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L E T T E R S  
O N  
C R E D I T.

THE SECOND EDITION.

WITH A  
P O S T S C R I P T,

AND A  
SHORT ACCOUNT OF THE  
BANK AT AMSTERDAM.

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*By JOHN HOPE, Esq.*

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L O N D O N:  
Printed for J. DEBRETT, (Successor to Mr ALMON),  
opposite Burlington-House, PICCADILLY.

M.DCC.LXXXIV.

TO THE RIGHT HONOURABLE  
THE EARL FITZWILLIAM.

My LORD,

THE more sincere men are in their desire to serve the State, the more earnestly they will seek every information, for that purpose, which it is in their power to procure. I am sure, therefore, of your Lordship's attention to these Letters; and, I trust, the subject will also recommend them to your friends.

I am, with unfeigned respect,

My LORD,

Your LORDSHIP'S much obliged

and most affectionate humble servant,

JOHN HOPE.

DEC. 1. 1783.

## ADVERTISEMENT.

THOUGH these Letters were written about the time of the failure of the Bank of Aire, and of many capital Houses in London, the subject of them, in a trading nation like this, can never be out of season. I have therefore ventured to republish them in the original form, in which, Mr Woodfall told me, they were relished by his readers; and in which their dry subject will be more agreeably read, than if it was considered in a regular dissertation.

LETTERS ON CREDIT \*

LETTER I.

S I R,

THE causes of the extensive credit complained of by E. M. I apprehend to be,—a scarcity of money among the trading part of the nation; our large exportations to our Colonies in America and the West Indies; and the income of the richest part of our purchasers, or consumers at home, consisting in rents or annuities received at periodical payments. I explain myself thus: In Holland and Flanders, where money is plenty, the interest

\* Originally addressed to the Printer of the Public Advertiser.

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terest of it, as it was but lately, is often as low as three and an half per cent. and the longest credit, given for goods bought in Holland, is but six weeks, at which time they must be paid for as punctually as a bill of exchange. The case is very different with us; no merchant can borrow money under five per cent. and no American or West Indian merchant can fulfil all the orders of his correspondents, without asking credit of his tradesmen till there is time to expect his returns. Hence proceeds the long credit given for goods, from nine months to two years. But E. M. would be for confining every merchant to trade within the extent of his own capital. To do that, he must first enable our Colonists to pay off their debts to the mother-country; and he must next give time for their sugars, their coffee, their tobacco, their rice, and all their products, to come to sale, before their factors here should send them a bale of goods. Our manufacturers at home would not thank him for his counsel.

The

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The intended reformation would take several years in completing; and half our manufactures would, in the mean while, be at a stand. When it is considered, that, in the instance of the credit given our Colonists, it is only giving time for the poor in America to pay, with the labour of their hands, the poor of our mother-country for their hard-earned work, what honest Briton would vote for its being curtailed? The first inhabitants of America and the islands must have had little else but credit to have enabled them to settle; and although that original debt be paid off, a like credit must necessarily be continued, for the increase and improvement of their plantations. Yet I own it may be abused, more from ignorance than design. A merchant here may trust planters that are not punctual in their returns, and be so far indebted to his tradesmen, as not to be able to answer their regular demands with his own stock. The manufacturer is then distressed, though he seldom meets with a total loss.

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Our Gentlemen of landed property come next under consideration, as the principal promoters of long credit. A young man may inherit an estate of five thousand a-year, and yet have not twenty pounds of ready money at command. What is he to do to live till the day comes when he is to receive his rent? He must certainly avail himself of the credit which E. M. would abolish; and so must every gentleman of landed property, that either inherits an incumbered estate, or has not ready money at command. E. M.'s scheme, then, for confining the retail business to ready money, is entirely chimerical, and will gain *his* judgment no *credit* in the opinion of any sensible man. What he says on the subject of discounting *fititious* bills, I hope will not increase the difficulty of discounting other bills at this time of public distress: for we have seen, that, where there is a scarcity of money and an extensive trade to foreign parts, there must unavoidably be an extraordinary stretch of public credit; and one chief link, in that chain

chain of credit, is, the discounting of bills by our national bank.

## L E T T E R II.

S I R,

**Y**OUR correspondent E. M. in his third letter to you, asserts, "That CREDIT, public or private, is a most destructive cancer in any state;" and this he vainly defies any one to contradict. He has thrown down his gauntlet, he says, and no champion has been so bold as to take it up. But I have already entered the lists with him; I have taken up his rusty gauntlet, and I have also had one run at him with my lance. I shall now renew the combat; but before I put spurs to my steed, I here accuse him, before the tribunal of the public, as a traitor to the state.—And thus I make good my charge.

By credit I understand the trust that one  
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man gives another in money or in goods, and the confidence thereby put in the honesty or solidity of the borrower by him that lends. \* This credit, so essential to the welfare of every trading state, your correspondent E. M. has been attempting to destroy; and not satisfied, in these times of diffidence or distrust, with attacking the credit of *individuals*, he wickedly labours to undermine the credit of the *state*.

Having in my last shewn, that it is absolutely impossible without credit to carry on the retail business, I will now endeavour to demonstrate, wherein credit, in the wholesale business, is beneficial to the subject; and wherein, as in public loans, of advantage to the state.

Suppose a merchant should have engaged the amount of his own stock in a venture beyond sea, and should perceive an opportunity of making a considerable profit by engaging in another venture, E. M. would in this case advise him to sit still, and let the opportunity slip. I, on the contrary, assert it to be justifiable in him

to  
\* *Proposé d'un Nouveau  
Système de Commerce  
Paris 185*

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to borrow and make use of credit, if he can. Let him apply, for the money he wants, to some rich landholder, who has a large sum lying idle at his banker's; if it is not *idle*, the banker has lent it to some other to trade with, which supports my argument equally well: but supposing the landholder's money to be entirely unemployed, and he lends it to the merchant in want, he must certainly know that this money is to be employed in trade; and he therefore willingly risks it on the industry, honesty, and success of the merchant, at the interest of five *per cent*. If the venture does not succeed, the lender and the borrower of the money may both suffer in the loss; yet many laborious hands will have been employed (as by the particulars of the invoice and account-sale will be seen) in the circulation of this money, which otherwise might have been locked up useless in an iron chest. But should the venture succeed to the merchant's wish, besides the having employed and fed a number of industrious people, he has the

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fatisfaction of returning his friend the money he borrowed, with profit and advantage to them both.

