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AN *L. C. G.*  
I N Q U I R Y  
INTO THE  
PRINCIPLES OF POLITICAL OECONOMY:  
BEING AN  
ESSAY ON THE SCIENCE  
*Lauderdale* OF *A. Politicks* ~~No. 4~~  
Domestic Policy in Free Nations.

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

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By Sir JAMES STEUART, Bart.

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*Ore trahit quodcumque potest atque addit acervo.* HOR. Lib. I. Sat. I.

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V O L. II.

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O F T H E  
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B O O K I I I .  
O F M O N E Y A N D C O I N .  
P A R T I I .  
T H E P R I N C I P L E S O F M O N E Y A P P L I E D T O T R A D E .

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C H A P . I .

*Consequences of imposing the Price of Coinage, and the Duty of Seignorage upon the Coin of a Nation, so far as they affect the Price of Bullion, and that of all other Commodities.*

**T**H E political œconomy of modern states is so involved with the interests of commerce, that it is necessary at every step we make, to keep in our eye the combinations which arise from that quarter.

Whatever tends to simplify an intricate theory, greatly affits the mind: dividing this book into two parts, seems, as it were, dividing the burden it has to carry: the principles already deduced may there ripen by a short pause, and the analogy of the matter which is to follow in the second part, where new combinations are taken in, will recall them to the mind and fix them in the memory.

VOL. II.

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I am

Intricacy of this subject.

I am now to examine one of the nicest principles in the whole doctrine of money, to wit, the effects of imposing the price of coinage, and the duty of feignorage upon coin.

When this question is considered in relation to all the combinations which arise, 1. from the nature of coin considered as a metal, and at the same time as a money of accompt; 2. from the influence this duty has upon the price of commodities; and 3. from the imposition of affecting, *directly*, the nation which lays it on, and all other nations trading with it *occasionally*: when all these combinations are taken together, I say nothing will be found more difficult than to reduce this question to a distinct theory.

What I have to say upon it has found a place in this inquiry, rather with a view to suggest ideas to men of a better capacity, than from the hopes of satisfying my readers in every particular.

Recapitulation of some principles.

I have said, that gold and silver are commodities merely like every other thing. I have shewn the utter impossibility of their being a scale, or an invariable measure of value. I have observed that their being made into coin (*among trading nations*) has not the effect of rendering them less a commodity than they were before, except so far, as by that operation every piece, instead of being valued by its own weight, comes to be in the mean proportion of all the pieces which compose the currency: and I have shewn how the operations of trade are capable to sift out and establish this mean proportion, in spite of very great irregularities. These are the principles laid down in the first part, which we must keep in our eye while we examine the question.

Since gold and silver, then, are commodities like every other thing, the invariable scale of value must measure *them* as well as every other commodity, and money of accompt must be considered in no other light, than as a scale for expressing the proportional value of grains of metals, yards of stuffs, pounds of wares, bushels of grain, or gallons of liquors. In this view, when we mention a hundred pounds, it is just as proper to consider this value relatively to the measure of any merchandize, as to the metallic measure of the coin.

coin. Every merchandize, when considered by itself, should be measured by its own measure, gold by grains, liquors by gallons, wheat by bushels, &c. The denominations of pounds, shillings, and pence, are only necessary for reducing all other sorts of weights and measures to an equation of value. This is what is understood by the universal scale of proportional value. I think this idea is sufficiently clear. X

Let us now suppose a country where the invention of coin is not known, and where a yard of cloth of a certain quality, is commonly sold for 100 grains of either silver or gold, no matter which. The state falls upon the invention of coining, the conveniency of which every body understands. This coinage, I suppose, costs 2 per cent. Coin is introduced, and commodities are ordered to be bought with it. I ask, what effect ought this revolution to produce upon the price of the cloth, according to strict theory, and without taking in any other combination of circumstances? I answer, that the cloth ought in reason to fall 2 per cent. that is, that the price of a yard ought to be a coin of 98 grains. Here is the reason: He who formerly had the 100 grains, had the value of the yard of cloth, and could change the one for the other when he would. Now he has the 100 grains, but he must give two grains to have it coined, before he can buy; because after this invention people will not trust to the weighing of private people, nor to the purity of the metals; but they will believe, upon the authority of the stamp, that in every piece a certain number of grains of the fine metal is contained. He, therefore, who has a coin of 98 grains, comes to the merchant, and offers him his coin for his yard of cloth; the merchant demands a coin of 100 grains, says the other, these 98 grains which I give you in coin, cost me two grains to have their weight and fineness ascertained; and if you refuse to repay me for what I have paid for this manufacture which I offer you for your cloth, I may with equal reason refuse to pay you for what you paid for weaving your wool into cloth. Now since I, in buying your cloth, must pay the weaver, so you, in buying my piece, must pay

The first introduction of coinage must make prices fall.

the mint. The merchant, convinced by this reasoning, takes the piece, and as it circulates from hand to hand, every commodity given in exchange for it, must fall 2 per cent. relatively to the grains of metal it was worth before.

Consequences of the exclusive privilege of coinage.

Farther, if by the laws and customs of a country, coin is absolutely necessary for buying and selling, this coin must be had; and if there be but one person who can make it, the price he thinks fit to demand for it is the only measure of the value of fabrication. The grains of the metals, therefore, in the coin, must rise in their proportional value to yards of cloth, and to gallons of liquor, in proportion to the cost of coinage, as the pounds of wool and silk must rise in their value in proportion to their manufacture.

From this it follows, that since the value of coin must rise in proportion to every commodity, it must also rise with respect to the metals it is made of, just as wool manufactured rises with respect to wool which is not manufactured.

Now let us suppose that a Prince finding that he has the exclusive privilege of making coin, shall raise his price of coinage to 8 per cent. what will the consequence be?

The first consequence of this will be to destroy, or at least to perplex the ideas of his subjects with regard to coin, and to make them believe, that it is the stamp, and not the metal which constitutes the value of it.

The next consequence will be, to reduce the price of the yard of cloth, which was worth 100 grains of metal before the invention of coinage, from 98, where it stood, to 92. Now let us suppose that this country, which we shall call (F), is in the neighbourhood of another which we shall call (E), where there is both cloth of the same quality, and coin of the same weight and fineness, which costs nothing for the coinage. In the country (E), *ceteris paribus*, the yard of cloth must be sold for 100 grains, as it sold formerly in the country (F) before the coinage was imposed. If the country (F) wants the cloth of the country (E), the cloth they demand must cost (F) 100 grains the yard. If the country (E) wants the cloth

of the country (F), this cloth will also cost 100 grains; because to procure a coin of 92 grains of the country (F), (E) must pay 8 grains for the coinage, which raises the price of the cloth to 100 grains.

Let us now suppose, that for a certain time the country (F) has absolute occasion for the cloth of the country (E). The merchants of (F) who carry on this trade, must send bullion to (E) to pay for this cloth. But the merchants of the country (F) who deal in bullion, perceiving the usefulness of it for this trade, will then raise the price of the 100 grains of it above the 92 grains in coin (the common market price of bullion before this trade was known) and according to the demand made for the foreign cloth, the bullion will rise in the country (F), until 100 grains of it become exactly worth 100 grains in coin. The bullion can never rise higher; because at that period, the coin itself will be exported for bullion; and the country of (E) will accept of 100 grains in their coin as willingly as in any other form. Nor will it ever fall lower than 92 grains; because the mint in the country (F) is always ready to give that price for all the bullion which is brought to be coined.

A wrong balance of trade raises the price of bullion to the value of coin.

Here then is a case, where the coin is made to lose all its advanced price as a manufacture, and this is owing entirely to its being a metal as well as a money of account.

Now as the coin has lost this additional value, by a circumstance purely relative to itself as a metal, there is no reason why other merchandize should sink in value along with it.

The consequence, therefore, of this revolution ought to be, that as the merchandize, *bullion*, has got up 8 per cent. with regard to the coin, and as the price of all merchandize ought to be in proportion to the grains of bullion to which that price amounts, the revolution having annihilated the 8 per cent. advance upon the coin, ought to have the same effect with respect to prices as if coinage were given gratis, as in the country of (E); that is, the yard of cloth ought at this time to cost, in the country of (F), 100 grains, either of coin or bullion, since they are of the same value.

Farther,

Farther, in proportion as this demand for bullion comes to diminish, that is to say, in proportion as the balance of trade becomes less unfavourable to the country of (F), in the same proportion will coin rise in its price, when compared with bullion; and when the country of (E), in its turn, comes to have occasion for the country of (F), then (E) must pay as formerly for a yard of cloth 92 grains in bullion, and the remaining 8 grains to have it coined; in which case, the yard of cloth will fall to the old price of 92 grains in coin, and will stand at 100 grains in bullion as before.

Did the price of a manufacture rise and fall as has been here represented, it is plain that these variations would be constantly determined by the proportion of the grains of the metals it costs to acquire the coin which is the price of the manufacture.

We have seen that upon the institution of coinage and seignorage, the yard of cloth fell to 92 grains; because then it was impossible to procure coin at a less price than 8 per cent. but when the balance of trade had sunk the coin to the value of bullion, then the 92 grains of the coin being to be purchased with 92 grains of bullion, it was reasonable that the cloth should rise to its former price; because then no body could say that the coin of 92 grains had cost 100 to procure it.

But this theory does not hold in practice, nor can it possibly hold, as long as the greatest part of a people are ignorant of, and even do not feel the revolutions we have been here describing.

How traders obstruct the operation of these principles, while the balance of trade continues fluctuating,

The price of bullion is entirely regulated by merchants, who have the whole correspondence in their hands. It rises and falls in countries where coinage is imposed, in proportion to the state of the balance of trade at the time. The smallest rise or fall in the demand for bullion in the market, is immediately marked by the price of it, and that ought (by the principles we have been laying down) to regulate the rise and fall of every commodity. But this is by no means the case. Commodities rise and fall only after a certain time; and of this interval merchants will constantly profit. Does the price of bullion rise, they immediately fell to strangers as if

if all prices were immediately risen; but with regard to manufactures, they hide the revolution with great care, and preserve prices from rising, until the competition among themselves discovers the secret. Does the price of bullion fall, they do all they can to keep up the prices of every commodity which they sell to strangers, until the competition among themselves obliges them to bring them down; and with regard to manufactures, they are all in one interest to reduce the prices in proportion to the fall of the bullion, which works its effects by slow degrees.

These are the operations of traders, in times when there is a fluctuation in the balance of the trade of a country; that is to say, in times when the balance is sometimes favourable and sometimes not. and how an overturned balance of trade attaches prices to the denominations of coin.

At such times the true influence which trade ought to have upon prices is never exactly known, but to the merchants, who seldom fail to profit of their knowledge, in place of communicating it for the benefit of the society. But that is not the case when the balance of trade is quite overturned, that is, when it remains for a long time against a nation, without any favourable vibration; as we shall presently explain.

We have seen how, by the changes in the balance of trade, the price of bullion is made susceptible of a variation in its value, equal to the price of coinage; and we have pointed out the principle which confines the variation within certain limits; to wit, the value of the coin as a metal, which prevents bullion from rising higher; and the mint price, which preserves it from falling lower.

We have observed how merchants may profit of such variations, and how they obstruct the operation of principles upon the rise and fall of prices. We now proceed to another chain of causes, which tend greatly to destroy the due proportion of value between coin and merchandize. This with justice may be put also to the account of the imperfection of the metals in performing the functions of money of account.

Universal

Universal experience shews, that the prices of merchandize are so attached to the denominations of coin, that they do not fluctuate as principles point out, any more than projectiles describe parabolas, or that machines operate the effects, which by calculation they ought to do. The resistance of the air in one case, the friction of the parts in the other, tend to render theory incorrect. Just so here, our theory represents prices as rising and sinking in the most harmonious proportion together with the metals; but in practice it is not so. They have their frictions and political resistances, which only render the theory delusive when every circumstance is not combined. A good gunner must calculate the resistance of the air upon his bomb, or he never will hit the mark.

We have already shewn how the interests of mercantile people tend to obstruct the due fluctuation of prices; we must now take in other combinations.

Although this be not a proper place to resume a discussion of the particular theory of the rise and fall of prices, yet still something must be said upon that subject, in order to bring the question we are upon to some sort of solution.

How profits consolidate into prime cost.

First then, it will be agreed that it is far easier to make a price rise, than to make it fall. I believe I might take this for granted, without giving the reason for it. At all times, a price which has long stood low, may be made to rise; but it is next to impossible to make a price which has long stood high, to fall in the same manner. Here is the reason: Let me suppose the yard of an extensive manufacture which occupies a number of hands, to be worth 100 grains. The workmen here live nearly at the same expence, and I suppose them to live upon the profits of their work, when they sell at 100 grains a yard. The price rises to 120; here is an additional profit of 20 grains: If a sudden turn should diminish the demand which raised the price of the merchandize, it will fall to the old rate without much difficulty; the workmen will consider the 20 grains addition as a precarious profit upon which they cannot reckon: but let the price of 120 grains remain uniformly for some years, the

20 grains

20 grains will cease to be precarious profits; they will consolidate, as we have called it, into the value of the merchandize; because the workmen, by having long enjoyed them, will have bettered their way of living; and as they are many, and live uniformly, any thing which obliges them to retrench a part of their habitual expence, is supposed to deprive them of necessaries.

This is sufficient, as a hint, upon a subject which branches out into an infinity of different relations, not at all to the present purpose. But it is very much to the purpose to shew how the imposition of coinage must, on many occasions, have the effect of attaching the price of commodities to the denominations of the coin, instead of preserving them attached to the grains of the metals which compose them, as in theory they ought to be.

When wars, e. g. occasion a wrong balance to continue for many years against a nation, this keeps coin at par with bullion for a long time. Is it not very natural, that during that time manufacturers should estimate their work according to the coin, and not as formerly, according to the bullion? The consequence of this is, that when peace returns, and when coin begins to rise above the price of bullion, the manufacturers stick to the denominations of the coin, instead of descending in value (as they ought to do by theory) along with the bullion. What is the consequence of this? It is that the prices of manufactures for home consumption, and of commodities peculiar to the country, stand their ground; that is, prices do not descend, and cannot be brought down by merchants.

But as to manufactures for exportation, which are not peculiar, but which are produced by different countries, their prices are violently pulled down by foreign competition; and the workmen are forced to diminish them. This hurts them effectually, not because of the diminution of the prices; because, properly speaking, this diminution is only relative to the denominations of the coin; their grains will purchase as many grains of bullion in the market as before, but not so much coin, and consequently not so much of any commodity which, by the principles just laid down, have

attached themselves to the denominations of the coin, and have risen in their price along with it.

From this short exposition of a very intricate matter, we may conclude, that the imposition of coinage does not raise the price of such merchandize as is in common to several nations, and which trade demands from each, without any competition with the natives; that is to say, the prices of them stand as formerly with respect to strangers; because although the prices be made to sink at home, with respect to the denominations of the coin, yet strangers, being obliged to pay for them in those denominations, are also obliged to pay an advanced price for the coin, in order to procure them. This is the price of coinage. This, I confess, is a little subtil, but I believe the reasoning will be found just.

On the other hand, when trade extends itself to other commodities, to those, I mean, which it buys in competition with the natives (and which are made to rise and fall from the vicissitudes of inland demand) or to such commodities as are peculiar to the country; in these cases, I have little doubt but the prices, once raised and continued high for some time, attach themselves to the denominations of the coin, and rise along with it; that is to say, coinage is included over and above the price which the merchandize would have born had no coinage been imposed.

How this hurts the industrious, and how the state may indemnify them.

The conclusion I draw from this reasoning, is, that the imposition of coinage has not, in fact, the effect of reducing the prices of commodities to fewer grains of bullion than before, excepting those of such commodities as are sold in competition with other nations; and even then it may be said, that it is not the imposition of the coinage, but the competition with strangers, which reduces them to the minimum of their value, as well as the profits of those who work in them, to the minimum of a physical necessary. This last circumstance shews why those who work for foreign exportation, are the poorest class of all the industrious of a state, but the most useful to it, at the same time. I believe experience supports the truth of these conclusions. I shall here by the bye observe, that as the

the state is made to profit by the diminution of the profits of this most useful class; as she receives the coinage which strangers pay, and which is really deducted from the manufacturers who support exportation, she ought to indemnify this class (as may be done in a thousand ways, by premiums, for example, upon exportation) out of the profits arising upon coinage, instead of making coinage free, to the evident loss of the nation, and benefit to strangers, as we shall now endeavour to prove.

CH A P. II.

*Concerning the Influence which the imposing the Price of Coinage, and the Duty of Seigniorage in the English Mint, will have upon the Course of Exchange, and Trade of Great Britain.*

IN the preceding chapter we have examined a very nice theory, into which such a number of circumstances have been combined; depending upon facts, that little stress is to be laid upon several conclusions which have been drawn from it, unless they be approved by experience. Theory of prices upon articles of exportation.

Let the best workman in London make a watch, he cannot depend upon its being a good one, until it be tried; and when that is done, the application of his theory will enable him to discover all the defects and irregularities in the movement. It is just so in political matters. The force of theory is not sufficient to form a good plan; but it is useful for discovering many faults which would not have been foreseen without it. The more extensive, therefore, any theory is made, the more it is useful for these purposes. It is proper only to observe that the more complicated any principle of it is, the less dependance can be had upon its operation when applied to practice.

It is impossible to lay down a distinct theory for the rise and fall of the prices of all sorts of commodities in a nation such as Great Britain. All that can be said with certainty, is, that competition on the part of the consumers will make them rise, and that competition on the part of the furnishers will make them fall. Now the competition among the furnishers may be reduced to theory; because it is fixed within determinate limits, which it cannot exceed, and is influenced by this principle, viz. that when profits are reduced to the minimum (that is to the exact physical-necessary of the workman) all competition among furnishers must cease.

But the competition among consumers is fixed within no determinate limits: some demand to satisfy physical wants; others those of vanity and caprice. Most inland demand for consumption is of this kind, and consequently it is impossible to foresee what effect the imposition of coinage will have upon the prices of many commodities. Perhaps they will fluctuate with bullion; perhaps they will adhere to the denominations of the coin: experience alone can bring this matter to light.

But with regard to such commodities as are the object of foreign trade, prices are influenced by certain principles on both sides. Merchants, not the consumers themselves, are the demanders here. Neither vanity or caprice, but profit, regulates the price they offer. Thus it is, that as all competition among furnishers must cease upon the reduction of profits to the minimum, so all demand from merchants (who in this case represent the consumers) must cease, so soon as prices rise above what they can afford to give, consistent with their minimum of profit upon the sale of what they buy.

The degree, therefore, of foreign competition will alone regulate the prices of several exportable commodities, and of consequence the profits of such as are employed in them, as has been said. This premised, we come to examine the influence which the imposition of coinage would have upon the course of exchange and trade of a nation.

In speaking of exchange, so far as it influences the decision of this question, we must throw out all extraneous circumstances, and endeavour to reduce it to the plainest theory. How the course of exchange is regulated.

When one nation pays to another the price of what they buy, the interposition of bullion is unavoidable; and the whole operation consists in comparing the value of coin with the value of bullion in the one and in the other.

Suppose France to owe to England 1000 pound sterling; what regulates exchange here, is the price of bullion in Paris and in London. The French merchant inquires first, what is the quantity of bullion in London, which at that time is equal to the sum he wants to pay? And next, what that quantity of bullion costs to procure in the Paris market? Upon this the par of exchange ought to be regulated. Whatever is given more than this quantity is the price of transportation, when the balance of trade is against France. Whatever is given less, may be considered as the price of transportation which the English would be obliged to pay were the balance against England, if the French merchant, by sending his paper to London, did not save them the trouble, by diminishing so far the balance against them; and of this he profits, until the balance turns to the other side. Now let us leave the price of transportation out of the question, and consider only how the imposition of coinage, by affecting the price of bullion, may influence the course of exchange. Price of exchange what?

We have seen how the imposition of coinage renders the price of bullion susceptible of a variation in its price, equal to the amount of the imposition. Wherever, therefore, coinage costs nothing, there bullion and coin must always be of the same value. This would be the case in England, without doubt, were the metals in the coin exactly proportioned, were all the coin of a legal weight, and were neither melting down, or exporting made penal. Where coinage is free the price of bullion ought to be invariable.

The bullion, therefore, in France may vary 8 per cent. in its price, according to the balance of trade; the bullion in England must be supposed invariable, let the balance stand as it will. and fluctuating where coinage is imposed.

According

Bullion in England dearer than in France,

According to this representation of the matter, may we not say, that bullion in England is always at the highest price it ever can be in France, since it is at the price of the coin? Is not this the condition of France, when the balance of her trade is the most unfavourable it possibly can be?

because the price of it is kept up by the mint,

If therefore England, *herself*, contributes to keep the price of her bullion higher than it is in France, is not this an advantage to France, since France can buy the bullion with which she pays her English debts cheap in her own market, and can sell it dear in that of her creditor? Is there not a profit in buying an ox cheap in the country, and selling him dear in Smithfield market?

and is allowed to fall in France 8 per cent. below the coin.

Now why is bullion sometimes cheaper in France than in England? I answer, that in France it is allowed to fall 8 *per cent.* below the coin, and the King only takes it at times when no body can get a better price for it: and that in England the King gives always coin for bullion, and by that keeps the price of it from ever falling lower. Let the English mint pay the pound troy standard silver at the rate of thirteen ounces of coin, the price of bullion in England will always be  $\frac{1}{7}$  dearer than the coin.

When bullion in France falls to 8 *per cent.* below the coin, it is carried to the mint: when it is worth more no body carries any to be coined.

The wise regulation.

No body in France (except upon a general coinage) is forced to sell their bullion at this price. Is it not, therefore, a very wise regulation, to permit the operations of trade to reduce, as low as possible, the value of that commodity with which all they owe is paid, and this more especially, as the fall of its price is a proof of the prosperity of their trade.

If, therefore, it be supposed, that the effect of having a material money for a scale of value, is, that the denominations in the coin, and not the grains of the bullion, must measure the value of commodities *for home consumption*; then it follows, that the variations in the price of bullion, should not affect the price of commodities.

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This is a question; however, which I do not pretend to determine, and I apprehend that nothing but experience can resolve it.

Now let me consider the difference there is between the trade of France and that of England as matters now stand; and what would be the case, were the regulations of the mint the same in both countries.

England loses by this sometimes 8 per cent. upon her trade with France.

I shall suppose that England buys of French goods as much as may be paid with one thousand pounds troy weight of English guineas. I ask for what weight of French louis d'ors must France buy of English goods to make the balance even? Will it not be answered (according to the ordinary method of calculating the true par of exchange) that if France buys for one thousand pounds troy of her louis d'ors (supposing the guineas and the louis d'ors of the same fineness) that the balance is even?

Is it not true, that England must send this thousand pounds weight either in gold bullion or in guineas, and is it not the same thing to the English merchant to send the one or the other, providing the guineas be full weight?

But when France comes to send the thousand pounds weight of her louis d'ors, she finds at market a thousand pounds weight of gold bullion 8 *per cent.* cheaper, and this bullion is as good to the Englishman as if he had got the louis d'ors.

Let me state the case otherwise. Suppose France buys in England for 1000 pounds weight of her guineas in Virginia tobacco; and that England buys in France for 1000 pounds weight of her louis d'ors of Bourdeaux claret. Is not this called par. Will not France pay her debt to England with 1000 pound of gold bullion? Whereas England must pay 1080 pounds to France; because 1000 pounds weight of her louis d'ors, is worth in France 1080 pounds of any bullion of the same standard. The 1000 pounds then compensates the 1000 pounds; the 80 pounds over must be sent to France, and the carriage of this quantity only, must be paid for according to the principles of exchange.

5

Here



Here is evidently a balance of trade against England of 8 per cent. above the real par of the metals. Will any body say that the 8 per cent. is paid for the transportation of 80 pounds of bullion due? Certainly not.

Now if the English should declare that they, for the future, would coin neither gold or silver bullion for any person, but at the rate of 8 per cent. below the value of the coin; and if it be true, that this regulation would have the effect of sinking the price of bullion, on many occasions, to 8 per cent. below the coin; in that case, would not the English and the French acquit their debts of the 1000 pounds weight of their respective coin upon the same conditions? In this case, would not the price of exchange vanish, since there would be no bullion to be sent by either party? But in the first case, would not England be obliged to send 8 per cent. above the quantity of gold bullion she received from France, and would not the transportation of this cost money, and would not this transportation be marked by a certain price of exchange, and consequently, would not the price of exchange rise against England?

But to this it is objected, that by the former example, the exchange marked 8 per cent. against England with great reason; because it is plain, that there is a balance of 8 per cent. against England, since she has sent that proportion over to France in bullion. Very true. But had England, instead of taking to the value of 1000 pounds weight of louis d'ors in claret, taken only for 100 pounds weight, the exchange would have still marked 8 per cent. loss; because the 100 pounds of louis d'ors must be paid with the 108 pounds of bullion; although England by this trade has evidently gained 892 pounds of bullion, which France must send her as a balance.

As matters of fact, when they can be procured, tend greatly to confirm theory, by forming a solid basis whereupon to reason, I shall here profit of one which has fallen into my hands, and by applying it to the present question, endeavour to give some additional force to this reasoning.

Mr.

Mr. Cantillon, in his *Analysis of Trade*, which I suppose he understood by practice as well as by theory, has the following passage in his 99th page.

“The course of exchange between Paris and London since the year 1726, has been at a medium price of 32 pence sterling for the crown of three livres; that is to say, we pay for this French crown of three livres, 32 pence sterling, when calculated on gold, when in fact it is worth but thirty pence and three farthings, which is giving four pounds in the hundred for this French money; and consequently, upon gold, the balance of trade is 4 per cent. against England in favour of France.”

and at a medium 4 per cent. as is proved by a matter of fact.

In this place, Mr. Cantillon calculates the par of exchange according to the common rule, to wit, gold bullion against gold bullion in the coins of both nations, where both are of legal weight; and he finds that there has been, these thirty four years past, a balance of 4 per cent. against England.

Now according to my theory, this is exactly what the coinage in France ought to produce, supposing on an average that the trade had been at par. Here is the reason.

The coinage in France costs 8 per cent. When the balance of trade is favourable for France, coin is worth 8 per cent. above bullion.

The proof is plain. Were it not 8 per cent. above bullion, no man would ever carry bullion to the mint; because the mint price is 8 per cent. below that of the coin.

When the balance of trade is against France, coin must fall nearly to the price of bullion.

Supposing then that the balance of the trade of France (at a medium of thirty four years) is found to have been at par, will it not follow, that at a medium also of these thirty four years, French coin must have been at 4 per cent. (the half of the coinage) above bullion? Consequently England having taken merchandize from France, and France having merchandize from England, for the same weight and fineness in their respective coins, must not Eng-

land

land have been obliged to send to France 4 per cent. more bullion in order to pay the coinage? This reasoning appears conclusive to me, who am no merchant, and who do by no means pretend to a perfect understanding of those affairs; but I think this circumstance is at least of sufficient importance to make the matter be inquired into. For this purpose, I shall suggest a method of making the discovery.

Easy to be verified at all times by the price of bullion and course of exchange in the Paris market.

If it shall be found, that English draughts on Paris, or French remittances to England, shall at any time occasion bullion to rise in the market of Paris above the mint price, will it not be allowed that such a circumstance demonstrates that the balance of trade is then in favour of England? If at that same time it shall be found, that exchange (when reckoned upon the gold as Cantillon has done) is against England, will it not be a demonstration of the truth of what I have here suggested as a question worthy of examination?

When bullion is exported to England, exchange is against France.

For if the balance of trade be against France, so as to make her buy bullion to send to England, this is a proof that she owes England a balance; and if at the same time the English are paying above the intrinsic value of the metals (in their respective coins) in what they owe to France, that additional value cannot be paid by England as the price of exchange, or to pay for the transportation of their bullion, but to pay the French creditors the additional value of their coin above the price of bullion.

Course of exchange no rule of judging of the balance of trade, but only of the value of coin.

May we not also conclude, that in a kingdom such as England, where coinage is free, the course of exchange is no certain rule for judging of the balance of trade with France; but only of the value of French coin above French bullion. All authors who have written upon exchange, represent the advanced price given upon bills above the intrinsic value of the coins, to be the price of carriage and insurance, &c. in which case exchange, no doubt, may mark the balance of trade; but if an advanced price must be given in order to put bullion into coin, or in other words, if the metals in the coin are worth 8 per cent. more than any bullion of the same fineness, is it not evident that a nation may be drawing a great balance of bullion

lion from another, although she be, at the same time, paying 8 per cent. above the rate of bullion in the sums she repays to the nation which is her debtor upon the whole; that is to say, although she be paying above the real par of exchange, as it is commonly calculated.

If it be here objected that this cannot be the case, because when the balance of trade is against the nation which imposes coinage, their coin falls to the price of bullion: I answer, that a balance may be against such a nation, without producing so great a fall in the coin. Coin is reduced to the par of bullion only when the balance is at the height against a nation, and when it has remained so for a long time. Who would give coin at a discount of 8 per cent. if there was a prospect that in a few days, weeks, or even months, it was to rise to its former value?

These are the reasons which engaged me, in a former chapter, to lay it down as a rule, that trading states should endeavour, as nearly as possible, to observe the same regulations with their neighbours, in every thing relating to their coin. It is also in order to facilitate such a regulation, that I shall insert, at the end of this book, a very particular state of the French coinage, and of what I can gather with regard to that of Holland.

From what has been said, it appears that the common method of calculating the real par of exchange is not correct, since it is calculated by comparing the quantity of fine bullion in different coins, and attributing the difference between the bullion paid for the paper, and the bullion received in payment of it, as the price of transportation. This, I say, is by no means correct; nor is it possible it should be so, unless bills of exchange were specified in the weight of fine bullion, instead of being specified in the denominations of the coin: an example will make this plain.

The real par not to be calculated by the intrinsic value of the coin, unless bills were drawn in weight of fine bullion.

Were a merchant in London to ask of another who has a correspondence in Paris, to give him an order for a hundred yards of Abbeville cloth, and to offer him, in exchange, the same quantity of cloth of a worse quality, would not the merchant to whom the

proposal is made, immediately calculate the value of both commodities, and demand the difference of the value between what he was to give, and what he was to receive? Could ever this difference be considered as any thing else than the difference between the real worth of the commodities? But were they to exchange at London an hundred pounds of fine silver bullion, for the same weight at Paris; then if the merchant demanded one grain more than he was to give, it must be upon the account of transportation; because, weight for weight, there is not the smallest difference between equal weights of the fine metals.

Bills of exchange, then, being all conceived in denominations of money of account, realized in coin; and coin changing in its value with regard to bullion; it is evident that the real par cannot be computed upon the bullion alone contained in the coin.

If it is objected, that since it is the course of exchange which regulates the price of bullion, all variations between bullion and coin ought to be ascribed to that cause.

I answer, that it is not the course of exchange which regulates the price of bullion; but exchange makes it ascend from the price to which it is regulated.

The mint price regulates the price of bullion; and there it will nearly stand, while the balance of trade is either at par, or favourable to a country. Exchange therefore, or a wrong balance, can only make it rise; and it returns to where it was, by the force of another principle.

In the next place, were I to allow that the balance of trade regulates the price of bullion, it would not follow that what is called the *real par* of exchange is a rule to judge of the *balance of trade* of a nation. Is it not plain, that if France, for example, being at present obliged to send great sums into Germany, upon account of the war (*anno* 1760,) has reduced the price of her coin to a par with bullion, that all nations will profit of it as much in their trade with France, as if the balance was become favourable to them; since the course of exchange will then answer according

Obj. Exchange regulates the price of bullion.  
Answ. Denied: exchange only raises its price; the mint price pulls it down.  
Balance upon the real par, no mark of a balance upon trade; proved by examples.

to the conversion of bullion for bullion in all remittances to France.

But were France at present to remit money to any other country, which has the balance favourable, and where coinage is paid, suppose to Spain, while the balance between France and Spain is supposed to be exactly even; would not the real par between the money of Spain and of France mark an exchange against France, for the value of the coinage imposed by Spain? This is the reason why, in time of war, exchange between France and England appears more favourable to England than in time of peace. But does this anywise prove that the balance of trade is then more in favour of England? by no means: for let me suppose the balance of their trade to remain the same after the peace as at present; is it not evident, that in proportion as the coin of France shall rise above the bullion, that the *balance of trade* will become, in appearance, against England?

By the *balance of trade*, I here constantly understand a certain quantity of bullion sent by one nation to another, to pay what they have not been able to compensate by an exchange of their commodities, remittances, &c. and not that which they compute in their bills as the difference between the respective values of coin and bullion in both countries.

How, then, is the real par of exchange to be regulated, so as to determine which nation pays a balance upon the exchange of their commodities?

I answer, To determine that question, let bullion over all the commercial world be stated at 100, and let coin in every country be compared with it, according to the current price. In England, for example, (were all disorders of the coin removed) coin must always be as 100. In France, when the balance is favourable, at 108.27. In Germany (were the Emperor's late regulation with Bavaria to be made general) at 101. And so forth, according to the price of coinage imposed every where. These advanced values above the 100, never can rise higher; and the more the balance

Balance of trade, what?  
The real par of exchange to be fixed by the fluctuating value of the coin, not by the permanent quantity of the bullion it contains.

of

of their respective trade is unfavourable, the nearer they will fe-  
verally come to 100; below which they never can fall. These fluctu-  
ations will constantly be marked in exchange; because all cir-  
cumstances are exactly combined by merchants; but the *balance of*  
*the trade* will only be marked by what exchange is made to vary from  
*these proportions.*

Proof of  
this propo-  
sition.

Let me suppose the trade of France favourable upon the whole,  
by great commissions from Cadiz, and bullion at the same time to  
be carried to the mint at 8 *per cent.* below the price of coin.

Let me suppose, that upon all the trade of England with France,  
there shall be, at that time, a balance of 2 *per cent.* sent from France  
to England in bullion; and upon the trade with Germany a balance  
of 1 *per cent.*

I say, that the *par of exchange* between England and France is 8 *per*  
*cent.* against England; and that the *par of exchange* between Ger-  
many and France is 7 *per cent.* I state it at this rate; because the  
balance being supposed favourable for the three nations, the value  
of their coin with respect to their bullion ought to be in propor-  
tion to the mint price.

The *course of exchange*, therefore, if it be a rule to judge by,  
ought to mark 6 *per cent.* against England; which I say is 2 *per cent.*  
in her favour: and the exchange with Germany ought to mark  
6 *per cent.* against Germany; which I call 1 *per cent.* in her favour.

An example will make this plain.

Suppose English guineas, German carolins, and French Louis,  
to be all of the same weight and fineness; I say, the *real par* in the  
example we have stated is, between Paris and London, 100 Louis  
are equal to 108 guineas; because the 100 Louis are worth 100  
guineas in London, and 108 guineas are worth no more than 100  
Louis in Paris. Again, between Paris and Francfort, 100 Louis  
are equal to 107 carolins; because 108 carolins are worth at Paris  
100 Louis; and 101 Louis at Francfort are worth 100 carolins;  
consequently, the difference between 7 and 8 is the *real par*, to  
wit, 100 Louis for 101 carolins. Next, as to the par between Lon-  
don

don and Francfort, here 100 carolins equal 101 guineas; because  
100 carolins in London are worth 100 guineas; and 101 guineas  
at Francfort are worth no more than 100 carolins.

Now in the ordinary way of reckoning the *real par*, the 100  
Louis, 100 carolins, and 100 guineas, are all supposed to be of the  
same value, in the three markets; and the difference between  
this supposed value, and what is paid for it, is supposed to be a  
loss upon trade. In this light, the nation's loss resembles the loss  
incurred by him, who, when he goes to the bank, and pays ten  
pounds sterling in coin, for a bank-note, says, that he has given  
ten pounds for a bit of paper, not worth one farthing; reckoning  
the value of the note, at the real par of the paper it is writ upon.

The general rule, therefore, as I apprehend, is, to settle the  
real par of different coins, not according to the *bullion* they con-  
tain, but according to the bullion they can buy with them in  
their own market at the time.

If 1000 pounds weight of guineas can purchase at London  
1000 pounds weight of standard bullion; and that 1000 pounds  
of the same weight of Louis can buy at Paris 1080 pounds weight  
of the same standard bullion; then the 1000 pounds weight of  
guineas is at the real par with 925  $\frac{2}{3}$  pounds weight of the  
Louis, and not worth 1000, as is commonly supposed.

If the doctrine laid down in this chapter be found solid; if no  
essential circumstance has been overlooked, which ought to have  
entred into our combinations, (points left to the reader to deter-  
mine) then we may conclude;

1mo, That the course of exchange, in the way people take to cal-  
culate the real par, is no rule for judging of the balance of trade.

2do, That the great duty laid upon the fabrication of the French  
coin, either deceives the English nation, and makes them con-  
clude, from the course of exchange, that their commerce with  
France is extremely disadvantageous: or, if it be really disadvan-  
tageous, that it is the imposition of a duty on coinage in the  
French mint which occasions it.

It is a question belonging to the theory of commerce, and not to that which we are now upon, to examine the nature of a disadvantageous trade, and to investigate the principles pointing out the commodities which every country ought to encourage for exportation, and those which are the most profitable to take in return.

Application of these principles to the English trade with France.

Upon these principles the trade of England with France must be examined, and upon examination it will be found whether that trade be advantageous or hurtful. Here the question is reduced to this; Whether from the course of exchange it may be concluded that the balance of trade is against England, because the French crown is commonly paid with thirty-two pence sterling? We have decided that it cannot. If there be no other objections against the trade of France but this loss upon exchange; and if it be true that this is no proof of trade being against England, but only the consequence of her free coinage; then it will follow, that England may lay as many restrictions, duties, and clogs, upon the French trade, as she pleases, and may even reduce it to nothing, without ever removing the cause of complaint; while at the same time she may be ruining a trade, which pays her upon the whole a great balance, and upon which trade she has it in her power, by following a different system in her mint, to render her exchange as favourable as with any other nation in Europe.

This point seems to be a matter of no small importance to England; since (from a mistake in point of fact, into which she is led from a delusive appearance) a very lucrative trade, when considered by the balance it produces, may, upon false principles, be proscribed as disadvantageous.

These questions, however, are not as yet considered as entirely discussed, and they shall be a little farther examined in the following chapter.

C H A P. III.

*Is the loss which the course of exchange marks upon the trade of Great Britain with France real or apparent?*

QUESTIONS are here proposed, which I do not pretend to resolve; all I aim at is to discover how they may be resolved. Reason for proposing this question.

If this inquiry shall prove an incitement to men of better capacity to review the same subjects, who have more extensive combinations, more experience, and better information as to facts, in that respect it has some degree of merit.

I answer to the question proposed, that if the imposition of a duty on coinage in England would have the effect of rendering her trade with France more lucrative, then the loss marked by the course of exchange is real, at least in part; if otherwise, it is only apparent. Suppositions.

What makes the commerce with any country lucrative, is the balance paid upon the exchange of their commodities. Principles.

What regulates the quantity of commodities taken from any country, in the way of trade, is the wants of the country demanding; and what sets the balance even, is the reciprocal wants of the other country. Nations do not give up correspondence with their neighbours, because these do not accept of merchandize in exchange for merchandize, but because they find their advantage in supplying their wants upon easier terms elsewhere.

Every merchant seeks to sell dear; and the dearer he can sell, the greater is his profit: that merchant, therefore, must thrive most, who sells dearest, and who at the same time can afford to sell cheapest.

If an imposition on coinage shall enable England to sell dearer, without depriving her of the advantage of being able to sell as

cheap as at present, then it will follow, that an imposition on coinage will be advantageous. If it shall lay her under a necessity of selling dearer, and deprive her of the possibility of selling so cheap as formerly, then the imposition of coinage will be hurtful.

How the paying for coinage affects the profits on goods exported.

These principles premised, as a foundation for our reasoning, let us first consider the influence of coinage upon the profits on *exportation*; and then proceed to inquire into the influence it has upon articles of *importation*.

As to the first, I must observe, that England, as well as every other country, has several articles of exportation which are peculiar to herself, and others which she must sell in competition with other nations.

The price of what is peculiar is determined by the competition of those who furnish at home, and the lowest price is regulated by their minimum of profit. The price of what is common is regulated by the competition of those who furnish from different countries.

If the prices of what is peculiar shall remain, as before, attached to the denominations of the coin, after the imposition of a duty on coinage, the competition of those who furnish will remain the same as before; because prices will not vary; but the stranger, who buys, must nevertheless pay an advanced price for such merchandize, because the nation's coin, with which they are purchased, will be raised in its value with respect to bullion, the only price he can pay with. This is the price of coinage: and this imposition has the good effect of obliging strangers to pay dearer than before, in favour of a benefit resulting therefrom to the state.

Now, if it be observed that the demand made by the English for goods peculiar to France, (while these remain in France at the same price as formerly) does not diminish in proportion as the loss upon exchange happens to rise; why should we suppose that the demand for goods peculiar to England should diminish, for a similar reason?

If the rise, however, in the price of exchange should diminish the foreign demand for such English goods, by raising the price of them in the foreign market, this, at least, will prove that coinage does not make prices fall proportionally at home; because, if they should fall, strangers would buy as cheap as formerly: the prime cost (as it would appear upon the accounts of their English correspondents) would diminish in proportion to the loss upon exchange in remitting to England, and would just compensate it: so upon the whole, the price of the merchandize would be the same in the foreign market as before.

If the imposition of coinage, therefore, be said to raise the price of English merchandize in foreign markets, it must be allowed that it will not raise the value of the pound sterling at home, by sinking the value of commodities: that is to say, the prices of commodities will adhere to the denominations of the coin; and the coin bearing an advanced value, above what it bore formerly, strangers must pay it.

But will not this diminish the demand for English goods? Not if they be peculiar to England, as we here suppose. But allowing it should, will not this diminution of demand sink the value of the English coin, by influencing the balance of trade? If so, it will render remittances to England more advantageous; consequently, it will recall the demand. The disease, therefore, in this case, seems to draw the remedy along with it.

Now what appears here to be a remedy against a disease, is at present, as we may call it, the ordinary English diet, since it is sinking the coin to the price of bullion. If, therefore, the having coin always as cheap as bullion, can be any advantage to trade, the nation is sure of having it, whenever the balance is unfavourable, notwithstanding the imposition of a duty on coinage.

Trade has its vicissitudes, and all nations find, at times, that their neighbours must depend upon them. On such occasions, the balance of their commerce is greatly in their favour.

When the balance is favourable.

Is it not, therefore, an advantage to have a principle at home, which, upon such occasions, is capable of diminishing with us the value of that merchandize (bullion) which strangers must give as the price of all they buy?

And how, when unfavourable.

On the other hand, the same principle seems to fly to the assistance of trade, when the balance becomes unfavourable, as it virtually diminishes to strangers the price of all our commodities, by raising in our market the value of that commodity, (bullion) which they must give as the price of what they buy.

This may suffice, in general, upon exportation. It is a hint from a person not versed in commerce; and as such it is humbly submitted.

How the paying for coinage affects the profits on goods imported.

I now pass to the second part of this operation, to wit, the influence which the imposition of coinage has upon the interests of trade, when the question is to purchase the commodities of other countries. These operations are quite different, and in examining this theory they must be carefully distinguished.

When the balance is favourable.

We have seen how the imposition of coinage, during the favourable balance of trade, procures to the nation an advanced price upon the sale of her exports. As long as it remains favourable, it must produce the same good effect with regard to her importations, by sinking at home the price of the bullion with which she must pay for them. Bullion must become cheap in the English market, in proportion as the balance of her trade is favourable, and in proportion as it is cheaper there than in other nations (with respect to their respective coins) in the same proportion, the nation has an advantage in paying what she buys, or in employing her bullion for extending the fund of her own commerce.

And how, when unfavourable.

Upon the other hand, should the balance of her trade turn against her, her bullion rises. This renders the price of all foreign merchandize dearer to the importers than otherwise they would be; because they must pay them in bullion. But this loss is at present constantly incurred; and when incurred, is not national, the national loss is upon the balance of the trade; but whether this

this balance be paid in bullion at the mint price, or in bullion at the price of coin, the balance of the trade is just the same. Now, if this wrong balance (which I here suppose to proceed only from the imports exceeding the exports upon trade in general) renders the purchase of foreign commodities dearer to the merchants, without costing more to the nation; is not this so far advantageous, that it discourages importations, just at the time they ought to be discouraged, and thereby may tend to set the balance even again?

Thus I have endeavoured to analyze the influence of this principle in the four cases; to wit, upon exportation and importation, under a favourable and unfavourable balance of trade. These different combinations must always be examined separately, or else obscurity and confusion will ensue.

We must also observe, that there are still other combinations to be attended to, although it be superfluous to apply the principles to them; because the variations proceeding from them are self-evident. I mean, that this question may be considered as relative to a nation which has coinage free, with respect to another nation where that duty is imposed. In this case we may decide, that as far as the situation of the latter is advantageous, so far must that of the former be disadvantageous, and vice versa.

The question may also be considered in relation to countries who have either the duty on coinage the same, or different. When they have the same, there can be no advantage on either side; excepting in this respect, that the nation which has, upon an average, the balance of trade in her favour, will thereby render her trade still more favourable than it would be, were the coinage free on both sides.

From which we may conclude, that the more a nation has the advantage in point of trade, the more it is her interest to impose the duty of coinage. When the imposition is unequal in the two countries, I apprehend that the country which lays the smallest duty upon her coinage, may be considered as having it altogether free,

The more trade is favourable, the more advisable it is to impose a duty upon coinage.

free, and that the other may be considered as imposing no more than the difference.

Upon these principles must the question here proposed be resolved. They never can decide as to the matter of fact, to wit, whether the French trade is hurtful or lucrative: all we are warranted to conclude from them is, that the trade of Great Britain would be more advantageous with France than it is, were a duty on coinage to be laid in England as high as there. In that sense, we may say, that the apparent loss by exchange is a proof that coin is commonly dearer in France than in England; from which a loss may be implied; but the loss upon exchange no way denotes the degree of loss upon the trade, and much less does it certify that the balance upon the whole is against Great Britain.

C H A P. IV.

*Of the different methods of imposing coinage; and of the influence they respectively have upon the value of the money-unit, and upon the domestic interests of the nation.*

Two ways of imposing coinage.

THERE are two ways of imposing coinage; one by positive law, and by the force of that authority which is every where lodged in the legislature; the other, which is more gentle, renders the imposition almost insensible, and is effectuated by the influence of the principles of commerce.

By the one and the other the same end may be obtained; with this difference, that all circumstances must yield to the force of authority; and when this is employed, coinage is imposed as a tax upon coin, in spite of all resistance; whereas, in the other case, the effect takes place by degrees: it is no tax upon coin; but it is liable to interruptions; and therefore, upon a general re-coinage

coinage of all the specie of a nation, it is not so effectual as the first; although it may answer perfectly well for supporting a fund of good specie, and for replacing all the diminutions it may suffer from melting down or exportation.

I shall now give examples of the one and the other method: I shall point out some of the consequences which attend both: I shall chalk out a rough draught of the principles, which may be applied in forming a plan for laying on that imposition in the English mint: and last of all, I shall shew how the experiment may be made.

Were the government of England to call in, at present, all the coin in the nation, in order to be recoin'd, and to fix the mint price of it, as gold and silver standard bullion, at  $\text{--- per cent.}$  below the value of the new coin; this would be imposing coinage by positive law; and being an arbitrary operation upon the coin of the nation, could not fail of influencing the value of the money-unit.

Were the government, on the other hand, to give orders to the mint, to pay gold and silver bullion for the future, no dearer than  $\text{--- per cent.}$  below the coin, this would be no arbitrary operation on the coin of the nation, and would not (as I imagine) influence the value of the money-unit, although it might sink the price of bullion, by the influence of the principles of commerce.

The different consequences of these two methods of imposing coinage are now to be explained.

Were England, during a war, or at any time when the balance of her trade is unfavourable, to impose coinage by law, in the manner proposed, the consequence would be; that all the specie in Great Britain, or at least a considerable part of it, might possibly be melted down, and sold in the market for bills of exchange. In a nation of trade, where credit is so extensively and solidly established, there would, in such a case, be no difficulty to find an outlet abroad for all the metals in the kingdom; because then every thing would be considered as profit, which was less than the  $\text{--- per cent.}$  loss in carrying the coin to the mint.



If it is objected, that this plan has been many times executed in France, particularly in 1709, and 1726, without any such inconveniences; I answer, as I have done upon other occasions, circumstances are to be examined.

How, in France, this is prevented in some measure. Upon such occasions, in France, the coin is ordered to the mint, upon penalties against those who shall not obey; melting down is strictly inquired into, and severely punished; all the roads which lead to foreign countries are beset with guards, and no coin is suffered to be exported; all debts may be demanded in coin; and all internal commerce is carried on with specie.

This is a violent method of imposing a tax upon all the coin in the nation; and the general coinage is made with no other intention. In the coinage 1709, this tax amounted to  $23\frac{1}{3}$  per cent. (Dutot, Vol. I. p. 104.)

French politics, as to coin, not generally understood. Under these circumstances, it is very evident, that those who have coin or bullion must either carry it to the mint, or bury it: there is no middle course to be followed.

Let me here observe by the bye, how frequent it is to see people blame the greatest ministers rashly, and impute to them the most absurd opinions concerning the most simple matters. How much have the ministers of France been laugh'd at, for pretending to forbid the exportation of coin, to pay the balance of their trade? They did not forbid the exportation of the coin for paying of their debts: On the contrary, the King has sometimes had his bankers, whose business it was to send coin to Holland for that purpose, as we shall explain in another place. This, I think, is common sense.

If the ridicule is turned against those states, who forbid the melting down and exportation of coin, where coinage is free, I must also make answer, that *there* the prohibition is laid on, to save to government the expence of perpetually recoinning what is melted down; or of coining the foreign specie, imported in return for that of the nation which has been exported without necessity.

Let

Let us next examine the consequence of imposing coinage by law, when the plan is so laid down (no matter how) as not to be frustrated by the total desertion of the mint.

Is it not evident, from the principles laid down in the first chapter, that, in this case, the value of the coin must rise; not only with respect to bullion, but with respect to every commodity: or in other words, that the prices of commodities must fall universally with respect to the denominations of the coin. For who will pay the same price for a commodity, after he has been obliged to pay — *per cent.* to purchase the price with which he must buy? But the moment the great operation of the general coinage is over, and that trade begins to work its former effects, while the balance of it is supposed to remain unfavourable, all prices will return to their former rate, with regard to the denominations of the coin, by the operation of another principle. The new coin procured at so much cost will then fall to the price of bullion; that is to say, all the price paid for coinage will be lost, and consequently money will return to its former value; or in other words, prices will be made to rise to their former height; because then no body will be obliged to pay — *per cent.* to procure the price.

Now, it is the effect operated upon prices by the *return* of a favourable balance, when coin *regains* an advanced price above bullion by the influence of commerce, which my theory does not reach to. I cannot discover a principle, which can force the prices of articles of inland consumption to fall and fluctuate with the prices of bullion; because I find them too closely attached to the denominations of the coin; and that foreign commerce has not sufficient influence upon them. As that combination is beyond my reach to extricate, I leave it to the decision of experiment.

Here a plain objection occurs against what has been said in the twelfth chapter of the first part, viz. That the wearing of the English coin has the effect of raising the price of corn in the market, which would be made to fall upon a restitution of the coin to legal weight. But the answer is plain. In the former case, the diminution

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nution of the value of the coin was supposed real and permanent ; in which case, with time, it works its effects of raising prices without doubt : but here the augmentation is not real, and the fluctuations of the value of the coin with respect to bullion, are both imperceptible to any but merchants, and at the same time so uncertain, that they have not time to work their effects upon the price of other commodities.

Were a balance of trade to continue long favourable, and were coin to preserve, during all that time, the same advanced value with regard to *bullion*, in that case I have little doubt but the value of that universal commodity (bullion) in conjunction with the operations and influence of foreign commerce, might reach inland markets, and reduce the price of commodities. But this is seldom the case (as I am apt to believe,) and in proportion as it is so, more or less, will a duty on coinage influence the price of commodities.

Coinage affects the price of bullion immediately ; and that of commodities indirectly.

Coinage therefore ought, upon many occasions, to be considered as affecting *immediately* the price of bullion only, and that of commodities *indirectly* : whereas the diminution of the intrinsic value of the coin, by immediately affecting *price*, must consequently affect the rate of every thing which is given for it.

Let us next examine the consequence of imposing coinage by the influence of the principles of commerce.

Consequence of the price of coinage imposed with confidence.

The method here is to leave every one free to do with their coin, or with their bullion, what they please. Do they incline to melt down or export the coin, they may have entire liberty to do it : no penalty ought to be imposed, other than that which will necessarily follow, viz. the expence of procuring new coin.

In order to make our reasoning here more distinct, let us form a supposition with regard to a new regulation of the British coin.

The present confusion has convinced every man, that a reformation of the coin is necessary ; and the opinions of those who have writ best upon that subject seem to be divided upon one main article.

article: The metals are disproportioned in the coin, the gold being there to the silver, as 1 to 15.21, instead of being as 1 to 14.5. By law, 113 grains of gold are made equal to 1718.7 grains of silver. One party would have the silver adjusted to the gold ; the other would have the gold adjusted to the silver. This is the question, in a few words. Now, suppose a middle course were taken, and that the standard were to be fixed at the mean proportion of these two values ; that is, at the value of the half of 1718.7 grains fine silver, added to the half of 113 grains fine gold ; which, in the first part of this book, we have shewn, by many arguments, to be the only method of preserving an equality in the money-unit ; this will make the new pound consist of 1678.6 grains of fine silver, and 115.77 grains fine gold : and this is also a sort of medium between the two opinions.

At that rate, the pound troy standard silver must be coined into 63 shillings and 6 pence, and the pound troy standard gold into 46 guineas, or pound-pieces, each worth 20 shillings.

Now, if upon both species 8 *per cent.* coinage were imposed, (for as all this is a pure supposition, it is no matter at what rate the coinage be stated) then the mint price of the pound troy fine silver must be fixed at 63 s. 1  $\frac{3}{4}$  d. and the mint price of a pound troy of fine gold at 45 l. 5 s.  $\frac{3}{4}$  d. sterling.

Suppose then (as an example) that the mint price of fine bullion should be fixed at 8 *per cent.* below the coin in England ; What principle could oblige people to carry bullion to be coined ?

I answer, When the balance of trade is favourable for England, that balance must sooner or later be paid in bullion. If trade still continues favourable, after the first balance is paid, what use can those who have the bullion make of it, if there be no demand for it to work it into plate ? To export it, by employing it in trade, does not remove the difficulty ; because, while the balance stands favourable, export as much as you will, more bullion must enter than it is possible to export, in the way of trade ; for we do not suppose that in exporting it, it is to be given away gratis. The

bullion, therefore, not being demanded for exportation; not being permitted to pass current for money; and not being demanded for making into plate; must be employed so as to be profitable to the owner one way or other. For this purpose it must be lent, or employed within the country for purchasing some sort of effects which produce an income. For this purpose the bullion must be coined, in order to render it capable of circulation, and of becoming price.

At all times, therefore, when in a country there is bullion, not demanded as such, the proprietor carries it to the mint, he sells it at the mint price; and as this mint price is stated at 8 per cent. below the price of coin, he gives it for the price he can get for it: this he does without regret, because, if next day he should want to change his coin into bullion again, he will find it in the market at the same value.

If it be farther objected, that rather than carry it to the mint at 8 per cent. discount, people will lend it to foreigners: I answer, that if it be lent to foreigners, this lending will turn what we call the balance of trade against England, and then certainly no body will carry bullion to be coined; for in which ever way it happens that more bullion is exported than is imported, in every case the price of exchange and of bullion must rise; and this is constantly constructed, though very improperly, as a balance of trade against England; which, to mention it by the bye, is another reason to prove how ill people judge of the prosperity of trade by the course of exchange, since the lending of money, as well as the paying of debts, equally turns exchange against the country.

Bullion, therefore, never will be carried to the mint, when it can be disposed of above the mint price; and both theory and experience, over all Europe, where, England excepted, coinage is imposed, proves, that bullion is carried to the mint, and sold below the price of coin, weight for weight of equal fineness.

By fixing the mint price at 8 per cent. below the value of the coin, it is not necessary that this price be made invariable: a power may be lodged somewhere, by the state, to make deviations from the standard.

How the mint price of the metals may be allowed to vary.

standard price. A war breaks out; large quantities of coin are exported; specie becomes scarce: May not the state, at such a time, deliver coin at the mint at the current price of the bullion? Let matters come to the worst, the price can never possibly rise above the present value, to wit, that of the coin, when it is preserved at its true weight. If peace returns, and trade becomes favourable, the mint may then be ordered to sink its price, in proportion to circumstances. In short, the mint may receive bullion at different prices, at different times, without occasioning the smallest confusion by such variations in the intrinsic value of the current specie, which must constantly be the same. It is of no consequence to any person who receives it, whether the coinage costs nothing, or whether it costs 8 per cent.

By this method of imposing coinage, all the advantages reaped by France may be reaped by England. The bullion will be allowed to fall as low as with them, when trade is favourable. If it rises upon a wrong balance, the mint need not be stopped, in case coin be found wanting for the uses of the state; and when that necessary demand is satisfied, the mint price may be reduced again.

Influence of this method of imposing coinage on the price of commodities, and value of the pound sterling.

I do not see how the value of the pound sterling can be anywise influenced by this plan of imposing coinage: because the imposition is not arbitrary; nor can it either add to or take from the mass of the metals appointed by statute to enter into the coin.

The only possible influence coinage can have upon the value of the pound sterling, is by lowering the price of commodities. If it has this effect, I still agree that it is the same thing as if an addition were made to the metals in the coin. Experience alone will resolve the question: and if by this it is found that prices are not affected by it, then we may safely declare, that no variation has been occasioned in the value of the money-unit, and consequently no injury done to any interest within the state.

This proposition, however, requires some limitations. The prices of commodities, certainly, will not be affected immediately by the imposition of coinage, in the way it has been proposed to lay

it.

it on; but I do not say that, upon some occasions, they may not be affected by flow degrees.

When the balance of trade at any time has stood long favourable for England; when the coin has remained long considerably above the price of bullion; and when, consequently, the mint has been well employed; then the value of commodities, as has been said, may become influenced by the operations of foreign commerce, and be sunk in their price. Yet even here this consequence is by no means certain; for this reason, that what turns the balance of trade in favour of a nation is the demand which foreign markets make for her commodities: now this demand, as it raises the value of her coin above her bullion, so it raises the price of her commodities, by increasing foreign competition to acquire them.

These combinations are very intricate, and more properly belong to the doctrine of commerce than to that which we are now upon. I have thrown them in here, for the sake of extending the present theory a little farther, and for enabling us to account for appearances which may happen upon the imposition of coinage, supposing it should be thought proper to make the experiment.

#### C H A P. V.

*How an Experiment may be made to discover with Certainty the real Effects of the Imposition of Coinage.*

WE have dwelt very long upon this part of our subject, and after all our endeavours to elucidate the principles which ought to decide whether or not the imposition of coinage will raise the value of the pound sterling, in a kingdom which, like Great Britain, is in a mercantile correspondence with nations where that duty is introduced, we have still been obliged to leave the final decision of the question to an experiment.

By

By that alone it will be clearly discovered, whether coinage will have the effect, *1mo*, of sinking the prices of commodities, to the prejudice of manufacturers; *2do*, of raising the price of the pound sterling, to the prejudice of all the classes of debtors within the nation; and *3tio*, of hurting trade, by putting England under the necessity of selling dearer, without being able to sell as cheap as before: or whether commodities will remain at their former prices; the pound sterling at the same value; and England be enabled to sell dearer to foreigners, when her commerce is favourable, without being obliged upon other occasions to sell one bit dearer than at present.

I shall now give a hint concerning a proper method of making the experiment.

Suppose peace\* restored, and a balance of trade favourable to Eng-  
land; that government shall take the resolution to set about the reformation of the coin; that they shall publish the plan of reformation three years before it is intended to commence, according to what was proposed in the 14th chapter of the first part; that they shall make a change in the mean time upon the regulation of the mint, by ordering all silver coin, and all guineas, except those of George II. to pass by weight; that shillings shall be ordered to be coined at 65 in the pound troy; the mint price, when at par with the coin, remaining as at present with regard to the gold, and raised to 65 new pence *per* ounce with regard to the silver. This, I imagine, will furnish specie sufficient to the nation, and will make no change upon the value of the pound sterling at present.

So soon as there shall be a few millions of silver coined free, let the mint price both of gold and silver be diminished, suppose 4 *per cent*. This, I imagine, will in a short time give an advanced price to coin, and sink the price of bullion; which will have the effect of recalling all the guineas of the late King from Holland and Flanders; because coin being then dearer than bullion in England, people will choose to send over current guineas to pay their English

\* Written in the year 1761.

debts; rather than to remit Bills of exchange. This circumstance will naturally stop the coining of gold for some time; but if the balance of trade shall continue favourable, the mint must, in time, be set a-going.

During this experiment, a close attention must be had to the rate of prices.

During this period, a strict attention must be had to the state of prices. It is plain, that stopping the coining of gold ought not to make them sink; since the daily augmentation upon the quantity of the gold coin from abroad (which will not cost any coinage) will, I imagine, be sufficient to compensate it. If, therefore, prices shall be found to sink notwithstanding, this effect must proceed from a combination among the merchants. An intelligent statesman will quickly discover the true state of the case.

And if they vary, how to discover the true cause of it.

If the sinking of the price is a necessary consequence of the imposition of coinage, it will perhaps manifest itself by the following symptoms: *1mo*, The profit of the English merchants upon goods exported will be the same as before. *2do*, The price of the goods exported will be the same as before in foreign markets. And *3tio*, Exchange will mark as many *per cent.* favourable for England as goods will have fallen in their price at home.

If the fall of the prices be forced, by a combination among the merchants, their profits will be greater; and very probably no variation will appear upon the exchange in favour of England.

Let, therefore, the course of exchange be attended to, and by this the minister will be able to judge, when silver and gold are to be brought to the mint. The moment exchange, and the price of bullion in the London market, shall shew that coin is near the full price of coinage above the price of bullion, then the time approaches when the mint is to be set a-going.

Farther consequences of this experiment.

It is to no purpose to pretend to prognosticate the effect of this change in the policy of the English mint. Effects it will certainly produce, which every one will interpret according as their interest may dictate to them. But the principles of trade are now too well known. English ministers are too well instructed in the theory of it, and too sharp-sighted to be deceived by appearances. A trial of

of a few years will render the consequences of this innovation perfectly clear; and before the great reform takes place, the principles will be so well confirmed, as not to leave a shadow of doubt concerning the course which is best to be followed.

The silver coined in the interval, at 65 shillings in the pound troy, may then be rated at its just value, in proportion to the new pound sterling, and may form a denomination by itself, easily to be distinguished by the stamp. If it should happen to fall into inconvenient fractions, let it be called in, and received at the mint above the rate of other bullion: the loss will not be considerable; and it cannot be expected that any plan can be proposed which is liable to none.

Another method is, to coin, during the interval of the three years, shillings of the weight adapted to the new regulation, and to give them a value proportioned to the present currency, in the mean time.

In whatever way the experiment be made, by the imposition of the price of coinage, a great expence will be saved to the state, the expence of the mint. The national coin will be kept at home, and when exported, will be preserved from the melting pot. This is the case with the French coin. Why are louis d'ors worth as much as guineas in many foreign countries? It is evident that they are not intrinsically worth so much by  $4\frac{1}{2}$  *per cent.* but they are virtually so in the eyes of money-jobbers; because, being exported from France while coin is fallen low by a wrong balance of their trade, they still retain an advanced value, for this reason, that when sent back, upon a revolution in trade, they are better than bullion, by all the advanced price of the French coin, at a time when their balance becomes favourable; and for this reason they are sought for, and are paid for in proportion: whereas any bullion, or any coin whatsoever, is as good to send to England as her own proper specie; which occasions the guineas to be melted down without the smallest regret.

Can we estimate the wealth of a nation by the quantity of its coin?

It would be a curious inquiry to examine the proportion of money coined in England and in France, and to compare the quantities coined with the quantities in existence. People commonly estimate the wealth of a nation by the quantity of its coined money. Some go farther, and imagine that the quantity of the coined money is the representation, and even the measure of its wealth. I cannot be of this opinion, for reasons which I have given in another place; but I shall only observe here, that coin, like every other thing, is made in proportion to the occasions people have for it.

The more equality there is between industry and consumption in any nation, the less coin they have occasion for, in proportion to the alienations they make; the more a nation is given to penury and hoarding, their occasions for coin are proportionally greater.

An example will make this plain. Suppose two markets in a country, where paper does not circulate; that 1000 people come to the one to sell, in order to buy; that 500 resort to the other, with an intention only to sell, and 500 others only to buy. In the last example, it is evident, that there must be brought to market, in specie, the price of all the goods offered to sale, or else a part must remain unsold: but in the first case, a much smaller proportion will suffice; because no sooner has any one sold the goods he has, than he buys from another what he has occasion for; and so the same money circulates from hand to hand, so much, that if we suppose every one of the thousand persons to sell for the precise value of what he buys, every man will carry home the same sum of money he had in his pocket on coming to market. Those who begin by selling, will carry home their own coin; those who begin with buying, will replace what they had with the coin of other people.

