtry, agriculture, or the like.

In this light, a general bank may be eftablifhed at Paris; and branched out over the whole kingdom. The flock of it fhould confift in land property, engaged unalienably, to make good the engagements of the bank.

Notes fhould be iffued upon folid fecurity, bearing no intereft while they circulate as money; and when they return upon the bank, either the original fecurities may be withdrawn, or payments might be made by the transfer of a corresponding perpetual intereft.

Every province, every confiderable city in the

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kingdom, fhould be allowed to be interefted in fuch a bank : and in every confiderable city, there from d be an office for transacting fuch credits, and for reqularly receiving all payments of intereft. If the King fhould think fit to allow his mint to fupply coin, or bullion, for bank-notes prefented, at a determinate premium, he might by this operation advance the commercial interefts of his kingdom, in facilitating the payments of a wrong balance of foreign commerce : but without that regulation, the bank will be perfectly fufficient for promoting and supporting domeflic circulation. Every one who is able to give fecurity for a certain intereft, will be fure to Find money : and as the expense of conducting fuch a bank will be very fmall, the intereft for money will be very low.

As I faid before, a bank of this kind would be no more than an office, appointed for keeping accounts between people who are pollefied of any paper fecured upon real and folid property; and farther, in the beginning, at leaft, I would not advife to carry it.

The general accompt of the bank would appear in a few articles, viz. Credits given, fo much; inde of intereft to be received, fo much.

Notes returned, fo much; inde of interest to be paid, fo much; balance in favor of the bank, fo much.

A bank of this nature would answer every purpose for promoting industry and domestic circulation.

Such a bank muft neither iffue, or ever receive coin in payment.

PRINCIPLES OF BOOK IV. P. 2.

C H A P. XXXVI.

Of Banks of deposit and transfer.

NOW difmits the fubject of banks of circulation. The unfpeakable advantages drawn from this influtation, when properly regulated, in fupplying money at all times to thofe who have property, for the encouragement of indulty, and for improvements of all forts, and the bad confequences which refult to fociety, from the abufe they are exposed to, has engaged me, perhaps, in too long a diffufion of particular combinations of circumflances relating to them.

I now come to treat of banks of depolit or of transfer of credit: an inflitution of the greateft utility for commerce.

Thefe two fpecies of banks differ effentially in two particulars.

ime. That these of circulation ferve the purpole of melting down unwieldy property into money; and of preferving the quantity of it at the proportion of the uses found for it. These of deposit, are calculated to preferve a sum of coin, or a quantity of precious moveables, as a fund for carrying on the circulation of payments, with a proportional value of credit or paper money fecured upon them.

ado, In the banks of circulation, the fund upon which the credit is built, is not corporeally in the cultody of the bank; in the other it is,

The fundamental principle, then, of banks of

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deposit, is the faithful prefervation of the fund delivered to the bank, upon which credit, in money, is taken for the value.

If at any time a bank of depoor fhould lend, or fhould, in any wife, difpofe of any part of this fund, which may confift of coin, bullion, or any other precious moveable, once delivered to them, to the end that a credit in money may be writ down for it in their books of transfer, in favor of the depositor, and his affigns; by that act, the bank departs from the principles upon which it is ethablifted. And if any bank is eftablifted which, by their regulations, may fo difpofe of the fund of their credit then fuch a bank becomes of a mixed nature, and participates of that of a bank of circulation.

Thefe things will be better underftood by reafoning from an example of a true bank of deposit.

CHAP. XXXVII.

Of the Bank of Amsterdam.

MANY authors have written concerning this great bank of depofit: particularly, Davenant Sir William Temple, Ricard, in his Traité de Commerce revu par Struyk, the author of the Effay for de Commerce, and Mr. Megens, in his book, which has been tranflated into Englifh, under the title of The Universid Merchant.

In these authors we find a number of facts, which I fhall combine with my own informations, and here apply principles to them; in order to communicate a diffinct idea of this effabliffument A detail of its particular operations regards practice, and falls not wight my fubject.

The original intention of the States of Holland, in eftablifting the bank of Amfterdam, was to collect a large capital in coin within that city, which might there perpetually remain, buried in a fafe repofitory for the purpofes which we are now to explain.

In order to accomplifh this plan, they eftablifhed the bank upon the 31ft day of January 1609.

The method they fell upon to collect the coin, was to order, that all bills of exchange, for any fum exceeding 300 florins, fhould be paid in forcie to the bank; and that the holder of fuch bills fhould, inflead of receiving the coin, have the value of it writ down in the books of the bank to his credit, at his command, to be transferred to any perfon he fhould appoint; but never more to be demandable from the bank in fpecie.

By this operation, the mafs of coin circulating conflantly from hand to hand, between the merchants of Amflerdam, began, by degrees, to be heaped up in the bank; and as the heap augmented, fo did the fum of credit augment upon the books of the bank.

It is evident, from this change in the mode of circulation, that no lofs could be incurred from the locking up of the coin.

As long as coin is in a flate of conflant circulation, it can produce no intereft to any perfon.

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Interest commences from the moment the coin begins to flagnate; that is to fay, fo food as it comes into the hands of one who has no ready money demand upon him. When this happens the proprietor lends it at intereft.

Now the credit in the books of the bank, which is every day transferable at the bank, anfwers every purpole of coin, either for payment or loan: and the proprietor bas neither the trouble of receiving the fpecies, nor any rifk from robbery, or falle coin.

The first advantage the city reaped from this influtution, was, to fecure the refidence of trade in that place.

Capitals transferable only at the bank, laid the proprietors under a neceffity of fixing their dwelling where their funds were, and where only they could be turned to accompt.

It had another excellent effect in commerce: it pointed out the men of fubftance. A credit in bank is no wife equivocal: it is a fund of undoubted fecurity.

From the conftitution of this bank we may form an estimate of the extent of the deposit.

It can only fwallow up a fum equal to what is neceffary for circulating the payments of the city of Amfterdam. Were a fum exceeding that to be flut up in the bank, and were the credits written in the books of the bank to exceed that proportion, it is plain, that the value of the bank-money would fink immediately. Thereafonis obvious: the credits transferable are of no ut to thole who have no

BOOK IV. P. 2.

occafion to transfer; that is, to pay, lend, or exchange at Amfleedam. So foon, then, as all the demand of Amflerdam is fastisfied the proprietors of the overplus will feek to realize their fuperfluous credit, in order to inveft the value arifing from it, in forme other place where a demand may arife.

In order to realize, they muß (fell their back-credit for coin; becaufe the bank pays only in transfer. Coin then would be demanded preferably to credit in bank; confequently, coin would rife in its proportional value to bank-money, or bank-money would lofe, which is the fame thing. This fluctuation between bank-money and coin, leads me to explain what is called the agio of the bank.

C H A P. XXXVIII.

Of the Agio of the Bank of Amfterdam.

WE have pointed out one motive for eftablishing a bank of deposit at Amsterdam, viz. that of fixing the refidence of trading men in that city.

Another was, to prevent the inconveniences to which a fmall flate was exposed, by the introduction of bad coin, from all the neighbouring countries in Europe, with whom they traded.

In the territory of Holland there are no mines of gold and filver; confequently all they have comes from other countries, as the return of a favorable balance upon their commerce.

At the time the bank was established, the republic

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was in a flate of infancy; and any éoin they had, was that of their old mafters the Spaniards. This was unequally coined; many pieces were light; many had been clipped and wafhed. As they extended their traffic, they were obliged to receive great quantities from Gremany; which was full worfe.

In order then to prevent the circulation of fuch coin, and the perplexities occafioned by it in all accounts, they eftablifted a bank, and fixed the fandard upon a filver coin called the ducatoon, to which they gave the denomination of 3 florins or guilders bank money.

But as this coin alfo was unequal, like all the reft of the fpecie in Europe, before the introduction of milk doin, and the policy of weighing piece by piece at the mint, the bank appoint of the ducatoons to be received in bags of 200 pieces, weighing together 26 marcs 5 ounces to engles of Amfterdam troes, or gold weight; which being reduced to aces, (the loweft denomination in this weight) make 146,640 aces. This divided by 200 gives, for the weight of 1 ducatoon, 684 2 aces.

Let us now convert thefe aces into troy grains, according to the proportion eftablifhed between Dutch aces and troy grains, in the laft chapter of the third book.

The equation will fland thus.

5:92.8 aces, being equal to 3840 troy-grains; 68.2 aces, therefore, will equal 505 9 troy-grains; which, confequently, is the weight of a ducatoon; or of 3 florins bank - money of Amflerdam.

Next as to the finenels of this coin:

The ducation was coined, according to the imperial flandard, of 14 loots 16 grains fine: that is to fay, it is ⁺⁺₁, parts fine, and ⁺⁺₁₀ parts alloy. To find, therefore, the number of Hollands aces, and of troy grains of fine filver in the ducatoor, flate the two following proportions:

288: 268::683.25:635.75 aces fine.

.283: 208:: 505.21: 470 i3 troy-grains fine. In the laft place, if we divide the number of aces, and troy grains fine in the ducateon, by 3, we fhall fee the exact weight of fine filver in 1 florin of Amfterdam bank - money.

*<u>1;;</u>¹=211.91 aces, and *<u>7</u>**<u>1</u>=156.71 troy-grains fine.

Thefe calculations premifed, it would be an eafy thing to fix the exact par of the metals, between flerling and back - money of Amfterdam, were the Britik coin of legal weight, and were the metals there rightly proportioned. But is it to be fuppofed, that any perfor who has bank - money of Amfterdam, would exchange, at the par of the metals, with flerling filver, which is many per cont, too light, or againft Englift bank, notes paid in gold, always over-tuted with regard to the filver, and often too light alfo?

While, therefore, the coin of Great Britain fands upon the prefent footing, all calculations of the par of exchange, as it is commonly computed, upon the intrinfic value of the coins of other nations, mult be delufive and of no utility whatever.

For the fake of giving an example, however, here

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here is the real par of the two currencies, upon filver flerling coin of full weight.

One pound fterling flould contain, as has been faid, of time filver 17.87 troy grains, and contains sao pence faciling if face, therefore, the following proportion, and you will find how many pence fterling one form of Amflerdam banco fhould be worth.

1718.7:240:1156.71:21.883.

Thus 21.883 pence flerling is exactly the real par of an An.flerdam florin banco, fuppoling flerling money to be filver, at the full weight.

The florin bank - money being regulated upon the ducatoon, an old fpecies not now coined, the finences of the filver was determined; and the weight of the 200 ducatoons being determined alfo, this regulation determined the weight of fingle pieces, and fixed the flandard of the florin banco, in weight and futurels.

The current money in Holland, coined by the flate, is the florin of 200.21 aces fine, as we have feen in the laft chapter of the preceding book.

So foon as the flate coined their current floring at 200 21 aces, it is evident, that the ducatoon, which contains three times 21.01 aces, mult rife in its value Accordingly, the piece which was in bank-money, 3 florins, became 3 florins 3 fluivers current money.

This difference is what is called the agio of the bank of Amfterdam.

From this it appears, that the advanced value of the bank.money above the current money of VOL. IV. R. Holland, is not owing to the great credit of the bank, as fome imagine, but to the fuperior intrinfic value of the coin upon which the ftandard of the bank-money is fixed.