Suppose, again, that a merchant has his whole stock invested in goods sent to a foreign market, or in goods brought from abroad to sell at home, and that the prices of his goods have fallen, so that he cannot possibly dispose of them without a loss; he lets them lie in the warehouse, in the expectation of a better sale: mean while, he has parted with all his money, to answer the purchase of those goods; and the prices still continue to fall—Will E. M. in this case, oblige him either to sell with loss, or to sit idle till the markets rise, rather than make use of his credit to undertake any thing else, in which he foresees some advantage may be gained?—If E. M. will allow a merchant neither of the liberties I have cited, he certainly understands little of the subject on which he writes. A considerable part of the rents of the landed Gentry, and much of the monied property of these kingdoms, are circulated in methods

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thods similar to those above-mentioned, and are thus made subservient to the general benefit of the community in which we live.

Other instances of trust or credit might be given, that would, with their explanations, fill a book; but a column of your paper, Sir, is all that is allowed me, and I must be brief.—Every bill of exchange that is drawn, and every bill that is discounted, are credits given to the drawer, the acceptor, and indorser of those bills, till they are actually paid. Every cargo, that is ordered from Russia and the Baltic, is paid for by the credit which our merchants must ask of their friends at Hamburg or Amsterdam. The merchants of those places, by accepting the bills for the purchase of goods in the Baltic, confide in the honesty of the British merchants for their reimbursement at the time those bills are due: Would E. M. by his reasoning, destroy that confidence, and at this critical juncture distress our trade? I again aver it, he is a traitor to the state. But in detecting



detecting the fallacy of his reasoning on the national credit, I shall produce against him still stronger proofs.—We have only an ideal possession, says he, of one hundred and thirty millions; and he brings in other assertions to terrify the stock-holders out of their property, and to frighten the mortgaged people from lending on government-security in future. Whatever revolutions may hereafter happen in the government of this country, it will certainly be for the interest and security of our rulers, to regard as sacredly inviolable the national funds; for thereon will chiefly depend the faith and confidence of the people at home, and the credit to be given them by the inhabitants of the neighbouring states. Money or notes may be seized on as plunder by the different competitors for power, in the case of a civil war; but the debt, due by the nation to so many individuals, will find protection from the interference of some of those individuals themselves. Too many of the leaders of the opposite parties will be creditors of the state, ever to think

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of expunging the national debt; they must protect it, and keep their property secure.

Whilst, therefore, government-security remains, this sum of one hundred and thirty millions is as much a real possession as any property in silver or in gold. Its value is founded on the opinion of mankind, and on the difficulty of its acquisition, which alone make gold and silver of more estimation than copper or tin. Nor is that large sum absolutely lost to the nation, as E. M. would have us believe. The greater part of its value remains among us: I say of its value, for that sum never existed in these kingdoms in specie; it has been paid and expended at different times, and circulated in the manner following:—Suppose the administration (A. A.) have occasion for 1000l. To raise it on the public in general would distress the industrious merchants and mechanics (M. M.) who have occasion for their money. A. A. therefore apply to several landholders and rich dowagers (L. D.) to lend them the money, and only demand of M. M. their proportion

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of the interest on the 1000l. instead of the capital sum. Excepting what is expended in purchasing our naval stores, and in the supporting our forces abroad, the sum, borrowed by government, is circulated by our army and navy among our husbandmen and manufacturers at home. Our soldiers, indeed, are to appearance drones in the state, because they do no labour for the wages they are paid; but they protect the industrious in their work, and are therefore useful to the community at large.

Let not then E. M. so much lament the enormous amount of the national debt, as the deplorable state of human nature, that we cannot all inhabit this world in peace. War is, at one time or other, unavoidable; and the most easy and convenient method of carrying it on, is, by raising the supplies in loans from those who have a superfluity of money, and think it is safer to trust it to government-security, than to venture it with a merchant's trade. Those loans have certainly occasioned a scarcity of money among the trading part of the nation, because,

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cause, if we had been at peace, I take it for granted, much of their amount would have been lent out in trade; but then I consider, that raising the supplies within the year would bring on the trading people considerable more distress. By the first means, you only detain from them what they never obtained; by the second, you deprive them of what they actually possessed.

As I have mentioned the disproportionate quantity of money to the increasing trade and manufactures of this country, I cannot help communicating to E. M. a conceit of mine, that I believe, with his notions of public credit, will make him stare. It is briefly this: That I have long wished all the one hundred and thirty millions of national debt were owing to the Dutch, and our other good neighbours abroad; not because I would erase the account, or commit the bank-books to the flames, but because with this sum employed in our national trade, which would be so much more money brought into the kingdom, we should

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should make a profit of eight or ten *per cent.* ourselves, and could very well afford to pay three one-half *per cent.* to foreign states\*. This will seem a little absurd to them who only view the interest of the money owing to foreigners, as so much money lost to the kingdom; but by them who have any knowledge of our general and extensive trade, I flatter myself I shall be perfectly understood. At all events, I will not at present attempt to add any thing by way of illustration. I have already exceeded the extent of the column you allow me; but if you like my reasoning, I may perhaps continue this subject another time. Before I conclude, however, indulge me with a few words more to your correspondent E. M.