In proportion, therefore, to the trucks of commodities for commodities, money is the less necessary; and in proportion as people sell, in order to realize, coin is the more necessary. When hoarding was in fashion, and when lending upon interest was little known,

known, had alienation been as frequent as at present, the total of coin must have been much greater. At present no body hoards, where lending at interest is lawful, except in nations where credit is precarious. This was the case in England about 1695, and is perhaps the case at present in France\*. Hoarding from this motive is more hurtful than from any other: because, at the same time that it deprives the public of a circulating value, by preventing the lending of the coin of the nation, it also prevents bullion from being lent by neighbouring states, and from being carried to the mint by those who have it at home. Whereas hoarding from avarice has none of these inconveniences; and when credit is good, there will always be found coin sufficient; because a demand for it will always procure it.

Why is there so little coin in England, in proportion to what there is in France? Does any man imagine that this is a mark of poverty? By no means. Let the state proscribe the currency of paper money, the coin will quickly return; because then it will be demanded. But at present the paper supplies its place, and so it goes abroad in order to gain more; whereas in France it remains at home, and produces nothing. The wealth of a nation can no more be estimated by the quantity of its coin, than the wealth of private people by the weight of their purse. Were a person, from that circumstance, to calculate the wealth of the British courtiers, assembled at the Groom Porter's, he would find himself grossly deceived in his conclusions.

\* In 1760.

CHAP. VI.

Miscellaneous Questions and Observations concerning the Doctrine of Money and Coin.

IN deducing the principles of every branch of politics, it is of great importance, at setting out, to treat every one separately; to avoid intricate combinations of circumstances; and to learn how to distinguish between the operations of the general principle in question, and the influence of an accidental circumstance, which may throw the decision of a particular case upon a principle different from that upon which our attention is fixed at the time. Let the combination and complication of circumstances be ever so great, all and every one of them constantly remain under the influence of one principle or other.

The great art, therefore, is to have the whole plan of the science so ready at command, as to be able to combine and apply every principle of it to the case proposed.

From this we discover of what importance it is to be exactly informed as to facts, and how utterly insufficient the best theory is in the hands of any person, who is not at the same time a thorough practitioner in the political science.

In treating of the application of principles to particular cases, we must constantly go upon this hypothesis, that in the case proposed there are no unknown circumstances, which may be repugnant to the exact combination of those which have entred into our supposition.

The use, therefore, of a miscellaneous chapter, after the deduction of the general principles is over, is to serve as an exercise upon them. This is done by introducing questions which may tend to illustrate or explain the matters already treated of, and which

The use of a miscellaneous chapter at the end of a subject.

which have not been introduced in the body of the work, for fear of rendering combinations too complicated, and of drawing the attention from the main object of inquiry. When a particular appearance, also, seems to contradict a known principle, that appearance may here be analyzed, and the particularity of the case pointed out, and ranged under the principle which influences it. Numbers of objections also occur to readers of such inquiries, and which even naturally occur to the author himself, although he be obliged to take no notice of them at the time, for fear of interrupting his subject; these may properly find a place in a subsidiary chapter. It is, however, to no purpose to attempt to exhaust any political subject. The combinations of circumstances are infinite; and therefore people must content themselves with deducing all the principles by which they may be resolved, leaving the rest to the reader's ingenuity.

QUEST. I. The first question I shall propose for illustrating this subject shall be, Whence it comes to pass that the doctrine of money is so extremely difficult and involved?

Quest. 1. Why does the doctrine of money appear so intricate?

ANSW. This I ascribe chiefly to the introduction of a money-jargon, employed by people who have had the management of mints, or who have been practical merchants, without knowing any thing of the theory of their business.

Answ. Because it is perplexed with jargon.

As long as money went by weight, and was considered as gold and silver bullion, the whole doctrine of it remained clear and intelligible: but the introduction of a numerary value, or denominations of money of account, sometimes attached to one quantity of the metals, sometimes to another; and the interest of Princes, which made them endeavour to persuade their subjects that the stamp of the coin was sufficient to give a value to it; has both introduced an unintelligible language, and has really involved the subject with so many extraneous circumstances, that when we consider every thing, the perplexity is not much to be wondered at.

The denominations of coin are confounded with the intrinsic value of it.

I shall now endeavour to reduce all these perplexities under some general heads.

imo, The

The terms metal, money, coin, bullion, and price, are all considered as synonymous.

What is meant by metal?

What by money?

What by coin?

What by bullion?

What by price?

The abuse of the terms rising and sinking, and inaccuracy of speech.

1mo, The first is, confounding ideas quite different in themselves. The terms *gold* and *silver*, *money of account*, *coin*, *bullion*, and *price*, are often understood and made use of as synonymous, although no things can be more different.

The terms *gold* and *silver* should convey to us no other idea than that of pure physical substances.

That of *money of account* represents an invariable scale for measuring value.

*Coin* conveys the idea of the public authority ascertaining the exact proportion of fine and alloy in a mixed metal, and the realizing, in a determinate weight of it, the invariable scale of money, sometimes correctly, sometimes incorrectly.

*Bullion* carries the idea of certain determinate mixtures of the metals, commonly ascertained by some public stamp or other, and drawing their value exactly from the proportion of the fine metals they contain, the workmanship being considered as of no value.

*Price*, again, when considered as consisting in coin, is a more complex idea still. In it are comprehended the value of the metals; the authority of the stamp for the currency; the actual value of the coin as a manufacture, above the value of it as a metal; the common and universal equivalent of all things alienable; and the mean value of the currency of which *price* is supposed to contain exact aliquot parts, when perhaps it does not.

The ideas, therefore, of *gold* and *silver*, of *money*, of *coin*, of *bullion*, and of *price*, are all different; they are commonly confounded, both in speaking and in writing: from this arises the first cause of perplexity.

2do, The second is owing to the common method of estimating the value, and the proportions between *gold* and *silver*; *coin* and *bullion*; *money* and *merchandise*. The terms usually employed to express such combinations are, *rising* and *sinking*, or the like: people employ these terms, without previously agreeing upon the thing which they are to consider as fixed. The value of one of the precious

cious metals is constantly relative to that of the other; and yet, without attending to this, we sometimes consider the gold, and sometimes the silver, as the common measure; and while one is talking of gold as a common measure, the person he talks to is considering it perhaps as the thing measured. This inaccuracy, in supposing sometimes the one as fixed, and sometimes the other, involves us in great obscurities; especially when we speak upon such matters with those who have not distinct combinations of ideas: and if three or four people are engaged in a conversation upon money, every one using the same term in a different acceptance, the confusion which it causes is inextricable.

In like manner, when we speak of coin and bullion, that of the two ought to be considered as fixed which changes its proportion of value the least with respect to all commodities.

Were prices attached to grains of silver and gold, bullion ought in that case to be considered as fixed; but as they are more attached to the denominations of the coin, coin ought to be considered as fixed.

In the next place, in speaking of coin and commodities, we say, for example, that the imposition of coinage makes the prices of commodities sink. We do not, in this case, speak correctly; because if any thing ought to be considered as fixed, it is the relative proportion of value between the different sorts of commodities. In this case, therefore, I think it would be more proper to say, that coinage raises the value of coin, than that it sinks the value of commodities.

To prevent the ambiguity of such expressions from occasioning confusion, and not to depart too far from common language, I have frequently spoken of commodities as rising and sinking in their values with respect to coin; but I have at the same time observed the influence which that rising and sinking has upon the rising and sinking of the value of the pound sterling realized in it.

I have not, however, concluded with equal certainty that the rising and sinking in the value of bullion, with respect to coin, ought

Prices attached to denominations of coin.

Coinage raises the value of coin, is a more proper expression than Coinage sinks the price of commodities.

How to avoid such ambiguities in speech.

A case which cannot be resolved by this theory.



to imply any change upon the value of the money-unit; because I have not been able to determine whether prices ought to be considered as most attached to the denominations of the coin, or to the grains of the metals: except indeed in one case, to wit, when the quantity of the metals comes to be augmented or diminished in the coin. In that case, I have not hesitated to decide that, sooner or later, the influence of trade must operate a rise or a fall in the current value of the specie, which will be marked by an apparent rise or fall in the price of all commodities.

In speaking, we do not distinguish between pure metal and that which is mixed with alloy.

310, Our comparing the value of silver sometimes with the pure metal, sometimes with that compounded with alloy, involves us frequently in a language which is hardly to be understood.

Says one, a pound of silver, troy, is worth 67 shillings. He means a pound of fine silver. We in England, says another, coin our pound troy of silver into 62 shillings. He means the pound of standard silver, which contains 18 penny weights of copper. Says a third, our pound of silver, which we coin into 62 shillings, is not worth 57 s. 6 d. He understands the shillings of fine silver of the same weight with those of standard silver. Another affirms, that an ounce of standard silver, which, at the mint, and in the coin, is worth no more than 5 s. 2 d. is worth in the market 5 s. 6 d. He means, that one must pay at that rate for silver bullion, when they purchase it with over-rated gold. At last comes Mr. Cantillon, who, as a proof of the decline of the English commerce, affirms to us, in his Analysis of trade, p. 133. that both silver and gold bullion are dearer in the London market than in the coin: at the same time, he might have discovered the cause of it, from the lightness of the gold and silver currency at the time he wrote; since the phenomenon could proceed from nothing else: the new guineas must then have been sent abroad. Says a Frenchman, one of our crowns of 3 livres, which passes for 60 sols, is intrinsically worth no more than 56 1/2 sols. He means, that the fine silver it contains is worth no more than 56 1/2 sols, according to the mint price of the fine metals.

410, Another

410, Another cause of perplexity in the money-jargon, is the prodigious abuse of the terms which express the denominations of the coin, or the numerary unit.

Of the abuse of terms relative to the denomination of coins.

French historians write familiarly of sums of money in livres and crowns, through all the stages of the monarchy. English writers (for the most part) do the same, in speaking of pounds sterling. Nothing however is more different than the ideas expressed by the same term.

Were any person, talking of lengths and distances, to use the word *foot*; sometimes to signify *yard*, sometimes *perch*; or to use the word *mile*; to signify sometimes *league*, sometimes *inch*, and sometimes *fathom*; who could comprehend one word of his discourse concerning the matter? Would we not even laugh at such a person, for pretending to inform us of any thing concerning lengths or distances.

This illustrated by an example.

If any change be made upon the value of the money-unit of a country, which is called a pound; in propriety of language, it can no more be called a pound, after the change, than it can be called a rhinoceros.

510, Another reason for the obscurity of money-jargon, is the manner in which writers express themselves, when they speak of variations in the value of money. Upon this occasion, says one, the King raised the money 5 per cent. What does this mean? No man living can understand the expression; because it may signify, that he raised either the denomination of the coin, or the value of the unit. If he raised the coin, he debased the unit: if he sunk the coin, he raised the unit. A crown of 6 livres is a coin; a livre is the unit. If it is said, the 6 livre piece is raised; that is as much as to say, it is made to be more than 6 units; consequently, as the silver in the piece does not change its weight, it follows, that the unit, or money of account, is diminished. On the other hand, if it is said that the livre is raised, it implies that the crown, which contained 6 livres, is made to contain less than 6 units; therefore,

Farther obscurities from the abuse of language.

the value of the unit is raised; that is, it is made to contain more silver than before.

How to avoid such abuse.

Writers, therefore, to be distinct, ought never to mention these matters, without removing the ambiguity, in favour of readers of all denominations. As for example: The King raised his coin, and debased his money of account. For this reason the French expression is good, and easily understood; *augmenter la valeur numeraire des especes*, is liable to no obscurity.

There are also two terms used by French writers, which appear synonymous, and yet are directly opposite; *affoiblissement*, et *diminution de la monnoie*. Such terms are perplexing, and ought either to be avoided, or constantly explained. The first signifies the coining the specie of the same denomination lighter in the metals than before: the last signifies the lowering the denominations of the coin already made. The first therefore diminishes, the second increases the value of the unit, which is the livre.

Quest 2d. What is the difference between raising the value of coin, by imposing coinage, and raising the denomination of it?

QUEST. II. What is the difference between the effects produced by raising the value of the coin by the imposition of coinage, and raising the denomination of it? This question is proposed as a further means of rendering the money-jargon intelligible.

ANSW. The imposition of coinage, when it gives an advanced value to coin above the metals it contains, is very different from that advanced value which the coin appears to receive when the Sovereign arbitrarily raises the denomination of it; or as the French call it, when he augments its numerary value.

Answer. The first is real, and affects foreign nations; the other does not.

When the imposition of coinage gives an advanced value to the coin above the bullion it contains, that value becomes real, and extends itself to foreign nations; that is to say, the coin, so augmented as a manufacture, must be bought with more foreign coin than formerly. But when the denomination, or numerary value, is augmented, the same piece (though augmented in denomination) is bought by strangers with the same quantity of their coin as before. An example will make this plain.

Let us suppose the coin in France, in war time, reduced to the value of bullion, and that the value of a crown of three livres, by the course of exchange, should be then worth 29  $\frac{1}{2}$  pence heavy silver sterling money; if the balance of the French trade should become favourable in general, and that coin should become 8 per cent. dearer than bullion in the Paris market, then the price of the crown of three livres will rise 8 per cent. upon the London exchange above 29  $\frac{1}{2}$  pence heavy silver sterling money, although there be respectively no balance to be paid in bullion either by England or France. But let the King of France ordain, that the crown of three livres shall be raised in its denomination to six livres, and let the coin at that time be supposed to be at par with bullion in the Paris market, the crown of three livres will then be paid as formerly with 29  $\frac{1}{2}$  pence. That is to say, the augmentation of the denomination will have no effect upon the value of the coin in other countries; whereas the augmentation affected by the operations of trade, in consequence of the imposition of coinage, is a real augmentation, since it extends to foreign nations.

Proved by an example.

Now it is certain and evident, that the augmentation of the numerary value has the undoubted effect of sinking the value of the numerary unit realized in the coin, and that upon such occasions we ought to say, that the King has diminished the value of the livre, and not that he has raised the value of the coin. But the abuse of language has made people consider the livre as the thing fixed, and therefore the coin is considered as the thing which rises and sinks. The consequence of this is, to introduce another abuse of language. People say, that the prices of commodities rise: I ask, With respect to what? Not with respect to the pieces of coin, but with respect to the denominations they carry: that is to say, with respect to livres; although the livre be considered as the thing fixed. There is, however, a reason why people express themselves in this improper manner, which proceeds from the perplexity and confusion of their ideas concerning money.

How the arbitrary method of raising the denomination of coin affects prices at home.

When the King of France arbitrarily changes the numerary value of his coin, commodities are found, by universal experience, to stick so closely to the denominations of it, that people are apt to think that it is the King's will and pleasure, and not the metal of which the coin is made, which gives it a value. But commodities depart from these denominations by degrees, and fix themselves a-new at a determinate value of the fine metals, proportioned to what they bear in foreign nations. This is brought about by the operations of commerce; and consequently, the rise of prices, not taking place till some time after the numerary value of the coin has been augmented, people accustom themselves to say, that the augmenting the denomination of the coin raises prices, and that diminishing the denomination sinks them. But did all prices strictly adhere to the grains of bullion contained in the coin, and not to the denominations of the numerary value, then language would change, and no body would speak about the rising and sinking of prices, but of the rising and sinking of livres, sols, and deniers.

I hope, from what has been said, that the difference between raising the value of the coin by imposing coinage, and the raising the nominal value of it by augmenting the denomination or numerary value of it, is perfectly understood. The first raises the value of the numerary unit, by giving a real additional value to the coin as a manufacture: the last raises, for a while, the value of the numerary unit; only because the price of commodities, being attached to the denominations of money of account, stick to them, until the operations of trade reduce them to their true principle.

Whenever, therefore, the terms *rising* and *sinking* are applied to value, the thing which is said to rise, is supposed to be the moveable; and the thing it is compared with, or with respect to which it is said to rise or sink, is supposed to be the term fixed. Every one, therefore, who reads books upon this subject, ought, upon all occasions where there is mention made of rising and sinking of the

the price of the gold, silver, bullion, coin, exchange, or commodities, constantly to cast his eye upon the thing which is supposed to be fixed, and retaining that in his mind, he will preserve his ideas distinct.

QUEST. III. Let us suppose that the imposition of coinage, when properly laid on, will not raise the value of the pound sterling; and consequently that it will not affect the domestic interests of Great Britain: it may be asked, What influence that imposition will have upon the interest of her foreign creditors, since it must affect exchange?

ANSW. The foreign creditors of the nation will thereby be gainers, provided their interest continues to be paid in denominations of pounds sterling, and not in a determinate number of grains of the fine metals, as was proposed to be done in the fourteenth chapter of the first part. The reason is plain: upon all occasions, when coin carries an advanced price above bullion, those who have funds in England will gain upon exchange. This gain will not, I think, be at the expence of the nation, but at the expence of those foreigners who have occasion for paper draughts upon London.

A creditor of England (in Holland I shall suppose) draws for a thousand pounds sterling, (the interest of his English funds) a Dutchman who owes a thousand pounds sterling in London, buys his bill; must he not pay the creditor of England, not only the intrinsic value of the bullion contained in the thousand pounds sterling, but also the difference between the thousand pounds sterling in coin, and the bullion it contains, according to the price of it in the London market? This difference then, received by the proprietor of the English funds, is clear gain to him, and is no loss to the nation; it is a loss to the Dutchman.

Farther, every Dutchman who pays his debts to people residing in England, must suffer the same loss; that is, he must pay the coinage, which at present the state makes him a present of.

From

Quest. 2.  
How will the imposition of coinage affect the creditors of Great Britain?

Answ. If they continue to be paid by denominations, they will gain; if by weight of metal, they will not gain, nor will they lose.

Proved by an example.

From this I think it is plain, that while the balance of trade is favourable to England, or at par, all remittances made by foreigners, to pay their English debts, must pay the coinage.

The operation of this principle has not a little contributed to facilitate the establishment of the French credit.

How the imposition of coinage advances the credit of France.

When France borrows, especially in war time, foreigners can remit to Paris the money they lend nearly at par with bullion: Then they pay little or no coinage; and when peace is restored, the coin rising in its value, they gain annually several *per cent.* upon their draughts for their interest, to wit, all the advanced value of the coin, at no loss to France.

Quest. 4. Is the plan we have proposed effectual towards preserving the pound sterling invariable?

QUEST. IV. Is the preserving the pound sterling at the mean value of a determinate weight of fine gold, and fine silver, a sure method of realizing the unit of money of account, so as to preserve it at all times invariable?

Answ. No; but seems to be the best relative to material money.

ANSW. I apprehend it is not; although it seems to be the best that can be devised, upon supposition that the metals are to be made use of, as the most proper substance for realizing the scale.

I have said, in the beginning of this book, that the use of the scale was to measure the relative value of things alienable. Now the metals themselves being of the number of things alienable, and their proportion of value being nowise determined, but liable to augmentations and diminutions, as well as that of grain or any other commodity, no scale which is attached to them can measure any thing but their weight and fineness, and consequently can be no permanent measure for any thing else.

A scale of value realized in metal can never be exact; because the metal itself varies in its value.

Did the value of commodities rise and fall with respect to grains of the fine metals, in the same proportion that they rise and fall with regard to one another, the scale would be exact: but if the grains of metal can acquire an increment, and a diminution of value, from circumstances entirely peculiar to themselves, such circumstances must render the scale they compose inaccurate in proportion.

Now

Now we have seen how the imposition of coinage enhances the value of coin. The rising and sinking of the interest of money has the same effect. The vicissitudes to which credit is liable has a prodigious influence upon the value of the metals. The manners even of a people, which can be determined by no principle, operate the same effect. When people, for example, are given to hoarding, the metals come to be demanded with more eagerness, that is, the competition to acquire them is greater; consequently the value of them with respect to all commodities, is greater than when they are purely considered as money of account.

1. From the manufacturing of it.  
2. From the interest of money.  
3. From the manners of a people.

That scale, therefore, is the only just one, which measuring the value of the metals, like that of every thing else, renders every individual of a state equally rich, who is proprietor of the same number of denominations of specie; whether his wealth be in gold, silver, or any other property or commodity.

The only exact scale of value is that which can measure the metals like every other commodity.

Now I agree that, at any given time, this is the case when the scale is properly attached to the metals; but it is not permanently so. A determinate property in land bears sometimes a greater, sometimes a less proportion to a determinate property in money. When the scale is attached to the metals, he who is proprietor, for instance, of a thousand denominations in coin, becomes richer or poorer, according to the fluctuation of the value of that commodity, the metals. Whereas when the scale is not attached to any species of commodity, nothing can change his proportion of wealth, except the augmentation or diminution of the value of the whole state. This idea is not so distinct as I could wish: let me illustrate it by an example.

Explanation of this proportion.

Suppose then three partners (A), (B), (C). They form a common stock by equal shares; (A) contributes a thousand pounds sterling in current specie, (B) the same value in corn, (C) a like value in broad cloth. Let me suppose the measures of these commodities to be expressed by their proper denominations; the metals by grains, the corn by bushels, the broad cloth by yards. I suppose that at the end of the year 20 *per cent.* is gained upon each article of

by an example.

of flock; that is, 20 per cent. increase upon the grains of metal, 20 per cent. on the bushels of grain, 20 per cent. on the yards of broad cloth. This supposition may be allowed. I ask, if it would not be a much more equal way of dividing this profit, to reduce the whole value of the grains, bushels, and yards, to the then actual value in pounds sterling, and so to divide; than if every man were to take his 20 per cent. out of that commodity he had furnished to the co-partnership? This method of reducing all to a common measure, is what I understand by an ideal scale of money of accompt.

and by an application to the bank of Amsterdam.

The bank of Amsterdam pays none in either gold or silver coin, or bullion; consequently it cannot be said, that the florin banco is attached to the metals. What is it then which determines its value? I answer, That which it can bring; and what it can bring when turned into gold or silver, shews the proportion of the metals to every other commodity whatsoever at that time: such and such only is the nature of an invariable scale.

How the locking up the coin in that bank renders the value of it more stable.

I confess I am not capable of analyzing all the complicated operations of trade in such a distinct manner as to demonstrate how the universal circulation of value, over the commercial world, should operate this effect; and how the burying, as it were, a quantity of gold and silver in a vault, should give a more invariable worth to a florin, whose value depends upon it, than if the metal itself was to circulate in coin.

Thus far, however, I think I understand, that the impossibility of profiting of the rising value of one of the metals (which is buried) ought to find a compensation at all times in avoiding the loss upon the other, which sinks in its value.

Farther, the burying the coin both in gold and silver is in a manner forming these two metals into one mass; this takes away the variation in the proportion of their value, which principally disturbs the uniformity of their operation as a scale. They cannot either be considered as commodities, because they are taken out of commerce entirely; yet the permanent value of them remains. Upon that the bank money is secured; but it is not realized in it.

In banks which pay in coin the case is different; because the denominations in their paper are liable to all the fluctuations incident to the coin in which they pay. The bank money, therefore, of Amsterdam is pure money of accompt, and has nothing of merchandize in it from the metals in the vaults. The paper of all banks which pay, rises and falls in value, according to the currencies in which their notes are acquitted.

I leave the farther delucidation of this mysterious affair to people of better capacity, and of more extensive knowledge in those matters than I can pretend to.

To conclude, no material money, let it be contrived as it will, is exempted from vicissitudes in its value as a metal. This is proved by the universal risings and sinkings in the price of commodities, in consequence of circumstances peculiar to the coin. These risings and sinkings of prices, I say, are properly risings and sinkings of the value of the coin, and that again is a lengthening and contracting of the equal parts of the scale of value which is attached to it. Now there is no such thing as any vicissitudes in the prices of all commodities with respect to bank money, although nothing is more common than fluctuations in agio, with respect to current money; consequently, bank money has a property and a stability in it, which no material money is capable of acquiring, and for that reason it is preferable to it, and is properly considered as the thing fixed.

QUEST. V. Will not the imposition of coinage in England prevent, upon many occasions, the carrying bullion to be coined at the mint, when it would be carried were the coinage free?

ANSW. Without all doubt. When coinage is free, every man who imports bullion runs with it to the mint; there it is proved, cut, and stamped to his hand, and at no cost. Now to what purpose all this expence; why carry bullion to be coined, while the balance of trade is against a nation, since such bullion must be re-exported, together with a part of the national stock of the metals? Besides, the coining of it gratis, adds not the smallest value to the metals con-

QUEST. 5. Will not the imposition of coinage in England frequently stop the mint?  
ANSW. Certainly; when the balance of trade is unfavourable.

sidered as a manufacture; consequently, upon the exportation, the whole price of coinage is entirely lost, and the national stock of coin is not thereby augmented; nor would it be augmented while trade is unfavourable, were five hundred mints kept constantly at work.

But this is an advantage to England which France now enjoys.

The imposition of coinage, therefore, has these good effects. First, it prevents bullion from being coined, except when such coined bullion can remain in the country and augment the national stock of coin. Secondly, as has been said, it gives an additional value to the coin, even in foreign countries, and thereby prevents it from being melted down abroad, in order to be re-coined in other mints, and thus augment the stock of coin in rival nations.

I believe no body ever imports louis d'ors to be coined in the English mint (notwithstanding of the benefit there is in importing gold into England from France, where the proportion of the metals is lower) yet nothing is more common than to carry guineas to every foreign mint, at the bare price of bullion. This is the reason why so little English coin, and so much French coin is found in circulation, in countries foreign to both these nations.

The coin of France passes in other nations above its value as a metal, and returns to France unmelted.

Louis d'ors, in consequence of the high imposition of coinage in the French mint, pass current, almost every where, for more than their intrinsic value, even when compared with the coin of the very nation where they circulate without the sanction of public authority; and when that authority regulates their currency, according to their intrinsic value, such regulation has the same effect as forbidding them altogether; because the moment a money-jobber lays his hand upon them at the statute value, he circulates them no more; but sends them either back to France, or to some country where they pass, by a conventional value, above their intrinsic worth. Thus louis d'ors, as well as all French coin, are effectually prevented from being melted down, and so soon as the balance of the French trade becomes favourable, they return home.

QUEST. 6. Is not this return a loss to France?

QUEST. VI. Is not this return of louis d'ors to France, upon the balance of their trade becoming favourable, a loss to France; since, in

in that case, the balance of their trade is paid with a less weight of bullion than it would be paid with, were their coin worth no more than bullion; and secondly, because when the coin is exported to pay the balance, it is exported upon the footing of bullion, and when it returns it is paid back at an advanced price?

The difficulty of resolving this question proceeds from the complication of circumstances in which it is involved; and the intention of proposing it, is to shew how necessary it is, in practice, to combine every circumstance in political problems.

Intricacy of this question.

I shall therefore observe, that since, at all times almost, French coin passes (out of France) for more than its intrinsic value, it is not well possible to suppose that, even during a wrong balance of the French trade, their coin can ever fall so low as the price of bullion; consequently the French by exporting their coin, upon such occasions, above the value of bullion, that nation is a gainer of all the difference. This operates a compensation of the loss (if any they sustain) upon the return of their coin. In the second place, when the balance becomes favourable for France, and when there is found a profit in sending back the French coin, the demand that is made for it, by those who want to pick it up in foreign countries, raises the value of it there in circulation; this again favours the trade of France, and makes the difference of paying what one owes to France in bullion at the market price, or in louis d'ors at the advanced value, very inconsiderable; which consequently prevents merchants from finding any great advantage in sending back large quantities of it.

Resolution of it.

Besides, when the coin returns, although it has an advanced value, it has no advanced denomination. It was exported according to its numerary value, and it returns upon the same footing. Farther, when the coin returns as the price of French merchandise, for the same value it bears in the country, I cannot discover a principle which can make this appear to be a loss to France. The loss therefore must be upon the exportation of the coin, not upon the return of it. But we have said that if it be exported at a higher value

value than that of the bullion it contains, this must imply a profit to France. Consequently, the remainder of loss upon exportation must be apparent, not real: It is a loss to Frenchmen, who, in exporting the coin below the full value of it (coinage included) lose a part of what they had paid the King for the coinage; that is to say, they lose it so far as they do not draw it back *in full* from the foreigners to whom they owe; but it is no loss to France: on the contrary, it is a gain, as far as any part of the coinage is drawn back; and this is the case as oft as the coin is exported above the price of bullion.

It is no loss to France.

Another view of this question.

Or in another view. This going out and returning of the French coin, may be considered as a loss to France in this respect, that when the balance of her trade is against her, when her coin loses of its advanced value in payments made to strangers for the price of foreign commodities, those who consume such commodities in France, must consume them at an advanced price to themselves, but at no additional profit to foreign suppliers; because as to these last, the French coin, with which we suppose the commodities to be paid, having lost of its value every where, cannot then purchase so much as at another time, and consequently is not worth so much to the foreign supplier who receives it. For the better understanding of what has been here said, attention is to be had to the difference there is between a *national* loss, and the loss sustained by the individuals in a nation. The balance of trade is the national profit, or the national loss; but the gains or losses of individuals, may be compatible with either a right or a wrong balance of the trade of the nation to which they belong. This will be fully explained when we come to treat of exchange.

In this respect, therefore, France may be supposed to lose upon exporting her coin, to wit, so far as she consumes foreign commodities at an advanced value; but then I say, that in this case France loses the whole price of the commodities, not the advanced price only; because she loses the balance of her trade. Abstracted from that, I say she loses nothing. Who loses then the advanced price? I answer, the consumer of the commodity loses it, and I say that

that no body gains it. This is what, in the eighth chapter of the second book, was called positive loss, and it is owing to the annihilation of a part of the advanced value of the coin, which the operations of commerce have effectuated.

In these respects only can France be considered as a loser upon exporting her coin; but in having it returned upon her, when at an advanced price above bullion, the loss is nothing; because the advanced price then is a real value added to the coin, and there is no manner of difference as to France, to receive, for the balance of her trade, an hundred pounds weight of her own louis d'ors, or an hundred and eight pounds of standard gold bullion, at such times as bullion is commonly carried to the mint; because the one and the other weight of coin and bullion will answer the same occasions both in the Paris market, and in most trading towns in Europe.

From these principles we may gather how effectually the imposition of coinage must prevent the melting down of the coin, providing a sufficient attention is had to preserve the denominations of the coin in both species at the exact proportion of the market price of the metals.

QUEST. VII. The two metals being only valued by one another, if the English, by valuing the gold higher than the French do, occasion the exportation of their silver, why should not the French, by valuing their silver higher than the English do, occasion thereby the exportation of their gold? And if the English, by over-rating their gold, prevent the carrying silver to be coined at their mint, why should not the French by over-rating their silver prevent the carrying gold to be coined in their mint?

QUEST. 7. If by over-rating gold, the English lose their silver, why should not France, by over-rating silver, lose their gold?

ANSW. The English over-rate their gold not only with respect to other nations, but with respect to the value of it in their own market; whereas the French preserve, in their gold and silver coins, nearly the proportion between the metals as they are sold in their own market.

ANSW. Because the English rate their gold above the value of it in their own market, the French do not so with their silver.

In France no body can profit by melting down either of the species, in order to sell it, with advantage, as bullion; but in England,

land, by melting the heavy silver coin, one may sell it in London for more gold than the same coin not melted can purchase.

But here it is objected, that although the proportion between gold and silver, in the English coin, were set upon a par with that of the metals in the London market, still one species may be exported with profit, providing the proportion be different in other nations.

There is little force in this objection, and were there any, it would be an additional argument for the imposition of coinage; because by this the exportation of either of the species, for the sake of any small difference which may sometimes be found between the proportion of the metals in the different markets of Europe, would be prevented. This circumstance however requires a more particular examination.

It is a principle in commerce, that the demand for any commodity raises the value of it; and every nation knows how to profit of a demand for what they have.

How the proportion of the metals is kept nearly the same in all European markets. Because when home demand disturbs the proportion, foreign trade brings it even again.

Whenever, therefore, one of the metals bears an under value in one nation, below what it bears in another, that under value makes that species more demanded by strangers, and it consequently rises in its value, even at home.

By this principle the proportion between the metals in European markets is kept nearly the same, and the small difference which is found does not so much proceed from the demand of foreign trade, as from the taste of the inhabitants. The foreign demand tends to set the proportion even in all markets, and the internal demand for one metal preferably to another, is what makes it vary.

The carrying the metals backwards and forwards is attended with risk and expence; there is not, therefore, so much danger of a nation's being stripped of one of its species of current coin by such a trade, as there is when the proportion of the market price of the metals is different, at home, from that observed in the coin;

because in the last case, every one may profit of the disproportion, at the trifling expence of melting down the rising species.

From this we may conclude, that nations ought to regulate the proportion of the metals in their coin, according to the market price of them at home, without regard to what it is found to be in other nations; because they may be assured, that the moment any difference in the market price shall begin to be profited of, that very demand will alter the proportion, and raise the market price of the metal sought for by foreigners. While the coin, therefore, is kept at the proportion of the market at home, and while the denominations of both species are made to keep pace with it, it will be utterly impossible for any nation to hurt another by any such traffic in the metals.

Coin of gold and silver should be proportioned to the rate of the market at home,

We may farther conclude, that it is to no purpose for nations to agree by treaty upon a certain proportion between silver and gold in their coins: it is the several market prices every where which alone can regulate that proportion, and the only method to keep matters even between them, is to make the denominations in both species keep an equal pace with the price of the metals in their own market.

and nations cannot fix that proportion by any convention among themselves.

Here it is farther objected, that were these principles just, there would not be found so great a disproportion as there actually is, between the value of gold and silver in Europe, and in the empire of China.

Why is the proportion of the metals so different in England and Asia?

To this I answer, that the principles are just, and that this difference proceeds from incidental circumstances which I shall now point out.

First then, the European trade hardly penetrates into that vast empire. 2. The lowness of the proportion between gold and silver is maintained by the high internal demand for silver in China. 3. The India trade being every where in the hands of companies, there is not so great a competition between the sellers of silver, in the Chinese market, as if that trade were open to every private adventurer; consequently the price of it is not so liable to be diminished.

Answer to this.



nished. And last of all, the expence of carrying silver thither, and the long lying out of the interest, would put a stop to the trade, were the proportion between the metals to rise in China. This prevents competition still more between the different European companies, and consequently prevents the rising of the proportion.

I need not observe, I suppose, that the term *rising of the proportion*, denotes the rising of the price of silver; as when being at that of 1 to 10, it comes, for example, to that of 1 to 11. This term has been already explained.

QUEST. 8. Is it the interest of Princes to debase the standard of their coin?

QUEST. VIII. Is it the interest of Princes to debase the standard of their coin?

ANSW. This question has been already touched upon in the twelfth chapter of the first part. Perhaps some farther observations upon it may not be found superfluous.

In order to set it in a fair light, I shall begin by reducing it to its ruling principle.

The question turning entirely upon the *interest* of Princes, I shall take no notice of the iniquity of such a measure with respect to their subjects; but shall confine it purely to the *interest* they may have in exercising this branch of prerogative.

ANSW. It is their immediate interest to debase it when they are debtors, and to raise it when creditors, but always unjust.

I answer then, as I have hinted above, that it is their *interest* to debase the standard of their coin when they are in the situation of debtors; and it is their *interest* to raise the standard when they are in the situation of creditors.

Debasing the standard I have explained to be the diminution of the intrinsic value of the unit below what it was before, either by raising the denomination, augmenting the alloy, or diminishing the weight of the coin.

Now since Princes pay their servants by denominations, that is, by money of account, the more they augment the denomination of the coin they possess, the more they gain upon what they have at the time. But they lose proportionally upon their revenue ever after; because the rents and duties levied on their subjects being

also paid by denominations, the Prince loses every year on his income what he had gained upon one operation.

From this we may draw a principle, that Kings who have begun to debase the standard, ought to go regularly on every year, as long as they find themselves in the state of debtors; and when they come to alter their situation, and become of the class of creditors, it is then their interest to raise the standard. This must be a little further explained.

It has been abundantly proved, that increasing the denomination, or debasing the standard, must constantly be advantageous to the whole class of debtors; consequently, Princes, who are upon certain occasions obliged to lay out more than they receive, may then be considered as being of that class. Whoever receives from another what the other is obliged to pay him, may be considered as a creditor; whoever gives to another what the other is intitled to demand of him, may be considered as a debtor. Those, therefore, who both pay and receive, are, upon the whole, either debtor or creditor, according to the side which preponderates. He who is obliged annually to pay more than he annually receives, must be obliged either to run in debt, to borrow, or to take from a fund already formed (a treasure). The maxim therefore is, first to fill the exchequer with the annual income; then to debase the standard; and last of all to pay. The debts paid, and the current expence brought within the income; then is the time to raise the standard. This operation is like that of the ram; he runs back in order to advance again with more force.

Who are debtors and who creditors, and how Princes who incline to rob their subjects may avoid robbing themselves at the same time.

The great master of government and political oeconomy well understands this doctrine. He is now spending his treasure, not his income. He is then in the state of the debtors, and accordingly is regularly every year debasing the standard of the S—n coin. This debasement, I suppose, regularly takes place after the contributions for the year are paid. So soon as the war is over, and that this oeconomical Prince shall return to the state of creditor, he will, I suppose, suppress the currency of all this bad money, and restore

Example of a Prince who is now employing this engine against his enemies, not his subjects.

the standard. That is to say, he has during the war been ruining all the class of creditors in permanent contracts (the S—n nobility) and when the peace is re-established their own Prince may indemnify them, if he pleases, by restoring the former value of the unit. All sudden revolutions are hurtful; but necessity has no law\*.

This, in a few words, is, I think, the answer to the question proposed. Princes have for several centuries, in almost every nation in Europe, been gradually debasing the standard of their money-unit; and the debts they have contracted during the debasement have constantly been an argument against the restoring it. But had they first regulated all their debts upon the footing of the last debasement, stipulating with their creditors that they were to be paid upon the footing of the then currency, that is to say, according to the French stile, *an cours du jour* of the stipulation; they then might, without any advantage to their creditors, and with great profit to themselves, have restored the standard, and so prepared the means of executing the same operation as before, upon a new emergency.

Writers against this practice have used wrong arguments to dissuade Princes from it.

Those who have writ against this practice of debasing the standard, have made use of wrong arguments to dissuade Princes from following such a measure. They have first represented it as hurtful to their own interest. This we have seen is not always true. They have also endeavoured to prove that it is vastly prejudicial to commerce. This is the great point laboured by Dutot, in his *Reflexions Politiques sur le Commerce*; but to very little purpose. All the facts and arguments he has produced to prove (by the course of exchange) that the variations made in France in the standard value of their crown of three livres did hurt to the trade of that nation, prove nothing at all, as it would be easy to shew, were this a proper place. The hurt done to manufactures is greater; but, in a trading nation, those establishments being under the influence and direction of merchants, who are perfectly instructed as to every consequence of such alterations, the manufacturers, after

\* Writ in the year 1760.

a very

a very short time, raise their prices to the full proportion of the increase in the denomination of the coin.

The real inconveniencies which proceed from this exercise of power, may be reduced to three.

The proper arguments against it are three.

1<sup>mo</sup>, It disturbs the ideas of a whole nation with regard to value, and gives an advantage in all bargains, to those of the society who can calculate, over those who cannot.

1. It disturbs the ideas of a people with regard to value.

2<sup>do</sup>, It robs the whole class of debtors when the standard is raised; and it robs the whole class of creditors when it is debased.

2. It either robs the class of debtors or of creditors.

3<sup>tio</sup>, It ruins credit; because no man will borrow or lend, in a country where he cannot be sure of receiving back the value of his loan; or of being in a capacity of clearing himself by paying back the value he had borrowed.

3. It ruins credit.

This last circumstance has overturned the whole scheme in France: Princes would go on debasing their standard as formerly, could they do it and preserve their credit. But who will lend a shilling to a Prince if he suspects he will pay him back, perhaps, with sixpence? The Prince above mentioned does not borrow; and as he is the only one in this situation, he may debase his standard: but others cannot venture upon such a step.

This last circumstance will probably put an end to the practice.

QUEST. IX. What is the best form to be given to coin?

Quest. 9. What is the best form to be given to coin?

ANSW. The intention of coinage, for circulation, being to ascertain the quantity of the fine metals in every piece, and not to represent the effigies of the sovereign, we see a manifest difference every where between the impressions struck upon medals, and those of the current coin: in the first, the head is raised, in the last, it is purposely made flat.

Difference between medals and coins.

Antiently, the impression put upon some of the English coins was a cross; which being indented upon the penny, instead of being raised, occasioned these pieces frequently to be broken into four parts. This is said to have given rise to the denomination of farthings, or fourth parts. The indenting the impression upon the coin, is no doubt a preservative against its wearing; but as it is

Of indenting the impression.

liable

liable to other inconveniences, and is so repugnant to custom, it would be ridiculous, perhaps, to propose it.

I shall reduce, therefore, all I have to propose as a supplement to what has been said already on this subject, to a very few observations.

The less the surface, the wearing is the less.

1mo, The less surface any piece has in proportion to its mass, the less it is worn in circulation; and as all coin is made cylindrical, that whose form approaches nearest to the cylinder, whose height is equal to its diameter, must have the least. Coin therefore ought to be made thick, and for this reason louis d'ors are of a better form than guineas, and guineas of a far better form than ducats. Were it easy to give the surface a spheroidal form on both sides, rendering the coin thicker in the middle than at the edges, the surface would be thereby a little more diminished.

The advantage of heavy pieces for the greater part of the coin; yet small denominations are useful, in some cases, for preventing the rise of prices.

2do, The great credit of paper in England, is a vast advantage in many respects. It renders coin less necessary. While that credit subsists, large payments will always be made in paper; and this renders the coinage of gold in large heavy pieces less necessary. The coin, therefore, in England, ought to be calculated for the easy changing of bank notes, not with a view to the making great payments in it. For this purpose, two and three pound pieces might be full as convenient as single guineas, and half guineas might be proscribed. Small denominations of gold coin lead to expence, and tend to raise the prices of such commodities as people of fashion pay immediately out of their own pockets. As for the silver, the same principles are to be observed. Crown pieces are very convenient in payments, and have a great advantage over shillings and fixpences in point of surface. The practice in France of coining the greatest part of their silver in such pieces abundantly shews how few of the lesser denominations (that is shillings, &c.) are necessary for carrying on circulation.

Mixed metal better than copper for small denominations.

3tia, The copper coin of England is exceedingly bulky, in order to give it an intrinsic value. This makes many people ashamed to carry

carry it; consequently increases expence, and raises the price of many things for the reason already given.

minations, as appears from the practice in Germany.

What inconveniency could there possibly be in making pence of a mixed metal of a much lower standard than the other coin. The coin would be less bulky, and the intrinsic value might be preserved. This is the custom all over Germany. The lower denominations of the coin are all of different fineness. The standard for what they call the *gros*; the 7, the 10, the 17, the 20 creutzer pieces, are all of different fineness; but still in the same sum, in whatever coin it is paid, according to the laws, there ought to be found the same quantity of fine silver. This enables them to coin pieces of very small denominations which have however the same intrinsic value with the other denominations of the coin, and which are neither of an unwieldy bulk, or of an inconvenient smallness. This is the regulation in Germany: I do not say that the regulation is well observed.

Farthings of copper are good and convenient; a few of these ought always to be preserved in favour of the lower classes of the people, who thereby are enabled to keep down the prices of the small necessaries of life: a matter of the greatest importance to a trading nation.

Nations ought to copy from one another what is good and convenient, and should be above the thralldom of little prejudices in favour of established customs, which have frequently nothing but custom to recommend them.

4to, It must be observed that upon adopting the German regulation as to pence, such coin must not be allowed to be put up in bags of coin delivered by weight; nor made a legal tender beyond the value of the lowest silver coin.

Mixed metal never to be bagged up with fine.

CHAP. VII.

Of the Regulations observed in France, with regard to Coin, Bullion, and Plate.

IT now only remains, that I lay before the reader what I have been able to gather, upon good authority, concerning the regulations in some of the principal nations of Europe, with regard to their mint: and this so far only as is necessary for illustrating our subject, and confirming the principles we have been laying down.

The marc is the unit of French weight at the mint. The remedy of weight upon silver what.

The unit of weight in the French mint, is the *Marc*; composed of eight ounces, every ounce containing 576 grains. The marc consequently contains 4608 grains of Paris weight, called *poids de marc*.

By this weight the bullion is delivered to, and the coin is taken from the workmen in the mint, to whom the King gives an allowance of 36 grains upon the weight of every marc of coin delivered. This allowance is called *le remede de poids*.

A marc therefore of French silver coin, is not to be reckoned at 4608 grains, but at 4572 grains effective.

The standard of fineness is 11 fine to 1 alloy.

The *Titre* or title, as the French call it, or the standard of their silver coin, is 11 parts fine to 1 part alloy. At this rate we shall find in this *Marc* of coin, consisting of 4572 grains standard silver, 4191 grains of fine silver, and 381 grains of alloy.

Remedy of alloy what.

But the workmen have also an allowance of 3 grains upon the fineness, which introduces a new equation.

The mass of silver in the French mint (when we speak of the fineness) is supposed to be divided into 12 deniers, and every denier into 24 grains; which, in this acceptation, are both denominations of proportion, not of weight.

Any mass of silver, therefore, of whatever weight, must be supposed to contain  $12 \times 24 = 288$  grains of proportion; consequently,

were the standard exactly 11 deniers fine, the proportion would be marked thus, 264 grains fine, to 24 alloy; but since there is an allowance of 3 grains of proportion, called *le remede d'alloy*, this brings the proportion to be as 261 is to 27. This is the exact standard of French silver coin, and answers to 10 deniers and 21 grains fine, which is the term used in the mint.

To find, therefore, the number of grains of fine silver in a marc of the French silver coin, we must state this proportion,  $288 : 261 :: 4572 : 4143.38$ .

The marc, therefore, of coined silver, after all deductions for alloy, and for *remede de poids*, contains of fine silver 4143.38 grains *poids de marc*.

Quantity of fine silver in a marc, as delivered at the mint.

This *marc* is coined into 8 great crowns and  $\frac{1}{4}$  of a crown, value in the coin 49 livres, 16 fols.

Into what coined.

If therefore 4143.38 grains of fine silver, be worth 49 livres 16 fols, 4608 grains (or a marc of fine silver) will be worth 55 livres 6 fols 9 deniers.

But the mint price of fine silver is 51 livres 3 fols 3 deniers.

Mint price of a marc of fine silver.

The difference, therefore, between the mint price of fine silver, and the price of it in the coin, will shew exactly the expence of coinage; consequently there is withheld for the expence of coinage and duty of seignorage (all which deductions and impositions are called *le trait des monnoyes*) 4 livres 3 fols 6 deniers upon every marc of fine silver. To know how much this makes *per cent*, state it thus,

$55.162 : 55.38 :: 100 : 108.2.$

So that in France there is 8.2 *per cent*. deducted upon the coinage of silver, as has been said. Let us next examine the regulations as to the gold.

The price of coinage  $8\frac{1}{2}$  per cent. upon silver.

The marc, as above, is the unit of weight for the gold, and contains, as has been said, 4608 grains, of which 15 grains are allowed to the workmen for the *Remede de poids*: remains of standard gold in the marc 4593 grains.

Remedy of weight upon gold.

The fineness of standard gold.

The fineness is reckoned by carats (not a weight, but a denomination of proportion) for the gold; as the denier is for the silver. Fine gold is said to be, as in England, of 24 carats. The carat is divided into 32 parts, so  $32 \times 24 = 768$ , are the parts into which any given mass of gold is supposed to be divided, when we speak of the standard fineness.

The remedy of alloy upon gold.

The standard of French gold is the same with that of silver, to wit,  $\frac{1}{12}$ , or 22 carats fine. Upon this the workmen are allowed  $\frac{2}{12}$  parts of a carat, for the *Remede d'alloy*; which reduces the standard to  $21\frac{2}{12}$  carats fine, to  $1\frac{1}{12}$  carats alloy. This expressed according to the division above mentioned, stands thus, 692 parts fine to 76 alloy.

To find, therefore, the number of grains of fine gold in a marc of the coin, we must state the following analogy.

$$768 : 692 :: 4593 : 4138.48.$$

The marc into what coined.

The marc of gold coin therefore contains, after all deductions, 4138.48 grains of fine gold.

This marc is coined into 30 louis d'ors of 24 livres each, value in all 720 livres.

If therefore 4138.48 grains of fine gold be worth in the coin 720 livres, the marc of fine gold, or 4608 grains, will be worth 801 livres 12 fols.

Mint price of a marc of fine gold.

But the mint price of fine gold is 740 livres 9 fols 1 denier.

The difference, therefore, between the mint price of fine gold, and the worth of it in the coin, (viz. 61 livres 3 fols 2 deniers) will shew exactly the price of coinage.

If we ask how much this makes *per cent.* we may state it thus,

$$740.409 : 801.68 :: 100 : 108.2.$$

The price of coinage 8 1/2 per cent. upon gold.

So in France there are 8.2 *per cent.* deducted for coinage of the gold.

Which no way stops the mint.

By the foregoing calculations it appears, that the King takes above 8 *per cent.* upon the coinage both of gold and silver.

For many years past there have been no violent methods used to bring bullion to the mint, and yet we see, by the dates upon the French coin, what great quantities have been struck both of gold and

and silver. This is a most convincing proof, I think, that the imposition of coinage, when properly laid on, is no interruption to the mint; and being a matter of fact well determined, is a confirmation of that principle.

Let us next examine the proportion between the value of the metals, both in the coin and at the mint.

Of the proportion of the metals.

For this purpose we must compare the mint prices in one equation, and the value of the gold and silver coin in another.

At the mint, a marc of fine silver is paid 51.162 livres, and a marc of fine gold 740.409 livres; consequently  $51.162 : 740.409 :: 1 : 14.47$ .

How to discover it.

A marc of fine silver, in the coin, is worth 55.38 livres; a marc of fine gold, in the coin, is worth 801.68 livres. We may therefore state thus,  $55.38 : 801.68 :: 1 : 14.47$ .

The proportion, therefore, both at the mint and in the coin is the same; and is nearly as the French writers state it, to wit, as 1 is to 14.47, but more exactly as 1 to 14.47, which is very nearly as 1 to 14.5.

The proportion is as 1 to 14.47.

From these computations we find the exact quantity of fine gold in a louis d'or, and of fine silver in a great crown, or piece of 6 livres.

Gold contained in a louis d'or, and silver in a crown, of 6 livres.

In the louis d'or there are 137.94 grains fine, and 153.1 standard gold.

In the great crown there are 499.22 fine, and 550.843 standard silver.

Farther, by the most exact calculations I have been able to make, after comparing the accounts which French writers give of the proportion of the English troy grain, with the grain of the Paris pound, and the accounts which English writers give of the proportion of French grains, with those of the troy pound; and after checking these accounts with the most accurate trials, by weighing and taking a mean proportion upon all, I find that a French grain *poids de marc*, is to an English grain troy, as 121.78 is to 100. See the table. What a shame it is, that such proportions can only be guessed at by approximations, in the age in which we live!

Proportion of a French grain weight to a troy grain.

To discover, therefore, the number of troy grains of fine gold in a louis d'or, state thus, 121.78 : 100 :: 137.94 : 113.27.

Proportion between the louis and the guinea.

Now a guinea contains 118.651 troy grains of fine gold, and yet, in almost every country in Europe, the louis d'or, in time of peace, passes for as much as the guinea, when both are of good weight. This is a matter of fact well known, and is a confirmation of another principle which I have laid down, to wit, that the imposition of coinage gives an advanced value to a nation's coin, even in foreign countries.

Of the fineness of French wrought plate.

The fineness of the French silver wrought into plate, is different from that of the coin. The fineness of the coin we have said to be 10 deniers and 21 grains, or 261 parts fine, to 27 alloy; and the value of a marc of it (when the 36 grains of remedy of weight is deduced) is 49 livres 16 fols, which makes the full marc of 4608 grains to be worth 50 livres 4 fols. The standard of the plate is  $11\frac{1}{4}$  deniers, or 274 fine, and 14 alloy. In order, therefore, to find the value of the plate, at the rate of the coin, state thus, 261 : 50.2 :: 274 : 52.7; consequently silver plate in France, at the rate of the coin, is worth 52 livres 14 fols.

When goldsmiths sell their plate, they ought regularly to charge, for the metal, the current price of the market; but as that is constantly varying, the King, for their encouragement, has fixed the value of the marc of it at 52 livres, which is only 14 fols per marc below the value of the coined silver, including the price of coinage. Consequently, were goldsmiths to melt down the coin in order to make plate of it, they would lose 14 fols per marc; besides the expence of reducing the melted coin to the standard of the plate. Goldsmiths, therefore, in France, will never melt down the coin when they can find bullion in the market, at the price of 14 fols per marc below the value of the coin; and we have seen that the price imposed on coinage generally reduces the bullion to near 8 per cent. below coin: but supposing them to melt it down, there is no loss to the state, because the coinage is already paid.

By

By this regulation, goldsmiths profit by the imposition of coinage; because the mint price of silver being 8 per cent. below the value of the coin, and that keeping the price of bullion low, goldsmiths gain upon the sale of their wrought plate, all the difference between the price they pay for bullion when they make their provision of it, and the price they are allowed to sell it at when wrought.

Goldsmiths profit by the imposition on coinage,

Another consequence of this regulation is, that there is no competition occasioned between the mint and the goldsmiths, to the prejudice of the latter. No body will carry bullion to the mint while there is the least demand for it to make it into plate. This consequence is plain.

Bullion can never fall lower than mint price; consequently, the mint may rather be considered as receiving the bullion upon an obligation to pay a certain price for it, than as demanding it in the market. The smallest demand, therefore, from the goldsmith, will raise the price of bullion when it stands at mint price; because he who has it, will never give it to any body who has occasion for it, without some small advantage above what the mint must give him for it; but the mint price being fixed, no competition can come from that quarter, and therefore the advanced price the goldsmith gives must be very small.

And never find the mint in competition with them for the metals.

Upon the whole, the regulations in France appear (so far as I comprehend them) admirably well contrived to serve every purpose. They prevent the melting down and exporting of the coin; they prevent bullion from being coined, when it cannot remain in the kingdom; they give an advanced value to that part of the nation's coin which must be exported for the payment of the balance of trade; and they recall it home when the balance becomes favourable. They prove an encouragement to the industry of goldsmiths; there is a sufficient check put upon their melting down the specie; and there is no discouragement given to private people from making plate, because the silver in the plate is sold by the goldsmith, a small matter below its intrinsic worth when compared with the coin.

Advantages of the French regulations.

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The only thing to be reformed is the remedies allowed by the King upon the weight and fineness; because it tends to perplex calculations, and is not at all necessary. When exactness can be procured, it ought to be procured; and as the workmen regularly profit of all the remedies allowed them, it is a proof that they have no occasion for any indulgence to make up for their want of dexterity.

I shall make no mention of the duty of *controle* upon wrought plate. This I consider as an excise upon a branch of luxury; consequently, the examination of it belongs to the doctrine of taxation, and is foreign to that of money.

It has been said above, that the imposition of coinage (occasioning the coin of France to circulate, almost at all times, above its intrinsic value as bullion, even in foreign countries) prevented bullion from ever rising in the Paris market to the price of coin. This principle I also find confirmed by facts.

Foreign gold of 22 carats fine, sold in the Paris market (December 13th, 1760) at 712 livres the marc. In order to find the value of the marc of fine gold, state thus, 22 : 712 :: 24 : 776.7. Now the marc of fine gold in the coin, we have seen to be 801.12 fols. So at this time, when France is engaged in a most expensive war, while she is daily exporting immense quantities of both gold and silver coin, to pay her armies and subsidies, the price of gold bullion in her market is 24 livres 18 fols per marc below the value of her coin. Nothing but the advanced value of her specie in foreign currency, could possibly produce such a phenomenon. But when she was sending stamped ingots of gold to Russia, in the month of September last, the price of the gold bullion of 22 carats then rose to 734 livres per marc, which for the marc of fine gold makes 800 livres 14 fols, which is but 18 fols below the value of the coin. The reason is plain: the coin sent to Germany, or Holland is constantly returning to France, or at least may soon return, which supports the high price of it in these countries; but what was sent to Russia was plain bullion.

High price of bullion in the Paris market during the year 1760.

Before

Before I conclude this chapter, I must say a word concerning the wearing of the French coin by circulation.

As paper money has no currency in France, by any public authority, all payments must be made in coin. For this purpose the silver is more commonly used than the gold; from which I am obliged to conclude, that the silver must be somewhat over-rated in the coin, above the proportion of the price of gold in the Paris market; but of this I have no exact information.

Present state of the wearing of the French silver coin.

The silver coin is put up in sacs of 200 great crowns, value 1200 livres. This sum on coming out of the mint, weighs, according to the following equation, 23 marcs 7 ounces 152 grains. State thus, 8.3 great crowns = 4572 grains standard silver; consequently, 200 = 110168.6 = 23 marks 7 ounces 152 grains.

These sacs, according to my information, weigh constantly at least 23 marcs 7 ounces, exclusive of the sac; so that the French silver currency has not, at this time, lost above 152 grains upon the sac of 1200 livres, which is about  $\frac{1}{1000}$  per cent. This is a trifle upon a small sum; but as no difference, however small, is a trifle upon a large sum, a limit ought to be set to the farther diminution of the weight of the currency, which might be accomplished easily, by ordering all sacs of 1200 livres to be made up to the weight of 23 marks 7 ounces effective, for the future. This would be, at present, no injury to the public, there would be a sufficient allowance given for many years circulation of the coin, and the degradation of it in time coming, would be effectually prevented.

C H A P. VIII.

*Of the Regulations observed in Holland, with regard to Coin and Bullion.*

Present state of the Dutch currency.

IT comes next in order to examine how this matter stands in the states of the United Provinces, and with this I shall conclude.

We shall here find the question infinitely more involved in combinations, than hitherto we have found it. We shall find the most sagacious people in the world, with regard to trade and money, struggling with all the inconveniencies of an ill regulated coinage, and an old worn out silver currency; carrying on their reckonings by the help of *agio*; weighing their specie; giving allowance for light weight; buying silver with silver, and gold with gold; as if it were impossible to bring the value of these metals to an equation; and loading commerce with an infinity of brokers, Jews, and cashiers, without the aid of which it is impossible in Holland either to pay or to receive considerable sums in material money.

It is very true that what must appear an inextricable perplexity to a stranger, is really none at all to the Dutch. Trade is there so well reduced to system, and every branch of it so completely furnished with hands to carry it forward, that the whole goes on mechanically, and though at a great additional expence to trade in general, yet at none to the merchant; because he regularly sums up all this extraordinary expence upon his dealings, before he super-adds his own profit upon the operation. Were therefore all this unnecessary expence avoided, by a proper regulation of the coin, the consequence would be, to diminish the price of goods to strangers, as well as to the inhabitants, to leave the profits upon trade, relative to the merchants, exactly as before; and to increase, considerably, the trade of the republic, by enabling them to furnish all commodities to other nations cheaper than they can do, as matters stand;

stand; but were this plan put in execution, the consequence would also be, to take bread from all those who at present live by the disorder, which ought to be removed.

Of the regulations in the Dutch mint.

Regulations in the Dutch mint.

The unit of weight in the Dutch mint, is the marc *Holland's troes*, or gold weight.

This weight is about  $1\frac{1}{2}$  per cent. lighter than 8 ounces English weight, without coming to the most scrupulous exactness.

Their unit of weight is the marc Holland's troes.

This marc is divided into 8 ounces; every ounce into 20 engles; every engle into 32 aces or grains. The ounce therefore contains 640, and the marc 5120 aces. By this weight, bullion is bought, and the coin is delivered at the mint, or weighed in circulation, when weighing is necessary.

The mint delivers the silver coin by the marc weight; but from the full weight, there is deducted as a *remedy*, one engles and one ace, or 33 aces: so the marc of the mint, by which they deliver the silver, contains 5087 aces, in place of 5120.

The remedy of weight on silver.

The fineness of the Dutch silver is various, according to the species. I shall here, for the greater distinctness, take notice only of the fineness of the florins; because it is the best and the most standard coin, used in the payments of foreign bills of exchange, leaving the other varieties of their specie to be considered afterwards.

The fineness of silver is different in different coins.

By florins I mean (besides the florin pieces) those also of 30 stivers, and the 3 florin pieces, the standard of which is all the same; to wit;  $\frac{11}{12}$  fine with one grain of remedy.

Florins are  $\frac{11}{12}$  fine with one grain of remedy.

The mass of silver in the Dutch mint, (when we speak of the fineness) is supposed to be divided into 12 pence, and every penny into 24 grains, as in France.

How they reckon their silver standard.

Any mass of silver, therefore, of whatever weight, is supposed to be divided into 288 parts; consequently by  $\frac{11}{12}$  fine with one grain of remedy, is meant, that there are 263 of these parts *fine*, and the remaining 25 parts of *alloy*. This is the exact standard of the Dutch florins.



To find therefore the number of grains of fine silver in the marc weight, as it is delivered at the mint, we must state this proportion, 288 : 263 :: 5087 : 4645.4.

Exact quantity of fine silver in a marc weight of Dutch florins as they come from the mint.

The marc therefore of coined silver florins, after all deductions for alloy, and for remedies of weight and of fineness, contains of fine silver 4645.4 aces Hollands troes.

This marc is ordered to be coined into 23 <sup>67</sup>/<sub>100</sub> florins. If therefore 4645.4 aces of fine silver be worth 23 <sup>67</sup>/<sub>100</sub>, or (in decimals, for the sake of facilitating calculation) 23.2024 florins, then the full marc or 5120 aces of fine silver will be worth 25.572 florins by this analogy, 4645.4 : 23.2024 :: 5120 : 25.572.

Mint price of fine silver.

But the mint price of the marc of fine silver is 25.1 florins. The difference, therefore, between the mint price of fine silver, and the price of it in the coin, will shew exactly the expence of coinage. State thus,

The price of a marc of fine silver in the coin	fl. 25.572
Price of ditto as paid by the mint	25.1
Price of coinage	0.472
To know how much this makes <i>per cent.</i> state thus,	
25.1 : 25.472 :: 100 : 101.48	

Price of coinage in Holland is about 1 1/2 per cent. on silver. Of the Dutch gold coins.

So that in Holland there is not quite 1 1/2 per cent. taken upon the coinage of silver florins. Let us next examine the regulations as to gold coin.

There are in Holland two species of gold coins of different weights, fineness, and denominations, to wit, the *Ducat* and the *Rider*; we must therefore examine them separately.

The ducat has no legal denomination.

The ducat is what they call a *negotie pfenning*, that is, a coin struck under the authority of the state, in all the mints, and of a determinate weight and fineness; but not a legal money in payments, because it has no *legal* denomination.

Ducats are delivered by the marc weight as the silver; but there is a remedy of weight deducted of one engle per marc. So the marc of ducats, as delivered by the mint, weighs but 5088 aces.

The fineness of the ducats is (as in the empire) of 23 carats 8 grains; but in Holland they allow one grain of remedy. The fineness 23 carats 8 grains.

The standard of the gold is reckoned by carats and grains: 24 carats are called fine gold, and every carat is divided into 12 grains; How the fineness is reckoned. so let the mass of gold be of what weight soever, it is always supposed to contain 288 parts, that is, 12x24: at this rate the fineness of ducats is 283 parts fine gold, and 5 parts alloy.

The imperial ducats ought to be 284 parts fine, 3 parts silver, and one part copper, without any remedy; but in Holland the assayers bring the gold to the fineness of 23 carats and 8 grains; then they suppose that what remains is all silver, and they take their remedy by adding one grain of copper. Dutch ducats are therefore something in the fineness, though nothing in the weight below the regulations of the empire. Fineness of the ducats of the empire.

To find the number of grains of fine gold in the marc weight, as it is delivered from the mint, we must state this proportion, 288 : 283 :: 5088 : 4999.6. Exact quantity of fine gold in a marc weight of Dutch ducats as they come from the mint.

The marc, therefore, of gold coined into ducats, after all deductions for alloy, and for the remedies of weight and fineness, contains 4999.6 aces of fine gold. This marc is ordered to be coined into 70 ducats.

If, therefore, 4999.6 aces of fine gold, be worth 70 ducats, then the full marc of 5120 aces of fine gold will be worth 71.687 ducats, by this proportion, 4999.6 : 70 :: 5120 : 71.687.

But the mint price of the marc of fine gold is 71 ducats. Mint price of fine gold.

The difference, therefore, between the value of a marc of fine gold in ducats, and the price given by the mint for the same quantity of fine gold bullion, shews the expence of coinage. State thus,

Price of the marc of fine gold in ducats	71.687 ducats
Mint price of the marc ditto	71
Price of coinage	0.687
To know how much this makes <i>per cent.</i> state thus,	
71 : 71.687 :: 100 : 100.96.	

Price of coinage upon ducats about 1 per cent.

The price of coinage upon both species should be the same.

The Rider

has a legal denomination, and is a lawful tender in payments to  $\frac{1}{3}$  of the sum,

is coined always by the state and for the state; so there can be no mint price.

So that there is not quite 1 per cent. taken in Holland upon the coinage of their gold ducats.

But upon the silver florins there is (as we have seen) near  $1\frac{1}{2}$  per cent. consequently, there is an encouragement of  $1\frac{1}{2}$  per cent. given for carrying gold to the mint preferably to silver; which, in my humble opinion, is ill judged. I allow that the expence of coining a sum in silver is greater than the expence of coining the same sum in gold; but I think it is better to allow an additional profit to the mint upon the gold, than to disturb the equality of intrinsic value which ought to be contained in the same sum coined in gold and silver. But indeed, according to the present state of the Dutch mint, this small irregularity is not much to be minded, as we shall see presently.

Riders are a coin but lately used in Holland. Formerly, the Dutch had no legal gold coin, silver was their standard; and ducats as a *negotie pfenning* (as they call them) found their own value, having no determinate legal denomination, as has been said.

But of late the States have coined this new species of gold, to which they have given a fixed denomination, and the authority of a legal coin, to be received in all payments, so far as one third of the sum to be paid; the other two thirds must be paid in silver: but of this more afterwards, our present business being to examine the weight, denomination, and fineness of this species.