Let us next determine the exact difference between the bank and the current money, which difference I fhall call the *intrinfic agio* : for this purpofe ftate this proportion;

200,21:211.91 :: 100: 105.84

[°] From which it appears; that the bank-money is 5.84 per cent. intrinfically better than the current money of Holland.

We have feen in the chapter referred to, in what a confude flate the Dutch coin is at prefent, and . how it becomes a feirne to comprehend any thing concerning it. For this reafon it is, that the regular agio of the bank-money of Amfterdam is always fuppofed to be 5 per cent. Farther,

The ducatoon, upon which it is regulated, paffes for 3 florins 3 fluivers, which is just 5 per centbetter than 3 florins, at which it was rated when the bank was eftablifted; but most of the coins which circulate are light.

Thofe who conduct the affairs of the bank, have now loft fight of this original coin, which is rarely found circulating, in confiderable fums; and they confider the florin according to its intrinfic worth of 2:1-91 accs of fine filver; and as the value of filver varies, they publifit regulations for receiving coin, fach as Spanih dollars, French crowns, &c. according as they find the proportion of their worth in bank money: and compounding the value of gold

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with the value of filver, they make the fame regulations as to gold.

I have infitted too long already upon the fubtilities of the variations in the proportion between gold and filver, to take it up again in this place. My intention is to explain the principle's upon which this great bank of depofit is eflabilithed, and not to defeend into a detail of the mechanism of their adapting the variable coins of Europe to their own flandard.

I have faid, that the fum of credit, written in the books of the bank, is in proportion to the quantity of bank-money necuffary for circulating the trade of Amflerdam.

Confequently, as this circulation increases, the demand for bank-money increases also.

Again; in proportion as the demand for bankmoney increases, the agio rifes; and on the other hand, as the demand for current money increases, the agio falls.

Thus we faw in the war ann. 1763, 1763, 1762, that agio was below 5 per cent. The reafon was plain. The great circulation carried on in Amflerdam was confiderably directed towards the ufes of the war. There bank-money was of no ufe; coin only could ferve the purpofe. Accordingly agio fell to — per cent. and as gold was much more eafily transforted than filver, that metal rofe t_1 per cent. above the ordinary proportion of 1 to 14 /fz.

Demand regulates every thing; and this demand makes the agio fluctuate; fometimes rifing above, and fometimes below 5 per cent.

R 2

PRINCIPLES OF BOOK IV. P. 2.

C H A P. XXXIX.

Continuation of the fame Subject; and concerning the Circulation of Coin through the Bank of Amflerdam.

HITHERTO we have repreferted this bank as a gulf, which is calculated to fwallow up the coin of Europe; without having pointed out any faculty of throwing up a part of the treafure fo fecured, in cafe of an overcharge.

This has appeared a myftery to many, and a defect in the conflitution of the bank.

But when the principles upon which it is eftablifhed come to be compared with fome branches of their administration, which are publicly known, perhaps the mysterious part may be unravelled. And although I do not pretend to give an entire fatisfaction as to every minute particular, I think I can fhow how, and to what extent, the treafure may circulate, fo as to occafion no abufe, either from the hoarding it on one hand, or from the diffipation of it, for the fervice of the flate, on the other: and if all thefe conjectures fhall be found to hang together, and appear confiftent with principles, without being contradicted by any known fact, then I may conclude, that fuch a fystem of banking as I defcribe, is at least a poffible fuppolition, whether it exactly coincides with that

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of Amfterdam, or not. And who knows but my fpeculations may enable fore perfon of more knowledge and more fagacity than 1 am poffelfed of, to render this curious operation of credit full more generally underflood than hitherto it has been.

I have flown how the agio rifes and falls, according to the demand for bask money.

So long, therefore, as the agio does not fall below the difference between the value of the two currencies, it is a proof that all the credit writ in the books of the bank does not exceed the ufes for it: confequently, the coin locked up, which never can exceed the credit on the transfer books, and which, were it not locked up, could be of no more fervice than the credit itfelf, in circulating the trade of Amflerdam, does not exceed its due proportion: confequently, it is not hurtfully withdrawn from commerce; confequently, no abufe is implied from the hoarding of it.

But let me fuppole a cafe, which may happen; to wit, that for a certain time, the trade of Amfler, dam may demand a larger fupply of credit in bank, than is neceflary upon an average. Will not this raife the agio? No doubt. If the agio rifes fo high as to afford a premium upon carrying coin to the bank, upon the footing of their own regulations, this will augment the fum of bank-credit; becaufe the money fo carried to the bank, becomes incorporated with the bank flock; the value is writ in the books of the bank; and when this is done, the coin is locked up for ever.

If then it fhould happen, that the trade of R 3

Amfterdam fhould afterwards diminifh, fo as to return to the ordinary flundard, will not this overcharge of credit deprefs the rate of bank - money, and fink the agio too much below the par of the intrinfic value of the two currencies?

To thefe difficultis I anfwer, like one who, being ignorant of fields, which I never could get afcertained by asy perform in Holland to whom I had accels for information, and which remained hid from moß prople in the deep arcana of Amlterdam polities, muß have recourfe to conjectures, founded upon natural figacity.

Firft them, The city of Amferdam knows, from long experience, the rate of demand for bankmoney; and is is not to be fuppofed, that upon any fudden emergency, which may *heighten* that demand for a time, they flould be fuch novices as to increafe the credit upon their books fo far, as to run any rifk of overflocking the market with it; efpecially as, on fuch occasions, the deficiency of bank-credit might be fupplied with coin, conflantly to be found in the city of Amflerdam, as we full lexpluin preferally.

Farther, Who will fay, that there does not refide a power in the managers of this bank to iffue coin for the fuperfluous credit, in cafe that, in fpite of all precautions to prevent it, a redundancy of bank - credit flouid at any time be found upon their books?

It is very true, that no perfon, having creditin bank, can demand coin for fuch credit; and as no demand of that fort can ever be made, it is

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very natural to fuppofe, that a redundancy of coin and credit can never be purged off.

During my flay in Holland, I was at great pains, to no purpole, to difeover whether ever the bank iffued any part of their credit cafu upon any fuch occafions. Every one I converfed with was of opinion, that if ever any coin had been taken from the treafure of the bank, it mult have been by authority of the flates, for national purpofes: a flep conducted with the greateff forcecy; and the matter of fact, I found, was extremely doubtful. But this is nothing to the prefent purpofe. That the coin may be difpoled of, I allow, though I do not believe it; but how is the fuperfluous credit, writ in the books, to be difpoled of ? There lies the difficulty.

The popular opinion is, that coin has been taken out for the fervice of the flate: the opinion of many intelligent men is quite contrary.

I am now to give my opinion, not only as to this point, but upon the main queftion, and this not from information, but from conjecture; which I fhall humbly fobmit to the better judgment of my reader.

My opinion then is, 100, That every fhilling written in the books of the bank, is actually locked up, in coin, in the bank-repofitories.

ado, That although, by the regulations of the bank, no coin can be iffued to any perfon who demands it in confequence of his credit in bank; yet I have not the leaft doubt, but that both the credit written in the books of the bank, and the cofh in their repositories which balances it, may higher alternate augmentations and diminutions, according to the greater or lefs demand for bank-money. If I can prove this, all difficulties will be removed.

My reafons for being of this opinion are,

Imo, From principles, I muft conclude, that if, upon any occation whatever, even when the fmalleft demand for bank-money, and the greateft demand for coin takes place, there was an impoffibility of producing the leaft diminution of bank-credit, or of procuring any lupply of the metals from the bank, the confequence certainly would be felt, by an extraordinary full in the value of bank money; or which is the fame thing, in other words, by an extraordinary rife in the value of the metals, when compared with bank-money.

Now, this is a cafe which never happens. Variations upon the rate of agio, of a or a per cent. perhaps more, are frequent and familiar. The demands of trade, for coin or credit, are fo fluctuating, that fuch variations are unavoidable; but were there an overcharge of bank-credit, which no power could diminifh, that overcharge would quickly be perceived; becaule the fluctuations of the agio would entirely ceafe; as the balance of a fcale, nearly in equilibrio, ceafes from a total overcharge on one fide.

2do, My fecond reafon is founded upon a matter of fact, which I must now apply.

There are upon the fquare before the town houfe of Ainfterdam, (the place de Dam) between 10 and 11 in the morning, a number of cafhiers, whofe bufinels it is to buy and fell bank-credit, for current coin. They bargain with all thofe who have occafion

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either to buy or fell; and according to the demand for fpecie; or bank-creedit, the agio rifes or finks: and as thefe caffiers mult conflantly gain, whether they furnifb bank credit or current coin, fine they are never the demanders in either operation, it is commonly found, that there is in their favor about y/16 per cent. or perhaps t/s per cent. according to the revolutions in the demand: that is to fav, one who would firth buy fpecie, and then fell it, would loce t/S_s or perhaps but t/f6 upon bits operation.

From this circumfance of buying and felling of bank-credit with coin, and vice ver/a, I think I can refolve the myltery mentioned above, viz how the conflant accumulation of coin in the bank of Amfterdam, fhould never have the effect of depreciating their bank-money, by augmenting, beyond the demand for it, the quantity of their depofit, and of the credit written in their books.

It is a matter of fact, that the bank lends both coin and credit to the brokers, cafhiers, or lombards, who are conflantly found on the place de Dam.

Whenever, therefore, the bank finds that agio falls too low, with refpect to the coin; and when, in confequence of that, the demand for coin *increafes*; then they lend *coin* out of their repositories to the brokers; and when it *rifes*, they lend *credit*.

This coin the brokers difpofe of to thofe who have bank-money, and who want to convert it into coin. They fell the coin for bank-credit : the purchafer writes off the transfer in favor of the broker, and he again repays the value of the coin to the bank, by transferring the credit he obtained for the coin, in favor of the bank. This done, the bank may expunge this credit from their books: by which means their depolit of coin is diminified, and alfo the fum of credit which was found fuperfluous.

If, on the other hand, the circulation of the trade of the city flould, in a flort time afterwards, begin to increafe, thefe who have coin, which in that cafe would not fo well ferve the ufes of circulation as the bank-credit, come with it to the brokers, who fell them bank-credit for it; this coin the brokers deliver to the bank, which writes off the credit lent to the broker, in flort of him who has paid his coin for it.

This is, as far as I can guess, the nature of the circulation of the coin in the bank of Amsterdam.

It is a curious method of preferving an exact proportion between the coin in depolit, the credit written in their books of transfer, and the demand for bankmoney.

The plan is quite confiftent with principles, and checks exactly with those matters of fact which are known to all the world. Whether the operation be conducted exactly in the way I have reprefented it, or not, is a matter of fmall confequence to us, who aim at nothing more than the inveltigation of the principles upon which fuch operations may be conducted.

When we compare this operation with those of the bank of circulation, which we have already explained, we find a great analogy between them.

We have feen how the notes iffued by banks of circulation increafe and diminifh according to demand: and now we fee how the fame principle operates in banks of depofit, which iffue no coin on

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demand. In the first cafe, the mass of fecurities, or coin of the bank, is diminifined, without the confent of the bank, by the ad of their creditors; that is, the holders of then ores. In the laft cafe, the creditors, or perfons who have credit in bank, cannot, by their own ad, diminifithe quantity of the coin depofited, nor of the credit written; but the bank infelf, by the help of those interposed perfons, the brokers on the place de Dam, is canabled to preferve an exact balance between bank-money and the demand for it; augmenting it as it is demanded, and diminifing it when it is flownd to regorge.