I would not have him imagine that the extraordinary fall of the stocks, during the war

\* Since these Letters were first published, the legislature has adopted the same idea, in passing an act which empowers the proprietors of lands in some of the West-India islands, to borrow money on mortgages to the subjects of foreign states.

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war, was owing to a diffidence of government security: it proceeded entirely from the increase of the funds or national debt, which, at every subscription, brought annually so many more sellers of stock to market; and, as idle money became scarce, and the purchasers decreased in number, the prices proportionably fell. Add to this the number of timid stock-holders, who, at every occasional fall of the stocks, will at all hazards sell out, and realize their share of the public funds through the dread of a greater fall. These temporary falls in the prices of stocks are certainly injurious to the fortunes of them, who, by contracts or agreements previous to the falls, are necessitated to sell: but, on the other hand, they, who bought in during the low prices of the stocks, now reap the benefit of their rise; they enjoy perhaps five *per cent.* for their money, besides the certainty of a great profit on their capital when they choose to sell out of the funds. It was the prospect of this high profit and interest that tempted so many foreigners to buy in-

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to our funds during the war; and their continuing since to fell out, has acted upon the prices like so much new subscription brought to market, for which there has not been a proportionate demand. But when the increase of our wealth, by commerce, shall have exceeded the amount of the stocks so forced into the market by the foreigners' precipitate sale, we have great reason to expect that the prices of the stocks will rise as high as ever they were at any past time.

Tedious as I have been, I cannot quit my subject without dropping a hint, which, if adopted by government, might hereafter prevent much public confusion and distress. In case of the books of the bank being destroyed, how are the creditors of the state to prove their claims? That consideration, I know, prevents many monied people abroad from investing their property in our funds; and I therefore humbly conceive it would add considerably to the public credit, if, instead of the receipts now delivered at the Transfer Office, (which are of little use,

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use, as being never called in) certificates, bonds, or receipts, were delivered to the purchasers, which should be produced and exchanged for others at every new transfer. This additional security from government to the proprietors of our funds, would, I confess, be attended with its inconveniences, which it would be impossible to prevent. It would make the transferring of stock more tedious and formal; which of course would be a great loss of time to our industrious stock-jobbers, and would, at the bank, occasion an expence of salaries to many additional clerks. But both E. M. and I have proved, that, sooner or later, the inconveniences consequent on war, every man must feel.

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L E T T E R III.

S I R,

**I**T is a duty incumbent on every one to be useful, in some shape or other, to the community in which he lives. As he, who follows any profession or trade, is benefiting the public at the time he is earning his bread; so he, whom Fortune has placed above the necessity of gaining a livelihood by his own labour, ought to dedicate his time to the service of the state. With this view, Sir, I have occasionally troubled you with my correspondence: though placed not in the last-mentioned situation of life, I have leisure enough to allot some hours to the service of my neighbours, if there is any thing in my reflections that can be of use. The uprightness of my intentions, which I believe you can

can sufficiently attest, and the national importance of the subject on which I write, ought to gain me the attention of my readers. Their confidence I would not ask; let their own judgments inquire if my reasoning is right. I proceed to some explanation of what I wrote you last.

I have said, that as war is at one time or other unavoidable, it is less distressful to carry it on by borrowing money of them who have abundance to lend, than by raising the supplies on them who have occasion for their money in trade. This led me next to assert, that as by these frequent loans to the public much money had been withheld from the trade of these kingdoms, which otherwise might have been lent to the merchant or manufacturer, it would have been for the general interest of this country if the whole of the national debt had been owing to the inhabitants of other states. The government, for example, instead of accepting the loan of 1000l. from a landholder in Lancashire, borrows that sum from a gentleman at

Antwerp or Amsterdam. The gentleman in Lancashire, disappointed of the government security, lends his 1000 l. to a merchant at Liverpool, who immediately gives employment to the manufacturer, by investing it in goods for the coast of Africa. Those goods are sold, or rather, at a prodigious advantage, exchanged for slaves; the slaves, again, are sent to the West Indies, where they are sold for bills of exchange on London. And thus a chain of traffic has been carried on, at a considerable profit, which the Liverpool merchant could not else have undertaken for want of the necessary funds.—Suppose, on the whole, he has made a profit but of 10 *per cent.* deduct the interest of the 1000 l. borrowed of the Fleming or Dutchman, and the remainder is so much gained to Great Britain. But the gain may possibly be more: for, observe, the bills given on London are for the proceeds of sugar, coffee, cotton, and other products of our islands sent to London, which, without the purchase of those slaves, would never have been cul-

cultivated; and great part of which products are exported again to foreign ports, are there sold, and are paid for by specie or remittances from abroad.—Should another 1000 l. wanted by government be borrowed abroad, and another landholder, instead of lending to the supplies, should lend that sum to a proprietor of lands in one of our new islands; with that money the proprietor buys slaves, stocks his plantation, and cultivates a track of land that would otherwise have lain waste. The maintenance of these slaves adds to the consumption of the salt-beef and butter of Ireland; their slight clothing, and little list of household-furniture, are supplied by the British manufacturers; and the produce of their labour is advantageously disposed of, as already mentioned. The same use would be made of 1000 l. lent to a Carolina or Virginia planter. Much of the rice and tobacco cultivated by him would be sold in foreign ports; and the remittances for the neat proceeds would be so much profit to the nation, after deducting the interest

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of the 1000 l. borrowed by government of the gentleman or merchant abroad. Again, if another 1000 l. were lent by a landholder to a merchant trading to Quebec, the merchant with that money purchases an assortment of goods of our manufacturers at home, those goods are sent by the merchants of Quebec into the inland parts of North America, and are bartered for furs with the natives, or are paid for by corn sent to foreign ports. This exportation of corn from Quebec, being but an infant trade, deserves but cursory notice; the furs, however, are mostly exported after they come to England, and are sold for the money of the inhabitants of other states. In support of my argument I need produce no more examples:

“ For when one’s proofs are aptly chosen,  
 “ Four are as valid as four dozen.”