Riders are coined by the State alone, no private persons carrying bullion to the mint for that purpose; the coinage, therefore, not being open to the public, it is in vain to seek for a mint price. They are delivered at the mint by tale, not by weight; so we must inquire into the statute weight, fineness, and denominations of this species, in order to discover the quantity of fine gold which is contained in the florin of this currency: this we shall compare with the florin in the ducat, and so strike an equation between the florin in this standard coin, and in the other, which finds its own price, according to the fluctuation of the metal it is made of.

A marc of fine gold struck into riders circulates for 374 florins. This is the regulation as to the weight. Regulations as to the fineness, denomination, and weight of riders.

The standard is exactly  $\frac{1}{22}$  fine, or 22 carats, without any remedy.

The denomination is 14 florins for every rider, the half rider in proportion. To discover therefore the quantity of fine gold in a rider, we must first divide 374 by 14, which will give the number of riders in the marc fine, viz. 26.714 riders; then we must say, if 26.714 riders contain a marc of fine gold, or 5120 aces, how much will one rider contain? The answer is  $\frac{5120}{26.714} = 191.65$ .

Divide this by 14, and you have the number of aces of fine gold contained in a florin of this currency,  $\frac{191.65}{14} = 13.69$ . Quantity of fine gold in a florin of riders.

Here then is the exact weight of the fine gold contained in one florin of the currency in riders.

Let us now examine how much a ducat ought to pass for, in order to be upon a par with the currency of the riders. To put the ducat upon a par with riders it should circulate for 5 florins  $4\frac{1}{2}$  stivers.

We have seen that a marc of fine gold is coined into 71.687 ducats. That number of ducats, therefore, to be upon a par with the riders, should be worth 374 florins. Divide, therefore, this last number by the first, you have  $\frac{374}{71.687} = 5.217$  florins, which is a little more than 5 florins  $4\frac{1}{2}$  stivers.

Were the States, therefore, to give a fixed denomination to ducats, they ought to be put at that value; but the trade of Holland requires that this coin should be allowed to fluctuate, according to circumstances. The great demand at present (1761) for gold to send to the armies preferably to silver, on account of the ease of transportation, has raised the value of that metal, perhaps  $\frac{1}{4}$  per cent. above what it would otherwise be. If then  $\frac{1}{4}$  per cent. be added, it will bring the ducat to the present current value, to wit,  $5.4\frac{1}{2}$  florins. If, therefore, in order to bring the currency of ducats upon a par with the riders, they were fixed at  $5.4\frac{1}{2}$  florins, it is very plain, that no more would be sent away in payment at that rate, because of the present advanced value of gold; consequently, none would be coined; the mints would be stopped, and the armies would be paid in

in guineas and Portugal gold; the melting and recoinage of which keeps all the mints in Holland in constant occupation.

This, besides employing and giving bread to a number of hands, multiplies the Dutch currency, at a time when they have so great occasion for it.

Let us next examine the proportion of the metals in the coin.

How to find the proportion of the metals in the coin of Holland, and a wonderful phenomenon in the value of ducats.

Here we must adhere closely to the regulations of the mint above mentioned, and only determine what the proportion of the metals would be, were the coin of Holland, both gold and silver, of standard weight, and were it the practice to pay for the metals at the mint, indifferently in either species. But neither of these suppositions are to be admitted: First, because the silver coin is not of its due weight; and in the second place, because the mint never buys gold bullion but with gold coin, nor silver bullion but with silver coin. This is the infallible consequence of a coinage ill regulated in what relates to the proportion of the metals, which ought respectively to be put into the same sum, in the two different species.

It would be endless to examine the proportion of the metals, with respect to every species of their coin. It would also be incorrect to examine it as to the ducats; because that species has no fixed legal denomination; and the proportion of the metals is to be discovered by the denomination of the coins only.

Ducats pass current among the people for 5 florins 5 stivers; but with merchants, who buy them as merchandize, their value is continually varying. At present (September 1761) the new coined ducats brought in bags from the mint, which never have circulated, are bought for 5 florins 4 <sup>5</sup>/<sub>8</sub> stivers; those which have circulated (were it for a day) fall, from that very circumstance, to 5 florins 4 <sup>3</sup>/<sub>8</sub> stivers; which is a diminution of near  $\frac{1}{4}$  per cent. of their value. This phenomenon shall afterwards be accounted for.

Were all the coin of full weight, the proportion would be as 1 to 14.62.

This being the case, we have no method left to judge of the proportion of the metals in the coin of Holland, but by the proportion of fine gold and fine silver found in the same sum, paid in florins of

of full weight, and in new riders; the one and the other coined according to the regulations of the mint above mentioned.

It has been shewn that a marc of fine gold in riders, circulates for f. 374, and that a marc of fine silver in florins, circulates for f. 25.572; divide the first by the last, you have the proportion as 1 to 14.62: But we shall afterward discover a circumstance, not taken notice of in this place, which will reduce the proportion lower.

From the above calculations, we may easily discover the exact quantity of fine silver and fine gold contained in a Dutch florin, whether realized in silver florin pieces, in gold riders, or in ducats. As this will be of use when we come to examine the par of exchange, it will not be amiss to set before the reader, the exact state of that particular before we proceed. We have said that whoever receives f. 24.572 in silver florins of full weight, receives a marc of fine silver, which contains 5120 aces. Divide the last sum by the first, you have 200.21 aces of fine silver for the florin.

Quantity of fine silver in a florin piece.

Whoever receives f. 374 in gold riders, receives a marc of fine gold, which contains 5120 aces. Divide the last sum by the first, you have 13.69 aces of fine gold for the florin.

Quantity of fine gold in a florin of riders.

We have seen that ducats fluctuate in their value, having no legal denomination, which obliged us to state the current value of a marc of them at 71.687 ducats, not being able to express that value in florins; because of the unsettled denomination of that species. Let us now specify that value in florins, upon three suppositions. The first, that the ducat is worth what it passes for among the people, to wit, 5 f. 5  $\beta$ . The second, at the value of new ducats from the mint, to wit, 5 f. 4 <sup>5</sup>/<sub>8</sub>  $\beta$ . The last, at the merchant price of good ducats, which have circulated, to wit, 5 f. 4 <sup>3</sup>/<sub>8</sub>  $\beta$ .

Investigation of this proportion as to the ducat.

In the first case (the ducat at 5 f. 5  $\beta$ .) 71.687 ducats are worth 376.35 florins, this being the value of a marc of fine gold in ducats, and the marc containing 5120 aces; divide the last by the first, you have 13.604 aces of fine gold for the florin.

In

In the second case (the ducat at 5*f.* 4  $\frac{1}{4}$  *fl.*) 71.687 ducats are worth 375.04 florins; by which number divide 5120 as before, you have 13.651 aces of fine gold for the florin.

In the last case (the ducat at 5*f.* 4  $\frac{1}{4}$  *fl.*) 71.687 ducats are worth 374.11; by which number dividing 5120, you have 13.685 aces of fine gold for the florin, which comes within a trifle of the florin in riders.

But now (in June 1762) I learn, that the course of new ducats from the mint in the Holland-market, is got up to 5*f.* 5  $\frac{1}{2}$  *fl.* in this case, 71.687 ducats are worth 378.1 florins; by which number dividing 5120, as before, you have 13.541 aces of fine gold for the florin.

If we seek here the proportion between the gold and silver, we must state thus. If a florin in ducats contain 13.541 aces of fine gold, and a florin in silver coin contain as above 200.21 aces of fine silver, then 13.541 : 200.21 :: 1 : 14.785. So the effect of this war has already been to raise the value of gold 1.12 per cent. above what it was esteemed to be, when the riders were coined.

The proportion as to riders is, as before, 1 to 14.62.

The present proportion as to ducats is 1 to 14.785.

14.62 : 100 :: 14.785 : 101.12.

Which is a rise upon the value of gold of 1.12 per cent.

I must farther observe upon this subject, that although we have seen that the ducats which have circulated for ever so short a while, when bought at 5*f.* 4  $\frac{1}{4}$  *fl.* produce for the florin 13.685, (which is more than is produced by the new coined ducats fresh from the mint) we are not from this to conclude, that the former are intrinsically a cheaper currency than the latter. I have been at all the pains imaginable to weigh these ducats against others fresh from the mint; and also to compare their weight with what it ought to be by the regulation; and I have constantly found near  $\frac{1}{4}$  per cent. difference between them. This is entirely owing to the nature of the coin. The ducat has a large surface in proportion to its weight; it carries a very sharp impression, full of small points; the cord about the edges is exceedingly rough; so that the least rubbing, breaking

breaking off those small points, diminishes the weight of the price near  $\frac{1}{4}$  per cent. which is clear loss, not only to the proprietor, but to the state, and to all the world. Besides, those who are obliged to go to the mint for new ducats, are supposed to bear the greatest weight of the coinage of a piece which, having no legal denomination, is left afterwards to seek its own value, according to that of the metals at the time.

As I have entred into this minute detail of the weight of fine silver and fine gold contained in the Dutch florins, with a view to facilitate the calculation of the par of the metals contained in the coins of Holland, and those of other nations; I must next mention the proportion between the aces in which we have expressed the weight of the Dutch specie, and the grains in use in some of the principal nations with which they trade: These I take to be England, France, and Germany.

The reduction of weights to mathematical exactness, is beyond the art of man; and to this every one, who ever tried it, must subscribe. I have been at all the pains I am capable of, to bring those weights to an equation; and here follows the result of my examination into that matter.

By all the trials and calculations I have made, I find that 5192.8 aces Holland-troes; 3840 grains English troy weight; 4676.35 grains Paris poid de marc; and 4649.03 grains Colonia (which is the gold weight of the empire) are exactly equal.

I reckon by the lowest denomination of these several weights, to wit, their grains; to avoid the endless perplexity of reducing to a proportion, their pounds, marcs, and ounces, which bear no regular proportion to their grains.

To give some examples of this method of calculating the exact par of the metals contained in the coin of those nations, reduced to the weights of Holland, I shall state the following computations.

A pound sterling in silver, by the statute of the 43d of Elizabeth, is 1718.7 grains troy fine; to know how many aces Holland-troes that makes, state thus, 3840 : 5192.8 :: 1718.7 : 2324.1.

Divide

The intention of this minute detail is in order to calculate the real par of the coins of Europe.

Proportion between the mint weights of Holland, England, France, and Germany.

Par of a pound sterling, in weighty silver, with Dutch florins in riders is 11 florins 12 stivers.

Divide 2324.1 by 200.21, (the number of aces contained in a silver florin) you have for the par of the pound sterling, *f.* 11.609.

Par of the pound sterling in gold with ditto, is 11 florins 3 stivers and  $\frac{1}{3}$ .

A pound sterling in guineas, by the statute fixing guineas at 21 shillings, contains 113 grains troy fine; to know how many aces Holland-troes that makes, state thus,

$$3840 : 5192.8 :: 113 : 152.8.$$

Divide 152.8 by 13.69, (the number of aces contained in a gold florin in riders) you have for the par of the pound sterling in guineas, *f.* 11.161.

Par of a French louis d'or with the same florin, is 11 florins 3 stivers and  $\frac{1}{3}$ .

A French louis d'or contains 137.94 grains poid de marc fine gold; to know how many aces Hollands that makes, state thus,

$$4676.35 : 5192.8 :: 137.94 : 153.17.$$

Divide 153.17 by 13.69, (the number of aces contained in a gold florin in riders) you have for the par of the louis d'or, *f.* 11.188.

Par of 24 livres French in silver with the same florin, is 11 florins 12 stivers.

24 livres French, contain 1996.88 grains poid de marc of fine silver; to know how many aces Hollands that makes, state thus,

$$4676.35 : 5192.8 :: 1996.88 : 2217.4.$$

Divide 2217.4 by 200.21, (the number of aces in a silver florin) and you have for the par of 24 livres French silver, *f.* 11.076.

Great balance of trade against France, in September 1761.

The French silver here is less valuable in Holland than the gold: this is no proof that the proportion between the metals in the respective coins of these two nations is different (we shall soon find it to be very exactly the same); but this preference in favour of the French gold, is owing to the temporary demand for gold on account of the war; for which reason no French silver coin appears at present in Holland. I write in September 1761.

I must also observe, that at this time the course of louis d'ors is 11 *f.* 4 *fl.* which is little or nothing above the real par of the metal they contain; which in peaceable times is not the case. This proves how strongly the balance of trade is against France with respect to Holland, as it has reduced her specie to the price of bullion: it is not so in Germany.

Low value of the pound sterling in Holland, in 1761.

The low value which a pound sterling has borne for these several years in exchange, and the great fall of its worth in Holland of late,

late, when it has been at 10 *f.* 10 *fl.* is no argument against the high conversion I have given it, to wit, above 11 *f.* 12 *fl.* Were there nothing but silver coin in England, and were it all of standard weight, exchange would frequently run even above that value in peaceable times; because the silver coin in Holland is light, and I have reckoned it as if it were of full weight.

It will be observed, that the par upon the gold does not quite amount to 11 *f.* 4 *fl.* the reason of which is the great disproportion in the British coin, between the intrinsic value of a pound sterling in silver, and in gold, when both are of standard weight; the latter being near 5 per cent. worse than the former, when the proportion of the metals is supposed to be at 14  $\frac{1}{2}$ . But at present there are no sterling pounds in silver money; there is no silver in England in any proportion to the circulation of trade; and therefore the only currency by which a pound can be valued, is the guinea.

It has been said, and I think sufficiently proved, that the price of the metals in the market, shew very exactly the weight of the currency in nations where coinage is free, when there is no severe prohibition (*put in execution*) against the exportation of the coin. This I take to be the case in England. Now gold there has risen of late to 4 *l.* 0 *s.* 8 *d.* per ounce; from which I conclude, that the guineas with which it is bought, or with which bank notes are paid, are at present so light, that 4 *l.* 0 *s.* 8 *d.* of them do not weigh above an ounce, (the good guineas are exported) whereas an ounce of new guineas is worth no more than 3 *l.* 17 *s.* 10  $\frac{1}{2}$  *d.*

Gold, therefore, which now sells for 4 *l.* 0 *s.* 8 *d.* would certainly be worth no more than 3 *l.* 17 *s.* 10  $\frac{1}{2}$  *d.* were English gold coin of its proper weight: and the price of it will come down to that value, in proportion as circumstances shall call back the heavy guineas.

To facilitate the verification of this point, I shall first observe, that the difference between 4 *l.* 0 *s.* 8 *d.* and 3 *l.* 17 *s.* 10  $\frac{1}{2}$  *d.* is 4.57 per cent. The English gold currency, therefore, at the time standard bullion was worth 4 *l.* 0 *s.* 8 *d.* must have been worn 4.57 per cent. Guineas,

neer, when of full weight, weigh 129.43 grains of troy weight; if such guineas are worn 4.57 per cent. they ought to weigh no more than 123.23 grains troy. Now let any man try the experiment, and put an old guinea, taken by chance (not picked out) into a scale, and see whether it has not been worn down to 123.23 grains; and let him also examine whether the greatest part of the guineas, at the time when gold bullion has got to so high a price, are not of King George I. and his predecessors: these I call old.

Besides these there are other circumstances to be attended to. Men who job in coin, pick up all the worst guineas they can when they go to market; or if they buy with paper, we may decide, that the bank at that time pays in guineas not above the weight of 123.23 grains troy; for if the bank paid with guineas of a greater weight, he who had occasion to carry his paper to market to buy gold bullion, would certainly rather go to the bank, and afterwards melt down their guineas. Were the bank of England never to pay but in gold of full weight, and were the exportation of guineas free, it is impossible that gold should ever rise above the mint price, which is 3 l. 17 s. 10 1/2 d.

As a farther confirmation of the justness of the high valuation I have put upon a silver pound sterling of standard weight, I shall observe, that a new guinea, passes in Holland (at the time when the exchange is at 10 f. 10 s.) for 11 f. 11 s. and every body knows, that such a guinea in England is not above the intrinsic value of a silver pound sterling of full weight. If then I can get 11 f. 11 s. for a new guinea, I ought to get as much for a new silver pound sterling; since the intrinsic value of both is the same, when the proportion of gold to silver is as 1 to 14 1/2. Now this guinea must be worth more than 11 f. 11 s. because the Jews, who carry them to the mint, give that price for them (I have disposed of them to Jews at that value \*); and as the coinage of ducats costs, as we have seen, near 1 per cent. the guinea is intrinsically worth 2 shivers more, that is 11 f. 13 s. but as gold at present bears an advanced price

\* This was writ in Holland.

upon

upon account of the war, and that the proportion between gold and silver is in Holland above 1 to 14 1/2, these are the reasons why the guinea, in Holland, is at present something above the intrinsic value of a silver pound sterling, which we have stated at f. 11.609, a trifle above 11 f. 12 s.

Let me here observe, by the bye, that all the pounds remitted from Holland to England, for filling the subscription for 12 millions of last year, cost the remitters but about 10 f. 10 s. for the pound sterling. If this low course of exchange be owing (as some pretend) to a wrong balance of trade against England, and not (as I pretend) to the lightness of the gold currency; then we must allow, that the expence of the German war (which is what alone carries off coin out of the kingdom) must have exceeded all the profits of the English commerce, which I apprehend to be at present immense; and also all the money lent by foreigners towards the loan of 12 millions. I leave to others more knowing than myself, to determine if such a supposition be admissible. If it be rejected, let any man reflect how absurd it would be to raise, at this time, the standard of the pound sterling to the old value; and to repay at 11 f. 12 s. such sums as have been borrowed at the value of 10 f. 10 s. or in other words, to make a present to the Dutch creditors of above 11 per cent. upon account of a loan for a year or two.

and not to the wrong balance of their trade, as is alleged.

Having now given as good an account as I can of the Dutch coin, according to the regulations of the state, I shall next point out the defects of their silver currency, and shew the consequences which result from them. As for the gold, it is at present perfectly well regulated. The riders are all exact in their weight, fineness, and denomination; the ducats are all now recoined of legal weight and fineness; and the denomination not being fixed, they serve, in a trading nation, as a merchandize, of which the weight and fineness are well ascertained. The only defect, therefore, I can discover in the Dutch gold currency, is the form of the pieces. They have too much surface in proportion to their weight, and the impression

Defects of the silver currency of Holland.

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is too sharp; both which contribute greatly to the wearing of the coin.

Account of this currency.

The silver currency of Holland is of two sorts. The bank species, and the current species. Here it must be observed, that by bank species is not meant Amsterdam *banco*, or bank money, but certain coins which are called *bank species*. These are,

- Pieces of 3 guilders.
- 30 stivers.
- 20 stivers.

These are called *groff gelt*, as being the good specie, of which hitherto we have only spoken. Sums to be paid in bank species, must be composed of  $\frac{2}{3}$  of this currency, and of  $\frac{1}{3}$  of what follows, viz. Riders of 14 florins.

- Dutch half crowns of 28 stivers.
- Ses t'halves of 5 $\frac{1}{2}$  stivers.

I have put in the riders, though a gold coin, in order to give a compleat enumeration of all the kinds of these bank species.

Regulations for the payment of foreign bills in coin.

Foreign bills drawn on Rotterdam in *banco* (i. e. bank species) are often received *there*, in any of the above species, without regard to the  $\frac{2}{3}$  which ought to be *groff gelt*; but when the holder of the bill desires the acceptor (which the latter cannot refuse) to write it off to his credit in the current bank of Rotterdam, and that he has there no stock, then, if he brings in specie to the bank, it must be as above specified.

Ditto for current bills.

Current bills, not specified by the word *banco*, are generally paid according to the following proportion:

- $\frac{3}{10}$  in schillings of 6 stivers.
- $\frac{1}{10}$  in dubleties of 2 stivers.
- $\frac{6}{10}$  in good silver.

Ditto for merchandize.

Merchandize are paid with all kinds of Dutch silver,  $\frac{1}{10}$  only in dubleties, and  $\frac{1}{10}$  gold, less or more, or sometimes none, according to agreement.

The denominations of the several silver cur-

From this exposition of the matter, it is very evident, that all these currencies must be of different intrinsic values, in proportion to

to their denomination; otherwise, why all this trouble about regulating the proportion to be received in payments? This proceeds from two causes: first, from the wearing of the pieces; the second, from the disproportion of the fineness in pieces of the same weight and denomination.

Regencies not proportioned to their intrinsic value.

Cause of this.

As to the first, to wit, the wearing of the coin, I shall observe, that the three denominations of the good silver, to wit, the 3 guilder pieces, the 30 stiver pieces, and the 20 stiver pieces, are put up promiscuously in the same bags; being of the same fineness, and consequently of the same value, in proportion to their weight. These bags contain 600 florins each, and the legal and full weight, with which they are weighed at the bank current of Rotterdam, is 25 marcs 5 ounces and 10 engles. Now the exact weight of a florin, according to the regulation, is, as we have said, 200.21 aces fine; then the 600 florins ought to weigh 1201.26 aces fine, which at the standard of 263 parts fine to 25 alloy, is 131545 aces standard: by this analogy, 263 : 120120 :: 288 : 131545; which is equal to 25 marcs 5 ounces 10 engles and 13 aces. So the weight at the bank is but 13 aces lighter than in strictness it ought to be; which is so small a difference, that it could hardly turn a scale with such a weight suspended in it: for which reason, I suppose, it is left out, for the sake of the even reckoning of 25 marcs 5 $\frac{1}{2}$  ounces.

Regulations concerning the weighing of silver species in banks current.

Did these bags of silver coin come up to the full weight, then the silver currency in Holland would be good as to those pieces; but as the greatest part of them are old, having been struck with the hammer, and are of unequal weight, having been coined (*al marco*) in the old fashion, when coin was weighed by the marc, and not as at present piece by piece, it is impossible they should be of legal weight: the bank, therefore, allows 2 ounces of remedy in receiving those sacs, that is, they put 2 ounces into the scale with the sac, and if they find that the sac is still light, but that the deficiency does not exceed one ounce more than the remedy, they throw out the coin and reckon it over; and if the tale be just, and that none of the pieces appear to have been clipped, they receive it as if it were

were of due weight: if it prove above 3 ounces short of the just weight, they do not receive it.

All allowances for light weight are an abuse.

Here is a palpable abuse, from a disorder in the coin: If a fac is ever so little too light, why allow it to pass, as if it were of due weight? Nothing is so easy as to order such deficiency to be made good by the deliverer. Weights are made for exactness, and all remedies are awkward and incorrect.

This allowance must open a door to malversations in a country like Holland, where there is almost no milled silver coin. The old hammered money was not weighed at the mint, as has been said, piece by piece: it was sufficient that every marc of it answered to the legal denomination: under such a regulation, it is very plain, that there must be many pieces above the legal weight, as well as many pieces below it. Is it to be supposed that money-jobbers will not profit of that inequality, by reducing the heavy pieces to their standard weight, when by such an action they cannot be convicted of any crime? This is one abuse.

By reducing the heavy pieces to their legal weight, the currency is degraded; because that which is taken from these ought to be left to compensate what the light pieces fall short. The bank, therefore, by giving the remedy, gives a kind of sanction to this malversation.

Farther's of money jobbers in Holland.

Farther, if a money-jobber gets some facs above the current weight, is it to be doubted but he will reduce them as near as he can to the lowest weight received at the bank? And if he should mistake, and reduce them too low, he has still an expedient for cheating the public, which shall be mentioned presently.

The best silver coin in Holland is, upon an average, 1 per cent. too light.

Now let us suppose, that the specie we are speaking of is, upon an average, only 2 ounces *per fac* below the standard. If it be no more, this circumstance does great honour to the money-jobbers. Such a deficiency, however, amounts to within a mere trifle of 1 *per cent*. Is not this an object of great importance, upon all the silver specie of Holland; especially as the remedy given by the

current bank, is a tacit permission given to every body who has address, to rob so much from all the weighty coin?

Now let us, by the way, correct the former calculation we made upon the proportion of the metals in the Dutch coin. We said above, that a marc of fine gold in riders circulated for *f.* 374, and that the same weight of silver circulated for *f.* 25.572, which gave for the proportion 1 to 14.62; but here we find that the marc of silver has lost by fraud and wear 1 *per cent*. From which it follows, that the actual proportion of the metals in their coin is as 1 to 14.479.

Now the marc of silver being 5120 aces, if they have lost 1 *per cent*, there will remain 5068.8 aces. If these 5068.8 aces, therefore, circulate for *f.* 25.571, the full marc must be worth in the coin *f.* 25.83.

In order then to find the exact proportion of the metals in the Dutch currency, we must divide 374 by 25.83, instead of dividing by 25.572, as we did when we supposed the silver of full weight. Now  $\frac{374}{25.83}$  is = 14.479. So the proportion is as 1 to 14.479, the same, within a trifle, of that received in France; which is as 1 to 14.47. But if we attend to every circumstance, we shall find the proportion still lower than the last calculation makes it; for in that, we have searched for it with respect to the best silver specie in Holland; whereas we ought, in strictness, to calculate the gold, against a mixture of  $\frac{1}{3}$  of less valuable specie, with  $\frac{2}{3}$  of the good: but when computations cannot be brought to perfect exactness, it is better not to attempt a calculation.

Before I leave the consideration of the inequality in the weight of the Dutch currency, I must take notice of another circumstance of considerable importance. Another abuse in the silver coin of Holland.

No payments made in silver, below *f.* 600, are subject to be weighed; any more than what circulates without being put up in bags. What restraint, therefore, is there laid upon money-jobbers, with respect to this part of the currency? When these gentlemen have occasion for money bagged up, they take care that such specie shall be of the proper weight to pass at the current bank, and as for all that is light, they either employ it in payments below



low *f.* 600, or throw it into the common circulation. This circumstance presents us then with two sorts of silver currency in Holland; that which is bagged up, and weighty; and that which is not, and light.

If we consider the trade of Holland, and the prodigious quantity of payments made in current money, we shall find the quantity of silver which circulates in loose pieces very small, in proportion to that which is bagged up: the regulation therefore of weighing the bags is of infinite importance; and were it not for that, the currency would be debased in a very short time. But the cashiers, who are the great depositaries of this currency, being obliged to deliver the bags of the legal weight, they are thereby restrained from tampering with it: and the bagging up, greatly preventing the wear, supports tolerably well the weight of this old currency of hammered money.

Reason of the great apparent scarcity in Holland of silver coin.

To people who do not attend to all these circumstances, there appears a prodigious scarcity of silver currency in Holland. It is there as difficult to get change for ducats, as it is in England to get change for guineas; and yet, upon examination, we shall find, that the intrinsic value of the silver coin, commonly given in exchange for the gold species, is far below the value of the gold.

A paradox to be resolved.

Here then is a paradoxical appearance to be resolved; to wit, How it can happen in trading nations, such as England and Holland, that in the exchanging light silver coin for weighty gold coin, people should be so unwilling to part with the silver, although really of less value than the gold.

This is the case in both countries: thus it happens in England, where there is so little silver currency; and the case is the same in Holland, where there is a vast deal. Let me therefore endeavour to account for these political phenomena.

Since the time I composed the former part of this inquiry into the principles of money and coins, I have found, by the trials I made in Holland upon the weight of the English silver currency, that shillings are at present (1761) far below the weight of  $\frac{1}{65}$  of a pound

a pound troy, which is what they ought to be, in order to make 21 of them equal in value to a new guinea, according to the present proportion of the metals. It is therefore demanded,

1mo, How it comes about that such shillings do not debase the value of the English standard below that of the gold?

2do, Why are they so difficult to obtain, in change even for new guineas, which are of more intrinsic value every where? And,

3tio, Why money-jobbers are not always ready to give them in exchange for new guineas?

These appearances seem inconsistent with the principles above laid down; and a reason must be given why these principles do not operate their effect in this example.

I answer, that circumstances are infinite, and must constantly be attended to; and there are in the case before us several specialities not to be overlooked; I shall therefore point them out, in my answers to the three questions, as they lie in order.

As to the first, I answer, that these shillings are in so small a quantity, in proportion to the gold species, that they cannot be employed in payments. Now it has been said above, that exchange (in trade) regulates the value of the pound sterling, and considers it as a determinate value, according to the combination of the intrinsic worth of all the several currencies, in proportion as payments are made in one or the other. Now (generally speaking) no commercial obligations are acquitted in silver. I do not understand by the word payments, a few pounds sterling sent from farmers in the country, perhaps in payments of their rents to their landlords; nor what falls into the public offices, in the payment of taxes. It is trade alone, and the payment of bills of exchange between different countries, which can ascertain the true value of that currency in which mercantile payments are made. Were these worn-out shillings in such plenty as to allow bills of exchange to be acquitted in them, I make no doubt but they would fall below the value of the  $\frac{1}{21}$  of new guineas; every one would be glad to dispose of them for guineas, at the rate of their currency;

rency; and guineas, then, would be as difficult to be got for silver, as silver is now to be had for guineas. This would bring the standard still lower than it is at present; that is, below the value of the gold: but as payments cannot be made in shillings, their currency cannot affect the standard.

The second question is, Why they should be so difficult to obtain in change for guineas, which are above their value?

I answer, that it is not the intrinsic worth of the light shillings which makes them valuable, and difficult to be got; but the utility they are of in small circulation, forces people to part with their guineas for a less valuable currency. These shillings I consider (now) as *marks*, not as material money, fitted to a standard. Every body knows the difference between *marks* or *counters*, and *specie of intrinsic worth*. The copper coin of most nations is marks, and passes current, although it does not contain the intrinsic value of the denomination it carries; nor ought it to be a legal tender in payments above a certain sum. Such a regulation preserves its usefulness for small circulation, and prevents it, at the same time, from debasing the standard, and involving in confusion the *specific currency* (as I may call the gold and silver coins) when properly proportioned, and of just weight.

But shillings in England, although they be at present in a manner no better than marks, because of their lightness; yet in the eye of the law they continue to be lawful money, and a legal tender in payments. It is therefore of great consequence that such shillings be not in too great plenty. That would have been the case, had government come in to the plan proposed for the coinage of shillings below the standard; such shillings would have been coined abroad, and run in upon England, to the great detriment of the nation; and although they had been proscribed in payments, beyond a certain sum, yet they would have been so multiplied in small payments, as to have furnished a means of buying up the gold coin, and carrying it out of the country for an under-value. Whereas the worn shillings do not produce that bad effect, from  
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the scarcity of them, and from the impossibility of imitating them in foreign mints\*.

The answer to the third question, viz. Why money-jobbers are not always ready to give old shillings for new guineas? is easy, from what has been said. They cannot pick them up below the mean value of the currency; because of the great demand there is for them in exchange for guineas; therefore they can gain nothing by providing them for that purpose.

It comes next in order, to solve a similar phenomenon in Holland, where there are great quantities of silver specie, and yet one can hardly find change for a ducat, except in a shop, where one has occasion to buy something.

This mystery is easily resolved. The great quantities of silver in Holland consist of what is put up in bags of due weight, accord-

\* It is commonly believed that shillings are coined at Birmingham, and that government winks at the abuse, because of the great scarcity of silver in England. I find no foundation for this belief, after the inquiry I have made.

In the first place, Mr. Harris, who was the best assay-maker in Europe, told me, that a bag of those shillings had been sent to the mint by the Lords of the Treasury, to be tried by him: that he had found them to be English standard, to the most scrupulous exactness: that he did not believe any such correct assay could be made, except at the mint: that all the engravers of the mint declared it was impossible to imitate a worn shilling.

The trials I myself made were of a different nature. I examined the shillings with a magnifying glass; and found almost every one different in the impression, as well as in the weight. In some the back-part of the head was worn, in others the face: none, in short, were worn perfectly alike.

I put a handful of them into a coal fire; and taking them out when red-hot, and throwing them on the hearth, I plainly discovered, on many of them, some part of the arms of Great Britain appearing in the cross upon the reverse, in a different colour from the ground of the coin: in others indeed nothing could be seen: this was owing to the degree of wearing. How then can any dye strike an impression upon a coin, which answers all these appearances?

I communicated to Mr. Harris the trials I had made, and he was perfectly satisfied, upon the whole, that no old shilling had ever been counterfeited at Birmingham.

ing to the regulations mentioned above. This part of their currency is about  $\frac{1}{2}$  per cent. better, in intrinsic value, than ducats at 5 *f.* 5 *fl.* tale for tale; which is a sufficient reason not to part with it, in change for ducats at that rate. But besides this bagged up bank specie, there are many other sorts of old worn-out coin, of unequal weight and fineness.

These serve as marks for the small circulation, and are not a legal tender in all payments; such as foreign bills. What is the consequence of this? Since this old specie carries denominations above its value, when compared with the bagged-bank-silver coin, it serves to buy up this good silver, when it falls into circulation; that is, it serves to buy up, or to exchange, florin pieces, which are, as I have said,  $\frac{1}{2}$  per cent. better than ducats at 5 *f.* 5 *fl.* Such good silver pieces are not very common in ordinary circulation; but as it frequently happens that people receive silver in fact, for their daily expence, who do not mind the difference of  $\frac{1}{2}$  per cent. when they pay in this good money, it circulates for a little time, until it falls into the hands of those who know it, and bag it up again. Thus it happens in Holland, from the disorder of their coin, that you may be paid a million sterling, if you please, in good silver coin; and yet you find difficulty to procure silver for a ducat, in the lightest, basest, and most awkward pieces imaginable for reckoning. The bad consequences resulting from this disorder, have been taken notice of in the proper place.

END OF THE THIRD BOOK.

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AN  
I N Q U I R Y  
I N T O T H E  
P R I N C I P L E S O F P O L I T I C A L O E C O N O M Y .

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B O O K I V .  
O F C R E D I T A N D D E B T S .  
P A R T I .  
O F T H E I N T E R E S T O F M O N E Y .

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I N T R O D U C T I O N .

I COME now to inquire into the principles of credit; a subject already introduced in the 27th chapter of the second book, where I examined the nature of circulation, and pointed out the principles, which direct a statesman when and how to retard or accelerate its activity, according as the political interests of his people may require.

In that chapter the object was, when and how either to extend or restrain the use of credit, according to political circumstances. The question now comes to be, what that credit is; upon what it is founded; what the various species of it are; what the methods of establishing and extending it, while in its infancy and vigour; how to sustain it when overstretched; and last of all, how to let it fall as gently as possible, when by no human prudence it can be longer supported?

Many

Many political writers in treating of credit, represent it as being of a very mysterious nature ; owing its establishment to a confidence not easily accounted for, and disappearing from the slightest unfavourable circumstances.

That credit, in its infancy, is of a very delicate nature, I willingly allow ; as also that we have many examples which confirm the sentiments of those who believe it to contain, in itself, something very mysterious : but this proves no more, than that, in such cases, credit (as I consider it, and as it will appear really to be) has not been properly established. The cause of confidence has had nothing in it but opinion, and when this is the case, credit is but a shadow ; a thin vapour, which may be dissipated by the smallest breath of wind.

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

The operations of credit are incompatible with the involved contracts of the law, and with the spirit of intricate land-securities. The policy of such contracts was analogous to the manners of the times which gave them birth. Trade is a late refinement, in most nations of Europe, and industry is still a later : the beginnings of both are slow, imperceptible, and obscure. The instruments by which they are promoted, are the lower classes of a people ; such individuals appear to be of very small consequence ; and yet it is by the accumulation of many small things only, that this huge fabric is erected.

To establish that credit, which is necessary for carrying on so great a work, a statesman must lend his hand. He must give a validity to mercantile obligations, which have no name in his law books : he must support the weak against the strong : he must reform the unwieldy procedure of courts of justice : he must facilitate the sale of property : he must establish the credibility of merchants books regularly kept : he must discourage frauds, and support fair dealing.

When

When such a plan is once established, confidence will find a basis in the property of every individual who profits by it. When it is not established, credit will appear like a meteor : intelligent and crafty men will avail themselves of it, and thereby dazzle the eyes of the public, with gilded schemes of opulence and prosperity : mankind will fly to industry, confidence will be established ; but as there will be no method of determining the bounds of that confidence, the promoters of the scheme will profit of the delusion : confidence will vanish ; and the whole will appear to have been a mystery, a dream. Is not this a representation of many projects set on foot since the beginning of this century ? What were the South Sea's and Mississippi's, but an abuse of confidence ? Had ever the *cause* of confidence been examined into, would ever such extravagant ideas have arrived at the height they did ?

Credit therefore must have a *real*, not an *imaginary* object to support it ; and although I allow that in all operations of *mercantile* credit, there must be something left to chance and accident ; yet that chance must bear a due proportion to the extraordinary profits reasonably to be expected from the undertaking.

From this it appears, what an useful speculation it is to inquire properly into the nature of credit ; to deduce with accuracy the principles upon which it is founded ; to banish mystery from plain reason ; to shew how every the most surprizing effect of credit, whether tending to the advantage, or to the hurt of society, may easily be accounted for ; and, which is the most useful of all, to point out how such effects may be foreseen, so as either to be improved or prevented.

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

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

The

The second, for the principles of banking; under which I shall have an opportunity to unfold the whole doctrine of domestic circulation.

The third, for those of exchange; which is equally well calculated for carrying on foreign circulation; and as to what regards debts, and the borrowing of money, with all the consequences which they draw along with them, these important objects will furnish ample matter for

The fourth and last part, which shall treat of the principles of public credit.

These premised, I proceed to the definition of credit,

CHAP. I.

*What Credit is, and on what founded.*

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

To illustrate this, we may say 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*; so he who actually gives or performs his part, is the creditor, or the person who gives credit; and he who only promises to give or perform, is the debtor, or the person who receives it.

Credit, therefore, is no more than a *well established* confidence between men, in what relates to the fulfilling their engagements. This confidence must be supported by laws, and established by manners. By laws, the execution of formal contracts may be enforced: manners, alone, can introduce that entire confidence which is requisite to form the spirit of a trading nation.

Credit, in its infancy, must be supported by statutes, and enforced by penalties; but when it is once well established, every recourse had to law, is found to wound the delicacy of its constitution. For this reason we see, that in certain nations, the legislator wisely excludes the ordinary courts of justice from extending their rigid jurisdiction over mercantile engagements: they leave to the prudence and good faith of men versed in commerce, to extricate the combinations which result from such transactions; because they are to be interpreted more according to the constant fluctuation of manners, than to the more permanent institutions of positive law.

The more the jurisdiction of the statesman is unlimited; or in other words, the less the power of any sovereign is restrained, by

the laws and constitution of the state he governs, the more it behoves him to avoid every step of administration which can make his authority be felt in cases where credit is concerned. If he should happen, for example, to be a debtor himself, he must take good care never to appear in any other light to his creditor. The moment he puts on the sovereign, the same moment all confidence is lost. For these reasons, we have hitherto had few examples (I might perhaps have said none at all) where credit has been found permanently solid, under a pure monarchy.

But we must observe, at the same time, that the stability of credit is not incompatible with that form of government. At certain times, we have seen credit make a surprising progress in France; and it has never suffered any check in that state, but from acts of power, which I think have proceeded more from inadvertency, and want of knowledge, than from a design of defrauding creditors. These may be looked on as blunders in administration; because they have constantly disappointed the purpose for which they were intended. Let me prove this by some examples.

The arret of 21 May 1720, (of which we shall give an account hereafter) destroyed in one day the whole fabric of credit, which had been erected in France during the course of three years; and which in so short a time had mounted to a height hardly credible. I say, that in one day this inadvertent step (for no real injury was intended) destroyed the credit of 2,697,048,000 livres of bank notes, (above 120 millions sterling) and of 624,000 actions of the East India company, which (reckoned at 5000 livres apiece, the price at which the company had last sold them) amount to 3,120,000,000 livres, or above 140 millions sterling. Thus at one blow, and in one day, 260 millions sterling of paper currency, payable to bearers, was struck out of the circulation of France; by an useless and inadvertent act of power, which ruined the nation, and withered the hand which struck it: an event too little understood, and too little remembered in that kingdom.

This

This plainly appears from their late conduct; for in the end of 1759, at a time when the credit of France was in so flourishing a situation as to have enabled her to borrow, that very year, near 200 millions of livres; and when there was a prospect of being able to borrow, in the year following, a far greater sum, the shutting up what they called their *caisse d'amortissement*, for the sake of withholding 32 millions of livres interest due to the creditors, struck all credit *with foreigners* dead in one instant.

These examples shew what fatal consequences follow a misjudged exercise of power in matters of credit.

On the other hand, the rapid progress of credit in France before the Mississippi, and the stability 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 establishment of *one maxim in government*; to wit, that the King's power is never to extend so far, as to alter the smallest article of such stipulations as have been made with those who have lent money for the service of the state.

*Maxims in government bind the monarch and the legislature, as laws bind subjects and subordinate magistrates*: the one and the other ought to be held inviolable, so far as they regard credit; or confidence will be precarious.

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

Does any one doubt, but the legislature of that nation may sponge out the public debts, with as much ease as a King of France? But in the one kingdom, the whole nation must be consulted as to the propriety of such a step; in the other, it may be done at the instigation of a single person, ignorant of the consequences: but I hope to make it appear, before the conclusion of this book, that it is impossible to form a supposition, when a state can be benefited by deliberately departing, for one moment, from the faith of her engagements. A national bankruptcy may (no doubt) happen, and become irreparable; but that must be when the state is emerging from

P 2

from a signal calamity, after having been involved in ruin and confusion.

Confidence, then, is the soul and essence of credit, and in every modification of it, we shall constantly find it built on that basis; but this confidence must have for its object a *willingness* and a *capacity* in the debtor to fulfil his obligations.

#### CHAP. II.

#### *Of the Nature of Obligations to be performed, in Consequence of Credit given.*

WE have already said, that all obligations contracted with a view to be performed in future time, consist in doing or giving something; in consideration of something *done*, or *given*.

When actions only are stipulated in contracts, *credit* (in a strict acceptance of the term) is little concerned; because no adequate security can be given for performing an action: such contracts stand wholly upon the willingness and capacity of *acting*, which depend more upon the *person* than upon the *faculties* of the debtor. To supply that defect, we see penalties usually stipulated in such cases; which reduce those contracts to an alternative obligation of either *doing* or *giving*.

We shall therefore throw out the consideration of the first altogether, as being foreign to our purpose; and adhere to the latter; which is the true object of credit. Again,

In all obligations to give any particular thing, there is constantly implied an alternative also; to-wit, either the thing stipulated, or the value (*id quod interest*, according to the lawyers) this must 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 consider it, viz. the obligation to pay money, either for value received, or for some consideration relative to the parties, which may be the just ground of a contract.

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

When money is to be paid at a distant period of time, the obligation may either be, 1. for one precise sum; or 2. for that sum with interest, during the interval between contracting and fulfilling the obligation.

The lending of money without interest, was very common, before the introduction of trade and industry. Money then was considered as a barren stock, incapable of producing fruit; and whenever the quantity of it, in any country, exceeded the uses of circulation, the remainder was locked up in treasures. In that light, the exacting of interest for it appeared unreasonable.

Things are now changed: no money is ever locked up; and the regular payment of interest for it, when borrowed; is as essential to the obtaining of credit, as the confidence of being repaid the capital. These periodical payments are a constant corroboration of this confidence; so that it may be said, with truth, that he who can give good security, to pay to perpetuity, a regular interest for money, will obtain credit for any sum, although it should appear evident, that he never can be in a capacity to refund the capital.

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

We have said in the second book, that the current money of a country is always in proportion to the trade, industry, consumption, and alienation, which regularly takes place in it; and when it happens that the money already in the country is not sufficient for carrying on these purposes; a part of the solid property, equal to the deficiency, may be melted down (as we have called it) and made to circulate in paper. That so soon again as this paper augments beyond that proportion, a part of what was before in circulation,

lation, must return upon the debtor in the paper, and be realized anew.

Now let us consider what is understood by *realized*. By this term is meant, that the regorging paper, or that quantity of currency which a nation possesses over and above what is necessary for its circulation, must be turned into some shape whereby it may produce an income; for it is now a maxim, that no money is to be suffered to remain useless to the proprietor of it.

When this *regorging* paper then comes upon the debtor in it, if he should pay the value of it in hard specie, 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 suppose that the paper has so stagnated in the hands of the bearer, that he can neither lend it, or purchase with it any species of solid property, within the country, capable to produce an income: for if any way of disposing it usefully can be found, this circumstance proves that circulation is not, at that time, fully stocked; consequently, the money does not regorge. But let us suppose 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 case of old; or he must send his coin to other countries, where circulation is not fully stocked, and where an income may be bought with it. This constantly happens when circulation is either overstocked, or when the quantity of it begins to diminish in a country.

Let me next suppose, that in a country reasonably stocked with money, a sudden demand for it, far beyond the ordinary rate of circulation, should occur: suppose a war to break out, which absorbs, in a short time, more money than, perhaps, all the coin in a nation can realize. The state imposes a tax, which, let me suppose, may produce a sum equal to the interest of the money required. Is it not very certain, that such persons who found a difficulty in placing their regorging capitals, will be better pleased to purchase a part of this annual interest, than to lend it to any person who might

might pay it back in a short time; by which repayment the lender would again be thrown into the same inconvenience as before, of finding a proper out-let for it? This is a way of realizing superfluous money, more effectual than turning it into gold or silver.

When I speak, therefore, of realizing paper money, I understand either the converting it into gold and silver, which is the money of the world; or the placing of it in such a way as to produce a perpetual fund of annual interest.

Were public borrowing, therefore, to work the effect of bringing the money in circulation below the proportion required for carrying on alienation, then an obligation to repay the capital would be necessary, and complaints would be heard against the state for not paying off their debts; because thereby the progress of industry 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 industry, then the state has no occasion 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.

We must take it for granted, that in every nation in Europe, there is a sum 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 whatsoever, public and private, paying interest to the class of creditors, is a very great sum: now let us suppose, that the class of debtors should be enabled (no matter by what means) to pay off what they owe, in coin; would not, by the supposition, a sum nearly equal to that coin immediately fall into stagnation, and would it not be impossible to draw any income from it? This was exactly the case of old. The coin far exceeded the uses of circulation, and stagnated in treasuries. Wars brought it out; because then circulation augmented; peace again cutting off these extraordinary demands, the coin stagnated again, and returned to the treasuries.

What is the case at present?

Money



Money and coin are never found to surpass the uses of circulation in commercial countries. When war comes, which demands an extraordinary supply, recourse is had to borrowing upon interest; not to treasures: and the desire of purchasing this interest, which we call an annuity, draws treasures even from the enemies of those nations who have the best credit. Again, at the end of a war, in place of an empty treasure, as was the case of old, we find a huge sum of public debts. As oeconomy filled the treasury then, so oeconomy must pay off the debts now.

From what has been said, it plainly appears, that interest is now become so absolutely essential to credit, that it may be considered as the principal requisite, and basis on which the whole fabric stands: we shall therefore begin by examining the origin and nature of interest, and also the principles which influence the rate, and regulate the fluctuations of it.

CHAP. III.

*Of the Interest of Money.*

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

The Jews, by the laws of Moses, were forbid to lend at interest to their brethren, but it was permitted to lend to strangers. *Deut.* chap. xxiii. ver. 19, 20. This was one of the wisest political institutions to be met with in so remote antiquity, as we shall hereafter explain.

In the primitive ages of christianity, the lending at interest was certainly reputed to be unlawful on most occasions. That spirit of charity, *to all who were in want*, was so warped in with the doctrine of our religion, that a borrower was constantly considered to be in that

that situation. Trade was little known; trading men were generally ill looked upon; and those who deviated so far from the spirit of the times, as to think of accumulating wealth by the use of their money, commonly degenerated into usurers.

In the middle centuries, when a mistaken zeal animated christianity with a most ungodly thirst for the blood of infidels, the Jews were, in every nation in Europe, almost the only money lenders. This circumstance still more engaged the church to dart her thunder against this practice; and the loan upon interest never took root among christians, until a spirit of trade and industry sprung up in Italy in the time of the Lombards, and spread itself through the channel of the Hans-towns over several nations.

Then the church began to open her eyes, and saw the expediency of introducing many modifications, to limit the general anathema against the whole class of money lenders. At one time it was declared lawful to lend at interest, when the capital shared any risque 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 interest: again, it was permitted, when the debtor was declared by sentence of a judge, to be *in mora* in acquitting his obligation: at last, it was permitted on bills of exchange. In short, in most Roman catholic countries, interest is now permitted in every case almost, except in obligations bearing a stipulation of interest for sums demandable at any time after the term of payment; and it is as yet no where considered as essential to loan, or demandable upon obligations payable on demand.

Expediency and the good of society (politically speaking) are the only rule for judging, when the loan upon interest should be permitted, when forbid. While people borrowed only in order to procure a circulating equivalent for providing their necessaries, until they could have time to dispose of their effects; and while there was seldom any certain profit to be made by the use of the money borrowed, by turning it into trade, it was very natural to consider the lender in an unfavourable light; because it was supposed that the

money, if not lent, must have remained locked up in his coffers. But at present, when we see so many people employed in providing stores of necessaries for others, which, without money, could not be done; forbidding the loan upon interest, has the effect of locking up the very instrument (money) which is necessary for supplying the wants of the society. The loan, therefore, upon interest, *as society now stands composed*, is established, not in favour of the lenders, but of the whole community; and taking the matter in this light, no one, I suppose, will pretend that what is beneficial to a whole society should be forbid, because of its being proportionably advantageous to some particular members of it.

If it be then allowed, that the loan upon interest is a good political institution, relative to the present situation of European societies, the next question is, to determine a proper standard for it, so as to avoid the oppression of usurers, on one hand, and on the other, to allow such a reasonable profit to the lender, as may engage him to throw his money into circulation for the common advantage.

This question leads us directly to the examination of the principles which regulate the rate of interest; and if we can discover a certain rule, arising from the nature of things, and from the principles of commerce, which may direct a statesman how to establish a proper regulation in that matter, we may decide with certainty concerning the exact limits, between unlawful and pinching usury, exacted by a vicious set of men, who profit of the distresses of individuals; and that reasonable equivalent which men have a right to expect for the use of their money, lent for carrying on the circulation of trade, and the employment of the lower classes of a people, who must subsist by their industry or labour.

CHAP. IV.

*Of the Principles which regulate the Rate of Interest.*

WE must now recal to mind the principles of demand and competition, so fully deduced in the second 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 persons who have occasion to borrow money, and a certain number of persons who desire to lend: there is also a certain sum of money demanded by the borrowers, and a certain sum offered to be lent. The borrowers desire to fix the interest as *low* as they can; the lenders seek, from a like principle of self-interest, to carry the rate of it as high as *they* can.

From this combination of interests arises 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 most pressing occasion for money, will offer the highest interest, 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 side. Such of the lenders, who have the most pressing occasion to draw an interest for their money, will offer it at the lowest interest, and this offer will be accepted of.

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

The price of commodities is extremely fluctuating: they are all calculated for particular uses; money serves every purpose. Commodities, though of the same kind, differ in goodness: money is all, or *ought to be* all of the same value, relative to its denominations. Hence the *price of money* (which is what we express by the term *interest*) is susceptible of a far greater stability and uniformity, than the price of any other thing.

We have shewn in the 28th chapter of the second book, in examining the principles which regulate the prices of subsistence, that the only thing which can fix a standard there, is frequent and familiar alienation. The same holds true of money. Were we to suppose a state, where borrowing and lending are not common, and where the laws fix no determinate interest for money, it would hardly be possible to ascertain the rate of it at any time. This was the case of old.

Before the reign of Henry VIII. of England, *anno 1545*, there was no statute regulating the rate of interest in that kingdom. The reason is very plain. In those days there was little circulation, and the borrowing upon interest was considered as a mortal sin. The consequence of this was, that usurers, having nothing but conscience to restrain them, carried the price of their money to a level with the pressing occasion of spendthrifts, while others, from friendship, lent for no interest at all. Henry fixed the rate of interest at *10 per cent.* and his cotemporary, Francis I. of France, *anno 1522*, (who was the first who borrowed money in a regular manner upon the town-house of Paris) fixed the interest at the 12th penny, that is, at  $8\frac{1}{2}$  *per cent.*

In those days, it was impossible for a statesman to determine any just rate for interest; and accordingly we find history filled with the extortion of usurers, on one hand, and the violence and injustice of Princes and ministers towards those who had lent them money, on the other: was it then any wonder, that lending at interest was universally cried out against? It really produced very little good, and was the cause of manifold calamities to a state. When the

Prince

Prince borrowed, it was when in the most urgent distress: those who lent to him, foresaw the danger of being plundered if they refused, and of being defrauded as soon as the public distress was over: for this reason they exacted the most exorbitant interest: the consequence was, that the people were loaded with the most grievous taxes, and the tax-gatherers were the Prince's creditors, to whom such taxes were assigned.

In our days, trade, industry, and a call for money for such purposes, enable the borrower to enrich himself, to supply the wants of the state, and to pay his interest regularly.

If we compare the two situations, we shall find every disadvantage 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 trade, no industry, no circulation, no bread for the lower classes, no luxury, not even the conveniences of life, for the rich. Under these circumstances, there can be no rule for the rate of interest; because borrowing cannot be frequent and familiar.

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

We have said, that it is the fluctuation of the double competition between borrowers and lenders, which occasions the rise and fall of the rate of interest; I must now point out the principles which occasion this fluctuation.

Were the interests of trade and industry so exactly established, as to produce the same profit on every branch, the money borrowed for carrying them on, would naturally be taken at the same rate; but this is not the case: some branches afford more, some less profit. In proportion, therefore, to the advantages to be reaped from borrowed money, the borrowers offer more or less for the use of it.

Besides the class of men who borrow *in order to profit* by the loan, there is another class, who borrow *in order to dissipate*. The first class

never

never can offer an interest which exceeds the proportion of their gains: the second class, finding nothing but want of credit to limit their expence, become a prey to usurers. Were it not then upon account of these last, there would be no occasion for a statute to regulate the rate of interest. The profits on trade would strike an average among the industrious classes; and that average would fall and rise, 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 interest which is in proportion to the profits upon trade and industry.

In every country there is found a sum of money (that is, of circulating value, no matter whether coin or paper) proportioned to the trade and industry of it. How this sum is determined, and how it is made to augment and diminish in proportion to industry, we have already explained in the 26th chapter of this second book: we are now to examine some of the consequences which result from the accidental stagnation of any part of it to the prejudice of alienation; and we must shew how the loan upon interest is the means of throwing it again into circulation.

There are in every state some who spend more, and some who spend less than their income. What is not spent must stagnate; or be lent to those who spend more than the produce of their own funds. Were the first class found so to preponderate, as to require more money to borrow than all that is to be lent, the consequence would be, to prevent the borrowing of merchants; to raise interest so high as to extinguish trade; and to destroy industry; and these resources coming to fail, foreign commodities would be brought in, while exportation would be stopt, money would disappear, and all would fall into decay.

This, I believe, is a case which seldom happens; because the rise of interest (as states are now formed) has so much the effect of depreciating the value of every species of solid property, that spendthrifts are quickly stripped of them, by the growing accumulation

of that canker worm, interest; their ruin terrifies many from following so hurtful an example, and their property falling into the hands of the other class, who spend less than their income; these new possessors introduce, by their example, a more frugal set of manners. This may be the case in countries where trade and industry have been introduced; and where the operations of credit have been able to draw a large quantity of solid property into circulation, according to the principles deduced in the chapter above referred to. But in nations of idleness, who circulate their coin only, and who are deprived of the resource of credit, high interest prevents them from emerging out of their sloth; the little trade they have, continues to produce great profits, which are incompatible with foreign commerce: this may, indeed, make the coin they have circulate for home consumption, but can bring nothing from abroad.

On the other hand, when trade and industry flourish, and a monied interest is formed, in consequence of melting down of solid property, and still more when a state seems to contract great debts, were the money lenders to attempt to raise the rate of interest to the standard of the spendthrift, the demands of trade, &c. would soon be cut off: the stagnation would then swell so fast in their hands, that it would in a manner choak them, and in a little time interest would fall to nothing. Whereas by contenting themselves with the standard of trade, the largest supplies (provided for the borrowers) easily find a vent, without raising the rate of interest so high as to be hurtful to any interest within the state.

Add to this, that the advantage of realizing, into lands, so unstable a property as money, must naturally throw the proprietors of it into a competition for the lands which dissipation brings to market; and so by raising the value of these, they, with their own hands, defeat the consequences of the dissipation of spendthrifts, and hurt their own interest, to wit, the rise of the price of money. From a combination of these circumstances, lenders become obliged

to part with their money at that rate of interest which is the most consistent with the good of commerce.

We have hitherto preserved our combinations as simple as possible. We have suggested no extrinsic obstacle 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 stagnations in the hands of the lenders, will find a ready vent by the dissipation of the other class: we must now take a step farther.

The spendthrifts must have credit; that is, they must have it in their power to repay with interest what they have borrowed: any impediment to credit, has the effect either of diminishing the demand for money, and consequently of lowering the rate of interest, or of introducing unlawful usury. If we suppose the rate of interest well determined, and usury prevented by a regular execution of good laws, it is very certain, that a statesman by hurting the credit of extravagant people, will keep the rate of interest within due bounds.

If, therefore, we find the laws of any country, in our days, defective in establishing a facility in securing money on solid property, while the rate of interest stands higher than is consistent with the good of trade, and with public credit; we should be slow in finding fault with such a defect. The motives of statesmen lie very deep; and they are not always at liberty to explain them. An example of such clogs upon credit are entails upon lands, and the want of proper registers for mortgages.

Did the dissipation of landed men tend to promote foreign trade, such clogs would be pernicious: but if the tendency be to promote domestic luxury only, and thereby raise the price of labour and industry, the case is widely different. This observation is only by the bye. Our object at present extends no farther, than to point out; that the dissipation of landed men, and the credit they have to borrow

row money, influences, not a little, the rate of interest in every modern state.

These are the general principles which, arising from things themselves, without the interposition of a statesman, tend to regulate the rate of interest in commercial nations.

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CHAP. V.

*Of the Regulation of Interest by Statute.*

FROM the principles deduced in the preceding chapter, we have seen how, without the aid of any law, the interest of money, in a trading nation, becomes determined, from natural causes, and from the irresistible effects of competition.

But as there is no country in the world so entirely given to commerce, as not to contain great numbers of people, who are totally unacquainted with it, a regulation becomes necessary to restrain, on one hand, the frenzy of those, who, listening to nothing but the violence of their passions, are willing to procure money at any rate for the gratification of them, let the political consequences of their dissipation prove ever so hurtful; and on the other, to protect those who, from necessity, may be obliged to submit to the heavy oppression of their usurious creditors.

Laws restraining usury, are directly calculated for the sake of those two classes, not engaged in commerce, and indirectly calculated for commerce itself; which otherwise might receive a wound through their sides.

In entering upon the subject mentioned in the title of this chapter, I think we may agree in this, that hitherto all regulations made concerning interest, have been calculated either for bringing it down, or for preventing its rise. The distress which may come

upon a state, by its falling too low, is a phenomenon which has not yet manifested itself in any modern state, by any symptom I can at present recollect.

Now if it be true, as I think it has been proved, that the operations of demand and competition work irresistible effects in determining the rate of interest in commercial states; the statesman who is about to make a regulation, must keep these principles constantly in his eye.

If we examine the writings of those who have treated of this subject with intelligence (among whom, I think, Child has a right to stand in the foremost rank) we shall find very little attention bestowed upon that most necessary and ruling principle.

He lays it down as an axiom, that low interest is the soul of trade, in which he is certainly right; but he seems to think, *that it is in the power of a legislature, by statute, to bring interest down to that level which is most advantageous to trade*; and in this I differ from him. I must do him the justice to say, that he no where directly affirms that proposition; but by suggesting none of the inconveniences which may follow upon an arbitrary reduction of interest by statute, he leaves his reader at liberty to suppose, that the lowering of it is solely in the hands of a statesman.

It is very plain, from the history he has given us of the successive rates of interest in England, from 10 to 6 per cent. that without the interposition of statutes, such diminutions would not, *in that period*, have taken place, from the principle of competition: but I am not so clear that, *at this time*, when trade is so well understood, and credit so generally established in many nations of Europe, that a like administration would work effects equally advantageous.

It is with great diffidence I presume to differ from Child upon this subject; and I find a sensible satisfaction in perceiving that my principles bring me so very near to his sentiments on this matter.

The strong arguments in favour of Child's opinion, are grounded upon facts. He says, that when interest was brought down by statute, *anno 1625*, from 10 to 8 per cent. that in place of producing any

any bad effect, it had that of bringing it still lower immediately afterwards; and the same thing happened, *anno 1650*, when it was reduced a second time by statute, from 8 to 6 per cent. at which rate it stood at the time he wrote. These facts I give credit to, and shall now account for them, from the consequences of sudden revolutions.

When a law is made for the reduction of interest, all debtors immediately profit by it. Upon this, the creditors must either submit, or call in their capitals. If they submit, land immediately rises in its value. If they call in their capitals, they must have an outlet for lending them out again, beyond the limits of the jurisdiction of the legislature. Now this outlet was not then to be found; because credit was no where well established, except in Holland, where interest was still lower.

They were, therefore, obliged to submit, and thus interest was violently brought down by statute; and a great advantage resulted from it to the commercial interests of England.

The subsequent fall of interest, in the natural way, is thus easily accounted for.

The consequence of lowering the interest, was, that the price of land rose several years in purchase: the landed men, who had long groaned under the heavy interest of 10 per cent. finding their lands rise from 12 years purchase to 15, upon reducing the interest to 8 per cent. sold off part of their lands, and cleared themselves. The natural consequence of this was, to make money regorge in the hands of the monied men; to diminish the number of borrowers; and consequently, to bring the rate of interest still lower.

One sudden revolution produces another. When interest is brought down by statute, the price of land must rise by a jerk; and landed men will suddenly profit of the change in their favour. When it falls gently, by natural revolutions in the state of demand, the effects are more insensible; the sharper sighted only profit of it; others, from expectation of a still greater rise in the price of their lands, neglect to sell in the proper point of time; and may perhaps be disappointed from a new fluctuation in favour of money. This

is at present actually the case in Great Britain, since the peace of 1762. I write in 1764.

These facts speak strongly in favour of Child's opinion, that it is expedient to have recourse directly to the statute, whenever there is a prospect of advancing the interests of trade by a reduction of interest.

It is impossible to reply to matters of fact: all, therefore, I have to allege in favour of my own opinion, is, that it is more consistent with the very principles in which both Child and I agree; it implies no sudden revolution, and will, in a short time, operate the same effect.

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

Since it is agreed on all hands, that low interest is the soul of trade, and the firmest basis of public credit; that it rises in proportion to the demand of borrowers, and sinks in proportion as money is made to regorge in the hands of the monied interest;

The statesman should set out by such steps of administration as will discourage borrowing, in those who employ their money in prodigality and dissipation, as far as may be consistent with the interest of the lower classes employed in supplying home consumption, according to the principles laid down in the second book. He should abstain from borrowing himself, and even from creating new outlets for money, except from the most cogent motives. By this he will, in a short time, gently reduce the rate of interest. Then by statute he may bring it down a little, but not so very low as the foregoing operations may have reduced it; contenting himself with having farther restricted the extent of the ordinary fluctuations.

As for example: let us suppose interest limited by law to 5 per cent. and that by good management the state may be enabled to borrow easily at 3 per cent. I believe there would result 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

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to landed men, in case a war should suddenly occasion a revolution in favour of money.

The difference then between Child and me, is, that I am more scrupulous than he, in introducing restraint into political oeconomy; and my only reason against applying the statute, as he proposes, is for fear of the immediate bad effects which might follow (in many ways impossible to be foreseen) upon a sudden and violent revolution, in a point so excessively delicate as public credit.

In his days, credit was not so well established, nor was it stretched as at present: it was more accustomed to violent shocks, 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 consequence, if Great Britain should, at this time, bring down, by statute, the rate of interest *below the level of the stocks*, which I take to be the best rule of determining the present value of money; and this is also the best method of examining the expediency of Child's method of reducing interest, under the present combination of all our political circumstances.

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## C H A P. VI.

*What would be the Consequence of reducing, by a British Statute, the legal Interest of Money below the present level of the Stocks.*

WHEN Great Britain borrows money upon the public faith, the rate of interest is always stipulated, and these stipulations must be religiously 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.

The current value of money, I think, is best to be determined by the price of stocks. If a 4 per cent. falls at par, money may be said

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to be then at 4 per cent. If the same stock falls to 89, then the value of money rises to near 4½; if the same stock rises to 114, then the value of money falls to about 3¼; and so in proportion.

According, therefore, as stock is found to rise, the price of money falls, and vice versa.

Suppose, then, the price of money to be at 4 per cent. and that government should pass a law, forbidding any man to lend at above 3 per cent. what would be the consequence? This is exactly the expedient proposed by Child: money then was at 6 per cent. and he proposes, by a law, to bring it, all at once, to 4, without alledging that money was then commonly got by private convention at so low a rate.

Would not the consequence be, that the creditors of private people would demand their money, in order to get 4 per cent. in buying stock, and would not this additional demand for stocks make them rise? I answer in the affirmative, unless money could be employed abroad, so as to produce at least 4 per cent. to the lenders, free of all charge of commission, &c. If it could not, I have little doubt, but that money would soon fall to the legal interest of 3 per cent. land would rise to 40 years purchase; and landed men would profit of the rise, as Child says was the case in his time. The whole inconvenience would be limited to the immediate effects of the sudden revolution; which would occasion so great a run upon the landed interest, as to reduce them to an utter incapacity of answering it. This might be, in some measure, prevented, by a clause in the act, allowing a certain time for the liquidation of their debts. But who will pretend to foretell the immediate consequences of so great a stagnation of credit, and borrowing on land security? The purses of all monied people, would, for some time at least, be fast shut against their demand. What a shock again, would this be to all inland trade, what a discouragement to all the manufacturing interest, what distress upon all creditors for accounts furnished, and upon those who supply daily wants! I think, even supposing that in a year or two, the first effects might come to disappear, and a notable

notable advantage result, in the main, to the commercial interest of Great Britain, yet the distress in the interval might prove so 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 constantly acted upon by the immediate feelings of present inconveniences, might lose all patience; and being blown into a ferment, by the address of the monied interest (whose condition would be made to suffer by the scheme) might throw the state into confusion, and impress the nation with a belief, that high interest for money, in place of being hurtful, was essential to their prosperity.