 From this I conclude, that the treafure of the bank of Amfterdam is not near fo great as fome authors, from mere conjecture, have afferted.

The author of the Effay on commerce, reckons it at four hundred millions of guilders; and the Amflerdam edition carries in the margin a correction, which gives us to underfland, that it amounts to between eight and nine hundred millions. Davenant effecems it at 56 millions flerling. Mr. Megens, an author of great judgment and fagacity, effecems this treafure at no more than about 65 millions of guilders, or about 5,50,5005/L flerling; a fum (fays he) where-with great things may be done. Univerf. Merchant feft, 61. I agree entirely with him, that for the ready-money demands of the trade of Amflerdam, that fum, conflantly in circulation, may goa great length.

What has milled moß people in their eftimation of this treafure, is the appearance of a conflant accumulation, without any reflitution : but that there is a conflant egrefs, as well as ingrefs of coin to this bank, I think I have réndered pretty evident. Befides the permanent credit written in the books of transfer, concerning which we have been fpeaking, the bank to Amflerdam receives, in depoft, valf fums of coin every year, which are not incorporated with the bank-treafure, but remain in the bags in which they are belivered, under the joint feals of the bank and of the perfon who delivers them.

This operation comes next to be explained.

The trade of Holland draws a conflant flux of coin and bullion into the country; and that trade fends a conflant flux out of it. The eftablifilment of the bank of Amflerdam renders the ufeof this coin and bullion, upon many occations, luperfluous, as money.

It therefore remains as a commodity, the value of which rifes according to exigencies, or the demand for it.

When the precious metals come from Spain, Portugal, and other narions, who owe a balance to the Dutch, they are lodged in the bank of Amflerdam in the following manner.

The proprietors carry them to the bank in facs composed of a determinate number of pieces, and the fac muft be of a determinate weight, according to the regulations of the bank, from time to time; for which the bank writes off credit in bank, at certain rates, according to the coin lodged, to the account of the proprietor.

But as this coin is received, upon condition that it may be drawn out again, fo foon as the depofitor full demand it; inflead of writing off the whole value upon the books of the bank, they only write off a. certain part, [fuppofe up or cent.] and for the remain

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ing to per cent. they deliver what they call a recipific; which is an obligation by the bank to re-deliver, upon demand, the individual facs, fealed with the feals of the bank and of the depositor. This recipific is transferable at the will of the perfon to whom it is delivered. Farther,

He who has put his coin 6 in depoint, becomes bound to pay to the bank 1/4, 1/4, or 1/8 per cent, every fix months, according to the coin: that is, upon gold 1/2 per cent. on pieces of eight and riskdollars 1/4; on ducatoons 1/8 per cent. and in each be neglec's foto do, then the coin becomes confolidated with the treafure of the bank, and can no more be drawn out, in virtue of the neglefile.

This being performed, the depositor may transfer, at will, all the $g > per \ cent$. of his credit; in the courfe of his bulinefs; and fo foon as the value of coinrifes in the market, he muft fill up his credit in bank to the full value of the $g_> per \ cent$ and then prefenting his recipiffe, he receives back his own individual coin, fealed with his own feal, as when at fird delivered.

If he finds that it is either inconvenient for him to fill up his credit, or that he has no eccafion for his coin. upon ther ife in its value, he may then fell his recipiffe to another, who has credit in bank equal to the value of the depofit; and he, in virtue of the recipiffe transferred to him, withdraws the coin, as the perform might have done who put it in depofit.

The recipifie itfelf, which is what gives a right to the coin to any one who is the proprietor of that paper, and who has credit in bank for the fum contained in it, rifes and finks in its value, according to the price of the coin to which it carries a right.

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In this manner coin, which otherwife would be dead in a warehoufe, is made to circulate, in favor of the owner, during the depofit, remaining at the fame time always at his command; and the keeping of the coin brings into the bank a finall profit, but which, by conflant accumulation, becomes confiderable.

I have faid above, that the bank of Amflerdam puts forth, from time to time, what regulations they think fit, as to the rate at which they receive the different fpecies of coin. Thefe regulations are formed according to the fluctuation of the value of the metals. When filver rifes above the proportion it had before, with refpect to gold, then the filver fpecies is received at a higher rate than formerly. When gold rifes in proportion to filver, then the gold coins are received at a higher rate than formerly.

This regulation produces the fame effect as that, which I formerly recommended in the third book, would do, in fixing a flandard for the unit of the money of Grat Bitiain, according to the mean proportion of the metals: and it was for this reafon, that [Book III. part I. chap. 1.] Inferted the bankmoney of Amfterdam to be an invariable unit, which the art oframa had invented; that it flood like a rock in the fea, immoveable by the fluctuating proportion between the metals.

It is no objection againft this, to alledge the variation of the agio, and the fluctuation of the value of bank.money according to demand. Thefe variations ought to be referred to the coin, not to the bank.money: the bank.money is to be confidered

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as fixed, because it has all the characters of invariability.

It, indeed, the affairs of the bank came to be ill adminittered, and that the credit written in the bank were allowed to fwell to far beyond the demand for it, as to fink the value of bank-money fo far below the rate of coin as to make is impofible to recover itfelf, then I fhould allow that the bank-money was no longer an invariable flandard: but in this cafe, I fhould confider the bank as in a kind of political difeafe, becaufe it would then be withdrawn from under the influence of its own principles, which hitherto has never been the cafe.

It has been imagined by many, that the treafure of the bank of Amsterdam has been, upon certain occasions, made use of for the public fervice. This is a conjecture merely; and perhaps it has been owing to the opinion which commonly prevails, that the treafure far exceeds all the uses which it can ferve for. But as 1 am perfuaded, 1mo, That this opinion is void of all foundation; 2do, That the treafure never can exceed the credits written : and. atio, That the credits never can exceed the uses thole merchants have for them : fo I am of opinion, that a value, in coin, to the full extent of those credits, actually exifts in the repolitories of the bank ; because if I should suppose the contrary, it would imply a notorious infidelity in the bank-administration : an infidelity, which, if ever it fhould be difcovered, would overturn the whole credit of the bank, and, at one ftroke, deftroy the whole trade of that city. Now the ufe of three or four millions

fterling, to the flates of Holland, which they can procure when they will, at a very moderate intereft, is not an object in the eyes of that flagacious government, fulficient to engage them to tamper with the bank-treafure: and the rather, that were they driven to the necefficy of having recourfe to the bank. It make not the leaft doubt but that for great a company Would be of more fervice to the flate in writing off upon an occafion a temporary, untransferable ciedli at intereff, which might afterwards be expunged, in order to procure coin within the comuny, than by delivering the coin corresponding to the credit of private merchants, which they mult look upon as a moß fagred depofit.

If we compare the credit of the bank of Amfterdam, with the credit of the bank of England, we fhall find the first infinitely inferior to the latter as to extent, though not one bit inferior with refpect to the folidity of it.

The extent of the credit of the bank of Amfterdam is limited to the fum of the credits written in their books, either in permanent transfer, as I fhall call it, or in credi on cafh depolited upon recipilje. All this credit put together, cannot extend beyond the limits of the circulation of the city of Amfterdam, in their domefite dealings, and in their exchange bolinefs; which laft is indeed very great.

But the credit of the bank of England is equal (in a manner) to all the circulation and exchange bufinefs of London, and all the taxes prid in Great Britain. This bank, in circulating its paper, is not limited to the weight of coin in England. The whole intereft

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intereft of the national debt, and expense of the flate, may be paid in the paper of the bank. and be perfectly well fecured, although their ireafure in coin may feldom amount to above four millions fleiling:

We mußhoweverallow, that banks of circulation, when ill conducted; are liable to given tabufe; as has been abundantly explained in treating of the Mifflippi But how is abufe to be prevented, while men conduct? And difalters may happen to a bank of depolit, to which the other is not fo much expoled. May not the treature of the bank of Amfterdam be leat out on bad fecurity? May not the fate lay hold of it? May not an earthquake fwallow up the flathoufe? May not the feas break in, and demolußh it? May not another invader, like the late King of France, in 1672, be more fuccelsful, and carry off the bank ?

Thefe are abufes and calamities to which the bank of Amfterdam is exposed; and from many of which the bank of England is in a great measure protected.

Befides the banks I have mentioned, not for much with a view to give a hiftorical account of their operations, as to illuftrate the principles on which they are eftablished, there are many others in Europe of great and extensive credit; fuch as that of Hamburgh, Venice, Genoa (until the flate fpent the treafure depoliced) Nuremberg, &c. Every one of thefe participate more of the nature of that of Amfterdam, than of thofe in Great Britain. They are more calculated for preferving the flandard of their bank money, againft the adult rations of coin, and for providing a fund of cafh, transferable in banks-VoL, IV. credit, than for the affiltance of government, or the melting down of folid property, which are the great advantages peculiar to *banks of circulation*.

Thefe laft are allo infinitely more lucrative to the bankers than thole of depofit, from the intereft they draw from credits given, difcount of bills, and loans to government.

The profits on the bank of Amflerdam are very trifling. They are confined to the fmall emoluments of a fluivers for every transfer; befudes the intereft they draw from the brokers on the place de Dam, for the coin and credit they furnish them with; and, in the laft place, the j_{a} , j_{a} , or j_{b} per cent. every fix months, for the coin deposited in order to be afterwards drawn out. But on the other hand, they are freed from the enormous expensite of providing coin forthe payment of foreign balances, and from the great detail of business which the circulation of paper implies.

AN INQUIRY

INTO THE

PRINCIPLES

OF

POLITICAL ECONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART III.

OF EXCHANGE.

CH'AP. L

Of the first Principles of Exchange.

HAVING ended what I had to fay of banks, in which moft of the principles of private credit have been fufficiently deduced, I now proceed to the doftrine of exchange, which is the principal operation of mercantile credit.

The fecurity which merchants commonly take from one another when they circulate their bulinefs, is a bill of exchange, or a note of hand: thefe are looked upon as payment. When they give credit to one another in account, or otherwife, the caufe

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of confidence is of a mixed nature ; eftablifted partly upon the fecurity of their effects, partly on the capacity, integrity, and good fortune, of the perfon to whom the credit is given.

No man but a merchant has any idea of the extent and nature of this kind of credit. It is a thing to be felt, but cannot be reduced to principles; and merchants themfelves can lay down no certain rules concerning it. It is an operation which totally depends upon their own fagacity.

But when they deal by bills of exchange, the cafe is very different. The punctuality of acquitting thole obligations is elfential to commerce; and no fooner is a merchant's accepted bill protefled, than he is confidered as bankrupt. For this reaction, the laws of moft nations have given very extraordinary privileges to bills of exchange. The fecurity of trade is effectial to every fociety; and were the claims of merchants to linger under the formalities of courts of law, when liquidated by bills of exchange, faith, confidence, and punctuality, would quickly dilappear; and the great engine of commerce would be totally defreyed.