PRIOR’S ALMA.

From the above I believe it will be sufficiently plain, that whatever sum of money is lent to our government by foreigners, is so much money lent to the nation to  
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trade with; for which we can afford to pay a reasonable interest, with great profit and advantage to ourselves.

It is also evident, that as the national debt has not been so borrowed of foreign states, it has been borrowed of our monied people at home, and has been withheld from our manufactures and trade. This has naturally occasioned a scarcity of money among our merchants and manufacturers; and that scarcity of money, again, has naturally caused all credit to stretch. By straining the cord, it will sometimes break; but let us not reason against the use of a thing from its occasional abuse. Every man is a judge with himself of its proper use: he is to determine if the paper that is offered him is good; he is to remember not to throw too much of his stock into one channel; and he ought to be provided against disappointment of payment in case of need.

Among the several causes of the extension of credit in these kingdoms, I have omitted one, that, I think, does particular

honour to the generous and unsuspecting minds of the natives:—They are of all nations the least difficult to treat with, and the most averse, through motives of personal interest, from distressing their neighbours; and thence partly their unbounded trust to one another.

I intended next to show, that, excepting what fictitious bills or notes are discounted, there is a real property somewhere for the value of all the paper-currency of the kingdom; but this, in the language of the pulpit, I defer to another opportunity.

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L E T T E R IV.

S I R,

WHEN Mr Locke sat down to write his Essay on the Human Understanding, he tells us, he imagined he should have comprehended his subject in a few sheets. But an essay-writer is in the state of

of a traveller in a wood. If his aim should be to get through his subject with the most ease and convenience to himself, he will be contented to follow the *beaten* track, as knowing that path must soon come to an end; if, on the contrary, his journey be in search of truth, he must be careful that he does not pass it in his way; and in this his search after truth, he will have so many bushes to beat, so many briars to remove, and so many sloughs to wade through, that it will be impossible for him to guess when he shall reach the plain. Happy if he does not bewilder himself, or impatiently leave truth behind!

With this apology for being so troublesome to you, Sir, and so tiresome to your readers, I continue the subject of my letter of last week.

I said in my last, that, excepting for *fictitious* draughts, promissory notes, or bills of exchange, there was a *real property* for all the paper-currency in the kingdom. Before I proceed to the proof of this assertion, it will not be improper to define to those



those not converfant in trade, what is meant by *fictitious paper*. If A. gives his note to B. at 12 days date, in exchange for B.'s note payable at 14 days date, and goes with this note of B.'s to discount it, or get money for it from C.—*that* is a fictitious transaction between A. and B. neither of whom may have property wherewith to repay C. his money, and so far it is of *fictitious value*: but if C. a man of real property, pays this note to D. for goods bought of him, it is then of *real value*; for C. in case of A. and B.'s failure, can take up the note with *his* money. In like manner, A. may make a draught on B. payable to himself, or order; B. to serve his friend, accepts it, though he has no property of A.'s in his possession; A. indorses it to C. and discounts it with him for money. *That*, again, is *fictitious* paper. So likewise is a bill of exchange which A. draws upon himself in the feigned name of a merchant in Edinburgh; he makes it payable to his friend B. and, after accepting it, he gives it to B. to get it discounted with C. and to bring

bring him the money for his or their common use.

Those are the three cases of *fictitious* paper, by which persons of real property may be defrauded out of their money: but if the security of either A. or B. be good, any one of those transactions I regard in the light of a loan on a man's promissory note; for which, if it should go through a hundred hands, there is a *real* value as long as there is a property subsisting to answer the note when it is due: however, law and form and equity require, that for every paper given in payment, value shall have been received; and that when C. lends his money on the security of two or *three* persons, he shall not find he has lent it on the security but of *one*.

Such *fictitious* paper has been of late but too much circulated, and it is certainly a great abuse of *credit*; but from the dread of that *abuse*, to want to abolish the use of credit, is little less than to desire to stop the circulation of the coin current in the kingdom, from an apprehension *that* coin may  
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be counterfeited by some of our Birmingham coiners.

I come now to that paper-currency of this kingdom, for the value of which there is, somewhere or other, a real property existing; I mean not all in specie or money, but in money, lands, products, manufactures, and all kinds of saleable commodities. I begin with a bank-note.

A. brings 100l. to the bank in specie, for which he receives a note of that value, N° 1: C. brings a bill of exchange to be discounted at the bank (B); who, having already discounted to the amount of its capital, gives him nearly the whole sum received of A. Thus the value of the note, N° 1. remains no longer with B. in specie; it is in the hands of C. or of them to whom he has paid the money. Another merchant D. brings a bill of 100l. to discount with B. for which, instead of money, he receives a note, N° 2.; where is the real property lodged for the value of this note? Not in the bank B. for we have supposed it to be nearly run out of specie;

specie; but in products and manufactures, in the possession of E. who had bought them of D. and for the value of which he had given a draught on F.; or else the value is in F. who trusts E. with the amount of the draught till he sells the goods and remits the money. But if the 100l. which D. discounted should only have been E.'s promissory note, then the real property for the bank-note, N° 2. is in the goods sold to E. or ultimately in money paid by D. to his labourers (if the goods should have been products of the country), or to his manufacturers, and the sellers of the raw materials, if the goods were manufactured. This money again, paid to the labourer or manufacturer, is ultimately repaid by the purchaser and consumer; and whoever views the harvests of our fields, the flocks of our meadows, and the rich stores of manufactures in our opulent cities, can never doubt the real value of our current paper. He will indeed, from the above case, perceive, that the bank itself, from imprudence, might happen to stop payment; but that

that would be but a temporary inconvenience, which other conveniences abundantly repay. I say, a *temporary inconvenience*: for though the bank might stop payment, from the directors having been so imprudent as to have issued too many notes of the nature of note N<sup>o</sup> 2. and from a run being made upon it for the payment of those and other notes which they had issued; yet, I take it for granted, it will ever be in possession of real property, though not of specie, sufficient to answer all claims that can be made upon it.