I have said above, that supposing the money drawn from debtors, could not be placed abroad, free of all deductions, at a rate equal to the then value of money (supposed, for the sake of an example, to be at 4 per cent.) that then money would fall to 3 per cent. and the stocks would rise in proportion.

But let us suppose (what perhaps is the matter of fact) that the extensive operations of trade and credit, do actually fix an average for the price of stocks, from the value of money in other nations in Europe. Would not then the consequence of bringing down the rate of legal interest, below that level, be, to send out of the kingdom all the money now circulating on private security, real and personal? Would not this destroy all private credit at one blow? Would it not have the effect of preventing, among individuals, the loan upon interest altogether? What would become of the bank of England, and all other banks, whose 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 same interest which moves other creditors to exact their debts, under such circumstances, also 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 dreadful distress? May we not even suppose, that upon such an occasion, the monied interest (from a certainty of disappointing the intention of government in making the law) might form a combination among themselves to lock up their money,



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 so profitably turn to account upon his farm, even though he receives it at the highest legal interest? These and many more inconveniences *might* manifest themselves, were government to force down the value of money, contrary to the ordinary operations of demand and competition: and to what purpose have recourse to authority, when it is most certain, that without any such expedient the same end may be compassed?

If it be true, as I believe it is, that in states where credit is so well established, that their funds or public debts are commonly negotiated 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 so as to restrain mercantile people, and those who make a trade of money, from turning it to the best account; then all that should be proposed by government, is, to preserve the value of it at home, within that standard. For which purpose, nothing more is necessary than to prevent the competition of the dissipating class of inhabitants, from disturbing the rate which commerce may establish from time to time. This is accomplished by the methods above hinted at, and which in the next chapter shall be more largely insisted on. If, by prudent management, the *conventional* rate of interest, can thus be brought below the *legal*, then there will be no harm in diminishing the latter by statute, not however *quite* so low as the conventional standard; but to leave a reasonable latitude for gentle fluctuations above it. From what I have said, I still think I had reason to object to Child's plan for forcing down the interest by statute: and had he lived at this time, I am persuaded he would have come into that opinion.

C H A P. VII.

*Methods of bringing down the Rate of Interest, in Consequence of the Principles of Demand and Competition.*

I HOPE the arguments used in the foregoing chapter will not be construed as an apology for the high interest of money.

I entirely agree with Sir Josiah Child, that low interest is the soul of trade; the most active principle for promoting industry, and the improvement of land; and a requisite, without which it is hardly possible that foreign commerce can long be supported.

This proposition I take to be at this time universally admitted to be true; and did there remain, concerning it, the vestige 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 rest the author just now cited, are sufficiently capable to remove it. I shall not therefore trouble my reader with a chapter upon that head, but only observe, that the terms *high* and *low* are constantly relative. Here the relation must be understood to regard other states, because when we speak of a *rate* of interest, we are supposed to mean something general in the country we are speaking of: accordingly, if we could suppose that, within the same state, the rate of interest should be lower in one city than any where else, that circumstance would give an advantage to that city in all its mercantile operations.

I must farther observe, for the sake of connecting this part of our subject with our general plan, that the low interest for money is most essential to such states 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 should be found in a great measure locked up in treasures: high interest tends to bring it forth, and in that respect works a good effect.

In proportion as alienation augments, money comes to be multiplied, by the melting down of solid property, as has been explained; and then the business of a statesman is to contrive expedients for bringing the rate of it as low as possible, in order to support foreign trade, and to rival all neighbouring nations, where interest is higher. When foreign trade again comes to decline, from the multiplication of abuses introduced by luxury, low interest still continues useful, for supporting public credit, so necessary for defending a nation against her enemies.

If money consisted only in the precious metals, which are not to be found in every country, but must be purchased with the produce of industry, and brought from far; and if no other expedient could be fallen upon to supply their place for the uses of circulation; then the possessors of these metals would in a manner be masters to establish what rate of interest they thought fit for the use of them.

But if that be not the case, and if money can be made of paper, to the value of all the solid property of a nation, (so far as occasion is found for it, by the owners of that property) the use of the metals comes to be in a manner reduced to that of serving as a standard, for ascertaining the value of the denominations of money of account; perhaps for facilitating the circulation of small sums, and for paying a balance of trade to other nations.

When this is the case, a statesman has it in his power to increase or diminish the extent of credit and paper money in circulation, by various expedients, which greatly influence the rate of interest.

The progress of credit has been very rapid since the beginning of this century. This has been almost entirely owing to the mechanical combinations of trading men. Lawgivers have hitherto had but imperfect notions concerning the nature of it; and there still remains, in the womb of nature, some mighty genius, born to govern a commercial nation, who alone will be able to set it on its true principles. Let us in the mean time speculate concerning them.

We have said, and every body feels, that interest 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 speak of trading nations, who are not confined to the quantity of their specie alone.

When a man of property wants money, does he not go to a bank, which lends upon mortgage, and by pledging his security, does he not receive money, which is in the same instant created for his use? Do not those notes circulate as long as they are found necessary for carrying on the affairs of the nation? that is to say, the accounts of debtors and creditors of all denominations; and as soon as the quantity of them exceeds that proportion, they stagnate, and return on the debtors in them, (the bank) who is enabled to realize them, because the original security is still in their hands, which was at first pledged when the notes were issued. This realization is commonly made in the metals; because 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 describing is a round-about operation, which it is possible to shorten?

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 labouring in the deduction of principles in an intricate subject.

I say, when landed men go to such a bank, and receive paper for a land security, that this operation may be shortened.

Do not the notes he gets stand (though that is not expressed) upon the security of his land? Now, can any man assign any other reason but custom, why his own notes, carrying expressly in their bosom the same security, might not be issued, without his being obliged to interpose the bank between the public and himself? And for what does he pay that interest? Not that he has gratuitously received any value from the bank; because in his obligation he has given a full equivalent for the notes; but the obligation carries

interest, and the notes carry none. Why? Because 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 interest to the bank.

Had landed men, and not merchants, invented this method of turning their property into circulation, and had they been all assembled 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 practicable in its nature.

Suppose they had agreed that all their lands should be let by the acre, and that land property should be esteemed at a certain number of years purchase, in proportion to the rate of interest at the time, where would be the great difficulty in paying in lands?

This is only a hint, to which a thousand objections may be made; as matters stand: all I say, is, that there is nothing here against principles; and though there might, in every way such a plan could be laid down, result inconveniencies to the landed interest, yet still these inconveniencies would hardly counterbalance that of their being obliged to pay interest for every penny they borrow.

It is demanded, what advantage would result to the nation from such a regulation?

I answer, that by it all the borrowings of landed men would be struck out of the competition at the money-market. The money'd interest alone would borrow among themselves for the purposes of trade, (for money'd men do not borrow to squander) and landed men would consequently pay with their own paper, in every case, where now they borrow in order to pay. Thus interest would be regulated by the demands of trade, and the rate of it would not be disturbed by the competition of spendthrifts.

Who can say how far the consequences of such a scheme might reach? Might not landed men begin in time to issue notes by way of loan, at a very considerable interest? But I do not incline to carry my speculations farther: perhaps what has been said may appear sufficiently aerial.

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If a statesman shall find every modification of this idea impracticable; either from his own want of power, or of combination, or, which is more probable, from the opposition of the money'd interest, he must take other measures for striking out, as much as possible, the competition of spendthrifts at the money-market. Entails, and lame securities, are good expedients; though they are productive of many inconveniencies. His own frugal œconomy in state affairs will go much farther than any such trifling expedients.

Did a nation enjoying peace, although indebted perhaps 140 millions sterling, begin by paying off but 2 per cent. of their capital yearly, besides the current interest; while no neighbouring state was borrowing any; what would interest fall to in a short time! It may be answered, that the consequence would be, to enrich other nations; because the regorging money would be sent abroad. Is any state ever enriched by their borrowing? And in what does such lending to foreigners differ from the nation's paying off their foreign creditors? Will not the return of interest from abroad compensate, *pro tanto*, the sums sent out for the like purpose?

But if it be said, that the consequence will be to enable other nations to bring down their own rate of interest; I allow it to be so; and so much the better, as long as it remains proportionally lower with us; which it must do, as long as we can lend abroad. We have said, and I believe with truth, that as credit is now extended, a general average is struck every where upon the value of money: consequently, the lower interest is found abroad, the lower still it will remain at home, as long as merchants and exchangers subsist.

From this circumstance of the average on the rate of interest, the Dutch must, I think, have lost 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 sugars in London, above the price paid by English sugar-bakers; and, notwithstanding

standing 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 interest. He supposes both Dutch and English to have carried on this trade with borrowed money; for which the first paid 3 *per cent.* and the other 6 *per cent.*

But at present, were it possible to get 6 *per cent.* for money in London, what Dutchman would lend his father a shilling at 3 *per cent.*? The English stocks are as currently bought and sold, nay, all the stockjobbing tricks are practised with the same subtlety at Amsterdam as in Change-Alley: from which I conclude, that a great part of the advantage of low interest is now lost to that nation; and I conclude farther, that it is the common interest of all trading nations to bring it as low as possible every where.

Another cause of high interest proceeds from certain clogs laid upon circulation, which proceed merely from custom 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 such a regulation was the precariousness of credit in former times. Were all the circulating paper in a nation secured by law, either upon the lands or revenue of the country appropriated for that purpose, there could be no injustice or inconvenience in making paper (so secured) a legal tender in all payments. Again, how extraordinary must it appear to any reasonable man, that the same paper which passes on one side of a river, should not pass on its opposite bank, though running through the same country?

The reason indeed is very plain: the subaltern jurisdictions are different; and the debtors in the paper are different: but if the paper of both stood upon a security 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 servants of the state, and who are so well paid for their service) be over-ruled, when the consequences of their disputes are found

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to be so hurtful? But of this more, when we come to speak of banks.

The only occasion where coin is necessary in the liquidation of paper, is for payment of the balance of trade with foreign nations. Of this also we shall treat more at large, when we come to the doctrine of exchange. But surely nothing is so ill judged, as to create an imaginary balance within the same state; or rather, to permit money-jobbers to create it; at the expence of raising interest, and hurting trade, in the very places where it stands in the greatest need of encouragement.

From these principles, and others which naturally flow from them, may a statesman steer a very certain course, towards bringing the rate of interest as low as the prosperity of trade requires, or the principles of double competition between borrowers and lenders will permit.

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#### CHAP. VIII.

*Is the Rate of Interest the sure Barometer of the State of Commerce?*

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

There is nothing more difficult than to determine when commerce runs favourably, and when unfavourably for a nation. This would not be the case, were the rate of interest the just barometer of it. I have found it, however advanced, that nothing

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more is necessary to be known, in order to estimate the relative profits upon the foreign trade of two nations, than to compare the common rate of interest in both, and to decide the preference in favour of that nation where it is found to be lowest.

We may say of this proposition, as of the course of exchange; the lowness of interest and exchange are both exceedingly favourable to trade; but they are no adequate measure of the profits arising from it.

The best argument in favour of this opinion with regard to interest is, that the nation which sells the cheapest at foreign markets is constantly preferred; and, consequently, where the use of money is the lowest, the merchant can sell the cheapest.

I answer, that this consequence *would* be just, were all trade carried on with borrowed money, and were the difference of the price of the materials or first matter, the ease in procuring them, the promptitude of payments, the industry of the manufacturer, and his dexterity, reckoned for nothing. But such advantages are frequently found in these articles, as to be more than sufficient to counterbalance the additional interest which is paid for the money employed in trade. This is so true, that we see 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 undersell his competitors every where: the same may be true with regard to the other articles. Farther, how far is it not from truth to say, that all *trade* is carried on with borrowed money? When the term *trade* here made use of, is properly understood, we shall see, 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 so 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 six months, when he borrows at 3 per cent.

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

Do we not see every day, that ingenious workmen, who obtain credit for very small sums, are soon enabled, by the means of their own industry, to produce a surprising value in manufactures, and not only to subsist, but to increase in riches? The interest they pay for the money borrowed is inconsiderable, when compared with the value, created (as it were) by the proper employment of their time and talents.

If it be said, that this is a vague assertion, supported by no proof; I answer, that the value of a man's work may be estimated by the proportion between the manufacture when brought to market, and the first matter. Nothing but the first matter, and the instruments of manufacture, can be considered as the objects of borrowed money; unless we go so far as to estimate the nourishment, and every expence of the manufacturer, and suppose that these are also supplied from borrowed money. To affirm that, would be turning arguments into cavil.

The object, therefore, of borrowed money for carrying on trade, is more relative to the merchant than to the manufacturer. Borrowing is necessary for collecting all this product and manufacture into the hands of merchants. This, no doubt, is very commonly the operation of credit: interest of money, here, comes in, to indemnify the giver of credit, for the use of his money: but this interest 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 sells. This interval it is of the highest importance to the merchant to shorten. In proportion as it is long, and in proportion to the rate of interest, he must raise his profits; and in proportion as payments are quick and regular, and interest low, he may diminish them. Whether merchants do regulate their

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profits,

profits, in all commercial nations, according to the exact proportion of the respective rates of interest, and promptitude of payments among them; or whether these are determined by the circumstances of demand and competition in the several foreign markets where the trade is carried on, I leave to merchants to determine. All I shall remark is, that a well founded credit, and prompt payments, will do more service to trade, than any advantage trading men can reap from the different rate of interest in different countries.

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

Another circumstance 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 extension of credit, through the several nations of Europe, who pay annually large sums of interest to their creditors, has established. Let me suppose the Dutch, for example, to have fixed, by placard, the rate of their interest at 3 per cent. I say, that so soon as the *general average* of interest comes to stand above that rate, from the price of public funds in England and France, we may safely conclude, that their trade cannot be carried on with any very considerable sum of money borrowed at 3 per cent. The consequence then must be, to send the money which regorges in the hands of the frugal Dutch, into other countries, where it can produce a better return, exclusive of all expences of remitting and drawing. What the consequences of this lending to foreigners may be to Holland, shall be afterwards examined.

To conclude; I believe it will be found, that what has led some to believe that low interest is the barometer of commerce, has been owing to this; that in some of the most commercial countries and cities interest 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 sake of dissipation. When this is accomplished, trade alone being what absorbs the stagnations of the frugal, the price of interest will fall to that rate which is the best proportioned to the profits upon it: but this also will be less and less the case every day, in proportion to the credit and circulation of public funds in different nations.

## C H A P. IX.

*Does not Interest fall in Proportion as Wealth increases?*

**I**ANSWER in the affirmative: providing it be supposed that dissipation does not increase in proportion to the wealth. Now in a general proposition, such as this which stands at the head of our chapter, that very necessary proviso is not attended to, and thus people are led to error. It is the manners of a people, not their external circumstances as to riches, which render them frugal or extravagant. What, therefore, depends upon the spirit of a people, cannot be changed, but in consequence of a change of that spirit.

If the rate of interest be high, from a taste of dissipation, let foreign trade throw in what loads of money it may, interest will still stand high, until manners change. Every class of a people has their peculiar spirit. The frugal merchant will accumulate wealth, and the prodigal lord will borrow it. In this situation, internal circulation will be rapid, and lands will shift hands. If this revolution should prove a corrective to dissipation, by vesting property in those who have contracted a firm habit of frugality, then an augmentation of wealth may sink the rate of interest. But if, on the contrary, the laws and manners of the country do distinguish classes by their manner of living, and mode of expence, it is ten to one that the industrious and frugal merchant

chant will put on the prodigal gentleman, the moment he gets into a fine country seat, and hears himself called Your honour. In certain countries, the memory of past industry carries a dreg along with it, which nothing but expensive living has power to purge away.

Let this suffice at present upon the subject of interest: it is so connected with the doctrine of credit, that it will recur again at almost every step as we go along.

END OF THE FIRST PART.

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AN  
I N Q U I R Y  
I N T O T H E  
P R I N C I P L E S O F P O L I T I C A L O E C O N O M Y .

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B O O K I V .  
O F C R E D I T A N D D E B T S .

P A R T I I .  
O F B A N K S .

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C H A P . 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 interest, the essential requisite for its support.

We come now to treat of domestic 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, investigate the many combinations we shall here meet with, I must point out wherein banks differ from one another in point of policy, as well as in the principle upon which their credit is built.

If we consider them relative to their policy, I divide them into banks of circulation, and banks of deposit. This every one understands.

If

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

This last division I must attend to in the distribution of what is to follow; and therefore it is proper to set out by explaining what I understand by the terms I have here introduced.

*1mo*, Private credit. This is established upon a security, real or personal, of value sufficient to make good the obligation of repayment both of capital and interest. This is the most solid of all.

*2do*, Mercantile credit. This is established 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 interest due during the advance, in terms of the agreement. This is the most precarious of all.

*3tio*, Public credit. This is established upon the confidence reposed in a state, or body politic, who borrow money upon condition that the capital shall not be demandable; but that a certain proportional part of the sum shall be annually paid, either in lieu of interest, or in extinction of part of the capital; for the security of which, a permanent annual fund is appropriated, with a liberty, however, to the state to liberate itself at pleasure, upon repaying the whole; when nothing to the contrary is stipulated.

The solidity of this species of credit depends upon circumstances.

The difference between the three kinds of credit lies more in the object of the confidence, and the nature of the security, than in the condition of the borrower. Either a private man, a merchant, or a state, may pledge, for the security of a loan, a real or a moveable security, with an obligation to refund the capital. In this case, the obligation stands upon the solid basis of private credit.

Either a private man, a merchant, or a state, may strike out projects which carry a favourable appearance of success, and thereupon borrow considerable sums of money, repayable with interest. In this case, the obligation stands upon a mercantile credit.

Either a private man, a merchant, or a state, may pledge (for the security of money borrowed) a perpetual annual income, the fund

of

of which is not their property, without any obligation to refund the capital: such obligations stand upon the principles of public credit.

I allow there is a great resemblance between the three species of credit here enumerated: there are however some characteristic differences between them.

*1mo*, In the difficulty of establishing and supporting them.

Private credit is inseparable, in some degree, from human society. We find it subsisting in all ages: the security is palpable, and the principles on which it is built are simple and easy to be comprehended. Public credit is but a late invention: it is the infant of commerce, and of extensive circulation. It has supplied the place of the treasures of old, which were constant and ready resources to statesmen in cases of public distress: the security is not palpable, nor readily understood, by the multitude; as it rests upon the stability of certain fundamental maxims of government. Mercantile credit is still more difficult to establish; because the security is the most precarious of any: it depends upon opinion and speculation, more than upon a fund provided for repayment of either capital or interest.

*2do*, They differ in the nature of the security and object of confidence.

Private credit has a determinate object of confidence, viz. the real existence of value in the hands of the debtor, sufficient to satisfy both capital and interest. Public credit has the visible security of a fund appropriated for the perpetual payment of the interest. Mercantile credit depends wholly upon the integrity, capacity, and good fortune of the debtor.

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

Public debts stand generally on the same bottom. No part of the same fund is better than another: the price of them is publicly known, and the securities are laid in the most convenient way for transfer, that is, circulation, without consent of the debtor. This is far from being the case in private securities. Nor is it the case in the mercantile, except in bills payable to order, in which case  
alone,



alone, the creditor can effectually transfer without the consent of the debtor.

4<sup>to</sup>, The fourth difference is discovered in the stability of the confidence.

Nothing can shake private credit, but an appearance of insolvency in the very debtor. But the bankruptcy of one considerable merchant, will give a very great shock to mercantile credit over all Europe: and nothing will hurt public credit, so long as the stipulated interest continues regularly to be paid; and so long as the funds appropriated for that payment remain entire.

From what has been said, I hope the three species of credit have been sufficiently explained; and from what is to follow, we shall feel the utility of this distribution.

## CHAP. II.

### *Of private Credit.*

PRIVATE credit is either real, personal, or mixed. Real security or credit, every body understands. It is the object of law, not of politics, to give an enumeration of its different branches. By this term, we understand no more than the pledging an immoveable subject for the payment of a debt. As by a personal security we understand the engagement of the debtor's whole effects for the relief of his creditors. The mixed, I have found it necessary to superadd, in order to explain with more facility, the security of one species of banks. The notes issued by banks upon private credit, stand upon a mixed security: that is, both real and personal. Personal, so far as they affect the banker, and the banking stock pledged for the security of the paper: and in the second place, upon the securities, real and personal, granted

to

to the banker for the notes he lends, which afterwards enter into circulation.

The ruling principles in private credit, and the basis on which it rests, is the facility of converting, into money, the effects of the debtor; because the capital and interest are constantly supposed to be demandable. The proper way, therefore, to support this sort of credit to the utmost, is to contrive a ready method of appretiating every subject affectable by debts; and secondly, of melting it down into symbolical or paper money.

In former times, when circulation was confined, the scheme of melting down the property of debtors, for the payment of creditors, was impracticable; and accordingly we see that capitals secured 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 solid property producing the income, was really in the hands of the debtor. This subdivision we have omitted, as its basis rests solely upon the regular payment of the interest. Of this nature are the contracts of constitution in France, and the old infestments of annual rent in Scotland. There are few nations, I believe, in Europe, where a vestige, at least, of this kind of security does not remain.

In order, then, to carry private credit to its greatest extent, all entails upon lands should be dissolved; all obligations should be regularly recorded in public registers; the value of all lands should be ascertained, the moment any security is granted upon them; and the statesman should interpose between parties, to accelerate the liquidation of all debts, in the shortest time, and at the least expence possible.

Although this method of proceeding be the most effectual to secure, and to extend private credit, yet it is not, at all times, expedient to have recourse to it; as we have abundantly explained in the 27th chapter of the second book; and therefore I shall not here interrupt my subject with a needless repetition.

C H A P. III.

*Of Banks.*

I N deducing the principles of banks, I shall do the best I can to go through the subject systematically.

I have divided credit into three branches, private, mercantile, and public. This distribution will be of use on many occasions, and shall be followed as far as it will go, consistently with perspicuity: but as I have often observed of subjects of a complex nature, they cannot be brought under the influence of a few general principles, without running into the modern vice of forming systems, by wire-drawing many relations in order to make them answer.

The great operations of domestic circulation are better discovered by an examination of the principles upon which we find banking established, than by any other method I can contrive. It has been by inquiry into the nature of those banks which are the most remarkable in Europe, that I have gathered the little knowledge I have of the theory of circulation. This induces me to think that the best way of communicating my thoughts on that subject, is to lay down the result 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 classes, viz. those which issue notes payable in coin to bearer; and those which only transfer the credit written down in their books from one person 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, because by their means circulation is facilitated; but as different terms serve to distinguish ideas different in themselves, those I here employ, will answer the purpose as well as any others, when once they are defined; and

and circulation undoubtedly reaps far greater advantages from banks which issue notes transferable every where, than from banks which only transfer their credit on the very spot where the books are kept.

I shall, according to this distribution, first explain the principles upon which the banks of circulation are constituted and conducted, before I treat of the other.

This will lead me to avail myself of the division I have made of credit, into private, mercantile, and public: because, according to the purposes for which a bank is established, the ground of confidence, that is, the credit of the bank, is settled upon one or other of them.

In countries where trade and industry are in their infancy, credit must be little known; and they who have solid property, find the greatest difficulty in turning it into money, without which industry cannot be carried on, as we have abundantly explained in the 26th chapter of the second book; and consequently the whole plan of improvement is disappointed.

Under such circumstances, it is proper to establish a bank upon the principles of private credit. This bank must issue notes upon land and other securities, and the profits of it must arise from the permanent interest drawn for the money lent.

Of this nature are the banks of Scotland. To them the improvement of that country is entirely owing; and until they are generally established in other countries of Europe, where trade and industry are little known, it will be very difficult to set those great engines to work.

Although I have represented this species of banks, which I shall call *banks of circulation upon mortgage*, as peculiarly well adapted to countries where industry and trade are in their infancy, their usefulness to all nations, who have upon an average a favourable balance upon their trade, will sufficiently appear upon an examination of the principles upon which they are established.

It is for this reason, that I have applied myself to reduce to principles all the operations of the Scotch banks, while they were in the greatest distress imaginable, from the heavy balance the country owed during the last years of the late war, and for some time after the peace in 1763. By this I flatter myself to do a particular service to Scotland, as well as to suggest hints which may prove useful, not only to England, but to all commercial countries, who, by imitating this establishment, will reap advantages of which they are at present deprived.

For these reasons, I hope the detail I shall 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 cast upon the whole doctrine of circulation, which is the present object of our attention.

In countries where trade is established, industry flourishing, credit extensive, circulation copious and rapid, as in England, banks upon mortgage, however useful they may prove for other purposes, would not answer the demands of the trade of London, and the service of government, so 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 personal security: their profits arise from discounting bills; loans to government, upon the faith of taxes, to be paid within the year; and upon the credit cash of those who deal with them.

A bank such as that of England, cannot therefore be established, except in a great wealthy mercantile city, where the accumulation of the smallest profits amount, at the end of the year, to very considerable sums.

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 security for all the paper they issued, were the funds appropriated for the payment of the interest of the public debts.

It

It is for the sake of order and method, that I propose to explain the principles of banking, according to this distribution. I must however confess, that although I represent each of them as having a cause of confidence peculiar to itself, to wit, either private, mercantile, or public credit; yet we shall find a mixture of all the three species of credit entering into the combination of every one of them.

Banking, in the age we live, is that branch of credit which best deserves the attention of a statesman. Upon the right establishment of banks, depends the property of trade, and the equable course of circulation. By them *\* solid property* may be melted down. By the means of banks, money may be constantly kept at a due proportion to alienation. If alienation increases, more property may be melted down. If it diminishes, the quantity of money stagnating, will be absorbed by the bank, and part of the property formerly melted down in the securities granted to them, will be, as it were, consolidated anew. These must pay for the country the balance of their trade with foreign nations. These 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 so striking, as to recall to mind the surprizing effects of Mr. Law's bank, established in France, at a time when there was neither money or credit in the kingdom. The superior genius of that man produced, in two years time, the most surprizing effects imaginable; he revived industry; he established confidence; and shewed to the world, that while the landed property of a nation is in the

\* Solid property, here, is not taken in the strictest acceptation. In countries of commerce, where banks are generally established, every denomination of good personal security, may be considered as solid property. Those who have personal estates may obtain credit from banks as well as landed men; because these personal estates are secured either on lands, or in the funds, or in effects which contain as real a value as lands, and these being affected by the securities which the proprietors grant to the bank, may with as much propriety be said to be melted down, as if they consisted in lands. In subjects of this nature, it is necessary to extend our combinations, in proportion to the circumstances under which we reason.

hands

hands of the inhabitants; and while the lower classes are willing to be industrious, money never *can* be wanting. I must now proceed in order, towards the investigation of the principles which influence this intricate and complicated branch of my subject.

#### C H A P. IV.

##### *Of Banks of Circulation upon Mortgage or private Credit.*

**B**ANKS of circulation upon mortgage or private credit, are those which issue notes upon private security, payable to bearer on demand, in the current coin of the nation. They are constituted in the following manner.

A number of men of property join together in a contract of banking, either ratified or not by public authority, according to circumstances. For this purpose, they form a stock which may consist indifferently of any species of property. This fund is engaged to all the creditors of the company, as a security for the notes they propose to issue. So soon as confidence is established with the public, they grant credits, or cash accompts, upon good security; concerning which they make the proper regulations. In proportion to the notes issued in consequence of those credits, they provide a sum of coin, such as they judge to be sufficient to answer such notes as shall 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 observe.

The profits of the bank proceed from the interest paid upon all the securities which have been granted to it, in consequence of credits given, and which remain with it unretired.

Out

Out of which must be deducted, first, the charge of management; secondly, the loss of interest for all the coin they preserve in their coffers, as well as the expence they are put to in providing it; and thirdly, the expence of transacting and paying all balances due to other nations.

In proportion, therefore, as the interest upon the bank securities exceeds the loss of interest on the coin in the bank, the expence of management, and of providing funds abroad to pay balances, in the same proportion is their profit; which they may either divide, accumulate, or employ, as they think fit.

Let it be observed, that I do not consider the original bank stock, or the interest arising from *that*, as any part of the profits of the bank. So far as regards the bank, it is their original property; and so far as regards the public, it serves for a collateral security to it, for the notes issued. It becomes a pledge, as it were, for the faithful discharge of the trust reposed in the bank: without such a pledge, the public could have no security to indemnify it, in case the bank should issue notes for no permanent value received. This would be the case, if they thought fit to issue their paper either in payment of their own private debts, for articles of present consumption; or in precarious trade.

When paper is issued for no value received, the security of such paper stands alone upon the original capital of the bank, whereas when it is issued for value received, that value is the security on which it immediately stands, and the bank stock is, properly speaking, only subsidiary.

I have dwelt the longer upon this circumstance, because many, who are unacquainted with the nature of banks, have a difficulty to comprehend how they should ever be at a loss for money, as they have a mint of their own, which requires nothing but paper and ink to create millions. But if they consider the principles of banking, they will find that every note issued for value consumed, in place of value received and preserved, is neither more or less, than a partial spending either of their capital, or profits on the

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bank.

bank. Is not this the effect of the expence of their management? Is not this expence paid in their notes? But did ever any body imagine that this expence did not diminish the profits of banking? Consequently, such expence may exhaust these profits, if carried far enough; and if carried still farther, will diminish the capital of the banking stock.

As a farther illustration of this principle, let me suppose, an honest man, intelligent, and capable to undertake a bank. I say that such a person, without one shilling of stock, may carry on a bank of domestic circulation, to as good purpose 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 issues, is secured on good private security; that security carries interest to him, and stands good for the notes he has issued. Suppose then that after having issued for a million sterling, all the notes should return upon him in one day. Is it not plain, that they will find, with the honest banker, the original securities, taken by him at the time he issued them; and is it not true, that he will have, belonging to himself, the interest received upon these securities, while his notes were in circulation, except so far as this interest has been spent in carrying on the business of his bank? Large bank stocks, therefore, serve only to establish their credit; to secure the confidence of the public, who cannot see into their administration; but who willingly believe, that men who have considerable property pledged in security of that good faith, will not probably deceive them.

This stock is the more necessary, from the obligation of paying in the metals. Coin may be wanting; upon some occasions, to men of the greatest landed property. Is that any reason to suspect their credit? Just so of banks. The bank of England may be possessed of twenty millions sterling of good effects, to wit, their capital; and the securities for all the notes they have issued; and yet that bank might be obliged to stop payment, upon a sudden demand of a few millions of coin.

Runs

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

From what has been said, we may conclude, that the solidity of a bank which lends upon private security, does not so much depend upon the extent of their original capital, as upon the regulations they observe in granting credit. In this the public is nearly interested; because the bank securities 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 issue their Notes on private, not mercantile Credit.*

LET me, therefore, reason upon the example of two bankers; one issues his notes upon the best real or personal security; 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 question comes to be, which are the best? If we judge by the regularity of the payment of notes on presentation, perhaps the one are as readily paid as the other. If we judge by the stock of the two bankers, perhaps they may be equal, both in value and solidity; but it is not upon either of these circumstances that the question depends. The notes in circulation may far exceed the amount of the largest bank stock; and therefore, it is not on the original stock; but on the securities taken at issuing the notes, that the solidity of the two

currencies is to be estimated. Those secured on private credit, are as solid as lands and personal estates; they stand upon the principles of private credit. Those secured on the obligations of merchants and manufacturers, depending upon the success 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 stock. Which way, therefore, can the public judge of the affairs of bankers, except by attending to the nature of the securities upon which they give credit\*.

CHAP. VI.

*Use of subaltern Bankers and Exchangers:*

HERE it may be urged, that the great use of banks is to multiply circulation, and to furnish the industrious with the means of carrying on their traffic: that if banks insist upon the most solid securities before they give credit, the great utility of them must cease; because merchants and manufacturers are never in a situation to obtain credit upon such terms.

This argument only proves, that banks are not, alone, sufficient for carrying on every branch of circulation. A truth which no body will contravert. But as they are of use in carrying on the great branches of circulation, it is proper to prevent them from engaging in schemes which may destroy their credit altogether.

\* It must be observed, that in this example, the banker who issues his notes upon mercantile security, is supposed to grant a permanent loan to the merchant or manufacturer, as he would do to those who pledge a personal security. This is totally repugnant to the principle of banks secured on mercantile credit. Such banks never grant loans for indefinite duration, upon any security whatsoever. They will not even discount a bill of exchange, when it has above two months to run.

I have

I have observed above, that this method of issuing notes upon private security, was peculiarly well adapted to countries like Scotland, where trade and industry are in their infancy.

Merchants and manufacturers there, have constant occasion for money or credit; and at the same time, they cannot be supposed to have either real or personal estates to pledge, in order to obtain a loan directly from the banks, who ought to lend upon no other security.

To remove that difficulty, we find a set of merchants, men of substance, who obtain from the banks very extensive credits upon the joint real and personal security of themselves and friends. With this assistance from the bank, and with money borrowed from private people, repayable on demand, something below the common rate of interest, they support the trade of Scotland, by giving credit to the merchants and manufacturers.

To this set of men, therefore, are banks of circulation upon mortgage to leave that particular branch of business. It is their duty, it is the interest of the country, and no less that of banks, that they be supported in so useful a trade; a trade which animates all the commerce and manufactures of Scotland, and which consequently promotes the circulation of those very notes upon which the profits of the banks do arise.

These merchants are settled in all the most considerable towns: they are well acquainted with the stock, capacity, industry, and integrity of all the dealers in their district: they are many; and by this are able to go through all the detail which their business requires; and their profits, as we shall see presently, are greater than those of banks, who lend at a stated interest.

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

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As

As often as these exchangers give credit to dealers in any way, they constantly state a commission of  $\frac{1}{2}$  per cent. or more, according to circumstances, over and above the interest of their advance-profits, which greatly surpass those of any bank. One thousand pounds credit given by a bank, may not produce ten pounds in a year for interest: if given by a banker, to a merchant, who draws it out, and replaces it forty times in a year, there will arise upon it a commission of 20 per cent. or 200 l.

This set of men are exposed to risks and losses, which they bear without complaint, because of their great profits; but it implies a detail, which no bank can descend to.

These exchangers give way, from time to time; and no essential hurt is thereby occasioned to national credit. The loss falls upon those who lend to them, or trust them with their money, upon precarious security; and upon merchants, who lay their account with such risks. In a word, they are a kind of insurers, and draw premiums in proportion to their risks.

To this set of men, therefore, it should 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 security, it should be left to conduct the great national circulation, which ought to stand upon the solid principles of private credit.

From this example we may discover the justness of the distinction I have made between *private* and *mercantile* credit: had I not found it necessary, I would not have introduced it.

C H A P. VII.

*Concerning the Obligation to pay in Coin, and the Consequences 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 necessary clause added; to wit, that the coin was to be of the same weight, fineness, and denomination, as at the date of the note. This was done, in order to prevent the inconveniencies which might result to either party, by an arbitrary raising or sinking the denominations of the coin; a practice then very familiar in France.

This obligation to pay in coin, owes its origin to the low state of credit in Europe at the time when banks first began to be introduced; and it is not likely that any other expedient will soon be fallen upon to remove the inconveniences which result from it in domestic circulation, as long as the generality of people consider all money, except coin, to be false and fictitious.

I have already thrown out abundance of hints, from which it may be gathered, that coin is not absolutely necessary for carrying on domestic circulation; and more will be said on that subject, as we go along. But I am here to examine the nature and consequences of this obligation contracted by banks, to discharge their notes in the current coin of the country.

In the first place, it is plain, that no coin is ever (except in very particular cases) carried to a bank, in order to procure notes. The greatest part of notes issue from the banks, of which we are treating, either in consequence of a loan, or of a credit given by the bank, to such as can give security for them. The loan is made in their own notes; which are quickly thrown back into circulation

by the borrower; who borrowed, because he had occasion to pay them away. In like manner, when a credit is given, the bank pays (in her notes) the orders she receives from the person who has the credit: in this manner are notes commonly issued from a bank.

Coin, again, comes to a bank, in the common course of circulation, by payments made to it, either 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 safe deposit for their money. These payments are made to the bank in the ordinary circulation of the country. When there is a considerable proportion of coin in circulation, then the bank receives much coin; and when there is little, they receive little. Whatever they receive is laid by to answer notes which are offered for payment; but whenever a draught is made upon them for the money thrown in as above, they pay in paper.

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

Mr. Megens, a very knowing man, and a very judicious author, lately dead, who has writ a small treatise in the German tongue, translated into English, under the title of *The Universal Merchant*, delivers his sentiments concerning the proportion of coin preserved in the bank of England, which I shall here transcribe in the translator's words. Sect. 60.

The bank of England consists of two sorts of creditors, the one of that set of men, who, in King William's time, when money was scarce and dear, lent the public 1,200,000 pounds, at 8 *per cent.* interest, and 4000 pounds were allowed them for charges, amounting in whole to 100,000 pounds a year, an exclusive 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 since increased by farther loans to the public at a less interest, to near the sum of 11,000,000 pounds, which  
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if we compute the interest at 3 *per cent.* (as what they have more on some part answers incident charges) it produces 330,000 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 cash with them*, and these are the other sort 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 cash they have in their hands* may amount to 11,000,000 pounds, and thereout is employed in loans to the government, discounting of bills, and in buying gold and silver 7,333,333  $\frac{1}{3}$  pounds, which at 3 *per cent.* interest or profit, will amount to the above 220,000 pounds, and remains 3,666,666  $\frac{2}{3}$  pounds in cash, sufficient for circulation and current payments. And experience has evinced, that whenever any mistrust has occasioned any run upon the bank for any continuance, and the people not finding the treasure so soon exhausted as they surmised, 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, I believe, be relied on as much as on any other, except that of the bank itself; which, it would appear, has some interest in keeping those affairs a secret.

We see by his account, that the bank of England keeps in coin  $\frac{1}{3}$  of the value of all their notes in circulation. With this quantity, business is carried on with great smoothness, owing to the prosperity of that kingdom, which seldom owes any considerable balance to other nations.

But the consequence of the obligation to pay in coin, is, that when the nation comes to owe a balance, the notes which the bank had issued to support domestic 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 circumstance, above all others, which distresses banks of circulation. Were it not for this, the obligation to pay in coin might easily be discharged; 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 easy remedy.

This combination we shall, in the following chapters, endeavour to unfold: it is by far the most intricate, and at the same time the most important in the whole doctrine of banks of circulation.

Another inconvenience resulting 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 the bank of England to purchase the metals at a price far above that which they can draw back for them after they are coined. We have there shewn the great profit that might be made in melting down and exporting the heavy species. This profit turns out a real loss to the bank of England, which is constantly 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 established.

Here then is another bad consequence 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 easy trade, when once their credit is well established. 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 severely felt.

## C H A P. VIII.

*How a wrong Balance of Trade affects Banks of Circulation.*

IT is commonly said, that when there is a balance due by any nation, upon the whole of their mercantile transactions with the rest of the world, such balance must be paid in coin. This we call a wrong balance. Those who transact the payment of this balance, are those who regulate the course of exchange; and we may suppose, without the least danger of being deceived, that the course is always higher than the expence of procuring and transporting the metals; because the overcharge is profit to the exchanger, who without that profit could not carry on his business.

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

Every merchant who imports foreign commodities, must be supposed to have value in his hands from the sale of them; but this value must consist in the money of the country: if that be mostly bank paper, he must give the bank paper to the exchangers for a bill, whose business it is to place funds in those parts upon which bills are demanded. The exchanger again (to support that fund which he exhausts by his draughts) must demand coin from the banks, for the notes he received from the merchant when he gave him the foreign bill.

Besides the wrong balances of trade transacted in this manner, which banks are constantly obliged to make good in coin, every other payment made to foreigners has the same effect. It is not because it is a *balance of trade*, but because it is a payment which cannot 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 society. The first then must be procured when we

pay a balance to foreigners; the last is full as good when we pay among ourselves.

It is proper, however, to observe, that there is a great difference between the wrong *balance of trade*, and the general *balance of payments*. The first marks the total loss of the nation when her imports exceed the value of her exports; the second comprehends three other articles, viz. 1. the expence of the natives in foreign countries; 2. the payment of all debts, principal and interest, due to foreigners; 3. the lending to other nations.

These three I call the general balance of foreign payments: and these 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, must be at the charge of banks.

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

#### C H A P. IX.

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

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

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

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We have also said, that the creation of symbolical money, adds no additional wealth to a country, but only provides a fund of circulation out of solid property; which enables the proprietors to consume and to pay proportionally for their consumption: and we have shewn how by this contrivance trade and industry are made to flourish.

May we not conclude, from these principles, that as nations who have coin, pay their *grand balance* out of their coin, to the diminution of that species of their property, so nations who have melted down their solid property into symbolical money, must pay their *grand balance* out of the symbolical money; that is to say, out of the solid property of which it is the symbol?

But this solid property cannot be sent abroad; and it is alleged that nothing but coin can be employed in paying this *grand balance*. To this I answer, that in such a case the credit of a bank may step in, without which a nation which runs short of coin, and which comes to owe a *grand balance* must quickly be undone.

We have said that while exchangers transact the balance, the whole load of providing coin lies upon banks. Now the whole solid property melted down, in their paper, is in their hands; because I consider the securities given them for their paper, to be the same as the property itself. Upon this property, there is a yearly interest paid to the bank: this interest, then, must 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, the rest is easy to the bank. This shall be further explained as we go along.

I do not pretend that the common operation of providing coin, when the *grand balance* is against a nation, is as simple as I have represented it. I know it is not: and I know also, that I am not in any degree capable to explain the infinite combination of mercantile operations necessary to bring it about; but it is no less true, that these combinations may be shortened: because when the whole of them have been gone through, the transaction must land in what I have said; to wit, that either the *grand balance* must be paid

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out of the national stock of coin, or it must be furnished by foreigners upon a loan from them; the interest of which must be paid out of that part of the solid property of the nation which has been melted down into paper. I say farther, that were not all this solid property, so melted down, in the hands of banks, who thereby have established to themselves an enormous *mercantile credit*; there would be no possibility of conducting such an operation: that is to say, there would be no possibility for nations to run in debt to nations, upon the security of their respective landed property.

CHAP. X.

*Insufficiency of temporary Credits for the Payment of a wrong Balance.*

I HAVE said, that when the national stock of coin is not sufficient to provide banks with the quantity demanded of them, for the payment of the *grand balance*, that a loan must take place. To this it may be objected, that a credit is sufficient to procure coin, without having recourse to a formal loan. The difference I make between a loan and a credit consists in this, that by a credit we understand a temporary advance of money, which the person who gives the credit expects to have repaid in a short time, with interest for the advance, and commission for the credit; whereas by a loan we understand the lending of money for an indefinite time, with interest during non-payment.

Now I say, the credit, in this case, will not answer the purpose of supplying a deficiency of coin; unless the deficiency has been accidental, and that a return of coin, from a new favourable *grand balance*,

*balance*, be quickly expected. The credit will indeed answer the present exigency; but the moment this credit comes to be replaced, it must be replaced either by a loan, or by a supply of coin; but, by the supposition, coin is found to be wanting for paying the *grand balance*; consequently, nothing but a loan, made by the lenders either in coin, in the metals, or in a liberty to draw, can remove the inconvenience; and if recourse be had to credit, instead of the loan, the same 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, must pay it either with their coin, or with solid property; consequently, the acquisition of coin is, in this particular, as advantageous as the acquisition of lands; but when coin is not to be procured, the transmission of the solid property to foreign creditors is an operation which banks must undertake; because it is they who are obliged either to do that, or to pay in coin.

CHAP. XI.

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

WE have seen in a former chapter, how exchangers and banks are mutually assistant to one another: the exchangers by swelling and supporting circulation; the bank by supplying them with credit for that purpose. While parties are united by a common interest, all goes well: but interest divides, by the same principle that it unites.

No sooner does a nation incur a balance against itself, than exchangers set themselves to work to make a fortune, by conducting the:

the operation of paying it. They appear then in the light of political usurers, to a spendthrift heir who has no guardian. The guardian should be the bank, who, upon such occasions, (and upon such only) ought to interpose between the nation and her foreign creditors. This it may do, by constituting itself at once debtor for the whole balance, and by taking foreign exchange into its hand, until such time as it shall have distributed the debt it has contracted for the nation, among those individuals who really owe it. This operation performed, exchange may be left to those who make that branch their business, because then they will find no opportunity of combining either against the interest of the bank or of individuals.

When a national bank neglects so necessary a duty, as well as so necessary a precaution, the whole class of exchangers become united by a common interest against it; and the country is torn to pieces, by the fruitless attempt it makes to support itself, without the help of the only expedient that can relieve it.

Those exchangers having the *grand balance* to transact 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 constantly obliged to provide a sufficient quantity for answering all demands; for we have laid it down as a principle, that whatever coin or bills are necessary to pay this *grand balance*, in every way it can be transacted, it must ultimately be paid by the bank; because whoever wants coin for any purpose, and has bank notes, can force the bank to pay in coin, or stop payment.

It cannot, therefore, be said, that exchangers do wrong; nor can they be blamed, in drawing from the bank whatever is wanted for the purpose of paying to foreigners what is their due; that is, what is justly owing to them. If they do more, they must hurt themselves; because whatever is sent abroad more than is due, must constitute the rest of the world debtors to the country which sends out their coin. The consequence of this is to turn exchange  
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against foreigners, and to make it favourable for the nation which is creditor. In this case, were the creditors still to continue sending coin abroad, they would *lose* by that operation, for the same reason that they *gain*, by sending 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 allege unfair dealings against exchangers; they fall to work to estimate the balance of trade, and endeavour to show that it is not in reality against the country.

But alas! this is nothing to the purpose; the *balance of trade* may be very favourable, although the *balance of payments* be greatly against the country; and both must be paid, while the bank has a shilling of cash, or a note in circulation. So soon again as the *grand balance* is fairly paid off, it is impossible that any one can find an advantage in drawing coin from a bank; except in the single case of melting down the heavy species, in nations which give their coinage gratis. Of this we have treated at sufficient length in another place.

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

Exchange must rise, 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 shewn that it is the bank alone who ought to provide coin for the ready answering of their notes? Have we not said, that the method of doing this is by sacrificing a part of the interest due upon the obligations in their hands, secured upon the solid property of the country, and by the means of foreign loans upon that fund, to procure either the metals themselves, or a power to draw on those places where the nation's creditors reside?

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Which of the two has most reason to complain, the bank, because the inhabitants think fit to send their effects out of the country, being either forced so to do by their creditors, or choosing so to do for their private advantage; or the creditors of the bank, and the country in general, when, from the obstructions 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 strangers is raised; and when, by discouraging trade in their hands, a general stop is put to manufactures and credit in general?

In a word, the bank has no reason to complain, unless they can make it appear, how any person, exchanger or other, can find an advantage in sending coin out of the country, at a time when there is no demand for it; or when there is no near prospect of it, which is the same thing? To say that a principle of public spirit should prevent a person from doing with his property what is most to his advantage, in favour of saving some money to a bank, is supposing the bank to be the public, instead of being the servant of the public.

Another argument to prove that no profit can be made by sending out coin, except when the balance is against a country, is, that we see all runs upon banks stop, the moment exchange becomes favourable. Were there a profit to be made upon sending off coin, independently of the debts to be paid with it, which cannot be paid without it, the same trade would be profitable at all times. As this is not the case, it follows, that the principle we have laid down is just; to wit, that the balance due to foreigners *must* be paid by banks, while they have a note in circulation; and when once it is fairly paid by them, all extraordinary demands *must* cease.

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

C H A P. XII.

*How the Payment of a wrong Balance affects Circulation.*

THAT I may communicate my ideas with the greater precision, I must here enter into a short detail of some principles, and then reason on a supposition.

It has been said, that the consequence of credit and paper-money, secured on solid property, was to augment the mass of the circulating equivalent, in proportion to the uses found for it.

These uses may be comprehended under two general heads. The first, payment of what one owes; the second, 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 same time, ought to be furnished with money by banks which lend upon mortgage.

Now the state of trade, manufactures, modes of living, and the customary expence of the inhabitants, when taken all together, regulate and determine what we may call the mass of ready-money demands, that is, of alienation. To operate this multiplicity of payments, a certain proportion of money is necessary. This proportion again may increase or diminish according to circumstances; although the quantity of alienation should continue the same.

To make this evident, let us suppose the accounts 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 sum of money is necessary for carrying on domestic alienation; that is, for satisfying ready-money demands: let us call this quantity (A).

Next, in most countries in Europe, (I may say all) it is customary to circulate coin, which, for many uses, is found fitter than paper, (no matter for what reason); custom has established it, and with custom even statesmen must comply.

The paper-money is generally made payable in coin; from custom also. Now, according to the manners of the country, more or less coin is required for domestic circulation. Let it be observed, that hitherto we have not attended to foreign circulation, of which presently: and I say, that the manners of a country may make more or less coin necessary, for circulating the same quantity of paper; merchants, for instance, circulate much paper and little coin; gamesters much coin, and little paper: one example is sufficient.

Let this quantity of coin, necessary for circulating the paper-money, be called (B), and let the paper be called (C); consequently (A) will be equal to the sum of (B) and (C). Again, we have said, 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 use in such payments. Let the quantity of the metals, coin, or bills, going out or coming into the country for payment of such balance, be called (D).

These short designations premised, we may reason with more precision. (A) is the total mass of money (coin and paper) necessary at home: (A) is composed of (B) the coin, and of (C) the paper; and (D) stands for that mass of coin, or metal, or bills, which goes and comes according as the *grand balance* is favourable or unfavourable with other nations.

Now, from what has been said; we may determine, that there should at all times remain in the country, or in the bank, a quantity of coin equal to (B); and if this be ever found to fall short, the bank does not discharge its duty. It is unnecessary to determine what part of (B) should be locked up in the bank, and what part should remain in circulation: banks themselves cannot determine that question: all we need to say is, that it is the profit of

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banks to accustom people to the use of paper as much as possible; and therefore they will draw to themselves as much coin as they can.

When a favourable balance of trade brings exchange below par, and brings coin into the country, the consequence is, either to animate trade and industry, to augment the mass of payments, to swell (A), and still to preserve (C) in circulation; or to make (A) regorge, so as to sink the interest of money below the bank lending price; and then people will carry back the regorging part of (C) to the bank, and withdraw their securities; which is consolidating, as we have called it, the property which had been formerly melted down, for want of this circulating equivalent (money).

This is constantly the consequence of a stagnation of paper, from an overcharge of it, thrown into circulation. It returns upon the bank, and diminishes the mass of their securities, but never that of their coin.

From this we may conclude, that the circulation of a country can only absorb a determinate quantity of money (coin and paper); and that the less use they make of coin, the more use they will make of paper, and *vice versa*.

We may also conclude, that when trade and alienation increase, *ceteris paribus*, so will money; that is, more solid property will be melted down; and when trade and alienation diminish, *ceteris paribus*, so will money; that is, some of the solid property formerly melted down, will consolidate, as we have called it.

These vicissitudes in the mass of circulation are not peculiar to paper currency. In countries where nothing circulates but the metals, the case is the same; only the operation is more awkward and expensive. When coin becomes scarce there, it is hardly possible, in remote provinces, to find any credit at all: and in the center of circulation, the use of it (interest) must rise very considerably, and stand high for some 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

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men of property are enabled to borrow, or to sell their lands. On the other hand, when a favourable balance pours in a superfluity of coin, and at the same time cuts off the demands of trade for sending it abroad, it frequently falls into coffers; where it becomes as useless as if it were in the mine; and this clumsy circulation, as I may call it, prevents it from coming into the hands of those who would have occasion for it, did they but know where to come at it. Paper, on the other hand, when banks and trade are well established, is always to be found. Thus, in an instant, paper-money either creates or extinguishes an interest equal to its value, in favour of the possessor. No part of it lies dead, not for a day, when employed in trade: it is not so of coin.

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

In this case, the bank must possess, or be able to command, a sum of coin or bills equal to (B) and (D); (B) for domestic, and (D) for foreign circulation.

Those who owe this balance (D), and who are supposed to have value for it, in the currency of the country, in order to pay it, must either exhaust a part of (B), by sending it away, or they must carry a part of (C) to the bank, to be paid for in coin. If they pick up a part of (B) in the country, then the coin in circulation, being diminished below its proportion, the possessors of (C) will come upon the bank for a supply, in order to make up (B) to its former standard. Banks complain without reason. If they carry part of (C) to be changed at the bank, for the payment of (D), they thereby diminish the quantity of (C); consequently there will be a demand upon the bank for more notes, to support domestic circulation; because those which have been paid in coin are returned to the bank, and have diminished the mass of (C); which therefore must be replaced by a new melting down of solid property.

Now I must here observe, that this recruit, issued to fill up (C) to the level, is an addition made to the mass of securities formerly lodged with the bank; and represents, not improperly, that part

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of the landed property of a country which the bank must dispose of to foreigners, in order to procure from them the coin or bills necessary for answering the demand of (D).

When notes, therefore, are carried to the bank for payment of debts due to the bank, they then diminish the mass of solid property melted down in the securities lodged in the bank: but when notes are carried to the bank, to be converted into coin or bills, for foreign exportation, they do not diminish the mass of the securities: on the contrary, the consequence is, to pave the way for the augmentation of them; because I suppose that the notes, so given in to the bank, and taken out of the circle, are to be replaced by the bank to domestic circulation, to which they belonged; and the bank must be at the expence of turning the value of these additional securities granted for them into coin or foreign bills.

Is not this quite consistent with reason, fact, and common sense? If a country contracts debts to foreigners, is it not just the same case as when one man contracts a debt to another in the same society? Must not the ultimate consequence of this debt be, that it must be paid, either with the coin, with the moveables, or with the solid 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 say, with its product and manufactures) the operation is easily and mechanically performed by the means of trade: when these objects are not sufficient; or when land, or an annual and perpetual income out of it, must make up the deficiency; then more skill and expence is required; and this expence falling upon banks, makes their trade less lucrative than in times when commerce stands at par, or is bringing in a balance.

Were trade to run constantly against a country, the consequence 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 Corsica, as has been observed. But in that case, banks never could neglect laying down a plan whereby

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to avoid the loss they casually sustain, when such a revolution comes suddenly or unexpectedly upon them.

The method would be, to establish an annual subscription *abroad*, for borrowing a sum equivalent to the *grand balance*; the condition being to pay the interest of the subscriptions out of the revenue of the country.

If the security offered be good, there is no fear but subscribers will be found, while there is an ounce of gold and silver in Europe.

The bank of England has an expedient of another nature, in what they call their *circulation*; which is a premium granted to certain persons, upon an obligation to pay a certain sum of coin upon demand. This is done with a view to answer upon pressing occasions. But England being a prosperous trading nation, which seldom has any considerable *grand balance* against her, (except in time of war, when the public borrowings supply in a great measure the deficiency, as shall be afterwards explained) this bank circulation is turned into a job; the subscriptions being lucrative, are distributed among the proprietors themselves, who make no provision for the demand; and were it again to come, (as has been the case) the subscribers would, as formerly, make a call on the bank itself, by picking up their notes, and pay their subscriptions with the bank's own coin.

To obviate this inconvenience, which was severely felt in the year 1745, the bank of England should have opened a subscription in some foreign country; Holland, for example; where she might have procured large quantities of foreign coin: such a seasonable supply would have proved a real augmentation of the metals; the supply they got from their own domestic subscribers was only fictitious\*.

But

\* At this time there was another circumstance, besides the demand of a balance to be paid abroad, which distressed the bank, viz. a suspicion which took place, that if the rebellion had succeeded, the credit of the bank would have totally failed.

But banks in prosperous trading nations sit down with casual and temporary inconveniences; and exchangers carry on a profitable trade, whether the nation be gaining or losing all the while. For such nations, and such only, are banks advantageous. Were banks established in Spain, Portugal, or any other country which pays a constant balance from the produce of their mines, they would only help on their ruin a little faster.

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

The better to explain this combination, we must recall to mind, that the payment of the *grand balance* in coin or bills is unavoidable to banks. We have said 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 exhausting a part of (B): the consequence of this is, to make the proprietors of (C) come upon the bank, and demand coin for filling up (B): to this the bank must also agree. But by these operations (C) comes to be diminished, below the level necessary for carrying on trade, industry, and alienation: upon which I have said there commonly comes an application to the bank to give more credit, in order to support domestic circulation, which if complied with, more solid property is consequently melted down.

This swells the mass of securities, and raises (A) to its former level. But here the bank has an option to refuse more credit: in

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

We have said, that the credit of such banks ought to be established upon the principles of private securities only. If their notes be issued upon solid property, then no rebellion can influence them: but of this more hereafter.



the former operations it had none. Now if the bank, from a terror of being drained of coin, should refuse to issue notes upon new credits, for the demands of domestic circulation; in this case, I say, they fail in their duty to the nation, as banks, and hurt their own interest. As to their duty to the nation, I shall not insist upon it; but I think I can demonstrate that they fail in point of combination, with respect to their own interest, and that is enough.

I say, then, that as long as there is one single note in circulation, and any part of a grand balance owing, that note will come upon the bank for payment, without a possibility of its avoiding the demand. Refusing therefore credit, while any notes remain in the hands of the public, is refusing an interest which may help to make up the past losses: but of this more hereafter.

In the next place, I think I have demonstrated, that so soon as the *grand balance* is paid, it is impossible that any more demands for coin can come upon the bank for exportation. Why then should a bank do so signal a prejudice to their country, as to refuse to lend them paper, which the ready-money demands of the country must suspend in circulation? And why do this at so great a loss to themselves? It has been said above, and I think with justice, that this recruit, issued to fill up circulation, adds to the mass of bank securities, and very properly represents that part of the income of the solid property of the country, which the bank must dispose of to foreigners, in order to procure from them the coin or bills necessary for answering the demand of payment of a *grand balance*.

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

A bank is forced to pay to the last farthing of this balance; by paying it, the notes that were necessary for circulation are returned to them; and they refuse to replace them, for fear that their supplying circulation should create a new balance against them! This is voluntarily taking on themselves all the loss of banking, and rejecting the advantages.

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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 case, indeed, were the thing possible, it might be prudent to give over banking for a while, till matters took a favourable turn. But if we suppose their notes to exceed the balance due, then all the hurt which can be done is done already; and the more notes are issued, and the more credit is given, so much the better; because the interest upon all that is issued above the balance, must be clear profit to the bank.

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

The specie itself, to carry it on, (B).

The balances to other nations, (D).

The bank must have a command of credit and coin equal to the sum 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 occasion for (B) at home, and can furnish bills to the amount of (D).

If (D), in consequence of bills drawn, shall come to be exhausted, the bank must replace it again, by new contracts, to strangers.

But as soon as (D) is paid, either in coin or in bills, then whatever coin is drawn from the bank, and sent away by private people, (exchangers, &c.) must form a balance due to the country; which balance will render exchange favourable, and will occasion a loss to those who sent away the coin. In this case, the more credit the bank gives, so much more will their profits increase.

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

And so soon as a demand for coin to pay a foreign balance begins, it is then both the duty and interest of all good citizens to be as assistant as possible to banks, by contenting themselves with

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paper for their own occasions, and by throwing into the bank all the coin which casually falls into their hands. As to duty, I shall offer no argument to enforce it. But I say it becomes a national concern to assist the bank; because the loss incurred by the bank in procuring coin, falls ultimately on every individual, by raising exchange; consequently, prices, by raising the interest of money to be borrowed; and last of all, by constituting a perpetual interest to be paid to foreigners, out of the revenue of the solid property of the country. Upon such occasions, a good citizen ought to blush at pulling out a purse, when his own interest, and that of his country, should make him satisfied with a pocket book.

C H A P. XIII.

*Continuation of the same Subject; and of the Principles upon which Banks ought to borrow Abroad, and give credit at Home.*

**I**N every question relative to this subject, we must return to principles. This is the only sure method of avoiding error. The intelligent reader, therefore, must excuse short repetitions, and consider them as a sacrifice he is making to those of slower capacities, to whom they are useful.

The principle of banking upon mortgage, is to lend and give credit to those who have property, and a desire to melt it down. This is calculated for the benefit of trade, and for an encouragement to industry. If such banks, therefore, borrow, it must be done consistently with the principles upon which their banking is founded. If the borrowing should tend to destroy those advantages which their lending had procured, then the operation is contrary to principles, and abusive. So much for recapitulation.

While trade flourishes and brings in a balance, banks never have occasion 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 established begins to owe a balance to other nations, the bank, as we have seen in the last chapter, is obliged to pay it in coin or in bills. We have there shewn, that in such cases it is inconsistent with their principles and interest, to withhold lending and giving credit, so far as is necessary for keeping up the fund of circulation to that standard which alienation and ready money demands require.

To refuse credit, and at the same time to borrow *at home*, must then, at first sight, appear to be doubly inconsistent. But in order to set this point in the clearest light I am capable, I shall reason upon a supposition analogous to the situation of the Scotch banks, and by that means avoid abstraction as much as I can.

Let me then suppose that Scotland, during the last years of the war ended in 1763, and ever since (I write in 1764) from the unavoidable distress of the times, was obliged, 1. to import considerable quantities of grain in some bad years; 2. to refund the English loans of money settled there in former times; 3. to furnish some of the inhabitants with funds, which they thought fit to place in England; 4. to pay the amount of additional taxes imposed during the war; while, at the same time, several of the ordinary resources were withdrawn; such as, 1. a great part of the industrious inhabitants who went to supply the fleets and armies; 2. the absence of the ordinary contingent of troops; and 3. the cutting off several beneficial articles of commerce. Let me suppose, I say, that from a combination of these losses incurred, and advantages suspended, Scotland has lost annually, for eight years past, two hundred thousand pounds. I am no competent judge of the exactness of this estimate, it is of no consequence to the argument; but I think I am far beyond the true computation.

On the other hand, let me suppose, that the sum of currency in paper, sufficient (with the little coin there was) to circulate the

whole of the alienations in Scotland, (that is to say, the whole domestic circulation, supposing no balance to be owing to England or other countries) to be one million sterling. I am persuaded I am here below the true estimate, but no matter.

Is it not evident, from this supposition, and from the principles we have been deducing, that unless the banks of Scotland had alienated annually in favour of England, a fund for paying the interest of two hundred thousand pounds capital, and either brought down the coin, or given bills on London for the sum of that capital every year; that the million of Scots currency would have been diminished in proportion to the deficiency; and would not the consequence of that be, *ceteris paribus*, to bring the currency below the demand for it; and, consequently, to hurt trade, industry, and alienation?

Now supposing the banks, instead of providing, in England, a fund equal to this grand balance, (as I have said they should do) to remain in consternation and inactivity, giving the whole of their attention to the providing coin and bills to supply the demand of exchangers, whose business it is to send out this annual balance; what will the consequence be?

I answer, that if the banks, in such a case, do not follow the plan I have proposed, the consequence will be, that two hundred thousand pounds of their paper will be, the first year, taken out of the domestic 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 must occasion applications to the bank for credits to supply it. Is it not then the interest of the bank to supply it? We have said in the former chapters that it is. But now let us suppose it objected, that if banks should issue notes at such a time, their cash having been exhausted, they would be obliged to stop altogether, upon a return of those notes issued upon additional credits.

To this I repeat again, because of the importance of the subject, that notes issued to support the demand of circulation never can return upon the bank, so as to form a demand for coin; and if they

they do return, it must be in order to extinguish the securities granted by those who have credit in bank (I except always that regular demand for coin, at all times necessary for circulating the paper for domestic uses) and if those notes return of themselves, without being called in, this phenomenon would be a proof that circulation is diminishing of itself: but supposing such a case to happen, it is plain that such return can produce no call for coin; because when the notes return it is not for coin, but for acquitting an obligation or mortgage, as has been often repeated:

Notes are paid in, I say, because circulation has thrown them out. Now if circulation has thrown them out as superfluous, it never can have occasion for coin in their stead; because coin answers the same purpose.

But then it is urged that they do not return, because circulation has thrown them out, but because coin is wanted: be it so. Then we must say, that circulation is not diminished, as we at first supposed; but that the return of another year's balance, makes a new demand for coin necessary.

Now I ask, 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 supposition still 800,000*l.* of notes in the country; will not exchangers get hold of two hundred thousand out of this fund, as well as out of the million? For he who owes, *must pay*, that is, *must circulate*. It is only the circulation of the industrious, of the rich, in short *buying*, that is to say, *voluntary circulation*, which is stopped for want of currency: *paying*, that is, *involuntary circulation*, never can be stopped; debtors *must* find money, as long as there is any in the country, were they to give an acre for a shilling, or a house for half a crown. Now those who owe this foreign balance are debtors; consequently, they must draw 200,000*l.* out of circulation, the second year as the first, whether the standard 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 distresses the country, raising exchange, and the interest of money, by rendering money scarce;

scarce; and what is the most absurd of all, it deprives the bank of 10,000 *l.* a year interest, at 5 *per cent.* upon 200,000 *l.* which it may issue anew.

Suppose again, that a second year's demand for a balance of 200,000 *l.* comes upon the bank: if the coin is out, as we may suppose that after such a drain it will not be in great plenty, expedients must be fallen upon. In such a case, if the bank does not at once fairly borrow at London (without any obligation to repay the capital) a sum of 200,000 *l.* and pay for it a regular interest, according to the rate of money, with an obligation to pay, as government does, quarterly\*, on the change of London, it will be involved in expedients which will create a monstrous circulation of coin in the bank, perhaps double of the sum required, and all those operations will land in the end (as to the bank) in paying the interest of this sum out of the mass of its securities or stock. If the bank should borrow this 200,000 *l.* in London, in the manner we have said, the circulating fund of coin will be nowise diminished; there will be no call extraordinary, no rising of exchange; the bank will have *this* in its hands; and if it rises, it is the bank, not the exchangers who will profit by it.