A regular bill of exchange is a mercantile contract, in which four perfons are concerned, viz. 1. The drawer, who receives the value: 2. His debtor in a diftant place, upon whom the bill is drawn, and who muft accept and pay it: 3. The perfon who gives value for the bill, to whofe order it is to be paid: and 4. The perfon to whom it is ordered to be paid. creditor to the third.

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By this operation, reciprocal debts, due in two diftant parts, are paid by a fort of transfer, or permutation of debtors and creditors.

(A) in London, is creditor to (B) in Paris; value too L'(C) again in London, is debtor to (D) in Paris for a like fum. By the operation of the bill of exchange, the London creditor is paid by the London debtor, and the Paris creditor is paid by the Paris debtor; confequently, the two debts are paid, and no money is fent from London to Paris, nor from Paris to London.

In this example, (A) is the drawer, (B) is the accepter, (C) is the purchafer of the bill, and (D) receives the money. Two perfons here receive the money, (A) and (D), and two pay the money, (B) and (C); which is juft what muft be done when two debtors and two creditors clear accounts.

This is the plain principle of a bill of exchange. From which it appears, that reciprocal and equal debts only can be acquitted by them.

When it therefore happens, that the reciprocal debts of London and Paris (to ufe the fame example) are not equal, there arifes a balance on one fide. Suppofe London to owe Paris a balance, value tool. How can this be paid? I anfwer, that it may either be done with or without the intervention of a bill.

With a bill, if an exchanger, finding a demand for a bill upon Paris, for the value of $1 \circ 0$ l, when Paris owes no more to London, fends $1 \circ 0$ l to bis correspondent at Paris in coin, at the expense, **f**

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fuppofe, of $\int L$ and then, having become creditor on Paris, he can give a bill for the value of $\cos L$ upon his being repaid his expense, and paid for his rifk and trouble.

Or it may be paid without a bill, if the London debtor fends the coin himfelf to his Paris creditor, without employing an exchanger.

This laft example flows of what little ufe bills are in the payment of balances. As far as the debts are equal, nothing can be more uff (ult han bills of exchange; but the more they are ufeful in this eafy way of bufinefs, the lefs profit there is to any perfon to make a trade of exchange, when he is not bimfelf concerned, either as debtor or creditor.

When merchants have occasion to draw and remit bills for the liquidation of their own debts, active and palitve, in diftant parts, they meet upon change; where, to purfue the former example, the creditors upon Paris, when they want money for bills, look out for thofe who are celtors to it. The debtors to Paris again, when they want bills for money, feek for thofe who are creditors upon it. This is a reprefentation of what we have frequently called the money market, in which the demand is for money for for bills.

This market is conflantly attended by brokers, who relieve the merchant of the trouble of fearching for thofe he wants. To the broker every one communicates his wants, fo far as he finds it prudent; and by going about among all the merchants, the broker difcovers the fide upon which the greater demand lies, for money, or for bills.

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We have often obferved, that he who is the demander in any bargain, has conftantly the difadvantage in dealing with him of whom he demands. This is no where fo much the cafe as in exchange, and renders fecrecy very effential to individuals among the merchants. If the London merchants want to pay their debts to Paris, when there is a balance againf London, it is their interefit to conceal their debts, and efpecially the neceffity they may be under to pay them; from the faar that thofe who are creditors upon Paris would demand too high a price for the exchange over and above par.

On the other hand, thofe who are creditors upon Paris, when Paris owes a balance to London, are as careful in concealing what is owing to them by Paris, from the fear that thofe who are debtors to Paris would avail themfelves of the competition among the Paris creditors, in order to obtain bills for their money, below the value of them, when at par. A creditor upon Paris, who is greatly prefied for money at London, will willingly abate fomething of his debt, in order to get one who will give him money for it.

It is not my intention to dip into the intricacies of exchange: all intricacies mußt here be banifhed; and inftead of technical terms, which are very well adapted for exprelling them, recourde mußt be had to plain language, for pointing out the fimple operations of this trade. It is by this method that principles mußt be deduced, and from S 4

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principles we fhall draw the confequences which may be derived from them.

From the operation carried on among merchants upon Change, which we have been deferibing, we may diffeover the confequence of their feparate and jarring intereffs. They are conflantly intereffed in the flate of the balance. Thofe who are creditors on Paris, fear a balance due to I ondon; thofe who are debtors to Paris, dread a balance due to Paris. The intereff of the first is to diffemble what they fear; that of the laft, to exaggrate what they with. The brokers are thofe who determine the courfe of the day: and she moth intelligent merchants are thofe who difpatch their bulneds before the fast is known.

Now I afk, how trade, in general, is interefied in the quefilion, who fhall outwit, and who fhall be outwitted, in this complicated operation of exchange among merchants?

The interch of trade and of the nation is principally concerned in the proper method of paying and receiving the balances. It is allo concerned in preferving a juft equality of profit and lofs among all the merchants, relative to the real flate of the balance. Unequial competition among men engaged in the fame purfuit, conftantly draws along with it bad conf-quences to the general undertaking, as has often been obferved; and fercery in trade will be found, upon examination, to be much more ufeful to merchants in their private capacity, than to the trade they are carrying on.

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Merchants, we have faid, in fpeaking of the bank of England, endeavour to fimplify their befinefs as much as poffible; and commit to brokers many operations which require no peculiar talents to execute. This of exchange is of fuch a nature that it is hardly poffible for a merchant to carry on the bufinefs of his bills, without their affifiance, upon many occafions. When merchants come upon Change, they are fo full of fears and jealoufies, that they mull diffeover what they want to conceal. The broker is a confidential man, in fome degree, between parties, and brings them together.

Befiles the merchants, who circulate among themfelves their reciprocal debts and credits, arifing from their importation and exportation of goods, there is another fet of merchants who deal in exchange; which is the importation and exportation of money and bills.

Were there never any balance on the trade of nations, exchangers and brokers would find little employment: reciprocal and equal debts would eafily be tranfacted openly between the parties themfelves. No man feigns and diffembles except when he thinks he has an intereft in fo doing.

But when balances come to be paid, exchange becomes intricate; and merchants are fo much employed in particular branches of bulinefs, that they are obliged to leave the liquidation of their debts to a particular fet of men, who make it turn out to the beft advantage to themfelves.
Whenever a balance is to be paid, that payment cofts, as we have feen, an additional expense to those of the place who owe it, over and above the value of the debt.

If, therefore, this expende be a lofs to the trading man, he mult either be repaid this lofs by thofe whom he ferves, that is, by the nation; or the trade he carries on will become lefs profitable.

Every one will agree, I believe, that the expende of high exchange upon paying a balance, is a lofs to a people, 'no way to be compenfaced by the advantages they reap from enriching the few individuals among them, who gain by contriving methods to pay it off: and if an argument is neceflary to prove this propofition, it may be drawn from this principle, to wit, whattever renders the profit upon trade precarious or uncertain, is a lofs to trade in general : though a profit does refult from itupon one branch of trade, the exchange bufinefs, yet that cannat compendate the lofs upon every other.

We may, therefore, here repeat what we have faid above, that the more difficulty is found in paying a balance, the greater is the lofs to the nation.

This being admitted, I fhall here enumerate all the difficulties which occur in paying of balances. Moft of them have been already mentioned from their relation to fubjects already difculfed; and could it be fuppofed, that every reader has retained the whole chain of reafoning already gone through, a repetition in this place would be fuperfluous: but

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as that cannot be expected, I fhall, in as fhort and diffind a manner as pollible, recapitulate, under four articles, what I hope will be fufficient to refrefth the memory upon each of them.

1mo, The fift difficulty which occurs in paying a balance is to determine exactly the true and intrinite value of the metals or coin in which it is to be paid; that is to fay, the real par.

>do, How to'remove the domeftic inconveniences which occur in paying with the metals or coin.

stio, How to prevent the price of exchange from operating upon the whole mafs of reciprocal payments, inflead of affecting only the balance.

The remedies and palliatives for thefe three inconveniencies once diffeovered, comes the laft queficion, viz. How, when other expedients prove ineffectual for the payment of a balance, the fame may be paid by the means of credit, without the intervention of coin; and who are those who flould conduct that operation.

CHAP. II.

How to determine exacily the true and intrinfic value of the Metals, Coin, or money, in which a Balance to foreign Nations is to be paid.

THIS first question regards the whole mass of reciprocal payments, as well as that of the balance.

Every payment to be made of a determinate and fixed value, that is to fay, of a liquidated debt. PRINCIPLES OF

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must be paid in a value equally determinate in its nature.

This I fuppofe to be the cafe, whether payment be made in the precious metals unmanuf.clured, bullion, or in a nation's coin, or in denominations of money of account. All payment in machandize, except builtion, mult fuffer convertious of value before the debus can be liquidated.

Money of accompt, which is what we underfland by denominations, we have defined to be a fcale of equal parts, calculated to determine the value of things. relatively to one another. It muft, therefore, be by the money of accompt of different nations, that the value of bullion and of coin can be determined.

When coin is introduced, the denominations of money are realized in a determinate quantity of the precious metals, and the fabrication of the bullion into coin raifes the value of that commodity, bullion, like the manufacturing of every other natural production.

When coin, therefore, is employed in paying fums according to the legal denomination which it carries, it is money, not merchandize; but when it is given at any other rate than its denomination, it is merchandize, not money.

In the third book, we have fhown how utterly impoffible it is to realize with exacheds, the denominations of money of accompt, in the metals which are conflantly varving in their value, and expode to wafte in circulution.

We have flown, by many examples, how, in

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fact, the value of the pound fterling has been fubject to great vicifitudes of late, from the great diforder of the coin.

The coin of France is, indeed, upon a better footing in point of uniformity of weight, than ours; and the proportion of the metals in it comes nearer their prefent value in the market: butthen as oft as the balance turns againft France, the high impofition upon her coinage, expoled the coin to great fluctuations of value, when compared with bullion in the Paris market. This is allo to be afcribed to the imperfection of the metals when ufed as money, while they are merchandize at the fame time.

This being the cafe, the way to calculate the real par of exchange between nations, who have in common no determinate and invariable money, exclutive of coin, is to confider fine gold and filver as the next beft flandard.

This is a merchandize which never varies in its quality. Fine gold is always the fame in every mafs; and weight for weight, there is no difference in its value or quality any where.

This ftandard being once adopted, the calculation of the real par becomes an eafy operation to thofe who know the courfe of the buillion. market in the two places exchanging.

If by the exportation of all the heavy coin of London, bill muft be paid in a worn out curreny, the rife in the price of gold in their marker, above mint price, will mark pretty nearly how far it is light. If on the other hand, the wars of France, or an unfavorable balance upon her trade, fhall oblige her to export her coin, that operation will *fink* the value of it, or *raife* the price of bullion, which ever way you chufe to express it.

It is not here a proper place to refume the queftion, which of the two expecifions is the moft proper: we are here confidering the value of the bullion as what is fixed, becaufe it anfwers the purpofe. But whether we fay that bullion *rifes* in the markets of Paris and London; or that the value of their currencies *fink*, though from very different caufes, the calculation of the real par will proceed with equal accuracy. An example will illuftrate this.

When fine gold is at the loweft price to which it can ever fall at Paris, that is to fay, at the mint price, it is worth 740 livres 9 fols, or 740.45 livres per mark, in decimals, for the cafe of calculation. The mark contains eight counces Paris weight.