We see, then, the Bank of England, by being possessed of the confidence, and much of the property, of the nation, is become a kind of intermediate agent between the purchaser and manufacturer, and between the labourer and consumer; supplying the manufacturer with money to proceed in his business till he can find a ready sale for his goods; and providing the labourer, landholder, or cultivator of the land, with the means of improving and cultivating his estate, until it can produce

duce wherewithal to repay the debt. Of this last nature, chiefly, is the business of the banks in Scotland, which I meant to consider next; but my plan is broke in upon by two of your correspondents, who deserve some answer before I finish this letter.

E. M. mistakes me, when he supposes I looked down on him with pity and contempt, because only he differed in opinion with me. Grateful to my Creator for the reason he has given me, I assume no merit to myself, nor do I despise any man for differing in his judgment from mine.

It was the self-sufficient manner in which E. M. delivered his thoughts, that made me behold him with some pity and contempt. As he now says he will not oppose me in the field of credit, I retract my charge (which he so seriously takes up) of his being a traitor to the state. I will even join my forces to his to attack luxury, so far as it consists in extravagance, dissipation, and waste, which the abuse of credit greatly supplies.

E.

E. M. will not allow that any landholder will, now-a-days, trust a merchant or manufacturer with money. From many instances within my knowledge, I am certain of the contrary. But suppose the landholder himself will not lend the money, his banker will do it for him; else little would be got by his banking business.

Your correspondent H. L. is very much surpris'd I should affirm, "That the opinion of mankind, and the difficulty of their acquisition, make gold and silver of more estimation than copper or tin." He would certainly have been more amazed, if, instead of the word *opinion*, I had made use of *certain knowledge*; and instead of *estimation*, I had written *intrinsic worth*. But he will be pleas'd to recollect, that every man, who receives a guinea or a shilling, is not a gold-refiner or silversmith. He takes the money, through an opinion he has formed of its value from the knowledge and judgment of other people. Impress him with a belief that the metal or coin is base, and that he may get any quantity for

a few apples, and the estimation of it will be no longer high in his opinion. By difficulty of acquisition I meant, that a man must do so much labour, or part with such a quantity of goods, to obtain the possession of a certain piece of metal in exchange.

Not considering, then, in this received opinion of gold and silver, the *certain knowledge* of their superior uses to copper and tin, I believe my comparison, with regard to the public funds, will be allowed to hold good.

As long as we have an opinion of the good faith and security of government, a share in any public fund is a real property; because convertible, at our will, into any other property or possession, which, by sale, we can receive of our neighbours. In like manner are bank-stock and bank-notes real properties, as long as they are currently sold; from the opinion universally received of the solidity of the bank, which none but the bank-directors can certainly know. I have said a real property, in op-

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position to an imaginary worth; for I have shewn, that the value of bank-paper, tho' founded on opinion, has, in reality, a property in the kingdom to answer it; which, as much as gold and silver, makes that value good.

L E T T E R V.

S I R,

**T**HERE is one great inducement to a writer to communicate his thoughts to the public, through the channel of your paper, rather than in any publication of his own;—the certainty of having readers, or at least of being in the way of being read. But this manner of publication, I find, has also its inconveniences, which render periodical essays, on the same subject, not so easily understood.

Some readers have neither attention nor memory sufficient to retain the reasoning

ing on any argument continued from week to week; others, again, are possessed of so little patience, to follow out the reasoning themselves, or so little candour to allow the writer has capacity enough to do it for them, that, if he should assert any thing beyond their immediate conception, they confidently affirm it to be false, because he has not instantly produced his proof.—A writer in this situation must be pardoned repetitions; for, without them, he would be too liable to be misrepresented or misunderstood.

By my last letter it will have appeared, I admitted that the circulation, exchange, or transfer of property in bills, or in notes, may be greatly abused; but, excepting in those abuses, which amongst a trading people it is impossible to prevent, I affirmed, that a real property existed, somewhere, equivalent to all the paper currency of the kingdom; and this assertion I began to prove in the instance of the circulation of a bank-note. It will have also appeared, that I did not mean, the real property

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above-mentioned existed *all* in specie, but in money, lands, products, manufactures, and all kinds of saleable goods; but I will make myself still better understood by the following proof:—A farmer of Norfolk, F. sends a cargo of wheat to Rotterdam, and orders his correspondent there, R. to remit the neat proceeds of it to his friend L. at London; when the remittances come, L. discounts the bills at the bank, for which he gets bank-notes, with which notes he answers F.'s draughts on him for the remittance for the wheat. There is therefore a circulation of notes, suppose to the amount of 1000*l.* for the value of which no specie appears until R.'s remittances become due; M. the merchant on whom the bills from Rotterdam were drawn, must then find the specie to pay the draughts on him in the hands of the bank; but, instead of specie, he has only bills remitted to him by R. being draughts from A. at Amsterdam, on H. at London, for a cargo of hemp ordered from Russia, and paid for by A. These bills in the hands of M. being not yet

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yet due at the time he must pay R.'s draughts, he gets them discounted at the bank, who gives him notes for them, and with those notes he discharges R.'s draughts. —Thus 1000*l.* of bank-notes still remain in circulation, for which no specie has been paid; and the only property to answer them is A.'s draughts on H. in the possession of the bank. If H. has specie, with that he will discharge A.'s bills on him; but if he has not, the cash must be raised by a new circulation, which will last for several months, as the credit given at the sale of hemp is so long; and he will not receive, till the expiration of that credit, the payment for its sale. During this new circulation, the hemp remains the ultimate real property to answer the paper current on that account; or else, if we must have specie, we must look for it from the purchasers of the cordage or sail-cloth, into which it was worked. We see, however, by this transaction, that specie has neither gone out nor come into this kingdom. The the exportation of the wheat paid for the impor-

46 LETTERS ON CREDIT.

importation of the hemp: but as that exportation of wheat is now become a trade but little practised, we must expect specie from another quarter; we must expect it from Spain, in return for our woollen manufactures; and we must give time for our rice, tobacco, and other products of our plantations, to come to market, and be sold and exported again to Europe (all which is an extension of credit), until payment is actually made in specie.