But let us suppose that instead of this, it should have recourse to temporary credits upon which the capital is constantly demandable, or to other expedients still less effectual for answering the call which is to come upon it for the second year's balance: what will be the consequence? 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: these bills will be brought from the exchangers with notes, (taken out of circulation) and will reduce this to 600,000 *l.* the exchangers will carry these to the bank and demand coin. If the bank should make use of an optional clause, to pay in six months, with interest at 5 *per cent.* the exchangers will obtain six months credit at London, and in consequence of that, their bills will be honoured and paid. This credit

\* Although the interest or dividends on government securities be paid every half year only, yet by purchasing partly in one fund, and partly in another; for instance, half in Old South Sea annuities, and half in New, purchasers may have their interest paid quarterly.

costs

costs them money, which is added to the exchange: the bank, at the end of six months, pays in coin, which in the interval it must provide from London. It pays also six months interest upon the paper formerly presented by the exchanger: add to the account, that bringing down the coin must cost the bank at least 12 shillings *per* hundred pounds, and as much more to the exchanger who receives it in order to send it back again; and after all these intricate operations which have cost so much trouble, ill blood, stagnation and diminution of circulation, expence in exchange to the debtors of the balance, stress of credit upon exchangers for procuring so large advances with commission, &c. expence to the bank in providing coin, expence to the exchangers in returning it; after all, I say, the operation lands in this: that 200,000 *l.* 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 diminish the mass of those obligations lodged in the bank, in virtue of which they are creditors upon the proprietors of Scotland: consequently, the bank has constituted itself debtor to England for those funds which have been *torn from it* in the manner above described: consequently, had it, by a permanent loan, constituted itself voluntarily debtor to England from the beginning, it would have paid no more, nay less than it has been obliged to pay; circulation would not have lost 200,000 *l.* and the bank would have had the interest of 200,000 *l.* added to its former securities, which would compensate (*pro tanto* at least) the expence of borrowing that sum in England upon a permanent fund. Instead of which it compensates the interest of a temporary loan, with the same sum of interest taken out of the securities in its hand. If, therefore, from an ill grounded fear of issuing as much paper as is demanded, it shall withhold it, there results to itself a loss equal to the interest of what it refuses to lend; that is to say, there is a *lucrum cessans* to the bank of the interest of this 200,000 *l.* at 5 *per cent.* or at 10,000 *l.* a year; which other banking companies will fill up, and thereby extend their circulation.

If,

If, besides refusing credits, it should call in any part of those already given, it still diminishes circulation: but then by that operation it diminishes the mass of its securities, and so diminishes the sum of the interest annually paid to itself. If it goes farther and borrows money at home, such loans will be made in its own paper, which will diminish farther the mass of circulation; and if it goes on recalling the credits and mortgages, it will soon 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 consequences, when a bank which lends upon private security 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 occasioned by the operations used for the payment of the balance: such also are the additional fatal consequences, when to this it adds so inconsistent 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 second, it is active in destroying both itself and the country.

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

Every penny it borrows, or calls in, circumscribes its own profits, while it distresses the country. After all the combinations I have been able to make, I can discover but one motive which (through a false light) may engage a bank to this step, to wit, jealousy of other banks.

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

The banks of Edinburgh resemble, more than any other in Scotland, a national bank. Let me then suppose all that can be supposed,

posed, viz. that the abundance of their paper has given occasion to lesser banks to pick up from *them* every shilling of coin which these lesser banks have ever had; and that these have had the address also to throw the whole load of the balance upon those of Edinburgh: let this be supposed, more cannot, and let us allow farther, that this must ever continue to be the case. In these circumstances, what motive can the banks of Edinburgh have for withholding credit from those who are able to give security? 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 supposing, that disgusted at the long continuance of an unfavourable balance of trade against their country, and vexed to find the whole load of it thrown upon themselves, they have taken the resolution to abandon the trade, and are taking this method of recalling their paper altogether.

Let me suppose the contrary, and I shall not be able to discover how it is possible that such a conduct can turn to their own advantage, throwing out all consideration of the public good, which for some time, no doubt, must be greatly hurt by it.

As long as any considerable quantity of their notes is in circulation, and that the principal exchangers reside at Edinburgh, they never can avoid the loss of paying the balance; and by refusing to fill up the void occasioned by the return of their notes, they deliver the whole profit of replacing them to the other banks, their rivals.

Let me next estimate the losses they sustain by furnishing coin to the other banks, and for the payment of the balance; and then compare these with what they lose by not keeping circulation full.

I shall suppose the balance to cost them two hundred thousand pounds *per annum*; and I shall suppose that all the lesser banks put together have occasion for two hundred thousand pounds in their chests: Is not this computation far above what can possibly be supposed?

Will it be allowed that if the banks of Edinburgh willingly submit to pay the whole of the bills of exchange demanded on Lon-

don, for this balance, they will have at least the preference in replacing that sum to circulation?

If they pay the balance of 200,000 *l.* a like sum of their notes must come in to them, without diminishing one shilling of the interest paid upon the securities lodged in their banks; consequently, the only loss incurred is the difference between the interest they receive, which is 5 *per cent.* and what it would cost them to borrow a like sum in London, and to remit the interest of that sum four times a year.

Now the value of a 4 *per cent.* is at present about 96; so 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.* supposing their credit not to be quite so good as that of the funds. I think it as good to the full; and I am sure it is so. At this rate, the 200,000 *l.* will cost them an interest of 8510 *l.* instead of the 10,000 *l.* which they will receive for the like sum added to their former securities. Now I suppose that they have recourse to exchangers to remit this interest, and that they pay for it 5 *per cent.* (which is an absurd supposition, 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, (also a ridiculous supposition) the 5 *per cent.* on 8510 *l.* is 425 *l.* 10 *s.* which added to the interest, makes 8935 *l.* 10 *s.* so that after all, they will have upon the whole transaction 1064 *l.* 10 *s.* of profit.

Next, as to the loss incurred in furnishing 200,000 *l.* to the other banks: If this coin be demanded of them by those banks, the demanders must, for this purpose, draw 200,000 *l.* of Edinburgh notes out of the circulation of Scotland; which I have supposed may be replaced in some little time by the Edinburgh-banks; consequently, if this sum also be borrowed at London, there will result upon this operation, as well as upon the last, a profit of 1064 *l.* 10 *s.* But then indeed they must be at the expence of bringing down the coin borrowed, at 12 *s.* per 100 *l.* because those banks will insist upon having coin, and refuse bills on London. This will cost

1200 *l.*

1200 *l.* from which deduct the profit of 1064 *l.* 10 *s.* gained by the first operation, remains of loss upon this last transaction 135 *l.* 10 *s.* no great sum\*. Does it not follow from this reasoning, that the banks of Edinburgh will have the whole business of exchange in their own hands? What exchanger then will enter into competition with them? The domestic transactions with the merchants and manufacturers of Scotland will be their only business. Farther,

What prevents the banks of Edinburgh to have offices in every trading town in Scotland, where their notes may be regularly paid on presentation, 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 such large sums.

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, such as the India, or South Sea? By borrowing in the beginning at a small advance of interest above the funds, and paying as regularly as government does, will not all those who make a trade of buying and selling stock fill their loan, rather than invest it in any other carrying a less interest? And if the whole land securities, and stocks of those

\* We are not to suppose that this yearly balance of 200,000 *l.* is always to continue. We have seen how it has been occasioned by a course of unfavourable circumstances, which have run Scotland in debt; we have seen how the banks may interpose their credit, in order to assist the country in paying it; and we shall see, before we dismiss this subject, how they will be enabled to repay it, and set Scotland free, by a return of a favourable balance upon their commerce. Let it then be remembered, that all those contractions in England are properly the debts of Scotland, not of the banks. Scotland, therefore, and not the banks, must be at all the expence thereby incurred. These points shall be explained as we go along.

banks at Edinburgh be pledged for this loan, will it not stand on as good a bottom as any fund upon earth? And can it be doubted but parliament will encourage such a scheme, upon laying the affairs of Scotland and the banks properly before them?

By this means they will really become a national bank: because England seems at present to be to Scotland, what all the rest of the world is to England. Now, the bank of England has no such fund of credit on the continent, that I know; and were that country to fall into as great distress, by a heavy balance, as Scotland has been, she would find as many difficulties in extricating herself by domestic borrowings, bank circulation, &c. as Scotland has found by the like domestic expedients. She would then be obliged, for her relief, to have recourse to a fund opened in Holland, Spain, or Portugal, like to what I propose for Scotland with respect to England.

I have heard it alledged, that the whole distress occasioned to the banks and circulation of Scotland, was occasioned by a false step taken by them, some years ago; at the time when the lowness of the English funds, and a prospect of a peace, occasioned great remittances from Scotland, and a withdrawing of the large capital of, perhaps, 500,000 l. owing in Scotland to English persons of property.

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

This representation is plausible, and has an air of being founded on principles: in order therefore to serve as a further illustration of the subject of circulation, I shall point out where the fallacy lies.

It is said the banks did wrong in giving those credits. I say, they did right; but they did wrong in not providing against the consequences.

Had they refused the credits, the English and other creditors would have fallen directly upon their debtors, and obliged them to pay, by a sale of their lands, at an under value; which, I think, would have been an infinite loss to Scotland. In this way the price would have been paid in bank paper, taken out of circulation; for we have said, that *he who owes must pay*, be the consequence what it will. This paper would have come upon the banks at any rate; and being a balance due to strangers, must have been paid by the banks. The banks therefore did right to supply the credits demanded; but then they might have foreseen that the whole load of paying those debts would fall upon them; which they being in no capacity to do, should have immediately pledged in England, the interest 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 London the capital of that interest prepared for paying them off, and no inconvenience would have been found.

The only thing then the bank seem to have misjudged, was the granting those credits too hastily, and to people who perhaps would not have invested their funds in England, had it not been from their facility in giving credit.

Banks therefore should well examine the state of circulation, and of the grand balance, in difficult times, before they give credit. If circulation be full, they may, with justice, suspect that the credits are demanded with a view of expediency, to transport property out of the country, which otherwise might have remained. But in favour of circulation, or in favour of what might be exacted by foreign creditors, banks never can misjudge in giving credit; because, if they should refuse to do it, they in the first place incur a loss themselves; and in the second place, they diminish the fund of circulation, and thereby hurt the country. Now when, at such

such times, a credit is asked or given, that demand is a warning to banks to prepare; and by preparing they are ready, and no loss is incurred.

Upon the whole, it is an unspeakable 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; because, 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 strangers, the capitals are always demandable; and when a call comes suddenly and unexpectedly, the country is distressed. What would become of Great Britain, if all her debts to strangers 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 strangers, who have no right to exact the capital, although the state may set itself free whenever it is convenient.

I have said above, that after all the combinations I had been able to form, I could discover but one motive to induce a bank to withhold credit at a time when it was demanded for the use of domestic circulation, viz. jealousy of other banks. What my combinations could not then discover, my inquiries have since unfolded.

It is said, that the banks finding so great a propensity in the inhabitants of Scotland to consume foreign manufactures and produce, fell upon this expediency of calling in the old, and of refusing new credits, in order to cut off such branches of hurtful luxury and expence.

Could the execution of such a plan prove a remedy against the vice complained of, this circumstance alone would more clearly demonstrate the utility of banks upon mortgage, than all I have been able to say in favour of that establishment.

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

We

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

We have said that he who owes is either a bankrupt, or *must pay*, as long as there is a shilling in the country.

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

By withholding money for the uses of circulation, which banks may do for some time, buying *may* be stopped; paying *never can*.

Now if the mass of money in circulation is brought so low, that the *higher* classes of the people, who consume foreign productions, cannot find money to buy with, what are we to suppose will be the case with manufacturers, and with the merchants who buy up *their* work? Could this operation of the bank affect the *higher classes* only, by curbing their anti-patriot expences, without affecting the *lower classes*, by curbing their industry, I should think it an admirable discovery. If it even could be made to affect those merchants and shop-keepers only, who deal in foreign commodities, so as to discourage them from carrying on that business, there would result from it a notable advantage.

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

Perhaps, they find more difficulty than other people in forcing coin from the bank, as matters stand: perhaps, they are loaded with opprobrious appellations for extorting such payments from the bank: perhaps, their credits with the bank are recalled. But must not those who buy from them, pay them? And must not the bank give coin, or bills, for the notes they receive, when presented 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 expences of his trade upon the consumer. Correct the taste of the consumers, and you may stop the trade: no

other



other restraint will be of any consequence. But in order to correct the taste of consumers, do not deprive them absolutely of money; because the money the landlord receives, comes from the farmer, for the price of his grain, &c. Would it be a good scheme for preventing soldiers from drinking brandy, to cut off their subsistence-money? Give a drunkard but a penny a day, it will go for liquor; and those who are fond of foreign clothing, will take the price of it from their bellies, to put it on their backs.

If this scheme of the bank's withholding credit, proves, at present, any check to those dealers in English goods, it will be but for a very short time. They have been taken by surprize; and, perhaps, thrown into inconveniencies from an unexpected change of bank management; but as long as there is a demand for such commodities, there will be a supply; and when people owe, they *must pay*. No operation of a bank can prevent this.

I must, therefore, according to principles, disapprove of this public-spirited attempt in the banks of Edinburgh; because, if it should succeed, it will have the effect of ruining all the trade and industry of Scotland, in order to prevent the sale of English goods; and if it does not succeed, which is more than probable, from the assiduity of other banks in supplying credit, it will have the effect of ruining the banks of Edinburgh themselves.

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

By these it is alledged, that in the beginning of the year 1762, when the Edinburgh banks withdrew  $\frac{1}{4}$  of all their cash accompts, and opened a subscription for borrowing in their own notes, at an interest of 4, and even 5 *per cent.* the demand for money, to send to England, was not occasioned by the great balance owing by Scotland, but to the high premium money then bore at London; because, says the author of a letter to J . . . F . . . . . Esq; published at that time,

“ This demand arises from a profit on carrying money to London, as a commodity, and not as a balance of trade.”

It

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

It is true, that at certain times, there were considerable profits made upon stock-jobbing; by which some won, and others were ruined. I agree, that the country was greatly hurt by the folly of those 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 risk. But is this a vice which any bank can correct, while it has a note in circulation?

If, therefore, it was a sentiment of patriotism which moved the banks to such a plan of conduct, I say they thereby did more hurt to industry, by contracting circulation, than good to Scotland, by attempting a thing which was beyond their power to accomplish.

If they were moved to it by a principle of self preservation, I say they lost their aim, by cutting off their own profits, which would have done much more than indemnify them for the loss of borrowing at London, at the time when money there was hardest to be got: for whatever exorbitant expence of exchange gamesters may incur, to procure ready money to play with, the rate of the stocks at that time never was so low, as to afford a profit upon money remitted at 3 *per cent.* loss by exchange, while that money was bearing 5 *per cent.* interest at home.

The lowest rate of stocks was in January 1762. Towards the end of that month 3 *per cents.* fell to  $63\frac{1}{4}$ : this makes the value of money to be about 4*l.* 12*s.* *per cent.* In these funds, certainly, no body could invest, with profit, money sent from Scotland.

After the new subscription had been open for some time, scrip indeed, or 4 *per cent.* fell in this month so low as  $74\frac{1}{2}$ , that is, money rose to 5.4 *per cent.* whereas had scrip stood at the proportion of the 3 *per cents.* it should have been worth about 84: but at the beginning of a war with Spain, when the minds of men were depressed, and filled with apprehensions, and when a new loan was perhaps expected at a higher interest than ever government had

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given,

given, was it natural for people to be fond of investing in a 4 per cent. stock, which was to fall to 3 per cent. in a few years?

Besides, let us examine the profit to be made by investing even in that fund. 100*l.* produced in Scotland 5*l.* interest, that capital remitted to London at 3 per cent. exchange, was reduced to 97*l.* now if 74.5*l.* produced 4*l.* the produce of 97*l.* would be about 5*l.* 4*s.* Would any man for the sake of  $\frac{1}{5}$  per cent. advance of interest on money remitted, ever think of sending large sums to London to be invested in a falling stock?

I allow that, upon opening subscriptions, great profit was sometimes made by those who contracted with government, and who received the subscriptions at prime cost. But this profit depended entirely upon the subsequent rise of the subscription, when the original subscribers brought it first to market; as also from the small sums they had advanced: this operation was over before the end of January 1762. The smallness of the sum advanced, upon which the profit was made, and the ministerial interest which was necessary to obtain a share in those subscriptions, rendered it extremely difficult for people in Scotland to share in the profit by remitting large sums in the proper point of time.

Farther, might not the banks, in the short period during which such large profits were made, had they had the exchange in their hands, have raised it so high as to frustrate the attempts of our Scots gamblers? If it be said, that exchangers would have disappointed them, by giving it lower; I answer in the negative: because to that set of men exchange will rise, of itself, 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. interest, exchange upon that place would rise universally in proportion.

The only motive, not already mentioned, for sending money to London at this time, under so great disadvantages, was the prospect of a great rise upon the stocks, in the event of a peace. Upon which I observe, that the value of that probability was included in the then price of stock; and had the probability of a peace, in January 1762, been

been great, stocks would have risen in proportion: he, therefore, who vested his money in stock, by remitting from Scotland at that time, upon an expectation peculiar to himself, I consider as a gambler, and as an ignorant gambler too; because he was giving odds upon an equal bet. This every man does, who, without any prospect of a profit peculiar to himself, pays a high exchange to bring money to a market, where he buys at the same price with those who pay no exchange at all.

From these considerations, I am led to differ from the ingenious author of the letter to J. F. Esq; who says, "That in the present case" (the circumstances operating in January 1762,) "the demand" (for money to remit to London) "is unlimited, and no provision the banks can make can be of use; on the contrary, could they find a treasure, suppose of a million, it would only serve to increase it; because this demand arises on a profit on carrying money to London as a commodity, and not as the balance of trade."

## C H A P. XIV.

*Of optional Clauses contained in Bank Notes.*

AS we are examining the principles upon which banks of circulation upon mortgage, which issue notes payable in coin, are established in Scotland, it is proper to take notice of every circumstance which may arise from the extensive combination of the interests of trade and circulation, especially when we find such circumstances influencing the political welfare of society.

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

Banks not regulated by statute, are private conventions, in which the parties may include what conditions they think fit. Banks, therefore, may insert in their notes, the conditions they judge most for their own advantage. Thus, they may either promise peremptory payment in coin upon demand, or they may put in an alternative, that in case they do not choose to pay in coin, they may pay in bills, or in transfer of their stock, or in other circulating paper not their own; or they may stipulate a certain space of time after the demand, with interest during the delay. All these alternatives are inserted, in order to avoid the inconvenience of running short of coin, and of being obliged to stop payment altogether.

We have said above, that the profits of banks consist in their enjoying the same interest for the notes they lend, as if the loan had been made in gold or silver. This is a very great object, no doubt; but the policy of nations has established it, and therefore we shall suppose it to be an uncontroverted principle.

In which ever way, therefore, an optional clause is inserted, it should be such as to cut off all profit from the bank, upon all paper presented for payment, from the time of presentation; and every artifice used to suspend the liquidation of the paper, to the advantage of the bank, and prejudice of the bearer, should be considered as unfair dealing in the bank, and prohibited by law.

When the optional clause has no tendency to procure advantage to the bank, in prejudice of the holder of the paper (except so far as the holder is thereby deprived of the use of coin, which on certain occasions cannot be supplied by the paper) it becomes the duty of a statesman to examine how far it is expedient to suffer such stipulations to be inserted, in a money which is calculated to carry on the mercantile interest of the nation.

Banks, we have said, are the servants of the public, and they are well paid for their services. Although the notes issued by them are not commonly made a legal tender in payment; yet the consequence of a well established bank, is to render them so essential to circulation,

circulation, that what is not a legal obligation becomes one, *in fact*, from the force of custom.

Let us therefore examine the advantages which result to banks from this optional clause, and the loss which results to a nation from their use of it, and then compare the advantages with the inconveniences, in order to determine whether or not it is expedient to permit such obstructions in the circulation of paper.

The advantages which banks reap is confined to that of gaining time, at the expence of paying interest. The interest paid by them is an awkward operation. They receive interest for the note; because they have in their possession the original security given for the notes when they were first issued; and they begin to refund this interest to the holder of the note from the time they make use of the optional clause. Could the banks, therefore, borrow coin in a moment, and pay no interest for the coin which they pay to the holder of the note, they would certainly never make use of this optional clause. But this coin is not to be found in a moment; and the banks, to save themselves the trouble, and the expence 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 strangers, and raise a general distrust of the whole society which they ought to serve. Here then is a very great loss resulting to a nation from the establishment of banks. Were no bank established, no merchant would contract a debt to strangers, without foreseeing the ready means of discharging it with the coin circulating in the country. In proportion as this coin came to diminish, so would foreign contractions of debt diminish also. Thus *credit*, at least, might be kept up, although trade might be circumscribed, and manufactures be discouraged. Now when, in order to advance trade and encourage manufactures, a statesman lends his hand towards the melting down of solid property, and countenances banks so far as to leave that operation to them, with the emolument of receiving interest for

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 reasonable to indulge banks so far as to allow them to add an optional clause, which disappoints the whole scheme, which stops trade, ruins manufactures, raises the interest of money, and renders the operation of melting down property quite ineffectual for the purposes which it was intended to answer? Farther,

The loss a bank may be at, in providing coin, is susceptible of estimation, let it be brought from ever so distant a country; because we know that the quantity to be provided, never can exceed the value of the *grand balance*. But who can estimate the loss a nation sustains, when an interruption is put to carrying on trade and manufactures? When the industrious classes of inhabitants are forced to be idle for a short time, the consequences are hardly to be repaired: they starve, they desert; the spirit of industry is extinguished; in short, all goes to ruin.

Besides, when banks do not lay down a well digested plan for paying regularly, and without complaining, this *grand balance* due to strangers, they are forced to have recourse to expedients for preserving their credit, more burdensome, perhaps, than what is required of them; and not near so effectual for removing the inconveniences complained of.

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

Sometimes we see them entering into contracts with private merchants and exchangers, (*living among themselves!*) who engage for a certain premium to furnish coin as it is demanded. The consequence of this, is, to expose the bank to a new demand for coin, from the very contractors, in order to fulfil their engagements; an abuse we have taken notice of above in speaking of the *bank circulation* of England.

Let

Let us suppose that these undertakers for coin do really set out by doing *in part* what banks should *effectually* do themselves, that is, by bringing from another nation, the coin which they are to supply. What is the consequence? The banks pay the undertaker for this coin in their own notes. Did they only engage to pay a certain interest for the coin so provided, then the end would be accomplished, with the additional expence to them of paying the undertaker for his expence, trouble, and profit. But if they, instead of paying interest for the coin so furnished, shall issue their notes for the full value of it, such notes can never enter into domestic circulation, so as to be suspended in it as it were; because it is not domestic circulation which has demanded them: they must then return upon the bank, either from the very hand who received them, or at least, after a short circulation; and thus draw out again the whole coin furnished by the undertaker. This produces a prodigious circulation of coin, and induces people to imagine that either the *grand balance* is inexhaustible, or that the premium upon money at London is very high, or that people can contrive a fictitious balance, as a means of profiting upon coin, after the balance has been actually paid\*.

This method of providing coin is absolutely delusive, and opens a door to infinite abuse. Those who furnish the coin to the bank, are either in the combination against the bank, and draw it out as fast 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 loser in both cases.

Let me suppose that they are not in the combination, and that they honestly procure the coin at their own expence. If they are paid in notes for the coin they furnish, we must suppose that the

\* The directors of the bank of England have had recourse to a like expedient with as little success. They used, during the war, to buy up, with their paper, the coin brought in by privateers; and after they had been at this trouble, the notes they had given for it returned upon them, and drew it out again.

coin

coin they have procured, is not in consequence of a loan, but of a *credit* given them in the place from which the coin is sent: for I never can suppose that any merchant will borrow coin upon a *loan*, and lie out of so 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 favour 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 suppose 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 soon as the coin is lodged in the bank, to draw it out, and send it off, in order to furnish the undertaker with bills to fill up his credit, for the coin he had received from people residing in the place to which the exchangers have sent coin, to be ready to answer their draughts? Does this differ in the least from what is called drawing and redrawing, which is sufficient to ruin any man, and must not a like practice ruin a bank, by raising exchange to a monstrous height?

This being the case, the shortest and the best method of preventing such abuses, 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 wit, fairly borrowing money from nations to whom we owe, and paying a regular interest for it, without an obligation to refund the capital, until the grand balance shall take a favourable turn; in which case, the banks will regorge with coin drawn from strangers, and these strangers will then find as great an interest in being repaid, as the bank found in borrowing from *them*, while the balance was in *their* favour.

We have said, that a statesman should 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 must facilitate to them the means which he has in his power, of providing themselves with the coin, or bills demanded.

For

For that purpose, he must, first, 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 such regulations as to cut off all profit from money-jobbers, who will be ready to draw coin out of the bank the moment they find the least advantage in tampering with it. In order to prevent this abuse, a reasonable rate of coinage should be imposed, according to the principles laid down in the third book; and when banks have occasion to pay a balance out of the nation's coin, a drawback for part of the coinage should be given them. This drawback will support the value of the coin, and the loss 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 lost 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, and to disappoint strangers who receive it at the price of bullion, from gaining the price of coinage when they return it back. And in the last place, all light coin should be banished out of circulation, and made to pass by weight for bullion, at the current price of the market. All banks should both receive and deliver coin by weight, when the sums are so considerable as to require full bags of coin to pay them. It is not here necessary to repeat what has been said upon this subject at so much length in another place.

The method of facilitating to banks the means of providing bills for the payment of foreign balances, is, secondly, to assist them in procuring loans beyond the district of their own circulation. If government shall be satisfied that the intention of demanding such loans, is to enable the bank to interpose their credit in favour of the trade and industry of those who circulate their paper, and who have no way of paying such balances, but with their solid property; in that case, government will, undoubtedly, assist the bank in obtaining

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loans for so national a purpose, by declaring the security upon which they desire the loan to be good, and by becoming answerable to the public for the solidity of it.

### CHAP. XV.

#### *Of subaltern 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 some peculiarities attending banks of a subaltern nature, which for the most part trust to the national bank for all supplies of coin; and when this resource fails them, they are thereby involved in difficulties which are not easily got the better of. Besides this inconvenience, to which all subaltern banks are subject, they are frequently exposed to competition with one another.

A national bank enjoys such great advantages from the stability of its credit, and the regularity of its operations, that it is not easy for any other private company to establish themselves upon the same solid system.

When any banking company is established, which draws its support from a national bank, the facility of carrying on the business by so great an assistance, naturally engages other companies to imitate their example. From thence arises a competition. All such banks begin to consider the circulation of their own district as their undoubted property, and they look with an eye of jealousy 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 of that company to receive their  
notes,

notes, or to give them credit for their draughts, in cases of necessity, they would be at their ease; because the national bank would then be at the whole expence of providing coin and bills, and they would have nothing to think of, but to extend the sphere of their own circulation.

With respect to all these subaltern societies, the national bank will no doubt steer an equal course. I suppose every one to be settled upon good security; without which they do not deserve the name of banks.

In proportion to their stocks, and according to the state of the national balance, they may, as well as any private person, on many occasions, draw considerable supplies of coin from the national bank, without lying under any obligation to it; because when exchange is low, they can realize any part of their stock into coin, out of the national bank, at very little loss, excepting the interest of it: for interest must always be reckoned upon every guinea which lies in their chest.

Did these banks consider one another in a proper light, they must see in an instant that the solidity of every one is equally good; because I now suppose them all standing upon the principles of private, not mercantile credit, as above explained.

What benefit then can they possibly reap from their mutual jealousies, from gathering up each other's notes, and coming with a run upon one another from time to time? The consequences of this will be, to oblige themselves and others to preserve for *domestic circulation* a larger quantity of coin than is necessary, and thereby to diminish their own profit: to take up their attention in providing against their own reciprocal attacks, and thereby neglect the providing a supply for that demand which is indispensable; to wit, the payment of the grand balance due to other nations; at which time the resource 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 speaks for itself.

Wherever this grand balance is transacted, the exchangers residing in the place will have recourse to the bank there established; and if there be more than one, that which pays with the greatest readiness will have the best credit, the most notes in circulation, and the largest profits upon the whole. If any one is found slow, or difficult in paying its paper, exchangers will be the more punctual in making their demand for payment, and they will even be averse to receiving such notes from their correspondents.

Every man who has occasion for credit from a bank, will apply to that whose notes are the most esteemed. In short, there will be profit, in the main, to the bank which pays the best, although I allow that at particular times there may be some additional inconveniences, unless a regular plan be laid down on the principles above deduced.

This however is a vague reasoning; because the matter of fact is not known. All that can be said with certainty, is, that while no public regulation is made with regard to banking, every one will carry on the trade according to his views of profit; and private animosities between different companies, will only tend to distress the nation and themselves, as experience has, I believe, discovered.

If, as matters stand, a very great inconvenience results 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, because all the coin of the country is locked up in banks; I ask what would be the consequence, if banks had their will in banishing from the circulation of their own district, every other notes but their own? In that case, we might, in a short time, find an exchange of 4 and 5 *per cent.* between Fife and Lothian, between Glasgow and Ayr, and so of the rest. What would then become of manufacturers, who could not dispose of their work at the distance of a few miles, without having recourse to exchangers for their payment? If such an abuse were once allowed to creep

in, there would be no other remedy but to destroy banks altogether, and throw the little coin there is into circulation.

On the other hand, when banks are in a good understanding, when they are established on solid principles, when their paper is issued on proper security, the public is safe; and in every little district, under the wings of their own bank, there will arise a set of exchangers, who will give credit to merchants and manufacturers, and who will have recourse to their own bank for the coin or bills necessary for their occasions. This will naturally divide the payment of the grand balance among them, in a due proportion to their circulation.

I shall now consider the principles which may direct a statesman to settle banking upon mortgage on a proper footing, to serve every national purpose.

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## CHAP. XVI.

### *Of some Regulations proper to be made with regard to national Banks.*

FROM what has been said, we may conclude, that were a national bank upon mortgage, established on a plan calculated to answer the purposes of the most extensive domestic circulation, it might be regulated in the following manner.

1<sup>mo</sup>, Let a large stock of property, of one species 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.

2<sup>do</sup>, Let all solid property intended to be melted down into paper money, be first constituted in such a manner as to be easily sold, and in the mean time secured to the company, for their advance, preferably

preferably to every other person, and let it be of a revenue fully sufficient to acquit the interest for ever.

3<sup>to</sup>, The capitals due to the bank must not be demandable by the bank, as long as the interest is regularly paid.

4<sup>to</sup>, Every one who constitutes his property according to the regulations, must be entitled to a proportional credit from them.

5<sup>to</sup>, All bank securities must be pledged in the hands of government for the interest of whatever money the bank may borrow with their consent, beyond the district of their own circulation.

6<sup>to</sup>, Government must support the bank in proportion to the extent of their funds.

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

Were such regulations established, the borrowing from banks would become very easy; any man who is master of his property, though incumbered with debts, might put it into bank regulation, might raise upon it what sum he thought fit, with which all his debts might be paid off; he might even give credit upon it to those who otherwise are not in a situation to obtain it: for which credit given, a profit in the rate of interest might be allowed to him. Were a plan concerted consistently with the principles which have suggested this general sketch, all borrowing and lending of money would soon center in the bank. Securities would be easy, and expence greatly avoided.

A national bank, when rightly constituted, may however be safely indulged in more extensive methods of circulating their paper than upon land security. The bank of England is allowed by charter to issue notes for discounting bills of exchange, it may trade in gold and silver, may advance money to government upon the security of taxes imposed and levied within the year. But it is in general debarred commerce, and every precarious object of traffic. The reason is plain. The paper it issues becomes the property of the nation, and may form in a short time the greatest part of the currency

rency of it. In such a case, were the bank exposed to losses by trade, or insolvency of debtors for great sums, the whole credit of the nation might be ruined, and all the lower classes of the manufacturing inhabitants undone, before such a blow could be repaired.

Under proper regulations, bank paper might be made a legal tender in every payment: in which case it is hardly possible that any considerable demand for coin should 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 these will make subaltern banks both useless and unprofitable. It might even be stipulated, that a certain proportion of bank stock, in the name or for the behoof of any city, should entitle that city to a proportional part of the administration within their own district. As these are only speculations, not plans, I need not set about removing objections, which are constantly many and well grounded, whenever any new establishment or innovation is proposed. All I aim at is to set this principle in a clear light, to wit, that it is the interest of every trading state to have a sufficient quantity of paper, well secured, to circulate through it, so as to facilitate payments every where, and to cut off inland exchanges, which are a great clog upon trade, and are attended with the risk of receiving the paper of people whose credit is but doubtful.

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

It would be an admirable improvement upon this scheme, to make a like regulation as to foreign bills. However, this speculation is reserved for another opportunity. All I shall say, at present, upon that head, is, that as we have seen how the whole national balance must be paid by banks (who circulate paper payable in coin on demand, and who consequently must, on some occasions, draw the metals from abroad for that purpose, in order to fill up the void made by exchangers, who send them out) and it would, I think, be shortning, in some measure, that operation, and be a means, at the same



same time, of indemnifying the bank in this respect, to regulate matters so, that all foreign exchanges might be transacted there at fixed rates, according to the place where the exchange is to be made, without erecting any monopoly for that purpose in favour of the bank, or depriving any one of the liberty to deal in exchange, who can afford it at more reasonable terms than the bank; but of this more when we come to the doctrine of exchange.

CHAP. XVII.

*When and in what case Banks should be obliged to keep open Books.*

IF no national bank be established under proper regulations, and entire liberty allowed to every one to take up the trade who can issue his notes, I think it would be against all principles of good policy not to oblige such banks to keep open books, to be inspected regularly by some authority or other; in order to see upon what security that paper stands, which is the instrument of commerce, a part of every man's private property, and which, if any part of it should once fail, either through the knavery, misconduct, or misfortune, of a particular company, would cast a general discredit upon all paper, and be a means of bringing on those calamities which we have so often mentioned.

I know the ordinary objection against this, is, the inconvenience of throwing open the secrets and mysteries of trade. As to the mysteries of trade, this point shall be examined in another place. But here, I say, there is no question of trade in which any risk is implied: and if any one can suppose, that, at any time, the affairs of a bank are in so ticklish a situation as not to bear inspection, that very supposition shews how necessary it is not to permit such a bank to continue this circulation. The only inspection, in which the public

public is interested, is to know the quantity of notes issued, and the extent and nature of the securities pledged for them. They have no business to examine the state of their cash, or of particular people's credit. They may be without a shilling in their coffers, and still their paper be as good as if they had a million. Such an inspection, as I propose, would rather confirm than shake their credit, but it would be a means of preventing them from launching out into speculations in matters of commerce, which is not their district; and from gaming with national property.

If it be said, that this inspection would lay open the affairs of many private men, debtors to the bank, I answer in the negative; because no man's credit is hurt by his having a cash account, and no inspection is requisite, as to the state of that account with the bank. The credit may be either quite full, or quite exhausted; this particular interests no body but the parties themselves; but it is essential to know upon what security the credit has been given; because every man who has a note of such a bank in his possession, has a very good title to be informed concerning the security on which it stands.

It is not sufficient to say, that the holder of the note, if he doubts of the security, may demand payment. It is not here the interest of any individual, but that of the public which is attended to: and if, according to the principles of common reason, it be just, that a creditor should have it in his power to watch over the abilities of his debtor, so as to secure his payment; certainly it is equally just, that the public (which I consider here as the creditor) should 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 answer from any man who held a piece of false money in his hand, for the use of circulation, to screen himself, by alleging that if it be false, no body need to take it. It is the right of every man to detect false coin; but it is the right of government *only* to detect false paper: because law only can authorise such an inquisition. Does not the charter of the bank of England establish this right in government?

If the bank be confined to certain particular branches of solid trade, where little risk is incurred, might not government examine, when necessary, whether these regulations have been observed; and how can this be done without such an inspection as is here recommended?

C H A P. XVIII.

*Is it the Interest of Banks to grant Credits and Cash Accounts to Exchangers and others, who make a Trade of sending Coin out of the Country?*

THE answer to this question is very short. From the principles we have deduced, it is plain, that it is both the office and interest of banks to give credit to all who can give good security for it.

The cause of doubt upon this question, arises 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 interest, in providing funds to answer the demands of those who are either obliged, or who find an interest in paying off what the nation owes upon the grand balance to foreigners.

To set this matter in a clear light, let me suppose that, some time ago, the banks had at once withdrawn all the credits granted to exchangers; and opened a subscription for a loan of money, equal to what they might estimate the sum borrowed by that set of men within the country, for the sake of carrying on their business.

According to principles, these two operations should go hand in hand: the recalling the credits would, no doubt, have greatly distressed exchangers; but as long as they could find money to

borrow from private hands, that inconvenience would have been lessened. Besides, I apprehend that the late custom 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 case, then there has been a *lucrum cessans* 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 same terms, what was lent to them.

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

That such a plan is diametrically opposite to all principles of banking, I suppose, is by this time sufficiently understood.

That it would have occasioned a run upon exchangers, is pretty certain: because however good their credit might be, it must be acknowledged to be inferior to that of the banks; and therefore no body would prefer them for debtors, to the bank, upon the same terms.

The third consequence is as evident, upon a short reflection, as the other two. The run upon the exchangers would have obliged them to make a call upon all the merchants and dealers in Scotland, to whom they gave credit: for which purpose, and for which alone, they find an interest in borrowing at so high an interest as 4 per cent.

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

Now we have said, that whoever owes *must pay*. The merchants of Scotland owe to exchangers; the latter are pressed by their

ditors, and *must pay* with what they have, which consists in money only: when that is exhausted, they must shut up shop. They again call upon the merchants, who *must pay* with what they have. This consists in goods, and in the manufactures of Scotland; and these they *must sell* at any price. There may not be time sufficient to export with advantage. To whom then must they sell? To people within the country, who have no money to buy with; because credit is withheld by that body which only can give it. I conclude with the old saying of the law,

*Unum quodque eodem modo solvitur quo colligatum est.*

The best method to establish credit in an industrious nation, is a bank properly regulated: and the best methods to ruin it effectually, when established, are the inconsistent operations of such a bank.

C H A P. XIX.

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

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

- The first, the circulation of paper for domestic uses.
- The second, the method of providing coin for that purpose.
- The third, the method of paying foreign balances.

These three objects are absolutely different in their nature, and they are influenced by different principles. The consequence of blending them together, is to render the subject, which is abundantly intricate in its own nature, still more dark and perplexed. What is to follow has no relation to any plan proposed for execution; it is only intended as a farther illustration of the general principles which influence this branch of my subject.

*imo,* As to the circulation of paper for domestic use.

Et

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

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

This paper money, I suppose to be as solidly secured as the principles of private credit can make it. I suppose the bank to be established by authority, according to the regulations already mentioned; and the notes made a legal tender in every payment of *domestic debts*; by which I understand *debts* payable within the country.

From these data, I say, that the regular method by which the bank should acquit the obligation in the notes, is by restoring the security granted at issuing the notes, if they be returned by the debtor in it; or by a transfer of a sum of interest equivalent to the notes, if they are presented by any other. All farther obligations laid upon banks to pay in coin, or inland bills, is only an equivalent expected from them in lieu of their great profits\*.

When paper issued for domestic circulation returns to a bank, were it not for the profits on their trade, I see no reason why a

\* It must here be observed, that in every country where there is a national coin established, it is absolutely necessary to connect with it the denominations of the paper; in order to affix a determinate value to these denominations. This may easily be done without implying, as at present, an obligation on the bank to realize into coin every bit of paper in circulation.

The *interest*, therefore, of the credits given by the bank, may be demandable from the debtors in coin; and the transfers of interest made by the bank, to those who bring in notes for payment, may also be demandable in coin from the bank.

These payments will bear a small 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 support the coin of the country, and as the *interest* of all the paper becomes demandable in coin, the intrinsic value of the *interest* will effectually support the value of the *capital*.

Bank

bank should pay in any other species of property than what it received; and if, by the interest 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 dispense with that obligation in lieu of an abatement of interest; which would be an advantage to commerce, not to be counterbalanced by the other.

Farther, the business of providing coin is totally different from that of supporting domestic circulation: it is founded on different principles: it requires men of a particular genius to conduct it: the difficulties to be met with are not constant; and therefore cannot form a regular branch of bank administration.

2do, The method of providing coin for domestic 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 mints. I have shewn the difference between money, which is the scale for reckoning value, and coin, which is certain denominations of money, realized in a proportional weight of the precious metals. I have shewn how necessary a thing it was to impose the price of coinage upon the metals manufactured into coin: and I have said, that it was inconsistent with all principles, to allege that the metals, when coined, should thereby acquire no additional value.

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

This coin loaded with the price of coinage, never will be sent abroad to pay a foreign balance; never will be locked up in banks, which will have little occasion for it. It will, therefore, remain in circulation, and serve those purposes for which the inhabitants think fit to employ it.

This coin, I say, never will be exported, as long as any uncoined metals can be found in the country: and if upon a national distress it

it is thought fit to facilitate the exportation of it, the state may (as we observed above) appoint the mint to receive it back, in order to melt it down into ingots; stamped with the mark of sterling, repaying to the bearer — *per cent.* of the coinage.

3tio; The trade of paying off foreign balances will then become a particular branch of business: of which we shall treat more at large, when we come to examine the principles of exchange.

All that is necessary to be said 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 she owes to strangers, she must pay in her solid property; that is, she must mortgage the revenue of such property, for a capital borrowed out of the country, which capital she must 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 specie, but from a persuasion that they may be exchanged for it on demand.

To this I answer, that it is sufficient they be received as value; and that they answer every purpose in carrying on alienation. The use of money is to keep the reckoning between parties, who are *solvendo*; the use of specie or coin is to avoid the inconvenience of giving credit to persons who perhaps may not be so.

When merchants make delivery in accompt, they then give credit to their customers: when they sell for bank bills, they give credit to the bank: when they are paid in coin, they give credit to

no body; because 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 everyone in the country is perfectly satisfied?

Is there a merchant, in any country in the world, who will sell one farthing upon an hundred pounds cheaper to a person who pays in coin, than to another who pays in good paper; unless the extrinsic circumstances of the country should, at that time, give an advanced price to the metal of which the coin is made.

Money, we have said, ought to be invariable in its value: coin never can be so, because it is both *money* and *merchandise*: money, with respect to the denomination it carries by law; merchandise, with respect 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 expence of transportation, and insurance. I grant this to be true.

But I answer, that the principal use of coin, is, not to send it out of the country; but to keep accounts clear among inhabitants within the country. If there be a variation in the value of coin, according to circumstances, that variation must affect the inhabitants in their transactions. No one can gain upon this coin, without supposing a relative loss to some other, whether they perceive it or not. Must not this disturb all reckoning? Must it not disturb prices? Since at different times, I may be paying the same denominations of coin for the same 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 prosperity of manufactures? Whence arise complaints against paper money, and regrets for want of coin? They issue from those who both wish to profit of the rising value of the metals contained in the coin, and who endeavour to persuade the public, that its interest, and not their own, is their object.

What a trifle is a foreign balance, let it be ever so great, compared with the whole alienations of a country! Is it reasonable to disturb

disturb the harmony of all domestic dealings, in order to furnish an opportunity to a few clear-sighted people, who can, upon some occasions, profit of the fluctuating value of the substance 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 so just; nothing so essential to the interest of the country which is the debtor. If the precious metals are the most proper vehicles, as I may say, for conveying this value, let them be procured and sent off; but never let us say, that because *some* of our money *may* be made of that metal, that all our money should be made of it; in order that those who transact the balance may have an opportunity of sending our metals away with greater ease, and thereby of depriving us of the means of carrying on alienations among ourselves. Let every one that has coin send it away: nothing can be more just; nothing more consistent with principles: but let him send it away as a *manufacture*; carrying in its bosom 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 least expence to themselves, the balance they are about to transact. When that resource is cut off by the imposition of coinage, the nation will preserve at least her darling specie; and then exchangers will be obliged, by the best of all compulsions, their own interest, to think of other expedients; bullion, manufactures, and natural produce. And when all these come to fail, a regular plan must be laid down, and authorized by government, for obtaining credit in other countries, by mortgaging the revenue of the solid property of the kingdom; according to the principles we shall discover when we come to treat of exchange.

CHAP. XXI.

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

WE have said, that the banks in contracting debts, and mortgaging the property of Scotland to strangers, for the payment of a grand balance, really acted as the guardians of the public, by interposing their credit, and by constituting themselves as debtors for the whole; taking for their relief, proportional securities upon the effects of individuals.

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

Before the payment of any balance for the behoof of Scotland, the securities in the hands of the bank can only be equal to the notes in domestic circulation, and accumulated profits thereon. Let this be called (A). In proportion as these notes come back upon the bank, in a demand for bills to pay balances, in the same proportion is there a sum of securities added to the former mass (granted upon new credits given for filling up the void thereby occasioned to circulation) which quantity I shall call (B).

(A) then represents the securities equivalent to the notes in circulation.

(B) represents the securities equivalent to the debts contracted by the bank in favour of strangers.

Now let us suppose trade to become favourable; or that the interest of the money, which the natives had sent abroad, to invest in foreign countries, begins to flow back: what will be the effect of this?

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

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In every case, it must be supposed to be beyond the consumption of Scotland; otherwise it will not be a balance in their favour. Whatever part of it, therefore, proves to be beyond the consumption of Scotland, will be turned into money. This money must either consist in the metals, or in foreign bills. If it consist 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 securities; which we have called (A). But then there will be more coin in circulation than formerly; consequently, more coin will enter into payments made to the bank than formerly. But we must suppose, that before this favourable turn of commerce, there was coin enough both in the bank and in the country for the uses of domestic circulation; consequently, the bank will send off this superfluity of coin, and with it they will refund a part of the debt they formerly contracted.

Through all this chain of reasoning, we must always suppose the money in circulation to be a *determinate sum*; otherwise the superadding this foreign balance in coin will not occasion, as we have said, a return of a proportional part of the bank paper.

In the next place, let us suppose this favourable balance to consist in foreign bills, upon London, Amsterdam, &c. These will be discounted by the bank, and notes issued for them. The bills will be sent off by the bank, in order still to extinguish a part of what is owing to foreigners. These notes, again, being superfluous to circulation, which we suppose to be full, will return upon the bank and still diminish the mass of (A).

By these operations we see how (A) will be constantly diminishing; but then in the same proportion we see how the mass of foreign debts will also be diminishing: consequently (B), which was engaged for them, will be returning to be the free property of the bank; and as we suppose no variation upon the sum in circulation, we may consider this as a sort of conversion of (B) into (A), and when all (B) shall be thus converted into (A), then the debt

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formerly contracted by the bank, in favour of Scotland, will be totally paid off by the same method (only inverting the operations) by which it was contracted.

C H A P. XXII.

*Of Banks of Circulation established on mercantile Credit.*

I HAVE examined, with all the care I am capable of, the nature of banks calculated for the melting down of solid property, and converting it into paper for the use of circulation.

The nature of such banks is but little known in countries where they have not been established, and a distinct account of them may suggest hints, which in time may prove useful.

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

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

The establishment of this great company was formed about the year 1694. Government at that time having great occasion for money, a set of men was found who lent to it about 1,200,000 l. sterling, at 8 per cent. for the exclusive privilege of banking for 13 years; with this additional clause, that 4000 l. sterling, per annum, should be given them to defray the expence of the undertaking.

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This sum of 1,200,000 l. sterling, was the original bank stock. It has been since increased to 11,000,000 l. by farther loans to government, for the prolongation of their privileges; as has been taken notice of in the 16th chapter of the second part.

This stock, as in banks of circulation upon mortgage, is only to be considered as a subsidiary security to the public for the notes they issue: were it the principal and only security for their paper, this bank would then be founded on the principle of public, not of mercantile credit; under which last 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 issue no notes upon mortgage, permanent loan, or personal security. The principal branches of their business may be comprehended under four articles, viz. 1. The circulation of the trade of London: 2. The exchequer business of Great Britain: 3. The paying the interest of all the funds transferable at the bank: 4. Their trade in gold and silver. I shall now shortly explain the nature of these four great operations; and first as to the circulation of the trade of London.

When we speak of the circulation of trade, we understand the circulation of money paid on the account of trade.

The great occupation of the London merchants engages them to simplify their business as much as possible: For this, they commit to brokers every operation which requires no peculiar talents or ingenuity in the merchant himself; and, for a like reason, they commit to the bank and private bankers the care of their cash.

A Scots merchant begins by drawing money from the bank, for which he pays interest: a London merchant begins by putting money into the bank, for which he draws no interest 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 occasion for money at any time, he sends to the bank the bills he has, before they become due, and the bank discounts them at certain rates, according to their nature.

If it be a foreign bill, the bank in discounting it, retains of the sum, 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 60 days, they will not discount it. So in this case, the merchant must keep his bill until it is within 60 days of the term of payment.

The reason for this is evident: the security upon which such bills stand is purely mercantile. The nearer, therefore, the payment is, the less risk the bank incurs from the failure of those who are bound in it.

The intention of this operation of discounting bills, is plainly to employ the cash in the bank in a way to draw an interest for it; but as merchants allow their money to lie dead for as short a time as they possibly can, the bank must have quick returns for what they advance upon discount, in order to be constantly ready to answer all demands. This is no loss to the bank, and a prodigious advantage to trade, as I shall briefly explain.

The bank is constantly receiving cash from every person who keeps their cash with it. This occasions a constant fluctuation of payments, which of course must leave at all times a considerable sum of other people's money in the bank; because it never is in advance to any one.

By long practice in the trade, this sum 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 discount bills. Now if the trade of London does afford bills to be discounted at different dates within 60 days, sufficient to absorb the whole average-money of the bank, appropriated for discounting; this branch of business would not go forward with the celerity required for the trade of London, did the bank indulge merchants so far as to discount at a longer day.

From this we learn another reason why the bank of England discounts no bill which has more than 60 days to run. The first, mentioned already, is for the greater security of payment; and the second, which we now discover, is in order to be able to discount more

more bills than otherwise they could do, did they discount at a longer day.

As I am here upon the subject of discounting bills of exchange by the bank of England, an operation it has in common with all the private bankers in the capital, I must answer a question I have frequently heard proposed.

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

The answer to this question is to be derived from the very principles of trade itself.

The money which merchants have either in the hands of the bank, or of bankers, though very considerable at all times, is in perpetual fluctuation: it cannot then be lent to any but a banker, who would consent to pay interest for the sums in hand. But no such banker can be found, nor ever will be found, until all the bankers in London consent to such a regulation: The reason is plain. One principal use the bankers make of the average-money in their hands, is the discounting of bills. Who then could pay interest for money, and discount, in competition with others of the same trade, who have it for nothing?

But suppose the bank, and all the bankers in town, should come to the resolution of giving interest for the money in their hands, what would be the consequence?

I answer, that upon such an alteration, discount would rise above the present rates, to the great prejudice of the trade of the nation; and bankers would lend the money in their hands upon a more precarious security for the sake of a higher interest.

All the landed men who reside in London, and many other wealthy people, not concerned in trade, constantly keep their money either in the bank, or in some banker's hand, without interest: this enables bankers in general to discount foreign bills at 4 per cent. as has



has been said, even when the rate of interest is rather above that standard. This is, as it were, a contribution from the rich and idle, in favour of the trade of the nation.

Let, therefore, gentlemen who have much idle money, think of any other expedient than that of obtaining interest for it, from those who discount bills in London. Not one of them can afford to do it, and thrive by his business; and the hurt which would result to trade in general, will constantly be a sufficient bar against a general resolution for that purpose.

What has been said, will, I hope, prove satisfactory as to the resolution of the question above proposed, so far as regards London. It remains to be answered, how those who supply the place of bankers in Scotland, and even the banks themselves, can afford to pay interest for any sum put into their hands for a short time.

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

As to the Scotch banks, we have seen how directly contrary to all principles it is, to borrow money in Scotland. How it diminishes the profits upon their own trade, and hurts the circulation of the country; but although it diminishes their profit, it carries along with it no positive loss to them, as would be the case with a London banker, who would pay interest 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 sum of cash constantly in his chest, the interest of which would be all lost, did he pay for it: whereas the exchangers in Scotland never have a shilling by them; and when any demand is made upon them, they draw

draw the money from the banks, in consequence of their credit by cash accompts.

Besides foreign bills, which the bank of England discounts at 4 per cent. they also discount inland bills, and notes of hand between merchants in London, at 5 per cent.

The inland bills to be discounted at the bank must all be payable in London. The bank calls in no money from any distant quarter of the kingdom.

As the discounting of notes of hand between London merchants might operate the same effect, as if the bank should advance them money upon personal security, in case the notes were drawn for obtaining credit, in place of paying money really due between the merchants; in the course of business, the clerks of the bank keep a watchful eye over this branch of management, and, by examining the reciprocal draughts of merchants between themselves, they easily acquire a knowledge of the state of their affairs, and are thereby enabled to judge how far it is expedient to launch out in discounting either the notes or bills wherein they are concerned.

I shall not pretend to assign a reason why, in the price of discount, 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 consideration of the better security of foreign bills, which commonly pass through several indorfations before they are offered to be discounted 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 person's banker is to him. It receives the cash of the exchequer, and answers its demands.

Cash comes to the exchequer from the amount of taxes. The two great branches of which are the excise and customs. To explain

this operation with the more distinctness, I shall take the example of the excise.

The excise 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 sterling.

The fifty two collectors send the amount of their collections to London eight times a year, *almost entirely in bills.* As the same may be said of the remittances of all the other taxes, we may from this circumstance observe by the way, that London alone must constantly owe to the country of England a sum equal to all the bills drawn upon it; that is to say, to all the taxes which the country pays: a circumstance not to be overlooked, from which many things may be learned, as will be taken notice of in the proper place.

The bills sent by the fifty two collectors, are drawn payable to the commissioners of excise; they indorse 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 exchequer, who charge it in their account with the bank, and deliver tallies to the receiver general for the amount of his payments; these tallies he delivers to the commissioners of excise, who enter them in their book of tallies. This operation is performed once every week, and serves as a discharge from the commissioners to the receiver general.

The bank, again, keeps an account with the exchequer, which is settled once every day, by two clerks, who go from the bank to the exchequer for that purpose. When coin is wanted by the exchequer, for payments where bank notes will not answer, the coin is furnished by the bank; when paper will serve the purpose, paper is issued.

Besides 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 imposed, which are to be levied within the year. This we see is a loan upon *government security for a short term*, quite consistent with the principles upon which the bank is established. The large

sums the bank is constantly receiving of public money, and the great assistance it obtains from thence in carrying on the other branches of their trade, enable it at present to make advances of money to government at 3 per cent. It observes the same rule with respect to the great companies of the East Indies, and South Sea, for the same reason: but no advances are made to private people; and in discounting 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 describing.

The bank also keeps the transfer books of all the funds negotiated at the bank; and out of the public money in its hand, it pays the interest of those debts, for which government allows to the bank a sum proportionate to the expence 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 business 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 security upon which they stand.

When issued in the discount of bills, they stand upon the principles of mercantile credit, and depend upon the goodness of the bills discounted. When issued upon the faith of taxes to be paid within the year, they stand upon the security of that payment, which is of a very complex nature, as any one may perceive. As long as the inhabitants of England consume exciseable goods, the excise will be paid: as long as trade goes on, customs will be paid: and as long as government subsists, the collateral security of the state will serve to make up all deficiencies in the amount of taxes. No security, therefore, can be better than the notes of the bank of England, while government subsists. The losses that great company meet with from bad debts, I am informed, are very inconsiderable.

The greatest risk the bank runs, is in discounting bad bills; but by the extent of their business in this branch, and by circulating the cash of all the merchants who keep accounts with them, they acquire so perfect a knowledge of the state of their affairs, that it rarely happens that any one can fail for very considerable sums, without the bank's having a previous notice of it. A sudden loss may no doubt happen, without a possibility of being foreseen; but the matter of fact proving that their losses upon bad bills are inconsiderable, we may thence infer, that there is but little mystery to the bank, with regard to the credit of London merchants.

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

For the circulation of bank notes, coin is necessary. We have seen, in treating of the Scotch banks, how coin is brought in: to wit, in consequence of all the payments made to the bank, in which there must 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 consequently make place for a subsequent supply, which issues in the manner we have described.

In times of peace, and a favourable balance of trade, the bank suffers little by the obligation it is under to pay in coin, except so far as the great confusion of the present currency affords an occasion to money-jobbers to melt down the new guineas. The extent of this traffic I am no judge of, and the bank no doubt has an interest in preventing it as far as the laws have provided a remedy against it.

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

In Scotland, the banks, upon such occasions, are totally drained of coin. They have no market for the metals; because they have no mint to manufacture them into coin. It is different with respect to the bank of England; their distress proceeds from another cause.

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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 intrinsic 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 themselves from abroad, they must pay the price of them in bills of exchange. But then the lightness of the currency at home, sinks the value of the pound sterling, as it raises the value of the ounce of gold and silver. So the only considerable loss they incur, is in providing the metals, which must ever be considerable, so long as the old guineas remain in circulation.

The loss upon coining silver is still greater than upon gold; because, besides the loss incurred by reason of the lightness of the gold, the metals in the silver 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 sufficiently explained already in another place\*.

It is with great diffidence that I propose an expedient to a company so knowing in the arts and science of trade, for preventing, in a great measure, this loss in providing the metals for the use of circulation. The bank is directed by long experience, and by a knowledge of many facts and circumstances hid from me; and which, therefore, I cannot combine into a theory founded chiefly upon reason.

The expedient I propose 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 subject of the bank of England.

First, then, while the coin is of unequal weight, the value of the currency never can be permanently the same. Did the bank seriously set 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 so noble a design.

\* See Book III. Chap. 21. Quest. 7.

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The second step I would recommend, is that government should enable the bank to establish a fund in Holland, Antwerp, Hamburg, and perhaps at Cadiz and Lisbon, for borrowing (though at a high interest) sums 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 occasions the British government can find credit to borrow so large sums for the uses of war, at a very moderate interest, surely the bank of England may imitate her example for the uses of trade; and had she a credit abroad, upon which she could draw, I think it must follow, that the coin of the nation might be kept at home.

I have been an eye witness to large sums in new English guineas thrown into the melting pots of the Dutch mints, for the small profit of less than 1 *per cent.* gained by coining them into ducats. A small duty imposed upon coinage in the English mint, would prevent this practice abroad; and then British coin would come safe back again, upon every return of a favourable balance on their trade. At present it comes home in bullion, which the bank must buy dear; the state must coin at a considerable expence; and the bank after all must give it to circulation at the mint price, which is many *per cent.* below prime cost, as matters have stood for several years.

From this review of the constitution of the bank of England, and of the principles upon which it is founded, we may discover how impossible it is, that banks upon mortgage and private credit, can ever receive any considerable assistance from it; and how groundless all insinuations concerning its jealousy of such companies must be.

A more natural object of its jealousy is that of the London bankers, who carry on a trade similar to its own, in many respects, and who, in the course of their business, draw from it very large quantities of coin.

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This, however, occasions no ill will on the part of the bank. The trade of London requires the assistance of all the bankers there, as well as of the bank. Were it otherwise, the bank, by discounting bills at a less profit, might soon oblige them to shut up shop. In this view of the matter, the drawing coin from the bank cannot be prevented.

The bankers call for no more than their business requires. Could the bank, therefore, circulate the whole trade of London, the consequence would be, to issue as much coin as at present: and the coin which issues from bankers, like to that which issues from the bank, if it be for the uses of domestic circulation, returns to the bank in proportion as it issues: and if it be for payment of a foreign balance, the bank knows well that the expence of providing for *that*, must land upon it, in spite of every method to prevent it.

I must now explain the difference between the effects produced upon the circulation of coin, by the operations of banks established upon mortgage and private credit, and by those of the bank of England, which we have said to be established upon mercantile security.

The consequence of a bank upon mortgage, is to fill the nation with paper money, and to reduce the quantity of coin to the lowest sum possible. For the truth of this proposition, I appeal to the experience of Scotland, and of Rome, where banks upon mortgage, and moveable pledges, are found established. From these facts, and from the principles of their constitution, which is to melt down property into money, it follows, that when the credit of such money is well established, 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 society, will be employed in trading with the society.

The consequence of this, is, that when the balance of trade runs against a country where banks upon mortgage are established, the coin first goes out; and when, by borrowing, it can be brought back, the interest paid for the coin borrowed, adds an additional balance against the country, until the whole revenue of it becomes the

property

property of other nations. From this we may conclude, that the establishment of such banks is as dangerous a weapon in the hands of an idle nation, as an extensive credit is to the family of a young spendthrift.

But let us consider the consequences of such banks to an industrious people, who preserve, upon the average of their trade, a favourable balance with other nations.

The coin, then, goes out to return, and serves as a check upon the course of exchange. I here suppose 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 supply its place, and a favourable balance on your trade to bring it back, is like establishing two shops for the course of exchange. If the exchanger will not serve trade at the price of transportation and insurance, the coin will do it for him.

In such a country, a bank, properly established, will find great profit upon the interest of their notes, notwithstanding of the obligation to provide, at all times, the quantity of coin necessary for circulation. All the great objects of trade will then be fulfilled; the rest must be left to the operation of political causes.

If the balance of the trade of such a country should have the effect of bringing in an addition of coin, which, because of the paper, would become unnecessary for circulation; this coin, or the value of it, will either be added to their stock in trade, or will be lent to other nations. This is the case of the Swifs: they are an industrious and a frugal people; they receive annually from their trade, and from the service of their citizens in many countries in Europe, a constant addition to their wealth, more than their trade demands, which they lend to their neighbours; by these means they increase the revenue of the society; and this increase has effects almost similar 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 arises from the interest

interest of what they have lent abroad. All these operations are the consequences of credit and circulation.

In a country where a mercantile bank is established, the melting down of property is greatly circumscribed; and consequently coin becomes more necessary.

We have often said, that a circulating value (money) must constantly bear a proportion to alienation. Circumstances will determine what proportion of coin and what proportion of paper will be necessary for carrying it on. These circumstances, under banks of circulation upon mortgage, multiply paper so much that little coin is required.

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

Were no bank established at London, all bills would be paid, or discounted in coin.

The bank, therefore, melts down into paper money all the bills discounted by them, and throws it into circulation.

It also melts down into paper all the sums 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 sum of paper issues 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 consumption of London for meat, beer, fire, and an infinity of articles of manufacture for domestic use and foreign exportation, comes from the country of England.

Did the country owe nothing to London, the sums due for those commodities would be sent into the country in the current circulation of London, which, by what we have seen, absorbs a very large quantity of paper.

But we have said above, that the whole amount of taxes, almost, is remitted to London in bills: this could not be the case, were not

the capital constantly indebted to the country. This circumstance confines the circulation of bank notes chiefly to London, and some other cities, to which the inhabitants of London resort, and whither they carry in their pockets the money of the capital, viz. bank notes. For these reasons, bank notes can never be common in the country: and if, at any time, a scarcity of currency there, proves hurtful to industry, the defect cannot be remedied but by establishing banks of circulation upon mortgage in the principal towns of England.

It may be here objected that such a regulation in England, where there is already so great a bank settled on different principles, might draw along with it the following hurtful consequences, viz.

1<sup>mo</sup>, By multiplying the circulation of paper it would send off the coin.

2<sup>do</sup>, The taxes would be paid in this paper, which could not be received at the bank of England, and that would throw the whole nation into confusion.

To which I answer, 1. That if the coin were sent off, it would return, as has been said, while the trade of England flourishes: and 2. That this new bank paper coming in place of the coin, would no more be sent to London than coin is sent now. The debts due by the country for taxes, would be compensated by the reciprocal debts due by London for subsistence, &c. and the compensation would go on as at present by bills: but were the case otherwise, and did a change of circumstances oblige the country to make delivery in coin to London, the holders of the country notes would constantly, as is the case in Scotland, have recourse to the bank established in the district, for the coin wanted to be sent to London.

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

C H A P . XXIII.

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

**I**N deducing the principles of credit, I have it chiefly in view, to set in a fair light, the security upon which paper-money is established: and as I imagine, this important branch of my subject will still be rendered more intelligible, by an example of the abuse to which this great engine of commerce is exposed, I now propose to give my reader a short account of the famous bank of circulation first established in France by Mr. Law; but afterwards prostituted (whether by design, or by fatality, I shall not here determine) to serve the worst of purposes; the defrauding the creditors of the state, and a multitude of private persons.

So dreadful a calamity brought upon that nation, by the abuse of paper credit, may be a warning to all states to beware of the like. The best way to guard against it, is to be apprised of the delusion of it, and to see through the springs and motives by which the Mississippi 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 sterling.

It was proposed to the Duke of Orleans, regent of the kingdom, to expunge the debts by a total bankruptcy. This proposal he rejected nobly; and instead of it, established a commission (called the *Via*) to inquire into the claims of such of the nation's creditors as were not then properly liquidated, nor secured by the appropriation of any fund for the payment of the interest.

In the course of this commission, many exorbitant frauds were discovered; by which it appeared, that vast sums of debt had been contracted, for no adequate value paid to the King.

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

Those formerly provided for were all put at 4 per cent. The creditors to the amount of six hundred millions, which had not been liquidated, nor provided for, had their claims reduced, by the commission, to two hundred and fifty millions; for which they obtained notes of state, (*Billets d'état*, as they were called) bearing an interest of 4 per cent. also.