Were the ounces of Paris equal to those of troy weight, 1/8 of this fum, or 92.5562 livres, would be the value of that ounce by which gold is fold at London.

But the Paris ounce is about $1/f_2$ per cent, lighter than the troy ounce; and the exact proportion between them is unknown, from the confution of weights, and the want of a fixed flandard in England.

By the beft calculation I have been able to make, a Paris ounce fhould contain 473 grains troy, which makes the proportion between the two ounces to be

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as 473 is to 480, which is the number of grains in the troy ounce.

Gold bullion at Paris is regulated by the mark fine, at London by the ounce flandard.

Gold bullion never can rife in the Paris market, at least all the laft war it never *did* rife, above the value of the coin; that is, to 80.16 livres the mark fine, or 100 2 livres *per* ounce Paris, and 101.7 livres the troy ounce.

 viz. r. That gold bullion at Paris fhould be at the price of coin, while at London it may be at mintprice : or, 2. That at Paris it may be at mint-price, when at London it is at 4.4 os. 8 d. what will then the real par of exchange be ?

I and/ver, that on the first fuppofition, it will be one pound flerling, equal to 23 93 livres, and the crown of 3 livres equal to 30.0076 pence flerling. In the other, equal to 21.34 livres for the pound flerling, and for the crown of 3 livres 33 728. A difference of molefs than 80 per cent.

Is it not evident that thefe variations *muff* occur in the exchange between London and Paris? And is it not alfo plain, that they proceed from the fluctuation of the price of bullion, not from exchange?

We have, I think, demonstrated, in the third book, that a wrong balance upon the I rench trade railes bullion to the price of coin; and that a right balance brings it down to mint-price. The price of coinage is above 8 per cent. So that 8 per cent, of fluctuation in the price of bullion is easily accounted for in the Paris market, without combining the variations in the English market.

In London, where no coinage is paid, were all the coin of full weight, and exportation free, coin and Randard bullion would contlantly fland at the fame price: but when the heavy coin is exported, and the currency becomes light by the old remaining in circulation, the price of bullion rifes in proportion.

Is it furprifing that, at London, gold in bullion fhould be worth as much as gold of the fame flaudard in guineas, weight for weight? It is worth as much

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at the mint, why fhould it not be worth as much at market? Any man may offer to pay for the ounce of all the guineas coined by Charles II. James II. and William III. now in circulation, the higheft market prioe that ever was given for flandard gold bullion in London, and gain by the bargain.

This, I hope, will be fufficient to fatisfy any body that there is a miftake in afcribing the high price paid for the French crown in the London exchange, to a wrong balance upon the trade of England with France.

From this new light in which I have placed the quefiton, I hope the arguments ufed in the 16th chap. ter of the first part of the third book, will acquire an additional force; and that thereby the eyes of this nation may be opened with regard to the interefts of the French trade; a point, I fhould think, of the higheft concern.

To calculate, as every body does, the par of the French crown, either by the gold or the filver in the Baglinh flandard coin, when no fuch flandard coin exilits; and to flate all that is given for the crown above 20 j/2 d. if you reckon by the filver, or 20 j/2 d. if you reckon by the gold, for the price of a wrong balance, is an error which may lead to the moft fatal confequences.

If government fhould think fit to impofe, in their own mint, a coinage, equal to that of France, and make all their coin of equal weight, and at the due proportion, it will take off all the lofs we fuffer by paying coinage to France, which we at prefent impute to the exchange, while the pays none to us. But Yor. IV. then it will occafion nearly the fame fluctuations upon the real par of exchange as at prefent; only from another capile on the fide of Great Britain. At prefent our exchange becomes favorable from the weight of our own currency, and the balance againth France upon her trade; which, in Paris, raifes the price of the bullion with which we pay our French debts. On the other hand, our exchange becomes unfavorable from the lightnefs of our own currency, from the coinage we pay to France, and balance againft us; which laft carries off all our new guineas; and in the Paris market, finks the value of that bullion in which we pay our French debts.

Were matters put upon a right footing, we fhould gain from France the price of our coinage, when our balance is favorable, and pay coinage to France when their balance is favorable; inflead of feeing our exchange turn more in our favor, only from the additional weight of the coin in which we pay.

If French coimage flouid appear too high a price for the intereft of other branches of Britifli trade, a queftion I fhall not here determine, let us impofe at leaft as much as to keep our guineas out of the melting pot, and banih all the old coin which throws us into fuch confution.

What has been faid is undoubtedly too much upon this fubject for the generality of readers. The number of thole who can go through a chapter like this with pleafure is very fmall. But if the idea I have been endeavouring to communicate, be found juft by one man of capacity, whole opinion fhall have weight in the deliberations of Great Britain, the confequences

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may be great to this nation; and this confideration will, I hope, plead my excufe.

I fhall now let this queftion in another point of view, from which the ftrefs of my arguments will be felt, and all intricate combinations will be laid afide.

Does not the price of exchange, or what is given above the par, proceed from the expense of fending the metals from one place to the other, the infurance of them, and the exchanger's profit ? If this be true, which I believe no body will deny, muft not what is paid for the bill, over and above these three articles. be confidered as the real par, relative to exchange? Now does the price of the bullion which the exchanger pays in his own market, or the price he gets for that bullion in the market to which he fends it. at all enter into the account of the transportation. rifk, and profit, which the exchanger has on the operation? Certainly not. May there not be a very great difference between the buying and felling the very fame bullion in different markets at one time and another? Ought we not to charge that to fome other accompt than to the price of exchange, which is confined to the expense of transporting the balance only, and when two objects totally different are included under the fame term, does it not tend to perplex our notions concerning them ?

The great variation in the price of bullion in France, for example, and the expecte of procuring it, proceeds from three cautes. The first is, the coinage imposed in France, while none is imposed in England. What, therefore, is paid upon this account, is profit to France, and loss to England.

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The fecond caufe of variation, is the debafement of the value of the pound flerling, when the heavy gold has been fent abroad. That lofs affects the nation, and every manin England, in the quality of creditor for fums fpecified in pounds flerling, to the profit of all debtors.

The third caule of variation, is from the great expense exchangers are put to, in procuring the metals from other countries, when they cannot be got at home: the confequence of this fhall be explained in a fusceeding chapter.

As all these causes are combined in the exchange upon bills when they come to market, I think it is proper to analize them, before the dockrine we are upon can be diftinctly underflood.

I shall therefore conclude my chapter with this proposition :

That the beft method of determining exactly the true and intrinfic value of the metals, coin, or money, in which the balance due to or from a foreign nation is to be paid, is to compare the refpective value of fine bullion with the refpective denominations of the coin in the one and the other; and to flate the difference as the price paid for the exchange*.

* There occurs another confiderable difficulty to be removed, before the real par of exchange can be exactly determined from the price of bullion, to wit, the uncertainty of weights, and the multiplicity of them.

Every nation in Europe has a different weight, I might almoft fay every city. This has proceeded, in a great meafure, from the inaccuracy with which they have been made formerly. I think it is highly probable, that many, at leaft, of the prin-

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cipal weights in Europe, have derived their origin from the fame flandard; although they are now condicrably different, Thofe I am beft acquainted with are the following, of which I fhall here fet down a fhort table, reduced to troy grains, according to the beft calculation I have been able to make.

One ounce troy contains - 480 troy grains. One ounce Paris, or poidi de marc, 473 One ounce Holland troes - 473.27 One ounce Colonia - - 449.33

Thefe are the weights used in the mints of England, France, Holland, and Germany.

If therefore we fhould call the troy sunce 100, the proportion of the reft will be as follows;

Troy	-	-	-		100
Paris	-	÷.,	•	-	98-54I
Holland	•	•	-	-	98.597
Colonia		•	•	-	93.61

I have chefen to reduce to ounces; because it is the denomination in which the proportion of weights is best preferved.

Thefo ounces I apprehend to have been originally taken from the old Roman pound, which was the weight adopted by the Emperor Charles the Great, who applied himfelf much to the eftablifting a general flandard of weights in his dominions.

In the examples I have given, we fee how the Colonia ounce deviates more than any other from the average on the whole.

This ounce is very near equal to the old Saxon ounce, eftablished in the English mint at the Norman conquest, and there preferved, until Henry VIII. Subfitured in its place the troy weight. This circumstance makes it probable that the Saxon ounce came originally from Charles the Great, who first conquered the Saxon nation, and drew them from a flate of abfolute barbarity. The rude manners of the Saxons may have occasioned this great deviation.

The difference, therefore, in those ounces, I ascribe to the progressive error of those who have made weights, and from the neglect of preferving a proper standard.

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The beft remedy for this inconvenience, would be, for any one mint of form a wight, ad *libitum*, and to fend a moft scourace copy of it to every mint in for one: to mention, at the fam at m, the exact proportion between the weight fend, and that obferved at their own mint: to bug of the other mints an equal communication of the proportion between the weight fend, and their feveral flandrafts: and liaf of al, to pub ih in the news papers of all commercial 'towns, every market day, as is done at Amferdaim, the prior of *fuw* gold ard fiver, according to this new weight made for the purpofe. This weight may be called the mintweight of Europe; and from the univerfal utility which would follow upon fuch a regulation, it probab's might be followed: were this to happen, it might be a flep towards efablishing an univerfal conformity of weight never whete.

While matt:s fland on the prefent footing, it is neceffary to be informed of three particulans. Furf, Orthe proportion of the different mint - weights. Secondly, Of the regulations by which the coin is made. And latly, Of the exactnets of the mints in following the regulation. Every mildale in any one of thefs three ar:ic'se, is an impediment to the juft det minuation of the real par.

I acknowledge that, in fact, exchange business goes on fmoothy; notwiththanding all the difficulties we have been enumerating. It may therefore be afked, in what would confift the great advantage of fo forupulous a nicety?

My answer is, that exchange business will always go fmoothly on, as long as exchangers gain, and that trade is not interrupted.

But trading men confider their own intereft only; and I am confidering the intereft of an intelligent flate, which wants to promote the good of the whole community, without occasioning any hart to the intereft of individuals.

CHAP.III. POLITICAL ECONOMY.

CHAP. -III.

How to remove the inconveniences which occur in paying Balances with the Metals or Coin of a Nation.

 $\Gamma_{\rm HE}$ inconveniences which occur when balances are to be paid in bullion or coin are thefe:

First. The want of fecure and ready transportation, from the obstructions government throws in the way to prevent it.

Secondly, The difficulty of procuring the metals abroad when they are not to be found at home.

When we fpeak here of balances to be paid from one country to another, we understand, that the general amount of the whole payments to be made to the world, exceeds the fum of all that is reciprocally due from it. So far as a balance due to one country is compenfated with a balance due by another, they may be mutually difcharged by bills of exchange, according to the principles already laid down. All compensations being made by bills drawn for reciprocal debts, we must here fuppofe a balance due by the country whole intereft we are confidering. This, like debts between private people, must either be paid in intrinsic value, or by fecurity for it; that is, by contracting a permanent debt bearing intereft. The first is the queftion here before us; the fecond will be examined in the fucceeding chapter.

The first difficulty mentioned, to wit, the want of fecure and ready transportation of the metals. proceeds in a great measure from the obstruction government throws in the way, to prevent the exportation of them. To remove which difficulty, it is proper to flow how far it is the interest of government to obftruct, how far to accelerate the tranfportation of the metals.