In this account I do not include the exportation of our lead and tin, and of our steel manufacture; for our importation of wine, flax, hemp, timber, &c. perhaps exceeds the amount of all that is demanded, in the produce and manufactures of this country, from most states of Europe, excepting Spain. My present design is to inquire no farther into the balance of our national trade, than to show from whence we must expect the ultimate payment, or return, for our manufactures in specie; and by this and my former letter, I think, it has been sufficiently shown, that we must expect

LETTERS ON CREDIT. 47

expect that ultimate payment from Spain, at the returns of her bullion-ships from America; or from the products of our colonies and plantations, after they are sold here, and exported to other parts of Europe.

These returns, every one will perceive, must take up some time in completing; and the necessary trade to obtain them must be carried on with an *extensive credit*, as there is not sufficient specie in the kingdom.

A question here will naturally be asked me, Why is there not sufficient specie in the kingdom? If the reader will recollect, I allowed in a former letter, that though the whole of the national debt was not so much money lost to the nation, yet part of it had been paid away in supplying ourselves with naval stores, and in supporting our troops that were in service out of the country. As the sum so paid away must have, for several years, considerably exceeded the balance due to Britain from the rest of Europe, it must ultimately

## 48 LETTERS ON CREDIT.

mately have been remitted from this country in specie or in bullion; which, as I have before observed, must take several years in returning. I do not add, to this account, the share of our funds, which foreigners have sold out since the peace, and which would appear to have been also paid in specie or in bullion. *That* is not so much cash spent out of the kingdom. It was money lent us; and all of it that exceeded the amount of our remittances for our troops and naval stores, must have been formerly brought into this country in specie or in bullion. This we must suppose to have been the case, from the variation in the course of exchange between London and Holland: at the latter end of the war it was considerably in our favour, notwithstanding the sums we had to pay to Germany and the Baltic; but since the peace it has fallen against us, although we have no unusual expences on the Continent. I may, however, add another cause of the scarcity of specie,—the sums that have been exported to India; but we must expect

## LETTERS ON CREDIT. 49

pect to see them soon return to us, since, if not the trade, the revenue of that country is in our favour. I might also add, the specie that is exported to Holland for the sake of the profits on our gold and silver coin: but as the quantity, so exported, which exceeds the balance owing to Holland, and other countries, paid by the exchange to Holland, must return to England in bullion, to be coined again; or, according as the exchange may vary, will perhaps be sent back to England in the same identical coin;—I state, to the account of the specie lost to the nation, only the *profits* of this last exported money.

Having traced the circulation, or transfer of property, in a note of the bank of England, I need not enlarge on the indispensable use of credit, in the circulation of property, by means of the notes of other banks, and other trading companies, in this country. I shall only observe, that the notes of each of them are as current as gold and silver, within that particular circle where their respective solidity is known,



## 50 LETTERS ON CREDIT.

known, by some, or, through belief, received in the opinion of others.—I come now to the consideration of the paper currency of the banks of Scotland.—Having admitted that there was not a property, in specie, equivalent to all the paper-currency of England, no one can be so unreasonable as to expect it in the poor and barren country of Scotland. No such property, in specie, can there possibly exist. Though the balance of trade, between England and Scotland, should not be in favour of the latter; yet other causes drain that country of its money. Much specie must originally have come from Scotland, for the purchase of many estates in the new islands, paid for on the 'Change of London. The grand undertaking of buildings at the Adelphi must have swallowed up another considerable sum. The sixteen peers, and forty-five members of parliament, are not all placed or pensioned; the expences, therefore, of their annual journey to London must principally be defrayed by the income of their own estates.—Other noblemen

## LETTERS ON CREDIT. 51

noblemen and gentlemen of that country, who come to England, or go to the continent, for their amusement or improvement, must have their incomes remitted, for the expences of their journeys; and so much of the taxes of the country, as exceeds the payment of the civil and military expences of it, must also be remitted to England; so that, on the whole, the course of exchange is constantly against that country. But this is not all: It is fallacious to suppose, that when the premium given for a bill on London (deducting the merchant's commission) is remitted in specie to England, the account between the two nations is entirely settled; *that premium* is only a standard by which is shown what passes, *in bills*, among the commercial people. It remains to know, whether the cash collected in Scotland, by the English riders, in payment of the debts due to their masters, (the English grocers, manufacturers, and the like), does not amount to a sum, larger than what is carried out of England by the drovers, in payment

payment for the Scotch cattle. I would also have the landed gentlemen of Scotland consider, that all the cash they bring up in their pockets to England, is so much money entirely lost to their country. It nowhere appears in the account between the two nations; the balance of which has, hitherto, so erroneously been calculated by the premium, or course of exchange. They give no value for this cash; they levy it on their tenants, who, by that means, become tributary to England, as much as if they were a conquered people. The same reflection is applicable to the journeys of our English travellers through Europe. What is spent in the improvement of their minds may be regained to their country; but the sums that are squandered in pleasures, being much more considerable, I ought to have included them in the account of specie exported, and to this kingdom totally lost. England, however, has resources which Scotland has not. Scotland has neither produce nor manufactures sufficient to feed and clothe, for  
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any long duration of time, the inhabitants of other states. It is already drained of specie; thus a *real property* to answer the Scotch bank-notes, we must seek for in lands and effects. The effects, by which I understand all kinds of saleable goods, may be found as we traced them in the English notes. The lands appear answerable to the notes, in a practice which England has not. Some landed gentlemen, of unentailed estates, by binding that property, join with a few monied people in forming a bank. They issue notes in the common course of business, similar to those in England, and of which, therefore, we need not treat; but they also issue notes to persons, who have a credit or permission given them to draw on the bank, to a certain extent beyond the balance due to them on their accounts. As one man may have money in the bank, while another draws out, this, well directed, might be of general use; but it remains with the directors to tell if this is the whole state of the case. May we not suppose they have issued so  
many