These operations performed, the total debts of the late King were reduced to the sum above mentioned; to wit, two thousand millions; bearing an interest of 4 per cent. or eighty millions *per annum*.

From the necessities of government, and the distressed situation of the kingdom, this interest was ill paid: and there hardly remained, out of an ill paid revenue, wherewith to defray the expence of the civil government.

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

For the better understanding this affair of Mr. Law's bank, and the views he had in establishing it at that time, I must give a short account of the most material variations of the French coin, before and after the King's death, 1st September 1715; which I shall make as short as possible, consistently with perspicuity.

C H A P. XXIV.

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

**I**N 1709, there was a new general coinage in France; by which operation the King gained  $23 \frac{1}{3}$  per cent. upon all the specie coined. (Dutot, vol. i. p. 104.)

Out

Out of the marc of standard gold were coined 30 louis d'ors, of 20 livres denomination each. Out of the marc of standard silver, 8 crowns, of 5 livres denomination each: so that the silver 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 silver and gold coins; by which, after eleven successive changes, the coin of France was ordered to be brought down, from 40 livres the marc, to 28: so 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 say called, because certainly the crowns had suffered no variation but in their name.

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

From this I conclude, that his intention was to leave, at his death, the coin of his kingdom of the same standard he had found it to be at the beginning of his reign, and at which he had preserved it invariably, during the flourishing state of his kingdom, for the space of 46 years; that is, until the year 1689.

He could not fail to be sensible of the infinite prejudice occasioned to debtors and creditors by the variations he had practised upon the coin from 1689.

To this standard, then, it was brought the very day after his death, and no sooner: therefore his debt of two thousand millions of livres should regularly be estimated according to that rate; or at about 40 shillings sterling for every 28 livres: 40 shillings being, within a trifle, the value of 8 ounces or one marc of standard silver, Paris weight.

At this rate of conversion, the two thousand millions were equal to 142,857,140 l. sterling.

Soon after the King's death, on the 2d of January 1716, the new ministry issued an edict, which totally destroyed all. This was the most

most extraordinary operation, I believe, ever invented; and to it was owing the establishment of Mr. Law's bank: I must therefore explain it.

There had been no general coinage since 1709; the louis d'or had then been coined at 20 livres, and the crowns at 5, as has been said. The edict of 2d January 1716, ordered a new general coinage, on the same footing, both as to weight, fineness, and denomination, as that of 1709: the only difference was, that the first had an old man's head upon it; the other had that of a child of six years old.

By this first operation, there was an end put to the former diminutions on the denomination of the coin; which was now raised again to 40 livres the marc, as in 1709\*. This is nothing:

There being no difference between the old coin and the new, except the stamp, the old coin was called in, and a new face was stamped on the very same 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 stroke of the wheel, they were, in an instant, converted into 20 livres, the denomination of the new coin.

Thus a person who brought 20 old louis d'ors to the mint, received back 16 of his own 20, new stamped, and no injustice was said to be done, from this demonstration of ministerial algebra, viz.  $16 \times 20 = 20 \times 16$ . Can any thing be more clear and instructive! Some of my readers may not give credit to this; but it is true nevertheless.

Under these circumstances, it was natural for the inhabitants to wish to dispose of their old coin, at any other market than at the King's mint. They did what they could to smuggle it to Holland; where the industrious Dutchman stamped a 16 livre piece with the head of a child, as well as the King of France could do, and sent

\* Here is also an operation upon debts. The day before this edict, that is, the 1st of January 1716, the value of the King's debts was (as has been said) above 142 millions sterling: but an edict comes, raising the coin to 40 livres per marc; and consequently, reducing the debts to the value of 100 millions sterling.

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it back to France for a 20 livre piece. These 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 scheme to the Duke of Orleans; by whom it was approved of; and the bank was established the 2d of May of the same 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 reasons; and an immense profit ensued.

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

CHAP. XXV.

*Continuation of the Account of Law's Bank.*

THE bank accordingly was established in favour of Law and Company, by letters patent, of the 2d of May 1716. The Company was called, the General Bank; and the note run thus:

The bank promises to pay to the bearer at sight — livres, in coin of the same weight and fineness with the coin of this day, value received at Paris.

The first fund of this bank consisted in 1200 actions (or shares) of one thousand crowns, (or 5000 livres) bank money; in all six millions; the crown being then 5 livres, 8 to the marc; silver coin



coin at 40 livres per marc, as has been said; which makes this livre just worth one shilling sterling: consequently, the shares were worth 250 l. sterling, and the bank stock worth 300,000 l. sterling.

By the clause in the note, by which the bank was obliged to pay according to the then weight and fineness of the coin, those who received their paper were secured against the arbitrary measures common in France of raising the denomination of the coin; and the bank was secured against the lowering of it. In a short time, most people preferred the notes to the coin; and accordingly they passed for 1 per cent. more than the coin itself.

This bank subsisted, and obtained great credit, until the 1st of January 1719: at which time the King reimbursed all the proprietors of the shares, 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 promises to pay to the bearer, at sight, — livres, in silver coin, value received at Paris.

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 *monnaie fixe*; because the denominations contained in it did not vary according to the variations of the coin: I should have called it *monnaie variable*; because it was exposed to changes with respect to its real value.

Mr. Law strenuously opposed this change in the bank notes. No wonder! it was diametrically opposite to all principles of credit. It took place, however; and no body seemed dissatisfied: the nation was rather pleased: so familiar were the variations of the coin in those days, that no-body ever considered any thing with regard

\* Here the bank departed from the principles of private and mercantile credit, upon which Law had formed it, and proceeded upon those of public credit. Public credit in France is the credit of the Sovereign; the solidity of which depends upon the maxims which he follows in the course of his administration.

to

to coin or money, but its denomination: the consequences 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 been 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 stood many variations during the course of the system, without suffering the smallest discredit. This appears wonderful; and yet it is a fact.

Political writers upon the affairs of France at this period, such as De Melon, Savarie, Dutot, and others, abundantly certify the incredible advantage produced by the operations of Mr. Law's bank; and the chain of events which followed, in the years 1719, and 1720, when it was in the King's hands, shew to what a prodigious height credit arose upon the firm foundation laid by Mr. Law †.

But

† Dutot, speaking of the great value of paper in notes and actions, throws out several reflections, in the passage I am now to transcribe from him, which, at the same time that they prove the great advantages resulting to France from the establishment of credit among them, abundantly evince how lame this author's ideas were concerning the principles of paper credit, and of circulation. He says, (vol. ii. p. 200.) "This paper was indeed just so much real value, which credit and confidence had created, in favour of the state; and by this sum was circulation augmented, independently of all the coin which was then in France."

"Upon this revolution, Plenty immediately displayed herself through all the towns, and all the country. She there relieved our citizens and labourers from the oppression of debts, which indigence had obliged them to contract: she revived industry: she restored that value to every fund, which had been suspended by those debts: she enabled the King to liberate himself, and to make over to his subjects, for more than fifty-two millions of taxes, which had been imposed in the years preceeding 1719; and for more than thirty-five millions of other duties, extinguished during the regency. This plenty sunk the rate of interest; crushed the usurer; carried the value of lands to eighty and a hundred years purchase; raised up stately edifices

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

As long as the credit of this bank subsisted, it appeared to the French to be perfectly solid. The bubble no sooner burst, than the whole nation was thrown into astonishment and consternation. No body could conceive from whence the credit had sprung; what had created such mountains of wealth in so short a time; and by what witchcraft and fascination it had been made to disappear in an instant, in the short period of one day.

Volumes have been since writ in France, by men of speculation, in order to prove, that it was a want of confidence in the public, and not the want of a proper security for the paper, which occasioned this downfall.

This, if we judge by what has been writ, has been the general opinion of that nation to this day: and since it was found impossible, in France, to create confidence in circulating paper, which had no security for its value, many people there, and some even

“ both in town and country; repaired the old, which were falling to ruin; improved the soil; gave a value to every fruit produced by the earth, which before that time had none at all. Plenty recalled those citizens, whom misery had forced to seek their livelihood abroad. In a word, riches flowed in from every quarter. Gold, silver, precious stones, ornaments of all kinds, which contribute to luxury and magnificence, came to us from every country in Europe. Whether these prodigies, or marvellous effects, were produced by art, by confidence, by fear, or by whim if you please, one must agree, that that art, that confidence, that fear, or that whim, had operated all these realities which the antient administration never could have produced.

“ What a difference in the situation of France at the beginning of the regency, and the situation in which she was in November 1719!

“ Thus far the system had produced nothing but good: every thing was commendable, and worthy of admiration.” These are the sentiments of Dutot, concerning this system of paper credit.

among ourselves, conclude, that a great part of the wealth of Great Britain, which consists in paper, well secured, is false and fictitious.

I shall now proceed to set before my reader the great lines of the royal Mississippi bank of France, from the 1st of January 1719, to the total overthrow of all credit, upon the fatal 21st day of May 1720. This was a golden dream, in which the French nation, and a great part of Europe was plunged, for the short space of 506 days.

C H A P. XXVI.

*Account of the Royal Mississippi Bank of France, established on Public Credit.*

IN order to unravel the chaos of this affair in a proper manner, it will not be amiss to begin by giving the reader an idea of the plan which naturally might suggest itself 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 himself through the operations of this system, as the French call it.

The Regent perceived, that in consequence of the credit of Law's bank, people grew fond of paper-money. The consequence of this, he saw, was, to bring a great quantity of coin into the bank. The debts of France were very great, being, as has been said, above 2000 millions. The coin, at that time, in France, was reckoned at about 1200 millions, at 60 livres the marc, or 40 millions sterling. 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, secured upon his word, that he should 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 itself into the bank, in the course of payments made to the state; that credit would be thereby supported, 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 plausible and an honest scheme, relatively to a Duke of Orleans, whom we cannot suppose to have been master of the principles of credit; and very practicable in a country where there was so great a quantity of coin as 40 millions sterling, and a well established credit in the bank, which prevented all runs upon it from diffidence. Nothing but a wrong balance of trade could have occasioned any run for coin; because, for the reason already given, the paper bore for the most part a premium of 1 per cent. above it.

Accordingly, during the whole year 1719, the credit of the royal bank was without suspicion, although the Regent had, by the last day of December of that year, coined of bank paper, for no less a sum than 769 millions, reckoning in 59 millions of paper, which had been formerly issued by the *general bank of Law and company*; for which he had given value to the proprietors, when he took the bank into his own hands, as we have said above.

I must here observe, that by this plan of the Regent, there was, in one sense, a kind of security for the notes issued. So far as they were issued for coin brought in from the advanced value of the paper, this coin was the security: in the second place, when the coin was paid away to the creditors of the state, the Regent withdrew the obligations which had been granted to them; and although I allow that the King's own obligation withdrawn, was no security to the public, who had received bank notes for the payment; yet still 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 secured. Had, indeed, the French nation perceived upon what bottom the security for the paper stood, during the

the year 1719, perhaps the credit of the bank might have been rendered precarious; but they neither saw it or fought after it: and the men of speculation were all of opinion, that as long as there was no more paper issued by the bank than there was coin in the kingdom, there could be no harm done. Of this any person who has read Dutot, de Melon, Savarie, and others, will be perfectly satisfied\*. And I desire no farther proof of the total ignorance of the French in matters of this kind, than to find them agreeing, that bank paper is always good, providing there be coin in the nation

\* It is astonishing to find how gravely Messrs. de Melon and Dutot reasoned concerning the nature of paper money, and the effects of changing the value of the coin. They both seemed to agree that a livre was a livre whether it was the 28th or the 50th part of a marc of silver, whether it was a denomination upon paper, well or ill secured, no matter which.

The whole reasoning turned merely on the question, who were robbed, and who fantastically enriched by such absurd operations upon the coin of a country?

The jargon of such men certainly contributed a great deal to darken the understandings of the ministry at this time; and to make them believe that the affairs of money were infinitely more obscure and more difficult to be understood than they really are.

There are thousands of examples where mankind, with their learning and reasoning, have turned common sense into inextricable science; this I think is a famous instance of it: and it is rendering no small service to the world, to destroy, in a manner, what others have been at so much pains to establish. This is restoring common sense to its native dress, in which it becomes intelligible to every one.

I know very well that the ministry of France have now very different notions concerning paper credit; but these notions have not as yet reached the press, except in some of the King's answers to the remonstrances of the parliament of Paris in 1760. These answers were dictated upon sound principles, and do great honour to the ministry.

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 issue paper to the amount of 200 millions, which the parliament was to make good. An expedient to avoid doing that which right reason demanded of them, viz. first to secure a fund for the paper, and then to borrow upon that fund. This proposal from the parliament, and the King's rejecting it, proves that credit was then better understood in the cabinet than in the *palais*.

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 said, that although there should be a thousand times more coin in a country than the bank paper, still that bank paper must be a mere delusion, and, in fact, of no value whatsoever, except so far as the bank is possessed of the value of it in one species 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 still it is perfectly good and sufficient, providing the bank be possessed of an equivalent value in any species of good property. This I throw in here to point out how far the French were, at least 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 say, that the only reason why banks have never been established in France, is, because the whole operation is still a mystery to them. I ground this conjecture upon an opinion of M. de Montesquieu, who thinks that banks are incompatible with pure monarchy; a proposition he would never have advanced had he understood the principles upon which they are established.

The next remarkable and interesting revolution made upon this famous bank, was by the *arret* of February 22, 1720; which constituted the union of the royal bank with the company of the Indies.

By this *arret*, the King delivered to that company the whole management of the bank with all the profits made by him since the first of January, 1719, and in time coming. Notwithstanding this cession, the King remained guarantee for all the notes, which were not to be coined without an order of council: the company was to be responsible to the King at all times for their administration; and, as a security for their good management, they engaged to lend the King no less than sixteen hundred millions of livres.

Here is the era and beginning of all the confusion. From this loan proceeded the downfall of the whole system.

But

But before I proceed to explain the scheme of the Regent in these operations upon credit, I think it will contribute to the clearing up of the subject in general, to premise some short account of the rise and progress of this great company of the Indies: and to give a short abstract of some of the most memorable transactions during the Mississippi scheme, in the order of time in which they followed one another.

C H A P. XXVII.

*A short 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, *anno* 1628, about the time of the siege of Rochelle.

He then set on foot the companies of the West and East Indies.

Several others, viz. one for Canada, one for the Leeward Islands, and another for Cayenne, were successively established in the beginning of the reign of Louis XIV.

These companies, before 1664, had frequently changed their forms, and had succeeded very ill.

At that time the great Colbert was in the administration of the King's affairs. He engaged his master to think seriously of establishing the trade of his kingdom upon solid principles; for which reason all the undertakers of the former projects of commerce to the new world were reimbursed; and a new establishment was made, called the *Compagnie des Indes Occidentales*.

This exclusive trade comprehended that of Canada, the Caribbee Islands, Acady, Newfoundland, Cayenne, the French continent of America, from the river of the Amazons to that of Oronoko, the coasts

coasts of Senegal, Goree, and other places in Africa; the whole for 40 years.

The same year, 1664, there was another company formed for the East Indies, of which we shall speak afterwards.

The greatest encouragement was given to these new establishments. Large sums were advanced by the King for several years, without interest, and upon condition, that if, at the end of that term, any loss was found on the trade, it should fall upon the money due to the King.

On examining into the West India company's affairs, after ten years administration, that is to say, in the year 1674, it was found, that instead of profiting of their extensive privilege, by carrying on a regular trade themselves, they had sold permissions to private people to trade with them.

This abuse in the company had, however, inspired a taste for trade among the French; which the King wishing to improve, he reimbursed to the company all their expences, added their possessions to his domain, and threw the trade open to his subjects.

Thus ended the first company of the West Indies, called by the French, the *Compagnie d'Occident*.

After the suppression of this company, the French trade to America was carried on and improved by private adventurers, some 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 first discovered the river Mississippi, and who proposed to the King, in 1683, to establish a colony there. He lost his life in the attempt.

Hiberville, a Canadian, took up the project; but soon died. He was succeeded by Antony Crozat, in 1712, who had better success: but the death of the King in 1715, and the rising genius of Mr. Law, engaged the Regent of France to make Crozat renounce his exclusive privilege of trading. Upon which, by edict of the 6th of September 1717, was formed the second *Compagnie d'Occident*, in favour of Mr. Law: to which was added the fur trade of Canada, then in the

the hands of private adventurers, and the farm of the tobacco, for which he paid 1,500,000 livres a year.

I now come to the last India company.

I have already mentioned the establishment of it by the great Colbert in 1664.

After his death, want of experience in those who succeeded him, abuse of administration, carelessness in those who carried on the company's business, competition between different companies, and, in short, every obstacle to new establishments, concurred with the consequences of the long and expensive wars of Louis XIV. to render all commercial projects ineffectual; and all the expence bestowed in establishing those companies was in a manner lost.

In 1710, the merchants of St. Malo undertook the East India company. It languished in their hands until 1719, and their importations were not sufficient to supply the demand of France for India goods: for this reason it was taken from them, and incorporated with Mr. Law's company of the West Indies, in May 1719.

By this incorporation was established the great *Company of the Indies*, which still subsists in France: the only monument extant of the famous and unfortunate Law.

For the better understanding, therefore, what is to follow, let us attend to some historical and chronological anecdotes, relative to the wonderful operations of this Mississippi bank, and company of the Indies. These I shall set down according to the order of time in which they happened, that my reader may have recourse to them as he goes along.

Without the help of this table, I should be involved in a history of those events, which however amusing it might be to some readers, would be quite inconsistent with the nature of this inquiry.

CHAP. XXVIII.

Chronological Anecdotes.

1709. A GENERAL coinage in France: the marc of standard silver, worth two pounds sterling, put at 40 livres denomination.

September 1713. The late King reduces the denomination of the silver coin to 28 livres the marc, and the gold in proportion.

These reductions were made gradual and progressive, and were finally to take place no sooner 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 silver.

September 1715. The King dies.

January 2, 1716. The Regent of France orders a new general coinage: raises the silver coin to 40 livres the marc, and calls down the old King's coin (though of the same weight, fineness, and denomination) 20 per cent.

May 1716. Mr. Law's bank established: bank notes coined; and the old coin bought up at great discount.

September 6, 1717. Mr. Law's company of the West established.

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, subscribed for in state billets, at the rate of 500 livres per action.

January 1, 1719. The bank taken from Law, and vested in the King. At this time the number of bank notes 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 monnaie fixe.

May 1719. Mr. Law's company of the West 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; sold for coin at 550 livres per action.

June 10, 1719. Coined of bank notes for 50 millions of livres.

June 1719. The mint made over to the company for 50 millions.

July 1719. Created 50,000 actions as above, sold, 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: promises a dividend upon every action of 250 livres: agree to lend the King sixteen hundred millions at 3 per cent. and have transferred to them 48 millions per annum for the interest of that sum.

September 12, 1719. Coined of bank notes for 120 millions.

September 13, 1719. Created no less 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. Coined 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, 1719. Coined of bank notes for 120 millions.

December 29, 1719. Coined of bank notes for 129 millions.

January 1720. Coined of bank notes for 21 millions.

February 1720. Coined of bank notes for 279 millions.

February 22, 1720. Incorporation of the bank with the company of the Indies.

February 27, 1720. A prohibition by which no one was to have in his custody more than 500 livres of coin.

March 5, 1720. The coin raised 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

May 21, 1720. The denomination of the paper diminished by *arret* of council, which, in an instant, put an end to all credit, and made the bubble burst.

At this period had been coined of bank notes to the immense

fum of	livres.
- - - - -	2 696 400 000
Of which had been issued	2 235 083 590
Remained in the bank	461 316 410

Dutot, Vol. I. p. 144. Vol. II. p. 207.

May 27, 1720. The *arret* of the 21st of this month recalled, and the paper restored to its full denomination.

May 29, 1720. The coin raised to 82 livres 10 sols *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, suppressed; also 25 millions of the interest formerly granted to the company for their loan of 1600 millions, retroceded by the company, and constituted again upon the town-house of Paris.

October 10, 1720. All bank notes are ordered, by *arret* of this day, to be suppressed, if not brought to the bank before the 1st of December following, in order to be paid in manner therein specified.

C H A P. XXIX.

*Continuation of the Account of the Royal Bank of France, until the time that the Company of the Indies promised a Dividend of 200 Livres per Action.*

THESE things premised, what follows will, I hope, be easily understood.

So soon as the Regent of France perceived the wonderful effects produced by Mr. Law's bank, he immediately resolved to make use of

of that engine, for clearing the King's revenue of a part of the un-supportable load of 80 millions of yearly interest, due, though indeed very irregularly paid, to the creditors.

It was to compass this end, that he bestowed on Mr. Law the company of the West Indies, and the farm of the tobacco.

To absorb 100 millions of the most discredited articles of the King's debts, 200,000 actions or shares of this company were created. These were rated at 500 livres each, and the subscription for the actions was ordered to be paid in *billets d'etat*; so much discredited by reason of the bad payment of the interest, that 500 livres, nominal value in these billets, would not have fold upon change for above 160 or 170 livres. In the subscription they were taken for the full value. As these actions became part of the company's stock, and as the interest 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 4 *per cent*.

The next step was to pay the interest regularly 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 ascribed to the wonderful operations of the bank; whereas it was wholly owing to the regular payment of the interest.

In May following 1719, the East India company was incorporated with the West India company: and the 200,000 actions formerly created, were to be entitled to a common share of the profits of the joint trade.

But as the sale of the first actions had produced no liquid value which could be turned into trade (having been paid for in state billets) a new creation of 50,000 new actions was made in June 1719, and the subscription opened at 550 livres payable in effective coin.

The confidence of the public in Mr. Law, was at this time so great, that they might have fold for much more: but it was judged expedient to limit the subscriptions to this sum; leaving the price of

of the actions to rise in the market, according to demand, in favour of the original subscribers.

This money amounting to 27 500 000. livres in coin, was to be employed in building of ships, and other preparations for carrying on the trade.

The hopes of the public were so much raised by the favourable 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 5000 livres, with a proportion of the profits on the trade; so that the rise of the actions proceeded entirely from the hopes of those great profits, and from the sinking of the rate of interest; a consequence of the plenty of money to be lent.

But besides the trade, what raised their value at this time, was, that just before the last creation of actions, the King had made over the mint to the company for a consideration of 50 millions of livres; and this opened a new branch of profit to every one interested.

The sale of the last coined actions taking place at 1000 livres each, so great a rise seems to have engaged the Regent to extend his views much farther than ever. To say that he foresaw what was to happen, would be doing him the greatest injustice. He foresaw it not, most certainly; for no man could foresee such complicated events. But had he conducted himself upon solid principles; or by the rules which, we now say, common honesty required, he certainly never would have countenanced the subsequent 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

pany obliged themselves to lend the King (including the 100 millions already lent upon the first creation of actions) the immense sum of 1600 millions at 3 *per cent.* that is, for 48 millions interest. Now it is very plain, that before the month of September 1719; it was impossible they could lend the King so great a sum.

They had already lent him, in September 1718, 100 millions, by taking the *billets d'etat* for the subscription of the first creation of actions; the second 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 stock. 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 less, 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 possession of the general farms. No sooner had they got that new source of riches into their hands, than they promised a dividend of no less than 200 livres on every action, which was ten times more than was divided on them when at first created.

The consequence of this was, that (supposing the dividend permanent and secure) an action *then* became as well worth 5000 livres as at *first* it was worth 500 livres; accordingly to 5000 did it rise, upon the promise of the new dividends.

But what could be the motive of the company to promise this dividend, only three months after their establishment? 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 interest to conceal.

Their views lay deeper. The Regent perceived that the spirit of the nation was too much inflamed, to suffer them to enter into an examination of the wonderful phenomena arising from the establishment of the bank, and company of the Indies. If the company



pany promised 200 livres dividend, the public concluded that their profits would enable them to pay it; and really in this particular the public might be excused.

The plan, therefore, concerted between the Regent and the company seems to have been, to raise the actions to this great value, in order to suspend a greater quantity of notes in circulation.

This was to be accomplished, 1. by the Regent's purchasing the actions himself from the company; 2. by borrowing back the notes he had paid for them, in order to fill up the loan which the company had agreed to make; 3. to pay off all the public creditors with those notes so borrowed back; and 4. when the nation was once filled with bank paper, to sell the actions he had purchased from the company, to withdraw his own paper, and then destroy it.

By this operation the whole debts of France were to be turned into actions; and the company was to become the public debtor, instead of the King, who would have no more to pay but 48 millions of interest to the company.

By this operation also, the Regent was to withdraw all the bank notes which he had issued for no other value but for the payment of debts; which notes were demandable at the bank; and for the future, he was to issue no more (I suppose) but for value preserved.

C H A P. XXX.

*Inquiry into the Motives of the Duke of Orleans in concerting the Plan of the Mississippi.*

NOW if we examine the motives of the Regent, with regard to this plan, and suppose that he foresaw all that was to happen in consequence of it; and if we also suppose that he really believed that the company never could be in a situation to make good the dividend

dividend of 200 livres, which they had promised upon their actions; in a word, if we put the worst interpretation upon all his actions, we must conclude that the whole was a most consummate piece of knavery.

But as this does not appear evidently, either by the succeeding operations, or ultimate consequences of this scheme, I am loth to ascribe, to that great man, a sentiment so opposite to that which animated him, on his entrance upon the regency, when he nobly rejected the plan proposed to him for expunging the debts altogether.

I may therefore suppose, that he might believe that the company to whom he had given the mint, the tobacco, the farms, and the trade of France, and to whom he soon after gave the general receipt of all the revenue, might by these means be enabled to make good their engagements to the public. I say, this *may be supposed*; in which case justice was to be done to every one; and the King's debts were to be reduced to 48 millions a year, instead of 80 millions.

That this is a supposable case, 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 company <i>per annum</i>	48 000 000
Profits upon the general farms	15 000 000
Ditto upon the general receipt of other taxes	1 500 000
Ditto upon the tobacco	2 000 000
Ditto upon the mint	4 000 000
Ditto upon their trade	10,000 000
In all of yearly income	80 500 000

Now if we suppose the interest of money at 3 *per cent.* this sum 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 say, *it was possible*, that the Regent might form this plan, without any intention to defraud the creditors; and more I do not pretend to affirm.

I have said that he purposely made the company raise 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 purchase the actions directly from the company.

I answer, that such 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 state only appeared desirous of acquiring a share of the vast profits to be made by the company. Farther,

As the company appeared willing to accept of bank notes from the state, in payment of their actions, this manœuvre gave an additional credit both to the actions, and to the notes; a thing very necessary to be attended to, in a scheme which was calculated to bring about a total transformation of the security for the King's debts.

I must however observe, that at the period concerning which we are now talking, (*viz.* at the time the company promised the dividend of 200 livres *per* action) the plan we have been describing could not have been carried into execution.

There were at that time only 400,000 actions created, rated at 777 millions: of these were disposed of at least 250,000, to wit, the original 200,000; and the second creation of 50,000, fold for coin. Besides, there were then only coined in bank notes for 520 millions. So there was not a possibility of executing the plan I have mentioned, as matters then stood.

It is from the subsequent operations of the system, that it appears evident that this and this only could be the intention.

We shall see how the number of actions were multiplied, without any other view than to make the public imagine, that the funds necessary for carrying on the trade of the company were immense.

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The number of the actions fold to the public was very inconsiderable, compared with those fold to the Regent, and found in his hands at the blowing up of the system.

Besides, at the period when the number of actions was carried to the utmost, *viz.* to 624,000, the bank notes bore no proportion to their value; for, on the 4th of October 1719, when the last creation of actions was made, the bank notes did not exceed the sum above specified, to wit, 520 millions.

But in tracing the progress of the system upon the table, we perceive, that after the actions were once carried to their full number, (October 4th, 1719) then the coining of bank notes began at a most prodigious rate; in so much, that by the month of May 1720, they were increased from 520 millions, to above 2696 millions; and all this sum, except 461 millions, were found in circulation.

Farther: We shall see, that when the Regent and the company made out their accompts, there were found in the Regent's hands no less than 400,000 actions, which were burnt; and 25 millions of interest upon the sum of money due by the King to the company, extinguished.

These facts prove beyond a doubt, that these 400,000 actions had been bought with the notes coined posterior to the 4th of October 1719; otherwise the actions could not have become the property of the state.

Besides, it was acknowledged publicly, that the notes were coined for that purpose. (See Dutot, Vol. I. p. 144.) In the next place, it is evident, that the notes which had been given in payment for those actions, had been borrowed back, to fill up the loan of 1600 millions of livres; which the company never could have otherwise lent to the King. And in the last place, it is certain that the public debts were paid off with these notes, so borrowed back from the company: because we shall find the notes in circulation at the blowing up of the system, in May 1720; and we shall see how they were paid and withdrawn in October following.

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This detail I own is a little long, and perhaps too minute; but I thought it necessary to prove the solidity of my conjectures concerning the Regent's motives in concerting this plan; which no French author, that ever I saw, has pretended to unfold, except by hints too dark to be easily comprehended.

What is now to follow, will still set my conjectures in a fairer light. We have seen 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 less than 324,000 were created in that interval.

Yet Dutot, vol. ii. p. 169, *et seq.* positively says, that on the 4th of October, the company had not sold for more than 182,500,000 livres of their actions. Now the total value, as they were rated when created, extended to 1,797,500,000; so there was little more than one tenth part of the value sold off.

Why therefore create such immense quantities of actions, and so far beyond the demand for them, but to throw dust in the eyes of the public; to keep up the spirit of infatuation; and to pave the way for the final execution of the plan?

The actions being brought, by four successive 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, says Dutot, vol. ii. p. 197, the company was intrusted with the whole revenue, debts and expences of the state, and all unnecessary charge was avoided in collecting and administering it.

In the month of November 1719, the credit of the bank, and of the company, was so great, that the actions rose to 10,000 livres. Notwithstanding, says Dutot, vol. ii. p. 198. that the company did what they could to keep down the price, by throwing into the market, in one week, for no less than 30 millions. He assigns seven different reasons for this, which, all put 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.

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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 vast number they still had unfold, at the standard value of 5000 livres, at which they were rated when created; and this would have effectually prevented their rising to 10,000 livres.

But it was the interest of the Regent, who was at that time well provided with actions, to stock-job, and to buy with one hand, while he was selling with the other: these operations were then as well known in the street called Quinquempoix, as now in Change-alley.

As a proof of the justness of my allegation, that the Regent was doing all he could to raise 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 security of actions, at 2 per cent. If that was the case, how was it possible that an action, with 200 livres dividend, should sell for less than 10,000 livres, which is the capital corresponding to 200 livres, at 2 per cent.?

This is evident; and were it necessary, it may be proved to demonstration, that the rise of the actions was the consequence 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 raising the actions to 10,000 livres? I confess I can see none; nor do I perceive either the impossibility or improbability of the two postulata, had matters been rightly conducted.

As to money's falling to 2 per cent. any man of 20 years old may expect to see it, without a *Mississippi*: 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 invested in actions at 10,000 a-piece, one half of 624,000 actions disposed of: consequently, the 200 livres dividend would not have amounted, upon 312,000 actions, to more than 62,400,000 livres; and

and the revenue of the company, as we have seen, exceeded 80 millions a year.

This still tends to vindicate the Regent from the gross imputation of fraud, in the conduct of the Mississippi.

But what should still more exculpate that prince, in the eyes of every impartial man who examines the whole conduct of the affair, is the uniform sentiments of the most 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 secretary, who wrote for it, two persons considered in France as most able financiers, both agreeing, that during the operations of the system, money never was to be considered but according to denominations; that there was nothing against good policy in changing the value of these denominations; and that paper-money, whether issued for value, or for no value, or 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 say, 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 *credit public*; I think it would be the highest injustice to load the Duke of Orleans with the gross imputation of knavery, in the Mississippi scheme.

Law no doubt saw its tendency. But Law saw also, that credit supported itself on those occasions, where it stood on the most ticklish bottom: he saw bank notes to the amount of more than two thousand millions, issued in payment of the King's debts, without occasioning any run upon the bank, or without suggesting an idea to the public that the bank should naturally have had some fund, to make them good: he saw people, who were in possession of a value in paper exceeding 6000 millions of livres, 60 to the marc, (Dutot, vol. i. p. 144.) look calm and unconcerned, when, in one day, the coin was raised in its denomination to 80 livres in  
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the marc; by which operation, the 6000 millions of the day before lost 25 *per cent.* of their real value. He saw that this operation did not in the least affect the credit of the bank paper; because people minded nothing but denominations.

He saw farther, that by the operation proposed, the whole debt of the King would be transferred upon the company. He saw that these debts, being turned into bank notes, would not be sufficient to buy above 200,000 actions, at the value they then sold for. He knew that the Regent, who had bought 400,000 of these actions at 5000 livres apiece, that is, at half price, would remain in possession of 200,000 actions, after selling enough to draw back the whole of the bank notes issued for the payment of the debts; and he saw that the company of the Indies had a yearly income of above 80 millions to enable them to make good their engagements: besides, he saw a power in the King to raise the denominations of the coin at will, without shocking the ideas of his people, by which means he might have paid the 2000 millions with one louis d'or. Put all these circumstances together, and I can imagine that Law's brain was turned; that he had lost sight of all his principles; and that he might believe that his former common sense, was, at that time, become absolute nonsense *in France*.

That common sense may become nonsense, is a thing by no means peculiar to France, but quite peculiar to *man*.

I shall offer but one argument more, to prove that the Duke of Orleans, and Law, could have no premeditated design of defrauding the public, by these wonderful operations; which is, that admitting the contrary, would be allowing them an infinite superiority of understanding over all the rest of Europe.

Until the bubble burst, no body *could* know where it was to end: every thing appeared very extraordinary indeed; and the fatal catastrophe might have been expected from the greatness of the undertaking, merely. But if there had been any roguery in the plan itself, it must have appeared palpable long before; because  
cause

cause the whole of the operations in which only *it could* consist, were public.

All the notes were created by public act of council; so were the actions: the loan of 1600 millions to the King, by the company, was a public deed; so was the alienation in their favour, of 48 millions for the interest of that sum. Notes were avowedly coined in order to purchase actions, (Dutot, Vol. I. p. 144.) the creditors were avowedly paid with bank notes, at a time when it was forbid to have 500 livres in coin in any person's custody; consequently, it was also forbid to demand coin for bank notes.

Now all this was going on in the months of February, March, April, and the beginning of May 1720; and no suspicion of any failure of credit. The coin also was sometimes raised, sometimes diminished in its value, and still the fabric stood firm.

Under these circumstances, to say there was knavery, is to say that all the world were absolutely blockheads, except the Regent and John Law: and to that opinion I never can subscribe.

It may seem surprizing that I should take so much pains to vindicate the two principal conductors of that scheme. My intension is not so much to do justice to their reputation, which has been grossly calumniated by many, who have written the history of those times, as to prove, that an ill concerted system of credit may bring ruin on a nation, although fraud be out of the question: and if a nation be plunged into all the calamities which a public bankruptcy can occasion, it is but a small consolation to be assured of the good intentions of those who were the cause of it.

CH A P. XXXI.

*Continuation of the Account of the royal Bank of France, until the total Bankruptcy on the 21st of May 1720.*

I NOW resume the thread of my story. We left off at that period when the credit of the company and of the bank was in all its glory, (November 1719) the actions selling at 10,000 livres; dividend 200 livres a year *per* action; and the bank lending at 2 *per cent.*: all this was quite consistent with the then rate of money.

In this state did matters continue until the 22d of February 1720, when the bank was incorporated with the company of the Indies.

The King still 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 *Prevot des marchands* of Paris, ready access to inspect 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 possible, to guard against a run upon the bank: for which purpose the famous *Arret de Conseil*, of the 27th of February 1720, was published, forbidding any person to keep by them more than 500 livres in coin.

This was plainly annulling the obligation in the bank paper, to pay to the bearer on demand the sum specified, in silver coin.

Was it not very natural, that such an *arret* should have, at once, put an end to the credit of the bank. No such thing however happened. The credit remained solid after this as before; and no body minded gold or silver any more than if the denomination in their paper had had no relation to 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 *Arret de Conseil*, of the 5th of March, was issued, raising the denomination from 60 livres to 80 livres the marc. Thus, I suppose, the coin which the week before had been taken in at 60 livres, was paid away at 80: and the bank gained  $33\frac{1}{3}$  per cent. upon this operation. Did this hurt the credit of the bank paper? Not in the least.

So soon as the coin was paid away, which was not a long operation, for it was over in less than a week; another *Arret de Conseil*, of the 11th of the same month of March, came out, declaring that, by the first of April, the coin was to be again reduced to 70 livres the marc, and on the first 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 first of April. In this period of about three weeks, the bank received about 44 millions of livres; and those 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 system were carried on.

We may see by the chronological anecdotes in the 36th chapter, what prodigious sums of bank notes were coined, and issued during that time. It was during this period also, that a final conclusion was put to the reimbursing all the public creditors with bank notes: in consequence of which payment, the former securities granted to them by the King, under the authority of the parliament of Paris, were withdrawn and annulled.

Here then we have conducted this scheme to the last period.

There remained only one step to be made to conclude the operation; to wit, the sale of the actions, which the Regent had in his custody to the number of 400,000.

These were to be sold to the public, who were at this time in possession of bank notes to the value of 2 235 083 590 livres. See the foregoing table.

Had the sale of the actions taken place, the notes would all have returned to the bank, and there have been destroyed: 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 so great an operation; and on the private conventions between the parties, the Regent and the company.

But alas! all this is a vain speculation. The system which hitherto had stood its ground in spite of the most violent shocks, was now to tumble into ruin from a childish whim.

In order to set this stroke of political arithmetic in the most ludicrous light possible, I must do it in Dutot's own words, uttered with a fore heart and in sober sadness.

He had said before, that the coin of France was equal to 1200 millions of livres at 60 livres the marc. This marc was now at 65 livres (in May 1720, as above) so the *numery* value, as he calls it, (that is the denomination) of the coin was now risen to 1 300 000 000; but the bank notes circulating in the month of May were carried to 2 696 400 000; then he adds,

“The 1300 millions of coin *which were in France*, were very far from 2696 millions of notes. In that case, the sum of notes was to the sum of coin, nearly as  $2\frac{2}{7}$  are to 1; that is to say, that 207 livres 8 sols  $1\frac{2}{7}$  denier in notes, was only worth 100 livres in coin; or otherwise, that a bank note of 100 livres, was only worth 48 livres 4 sols 5 deniers in coin, or thereabouts.” Would not any mortal conclude from this, that the whole sum of 1300 millions had been in the bank, as the only fund for the payment of the paper?

This is a laboured 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 circulation, says he, had raised the price of every thing excessively: so in order to bring down prices, it was judged more expedient to diminish the denomination of the bank notes, than to raise the denomination of

“ the coin; because *that* diminished the quantity of money, *this* augmented it.”

This was the grand point put under *délibération*, before the famous *arret* of the 21st of May was given, viz. whether to raise the value of the coin, *which did not belong to the bank, 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 bank notes to one half, that is, to 1300 millions, the total denomination of the coin.

To some people it would have appeared more proper, to allow matters to stand as they were, as long as they would stand, at least until the actions had been all sold off; but this was not thought proper. After a most learned deliberation, it was concluded to reduce the denomination of all the paper of France, bank notes as well as actions, instead of raising the denomination of the coin; and this because prices were in proportion to the quantity of the denominations of money.

The *arret* was no sooner published than the whole paper fabric fell to nothing. The day following, the 22d of May, a man might have starved with a hundred millions of paper in his pocket.

This was a catastrophe the like of which, I believe, never happened: it is so ridiculous that it is a subject fit only for a farce.

Here Dutot's lamentations and regrets are inimitable.

In one place he says, “ Credit was too far stretched to be solid. It was therefore proper to sacrifice one part, to give a solidity to the other. Even this was done; but the consequences did not correspond to the intention. Confidence, which is the soul of credit, eclipsed itself, and the loss of the bank note, drew on the loss of the action.”

In another place he says, “ This *arret* of the 21st of May, which according to some *blessoit l'équité* (a very mild expression!) “ destroyed all confidence in the public; because the King had diminished

“ one

“ one half of that paper money (the bank notes) which had been declared fixed.”

Is it not a thousand pities that confidence should have disappeared upon so slight a wound given to equity, only in the opinion of some? For Dutot thought the operation perfectly consistent with the principles of public credit.

He tells us, that a letter was writ to calm the minds of the people, and to shew them how absurd it was, to allow the paper to be fixed, while the coin varied: but, says he, “ as there was a revenue attached to the action, the value of that paper did not depend so much upon the capital, as on the sum of the interest.” Very just. But were the dividends to stand at 200 livres, without suffering the same diminution as the action? And how was confidence to subsist in a country, where the denominations of both the paper and the coin were at the disposal of a minister?

The diminution upon the paper, by the *arret* of the 21st of May, raised a most terrible clamour; and Law became the execration of France, instead of being considered as its saviour. He was banished, and reduced to beggary the same day.

What profit could either the Regent, or Law, have reaped from the success of such an operation? Had the coin been raised to 130 livres the marc, no hurt would probably have ensued, and the same effect would have been produced.

Had matters been left without any change at all, no bad consequences would have followed: these existed only in the heads of the French theorists. 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 saw the fatal effects of his *arret* of the 21st of May, he revoked it on the 27th of the same month. On the 29th, he raised the coin to 82 livres 10 sols in the marc, and re-established all the paper at its former denomination: but, as Dutot has said, confidence was gone, and was no more to be recalled.

Nothing

Nothing surprises me, but that she lived so long under such rough management.

Dutot, in talking of this augmentation of the coin, on the 29th of May, to 82 livres 10 sols, says, "This operation was consistent with the principles of public credit, and advantageous. They would have done better had they pushed the augmentation to 135 livres the marc; which would have made the specie of France equal to the sum of bank notes." These are his words, p. 165.

Are not these very sensible principles, coming from a man who has writ a book, which indeed few people can understand, in order to prove the great hurt of tampering with the coin of France?

C H A P. XXXII.

*Conclusion of the Mississippi Scheme.*

THE Regent, persuaded that the blunder of the 21st of May was absolutely irreparable, fell to work next to clear accounts 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 possession no less 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 settled matters, I do not know precisely. This, however, is certain, that by the *arret* 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 suppressed.

On

On the other hand, the company ceded 25 millions a year, of the 48 millions which had been transferred to them.

That sum was constituted anew upon the town-house of Paris, as a fund to be subscribed for by the proprietors of bank notes, at the rate of 2½ per cent. or as the French call it at the 40th penny. (Dutot, p. 168.) In consequence of this, 530 millions of bank notes were subscribed for, and paid in, in the month of June 1720.

After the destruction of the 400,000 actions, the credit of the bank notes languished until the 10th of October 1720.

The object for which they were created was now gone. The whole scheme of transferring the King's debts upon the company vanished in the conflagration of the actions. What was then to be done?

The bank was at an end: 2235 millions of discredited bank notes in circulation, and a small sum of coin to make them good, was a situation which no authority could long support.

The resolution then was taken to put a final conclusion to this great affair; to bid a long farewell to credit and confidence; and to return upon the old system of rents upon the town-house of Paris; and of coming at money in the best way they could.

We shall now see how this was accomplished; and from that form a pretty good guess at the extent of the fraud committed, with respect to the creditors of France; not so much, I think, from any intrinsic defect in the Mississippi scheme, as from the distress the nation was thrown into, by the ignorance of those who over-ruled John Law in conducting it.

We have seen how the actions were reduced to the number of 200,000; we must 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 suppressed; and it was declared, that after the 1st of December following, they were to have no course whatsoever.

Here follows the arrangement of this great affair, viz. the liquidation of 2 696 400 000 livres of bank notes as regulated by this *arret*.

imo, Of



1mo, Of the above total of notes coined, there remained in the bank at that time, for	707 327 460 livres.
2do, Subscribed for at 2½ per cent. in June 1720	530 000 000
3tio, Carried to the bank by private people as a fund of credit there	200 000 000
4to, Paid in coin by the bank	90 000 000
	1 527 327 460

This sum of notes was ordered to be burnt by the *arret* of the 10th of October.

The remainder still in the hands of the public, says the *arret*, was to the amount of 1 169 720 540 livres, and the King declares, that the holders of them might employ them as follows:

1mo, In purchasing the remainder of the subscription of 25 millions of rents on the town-house of Paris, at 2½ per cent. inde	470 000 000 livres.
2do, In purchasing a farther sum constituted on the town-house of Paris, of 8 millions of perpetual annuities, at the rate of 2 per cent. or at the 50th penny	400 000 000
3tio, In purchasing a farther sum constituted on the town-house of Paris, of 8 millions of life-rent annuities, at 4 per cent. or at the 25th penny	100 000 000
These sums amounted to	970 000 000
Sum above	1 527 327 460
Together	2 497 327 460

There still remained outstanding about 200 millions of bank notes.

These were ordered to be disposed of in several different ways, mentioned in the *arret* of the 10th of October; which it would be needless to mention, as it would require a long explanation to make the thing understood: let it suffice that there was an outlet provided for them, which brought in between 2 and 3 per cent.

Thus.

Thus we see the conclusion of the whole affair.

At the beginning, the King's debts stood at 2000 millions capital, and 80 millions interest very ill paid.

At the end of the scheme there had been coined of notes about

Of which in the bank, October 10, 1720	707 mil.
And paid in coin	90

This subtracted

There remained outstanding in bank notes \*

797 millions.	1899 millions.
Add to this 100 millions still due by the King to the company for the <i>billets d'etat</i> withdrawn in constituting the first 200,000 actions which still subsisted, and for which the company was to receive 5 per cent.	100 millions.

So the capital of the King's debts remained at 1999 millions. Balance gained by the whole operation 1 million.

Consequently there was little or no fraud as to the capital 2000 millions.

Let us next examine the state of interest.

The interest at the last was,

1mo, Of rents constituted in June 1720, on the town-house, at 2½ 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.
Carry over	33 millions.

\* There are, however, in France at this day, many persons who are still in possession of large sums of those notes. This makes some people believe, that all the paper was called down without any equivalent given. The reason of those notes remaining, is, that either the proprietors neglected the occasion offered by the *arret* of the 10th of October, or that they were in hopes that perhaps the bank might again recover its credit. They were mistaken, and the notes are lost.

	Brought over	33 millions.
3 <sup>th</sup> , Ditto at ditto upon lives at 4 per cent. or at the 25th penny	- - - - -	4 millions.
4 <sup>th</sup> , Due to the company upon the original stock of 100 millions still paid them at this day at 5 per cent.	- - - - -	5 millions.
5 <sup>th</sup> , For the 200 millions of credit at the bank, suppose at the rate of 3 per cent.	- - - - -	6 millions.
6 <sup>th</sup> , For the last 200 millions provided for in different ways, suppose at 2½ per cent.	- - - - -	5 millions.
7 <sup>th</sup> , Allowed to the company to indemnify them for the loss they sustained by these arbitrary ways of reckoning with them, 80 millions at 5 per cent. still paid them	- - - - -	4 millions.

		57 millions.
The interest at first was	- - - - -	80 millions
The interest at last was	- - - - -	57 millions

Defrauded by the scheme - - - 23 millions a year.

This is (as near as I can guess at it) the state of the French bankruptcy in 1720.

The creditors were robbed of 23 millions a year. I call it robbed, because the interest due to them was diminished by that sum, without their consent, and in consequence of the most arbitrary proceedings; whereas, had the system been conducted with ability, the whole of the debts would have been brought to an interest of 48 millions, instead of 57, and no body would have complained of injustice.

Money likewise 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 interest, upon the whole, to 32 millions: and France, from being reduced to beggary by the King's wars, would have become the most flourishing state in Europe.

Let

Let us next guess at what may reasonably be supposed to have been the largest sum of coin ever collected in this bank.

I imagine that the far greater part of all the coin supposed to be in France during the Mississippi scheme, remained in private hands, without ever coming into the bank. My reason for being of this opinion is,

Law never could have had more than the value of his original stock, and all the value of notes he had in circulation.

It is absurd to imagine he ever should have had the half, or near it; but let me suppose it,

The bank stock was	- - - - -	6 millions.
The notes he issued were	- - - - -	59 millions.
In all	- - - - -	65 millions.

This is a trifle compared with 1200 millions.

Next for the united bank. The time at which the greatest quantity of coin was collected, must have been when all credit failed, that is, on the 21st of May 1720.

At that time coin was taken out of commerce: every one was forbid to have above 500 livres in possession; and every operation had been used to call it in.

At this time, we know that all the notes coined were issued, except to the value of 461 316 410 livres.

Now we have seen that on the 10th of October following, there were in the bank to the value of 707 327 460 livres.

Let me, therefore, suppose, that from the 21st of May to the 10th of October, the bank paid away in coin, the difference between these two sums; to wit, - - - - - 246 011 050 livres.

Add to that sum what was then in the bank, viz.	90 000 000
Sum	336 011 050

This sum is all we possibly can suppose to have been in the bank on the 21st of May, when credit failed.

We must reckon this sum of coin at 82 livres 10 fols per marc, the then value; which makes about 8 146 600 l. sterling. A large

N n 2 sum,

sum, no doubt; but little more than  $\frac{1}{4}$  of 40 millions sterling, the value of 1200 millions of livres, at 60 to the marc, as has been said. Consequently, either those 40 millions sterling were not then in France, or the greatest part of the sum had remained in private hands during this whole operation.

In this light I see the Mississippi scheme. I may, no doubt, be mistaken in many things: the lights, or rather the glimmerings, by which I have been conducted through this inquiry, must plead my excuse.

But it is not so much facts as principles, I have been investigating through this whole disquisition; 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 cast any light upon the subject of paper credit in general, my end is accomplished: if they ever prove of use to mankind, I shall not think my labour lost.

C H A P. XXXIII.

*Why Credit fell, and how it might have been supported.*

I SHALL now make a few general observations upon the total and sudden fall of credit in France in May 1720: and I shall suggest the means by which, I think, it might have been sustained, even after all the preceding mismanagement.

Was it any wonder that the French should be astonished at this prodigious revolution, at this immense value of paper on the 21st of May, and at the total discredit of every bit of it the day following?

If

If there was a value, said they, what is become of it? If there never was any value, how could a nation be so deceived? This phenomenon has puzzled many a head; but the nature and principles of credit furnish an easy solution of it.

In deducing the principles of credit, we have shewn that a permanent and well secured fund of interest is always equal in value to a corresponding capital.

The difference between a permanent and well secured fund, and a precarious and ill secured fund, consists in this, that the first never can disappear, and the other may.

Now the fund, in this case, was at first real and did exist; but it was rendered precarious, by a blundering administration: then credit failed, and in that convulsion, the fund of interest was fraudulently diminished by an act of power.

Had the true principles of credit been understood in France, the bank notes and actions might have been supported, even after the arrest of the 21st of May: and all the monstrous value of paper, raised so high by the low rate of interest, might have been preserved: consequently that value, in capital, really existed relatively to the rate of interest.

As the object of the present disquisition into the principles upon which the Mississippi scheme was conducted, is only intended as an illustration of the principles of credit in general; I shall first account for the wonderful phenomenon above mentioned, and then shew how, in the greatest of all the French distresses, their credit might have been re-established in a more solid manner than ever.

As to the wonderful phenomenon of the prodigious wealth created by the system, and annihilated in one day, I answer, that there had been no creation of wealth at all, except in consequence of the fall of interest.

1mo, We have seen that at the death of the late King of France, the interest of his debts amounted to 80 millions. Was not this a fund which ought to have been made solid and permanent? Will any

any man say, that a regular plan of paying this interest was a means of creating new wealth? Certainly not.

2do, These debts were secured by *contracts of constitution of annual rents upon the town-house of Paris*: a security taken in the name of a particular creditor, which requires a form of law to transfer.

By the scheme we have been explaining, all these securities were changed: and instead of constitutions of rent, bank notes, in which the King was equally debtor, were given.

Will any man say, that this was the means of either increasing or diminishing the wealth of France? Certainly not. A man who has a good bond in his pocket is as rich before it is paid with bank notes as after: but he has not so much money in his hands; because the bond is not *money*, and the notes are.

3tio, We have said that the interest of the King's debts amounted to 80 millions a year, at 4 per cent.

We have seen how the company of the Indies were provided with a fund equal to this sum, arising from the 48 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 instead of being burthensome 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, vested their claims in actions, they would, in consequence of that operation, have become sharers in the fund of 80 millions a year, administered by themselves, (and they would then have been the company) open to be improved by trade abroad, and by a good administration at home.

Had this system been carried on in a plain easy way, consistently with common sense, the public creditors would have been paid; the King's revenue augmented; and it would have been put under a good and a cheap administration.

But

But when, by the absurd operations of changing the denominations of coin and paper, and wantonly playing with every man's property, the creditors saw themselves standing on the brink of a precipice; and finding, instead 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 same time the coin might be raised to double, it was very natural to suppose, that the intention of the King's ministers was to withdraw from them totally these 80 millions, less or more, to which they were entitled: in which case, there was an annihilation indeed of all the notes; but there was no annihilation of wealth: for in that case, the wealth was still the same, only it was transferred from the creditors to the King the debtor: that is, the creditors were defrauded.

On the other hand, stood the proprietors of the actions sold. These were in use to make a traffic of buying and selling the 200,000 actions which had been in their hands ever since September 1717, when they were first created. For we have shewn, that the posterior creation of actions by the united company, was a mere delusion, as they were all found in the custody of the Regent. The actions, I say, were immediately put into a state of stagnation; because of the discredit cast upon the bank notes, with which it had been usual to buy them.

4to, I must observe, that the stagnation of a paper which carries no interest, is equal to a temporary annihilation. The holder then is deprived of the use of his money; and he is not paid for the loss he sustains.

If, therefore, it had been possible 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 accounts would have been kept clear, for this is the use of paper money, and so short a shock would hardly have been felt.

But the great damage resulting to the public, upon every occasion of this kind, proceeds from the *delay* in applying the proper remedy.

remedy. When any paper is discredited, it immediately falls in its value. The person then who is the original and real creditor for the whole value, and in whose hands the paper is when it suffers the discredit, falls at discount: 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 person who had bought it at discount, and does not go to indemnify the real sufferer.

This was the case with respect to the notes of the French bank: they were allowed to languish from the 21st of May that they were discredited, until the 10th of October, when their fate was decided, as has been said.

Farther, we have seen, that this whole movement of credit had for its basis 80 millions a year, originally paid to the creditors for their interest. This sum answered to the capital of 2000 millions; because at the old King's death, interest was fixed at 4 per cent.

When, by the operations of the system, all this capital was turned into money, that is, bank notes, the regorging plenty of it made interest fall to 2 per cent. consequently, the capital, which constantly draws its value from the interest paid for it, rose to 4000 millions. We have said that the total value of the paper rose to 6000 millions; but we must reflect, that above 2000 millions of these 6000 millions was in bank notes, and employed in buying of actions. So that both the notes and the actions must not be reckoned as existing together.

Had the Regent sold the actions, he would have burnt 2000 millions of bank notes, and thus the value in paper would have remained at 4000 millions, so long as interest remained at 2 per cent.; and had interest fallen still lower, and dividends remained at 200 livres per action, the value of actions, and consequently of this capital of 4000 millions, would have risen in proportion, just as the value of the capital of the debts of Great Britain rises and falls according to the rate of money; although the same sum of interest be paid to the creditors at all times.

7

This

This augmentation, therefore, upon the value of all capitals, during the Mississippi, of lands as well as actions, was in consequence of the fall of interest, and from no other artifice whatever. Lands in France, at that time, sold at 80 and 100 years purchase. [Dutot, Vol. II. p. 200.]

When credit failed, and when all the circulating paper was thrown into a state of stagnation, interest rose, in proportion to the deficiency of the supply for the demands of borrowers. The value of capitals then diminished. But this might have happened from another cause, had there been no bankruptcy, or intention to defraud the creditors: a war might have produced it; or any circumstance which might have raised the rate of interest.

The rise, therefore, upon capitals, from the fall of interest, I consider here as no acquisition of wealth: I reckon wealth to be that which is the annual produce of the capitals.

So much for the resolution of this wonderful phenomenon.

I must now shew that in the height of the distress, the confidence of the public was still to be regained, and credit recovered, even after the fatal *arret* of the 21st of May 1720.

I lay it down as a principle, *that whoever has a sufficient fund, and pays interest regularly for the money he owes, runs no risk of losing his credit.*

So soon, therefore, as the Regent found that by his *arret* of the 21st of May, all credit had disappeared; had he, upon the 27th of the same month, or at the time he raised the coin to 82 livres 10 sols per marc, ordered all bank notes presented to the bank, either to be paid in coin, or marked in the books of the bank as bearing interest at 2 per cent. I say, credit would not have suffered in any comparison to what it did. No body then would have sold a note at discount; and had it been necessary, he might have ordered the interest to be paid monthly.

The authority I have for this opinion is Dutot, who says, that upon opening the subscription of 25 millions in the month of June, the notes fell in their value  $11\frac{1}{2}$  per cent. only.

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Now

Now the rate of this subscription was at  $2\frac{1}{2}$  per cent. as we have seen; consequently, if 100 livres of notes lost but  $11\frac{1}{2}$  per cent. they were worth  $88\frac{1}{2}$  livres in coin; but these 100 livres in notes were worth  $2\frac{1}{2}$  per cent. because the subscription was open at that rate: consequently  $88\frac{1}{2}$  livres in coin was also worth 2 livres 10 fols per annum: consequently interest, 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 occasion to fly immediately to the destruction of actions, which were in the Regent's own hand? A little patience, and good management, would have set all to rights.

I would, therefore, have left the notes in circulation under this regulation, viz. that such as should be presented to the bank should 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 answering a dividend of 200 livres at 2 per cent. at the option of the holder: and in case interest had come to fall still lower, the price of actions might have been augmented.

I would have set before the public a full and exact account of the company's funds. I would have banished all mystery from the affairs of credit. I would have registered a declaration in parliament, setting 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 stipulations between the King and his creditors were to be inviolable. And,

3tio, That the parliament of Paris should for ever remain invested with an exclusive right to watch over those regulations in time to come; and I would have bound the parliament by a special oath for that purpose. I would even have had the King to take the same oath: and he might have ratified it at his coronation in 1725.

By these steps I should have vested a new power in the Kings of France which they never had before: a power of having money from their subjects, from their allies, and from their enemies: a

power

power they have not, nor ever will have, until the principles of credit be better understood among them.

Had such a plan been followed, I have not the least doubt, but that, 1. The actions would have been sold at a very great advanced value above the standard of 5000 livres, at which the Regent had bought them: 2. That money would have come back to 2 per cent. and then, 3. Had banks been established upon a proper plan, ease, with industry, would long ere now have appeared in every corner of that kingdom.

How infinitely more easy would it have been to establish such a plan in 1720 than at present? 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 support it. The creditors were then at the mercy of the state: at present the state is at the mercy of the creditors. Were such operations on coin to take place at present, as were then familiar; were the King at present to attempt to turn the constitutions of rent, perpetual and life-annuities, 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 situation so deplorable might not stir up in certain courts of Europe.

What state would pay its debts, if it *durst* do otherwise? And what state can diminish its debts in any other way than by lowering the interest upon them? But of this more in the proper place.

## C H A P. XXXIV.

*How the diminishing the Denomination of the Paper in Circulation, by the arret of the 21st of May 1720, destroyed the Credit of France, when the same arbitrary Measures taken, with regard to the Coin, had produced no such Effect.*

THIS question is curious, and I shall endeavour to resolve it in the best way I can, before I conclude this subject.

The first thing to be done is to point out the immediate effects which resulted upon diminishing the denomination of the paper; because the destruction of the credit of France was not the immediate consequence of this *arret*; but the ultimate effect of a chain of consequences which followed indeed very quick upon one another.

The paper had been declared, against the opinion of Mr. Law, by an *Arret de Conseil* of the 22d of April 1719, *une monnoie fixe*, as has been said. Consequently, any diminution of its denomination was a plain infraction of the public faith. From this declaration in the *arret* of the 22d of April 1719, the public reaped one notable advantage, which was, that in borrowing and lending paper, every one was sure that the obligations contracted could be dissolved by restoring the very same species of property which had been received; but by diminishing the denomination of it, by the *arret* of the 21st of May 1720, all such as were debtors, became obliged to discharge their debts at the expence of double the sum of paper borrowed.

The immediate consequence, therefore, of touching the denomination of the paper, was, to shew the public that their fortunes in paper were liable to the same inconveniences as fortunes in specie; that is, that they might be increased or diminished at pleasure. Upon this it was very natural for every one to endeavour to realize

his paper, and put it into coin: since, *in pari casu*, it was better to have it in that which had some intrinsic value, than in that which had none at all.

Of all the French paper, the notes were the most easily realized; because 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; because in order to realize them, it was necessary to find people who were willing to give either notes or coin for them.

A run upon the bank, therefore, taking place, upon the *arret* of the 21st of May, it was obliged to stop payment: this occasioned a general alarm, and *destroyed the confidence which the public had had in the state*, which is what we mean by *public credit*.

This point explained, it remains to shew why the augmentations and diminutions upon the specie should not have ruined the credit of the paper.

*Imo*, The operations upon the specie affected the paper only indirectly; but the diminution upon the paper affected it directly.

The operations upon the specie only affected that part of the paper which was made to circulate as an equivalent for the specie; or in other words, that part which people realized, either, 1. with an intention to withdraw their funds altogether out of the scheme; or 2. to profit of the operations upon the specie; or in the last place, to procure small sums of money for common expences.

Now as to the first, the number of those who wished to withdraw their stocks were inconsiderable, in proportion to the stock-jobbers; and therefore their interest could not affect the general credit; and the last was inconsiderable in every respect.

As to the second, the government made it very difficult for the proprietors of notes to profit of the operations upon the coin. When it was to be diminished, the diminutions were advertised some 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 actions, constantly rising in their value, by the intrigues

of the state, when at the same time the denominations of the coin were diminishing, did not carry their notes to the bank for two reasons.

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 marc to 65 the marc, gained regularly in the hands of the possessor; whereas had he realized at any period but the last, the subsequent diminutions upon the specie he had acquired with his paper would have affected the value of it.

The second was, that by realizing he deprived himself of the profit of stock-jobbing.

The only way, therefore, for the proprietors of the paper to gain by the operations of the state upon the coin, was to guess the time when the coin was to be raised in its value: but this was impossible; for the rising was sudden and unexpected; whereas notice was constantly given of the fall, at some distance of time.

For example, the money was suddenly raised the 5th of March 1720, from 60 livres to 80 livres the marc; and the 11th of the same month, notice was given, that on the 1st of April following, it was to be brought down again to 70 livres per marc; and on the 1st of May following, to 65 livres. The consequence of this was, that from the 11th of March, people were glad to carry money to the bank for notes, which were to stand at the same denomination, whereas the silver was to diminish on the 1st of April.

Accordingly a great sum, above 44 millions, was brought in during this interval.

When the 1st of April came, and that the silver was brought to 70 livres the marc, those who were in possession of the paper, were still prevented from realizing; because of the future diminution which was to take place. When this term was come, people had reason to imagine that the silver would for some time stand at 65 livres the marc; consequently, there was more to be gained in stock-jobbing with the notes, than in realizing them in specie, which,

which, in order to make profit of it, must have lain dead until a new augmentation; which was a very uncertain event. In short, there was no run upon the bank from the 1st to the 21st of the month of May, when the famous *arret* in question was given. Then indeed the run came on with violence, and payment was stopt.

2do, The second reason why the effects were different when the state 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 *monnaie fixe*, had for this reason added to the credit of it. A most surprizing thing! The state took care always to gain, whether they raised, or whether they diminished the value of the coin. The stock-jobbers, therefore, never minded the coin at all. If they could profit by an augmentation by foreseeing it, they realized; if they could see a diminution before notice was given of it, then they bought paper.

The operations on the coin principally affected such as were either respectively debtors or creditors, to people who were obliged to pay, or to receive their debts in specie; or who had a fixed revenue specified in a number of livres. There the disorder was great, as has been frequently observed.

3tio, The operations upon the specie never could destroy the intrinsic value of it, however they might prevent the circulation of it for a fixed legal denomination; therefore it remained under all combinations of circumstances, a thing valuable to be acquired; and it still remained a commodity, desirable by all, and was therefore constantly demanded.

But a discredit cast upon the paper had a different effect. The value *there* depended entirely upon the will of the state, and every body saw that it was as easy to annihilate it, as to reduce it to one half. The discredit, therefore, had the effect of stopping *the demand*

for.



for it, that is, the currency; consequently, a run upon the bank immediately took place.

4to, The rendring the value of the paper precarious, made every possessor of it seek to realize it without delay. 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 subjects had a right to make upon the bank, for which the King was guarantee, which destroyed the credit of France; and it is very evident that no operation upon the specie could possibly produce any such effect\*.

In short, had this operation upon the paper been suspended for a few months; had the people of France been indulged in a little more time, their infatuation in favour of the actions would have carried them to employ all their bank notes in the purchase of those which remained in the hands of the state. By this operation the far greater part of the notes might have been withdrawn and destroyed, and when the bank found themselves in a situation to answer the call of all those which afterwards remained in circulation, then the state might have boldly ventured to diminish the price of actions: because if that stop had occasioned a run upon the bank for the outstanding notes, there would have been coin enough to answer them at their full value; and this would have confirmed the credit of the bank more than any thing.

\* It was a capital mistake in this diminution upon the paper to make it gradual. Was it not evident that every mortal would seek to realize a note which was to diminish in its value progressively every month? A note worth 10,000 livres, for example, the 22d of May, was immediately reduced to 8000 livres, and the 1st of July, was to be worth only 7500. This was plainly soliciting a run upon the bank. The stroke should have been struck at once.