We have faid that it is the advantage of every fate, in point of trade, to have balances paid with the leaft expense. If then we suppose that it is either neceffary or expedient that this balance fhould be paid in the metals, government, in that cafe, fhould facilitate by every method the fending them off in the cheapeft and fecureft way.

But fince governments do not follow that rule. we must examine the reafons which engage them to prefer a contrary conduct.

The principal, the most general, and most rational objection against the exportation of the metals, is, that when it is permitted, without reftriction, it engages the people, when they go to foreign markets for articles of importation, to run to the coin, inftead of carrying thither the product and manufactures of the country. From which a confequence is drawn, that as long as coin and bullion are fairly allowed to be exported, the rich inhabitants will employ them for the purchase of foreign commodities, to the hurt of domeflic industry.

This is an objection of great weight, relative to the fituation of many nations. The Spaniards and Portuguese feel it feverely. Many individuals

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there are very rich; the numerous claffes of the people are either lazy or not properly bred to indultry. In that funation the alternative to government is very difagreeable. Either the rich muß be deprived of every enjoyment with which their induftrious neighbours alone can fupply them, until, by very flow degrees, the loweft claffes of their countrymen can be engaged to change their way of living, and be infpired with a fpirit of induftry; or they muft be allowed to gratify the defires which riches create, at the expende of their country.

From this alternative we difcover the principle which directs the conduct of a flatefman under fuch circumflances, viz.

To forbid the importation of every foreign ma. nufacture whatfoever; to fubmit to the hardfhips necefiarily mipled in the circumfances of the nation; and to pay freely what balance may be owing upon natural produce imported for the ufes of fubfiftence, or manufacture.

This is a plan more rational and more cafily executed, than a general prohibition to export the metals; becaufe with good regulations, properly executed, you may prevent the importation of manufadures; but it is hardly poffible to prevent the exportation of the metals neceffary to pay for what you have brought from ftranger, by the permiffion of government: and on the other hand, fuppofe you do effectually prevent the exportation of the metals, the confequence will be, to put an end to 298

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all foreign trade even in natural produce. What nation will trade with another who can pay only by barter? All credit will then be cut off; for who will exchange by bills, with a place which cannot pay, either in their own currency, or with the metals, the debts which they reciprocally owe?

The maxim therefore, here, is to prevent the contracting of debts with ftrangers; but when you allow them to be contracted, to facilitate the payment of them.

This reafoning is only calculated to direct a flatefman who finds himfelf at the head of a rich luxurious nobility, and an idle or ill infracted common people, furrounded by induftrious neighbours, whofe affifiance may be neceffary upon many occafions, to provide fubfiftence, or the materials of manufacture, to his people; and this while he is forming a fcheme of introducing induftry at home, as a balis for afterwards eflabilfhing a proper foreign commerce.

But in this fubject combinations are infinite; and the fmalleft change of circumftances throws the decifion of a queftion on a different principle.

I will not therefore fay, that in every cafe which can be fuppofed, certain refrictions upon the exportation of bullion or coin are contrary to good policy. This propolition I confine to the flourithing trading nations of our own time.

To fet this mator in a fair light, and as an exercife upon principles, I fhall borrow two combinations, one from hiftory, and another from a recent example in France, in which a clog upon the Сн

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exportation of the metals and coin were very politically laid on.

We fearn from the biftory of Henry VII. of England, a fagacious Prince, that he eftablifted very fevere laws againft the exportation of bullion; and obliged the merchants who imported foreign commodities into his dominions, to inveft their returns in the natural produce of England, which at that time confifted principally in wool and in grain.

The circumftances of the times in which that Prince lived, mult therefore be examined, before we can juftly find fault with this flep of his political economy.

In Henry the Vilth's time, the foreign trade of England was entirely in the hands of foreigness, and almost every elegant manufacture came from abroad.

Under fuch circumfances, is i not plain, that the prohibition of the exportation of bullion and coin was only a compulion, concomitant with other regulations, to oblige foreign merchants, refiding in his kingdom, to buy up the fuperfluity of the Englith natural produce of wool and grain? Had not the King taken thofe meafures, the whole money of the nation would have been exported; the fuperfluous natural produce of England would have hough their price below the value of the fubfiftence of thofe who produced them; agriculture would have been abandoned; and the nation would have been undone.

I allow that nothing is fo abfurd as a defire to confume foreign productions, and to forbid the exportation of the price of them. I alfo allow, that every reftraint laid upon exporting filver and gold, fails upon the confumer of foreign goods, and obliges him to pay the dearer for them; but this additional expense to the confumer, does not augment the mais of foreign debts. The debt due abroad will conftantly be paid with the fame quantity of coin, whether the exportation of it be allowed or forbidden, becaufe the lofs of thofe who pay the balance arifes from the rifk of confifcation of the money they want to export againft law; or from the high exchange they are obliged to pay to those who take that risk upon themfelves. In both cafes, the additional expense they are put to remains in the country, and is repaid them by the confumers; confequently, can never occasion one farthing more to be exported. Prohibitions, therefore, upon the exportation of fpecie, are not in every cafe fo abfurd as they appear at first fight. It is very certain that no body gives money for nothing; confequently, a ftate may reft affured that the proprietors of the fpecie, their fubjects, will take fufficient care not to make a prefent of it to foreigners. The intention, therefore, of fuch prohibitions, is not to prevent the payment of what people owe; but to prevent that payment from being made in coin or bullion; and alfo to difcourage the buying of fuch foreign commodities as must be paid in specie, preferably to others which may be paid for with the returns of home produce.

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When a flatefman, therefore, finds the balance of trade, upon the main, favorable to the country he governs, he need give himfelf no trouble about the exportation of the fpecie, from this fingle principle, to wit, that he is fure it is not given for nothing. But when the balance turns againft them, in the regular courfe of bufinefs, not from a temporary caufe, then he may lay refinations upon the exportation of fpecie, as a concomitant refitticion, together with others, in order to diminifh the general maß of importations, and thereby to fet the balance even.

In a trading nation, I allow, that no reftriction of that kind ought to be general ; because it then affects the useful and the hurtful branches of importation equally : but in Henry's days, the fale of corn and wool was fufficient to procure for England all it wanted from abroad; and the interefts of trade were not fufficiently combined , to enable the flate to act by any other than the most general rules. Forbidding the exportation of coin was found to promote the exportation of English productions, and this was a fufficient reafon for making the prohibition peremptory. In this view of the matter, did not Henry judge well, when he obliged the merchants who imported foreign goods, to inveft the price they received for them in English commodities? Once more I must fay it, he was not fo much afraid of the confequences of the money going out, as of the corn and wool remaining at home; had he been fure of the exportation of these articles to as good purpole another way, the prohibition would have been abfurd; but I am perfuaded that was not the cafe.

The example taken from France is this.

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After the fatal bankruptcy in 1720, by the blowing up of the Miffifippi, the trade of France languished from the effects of the inftability of their coin, until the year 1726, when it was fet upon that footing on which it has remained ever fince.

Upon that laft general coinage, the fame principles of enriching the King by the operation, directed the conduct of the minister.

The old specie was cried down, and proferibed in circulation : but it was thought, that as it was the King's coin, he had a liberty to fet a price upon it, at a different rate from any other bullion of the fame finenefs; and that he had alfo a right to command the proprietors of it to bring it to the mint at his own price.

The confequence was, that those who could, were very defirous to fend it to Holland, in order to draw back the value they had fent in bills upon Paris.

Under fuch circumstances, were not prohibitions upon the exportation of this coin most confistent with the plan laid down? We shall, in the next chapter, examine the confequences of this operation upon the exchange of France.

What has been faid, will, I hope, fuffice to explain fome of the principal motives which ftatefmen may have, when they lay reftrictions on the exportation of the metals, with a view to favor the trade of their nation.

But befides the interefts of trade, there are other reafons for laying prohibitions on the exportation of the national coin , although that of bullion be left free under certain reftrictions.

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As often as it happens, from whatever caufe it may proceed, that the value of a nation's coin falls to par with bullion of the fame finenefs, that coin, if exported, may be melted down. This is a lofs; becaufe it puts the nation to the expense of coining more for the use of circulation.

When nations give coinage gratis, or when they allow the coin of other nations the privilege of paffing current under denominations exactly proportioned to its intrinfic value, then coin never can be worth more than any other bullion of the fame flandard; confequently, will be exported or fmuggled out upon every occation.

If, therefore, a nation does really defire to avoid an expenfe to the mint, they mult make it the intereft of merchants to export every other thing preferably to their own coin. This is done by impoling a duty upon the coinage; and this will either prevent its going our tunneceffarily, or if it be neceffary to export it, the coin will return in the payments made to the nation, in confequence of its advanced value above any other bullion which can be fent.

The forbidding the exportation of coin, implies a refriction upon the exportation of bullion; becaufe; unlefs the bullion be examined at the cuftom houle, and the fhamps upon is looked at, it may happen to be nothing but the nation's coin melted down, with an intention to avoid the law. For this reafon, who-ever brings bullion to be fhamped, whether it be for exportation or not, mult declare that it is not made of the nation's coin. How flender a check are all fluch declarations? The only one effectual is private

intereft; and as no man will take his wig to fluff his chair, when be can get cheaper materials equally good, fo no man will melt down coin which bears an advanced value, when he can procure any other bullion.

On the whole, we may determine, that a flouriffiing commercial flate, which has, on the average of their trade, a balance coming in from other countries, fhould lay it down as a general rule, to facilitate the exportation of their coin, as well as bullion: and if a very particular circumflance fhould occur, which may continue for a flort time, they may then put a temporary flop to it, and facilitate the payment of the balance in the way of credit.

I have enlarged fo much upon the methods of romoving the firld difficulty of paying a balance, with the coin or bullion found in a nation, that what remains to be faid upon the fecond difficulty, to wit, the procuring them from other nations, need not be long.

Were the mint-weights of all countries fufficiently determinate; were the regulations concerning the flandard of bullion exactly complied with; and were the current market prices of that important commodity, confidered as a valuable piece of intelligence every where, the bullion trade would be much cafie than it is.

We have faid, that when the reciprocal debts of two nations are equal, there is no occafion for bullion to difcharge them. But trading nations are many; and from this it may happen, that one who, upon the whole, is creditor to the world, may be debtor

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to a place which is also creditor to the world; and in this cafe bullion is necessary to pay the debt.

If a man owes money to a perfon who has many ereditors, the perfon owing, may buy up a claim againft him, and pay what he owes in that way i but if the perfon to whom he owes money be indebied to no body, then the debt muft be paid with ready money. Jult foo f nations. For inflance, when bullion is demanded to be exported to Holland, the Englith merchants, who are creditors on Spain and Portugal, take from thence their returns in bullion, for the fake of paying a balance to Holland, which is, upon the whole, creditor to the world.

But as it feldom happens, that he who deals with Holland is the perfon who has credit in Spain or Portugal, he is obliged to apply to Portugal merchants to procure bullion. They again who trade thither, having profit on the returns of the commodities they bring from thence, will expect the fame profits upon the bills they give to the man who wants to take his return in bullion. This plainly raifes the price of bullion in the English market; because it is brought home in confequence of a demand from England. On the other hand , when the demands of England for Portuguele commodities is lefs than the value of what Portugal owes her, the Portugal merchants in London are obliged to take the balance in the metals. Thefe come to the London market, and are offered to fale to those who want them: then the price of bullion falls ; because the demand comes from the other fide.