many notes above the balance of specie in their hands, and so many people have failed to whom they had advanced money on credit, that they have brought themselves into distress. In such a situation, the notes cannot be immediately paid; the ultimate payment must be expected from the sale of their manufactures, and of some of their landed estates. In the mean while, a number of the noblemen and gentlemen agree to receive those notes in payment; and, by the concurrence of the people, they pass every where in the country as before. Here we see but an instant inconvenience, for the want of specie, in the internal commerce of Scotland. After the first disappointment, every thing goes on as it usually did. Certain pieces of paper, authenticated and registered at a public office, to have their value in the lands and estates of the country, are by the farmers received, in payment of corn and cattle, from the miller and grazier, because their landlord had promised to accept them in payment of their rent: the miller and grazier

grazier received the notes from the baker and butcher, because they knew the farmers would accept them: the baker and butcher received them of the shopkeeper or manufacturer, because they knew the miller and grazier would accept them; or the notes could be given in payment for goods to the manufacturer and shopkeeper again, who are under the necessity of accepting them of their customers, or of wanting the provisions of life. As long, then, as the trade of a country is confined within itself, we see no great inconvenience in substituting paper-currency instead of gold or silver coin\*. But that is not the case with Scotland: for, though the balance of trade should not be against her, yet we have seen, that, from other causes, the balance on the importation and exportation of specie must be considerably in favour of England; and supposing the specie to be now almost entirely exported from Scotland, how is the friendly or commercial intercourse

\* Since this was written, the paper-currency in North America has proved the possibility of the case.

intercourse hereafter to be carried on between the two nations? No man can carry Scotch notes to England (at least not farther than Newcastle), because they are not current there; and yet many gentlemen will be travelling up to London, who will want money to bear their expences, and many English riders will come with notes to the banks of Scotland, to receive payment for them, and carry the cash to England. Thus, though no immediate distress is felt in that country, an universal stop of payment must in the end ensue, if some precautions are not taken, and every man has not a little patience with his neighbour: and if this stop of payment should take place, the estates of some of the landed gentry must come to sale, to answer the payment of their current paper; and the estates of others must also come to market, if their banks must call in the credits given them, and which the gentlemen made use of to improve their lands. If the money is also called in, which the banks lent on credits to the merchants and

and manufacturers, it will bring on the latter immediate distress, without bringing to the former any relief till the merchants and manufacturers have sold their effects.

Thus, though the failing of one link is likely to bring the whole chain of credit to the ground, we shall find the original cause of its fall in the negligence of the workmen, who had undertaken to keep it in repair, not in the badness of the materials of which that chain was made.

I shall now sum up the argument, and conclude. I have allowed that *credit* has been abused: but I have also shown, that the use of credit cannot, in this kingdom, be abolished, as long as it proceeds from a scarcity of specie; our large exportation of manufactures to our Colonies; and the income of many of our purchasers and consumers at home, consisting in rents received at periodical payments. If, aiming at brevity, I have expressed myself in a manner not to be thoroughly understood, I hope the following comparison will se-

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cure my meaning from all misrepresentation. *Credit* is to this nation, at present, what a crutch is to a soldier crippled in the wars: part of the money, which he earned in the service, he has spent abroad; the rest is in the hands of the butcher, baker, shoemaker, and taylor, to whom he paid it, since his return from war, for the provisions or common necessaries of life: he is lame of one leg; but still he has the entire use of his hands, with which he can earn his bread: if you deprive him of his crutch, (because a drunken fellow of an impostor may make use of the same artificial support to lead a lazy life and beg), the poor honest veteran will fall to the ground at once; you rob him of the means of supporting himself till he recovers his former strength; you rob him of his present livelihood, and the prospect of retrieving the fortune he has spent; he may never be cured of his lameness as long as he crawls on the earth; he is liable to be trod upon by every passenger in the street; he cannot defend himself; he can never

never defend his country, or stand against its enemies again while he lives.

L E T T E R VI.

S I R,

**G**IVE me leave to trouble you with a few lines, in answer to a very proper question, put to me by your correspondent J. S. in your paper of the 23d instant: "How I could prove that a real property somewhere existed, to answer all the paper-currency of the kingdom, without I knew the exact quantity of that paper?"—Though I have already given some examples applicable to the subject, yet I should have made it more clear, by making a distinction between property to answer a note, or bill, by which every one recovers what is his due; and property to answer a note, or bill, by which some one must suffer a loss in the transaction.

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60 LETTERS ON CREDIT.

By excepting fictitious notes and bills in my former letters, I certainly did not mean to include them in the first class of paper; although I might then have made the remark, that as soon as value has been received for a note, and it has passed current, there is somewhere a property to answer it, even if the person who gave the note was not worth a shilling. For instance: A gives a note to B; and when it becomes due, A is found to be insolvent: B then loses the amount of the note; but the value of it, or the property to answer it, remains in the hands of those to whom A has paid the money away: If, on the contrary, A had only stopped payment when the note was due, and has debts to show, which are owing to him, for a sum above the amount of that note, then the property is in the hands of those debtors to A; and B suffers but a temporary inconvenience, by the payment of the note being delayed.