C H A P. XXXV.

*How a Bank may be safely established in France, as Matters stand at present.*

THE prerogative of the Kings of France is limited by no written law, because he is acknowledged to be the legislature of his kingdom; and the exercise of his power is only limited by maxims of state. 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 sort of negative, *de facto*; because 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.

When the King's will can be carried into execution by a single act of power, the authority of parliament is of no effect in preventing it. When this requires a train of systematical administrations, the concurrence of parliament, who hold the whole regular execution of the laws, is absolutely necessary.

Banks of deposit and of circulation, stand, it must be confessed, upon a very precarious footing, under such a government.

An order from the King is at any time sufficient to command any deposit of specie which can be made within the kingdom. While this is the case, no paper can have any solidity, which draws its security from such 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 solid property, and who may want, on a thousand occasions, to melt it down in favour of consumption, trade, industry, agriculture, or the like.

In this light, a general bank may be established at Paris; and branched out over the whole kingdom. The stock of it should consist in land property, engaged unalienably, to make good the engagements of the bank.

Notes should be issued upon solid security, bearing no interest while they circulate as money; and when they return upon the bank, either the original securities may be withdrawn, or payments might be made by the transfer of a corresponding perpetual interest.

Every province, every considerable city in the kingdom, should be allowed to be interested in such a bank: and in every considerable city, there should be an office for transacting such credits, and for regularly receiving all payments of interest. If the King should think fit to allow his mint to supply coin, or bullion, for bank notes presented, at a determinate premium, he might by this operation advance the commercial interests of his kingdom, in facilitating the payments of a wrong balance of foreign commerce: but without that regulation, the bank will be perfectly sufficient for promoting and supporting domestic circulation. Every one who is able to give security for a certain interest, will be sure to find money: and as the expence of conducting such a bank will be very small, the interest for money will be very low.

As I said before, a bank of this kind would be no more than an office, appointed for keeping accounts between people who are possessed of any paper secured upon real and solid property: and farther, in the beginning, at least, I would not advise to carry it.

The general accompt of the bank would appear in a few articles, viz. Credits given, so much; *inde* of interest to be received, so much.

Notes returned, so much; *inde* of interest to be paid, so much; balance in favour of the bank, so much.

A bank of this nature would answer every purpose for promoting industry and domestic circulation.

Such a bank must neither issue, or ever receive coin in payment.

C H A P. XXXVI.

*Of Banks of deposit and transfer.*

I NOW dismiss the subject of banks of circulation. The unspeakable advantages drawn from this institution, when properly regulated, in supplying money at all times to those who have property, for the encouragement of industry, and for improvements of all sorts, and the bad consequences which result to society, from the abuse they are exposed to, has engaged me, perhaps, in too long a discussion of particular combinations of circumstances relating to them.

I now come to treat of banks of deposit or of transfer of credit: an institution of the greatest utility for commerce.

These two species of banks differ essentially in two particulars.

*1mo*, That those of circulation serve the purpose of melting down unwieldy property into money; and of preserving the quantity of it at the proportion of the uses found for it. Those of deposit, are calculated to preserve 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 secured upon them.

*2do*, In the banks of circulation, the fund upon which the credit is built, is not *corporeally* in the custody of the bank; in the other it is.

The fundamental principle, then, of banks of deposit, is the faithful preservation of the fund delivered to the bank, upon which credit, in money, is taken for the value.

If at any time a bank of deposit should lend, or should, in any wise, dispose of any part of this fund, which may consist 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 favour of the depositor, and his assigns; by

that act, the bank departs from the principles upon which it is established. And if any bank is established which, by their regulations, may so dispose of the fund of their credit, then such a bank becomes of a mixed nature, and participates of that of a bank of circulation.

These things will be better understood by reasoning from an example of a true bank of deposit.

C H A P. XXXVII.

*Of the Bank of Amsterdam.*

MANY authors have written concerning this great bank of deposit: particularly, Davenant, Sir William Temple, Ricard, in his *Traité de Commerce revu par Struyk*, the author of the *Essay sur le Commerce*, and Mr. Megens, in his book, which has been translated into English, under the title of *The Universal Merchant*.

In these authors we find a number of facts, which I shall combine with my own informations, and here apply principles to them; in order to communicate a distinct idea of this establishment. A detail of its particular operations regards practice, and falls not within my subject.

The original intention of the States of Holland, in establishing the bank of Amsterdam, was to collect a large capital in coin within that city, which might there perpetually remain, buried in a safe repository for the purposes which we are now to explain.

In order to accomplish this plan, they established the bank upon the 31st day of January 1609.

The method they fell upon to collect the coin, was to order, that all bills of exchange, for any sum exceeding 300 florins, should be paid in specie to the bank; and that the holder of such bills should, in-

instead 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 person he should appoint; but never more to be demandable from the bank in specie.

By this operation, the mass of coin circulating constantly from hand to hand, between the merchants of Amsterdam, began, by degrees, to be heaped up in the bank; and as the heap augmented, so did the sum of credit augment upon the books of the bank.

It is evident, from this change in the mode of circulation, that no loss could be incurred from the locking up of the coin.

As long as coin is in a state of constant circulation, it can produce no interest to any person. Interest commences from the moment the coin begins to stagnate; that is to say, so soon as it comes into the hands of one who has no ready money demand upon him. When this happens the proprietor lends it at interest.

Now the credit in the books of the bank, which is every day transferable at the bank, answers every purpose of coin, either for *payment* or *loan*: and the proprietor has neither the trouble of receiving the species, nor any risk from robbery, or false coin.

The first advantage the city reaped from this institution, was, to secure the residence of trade in that place.

Capitals transferable only at the bank, laid the proprietors under a necessity of fixing their dwelling where their funds were, and where only they could be turned to account.

It had another excellent effect in commerce: it pointed out the men of substance. A credit in bank is no wise equivocal: it is a fund of undoubted security.

From the constitution of this bank we may form an estimate of the extent of the deposit.

It can only swallow up a sum equal to what is necessary for circulating the payments of the city of Amsterdam. Were a sum exceeding that to be shut 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 sink immediately. The reason

is obvious: the credits transferable are of no use to those who have no occasion to transfer; that is, to pay, lend, or exchange at Amsterdam. So soon, then, as all the demand of Amsterdam is satisfied, the proprietors of the overplus will seek to realize their superfluous credit, in order to invest the value arising from it, in some other place where a demand may arise.

In order to realize, they must sell their bank credit for coin; because the bank pays only in transfer. Coin then would be demanded preferably to credit in bank; consequently, coin would rise in its proportional value to bank money, or bank money would lose, which is the same thing. This fluctuation between bank money and coin, leads me to explain what is called the agio of the bank.

CHAP. XXXVIII.

*Of the Agio of the Bank of Amsterdam.*

WE have pointed out one motive for establishing a bank of deposit at Amsterdam, viz. that of fixing the residence of trading men in that city.

Another was, to prevent the inconveniencies to which a small state 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 silver; consequently all they have comes from other countries, as the return of a favourable balance upon their commerce.

At the time the bank was established, the republic was in a state of infancy; and any coin they had, was that of their old masters the Spaniards. This was unequally coined; many pieces were light; many had been clipped and washed. As they extended their traffic,

traffic, they were obliged to receive great quantities from Germany, which was still worse.

In order then to prevent the circulation of such coin, and the perplexities occasioned by it in all accounts, they established a bank, and fixed the standard upon a silver coin called the ducatoon, to which they gave the denomination of 3 florins or guilders bank money.

But as this coin also was unequal, like all the rest of the specie in Europe, before the introduction of milled coin, and the policy of weighing piece by piece at the mint, the bank appointed the ducatoons to be received in bags of 200 pieces, weighing together 26 marcs 5 ounces 10 engles of Amsterdam troes, or gold weight; which being reduced to aces, (the lowest denomination in this weight) make 136,640 aces. This divided by 200, gives, for the weight of 1 ducatoon, 683.2 aces.

Let us now convert these aces into troy grains, according to the proportion established between Dutch aces and troy grains, in the last chapter of the third book.

The equation will stand thus,

5192.8 aces, being equal to 3840 troy-grains, 683.2 aces, therefore, will equal 505.21 troy-grains; which, consequently, is the weight of a ducatoon, or of 3 florins bank money of Amsterdam.

Next as to the fineness of this coin:

The ducatoon was coined, according to the imperial standard, of 14 loots 16 grains fine: that is to say, it is  $\frac{268}{278}$  parts fine, and  $\frac{10}{278}$  parts alloy.

To find, therefore, the number of Hollands aces, and of troy grains of fine silver in the ducatoon, state the two following proportions:

288 : 268 :: 683.25 : 635.75 aces fine.

288 : 268 :: 505.21 : 470.13 troy-grains fine.

In the last place, if we divide the number of aces, and troy grains fine in the ducatoon, by 3, we shall see the exact weight of fine silver in 1 florin of Amsterdam bank money.

$\frac{635.75}{3} = 211.91$  aces, and  $\frac{470.13}{3} = 156.71$  troy-grains fine.

These calculations premised, it would be an easy thing to fix the exact par of the metals, between sterling and bank money of Amsterdam, were the British coin of legal weight, and were the metals there rightly proportioned. But is it to be supposed, that any person who has bank money of Amsterdam, would exchange, at the par of the metals, with sterling silver, which is many *per cent.* too light, or against English bank notes paid in gold, always overrated with regard to the silver, and often too light also?

While, therefore, the coin of Great Britain stands upon the present footing, all calculations of the par of exchange, as it is commonly computed, upon the intrinsic value of the coins of other nations, must be delusive and of no utility whatever.

For the sake of giving an example, however, here is the real par of the two currencies, upon silver sterling coin of full weight.

One pound sterling should contain, as has been said, of fine silver 1718.7 troy grains, and contains 240 pence sterling: state, therefore, the following proportion, and you will find how many pence sterling one florin of Amsterdam banco should be worth.

$$1718.7 : 240 :: 156.71 : 21.883.$$

Thus 21.883 pence sterling is exactly the real par of an Amsterdam florin banco, supposing sterling money to be silver, at the full weight.

The florin bank money being regulated upon the ducatoon, an old species not now coined, the fineness of the silver was determined; and the weight of the 200 ducatoons being determined also, this regulation determined the weight of single pieces, and fixed the standard of the florin banco, in weight and fineness.

The current money in Holland, coined by the state, is the florin of 200.21 aces fine, as we have seen in the last chapter of the preceding book.

So soon as the state coined their current florins at 200.21 aces, it is evident, that the ducatoon, which contains three times 211.91 aces, must rise in its value. Accordingly, the piece which was in bank money, 3 florins, became 3 florins 3 stivers current money.

This

This difference is what is called the *agio* of the bank of Amsterdam.

From this it appears, that the advanced value of the bank money above the current money of Holland, is not owing to the great credit of the bank, as some imagine, but to the superior intrinsic value of the coin upon which the standard of the bank money is fixed.

Let us next determine the exact difference between the bank and the current money, which difference I shall call the *intrinsic agio*: for this purpose state this proportion;

$$200.21 : 211.91 :: 100 : 105.84$$

From which it appears, that the bank money is 5.84 *per cent.* intrinsically better than the current money of Holland.

We have seen in the chapter referred to, in what a confused state the Dutch coin is at present, and how it becomes a science to comprehend any thing concerning it. For this reason it is, that the regular *agio* of the bank money of Amsterdam is always supposed to be 5 *per cent.* Farther,

The ducatoon, upon which it is regulated, passes for 3 florins 3 stivers, which is just 5 *per cent.* better than 3 florins, at which it was rated when the bank was established; but most of the coins which circulate are light.

Those who conduct the affairs of the bank, have now lost sight of this original coin, which is rarely found circulating, in considerable sums; and they consider the florin according to its intrinsic worth of 211.91 aces of fine silver; and as the value of silver varies, they publish regulations for receiving coin, such as Spanish dollars, French crowns, &c. according as they find the proportion of their worth in bank money: and compounding the value of gold with the value of silver, they make the same regulations as to gold.

I have insisted too long already upon the subtleties of the variations in the proportion between gold and silver, to take it up again in this place. My intention is to explain the principles upon which this great bank of deposit is established, and not to descend into a

detail of the mechanism of their adapting the variable coins of Europe to their own standard.

I have said, that the sum of credit, written in the books of the bank, is in proportion to the quantity of bank money necessary for circulating the trade of Amsterdam.

Consequently, as this circulation increases, the demand for bank money increases also.

Again; in proportion as the demand for bank money increases, the agio rises; and on the other hand, as the demand for current money increases, the agio falls.

Thus we saw in the last war, *ann.* 1760, 1761, 1762, that agio was below 5 per cent. The reason was plain. The great circulation carried on in Amsterdam was considerably directed towards the uses of the war. There bank money was of no use; coin only could serve the purpose. Accordingly agio fell to — per cent. and as gold was much more easily transported than silver, that metal rose  $\frac{1}{4}$  per cent. above the ordinary proportion of 1 to 14  $\frac{1}{2}$ .

Demand regulates every thing; and this demand makes the agio fluctuate; sometimes rising above, and sometimes falling below 5 per cent.

C H A P. XXXIX.

*Continuation of the same Subject; and concerning the Circulation of Coin through the Bank of Amsterdam.*

HITHERTO we have represented this bank as a gulf, which is calculated to swallow up the coin of Europe; without having pointed out any faculty of throwing up a part of the treasure so secured, in case of an overcharge.

This

This has appeared a mystery to many, and a defect in the constitution of the bank.

But when the principles upon which it is established come to be compared with some 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 satisfaction as to every minute particular, I think I can shew how, and to what extent, the treasure may circulate, so as to occasion no abuse, either from the hoarding it on one hand, or from the dissipation of it, for the service of the state, on the other: and if all these conjectures shall be found to hang together, and appear consistent with principles, without being contradicted by any known fact, then I may conclude, that such a system of banking as I describe, is at least a possible supposition, whether it exactly coincides with that of Amsterdam, or not. And who knows but my speculations may enable some person of more knowledge and more sagacity than I am possessed of, to render this curious operation of credit still more generally understood than hitherto it has been.

I have shewn how the agio rises and falls, according to the demand for bank 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 uses for it: consequently, 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 service than the credit itself, in circulating the trade of Amsterdam, does not exceed its due proportion: consequently, it is not hurtfully withdrawn from commerce; consequently, no abuse is implied from the hoarding of it.

But let me suppose a case, which may happen; to wit, that for a certain time, the trade of Amsterdam may demand a larger supply of credit in bank, than is necessary upon an average. Will not this raise the agio? No doubt. If the agio rises so high as to afford a premium upon carrying coin to the bank, upon the footing

Q q 2 ing

ing of their own regulations, this will augment the sum of bank credit; because the money so carried to the bank, becomes incorporated with the bank stock; 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 should happen, that the trade of Amsterdam should afterwards diminish, so as to return to the ordinary standard, will not this overcharge of credit depress the rate of bank money, and sink the agio too much below the par of the intrinsic value of the two currencies?

To these difficulties I answer, like one who, being ignorant of facts, which I never could get ascertained by any person in Holland to whom I had access for information, and which remained hid from most people in the deep arcana of Amsterdam politics, must have recourse to conjectures, founded upon natural sagacity.

First then, The city of Amsterdam knows, from long experience, the rate of demand for bank money; and it is not to be supposed, that upon any sudden emergency, which may *heighten* that demand for a time, they should be such novices as to increase the credit upon their books so far, as to run any risk of overstocking the market with it; especially as, on such occasions, the deficiency of bank credit might be supplied with coin, constantly to be found in the city of Amsterdam, as we shall explain presently.

Farther, Who will say, that there does not reside a power in the managers of this bank to issue coin for the superfluous credit, in case that, in spite of all precautions to prevent it, a redundancy of bank credit should at any time be found upon their books?

It is very true, that no person, having credit in bank, can demand coin for such credit; and as no demand of that sort can ever be made, it is very natural to suppose, that a redundancy of coin and credit can never be purged off.

During my stay in Holland, I was at great pains, to no purpose, to discover whether ever the bank issued any part of their credit cash upon any such occasions. Every one I conversed with was of opinion, that if ever any coin had been taken from the treasure of

the bank, it must have been by authority of the states, for national purposes: a step conducted with the greatest secrecy; and the matter of fact, I found, was extremely doubtful. But this is nothing to the present purpose. That the coin may be disposed of, I allow, though I do not believe it; but how is the superfluous credit, writ in the books, to be disposed of? There lies the difficulty.

The popular opinion is, that coin has been taken out for the service of the state: 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 question; and this not from information, but from conjecture; which I shall humbly submit to the better judgment of my reader.

My opinion then is, *1mo*, That every shilling written in the books of the bank, is actually locked up, in coin, in the bank repositories.

*2do*, That although, by the regulations of the bank, no coin can be issued to any person who demands it in consequence of his credit in bank; yet I have not the least doubt, but *that both the credit written in the books of the bank, and the cash in their repositories which balances it, may suffer alternate augmentations and diminutions, according to the greater or less demand for bank money.* If I can prove this, all difficulties will be removed.

My reasons for being of this opinion are,

*1mo*, From principles, I must conclude, that if, upon any occasion whatever, even when the smallest demand for bank money, and the greatest demand for coin takes place, there was an impossibility of producing the least diminution of bank credit, or of procuring any supply of the metals from the bank, the consequence certainly would be felt, by an extraordinary fall in the value of bank money; or which is the same thing, in other words, by an extraordinary rise in the value of the metals, when compared with bank money.

Now, this is a case which never happens. Variations upon the rate of agio, of 2 or 3 *per cent.* perhaps more, are frequent and familiar. The demands of trade, for coin or credit, are so fluctuating, that such variations are unavoidable; but were there an overcharge of bank credit, which no power could diminish, that overcharge would quickly be perceived; because the fluctuations of the agio would entirely cease; as the balance of a scale, nearly in equilibrio, ceases from a total overcharge on one side.

*2do*, My second reason is founded upon a matter of fact, which I must now apply.

There are upon the square before the town-house of Amsterdam, (the place de Dam) between 10 and 11 in the morning, a number of cashiers, whose business it is to buy and sell bank credit, for current coin. They bargain with all those who have occasion either to buy or sell; and according to the demand for specie, or bank credit, the agio rises or sinks: and as these cashiers must constantly gain, whether they furnish bank credit or current coin, since they are never the demanders in either operation, it is commonly found, that there is in their favour about  $\frac{1}{4}$  *per cent.* or perhaps  $\frac{1}{5}$  *per cent.* according to the revolutions in the demand: that is to say, one who would first buy specie, and then sell it, would lose  $\frac{1}{4}$ , or perhaps but  $\frac{1}{5}$  upon his operation.

From this circumstance of buying and selling of bank credit with coin, and *vice versa*, I think I can resolve the mystery mentioned above, viz. how the constant accumulation of coin in the bank of Amsterdam, should never have the effect of depreciating their bank money, by augmenting, beyond the demand for it, the quantity of their deposit, 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, cashiers, or lombards, who are constantly found on the place de Dam.

Whenever, therefore, the bank finds that agio falls too low, with respect to the coin; and when, in consequence of that, the demand

demand for coin *increases*; then they lend *coin* out of their repositories to the brokers; and when it *rises*, they lend *credit*.

This coin the brokers dispose of to those who have bank money, and who want to convert it into coin. They sell the coin for bank credit: the purchaser writes off the transfer in favour 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 favour of the bank.

This done, the bank may expunge this credit from their books; by which means their deposit of coin is diminished, and also the sum of credit which was found superfluous.

If, on the other hand, the circulation of the trade of the city should, in a short time afterwards, begin to increase, those who have coin, which in that case would not so well serve the uses of circulation as the bank credit, come with it to the brokers, who sell them bank credit for it; this coin the brokers deliver to the bank, which writes off the credit lent to the broker, in favour 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 preserving an exact proportion between the coin in deposit, the credit written in their books of transfer, and the demand for bank money.

The plan is quite consistent 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 represented it, or not, is a matter of small consequence to us, who aim at nothing more than the investigation of *the principles* upon which such 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 seen how the notes issued by banks of circulation increase and diminish according to demand: and now we see how the



the same principle operates in banks of deposit, which issue no coin on demand. In the first case, the mass of securities, or coin of the bank, is diminished, without the consent of the bank, by the act of their creditors; that is, the holders of the notes. In the last case, the creditors, or persons who have credit in bank, cannot, by their own act, diminish the quantity of the coin deposited, nor of the credit written; but the bank itself, by the help of those interposed persons, the brokers on the place de Dam, is enabled to preserve an exact balance between bank money and the demand for it; augmenting it as it is demanded, and diminishing it when it is found to regorge.

From this I conclude, that the treasure of the bank of Amsterdam is not near so great as some authors, from mere conjecture, have asserted.

The author of the Essay on commerce, reckons it at four hundred millions of guilders; and the Amsterdam edition carries in the margin a correction, which gives us to understand, that it amounts to between eight and nine hundred millions. Davenant esteems it at 36 millions sterling. Mr. Megens, an author of great judgment and sagacity, esteems this treasure at no more than about 60 millions of guilders, or about 5,500,000 l. sterling; a sum (says he) wherewith great things may be done. Univerf. Merchant, sect. 61. I agree entirely with him, that for the ready-money demands of the trade of Amsterdam, that sum, constantly in circulation, may go a great length.

What has misled most people in their estimation of this treasure, is the appearance of a constant accumulation, without any restitution: but that there is a constant egress, as well as ingress of coin to this bank, I think I have rendred pretty evident.

Besides the permanent credit written in the books of transfer, concerning which we have been speaking, the bank of Amsterdam receives, in deposit, vast sums of coin every year, which are not incorporated with the bank treasure, but remain in the bags in which

which they are delivered, under the joint seals of the bank and of the person who delivers them.

This operation comes next to be explained.

The trade of Holland draws a constant flux of coin and bullion into the country; and that trade sends a constant flux out of it. The establishment of the bank of Amsterdam renders the use of this coin and bullion, upon many occasions, superfluous, as money.

It therefore remains as a commodity, the value of which rises according to exigencies, or the demand for it.

When the precious metals come from Spain, Portugal, and other nations, who owe a balance to the Dutch, they are lodged in the bank of Amsterdam in the following manner.

The proprietors carry them to the bank in sacs composed of a determinate number of pieces, and the sac must 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, so soon as the depositor shall demand it; instead of writing off the whole value upon the books of the bank, they only write off a certain part, (suppose 90 per cent.) and for the remaining 10 per cent. they deliver what they call a *recipiſſe*, which is an obligation by the bank to re-deliver, upon demand, the individual sacs, sealed with the seals of the bank and of the depositor. This *recipiſſe* is transferable at the will of the person to whom it is delivered. Farther,

He who has put his coin so in deposit, becomes bound to pay to the bank  $\frac{1}{2}$ ,  $\frac{1}{4}$ , or  $\frac{1}{8}$  per cent. every six months, according to the coin: that is, upon gold  $\frac{1}{4}$  per cent. on pieces of eight and rix-dollars  $\frac{1}{8}$ ; on ducatoons  $\frac{1}{8}$  per cent. and in case he neglects so to do, then the coin becomes consolidated with the treasure of the bank, and can no more be drawn out, in virtue of the *recipiſſe*.

This being performed, the depositor may transfer, at will, all the 90 per cent. of his credit, in the course of his business; and so

soon as the *value of coin* rises in the market, he must fill up his credit in bank to the full value of the *90 per cent.* and then presenting his *recipisse*, he receives back his own individual coin, sealed with his own seal, as when at first delivered.

If he finds that it is either inconvenient for him to fill up his credit, or that he has no occasion for his coin, upon the rise in its value, he may then sell his *recipisse* to another, who has credit in bank equal to the value of the deposit; and he, in virtue of the *recipisse* transferred to him, withdraws the coin, as the person might have done who put it in deposit.

The *recipisse* itself, 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 sum contained in it, rises and sinks in its value, according to the price of the coin to which it carries a right.

In this manner coin, which otherwise would be dead in a warehouse, is made to circulate, in favour of the owner, during the deposit, remaining at the same time always at his command; and the keeping of the coin brings into the bank a small profit, but which, by constant accumulation, becomes considerable.

I have said above, that the bank of Amsterdam puts forth, from time to time, what regulations they think fit, as to the rate at which they receive the different species of coin. These regulations are formed according to the fluctuation of the value of the metals. When silver rises above the proportion it had before, with respect to gold, then the silver species is received at a higher rate than formerly. When gold rises in proportion to silver, then the gold coins are received at a higher rate than formerly.

This regulation produces the same effect as that, which I formerly recommended in the third book, would do, in fixing a standard for the unit of the money of Great Britain, according to the mean proportion of the metals: and it was for this reason, that [Book III. part I. chap. 1.] I asserted the bank money of Amsterdam to be an invariable unit, which the art of man had invented, that

that it stood like a rock in the sea, immoveable by the fluctuating proportion between the metals.

It is no objection against this, to allege the variation of the agio, and the fluctuation of the value of bank money according to demand. These variations ought to be referred to the coin, not to the bank money: the bank money is to be considered as fixed, because it has all the characters of invariability.

If, indeed, the affairs of the bank came to be ill administered, and that the credit written in the bank were allowed to swell so far beyond the demand for it, as to sink the value of bank money so far below the rate of coin as to make it impossible to recover itself; then I should allow that the bank money was no longer an invariable standard: but in this case, I should consider the bank as in a kind of political disease, because it would then be withdrawn from under the influence of its own principles, which hitherto has never been the case.

It has been imagined by many, that the treasure of the bank of Amsterdam has been, upon certain occasions, made use of for the public service. This is a conjecture merely; and perhaps it has been owing to the opinion which commonly prevails, that the treasure far exceeds all the uses which it can serve for. But as I am persuaded, *1mo*, That this opinion is void of all foundation; *2do*, That the treasure never can exceed the credits written; and, *3tio*, That the credits never can exceed the uses those merchants have for them: so I am of opinion, that a value, in coin, to the full extent of those credits, actually exists in the repositories 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 should be discovered, would overturn the whole credit of the bank, and, at one stroke, destroy the whole trade of that city. Now the use of three or four millions sterling, to the states of Holland, which they can procure when they will, at a very moderate interest, is not an object in the eyes of that sagacious government, sufficient to engage them to tamper with the bank

bank treasure; and the rather, that were they driven to the necessity of having recourse to the bank, I make not the least doubt but that so great a company would be of more service to the state in writing off upon an occasion a *temporary, untransferable credit at interest*, which might afterwards be expunged, in order to procure coin within the country, than by delivering the coin corresponding to the credit of private merchants, which they must look upon as a most sacred deposit.

If we compare the credit of the bank of Amsterdam, with the credit of the bank of England, we shall find the first infinitely inferior to the latter as to extent, though not one bit inferior with respect to the solidity of it.

The extent of the credit of the bank of Amsterdam is limited to the sum of the credits written in their books, either in permanent transfer, as I shall call it, or in credit on cash deposited upon *recipisse*. All this credit put together, cannot extend beyond the limits of the circulation of the city of Amsterdam, in their domestic dealings, and in their exchange business; which last is indeed very great.

But the credit of the bank of England is equal (in a manner) to all the circulation and exchange business of London, and all the taxes paid in Great Britain. This bank, in circulating its paper, is not limited to the weight of coin in England. The whole interest of the national debt, and expence of the state, may be paid in the paper of the bank, and be perfectly well secured, although their treasure in coin may seldom amount to above four millions sterling.

We must however allow, that banks of circulation, when ill conducted, are liable to great abuse; as has been abundantly explained in treating of the Mississippi. But how is abuse to be prevented, while men conduct? And disasters may happen to a bank of deposit, to which the other is not so much exposed. May not the treasure of the bank of Amsterdam be lent out on bad security? May not the state lay hold of it? May not an earthquake swallow up

up the stadthouse? May not the sea break in, and demolish it? May not another invader, like the late King of France, in 1672, be more successful, and carry off the bank?

These are abuses and calamities to which the bank of Amsterdam is exposed; and from many of which the bank of England is in a great measure protected.

Besides the banks I have mentioned, not so much with a view to give an historical account of their operations, as to illustrate the principles on which they are established, there are many others in Europe of great and extensive credit; such as that of Hamburg, Venice, Genoa (until the state spent the treasure deposited) Nuremberg, &c. Every one of these participate more of the nature of that of Amsterdam, than of those in Great Britain. They are more calculated for preserving the standard of their bank money, against the adulterations of coin, and for providing a fund of cash, transferable in bank credit, than for the assistance of government, or the melting down of solid property, which are the great advantages peculiar to *banks of circulation*.

These last are also infinitely more lucrative to the bankers than those of deposit, from the interest they draw from credits given, discount of bills, and loans to government.

The profits on the bank of Amsterdam are very trifling. They are confined to the small emoluments of 2 stivers for every transfer; besides the interest they draw from the brokers on the *place de Dam*, for the coin and credit they furnish them with; and, in the last place, the  $\frac{1}{2}$ ,  $\frac{1}{4}$ , or  $\frac{1}{8}$  per cent. every six months, for the coin deposited, in order to be afterwards drawn out. But on the other hand, they are freed from the enormous expence of providing coin for the payment of foreign balances, and from the great detail of business which the circulation of paper implies.

END OF THE SECOND PART.

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AN INQUIRY INTO THE PRINCIPLES OF POLITICAL OECONOMY:

BOOK IV. OF CREDIT AND DEBTS.

PART III. OF EXCHANGE.

CHAP. I.

Of the first Principles of Exchange.

HAVING ended what I had to say of banks, in which most of the principles of private credit have been sufficiently deduced, I now proceed to the doctrine of exchange, which is the principal operation of mercantile credit.

The security which merchants commonly take from one another when they circulate their business, is a bill of exchange, or a note of hand: these are looked upon as payment. When they give credit to one another in account, or otherwise, the cause of confidence is of a mixed nature; established partly upon the security of their effects, partly on the capacity, integrity, and good fortune, of the person 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

to principles; and merchants themselves can lay down no certain rules concerning it. It is an operation which totally depends upon their own sagacity.

But when they deal by bills of exchange, the case is very different. The punctuality of acquitting those obligations is essential to commerce; and no sooner is a merchant's accepted bill protested, than he is considered as a bankrupt. For this reason, the laws of most nations have given very extraordinary privileges to bills of exchange. The security of trade is essential to every society; 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 disappear; and the great engine of commerce would be totally destroyed.

A regular bill of exchange is a mercantile contract, in which four persons are concerned, viz. 1. The drawer, who receives the value: 2. His debtor in a distant place, upon whom the bill is drawn, and who must accept and pay it: 3. The person who gives value for the bill, to whose order it is to be paid: and 4. The person to whom it is ordered to be paid, creditor to the third.

By this operation, reciprocal debts, due in two distant parts, are paid by a sort of transfer, or permutation of debtors and creditors.

(A) in London, is creditor to (B) in Paris, value 100*l.* (C) again in London, is debtor to (D) in Paris for a like sum. 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; consequently, the two debts are paid, and no money is sent from London to Paris, nor from Paris to London.

In this example, (A) is the drawer, (B) is the acceptor, (C) is the purchaser of the bill, and (D) receives the money. Two persons here receive the money, (A) and (D), and two pay the money, (B) and (C); which is just what must 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.

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When it therefore happens, that the reciprocal debts of London and Paris (to use the same example) are not equal, there arises a balance on one side. Suppose London to owe Paris a balance, value 100*l.* How can this be paid? I answer, 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 100*l.* when Paris owes no more to London, sends 100*l.* to his correspondent at Paris in coin, at the expence, I suppose, of 1*l.* and then, having become creditor on Paris, he can give a bill for the value of 100*l.* upon his being repaid his expence, and paid for his risk and trouble.

Or it may be paid without a bill, if the London debtor sends the coin himself to his Paris creditor, without employing an exchanger.

This last example shews of what little use bills are in the payment of balances. As far as the debts are equal, nothing can be more useful than bills of exchange; but the more they are useful in this easy way of business, the less profit there is to any person to make a trade of exchange, when he is not himself concerned, either as debtor or creditor.

When merchants have occasion to draw and remit bills for the liquidation of their own debts, active and passive, in distant parts, they meet upon change; where, to pursue the former example, the creditors upon Paris, when they want money for bills, look out for those who are debtors to it. The debtors to Paris again, when they want bills for money, seek for those who are creditors upon it. This is a representation of what we have frequently called the money market, in which the *demand* is for *money*, or for *bills*.

This market is constantly attended by brokers, who relieve the merchant of the trouble of searching for those he wants. To the broker every one communicates his wants, so far as he finds it prudent; and by going about among all the merchants, the broker discovers the side upon which the greater demand lies, for money, or for bills.

We

We have often observed, that he who is the demander in any bargain, has constantly the disadvantage in dealing with him of whom he demands. This is no where so much the case as in exchange, and renders secrecy very essential to individuals among the merchants. If the London merchants want to pay their debts to Paris, when there is a balance against London, it is their interest to conceal their debts, and especially the necessity they may be under to pay them; from the fear that those who are creditors upon Paris would demand too high a price for the exchange over and above par.

On the other hand, those 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 those who are debtors to Paris would avail themselves 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 pressed for money at London, will willingly abate something 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 must here be banished; and instead of technical terms, which are very well adapted for expressing them, recourse must be had to plain language, for pointing out the simple operations of this trade. It is by this method that principles must be deduced, and from principles we shall draw the consequences which may be derived from them.

From the operation carried on among merchants upon Change, which we have been describing, we may discover the consequence of their separate and jarring interests. They are constantly interested in the state of the balance. Those who are creditors on Paris, fear a balance due to London; those who are debtors to Paris, dread a balance due to Paris. The interest of the first is to dissemble what they fear; that of the last, to exaggerate what they wish. The brokers are those who determine the course of the day; and the most intelligent merchants are those who dispatch their business before the fact is known.

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Now I ask, how trade, in general, is interested in the question, who shall outwit, and who shall be outwitted, in this complicated operation of exchange among merchants?

The interest of trade and of the nation is principally concerned in the proper method of paying and receiving the balances. It is also concerned in preserving a just equality of profit and loss among all the merchants, relative to the real state of the balance. Unequal competition among men engaged in the same pursuit, constantly draws along with it bad consequences to the general undertaking, as has often been observed; and secrecy in trade will be found, upon examination, to be much more useful to merchants in their private capacity, than to the trade they are carrying on.

Merchants, we have said, in speaking of the bank of England, endeavour to simplify their business as much as possible; and commit to brokers many operations which require no peculiar talents to execute. This of exchange is of such a nature that it is hardly possible for a merchant to carry on the business of his bills, without their assistance, upon many occasions. When merchants come upon Change, they are so full of fears and jealousies, that they will not open themselves to one another, lest they should discover what they want to conceal. The broker is a confidential man, in some degree, between parties, and brings them together.

Besides the merchants, who circulate among themselves their reciprocal debts and credits, arising from their importation and exportation of goods, there is another set 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 easily be transacted openly between the parties themselves. No man feigns and dissembles, except when he thinks he has an interest in so doing.

But when balances come to be paid, exchange becomes intricate; and merchants are so much employed in particular branches of business,

business, that they are obliged to leave the liquidation of their debts to a particular set of men, who make it turn out to the best advantage to themselves.

Whenever a balance is to be paid, that payment costs, as we have seen, an additional expence to those of the place who owe it, over and above the value of the debt.

If, therefore, this expence be a loss to the trading man, he must either be repaid this loss by those whom he serves, that is, by the nation; or the trade he carries on will become less profitable.

Every one will agree, I believe, that the expence of high exchange upon paying a balance, is a loss to a people, no way to be compensated 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 necessary to prove this proposition, it may be drawn from this principle, to wit, whatever renders the profit upon trade precarious or uncertain, is a loss to trade in general: this loss is a consequence of high exchange; and although a profit does result from it upon one branch of trade, the exchange business, yet that cannot compensate the loss upon every other.

We may, therefore, here repeat what we have said above, that the more difficulty is found in paying a balance, the greater is the loss to the nation.

This being admitted, I shall here enumerate all the difficulties which occur in paying of balances. Most of them have been already mentioned from their relation to subjects already discussed; and could it be supposed, that every reader has retained the whole chain of reasoning already gone through, a repetition in this place would be superfluous: but as that cannot be expected, I shall, in as short and distinct a manner as possible, recapitulate, under four articles, what I hope will be sufficient to refresh the memory upon each of them.

1<sup>mo</sup>, The first difficulty which occurs in paying a balance, is to determine exactly the true and intrinsic value of the metals or coin in which it is to be paid; that is to say, the real par.

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2<sup>do</sup>, How

2do, How to remove the domestic inconveniences which occur in paying with the metals or coin.

3tio, How to prevent the price of exchange from operating upon the whole mass of reciprocal payments; instead of affecting only the balance.

The remedies and palliatives for these three inconveniencies once discovered, comes the last question, viz. How, when other expedients prove ineffectual for the payment of a balance, the same may be paid by the means of credit, without the intervention of coin; and who are those who should conduct that operation.

CHAP. II.

*How to determine exactly the true and intrinsic 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 say, of a liquidated debt, must be paid in a value equally determinate in its nature.

This I suppose to be the case, whether payment be made in the precious metals unmanufactured, bullion; or in a nation's coin, or in denominations of money of account. All payment in merchandize, except bullion, must suffer conversions of value before the debts can be liquidated.

Money of account, which is what we understand by denominations, we have defined to be a scale of equal parts, calculated to determine the value of things, relatively to one another. It must, therefore, be by the money of account of different nations, that the value of bullion and of coin can be determined.

When

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, raises the value of that commodity, bullion, like the manufacturing of every other natural production.

When coin, therefore, is employed in paying sums 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 shewn how utterly impossible it is to realize with exactness, the denominations of money of account, in the metals which are constantly varying in their value, and exposed to waste in circulation.

We have shewn, by many examples, how, in fact, the value of the pound sterling has been subject to great vicissitudes of late, from the great disorder 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 present value in the market: but then as oft as the balance turns against France, the high imposition upon her coinage, exposes the coin to great fluctuations of value, when compared with bullion in the Paris market. This is also to be ascribed to the imperfection of the metals when used as money, while they are merchandize at the same time.

This being the case, the way to calculate the real par of exchange between nations, who have in common no determinate and invulnerable money, exclusive of coin, is to consider fine gold and silver as the next best standard.

This is a merchandize which never varies in its quality. Fine gold is always the same in every mass; and weight for weight, there is no difference in its value or quality any where.

This standard being once adopted, the calculation of the real par becomes an easy operation to those who know the course of the bullion market in the two places exchanging.

If

If, by the exportation of all the heavy coin of London, bills must be paid in a worn out currency, the rise in the price of gold in their market, above mint price, will mark pretty nearly how far it is light.

If, on the other hand, the wars of France, or an unfavourable balance upon her trade, shall oblige her to export her coin, that operation will *sink* the value of it, or *raise* the price of bullion, which ever way you choose to express it.

It is not here a proper place to resume the question, which of the two expressions is the most proper: we are here considering the value of the bullion as what is fixed, because it answers the purpose. But whether we say that bullion *rises* in the markets of Paris and London; or that the value of their currencies *sinks*, though from very different causes, the calculation of the real par will proceed with equal accuracy. An example will illustrate this.

When *fine* gold is at the lowest price to which it can ever fall at Paris, that is to say, at the mint price, it is worth 740 livres 9 sols, or 740.45 livres *per* mark, in decimals, for the ease of calculation. The mark contains eight ounces Paris weight.

Were the ounces of Paris equal to those of troy weight,  $\frac{1}{8}$  of this sum, or 92.5562 livres, would be the value of that ounce by which gold is sold at London.

But the Paris ounce is about  $1\frac{1}{2}$  *per cent.* lighter than the troy ounce; and the exact proportion between them is unknown, from the confusion of weights, and the want of a fixed standard in England.

By the best calculation I have been able to make, a Paris ounce should contain 473 grains troy, which makes the proportion between the two ounces to be 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 *standard*.

When standard gold bullion is at the lowest price it can be at London, it is worth the mint price, or 3 *l.* 17 *s.* 10  $\frac{1}{2}$  *d.* *per* troy ounce, which, expressed

expressed in decimals, is 3.8937 *l.* sterling. Standard is to fine, as 11 is to 12; consequently, the ounce fine is 4.2476 *l.* sterling: and if the Paris ounce of *fine* bullion be worth, as has been said, 92.5562 livres, the ounce troy, according to the above proportion, will be worth 93.926 livres. Divide then the livres by the sterling money, and the quotient will give you the real par of exchange of the pound sterling, while bullion remains at that value in Paris and in London, viz.  $\frac{4.2476}{93.926} = 22.112$  livres for the pound, or 32.56 *d.* sterling for the French crown of 3 livres.

Gold bullion never can rise in the Paris market, at least all the last war it never *did* rise, above the value of the coin; that is, to 801.6 livres the mark fine, or 100.2 livres *per* ounce Paris, and 101.7 livres the troy ounce.

How high the price of gold bullion may rise at London no man can say; but the highest it rose to, during the last war, was, I believe, 4 *l.* 0 *s.* 8 *d.* *per* ounce standard, or to 4.3999 *l.* sterling *per* ounce fine. By this divide the value of the ounce troy fine in French livres, the real par at this rate of the metals in both cities will be  $\frac{4.3999}{93.926} = 23.11$  livres for the pound sterling, or 31.155 pence sterling for the French crown of 3 livres. But suppose two cases which may happen, viz. 1. That gold bullion at Paris should be at the price of coin, while at London it may be at mint price: or, 2. That at Paris it may be at mint price, when at London it is at 4 *l.* 0 *s.* 8 *d.* what will then the real par of exchange be?

I answer, that on the first supposition, it will be one pound sterling, equal to 23.939 livres, and the crown of 3 livres equal to 30.076 pence sterling. In the other, equal to 21.34 livres for the pound sterling, and for the crown of 3 livres 33.728. A difference of no less than 8.9 *per cent.*

Is it not evident that these variations *must* occur in the exchange between London and Paris? And is it not also 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 French trade raises bullion to the price of coin; and



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 standard bullion would constantly stand at the same price: but when the heavy coin is exported, and the currency becomes light by the old remaining in circulation, the price of bullion rises in proportion.

Is it surprizing that, at London, gold in bullion should be worth as much as gold of the same standard in guineas, weight for weight? It is worth as much at the mint, why should 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 highest market price that ever was given for standard gold bullion in London, and gain by the bargain.

This, I hope, will be sufficient to satisfy any body that there is a mistake in ascribing 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 question, I hope the arguments used in the 16th chapter 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 interests of the French trade; a point, I should think, of the highest concern.

To calculate, as every body does, the par of the French crown, either by the gold or the silver in the English standard coin, when no such standard coin exists; and to state all that is given for the crown above 29½ d. if you reckon by the silver, or 30¾ d. if you reckon by the gold, for the price of a wrong balance, is an error which may lead to the most fatal consequences.

If government should think fit to impose, 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 loss we suffer

suffer by paying coinage to France, which we at present impute to the exchange, while she pays none to us. But then it will occasion nearly the same fluctuations upon the real par of exchange as at present; only from another cause on the side of Great Britain. At present our exchange becomes favourable from the weight of our own currency; and the balance against France upon her trade; which, in Paris, raises the price of the bullion with which we pay our French debts. On the other hand, our exchange becomes unfavourable from the lightness of our own currency, from the coinage we pay to France, and balance against us; which last carries off all our new guineas; and in the Paris market, sinks the value of that bullion in which we pay our French debts.

Were matters put upon a right footing, we should gain from France the price of our coinage, when our balance is favourable, and pay coinage to France when their balance is favourable; instead of seeing our exchange turn more in our favour, only from the additional weight of the coin in which we pay.

If French coinage should appear too high a price for the interest of other branches of British trade, a question I shall not here determine, let us impose at least as much as to keep our guineas out of the melting pot, and banish all the old coin which throws us into such confusion.

What has been said is undoubtedly too much upon this subject for the generality of readers. The number of those who can go through a chapter like this with pleasure is very small. But, if the idea I have been endeavouring to communicate, be found just by one man of capacity, whose opinion shall have weight in the deliberations of Great Britain, the consequences may be great to this nation; and this consideration will, I hope, plead my excuse.

I shall now set this question in another point of view, from which the stress of my arguments will be felt, and all intricate combinations will be laid aside.

Does not the price of exchange, or what is given above the par, proceed from the expence of sending the metals from one place to

the other, the insurance of them, and the exchanger's profit? If this be true, which I believe no body will deny, must not what is paid for the bill, over and above these three articles, be considered 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 sends it, at all enter into the account of the transportation, risk, and profit, which the exchanger has on the operation? Certainly not. May there not be a very great difference between the buying and selling the very same bullion in different markets at one time and another? Ought we not to charge that to some other account than to the price of exchange, which is confined to the expence of transporting *the balance only*, and when two objects totally different are included under the same 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 expence of procuring it, proceeds from three causes. 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.

The second cause of variation, is the debasement of the value of the pound sterling, when the heavy gold has been sent abroad. That loss affects the nation, and every man in England, in the quality of creditor for sums specified in pounds sterling, to the profit of all debtors.

The third cause of variation, is from the great expence exchangers are put to, in procuring the metals from other countries, when they cannot be got at home: the consequence of this shall be explained in a succeeding chapter.

As all these causes are combined in the exchange upon bills when they come to market, I think it is proper to analyze them, before the doctrine we are upon can be distinctly understood.

I shall therefore conclude my chapter with this proposition:

7

That

That the best method of determining exactly the true and intrinsic 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 respective value of fine bullion with the respective denominations of the coin in the one and the other; and to state the difference as the price paid for the exchange\*.

\* There occurs another considerable 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 almost say every city. This has proceeded, in a great measure, from the inaccuracy with which they have been made formerly. I think it is highly probable, that many, at least, of the principal weights in Europe, have derived their origin from the same standard; although they are now considerably different. Those I am best acquainted with are the following, of which I shall here set down a short table, reduced to troy grains, according to the best calculation I have been able to make.

One ounce troy contains	- - - - -	480	troy grains.
One ounce Paris, or <i>poids de marc</i> ,	- - - - -	473	
One ounce Holland troes	- - - - -	473.27	
One ounce Colonia	- - - - -	449.33	

These are the weights used in the mints of England, France, Holland, and Germany.

If therefore we should call the troy ounce 100, the proportion of the rest will be as follows:

Troy	- - - - -	100
Paris	- - - - -	98.541
Holland	- - - - -	98.597
Colonia	- - - - -	93.61

I have chosen to reduce to ounces; because it is the denomination in which the proportion of weights is best preserved.

These 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 himself much to the establishing a general standard of weights in his dominions.

In the examples I have given, we see 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, established in the English mint at the Norman conquest, and there preserved, until Henry VIII. substituted

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 state of absolute 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 preserving a proper standard.

The best remedy for this inconvenience, would be, for any one mint to form a weight, *ad libitum*, and to send a most accurate copy of it to every mint in Europe: to mention, at the same time, the exact proportion between the weight sent, and that observed at their own mint: to beg of the other mints an equal communication of the proportion between the weight sent, and their several standards: and last of all, to publish in the news-papers of all commercial towns, every market day, as is done at Amsterdam; the price of *fine* gold and silver, according to this new weight, made for the purpose. This weight may be called the mint-weight of Europe; and from the universal utility which would follow upon such a regulation, it probably might be followed: were this to happen, it might be a step towards establishing an universal conformity of weights every where.

While matters stand on the present footing, it is necessary to be informed of three particulars. First, Of the proportion of the different mint weights. Secondly, Of the regulations by which the coin is made. And lastly, Of the exactness of the mints in following the regulation. Every mistake in any one of these three articles, is an impediment to the just determination of the real par.

I acknowledge that, in fact, exchange business goes on smoothly, notwithstanding all the difficulties we have been enumerating. It may therefore be asked, in what would consist the great advantage of so scrupulous a nicety?

My answer is, that exchange business will always go smoothly on, as long as exchangers gain, and that trade is not interrupted.

But trading men consider their own interest only; and I am considering the interest of an intelligent state, which wants to promote the good of the whole community, without occasioning any hurt to the interest of individuals.

## C H A P. III.

*How to remove the inconveniences which occur in paying Balances with the Metals or Coin of a Nation.*

THE inconveniences which occur when balances are to be paid in bullion or coin are these:

First, The want of secure 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 speak 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 sum of all that is reciprocally due from it. So far as a balance due to one country is compensated with a balance due by another, they may be mutually discharged by bills of exchange, according to the principles already laid down. All compensations being made by bills drawn for reciprocal debts, we must here suppose a balance due by the country whose interest we are considering. This, like debts between private people, must either be paid in intrinsic value, or by security for it; that is, by contracting a permanent debt bearing interest. The first is the question here before us; the second will be examined in the succeeding chapter.

The first difficulty mentioned, to wit, the want of secure 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 shew how far it is the interest of government to obstruct; how far to accelerate the transportation of the metals.

We have said that it is the advantage of every state, in point of trade, to have balances paid with the least expence. If then we suppose that it is either necessary or expedient that this balance should

should be paid in the metals, government, in that case, should facilitate by every method the sending them off in the cheapest and securest way.

But since governments do not follow that rule, we must examine the reasons 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 restriction, it engages the people, when they go to foreign markets for articles of exportation, to run to the coin, instead of carrying thither the product and manufactures of the country. From which a consequence 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 domestic industry.

This is an objection of great weight, relative to the situation of many nations. The Spaniards and Portuguese feel it severely. Many individuals there are very rich; the numerous classes of the people are either lazy or not properly bred to industry. In that situation the alternative to government is very disagreeable. Either the rich must be deprived of every enjoyment with which their industrious neighbours alone can supply them, until, by very slow degrees, the lowest classes of their countrymen can be engaged to change their way of living, and be inspired with a spirit of industry; or they must be allowed to gratify the desires which riches create, at the expence of the nation's treasure, and the improvement of their country.

From this alternative we discover the principle which directs the conduct of a statesman under such circumstances, viz.

To forbid the importation of every foreign manufacture whatsoever; to submit to the hardships necessarily implied in the circumstances of the nation; and to pay freely what balance may be owing upon natural produce imported for the uses of subsistence, or manufacture.

This is a plan more rational and more easily executed, than a general prohibition to export the metals; because with good regulations,

tions, properly executed, you may prevent the importation of manufactures; but it is hardly possible to prevent the exportation of the metals necessary to pay for what you have bought from strangers, by the permission of government: and on the other hand, suppose you do effectually prevent the exportation of the metals, the consequence will be, to put an end to 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 strangers; but when you allow them to be contracted, to facilitate the payment of them.

This reasoning is only calculated to direct a statesman who finds himself at the head of a rich-luxurious nobility, and an idle or ill-instructed common people, surrounded by industrious neighbours, whose assistance may be necessary upon many occasions, to provide subsistence, or the materials of manufacture, to his people; and this while he is forming a scheme of introducing industry at home, as a basis for afterwards establishing a proper foreign commerce.

But in this subject combinations are infinite, and the smallest change of circumstances throws the decision of a question on a different principle.

I will not therefore say, that in every case which can be supposed, certain restrictions upon the exportation of bullion or coin are contrary to good policy. This proposition I confine to the flourishing trading nations of our own time:

To set this matter in a fair light, and as an exercise upon principles, I shall borrow two combinations, one from history, and another from a recent example in France, in which a clog upon the exportation of the metals and coin were very politically laid on.

We learn from the history of Henry VII. of England, a sagacious Prince, that he established very severe laws against the exportation:

of

of bullion; and obliged the merchants who imported foreign commodities into his dominions, to invest their returns in the natural produce of England, which at that time consisted principally in wool and in grain.

The circumstances of the times in which that Prince lived, must therefore be examined, before we can justly find fault with this step of his political oeconomy.

In Henry the VIIth's time, the foreign trade of England was entirely in the hands of foreigners, and almost every elegant manufacture came from abroad.

Under such circumstances, is it not plain, that the prohibition of the exportation of bullion and coin was only a compulsion, concomitant with other regulations, to oblige foreign merchants, residing in his kingdom, to buy up the superfluity of the English natural produce of wool and grain? Had not the King taken those measures, the whole money of the nation would have been exported; the superfluous natural produce of England would have lain upon hand; the abundance of these would have brought their price below the value of the subsistence of those who produced them; agriculture would have been abandoned; and the nation would have been undone.

I allow that nothing is so absurd as a desire to consume foreign productions, and to forbid the exportation of the price of them. I also allow, that every restraint laid upon exporting silver and gold, falls upon the consumer of foreign goods, and obliges him to pay the dearer for them; but this additional expence to the consumer, does not augment the mass of foreign debts. The debt due abroad will constantly be paid with the same quantity of coin, whether the exportation of it be allowed or forbidden; because the loss of those who pay the balance arises from the risk of confiscation of the money they want to export against law; or from the high exchange they are obliged to pay to those who take that risk upon themselves. If, however, the additional expence they are put to remains in the country, and is paid by the consumers; consequently, can never

never occasion one farthing more to be exported. Prohibitions, therefore, upon the exportation of specie, are not in every case so absurd as they appear at first sight. It is very certain that no body gives money for nothing; consequently, a state may rest assured that the proprietors of the specie, their subjects, will take sufficient care not to make a present of it to foreigners. The intention, therefore, of such prohibitions, is not to prevent the payment of what people owe; but to prevent that payment from being made in coin or bullion; and also to discourage the buying of such foreign commodities as must be paid in specie, preferably to others which may be paid for with the returns of home produce.

When a statesman, therefore, finds the balance of trade, upon the main, favourable to the country he governs, he need give himself no trouble about the exportation of the specie, from this single principle, to wit, that he is sure it is not given for nothing. But when the balance turns against them, in the regular course of business, not from a temporary cause, then he may lay restraints upon the exportation of specie, as a concomitant restriction, together with others, in order to diminish the general mass of importations, and thereby to set the balance even.

In a trading nation, I allow, that no restriction 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 sale of corn and wool was sufficient to procure for England all it wanted from abroad; and the interests of trade were not sufficiently combined, to enable the state 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 sufficient reason 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 invest the price they received for them in English commodities? Once more I must say it, he was not so much afraid of the consequences of the money going out, as of the corn and wool remaining at home; had he been sure of the exportation

tation of these articles to as good purpose another way, the prohibition would have been absurd; but I am persuaded that was not the case.

The example taken from France is this.

After the fatal bankruptcy in 1720, by the blowing up of the Mississippi, the trade of France languished from the effects of the instability of their coin, until the year 1726, when it was set upon that footing on which it has remained ever since.

Upon that last general coinage, the same principles of enriching the King by the operation, directed the conduct of the minister.

The old specie was cried down, and proscribed in circulation: but it was thought, that as it was the King's coin, he had a liberty to set a price upon it, at a different rate from any other bullion of the same fineness; and that he had also a right to command the proprietors of it to bring it to the mint at his own price.

The consequence was, that those who could were very desirous to send it to Holland, in order to draw back the value they had sent in bills upon Paris.

Under such circumstances, were not prohibitions upon the exportation of this coin most consistent with the plan laid down? We shall, in the next chapter, examine the consequences of this operation upon the exchange of France.

What has been said, will, I hope, suffice to explain some of the principal motives which statesmen may have, when they lay restrictions on the exportation of the metals, with a view to favour the trade of their nation.

But besides the interests of trade, there are other reasons for laying prohibitions on the exportation of the national coin, although that of bullion be left free under certain restrictions.

As often as it happens, from whatever cause it may proceed, that the value of a nation's coin falls to par with bullion of the same fineness, that coin, if exported, may be melted down. This is a loss; because it puts the nation to the expence of coining more for the use of circulation.

When

When nations give coinage gratis, or when they allow the coin of other nations the privilege of passing current under denominations exactly proportioned to its intrinsic value, then coin never can be worth more than any other bullion of the same standard; consequently, will be exported or smuggled out upon every occasion.

If, therefore, a nation does really desire to avoid an expence to the mint, they must make it the interest of merchants to export every other thing preferably to their own coin. This is done by imposing a duty upon the coinage; and this will either prevent its going out unnecessarily, or if it be necessary to export it, the coin will return in the payments made to the nation, in consequence of its advanced value above any other bullion which can be sent.

The forbidding the exportation of coin, implies a restriction upon the exportation of bullion; because, unless the bullion be examined at the custom house, and the stamps upon it looked at, it may happen to be nothing but the nation's coin melted down, with an intention to avoid the law. For this reason, whoever brings bullion to be stamped, whether it be for exportation or not, must declare that it is not made of the nation's coin. How slender a check are all such declarations! The only one effectual is private interest; and as no man will take his wig to stuff his chair, when he can get cheaper materials equally good, so 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 flourishing commercial state, which has, on the average of their trade, a balance coming in from other countries, should lay it down as a general rule, to facilitate the exportation of their coin, as well as bullion: and if a very particular circumstance should occur, which may continue for a short time, they may then put a temporary stop to it, and facilitate the payment of the balance in the way of credit.

I have enlarged so much upon the methods of removing the first difficulty of paying a balance, with the coin or bullion found in a

nation, that what remains to be said upon the second difficulty, to wit, the procuring them from other nations, need not be long.

Were the mint weights of all countries sufficiently determinate; were the regulations concerning the standard of bullion exactly complied with; and were the current market prices of that important commodity, considered as a valuable piece of intelligence every where, the bullion trade would be much easier than it is.

We have said, that when the reciprocal debts of two nations are equal, there is no occasion for bullion to discharge 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 to a place which is also creditor to the world; and in this case bullion is necessary to pay the debt.

If a man owes money to a person who has many creditors, the person owing, may buy up a claim against him, and pay what he owes in that way: but if the person to whom he owes money be indebted to no body, then the debt must be paid with ready money. Just so of nations. For instance, when bullion is demanded to be exported to Holland, the English merchants, who are creditors on Spain and Portugal, take from thence their returns in bullion, for the sake of paying a balance to Holland, which is, upon the whole, creditor to the world.

But as it seldom happens, that he who deals with Holland is the person 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 same profits upon the bills they give to the man who wants to take his return in bullion. This plainly raises the price of bullion in the English market; because it is brought home in consequence of a demand from England. On the other hand, when the demands of England for Portuguese commodities is less than the value of what Portugal owes her, the Portugal merchants in London are obliged to take the balance

lance in the metals. These come to the London market, and are offered to sale to those who want them: then the price of bullion falls; because the demand comes from the other side.

To go through all the operations which merchants employ to abbreviate the process I have been describing, would, indeed, better explain the practical part of exchange, than what I have said; but I write, not to instruct merchants, but to extract from their complicated operations, the principles upon which they are founded.

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#### CHAP. IV.

*How the Price of Exchange, in a prosperous trading Nation, may be prevented from operating upon the whole Mass 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 shall inquire more particularly than we have done, in what that hurt consists. The point of view of every man, whether he be a merchant or not, is first honestly, and as far as law and fair dealing permit, to consult his own private interest; and in the second place, to promote that interest with which his own is most closely connected.

According to this rule, every merchant will endeavour to manage his exchange business to the best advantage to himself. If the balance be against his country, he will sell his bills to the country creditor as dear as he can; that is, he will endeavour to raise the price of exchange as high as he can against his country, whatever hurt may thereby result to the general trade of it; and in so doing, he only does what duty to himself requires; because it is by mind-

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ing his business only, that he can trade upon equal terms with his neighbours, every one of which avail themselves of the like fluctuations, when they happen to be in their favour.

From this I conclude, that since the loss upon high exchange against a country, affects principally the cumulative interest of the whole, relative to other trading nations; it is the business of the statesman, not of the merchants, to provide a remedy against it.

The whole class of merchants, no doubt, exchangers excepted, would be very glad to find the course of exchange constantly at par. This is also greatly the interest of the state; because it is from the balance in its favour, not from the profit made in drawing that balance from the debtor, that the state is a gainer. This must be explained.

I am to shew how it happens, that a nation is only benefited or hurt by the net balance which it receives from, or pays to her neighbours: and that the whole expence of paying or receiving that balance, is not national, but particular to individuals at home; consequently, it would be the interest of all states, that balances, both favourable and unfavourable, were paid by the nation debtor, at the least expence possible.

The great difficulty in communicating one's thoughts upon this subject with distinctness, proceeds from the ambiguity of the terms necessary to express them. This may be avoided by adopting the technical terms of merchants; but these are still more difficult to be comprehended by any one not conversant in commerce. I shall acquit myself of this difficult task the best way I can.

When we speak of a balance between two nations, we shall call the nation who owes the balance the *nation-debtor*; the other to whom it is owing, the *nation-creditor*.

Balances imply reciprocal debts; consequently, reciprocal debtors and creditors. To avoid, therefore, confusion in this particular, we shall use four expressions, 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

Let me suppose that Paris owes a balance to London, no matter for what sum. The reciprocal debts between Paris and London are all affected by the consequence of this balance: that is to say, some pay or receive more than the real par; some pay or receive less. To discover where the profit centers, we are now to inquire who are those who receive more, who are those who receive less. And as profit and loss are here only relative, that is to say, the profit of the one is compensated by the loss of the other; we must see whether or not, upon the whole, the price of the exchange in this case be favourable to London, to which, by the supposition, the balance is due, and unfavourable 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; consequently, the London merchants, creditors to the *nation-debtor*, will pay the exchange; that is to say, they will sell 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 negotiation is carried on at London, I must suppose it to take place amongst Englishmen; one part of whom will gain exactly what the other loses; consequently England, in this respect, neither gains or loses by the exchange paid in London.

Let us next examine the interest of the merchants, and the interest of the nation's trade.

The creditors to the nation-debtor, who have lost by the exchange, are those who have exported English commodities to France. Upon this profitable branch of commerce the exchange occasions a loss, the consequence of which is, to discourage exportation.

The debtors to the nation-debtor, who have gained by the exchange, are those who have imported French commodities to England. Upon this hurtful branch of commerce, the exchange occasions



fions a profit; the consequence of which is, to encourage importation.

This is not all. The merchants exporters, who have lost, cannot draw back their loss upon the return of their trade; because the return of their trade is the *money* due by France, the balance included. Whereas the merchants importers may draw back their loss upon the return of their trade; because that return is *merchandise*, which they can sell so much the dearer to their own countrymen.

If the balance be in favour of London, importers gain, as we have seen; when it is otherwise, and when they are obliged to pay the exchange, they indemnify themselves, by the sale of their goods so much the dearer. High exchange, therefore, *may* hurt 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 must pay the exchange. The debtors, therefore, to the nation-creditor, must pay the exchange, and the creditors to the nation-creditor will receive it; and as both are Frenchmen, the profit and loss to Paris exactly balance one another.

But the debtors to the nation-creditor are here the importers of English goods; consequently, this trade, hurtful to France, would be hurtful to the importer, could he not indemnify himself by selling them so much the dearer to his countrymen.

The creditors, again, to the nation-creditor, who gain the exchange, are the exporters of French goods to England; so that here the exportation meets with an encouragement from a balance against the country.

From the advantage found upon exchange in favour of exporters, and the loss upon it to the prejudice of importers, in the case of a wrong balance, it has been believed, that a wrong balance produced upon importations and exportations are effects equal and  
contrary,

contrary, which destroy one another, and thereby bring the balance even.

In answer to this, I have two short arguments to offer.

The first is, that were the argument conclusive, it would hold good in reversing the proposition; to wit, that the consequence of a favourable balance would be to destroy the difference also, and bring the balance even. This I never heard alleged.

My second argument is the strongest: that the enhancing of the prices of importations will not so effectually discourage the sale of them at home, as the enhancing the prices of exportations will discourage the sale of them abroad; for the reasons I shall give presently. But in the mean time,

If the compensation be considered only in relation to the merchants importers and exporters, there, indeed, I agree, that *their* profit and loss upon the exchange is most exactly balanced; because what the one party gains the other loses; and the country loses the balance only, as has been said.

The reciprocal debts thus transacted by bills of exchange, we see that no profit can be made, nor loss incurred, either to London, or Paris, by that operation.

The profit to Frenchmen is compensated by the loss to Frenchmen; the same may be said of the English merchants: but the balance due after those operations are over, and the more remote consequences of high exchange, affect the relative interest of the two nations.

This balance is generally sent by the country-debtor, either to the country-creditor, or to their order in a third country, to which they are indebted.

The transportation and insurance of this balance is an expence to those who owe it, and the profit, if any there be on that operation, naturally falls to exchangers of the same nation, who conduct it. So whether exchange be paid upon bills drawn, or expence be incurred in the transportation of balances, no profit can accrue upon that to the nation-creditor, to the detriment of the debtor: it must,

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 seen how the creditors of the nation-debtor pay exchange upon the sale of their bills on Paris, which owes the balance. If by the operations of exchangers, this exchange should rise, to their detriment, higher than the expence, trouble, and insurance, of bringing the balance from Paris, then they will appoint some factor at Paris, to whose order they will draw bills upon their debtors in that city; and as what the Paris-debtors owe to London is stated in pounds sterling, the London-creditors will value the pound sterling, according to the rate of exchange, in their favour; and in their bills upon their Paris-debtor, they will convert the sum into livres, including the exchange.

By this operation, we see how the transportation of the balance may become the business of the creditors to the nation-debtor: which is a combination we have not as yet attended to: a few words will explain it.

When the creditors of the nation-debtor sell their bills, they must pay the exchange, as has been said. When they draw bills to the order of a friend in the place where the balance is owing, they superadd the exchange. This their debtors pay: but then they themselves must be at the trouble and expence of bringing home the money.

It is from this alternative which both parties have of either sending what they owe to their creditors in bullion, or of allowing them to draw for it at the additional expence of paying the exchange, that a check upon the extravagant profit of exchangers arises: and from this combination arises 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

I proceed now to consider how far those reciprocal profits and losses, between merchants in the same country, affect the trade of it in general.

When the balance is favourable, we have said that the exporters lose the exchange, and the importers gain it; and both being citizens, the country would not be concerned in their relative interests, were it not that these interests are connected with that of the country, which reaps great benefit from the trade of those who deal in exportations, and loss from the other.