To go through all the operations which merchants employ to abbreviate the process I have been deferi-Voz. IV. V bing, would, indeed, better explain the practical part of exchange, than what I have faid; but I write, not to influct merchants, but to extract from their complicated operations, the principles upon which they are founded.

C H A P. IV.

How the Price of Exchange, in a profperous trading Nation, may be prevented from operating upon the whole Mafs of reciprocal Payments; in place of affecting the Balance only.

WE have taken it for granted, that the price of exchange is a hurt to trade in general.

In this chapter, we fhall inquire more particularly than we have done, in what that hurt confifts. The point of view of every man, whether he be a merchant or not, is firft honefly, and asfaraslaw and fair dealing permit, to confult his own private intereft; and in the fecond place, to promote that intereft with which his own is most closely connected.

According to this rule, every merchant will endeavour to manage his exchange bufinefs to the beft advantage to himfelf. If the balance be againft his country, he will fell his bills on the country creditor as dear as he can; that is, he will endeavour to raife the price of exchange as high as he can againft his country, whatever hurt may thereby refult to the general trade of it; and in of doing, he only does what duty to himfelf requires; becaute its by

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minding his bufinefs only, that he can trade upon equal terms with his neighbours, every one of which avail themfelves of the like fluctuations, when they happen to be in their favor.

From this I conclude, that fince the lofs upon high exchange again it a country, affects principally the cumulative intereft of the whole, relative to other trading nations; it is the bufinefs of the flatefman, not of the merchants, to provide a remedy again it.

The whole clafs of merchants, no doubt, exchangers excepted, would be very glad to find the courfe of exchange conflantly at par. This is also greatly the intereft of the flate; becaufe it is from the balance in its favor, not from the profit made in drawing that balance from the debtor, that the flate is a gainer. This mult be explained.

I am to fhow how it happens, that a nation is only benefited or hurt by the net balance which it receives from, or pays to her neighbours i and that the whole expenfe of paying or receiving that balance, is not national, but particular to individuals at home; confequently, it would be the intereft of all flates, that balances, both favorable and unfavorable, were paid by the nation debtor, at the leaft expenfe polible.

. The great difficulty in communicating one's thoughts upon this fujc? with diffinences, proceeds from the ambiguity of the terms neceffary to exprefs them. This may be avoided by adopting the technical terms of merchants; but thefe are fuill more difficult to be comprehended by any one not coverfam

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in commerce. I shall acquit myself of this difficult task the best way I can.

When we fpeak of a balance between two nations, we fhall call the nation who owes the balance the nation-debtor; the other to whom it is owing, the nation-relation.

Balances imply reciprocal debts; confequently, reciprocal debtors and creditors. To avoid, therefore, confulno in this particular, we final ufe four exprefiions, viz. the debtors to the nation-creditor; the debtors to the nation-debtor; the creditors to the nation-creditor; the creditors to the nation-debtor.

Let me fuppofe that Paris owes a balance to London, no matter for what fum. The receiprocal debs between Paris and London are all affected by the confequence of this balance : that is to fay, fome pay or receivel. To difcover where the profit centers, we are now to inquire who are thole who receive more, who are thofe who receiveles. And as profit and lofs are here only relative, that is to fay, the profit of the one is compenfated by the lofs of the other; we muffee whether or not, upon the whole, the price of the exchange in this cafe be favorable to London, to which, by the fuppofition, the balance is due, and unfavorable to Paris, which is the debtor.

The question thus stated, let us examine the operations of exchange at London and Paris, and the state of demand in both, for money or bills.

In the London market, the demand will be for money in London for bills on Paris; and he who demands, must pay the exchange; confequently,

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the London merchants, creditors to the nation-debtor, will pay the exchange; that is to fay, they will fell their bills on Paris below par; and the London merchants, debtors to the nation debtor, will buy them, and gain the exchange; that is, they will buy bills upon Paris below par.

Now as this negociation is carried on at London, I muft fuppofe it to take place amongft Englifhmen; one part of whom will gain exactly what the other lofes; confequently England, in this refpect, neither gains or lofes by the exchange paid in London.

Let us next examine the intereft of the merchants, and the intereft of the nation's trade.

The creditors to the nation-debtor, who have loft by the exchange, are thole who have exported Englith commodities to France. Upon this profitable branch of commerce the exchange occasions a lofs, the confequence of which is, to difcourage exportation.

The debtors to the nation-debtor, who have gained by the exchange, are thole who have imported French commodities to England. Upon this hurtful branch of commerce, the exchange occasions a profit; the confequence of which is, to encourage importation.

This is not all. The merchants exporters, who have loft, cannot draw back their lofs upon the return of their trade, becaufe the returns of their trade is the money due by France, the Malance included. Whereas the merchants importers may draw back their lofs upon the return of their trade; becaufe that return is merchandize, which they can

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fell fo much the dearer to their own countrymen.

If the balance be in favor of London, importers gain, as we have feen; when it is otherwife, and when they are obliged to pay the exchange, they indemnify them[clvcs], by the fale of their goods fo much the dearer. High exchange, therefore, may hort exporters, but never can hurt importers.

Let us next examine the operation of exchange at Paris.

In the Paris market, the demand will be for bills upon London for money in Paris; and he who demands muft pay the exchange. The debtors, therefore, to the nation creditor, muft pay the exchange, and the creditors to the nation-creditor will receive it; and as both are Frenchmen, the profit and lofs to Paris exactly balance one another.

But the debtors to the nation creditor are here the importers of English goods; confequently, this trade, hurtful to France, would be hurtful to the importer, could he not indemnify himfelf by felling them formuch the dearer to his countrymen.

The creditors, again. to the nation-creditor, who gain the exchange, are the exporters of French goods to England; fo that here the exportation meets with an encouragement from a balance againft the country.

From the advantage found upon exchange in favor of exporters, and the lofs upon it to the prejudice of importers, in the cafe of a wrong balance, it has been believed, that a wrong balance produced upon importations and exportations are effects equal and contrary, which deftroy one another, and thereby bring the balance even.

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In anfwer to this, I have two fhort arguments to offer.

The first is, that' were the argument conclustive, it would hold good in reverting the proposition; to wit, that the confequence of a favorable balance would be to deftroy the difference alfo, and bring the balance even. This I never heard alledged.

My fecond argument is the ftrongeft: that the enhancing of the prices of importations will not fo effectually difcourage the faile of them at home, at the enhancing, the prices of exportations will difcourage the faile of them abroad; for the reafons I fhall give prefently. But in the mean time,

If the compenfation be confidered only in relation to the merchants importers and exporters, there, indeed, I agree, that *their* profit and lofs upon the exchange is most exactly balanced; because what the one party gains the other lofes; and the country lofes the balance only, as has been faid.

The reciprocal debts thus tranfacted by bills of exchange, we fee that no profit can be made, nor lofs incurred, either to London, or Paris, by that operation.

The profit to Frenchmen is compendated by the loss to Frenchmen; the fame may be faid of the English merchants: but the balance due after thofe operations are over, and the more remote confefequences of high exchange, affect the relative intereft of the two nations.

This balance is generally fent by the countrydebtor, either to the country-creditor, or to their

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order in a third country, to which they are indebted.

The transportation and infurance of this balance is an expense to those who owe it, and the profit, if any there be on that operation, naturally falls to exchangers of the fame nation, who conduct it. So whether exchange be paid upon bills drawn, or expense be incurred in the transportation of balances, mo profit can accrue upon that to the nation-creditors to the detriment of the debtor: it mult, therefore, do hurt to both, relatively to nations where, upon the average of trade, exchange is lower.

I come now to the method of transporting balances in the metals.

We have feen how the creditors of the nationdebtor pay exchange upon the fale of their bills on Paris, which owes the balance. If by the operations of exchangers, this exchange fhould rife, to their detriment, higher than the expense, 'trouble, and infurance, of bringing the balance from Paris, then they will appoint fome factor at Paris, to whofe order they will draw billsupon their debtors in that city; and as what the Paris-debtors ower do London is flated in pound fterling, sthe London-creditors will value the pound fterling, cacording to the rate of exchange, in their favor; and in their bills upon their Paris-debtor, they will convert the finn into livres including the exchange.

By this operation, we fee how the transportation of the balance may become the bufines of the creditors to the nation-debtor: which is a combination we have not as yet attended to: a few words will explain it.

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When the creditors of the nation-debtor fell their bills, they mult pay the exchange, as has been faid. When they draw bills to the order of a friend in the place where the balance is owing, they fuperadd the exchange. This their debtors pay but then they themfelves mult be at the trouble and expense of bringing home the money.

It is from this alternative which both parties have of either fending what they owe to their creditors in bullion, or of allowing them to draw for it at the additional expende of paying the exchange, that a check upon the extravagant profit of exchangers arifes: and from this combination arifes all the delicate operations of drawing and remitting.

Into these we shall not inquire: the principle on which they depend appears sufficiently plain, and this is the principal object of our attention.

I proceed now to confider how far thole reciprocal profits and lolles, between merchants in the fame country, affect the trade of it in general.

When the balance is favorable, we have faid that the exporters lofe the exchange, and the importers gain it, and both being citizens, the country would not be concerned in their relative interefts, were it not that thefe interefts are connected with that of the country, which reaps great benefit from the trade of thofe who deal in exportations, and lofs from the other.

If, therefore, exchange is found to hurt exportation, when the balance is favorable, in this refpect the country has an intereft in bringing it as low as poffible. But as it may be faid that fince the return of an unfavorable balance hurts in its turn the interefts of importation, and favors the other, exchange thereby operates a national compendation; it will not be improper, in this place, to throw out one reflection more, in order to deftroy the firength of that argument.

Were this proposition admitted, as I am afraid it cannot, from what we have already faid, it affords no argument against doing what can be done, to render exchange as little hurtful as poffible to exportation, during the favorable balance. But as to the queftion itfelf, of national compensation, I cannot allow that even exporters and importers are thereby brought on a level in point of trade: for this reafon, that the exchange affecting the exporters, in proportion as it augments, difcourages manufacturers, who must have regular, and even growing profits, according to the increase of demand. These the merchant exporter cannot afford; because he cannot draw back from his foreign correspondents, any advance upon manufacturers at home, arifing from domeftic circumftances. But when the merchant importer is affected by the exchange againft him; this additional expense he can draw back; becaufe he fells to those who are affected by all domeftic circumftances.

Let us therefore determine, that it is the intereft of a flate to difregard that compendation which is given to exportation by a wrong balance, which does fo much harm ; and to avoid the difcouragement given to it by a right balance, which does fo much good. The only way to compafs thefe ends, is to keep exchange as near to par as pollible.

CHAP. IV. POLITICAL ECONOMY.

Could reciprocal debts be always' exchanged at par, and could the expense of bringing home, and fending a balance abroad, be defrayed by the flate; I think it would prove a great advantage to the trade of a nation. I do not pretend to fay that, as matters fland, the thing is practicable; but as it is a queftion which relates to my fubjed; and feems both curious and interefling. I fhall here examine it.