Thus it will be seen, that though the great quantity of paper-currency is a certain

LETTERS ON CREDIT. 61

tain mark of the scarcity of specie, and some individuals may lose their property in its circulation; yet it is also a sign of the general opulence of the kingdom in lands, manufactures, and all kinds of saleable commodities: for no paper can pass in that circulation without a real property having been exchanged for it; and a real property must therefore somewhere exist, equal to the amount of all the paper currency in the kingdom.

E 3 POST-

## P O S T S C R I P T.

IT is a saying, with the gentlemen of the law, that what has been once done may legally be done again. So, in the events of political history, (as similar causes will generally produce similar effects), we may figuratively say, that what has once happened may probably happen again.

Whoever remembers the low state of the funds at the former peace, and the failures that followed it, might have reasonably expected similar circumstances to happen at the present time. But the late bankruptcies in France, concurring with the causes assigned in the preceding letters in the lowering our funds, affect us in a manner peculiar and unforeseen. We may well

## P O S T S C R I P T. 63

well presume, that many of the monied people abroad had divided their property, partly in our funds and partly in the French loans. Now, suppose a merchant in Holland had drawn bills on France, to enable him to undertake a venture, which the war formerly prevented, and which the peace now lays open to him:—his bills are returned protested, and he is disappointed of his supply. He has then recourse to his share in the English funds, and at all events must sell out. Suppose, again, that another capital merchant, in Holland, keeps always a large share of our stocks, as a last resource, to answer any sudden demand. The failures in France, Stockholm, and Copenhagen, have struck him with a panic, and he does not know what may happen nearer home. He therefore sells his English stock, and lodges it in the bank at Amsterdam.—We can easily conceive that many such cases, happening at the same time, would sink the price of stocks to a considerable degree. And that such cases have happened, I have the

greatest reason to believe. I even suspect, that the French themselves have been selling hastily out of our funds, and have been withdrawing, for an immediate and pressing supply, the money they had invested with us.

The stock-jobbing trade has been universally censured as a most ruinous thing in the state. To some individuals it is certainly hurtful: but, whenever there is a permanent fall in the price of stocks, we may be assured, it can never be owing to the machinations of the stock-jobbers, (of those, I mean, who buy or sell stock, deliverable at a certain future time, without being possessed either of stock or a sufficiency of money themselves, and only paying the difference of the price at the time of settlement); but it is ultimately owing to the more or less demand for stock, by those who have money to vest in the funds; or to the more or less number of real stockholders who are willing to sell out of them. The same thing we see in the corn-trade at Amsterdam, where grain  
is

is bought and sold deliverable at a certain future time. As the quantity is so great that it baffles all attempts to engross it, the prices must be ultimately fixed by the more or less number of importers and consumers, of real buyers and sellers at the time of settlement. Were it otherwise, the Dutch are too prudent a people to suffer the gambling trade in corn to be legally carried on. The body-politic compared to the body natural, I have here only attempted to ascertain, as it were, the patient's disorder;—I leave it to the skilful to prescribe a remedy, and I hope they will effect a cure.

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A  
SHORT ACCOUNT  
OF THE  
BANK AT AMSTERDAM.

I HAVE, by inference, said, the quantity of our funds is so large, that no machinations, no combination of stock-jobbers, could affect their price to any great degree, or for any considerable time.

The bank at Amsterdam has alone the power to accomplish a permanent rise or fall in our stocks; provided the treasure in the stadthuys is at the disposal of the directors, which is a secret no one can tell. I will suppose, then, that the Dutch had an intention to hurt our national credit;— I think they could, in a great measure, effect it by gradually buying stock, in various names, and then suddenly bringing  
it

it all to market again for sale. Such a step, every one can see, would instantly sink our funds as much as they are now sunk, and would raise such a panic among the monied men, that our government would scarcely get a loan. This, I grant it, would distress many of their own subjects who have property in our funds, and would cost their nation a prodigious sum. But, besides inducing the rest of their people to keep their money at home, it would perhaps, at this juncture, be worth their while to try the longest purse with us; in order to quiet us for some time, embarrass our government, and, if possible, procure for themselves, in the definitive treaty, more favourable terms.

I am now led to give some little account of the bank at Amsterdam; as it may be agreeable to my readers in general, and will satisfy the inquiries of many of my friends.

The policy of the Dutch appears in nothing more remarkable, than in the establishment of their bank at Amsterdam.—

It

It is, there, by law directed, that the payment of all bills of exchange, exceeding the value of six hundred guilders, shall be made at the bank; that these payments shall be made by an order, to the cashier, from one man to transfer so much money from his account to the account of another; and that no money, once entered on account, shall ever be issued again; such sums excepted as are lodged in the bank to be kept in safe custody, for which the owner must pay a premium, and if they remain there above a year, they are then entered in his account, and are never suffered to be taken away.—These regulations must have brought an immense treasure into the bank of Amsterdam; for every one of its citizens, who has the least concern in trade, is of course obliged to have an account opened for him there; and as its directors and principal clerks are sworn to secrecy, there is no doubt but the state will (as it *can without* detection), make use of that treasure, whenever its exigencies may require.

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A person, on opening an account with the bank, either lodges a sum of money there, (which, as was before observed, can never be drawn out again), or buys a sum of bank-money, from another man who has an account open, for which he gives a premium of 3, 4, or 5 *per cent.* according as the market rules, and that premium is called the *agio*; so that, from the great demand for bank-money, one hundred guilders of it is generally worth 104 guilders current-money.

Instead of any interest being allowed by the bank, its creditors must pay 2d. for every transfer they make; which contributes to a fund for defraying its expences.

A speculative man will naturally say, If I lodge an hundred guilders current-money in the bank, and get credit for the same sum in bank-money, I may sell, or transfer it, and get an hundred and four guilders for my hundred, the very next day. True;—but if that become a general traffic, there would soon be no *agio*; for

for the sellers would presently exceed the number of buyers; and no man would give a premium for a transfer, when he wanted to lodge money in the bank on the same design of selling out again.

F I N I S.

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