At first fight, this idea will appear chimerical; and fome readers may defpife it too much, to be at the trouble to read what may be fail for it. I thall therefore fet out by informing them that the foheme has been tried, in a great kingdom in Europe, under a great minister: I fay it was attempted in France, in the year 1726, under the administration of Cardinal Fleuri, and produced its effect; although it was foon given up, from a circumflance which, I think, never can occur in Great Britain.

After the laft general coinage in France, 1726, exchange became fo unfavorable to that kingdom, that there was a general outcry. The Cardinal, to put a ftop to the clamor, and fet trade to rights, as he thought, ordered Samuel Bernard, at that time a man of great credit, to give bills on Holland at par, to all the merchants. To enable him to place funds in Amflerdam, for the payment of bis, bills, the Cardinal fupplied this exchanger with fufficient quantities of the old coin, then cried down, aft paid for the exportation of it to Holland.

Upon this exchange on Holland came to par; and all exchangers at Paris looked on the operation with amazement. The minister, however, in a short

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time difcovered, that by this he was undoing with one hand, what he wanted to eftablifth with the other. He therefore flopped in his career, after having paid, perhaps, ten times the balance due to Holland.

By unfolding the combination of this operation, I fhall be better able to caft light on the queftion before us, than in any other way.

When the general coinage was made in France . by the arrêt of the month of January 1726, all the old coin was cried down, and ordered to be recoined. The mint price of fine gold per marc was fixed at 536 livres 14 fols 6 deniers ; and the filver at 37 livres 1 fol odeniers. Thefe were the prices at which the mint paid for bullion when offered to be coined. But the King . as if he had a right upon the metal in the old coin . commanded it to be delivered at the mint at no higher rate than 492 livres for the marc of fine gold, and at as livres for the marc of fine filver : and to compel the poffeffors of it to bring it in , all exportation and melting down was made highly penal ; the avenues from France were befet with guards to prevent the going out; and the melting pots were ftrictly watched. Upon this, the poffeffors of the old coin, rather than fell it to the mint at fo great an undervalue, had recourfe to exchangers for bills upon Holland for it : and thefe being obliged to fend it thither at a great expense and rifk, exacted a very high exchange, which, con-Requently, affected the whole trade of France.

Politicians perfuaded the Cardinal, that exchange had got up fo high, not from the diferedit caft on the old coin, but becaufe of the wrong balance, and the alteration which had been made at that time upon

CHAP. IV. POLITICAL ECONOMY. 317

the denomination of the new : and that fo foon as the balance against France was paid, exchange would return to par. Upon this the Cardinal fet Bernard to work, but he foon difcovered his miftake; and by arrêt of the 15th of June the fame year, raifed the mint price of the old coin, and then exchange became favorable.

Thefe are all facts mentioned by Dutot, and yet he never will afcribe the rife of exchange in France to any other caufe than to the tampering with the denominations of their coin : an operation which may rob one fet of people in favor of another ; but which has very little effect upon exchange, when other circumftances do not concur, as in the cafe before us.

Now had the high exchange against France been owing to a wrong balance upon her trade, is it not evident that the Cardinal's operation would have fucceeded, that all demands for bills at Samuel Bernard's office would have been confined to the exact extent of that balance; that the reciprocal debts would have * been negociated between the merchants at par ; and, confequently, that all expense upon exchange would have been faved to individual, at the fmall charge to government of transporting the balance paid for the bills by the merchants at Paris ?

Were profperous trading flates, therefore, conducted by flatefmen, intelligent, capable, and uninfluenced by motives of private intereft, they would make it a rule to be at the expense of fending off. and bringing home all balances, without the charge of exchange to traders : but the confequence of either
neglect, or incapacity in the man at the helm, would then become fo fatal that it might be dangerous to attempt, at once, fo great a change in the prefent method of paying balances: but I never make allowances for the defects of a flatefman, while I am deducing the principles which ought to direct his conduct.

I fhall next flightly point out the bad confequences which, upon an unfavorable flate of commerce, might refult from fuch a plan; and without recommending any thing to practice, leave the reader to judge of the expedience,

We fee, that by a ftatefman's giving bills at par, on all occafions, and being himfelf at the expende of transfortation and infurance, in bringing home and fending off all balances, exchange would of itself come to par.

The first confequence of this would be, the total annihilation of the exchange business; and if, after that, any interruption fhould happen by neglect in the flatefman, trade might fuffer confiderably.

Another confequence is, that the moft deftructive trade would go forward without a check, a slong as merchants could pay the par of the bills they demanded upon foreign parts: and this they would conflantly be enabled to do, while there was either coin or paper in circulation, as has been explained in treating of banks of circulation upon mortgage.

The confequence of this would be to oblige the flate to pledge the revenue of the country to ftrangers, in proportion to the balance owing, overand above the extent of themetals to difcharge it.

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Now the queftion is, and this I fhall leave to the fagacity of my reader to determine, whether, as matters fland, there be any check proceeding from high exchange which can prevent the bad confequences here fet forth. I fufpect there is not. We fee the most enormous fums lent by nations to nations; railing the exchange against the lenders; turning it in favor of 'the borrowers, but never preventing the loan from going forward. Does not Great Britain, as well as France, owe amazing fums to other nations at the expense of paying the intereft out of their revenue? And have not all thole fums been transacted by exchangers, who have made great fortunes by it? Are not the most unfavorable balances paid in the ordinary method? Are there not, therefore, already inftruments in the hands of all nations, fufficient for their undoing? How could their ruin be accelerated by this alteration in the mode of performing the fame thing?

But let it be obferved, that our bufinefs, in this chapter, is to fearch for methods to advance the proferity of flourifing nations, who have a balance owing to them; and here we have been fetting forth the bad confequences which refult from *lkefs*, to others who are in decay. Every argument, therefore, drawn againft this fcheme, in favor of the idle or prodigal, is an argument in favor of the idle or prodigal, is an argument in favor of the advance to the indultious and frugal. As all nations are liable to alternate vicifitudes of profperity and adverfity, the principles here laid down require to be carefully combiPRINCIPLES OF BOOK IV. P. 3.

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ned with domeftic circumftances, before they be applied to practice

It was with a view to this difinction, that, in the title of this chapter, I pointed out the queffion there proposed, as relative to the flate of it in a *profprous trading nation*, and I am not quite clear how far it might not be advantageous in evey cafe: but this queffion I fhall not here enlarge upon. What has been faid, will, I hope be fufficient to point out the principles upon which the decifion depends, and if any flatefinan inclines to try the confequences of it by an experiment now and then, nothing is for early as to it without any detriment. This is proved from the operation performed by the French cardinal, on the occalion of a very unfavorable and high exchange.

CHAP. V.

How, when other expedients prove ineffectual for difcharging of Balances, the Jame may be paid by the Means of Credit, without the Intervention of Coin or Bullion; and who are those who ought to conduct the Operation.

WE have now applied the principles formerly laid down, towards diffeovering the moft proper expedients for removing or palliating the three inconveniences to be fruggled with in regulating exchange. 1. How to effimate value of a balance due: a How to pay it with the coin or bullion of the country: and laftly, How to prevent the price

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price of exchange from affecting any thing more than the balance to be paid, after all reciprocal debts have been compendated.

It remains to inquire, what are the moft proper methods to acquit what a nation may owe, after it has done all it can to pay the value of their balance in the other way.

At first fight, it must appear evident that the only method here is to give fecurity and pay interest for what cannot be paid in any other value. This is constantly done by every nation; but as the ordinary methods are very perplexed, and are 'attended wirh expenses which raife exchange to a great height, and thereby prove a prodigious diffouragement to trade in general: it would be no finall advantage, could all this loss on exchange be equally thrown upon every class within the flate, inflead of being thrown entirely upon its commerce.

As this is the expedient to be propoled, it will not be amils to obferve, that foreign balances arife chiefly upon four articles. 1. The great importation and confumpion of foreign productions. 2. The payment of debts and intereft due to foreigners. 3. The lending money to other nations. And 4, the great expende of the flate, or of individuals abroad.

Could all the bad confequences arifing from thefe four caules, and the high exchange occafioned by them, be caft upon that intereft alone which occafions them. I would not propofe to lay the whole body of the nation under contribution for repairing the lofs.

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But if from the nature of the thing as matters fland, the whole be found to fall upon trade, without a polfibility of preventing it, in this cafe, I blink, it is better for the nation, in cumulo, to lend its affiltance, and thare the burdens, than to allow it to fall upon that part of the body politic from which the whole draws its vigor and profperity.

It cannot be deniced, that when a heavy balance is due by a nation, it has the effect of raifing exchange upon every draughtor remittance. When bills are demanded to pay a foreign claim, it cannot be determined from what caufe the claim has arifen. Whether for national purpofes or not, the exchange is the fame, and equally affects the whole intereft of trade.

If this be a fair ftate of the cafe, I think we may determine, that fuch balances are to be paid by the affiftance and intervention of a ftatefman's administration.

The object is not to great as at first light it may, appear. We do not propole that the value of this balance flowld be advanced by the flate: by no means. They who owe the balance mult, as at prefent, find a value for the bills they demand. Neither would I propole fuch a plan for any nation who had, upon the average of their trade, a balance againft them, but if, on the whole, the balance be favorable, I would not, for the fake of faving a little trouble and expende, fuffer the alternate vibrations of exchange to diffurb uniformity of profits which tends fo much to encourage every branch of commerce.

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We have abundantly explained the fatal effects of a wrong balance to banks which circulate paper; and we have flown how neceffary it is that they fhould perform what we here recommend, There is therefore nothing new in this propofal : it is only carrying the confequences of the fame principle one Rep farther, by pointing out, a as branch of policy, how government fhould be affifting to trade in the payment of balances, where credit abroad is required; and this affiftance fhould be given out of the public money.

The greatest, and indeed, I think, the only objection to this fcheme, is, that by it the condition of our foregn creditors will be bettered, for no value received from them. This I allow will be the cafe when the balance is againft England : but it will be compenfated to the creditors by the lofs they will fustain when the balance is in her favor. But fuppoling there should be a benefit to foreign creditors, will not this circumftance raife the confidence of all the world in the English funds ? If there was a propofal made for lowering the rate of money. by refunding the debts which bear a higher intereft than what money can be procured for, were the continent to pour her wealth into our fubfcription, might we not then more readily expect a fupply from that quarter ? Belides, is not all the intereft due to foreign creditors paid in bank - paper? Is not this demandable in coin, and will not this coin be exported, if credit be not found? Were the bank of England to keep a fubfcription open. at all times, in Amsterdam, for money to be bor-X 2

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rowed there on the payment of the intereft in that city, who doubts but loans might be procured at much lefs expende than at prefent, when we beat about for credit every where, until by the return of a favorable balance upon the trade of England, the thall be enabled to fill up the void. I feel my own infufficiency to unfold the many combinations which fuch an operation muft imply. I therefore fhall not attempt what, at any rate, I must leave imperfect. What has been faid, combined with what has been thrown out on the fame fubject, in treating of other matters, is fufficient to give a hint, as to the expediency of the plan in general. And as to the objection which arifes from the payments to the public creditors abroad, I fhall referve the more ample difcuffion of it till I come to confider the doctrine of public credit.

END OF THE FOURTH VOLUME.



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