If, therefore, exchange is found to hurt exportation, when the balance is favourable, in this respect the country has an interest in bringing it as low as possible. But as it may be said that since the return of an unfavourable balance hurts in its turn the interests of importation, and favours the other, exchange thereby operates a national compensation; it will not be improper, in this place, to throw out one reflection more, in order to destroy the strength of that argument.

Were this proposition admitted, as I am afraid it cannot, from what we have already said, it affords no argument against doing what can be done, to render exchange as little hurtful as possible to exportation, during the favourable balance. But as to the question itself, of national compensation, I cannot allow that even *exporters* and *importers* are thereby brought on a level in point of trade: for this reason, that the exchange affecting the exporters, in proportion as it augments, discourages 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 manufactures at home, arising from domestic circumstances. But when the merchant importer is affected by the exchange against him; this additional expence he can draw back; because he sells to those who are affected by all domestic circumstances.

Let us therefore determine, that it is the interest of a state to disregard that compensation which is given to exportation by a wrong

balance, which does so much harm; and to avoid the discouragement given to it by a right balance, which does so much good. The only way to compass those ends, is to keep exchange as near to par as possible.

Could reciprocal debts be always exchanged at par, and could the expence of bringing home, and sending a balance abroad, be defrayed by the state, I think it would prove a great advantage to the trade of a nation. I do not pretend to say that, as matters stand, the thing is practicable; but as it is a question which relates to my subject, and seems both curious and interesting, I shall here examine it.

At first sight, this idea will appear chimerical; and some readers may despise it too much, to be at the trouble to read what may be said for it. I shall therefore set out by informing them that the scheme has been tried, in a great kingdom in Europe, under a great minister: I say it was attempted in France, in the year 1726, under the administration of Cardinal Fleuri, and produced its effect; although it was soon given up, from a circumstance which, I think, never can occur in Great Britain.

After the last general coinage in France, 1726, exchange became so unfavourable to that kingdom, that there was a general outcry. The Cardinal, to put a stop to the clamour, and set 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 Amsterdam, for the payment of his bills, the Cardinal supplied this exchanger with sufficient quantities of the old coin, then cried down, and 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 time discovered, that by this he was undoing with one hand, what he wanted to establish with the other. He therefore stopped in his career, after having paid, perhaps, ten times the balance due to Holland.

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By unfolding the combination of this operation, I shall be better able to cast light on the question before us, than in any other way.

When the general coinage was made in France, by the arret 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 sols 6 deniers; and the silver at 37 livres 1 fol 9 deniers. These 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 34 livres for the marc of fine silver: and to compel the possessors of it to bring it in, all exportation and melting down was made highly penal; the avenues from France were beset with guards to prevent the going out; and the melting pots were strictly watched. Upon this, the possessors of the old coin, rather than sell it to the mint at so great an undervalue, had recourse to exchangers for bills upon Holland for it: and these being obliged to send it thither at a great expence and risk, exacted a very high exchange, which, consequently, affected the whole trade of France.

Politicians persuaded the Cardinal, that exchange had got up so high, not from the discredit cast on the old coin, but because of the wrong balance, and the alteration which had been made at that time upon the denomination of the new: and that so soon as the balance against France was paid, exchange would return to par. Upon this the Cardinal set Bernard to work, but he soon discovered his mistake; and by arret of the 15th of June the same year, raised the mint price of the old coin, and then exchange became favourable.

These are all facts mentioned by Dutot, and yet he never will ascribe the rise of exchange in France to any other cause than to the tampering with the denominations of their coin: an operation which may rob one set of people in favour of another; but which has very little effect upon exchange, when other circumstances do not concur, as in the case before us.

Now

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 succeeded, 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 negotiated between the merchants at par; and, consequently, that all expence upon exchange would have been saved to individuals, at the small charge to government of transporting the balance paid for the bills by the merchants at Paris?

Were prosperous trading states, therefore, conducted by statesmen, intelligent, capable, and uninfluenced by motives of private interest, they would make it a rule to be at the expence of sending off, and bringing home all balances, without the charge of exchange to traders: but the consequence of either neglect, or incapacity in the man at the helm, would then become so fatal that it might be dangerous to attempt, at once, so great a change in the present method of paying balances: but I never make allowances for the defects of a statesman, while I am deducing the principles which ought to direct his conduct.

I shall next slightly point out the bad consequences which, upon an unfavourable state of commerce, might result from such a plan; and without recommending any thing to practice, leave the reader to judge of the expediency.

We see, that by a statesman's giving bills at par, on all occasions, and being himself at the expence of transportation and insurance, in bringing home and sending off all balances, exchange would of itself come to par.

The first consequence of this would be, the total annihilation of the exchange business; and if, after that, any interruption should happen by neglect in the statesman, trade might suffer considerably.

Another consequence is, that the most destructive trade would go forward without a check, as long as merchants could pay the par of the bills they demanded upon foreign parts: and this they would constantly be enabled to do, while there was either coin or paper

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in circulation, as has been explained in treating of banks of circulation upon mortgage.

The consequence of this would be, to oblige the state to pledge the revenue of the country to strangers, in proportion to the balance owing, over and above the extent of the metals to discharge it.

Now the question is, and this I shall leave to the sagacity of my reader to determine, whether, as matters stand, there be any check proceeding from high exchange which can prevent the bad consequences here set forth. I suspect there is not. We see the most enormous sums lent by nations to nations; raising the exchange against the lenders; turning it in favour of the borrowers, but never preventing the loan from going forward. Does not Great Britain, as well as France, owe amazing sums to other nations, at the expence of paying the interest out of their revenue? And have not all those sums been transacted by exchangers, who have made great fortunes by it? Are not the most unfavourable balances paid in the ordinary method? Are there not, therefore, already, instruments in the hands of all nations, sufficient for their undoing? How could their ruin be accelerated by this alteration in the mode of performing the same thing?

But let it be observed, that our business, in this chapter, is to search for methods to advance the prosperity of flourishing nations, who have a balance owing to them; and here we have been setting forth the bad consequences which result from these, to others who are in decay. Every argument, therefore, drawn against this scheme, in favour of the idle or prodigal, is an argument in favour of it, with respect to the industrious and frugal. As all nations are liable to alternate vicissitudes of prosperity and adversity, the principles here laid down require to be carefully combined with domestic circumstances, before they be applied to practice.

It was with a view to this distinction, that, in the title of this chapter, I pointed out the question there proposed, as relative to the state of it in a *prosperous trading nation*; and I am not quite clear how far it might not be advantageous in every case: but this question I shall

shall not here enlarge upon. What has been said, will, I hope, be sufficient to point out the principles upon which the decision depends; and if any statesman inclines to try the consequences of it by an experiment now and then, nothing is so easy as to do it, without any detriment. This is proved from the operation performed by the French cardinal, on the occasion of a very unfavourable and high exchange.

CHAP. V.

*How, when other expedients prove ineffectual for discharging of Balances, the same may be paid by the Means of Credit, without the Intervention of Coin or Bullion; and who are those who ought to conduct that Operation.*

WE have now applied the principles formerly laid down, towards discovering the most proper expedients for removing or palliating the three inconveniences to be struggled with in regulating exchange-property. 1. How to estimate the value of a balance due: 2. How to pay it with the coin or bullion of the country: and lastly, How to prevent the price of exchange from affecting any thing more than the balance to be paid, after all reciprocal debts have been compensated.

It remains to inquire, what are the most 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 sight, it must appear evident that the only method here is to give security, 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 with expences

pences which raise exchange to a great height, and thereby prove a prodigious discouragement to trade in general: it would be no small advantage, could all this loss on exchange be equally thrown upon every class within the state, instead of being thrown entirely upon its commerce.

As this is the expedient to be proposed, it will not be amiss to observe, that foreign balances arise chiefly upon four articles. 1. The great importation and consumption of foreign productions. 2. The payment of debts and interest due to foreigners. 3. The lending money to other nations. And 4. the great expence of the state, or of individuals, abroad.

Could all the bad consequences arising from these four causes, and the high exchange occasioned by them, be cast upon that interest alone which occasions them, I would not propose to lay the whole body of the nation under contribution for repairing the loss.

But if from the nature of the thing, as matters stand, the whole be found to fall upon trade, without a possibility of preventing it; in this case, I think, it is better for the nation, *in cumulo*, to lend its assistance, and share the burdens, than to allow it to fall upon that part of the body politic from which the whole draws its vigour and prosperity.

It cannot be denied, that when a heavy balance is due by a nation, it has the effect of raising exchange upon every draught or remittance. When bills are demanded to pay a foreign claim, it cannot be determined from what cause the claim has arisen. Whether for national purposes or not, the exchange is the same, and equally affects the whole interest of trade.

If this be a fair state of the case, I think we may determine, that such balances are to be paid by the assistance and intervention of a statesman's administration.

The object is not so great as at first sight it may appear. We do not propose that the value of this balance should be advanced by the state: by no means. They who owe the balance must, as at present, find a value for the bills they demand. Neither would I propose

pose such a plan for any nation who had, upon the average of their trade, a balance against them; but if, on the whole, the balance be favourable, I would not, for the sake of saving a little trouble and expence, suffer the alternate vibrations of exchange to disturb the uniformity of profits which tends so much to encourage every branch of commerce.

We have abundantly explained the fatal effects of a wrong balance to banks which circulate paper; and we have shewn how necessary it is that they should perform what we here recommend. There is therefore nothing new in this proposal: it is only carrying the consequences of the same principle one step farther, by pointing out, as a branch of policy, how government should be assisting to trade in the payment of balances, where credit abroad is required; and this assistance should be given out of the public money.

The greatest, and indeed, I think, the only objection to this scheme, is, that by it the condition of our foreign creditors will be bettered, for no value received from them. This I allow will be the case when the balance is against England: but it will be compensated to the creditors by the loss they will sustain when the balance is in her favour. But supposing there should be a benefit to foreign creditors, will not this circumstance raise the confidence of all the world in the English funds? If there was a proposal made for lowering the rate of money, by refunding the debts which bear a higher interest than what money can be procured for, were the continent to pour her wealth into our subscription, might we not then more readily expect a supply from that quarter? Besides, is not all the interest 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 subscription open, at all times, in Amsterdam, for money to be borrowed there, on the payment of the interest in that city, who doubts but loans might be procured at much less expence than at present, when we beat about for credit every where, until by the  
return

return of a favourable balance upon the trade of England, she shall be enabled to fill up the void.

I feel my own insufficiency to unfold the many combinations which such an operation must imply. I therefore shall not attempt what, at any rate, I must leave imperfect. What has been said, combined with what has been thrown out on the same subject, in treating of other matters, is sufficient to give a hint, as to the expediency of the plan in general. And as to the objection which arises from the payments to the public creditors abroad, I shall reserve the more ample discussion of it till I come to consider the doctrine of public credit.

END OF THE THIRD PART.

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AN  
**I N Q U I R Y**  
 INTO THE  
**PRINCIPLES OF POLITICAL OECONOMY.**

**B O O K IV.**  
**OF CREDIT AND DEBTS.**

**P A R T IV.**  
**OF PUBLIC CREDIT.**

**C H A P. I.**

*Of the various Consequences of Public Debts.*

**T**HE principles which influence the doctrine of public credit are so few, and so plain, that it is surprising to see how circumstances could possibly involve them in the obscurity into which we find them plunged on many occasions.

For the better clearing the way towards the main object, I shall shew, from experience, and from the progress of public credit in some nations, that the true principles have been overlooked, and confounded so with extraneous objects, as to be entirely lost.

The true method of decyphering, as it were, the complicated operations of statesmen with respect to this branch, is to bring back to their native simplicity such plans of administration, as, from the infinite perplexity of them, make people believe, that the principles which influence this district of science lie so involved

involved, as to require a peculiar force of genius even to comprehend them.

By proceeding in this plain track, and by keeping the principles constantly in view, the most perplexed systems of borrowing, funding; flock-jobbing, coining and re-coining of money, changing the weight, fineness, and denominations of specie, circulating paper in conjunction with it, imposing upon mankind with bubbles and bankruptcies, and calling them operations of public credit, may be rendered intelligible to the most slender capacity.

Many of these topics have been already explained, and dismissed. This will enable us to contract the plan of what remains in proportion to the objects it is to comprehend.

Public credit we have defined to be, the confidence reposed in a state, or body politic, borrowing money, on condition that the capital shall not be demandable, but that a certain proportional part of the sum shall be annually paid, either in lieu of interest, or in extinction of part of the capital; for the security of which payment, a permanent annual fund is appropriated, with a liberty, however, to the state to set itself free, by repaying the whole, when nothing to the contrary is stipulated.

In this definition I have put in an alternative, of paying a perpetual interest for the money borrowed, or of paying annually a sum exceeding the interest; which excess is intended to extinguish the capital in a certain number of years. In both cases, the annual payment is called an annuity. When it is exactly equal to the interest agreed on, it is called perpetual; and determinate, when granted either for life, or for a certain number of years.

The solidity of this security is essential to the borrowing upon the cheapest terms: let me suppose it to be as solid as land-property, and as permanent as government itself: what will the consequence be?

If we suppose government to go on in increasing, every year, the sum of their debts upon perpetual annuities, and appropriating, in proportion, every branch of revenue for the payment of them; the

the consequence will be, in the first place, to transport, in favour of the creditors, the whole income of the state, of which government will retain the administration. The farther consequences of this revolution will furnish matter for a chapter by itself.

If the borrowings of a state be only in proportion to the extinction of the old capitals, or of what I have called determinate annuities, then the debts will not increase.

When a statesman, therefore, establishes a system of public credit, the first object which should fix his attention is to calculate how far the constitution of the state, and its internal circumstances, render it expedient to throw the revenue of it into the hands of a money'd interest. I say, this is the most important object of his deliberation; because the solidity of his credit depends upon it.

If, all the interests of the state duly considered, that of trade be found to predominate, less inconvenience will be found in allowing the money'd interest to swell: but in monarchies, where the landed interest is the most powerful, it would be dangerous to erect so formidable a rival to it. In political bodies every separate interest will consult its own; and in the contest between those who pay, and those who receive the taxes, under the denomination of creditors, the security of public credit becomes precarious.

From this we may conclude, *1mo*, That in governments where the swelling of a money'd interest is found to threaten the tranquillity of the state, care should be taken either to establish a sinking fund, for paying off, in times of peace, what may have been borrowed in times of war, or the plan of borrowing upon determinate annuities must be established.

*2do*, If natural causes be left to work their own effects, without a systematical plan of borrowing, the consequence will be a bankruptcy, and a total failure of public credit, at least for some time.

*3tio*, If a state should find the mass of their debts to amount to so great a sum as to be insupportable, they might have recourse to a total, or partial abolition of them by an act of power.

*4to*, If

*4to*, If they allow their debts to swell without limitation, and adhere to the faith of their engagements, the whole property of the state will be in constant circulation, from one class of men to another.

*5to*, If the debts contracted be the property of foreigners, these will either remove into the country, where their funds arise, or the property, that is, the *dominium utile* of the country, will be transferred from the natives.

These and many other combinations will arise from the extinction of public credit; and an examination of the most natural consequences upon every supposition, will be the best way to acquire a distinct idea of the subject in general. To pretend to foretell any one certain chain of consequences, which may, in fact, result from any combination, is, I apprehend, impossible; because every one of them will depend upon circumstances totally unknown. These, in our way of examining matters of this kind, are all to be founded upon supposition. To supply therefore, in some measure, this defect, I shall first have recourse to examples of what has happened in the hitherto infant state of public credit; and as to cases which have not as yet taken place, we must have recourse to ingenuity, and endeavour to form the most rational combinations we can.

## CHAP. II.

### *Of the Rise and Progress of Public Credit.*

WHILE the policy of Princes directed them to form treasures, there was no occasion for public credit. This policy prevailed until the rise of the Roman empire. Then all the treasures of the world were plundered, and nations were enslaved. On this revolution, the exigencies of that great empire were supplied from



from the annual tributes paid by conquered nations. Under good reigns, this annual supply swelled the public treasure, until a prodigal Emperor squandered it away; and took to rapine and extortion, to fill up the void.

Upon the total dissolution of that great empire, Europe was overrun by barbarous nations, who, with as little industry as ever, supported their power by the military services of the whole people.

After the establishment of the feudal kingdoms under their chiefs who first laid the foundation of them, arose the Barons, or principal vassals, who, in imitation of their chief, erected small principalities, which by degrees grew independent.

This distribution of power into many hands had the effect of destroying all systematic plans of government. Princes were obliged to act according to the perpetual fluctuation of circumstances, until by a revolution in their favour, the power of the vassals was swallowed up, and confined within the limits of a more regular authority.

In proportion as this revolution took place among the nations of Europe, the system of their government resumed a more permanent form. Justice was administered with more uniformity; and from this arose a body of laws, which, in some countries, were called customs: in others, as in England, common law. Wars then became less frequent; and the military services not being necessary on all occasions, insensibly became converted into taxes, proportioned to the exigencies of the time.

During this period, the coin and precious metals of Europe were lodged, in a great measure, in private coffers. If wars brought them forth for a short time, they soon found their way back again. Princes were generally extravagant, and spent money as fast as they got it. In proportion as industry and alienation increased, the coin came abroad; the inhabitants became easy in their circumstances; the state flourished, and acquired reputation. The riches and power of a state began then to be estimated, as they ought to be, not by their treasures locked up, but by what was found in circulation;

tion; that is, by their industry. Venice, Genoa, and the Hans-towns, set the example. The Jews, banished from France, on account of their extortions in the time of the holy wars, fled, as it is said, into Lombardy, and there invented the use of bills of exchange, for drawing their riches from countries to which they durst not resort to bring them off. Interest for money began to be considered as lawful in many cases: merchants were protected by Princes, for the sake of the consequences of trade and industry: and from such small beginnings has that mighty engine of public credit sprung.

While Princes mortgaged their lands and principalities, in order to obtain a sum of money, they acted upon the principles of private credit. This was the case in the more early times, before government acquired that stability which is necessary to establish a firm confidence. In proportion as it drew towards a regular system, the dawn of credit put on appearances analogous to the solidity of the fund upon which it was established.

The second step was to raise money upon a branch of taxes assigned to the lender, for the reimbursement of his capital and interest. We shall shew the consequences of this plan of credit from some examples, which will fully point out all its inconveniencies.

This plan of administration was attended with so much abuse, and so much oppression, that statesmen began to despair of carrying on public affairs by such expedients; and therefore concluded that the only way to obtain money at the least expence, was to raise it on the subject within the year, or upon what they called short funds.

At length public credit assumed its present form. Money was borrowed upon determinate or perpetual annuities: a fund was provided for that purpose: and the refunding of the capital was, in many cases, left in the option of government, but was never to be demandable by the creditor.

This is a short view of the progress of public credit. The principles upon which it is built are so few, that were I to confine myself to a bare deduction of them, little new or interesting could be said. I shall therefore steer another course: I shall collect the sentiments of some eminent politicians, who have either writ upon, or acted in the administration of this branch of government; and by applying principles as we go along, I shall be enabled to point out the extraneous circumstances which are so apt to involve this subject in obscurity. Had we not before our eyes the numberless examples of this kind, it would hardly be possible to conceive how so great a confusion, and so many calamities, could have followed upon the operations of public credit.

### C H A P. III.

#### *Of Anticipations, or borrowing Money upon Assignments to Taxes for the Discharge of Principal and Interest.*

I HAVE already observed, that by the cessation of the constant wars, in which all Europe was engaged during the feudal government of the barons, nations began to enjoy some sort of tranquillity. Upon this the military services became insensibly converted into taxes; and as Princes extended their jurisdictions over the cities, which had been formerly more under the protection of the bishops who resided in them, taxes were augmented. These impositions were very inconsiderable, with respect to what they brought into the King's coffers. The policy in raising them was bad; the frauds in collecting them were great.

These considerations engaged Princes to begin by contracting debts, and to pay afterwards by temporary assignments to the taxes imposed.

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From this again ensued the most terrible extortions on the side of the tax-gatherers, so often complained of by those who have writ on the affairs of France, as we shall see in the following chapter.

Philip *le bel*, King of France, was the first who, in 1301, admitted, with great policy, the inhabitants of cities to have a seat in the states of the kingdom. He formed them into a distinct body, and called them *tiers etat*, or the third estate, after the clergy and the nobility. His view was to facilitate thereby the jurisdiction he wanted to establish over those cities, and to engage them to consent to the imposition of taxes for carrying on his wars in Flanders, and for opposing the ambitious views of Boniface VIII. Accordingly, the people began to pay willingly, when once they found that they had a vote in what concerned them.

I take it for granted, that every tax, about that time, was imposed for a particular purpose, and assigned either to creditors, or to people who advanced money upon it: because we are told that the first imposition granted by the states to a King of France as a permanent branch of revenue, was an excise upon spirituous liquors granted to Philip de Valois, in the year 1345; at which time, however, according to Mr. d'Eon's *Memoires pour servir à l'Histoire generale des Finances*, there were not less than twenty two different taxes known in France, which he enumerates as follows:

*Tailles, complaintes, charges, redevances, coutumes, peages, travers, passages, centiemes, cinquantiemes, ôtes, chevauchées, subventions, exactions, chevaleries, aides, mariages, toultes, impositions, prisons, servitudes, and nouvelletes.*

That all these impositions must have been mere trifles, I gather from a circumstance in the Political History of France, mentioned by the author just cited, which being itself exceedingly curious and tending greatly to confirm many things which I have advanced concerning the small circulation in former times, I shall here briefly mention it.

In 1356, John, King of France, applied to the States for 50,000 livres, about 9165 *l.* sterling, to pay his army. The States, besides several other taxes imposed to pay this sum, granted him 8 deniers on the livre, or  $3\frac{1}{3}$  per cent. upon all meat, drink, and merchandize, fold in France within the year; that is to say, upon the whole alienations of France. The tax was levied, but fell so far short of the sum required, that it was made up by a poll-tax.

Can any example be better calculated for forming a notion of the circulation of France at that time?

It may be here alleged that the prices of every thing were then so very low, that no judgment can be formed concerning the quantity of alienation from the smallness of the sum. This objection is of no force, as I shall presently shew.

We know from the records of the selling price of grain in France, which was then remarkably cheap in proportion to the years which followed and which had preceded, that in 1356, the septier of wheat, or 4 Winchester bushels, fold for 17 sols 8 deniers of the then currency, which was 12 livres to the marc fine silver, and a French foldier's allowance for bread, to this day, is 3 septiers, or 12 Winchester bushels a year. Now let me suppose, that the whole 50,000 livres had been raised by this imposition of  $3\frac{1}{3}$  per cent. or  $\frac{1}{30}$  of the total value of the single article of corn fold at market, which was far from being the case, and then compare that with the number of men who could have been subsisted with all the corn fold in France at that time.

If  $\frac{1}{30}$  of the price was the tax, then by multiplying 50,000 livres by 30, we have the value of the corn fold; to wit, 1 500 000 livres: divide this sum by the value of what a man consumes in a year, to wit, 3 septiers at 17 sols 8 deniers, which make 2 livres 13 sols, and the quotient will be the number of portions for a man, to wit, 566 037. So the whole alienation of France, at that time, fell far below the value of as much wheat as would have fed 566 037 men.

What a poor idea does this communicate of the state of Europe only 400 years ago! It would be in vain to seek for examples to illustrate  
any

any principle of our complicated modern oeconomy in the histories of those times: their taxes, their credit, and their debts, resembled ours in nothing but the name.

I now come nearer home, and give an account of the ideas of public credit formed by Davenant, who flourished about the time of the revolution in 1688, which I may take to be the æra of public credit in England.

No person at that time, whose writings I have seen, appears to have so thoroughly understood those matters as Davenant. He was a man of theory, as well as knowledge of facts: he had an opportunity which few people have, to be well instructed in the one and the other; and he turned his talents to the best advantage for promoting the interest of his country. He has writ many tracts on political subjects, which, when carefully read and compared with what experience has since taught us, cast great light upon many questions relative to the subject of this inquiry.

Davenant, like other great men of his time, was of opinion that borrowing money upon what he calls short funds, was much preferable to that upon perpetual interest; and he thought the most adviseable plan of all, could it be accomplished, was to raise the money wanted within the year.

Men, at that time, had a terror upon them in contracting debts for the public: they considered the nation as they would a private man, whose interest is one, uncompounded, and relative to himself alone: in this light, creditors appeared as formidable as enemies; they were looked upon by ministers as such; and this general opinion on one side, contributed, no doubt, to make the monied people less interested in the distress of government, and more ready to lay hold of every opportunity of improving such occasions, for their own advantage.

Government was in constant war with creditors: when ready money failed in England, it had nothing to pay with but exchequer tallies, upon the taxes imposed; these were much more easily issued than acquitted. When the first year's amount of a tax was engaged, people

people considered the security of what was to follow as very precarious; consequently, the value of it diminished.

This method, however, succeeded far better in paying off debts already contracted; than in contracting new ones; and the hardships put upon those who had advanced money to government, and who were paid by assignments upon taxes previously engaged, made people afterwards very diffident, except upon proper security. The limited form of the English government, prevented the violent proceedings between ministers and public creditors, which were common in France; and this circumstance contributed, no doubt, to establish the credit of the former upon the better footing. But still the long expectation of payment of the capital and interest, upon a distant fund, made Davenant acknowledge that 700,000 *l.* in ready money, would at any time go farther than a million in tallies; and yet he thought it was better for the state to borrow the million upon a plan of discharging the debt in three or four years, than to obtain the 700,000 *l.* at the expence of a perpetual interest of 8 per cent.

There were many more considerations which moved Davenant to prefer what he calls short funds to perpetual interest.

It was the general opinion in his time (not his own indeed, for he endeavoured to shew the fallacy of it) that money borrowed upon the anticipation of a fund, *raised and appropriated for the discharge of it*, was not a debt upon the state; because it did not diminish the former revenue. We have a remarkable instance of the prevalence of this opinion, in the famous memorial presented by M. Desmaretz to Philip Duke of Orleans, after the death of the late King of France; wherein he advances, that during seven campaigns, from 1708 to the peace of Rastad, while he had been at the head of the King's finances, he had not increased the public debts by more than nine millions of livres capital: and yet when he came into the administration, in 1708, the King's debts did not amount to 700 millions; and we have seen, that at the time of his death, they were upwards of 2000 millions. But Desmaretz did not reckon the difference

ference of about 1300 millions; because he had settled them upon funds of his own creation. This was so much the language of the times, that no criticism was made upon it.

It is remarkable, that Davenant, in giving an account of the debts of England, during the period of which he writes, that is, from the revolution down to the peace of Ryfwick, hardly ever takes notice of the sums paid for interest upon them. The minds of men at that time were totally taken up with the payment of capitals; and providing these could be discharged in a few years, it was no matter, they thought, what they cost in the mean time.

As long as nations at war observe the same policy in their methods of raising money, the ways in which they proceed are of the less importance: but when any one state makes an alteration, by which more money is thrown into their hands than they could formerly obtain; this circumstance obliges every other state to adopt the same method. Thus while Princes made war with the amount of their treasures and annual income, the balance of their power depended on the balance of such resources: when they anticipated their income on both sides, for a few years, the balance was in proportion still: when, afterwards, they adopted long funds and perpetual interest, the supplies increased; but still the balance was determined as formerly.

The usefulness, therefore, of an inquiry into the principles of public credit, has not so much for its object to discover the interest of states in adopting one mode of credit preferably to another, as to discover the consequences of every one; and to point out the methods of making them severally turn out to the best account for the state, considered as a body politic by itself, and for the individuals which compose it.

When so many different relations are taken in, the subject becomes much more complex, and therefore the consequences *which can only be guessed at* must be less determinate: but on the other hand, it opens the mind, and suggests many hints which with time may be improved for the good of society.

People who barely relate political facts, only afford an exercise to the memory: those who deduce principles, and trace a chain of reasoning from them, give exercise to the understanding; and as a small spark may raise a mighty flame, so a hint thrown out by a slender genius may set all the great men of a nation on a plan of general reformation and improvement.

Let us now take a view of the state of public credit in England, at the peace of Ryfwick; in order to shew how Davenant came to be so great an enemy to long funds, and more especially to perpetual interest. We shall at the same time point out from what causes the great change of sentiments at present proceeds.

At the peace of Ryfwick, the debts of England, according to Davenant, in his fifth discourse upon the public revenues and trade of England, stood at 17 552 544 *l.* sterling; call it 17 millions and a half; as we have no occasion to calculate with exactness.

Of this debt the capital of  $3\frac{1}{2}$  millions was sunk, as he calls it; because 1 300 000 *l.* was on lives at 14 *per cent.* and what was over to make up the  $3\frac{1}{2}$  millions, was intended to remain a perpetual burthen on the nation.

For paying the interest of this sum, no less than 400 000 *l.* a year was necessary, which makes on the whole above 11 *per cent.*

But then it must be observed, that more than one third of the sum was upon lives at 14 *per cent.*: the debt due to the bank, of which we have spoken in another place, was 1 200 000 *l.* for which was paid 100 000 *l.* a year, including 4000 *l.* allowed for the charge of management: the remaining million was upon lottery tickets, bearing about 8 *per cent.* the price at which the bank had lent.

The second branch of debts was near 1.1 millions, which, he says, were in course of payment; because they were secured upon branches of revenue engaged for discharging them. A part of this class of debts was to be extinguished in the year 1700: and whenever that was done, then a proportion of the appropriated taxes, amounting yearly to above a million sterling, was immediately to be taken off.

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The third class of debts were those not provided for at all; which in the place referred to, he makes to amount to no more than 3 200 000 *l.* but he afterwards finds his mistake, and that they in fact amounted to above 5 millions and a half, which makes the debts of England at the peace of Ryfwick, to have been near 20 millions.

Was it then any wonder, that a man who wished well to his country, should prefer borrowing upon short funds at any expence whatever in the mean time, rather than at perpetual interest, when he found that parliaments could not be prevailed upon to allow any tax to subsist one instant after the discharge of the debts for the payment of which it had been appropriated?

Besides, there was very little to be gained by borrowing upon long funds and perpetual interest, as long as the lenders considered their advantage to consist principally in getting their capitals re-funded.

The plain matter of fact was, that trade at that time was only beginning to take root in England, and demanded funds to carry it on. The use of banks had not then been discovered, for turning property into money. Circulation, consequently, was confined to the coin; and profits on trade were very great. All these circumstances rendered capitals of essential use; and the consequence was, to raise interest to an excessive height.

Compare this situation with the present. Were the capital of 140 millions sterling thrown by Great Britain, in a few years, into the hands of the present creditors; were France, on the other hand, to throw in as much, what trade could absorb it? Capitals now are only of value in proportion to the interest they bring; and so long as the interest paid on public debts is sufficient to keep circulation full, and no more, interest will stand as it is: when that ceases to be the case, as in time of war, we see interest begins to rise; and when, on the other hand, the interest paid, proves more than sufficient for the uses of circulation, as upon a return of peace, then, from the same principles, interest must diminish.

VOL. II.

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Davenant,

Davenant, like an able politician, who had the state of facts before him, reasoned according to actual circumstances. Whatever was borrowed on long funds, was charged on the standing revenue of the state, which parliament was very unwilling to increase in proportion to the charges laid upon it. This, of itself, was argument sufficient with him to cast his view upon short appropriations, or upon his favourite object, of raising money within the year, to supply the exigencies of the state.

But in this operation he found great difficulties. In his treatise of ways and means, article *excises*, where he is searching for expedients to provide money for the war, he plainly shews a thorough knowledge of that imposition. It had taken place in England as far back as the great civil war, and formed at the revolution about  $\frac{1}{3}$  of all the revenue: but what is very extraordinary, and which at present will hardly be credited, the excise had at that time the effect of sinking the price of the subject excised, instead of raising the price of what was produced from it. Thus the excise upon malt, after the revolution, had the effect of lowering the price of barley, instead of raising the price of beer.

This effect of excises Davenant saw; from which he, and since him many more have concluded, that all excises fall ultimately upon the land.

This circumstance, together with a feeling for the interest of the great number of *idle* poor at that time, who must constantly suffer by excises, engaged Davenant to propose having recourse to the land-property and poll-taxes, for raising, within the year, the sums required for carrying on the war.

According to his proposal, there was to be no less than 3 millions raised by a land tax, besides half a million by a quarterly poll, which was, at that time, above 100,000*l.* more than all the permanent taxes of England put together.

A proposal of this kind coming from Davenant, shews the difference of situation between those times and the present. On this sub-

ject more is to be learned by comparing facts, than by all the reasoning in the world.

We have seen how credit stood in England during the reign of William III. It was then in its infancy, and was set upon the principles of a free and limited authority, exercised by ministers of state at all times responsible to parliament at the risk of their heads, in case of any open violation of the public faith. This is the best of all securities against the bad exercise of power.

Whoever reads the admirable writings of Davenant, and compares his ideas with what experience has since taught us, concerning the nature of taxes and public credit, will plainly discover that the great distress of England at that time, proceeded from the following causes.

The enterprize they were engaged in, was far beyond their power to support, although they had the greatest part of Europe to assist them.

The bravery of the British nation was ill supported with money, the sinews of war.

The coin soon after the revolution fell into the greatest disorder, which sent it away; and no expedient was found to supply its place for the uses of domestic circulation; and, consequently, the fixed revenue could not be paid, nor industry carried on.

The people were unaccustomed to taxes: tunnage and poundage, the branch with which they were best acquainted, and which they bore with the least murmuring, because it was little felt by individuals, together with the excise upon beer and ale, the hearth money, the post-house, and wine-licences, composed the whole of the permanent revenue of the state; and amounted to about one million and a half sterling: besides which, the parliament had granted new customs (all to cease before 1690) to the amount of about half a million more, upon wines, tobacco, sugar, and French linnen. This was the state of the revenue at the revolution.

One would imagine that England, under so small a burthen, might have been able to make the greatest efforts.

Were we now to grapple with France, under such circumstances, what sanguine hopes would we not form of success! The case turned out widely different: the first benefit the nation expected in consequence of their liberty restored, was an abolition of the hearth money; a tax which raised over the whole kingdom, 245,000*l.* and was considered as an insupportable burthen.

Such sentiments and dispositions in the English nation, might have been a sufficient indication of what was to be expected from the war; the consequences of which had, before 1695, produced the following changes in the revenue.

The tunnage and poundage, which at the revolution produced 600,000*l.* was by this time reduced to 286,687*l.*

The excise upon beer and ale, from 666,383*l.* was reduced to 391,275*l.*

The hearth money was abolished.

The post-house, from 65,000*l.* was reduced to 63,517*l.*

The wine-licences, from 10,000*l.* to 5000*l.*

The temporary customs which subsisted at the revolution, were now expired, and had been either continued by new grants, or by others of the same nature introduced in their stead. The former had produced 415,472*l.* the new produced 373,839*l.*

The last and most important grant of all, was an additional excise upon beer and ale, which produced 450,000*l.*

The revenue at the revolution produced, clear of all charges, 2 001 855*l.* sterling. A revenue established at pretty much the same rate, and nearly on the same objects, with an addition of a new excise, which produced 450,000*l.* produced net in 1694, no more than 1 570 318*l.* so that, deducting the new excise, the old revenue was diminished in its produce, no less than 1 081 527*l.* or above one half, in five years time.

In a country like England, at that time, taxes were of little use to the state, and were an excessive burthen on the people.

What could they be paid out of? Not out of the value in the hands of the people; because there was no way provided for turning

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ing that value into money. The whole of the money coined before the end of the war in 1697, did not amount to 8½ millions. It was not to be expected that during the war, foreign coin was to come in, except in consequence of borrowing; and we may be very certain, that all that was borrowed, and a great part of what had been coined at home, had gone out from the year 1695 to 1697. Under these circumstances, the exchequer issued tallies of wood, a notable expedient for facilitating circulation! And the bank of England lent not one farthing upon mortgage: all that was possible to be raised on the land and on the people, by pound-rate, assessment, and poll-tax, was imposed.

Now let us recall our principles concerning circulation, alienation, and banking upon mortgage, and combine these with what we have so frequently repeated, and I think demonstrated, viz. that in proportion to the extent of alienation, and the demands for money, a circulating equivalent should be provided, so as to be ready at the hand of every person who has property to pledge for it; and then decide whether it was any wonder that credit in England should have been at so low an ebb at the peace of Ryfwick; that taxes should have diminished in their produce; that interest should have risen to such an extravagant height; that the people should have groaned under a load from which they could not relieve themselves.

Under such circumstances, England appears to me in the light of a dumb man put to the torture in order to extort a confession.

Were eight or nine millions sterling in coin, and a few wooden flicks, the tallies, constantly sold at a great discount, a circulating value sufficient to supply the exigencies of a state which was spending annually at the rate of five or six millions?

The consequence of this total drain of money, was, that people could neither consume exciseable commodities, or pay the taxes laid upon their persons and solid property.

The excises failed, because the body of the people, who paid them, were interrupted in their industry, for want of money to

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carry on alienation. Those who were liable to the arbitrary impositions, such as the landlords, could not pay; because what they had, their land, could not be given in payment.

From what I have here laid together, we may determine, that as alienations among individuals cannot exceed the proportion of the circulating equivalent of a country, so a statesman when he intends suddenly to augment the taxes of his people, without interrupting their industry, which then becomes still more necessary than ever, should augment the circulating equivalent in proportion to the additional demand for it.

This, according to my notions, cannot be so well compassed as, 1. by establishing banks of circulation upon mortgage: 2. by relieving those companies of the load of paying foreign balances by giving bills at par, or at a small exchange: and 3. by providing funds abroad for the payment of them, according to the principles above deduced.

Such expedients will work their effect, in a nation where the public faith stands upon the solid security of an honest parliament, and upon that responsibility which is fixed upon those who are trusted with the exertions of the royal authority.

I think I may illustrate this operation by a simile.

A gentleman chooses to form a cascade of the water which serves to turn his corn-mill; consequently, the mill stops: but in its stead, he immediately erects another which turns with the wind. Coin is the water, bank paper is the wind, and both are equally well calculated for the use they are put to.

## C H A P. IV.

*Of the State of public Credit in France before the reign of Louis XIV. and of the Sentiment of the great Richlieu upon that Subject.*

HAVING laid before my reader the sentiments of Davenant on the subject of public credit, which were analogous to the then state of England, it may be instructive to compare them with those of another very great man, in a rival nation; I mean the Cardinal de Richlieu.

The constitution of Great Britain at present, is pretty much what it was in Davenant's time: and that of France does not differ widely from what it was at the death of Louis XIII.

Britain and France are two nations, rivals in every thing worthy of emulation, and similar in those distresses which are the inseparable concomitants of modern ambition, debts and taxes.

As long as the constitution of the two governments shall stand as at present, Britain will constantly have the advantage in borrowing: France will have it in paying off her debts. It is this contrast which engages me to enter into the following detail. I consider it not only as a piece of historical curiosity, but as a subject of profound reflection, from which much instruction may be gathered.

The fate of kingly power was decided, both in Britain and in France, much about the same time. In France, it was supported by Cardinal de Richlieu; in Britain, it was broken to pieces under Charles I.

Before that time there was no fixed form of government established in either country; nor can ever a regular constitution take place any where, until the mechanism of a state becomes so complex as to render changes extremely difficult. This is becoming the case more and more every day; and upon this and nothing else will depend the stability of our present forms.



Let us now take a view of the sentiments of a great minister, delivered in writing by himself, in his political testament; the authority of which would never have been called in question, had the matter it contains been properly attended to, and well understood.

It is in the 7th paragraph of the 9th chapter of the testament, where the Cardinal shews his ability in paying off the debts of France: and in going through the subject, he casually has thrown out several things, which enable us to form a judgment of the state of taxes, and of the effects they were found to produce in his time.

"It is pedantry," says he, "to maintain that a prince has no right to draw money from his subjects, and that he ought to content himself with the possession of their hearts. None, however, but flatterers, the pest of society, can maintain, that he may draw from them, justly, whatever he thinks fit; and that his right extends, in this particular, as far as his will."

The taxes of France at this time had been augmented far beyond their due proportion; and this had produced many strange and contradictory phenomena; which, as we shall now see, misled the Cardinal in many respects; because his experience was not sufficient to discover the causes of them.

"The augmentation of impositions on the people," says he, "does the King *so much* hurt by raising prices, as to compensate all he can gain." If we suppose that the King gained by the augmentation; that is to say, that the tax, when increased, really produced more than before, and raised prices proportionally; then the King could only lose his proportional part, but never the whole. If the tax, by being augmented, produced less than before, which was the case often, then he lost by a diminution upon his income, not by the rise of prices. But this was not the case; because deficiencies of that kind could not fall upon the King, but upon his farmers.

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The true reason was, that the King paid most of his expences by assignments upon the taxes; and then, no doubt, the higher they were raised, and the more difficult to recover, the dearer every undertaking would cost the King.

This reasoning upon the effect of taxes shews, that at that time the doctrine of them was not well understood. No wonder: theory is not sufficient to lay open political consequences, even to the greatest genius. All our information as to these matters arises from experience, and all our instruction from our attention and reflection.

As a proof of this, he mentions, almost in the same place, an effect of the increase of taxes, which is quite contrary to the former.

"Consumption," says he, "diminishes, as taxes augment."

This is a contingent, but not a necessary consequence, as we have seen, and has the effect of lowering prices.

I mention these particulars, only to shew how little this great man had studied the principles of taxation, or combined the causes of those phenomena which he saw arising from them.

Such contrary effects could not fail to be felt, when taxes were mixed in the manner usual at that time, and when no method was contrived for augmenting the currency.

In Richlieu's time the custom was to treat with the *partisans*, as they were called, or undertakers for the farm of taxes; and for a sum of money, valued at a certain interest, to give them a right to levy certain impositions on the people, esteemed equivalent to the rate agreed upon; some in one province, some in another, as the parties could agree. Then the *partisans* fell to work with the people, and committed the most horrid extortions. In the 4th §. of his 4th chapter, he says, "The abuse is carried such a length, as to be quite insupportable, and must end in the ruin of the state; the people are plundered, not taxed; fortunes are made by rapine, not industry: using the *partisans* like sponges is very just; but liable, on the other hand, to great abuse, when not

“conducted with moderation and justice.” This is a very different system of taxation from that carried on in England in Davenant’s time, and must have produced effects very dissimilar.

But it may be asked, if these partisans in France had found out means of raising money, far beyond the King’s intention; what prevented the Cardinal from examining into such means, and using them in a gentle and equitable manner, to the extent only of satisfying the creditors for the money borrowed from them?

In those days several difficulties occurred, which rendered this expedient impracticable.

*1mo*, The partisans would lend in no other way; they would have nothing to do with the King as a debtor: his credit was not well established; and by having the direct administration of a tax, they considered themselves as more secure.

*2do*, Had the King levied the money on the people, and been paymaster to the creditors himself, there would have been no gains to the partisans but what were stipulated: had they exacted more than legal interest, they exposed themselves to great danger; and consequently would not lend. So, by delivering up the people to be plundered, the King made a better bargain, he thought, than any other way; and if the partisans plundered the people, the Cardinal plundered them in his turn.

*3tio*, At this time there were not, as now, merchants of extensive credit, and fair character, who serve as interposed persons for the whole money’d interest in Europe, and who can fill a subscription for millions with a single name.

The partisans themselves, as the Cardinal observes, had often neither money or credit at setting out: but by parcelling their undertaking into many hands, they got together what was necessary. Thus the subaltern associates were in a moment, like locusts, spread over the whole face of the country, and plundering went on in every quarter.

This represents a quite different system of credit from what we see established, even in France, at present; where the tax-gatherers are

are still loudly complained of, though much more than they deserve. The mode of raising the taxes is now most exactly specified by the King; and nothing more can be exacted than according to the plan laid down; but in every case severe penalties are imposed upon frauds, and when levied, are accounted for to the farmers; but when compounded for under-hand, sink into private men’s pockets.

In a country where taxes are rightly established, industrious people have no occasion to indemnify themselves by fraud for the taxes they pay; they have a more certain method of being refunded. This shall be explained in its proper place.

By this method of oppression in the Cardinal’s time, a great part of the odium was removed from the King, and cast upon the partisans. The people resembled a dog who bites the stick with which he has been struck, instead of biting him who holds it\*.

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\* Thus were taxes established in France, in spite of the great aversion of that nation to them. The exigencies of the state were apparent; Princes were considered as under an absolute necessity to find money at any rate; they appeared to be in the hands of unrelenting usurers, who became the execration of the people, to whose fury they were sometimes delivered over, when stripped of their wealth: the people were now and then relieved of a part of their burthen; the tax remained under milder management; formed an addition to the King’s revenue, and served as a fund for future emergencies.

But the nature of man is such, that the more he grows in wealth, the more the desire of spending it increases. Thus the fund provided for unforeseen emergencies, is insensibly incorporated with that which is appropriated for the current service of the state.

Nothing however is more certain than that in time of war, far greater sums are required than any people can pay, without contracting debts.

Is it not then indispensably necessary, either, *1mo*, To have a sum locked up in treasure? Or, *2do*, A fund appropriated, to borrow upon in time of war, which may serve to pay off the debts in time of peace? Or, *3tio*, To borrow upon the stipulation of an annual payment, which may, in a certain number of years, acquit both interest and principal?

I have now said enough to point out the method of borrowing money in France at this time, from which the nature of the security may easily be gathered.

The Cardinal, upon the supposition of an approaching peace, enters into the plan of paying off what had been contracted. He was resolved to preserve credit; for even at that time, the consequence of that great engine was sufficiently felt by this great man, to relieve the people, and to get rid of the debts.

After a long detail of all the branches of the revenue, and after shewing how they might be improved, he draws out a general state of them, and of the debts affecting them; and then adds, "The total revenue of the kingdom amounts to near 80 millions;" (the silver was then at 27 livres 10 sols the marc fine, which, valued at 2 *l.* 4 *s.* sterling, makes the 80 millions worth above 6 millions sterling) "of which there is above 45 millions engaged for the debts. By good management I pretend that this immense load of debts, which seems to be the ruin of the King, shall turn out to his ease and opulence. Some imagine it would be a right measure to free the state entirely of her burthen, (a general sponge) but as she cannot, certainly, support all the burthen, so neither does reason dictate that she should be entirely free." No modern statesman could form a better judgment of things. The Cardinal's ideas are just and profound; and it is astonishing how a man uninstructed by our experience should see so far into remote consequences.

He next lays down different schemes for paying the debts, upon the return of peace and tranquillity. They are all arbitrary, more or less, according to the standard of English ideas of credit. But if we abstract from one expedient lately discovered, to wit, the diminishing the interest, and allowing the capitals to remain, I doubt

The first is the plan of the King of Prussia; the second that of England; the third is, in a good measure, that of France: Holland borrows no more, and pays as she can what she owes; Spain lives on her income; and Austria remained in the old way till very lately, without credit, and consequently without much debt.

if any modern statesman could discover any other than those which the Cardinal has proposed.

A preliminary step to all his schemes was, *by an act of power*, to reduce the debts which bore a higher interest, to that of the 16 penny, or to a little more than 6 *per cent.* This method of reduction has constantly been and is still practised in France.

Then he proposes to enter into an account with the creditors for the sums they had received; and to consider whatever they had obtained above the legal interest, as payments in part of the capital.

This scheme however he rejects, upon examination. He says it is agreeable to equity; but that it would have the effect of totally destroying all credit for the future.

The second expedient was, to reimburse the creditors the sums which they really paid for the annuities assigned to them: but that he found impossible to verify; because they had had the address to specify, in their contracts, sums far exceeding what they really paid. For this reason he rejects the second expedient also; and adopts a third, as the best plan of any for paying off the debts. This was, to value the capitals at what they then sold for in the market, before the peace was concluded.

This method appeared to the Cardinal the most equitable, at least he says so, and the only one practicable; but in my opinion it was the most arbitrary of the three; the most liable to abuse, and the most opposite to the principles of public credit, as at present established: and yet it is a thought, which, when conducted with justice, may upon some occasions answer excellent purposes, as I shall observe in a proper place.

Had he adopted the first expedient, of ascertaining the value of the real advance, there was an appearance of justice; because the creditors were thereby represented as usurers; and by repaying them what they had advanced, by the enjoyment of an income above the legal interest, he treated them with more indulgence than the laws allow between private persons: but when money was

was borrowed in time of war, a higher interest should have been allowed for it than in time of peace, when it was to be paid off; and therefore to take the standard of peace, in reckoning with the creditors who had lent in time of war, was an evident injustice.

Could he, according to the second scheme, have discovered exactly the sums which had been paid for the annuities given, and offered reimbursements upon that footing, less could have been said against it; because the mentioning more in the contract than what had been paid, was a palpable fraud against the King.

The third method, which the Cardinal approves of, contains this piece of great injustice, that the ancient creditors of the state who had paid 12 years purchase for their contracts, that is, those who had lent at about 8 *per cent.* might by this scheme be paid off with one half of what they originally paid. If it be answered, that nothing is worth more than what it can bring; I answer, that it may be worth more than what it can bring *at a particular time.* During a war, an annuity which had been bought at 12 years purchase in time of peace, will fall to five, providing annuities can then be bought at that rate. The new loans constantly regulate the value of the old capitals; but upon a return of peace, they will rise to the original value.

Another injustice here was, that a minister, by borrowing a sum at a very high interest, at a time he wanted to set a value on the capitals, might sink this value. And, in the third place, the greatest injustice of all consisted in this, that the Cardinal had no thoughts of any reimbursement, as we shall see by what follows.

There was, at this time, one class of annuities constituted at 8 *per cent.* These he proposed to reduce to 6 *per cent.* as above, by his preliminary operation. Such annuities sold at that time for five years purchase. These, says the Cardinal, *we must fix at that value;* and by allowing the proprietors to enjoy them for 7  $\frac{1}{2}$  years, the capital and interest will be paid off.

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Other annuities constituted upon the *taille* sold for six years purchase, which, by the same rule, were to be paid off in 8  $\frac{1}{2}$  years.

The annuities and other debts charged at this time upon the *taille* alone, amounted to 26 millions a year; and by this scheme, the whole was to be paid off in 8  $\frac{1}{2}$  years.

Besides these, there were engagements upon other branches of the revenue, which sold at different prices. All were to be set upon a proportional footing. The annuities which sold the dearest, were at 7  $\frac{1}{2}$  years purchase, which were to be paid in 11  $\frac{1}{2}$  years.

Thus, by the Cardinal's scheme, the debts of France, which at this time bore an interest of about 45 millions, were entirely to be paid off, in about 12 years, without any new imposition; and when that was concluded, the lands were to be discharged of 26 millions of yearly *taille*, near two millions sterling, and the King was to have a clear revenue of 53 millions, or about 4 millions of our money, which with the 26 millions taken off the *taille*, make 79 millions; the total amount of the French revenue at that time.

I shall now point out the characteristic differences between the principles upon which the credit of England and France were established, at the two periods of which we have been speaking.

Had two such writers as Davenant and Richlieu been to be met with in the same age, and at a time when England and France were engaged in contracting debts, the contrast would have been stronger; but as it is, it suits our purpose. The debts contracted in France from 1708, when credit fell, to the end of the war in 1714, were in consequence of rapine and extortion, as in Richlieu's time: and the operations upon them, after the peace of Utrecht, resemble those of Richlieu in some very material circumstances. Such as, *1mo,* That all the debts were then, by an act of power, put at 4 *per cent.* without any regard to the original stipulations. *2do,* That what the Cardinal despaired of accomplishing, the Regent undertook, and executed, at a great expence to the King, and with great injustice to many individuals.

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He established a commission, called the *visa*, to inquire into the unfunded debts, which amounted to 600 millions. His intention was, to discover the effective sums which had been paid for the grounds of debt. The most favourable classes of these debts consisted in arrears of pay to the army, indemnities for pillage, and the like, constituted by notes issued from the office called the *extraordinaires des guerres*, which were diminished  $\frac{1}{3}$ ; the second class was diminished  $\frac{2}{3}$ ; the third class  $\frac{3}{4}$ ; and the last of all, sums due to brokers, usurers, &c. were diminished  $\frac{3}{4}$ .

But alas! there was not the least shadow of justice in this operation; because long before the *visa* was established, most of the grounds of those debts had circulated from hand to hand, under the greatest discredit: so that the real sufferers were then beyond the reach of the indemnity offered; and the usurers and brokers who had bought them up, were those who made fortunes by them. The Cardinal's plan of paying at the selling price, would have proved, *in this particular case*, more rational, and more according to equity, than any other: so greatly do circumstances influence our decisions in all political matters!

By the *visa*, the 600 millions were reduced to 250 millions, and put at 4 *per cent.* like all the other debts. No plan was proposed at first for paying off the capitals; but a sum was appropriated, though very ill paid, for discharging the interest. We have discussed sufficiently the famous operations of the Mississippi; by which an attempt was made to throw the whole national debt on the company of the Indies; and we have seen how it succeeded.

The distance, therefore, of Richlieu's time, from Davenant's, occasions very little deception in comparing the principles of French and English credit: and when we come to examine the present state of that question, I am afraid we shall find, in France, enough of the old system still remaining, to verify my observation, that the French have the advantage in paying their debts; the English, in contracting them. Where the balance of advantage may lie, will be the subject of more speculation.

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The first essential difference I find between the credit of France and that of England, in the two periods we are considering, relates to the *coin*. In the first, the value of *it* had been very well preserved: no considerable alteration had been made upon *it*, from 1602 to 1636, that the Cardinal raised the denomination of the marc of fine silver, from 22 livres to 27 livres 10 sols, as has been said. Whereas from the revolution, until the establishment of the bank in 1695, the *coin* had suffered in England a debasement, from clipping, of near 50 *per cent.* This circumstance, more than any other, affected the credit of England, and increased the expence of King William's war. In Richlieu's time, circulation and trade had made more progress in France than in England at the time Davenant lived. The revenue left by Henry the Fourth was double to that of England at the revolution: and, in general, the income of the Kings of France had far exceeded that of the Kings of England, for many reigns before that of the great Henry. Borrowing also, upon a fixed and permanent interest, had been known in France so far back as Francis the First.

That Prince was the first, I find, who contracted a regular debt, at perpetual interest, upon the town-house of Paris, at about 8 *per cent.* when the legal interest in England, under his contemporary Henry the Eighth, was 10 *per cent.*

The predecessor of Francis, Louis XII. had of gross revenue, charged with his debts, which eat up near one half, above 2,500,000 *l.* sterling. Dutot, Reflex. Pol. Vol. I. p. 204. Francis I. left to his successor in 1546, a gross revenue of 2,685,314 *l.* sterling, and of nett income 2,287,998 *l.* according to Dutot and M. de Sulli.

Under Henry II. and Francis II. the gross revenue stood at about 2,618,000 *l.* sterling.

Under Charles the IXth, I have not been able to discover any thing which can be relied upon: but his successor Henry III. according to Sulli, had, in 1581, a revenue of 3,250,000 *l.* sterling, and left only about 16 millions of livres of debt, which was no great sum.

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To this Henry IV. succeeded; and by the capacity and, unwearied application of his great minister M. de Sully, it was raised to above six millions sterling, at the beginning of the reign of Louis XIII. This revenue, by his wars and expences, was left greatly incumbered; but still the taxes were established which brought it in; and so early in the reign of his successor Louis XIV. as the year 1683, his revenue extended to no less than 9,182,914 *l.* sterling, according to Dutot. Reflex. Pol. Vol. II. p. 256\*.

Let any man, acquainted in the least with the history of England, examine the fixed revenue there, under Henry VII. and VIII. Edward, Mary, and Elizabeth, and their successors, down to the revolution; and they will evidently see the great disproportion of wealth, proceeding from taxes, in the one and the other kingdom.

From these facts I conclude, that debts and taxes in France were much more familiarly known in Richlieu's time, than possibly they could be in England when Davenant wrote.

Public credit had long grown up in that kingdom, under the hard influence of regal power: whereas in this it had sprung up lately, under the protection of liberty, and a most limited authority.

To that cause I ascribe the difference we find between the principles of English and French credit; and to an effect similar to the cause I ascribe the gigantic steps by which Britain has outstripped her powerful rival in the establishment of her credit, since the beginning of this century.

It is folly to prophecy, I know; but I may be allowed to conjecture, that the same causes which have raised the credit of this nation to such an amazing height, will either force the French from their old principles, or they will, some time or other, bury her credit in the dust.

Had one half of the acts of power been exerted with us, which have been so familiar in France: had half the liberties been taken,

\* These sums are all converted into sterling, according to the value of the French *livre* at the different periods here mentioned.

in tampering with the claims of creditors; a total bankruptcy would long ere now have been the consequence: but in Britain credit is young; and has been tenderly reared. In France she is old, and has been accustomed for many ages to rougher usage. But example works wonderful effects, especially when nations live together in this great European society; and the advantages of a security to be depended on will every day more and more engage the money'd interest to prefer this to any violent and precarious profits.

How nicely does not Davenant employ political arithmetic, in order to make true estimates of the taxes to be imposed, and appropriated for a term of years, for extinguishing principal and interest? How exactly has not the account between the state and the bank been carried on from 1695, to this day? How faithfully have not all parliamentary engagements been observed? When, in 1749, a most natural operation was performed, to reduce the interest of the debt of Great Britain, by gentle steps, from 4 to 3 *per cent.* what an outcry did it not make, although an alternative was left to the creditors, either to receive an actual reimbursement, or to accept of the new terms? The credit of Great Britain must have appeared to France in the light of a pettish child, educated in the house of a too indulgent parent: her own is not treated with such gentleness; and when our money-jobbers try their hand at Paris, and meet with disappointments from unexpected acts of council; to prevent the laugh going against them, for trusting to the credit of France, they turn it off by a jest, and pretend that they were only playing as at the Groom-Porter's, or in Change-Alley.

In a word, what would totally ruin the credit of England, does not equally affect that of France. An act of power there, no doubt, throws a damp upon it for a time; and if that act of power takes place at a critical juncture, it may cost her very dear; as it has lately cost her the continent of North America; which, I think, was sold for 32 millions, withheld from her creditors, for a short

time, in the end of 1759. But this act of power, and many others since, have not ruined the credit of France: many trust her still; only those who purchase in her funds, at present, take about 2 per cent. off from their interest, as a premium for the insurance of her good faith, until she recovers her mercantile reputation\*.

CHAP. V.

Of the present state of public Credit in Great Britain.

WE have, in a preceding chapter, given a general view of the state of public credit in England, at the end of the last century. In this, I shall briefly run through the most remarkable revolutions, both in sentiments and events, which have succeeded since that time.

At the revolution the revenue of England was about two millions sterling, affected by two debts. The first was called the bankers debt, contracted by Charles II. and, by letters patent, charged upon his hereditary excise, to the amount of upwards of 1 300 000 l. This debt was reduced to one half, in the last years of King William, and put at 6 per cent. perpetual annuity, to commence from 1706. The other was a debt of 60,000 l. due to that Prince's servants, neglected to be paid by his successor, and discharged after the revolution.

At the peace of Ryfwick, the national debt amounted to about 20 millions. The branches of taxes subsisting at the revolution, and continued till then, produced no more than about 800,000 l.; but

\* Money invested in the French funds, anno 1766, will bring the purchaser 6 per cent. This I consider as 4 per cent. for the interest, and 2 per cent. premium for the risk; and were she now to borrow any considerable sums, I suppose the insurance would rise in proportion.

by

by additional taxes laid on in the reign of King William, the whole revenue extended to 3 355 499 l. of which above one million was to cease before 1700, as has been said. This reduced the revenue, at the beginning of Queen Anne's reign, to nearly what it had been at the revolution: out of which if we deduct the interest of the national debt then subsisting, and the expence of the civil list, we shall discover the extent of the funds prepared for engaging in the war with France; and then by comparing the state of the nation at her succession, with what it was at her death, we shall form a general notion of the progress of credit, debts and taxes in England during that period.

The revenue of England at the accession of Queen Anne may be stated at about

The revenue of England at the accession of Queen Anne may be stated at about	£ 2 272 000
The debts subsisting on the 31st of December 1701, were	£ 6 748 780
Upon which the annual interest was	566 165
Queen Anne's civil list *	600 000

Which two sums amounting to	1 166 165
Being deducted from the revenue, there will remain	1 105 835

for the current service of the state

What the exact amount of the revenue of England was at the death of the Queen, I cannot justly say. But as it may be comprehended under the three general branches of customs, excises, and other inland duties, we may form a guess at it, though imperfectly I allow, from the number of articles in each.

At her accession, the customs comprehended fifteen articles; at her death, they amounted to thirty-seven: at her accession, the excises comprehended ten articles; at her death, they amounted to twenty-seven: at her accession, the other inland duties comprehended eight articles; at her death, they amounted to sixteen, including

\* The Queen got from parliament 700,000 l. for her civil list; but she immediately ordered 100,000 l. to be annually paid to the uses of the war.

the

the land tax, then become in a manner perpetual, although laid on from year to year.

At her accession, the public debts amounted (as above) to near seven millions, at her death they exceeded fifty millions.

In fourteen years, from the revolution to her accession, the money granted by parliament, partly raised on the subject, and partly borrowed, or taken credit for, according to the custom of the times, amounted to above fifty-five millions. During the 13 years of Queen Anne, the money granted by parliament raised on the subject, or borrowed as above, amounted to upwards of 80 millions.

By this general sketch I do not mean to enter into exact details: facts must be sought for in books which treat of facts; our chief object is to examine the principles upon which the public credit was supported, let the exact sum of money raised be what it will.

The expences of the French war first engaged the nation to revive those taxes which had been suppressed; and to impose many others for a considerable number of years, in proportion to the money borrowed upon them, according to the principles of the former reign.

In 1702, interest was so low, that government got money at 5 *per cent.* It continued so till 1704, when some loans began to be made at 6 *per cent.* and at this rate it stood during the war.

But in 1706, the exigencies of government were far greater than what all the money to be borrowed, or raised on the subject, could supply. This opened a door to the abuse of paying the growing deficiencies upon the taxes with exchequer bills, chargeable on distant funds. These fell constantly to great discount; and the unhappy servants of the state, who received them in payment, were obliged to dispose of them to people who could wait for an unfurious reimbursement by parliament.

When those exchequer bills had once got into the hands of the monied people, they had interest with government to engage the bank to circulate them at 6 *per cent.* interest: but as the funds upon which they were secured happened at that time, 1706, to be engaged

gaged for discharging debts previously contracted, the bank, during that interval, could receive no payment of this interest of 6 *per cent.* so the expedient fallen upon, was to pay the bank compound interest for all the tallies and bills they were to discount, until the funds appropriated should be relieved.

This expedient, bad as it was, and burdenvome to the state in the highest degree, proved of infinite service, both in establishing the credit of exchequer bills, and relieving those who received payment in them.

This operation was quite similar to those of banks of circulation upon mortgage. The bank of England was here employed in converting into money exchequer bills, secured upon the faith of government. Banks upon mortgage convert into money the property of individuals, upon private security. Had, therefore, banks upon mortgage been established in England at this time, all those who had property would have got credits from them, and would have been enabled thereby to pay their taxes, and carry on their industry, without diminishing their consumption. The exchequer would then have had no occasion to issue discredited bills and tallies for making up deficiencies; because taxes would have been productive, and the state would have been relieved of this excessive burden of interest at 6 *per cent.* accumulated quarterly in favour of the bank.

What extraordinary profit must have accrued to the bank by this operation, every one must perceive. They were not here procuring funds to lend at a great expence; all they did was to augment the quantity of their paper upon government security; which they knew well would be suspended in the common circle of payments within the country; and the public borrowings were sufficient to furnish credit for the sums sent out of the country. In this view we may conclude, that almost the whole accumulated interest paid, was pure profit to the bank, and a great augmentation of the national debt.

This operation of the bank in 1706, did not prevent subsequent deficiencies, in the payment of the navy, army, ordnance, and of many



many other articles. In 1710, they amounted to above nine millions sterling. This was too great a sum to be borrowed; and the bank durst not venture to discount more than what domestic circulation could sustain: so that after this great debt had circulated upon the discredited obligations which had been issued for it, and in that way had fallen again into the hands of monied people, at 30 and 40 *per cent.* below par, the new proprietors of it were all incorporated into one great company, with a governor and directors, who got 6 *per cent.* for the whole capital, with an allowance of 8000 *l.* a year for charges of management.

Thus all the real creditors for these deficiencies lost the discount; the monied people gained it, and the public paid for all.

When credit is in this languid state, every expence of government rises in proportion to the discredit of the paper with which they pay, till at last the whole sum, with interest, accumulation, and expence, falls upon the state, as if every farthing of it had been frugally expended in ready money.

This is a general view of the state of credit in Queen Anne's reign.

Government had not, as in the former war, the inconveniences flowing from the disorder in the coin to combat with. These contributed more than any other circumstance, to raise the capital of the debts at the peace of Ryfwick. Circulation, too, was considerably augmented, in consequence of the increase of taxes, public debts, and the operation of the bank in circulating exchequer bills and tallies. Yet money was still scarce, in comparison of what it might have been, had proper methods been contrived to preserve it upon a level with the occasions for it.

The incorporation, also, of nine millions capital in the hands of a corporation, which afterwards was called the South Sea Company, was an assistance to public credit, by increasing a monied interest, the principal view of which was to fill the government loans, on the lucrative conditions offered for them. And last of all, the strictly adhering to the public faith of engagements, without seeking, by acts of power, to indemnify the state for the losses it had been obliged

obliged to incur, from the circumstances of the times, laid the solid basis of national credit for the future.

Although the many additional taxes added to the former revenue, did not increase it in any proportion to the load laid upon the subject during this war, they served, however, as a good foundation for improvement, as soon as the effects of peace restored them to their full production. But the charges laid upon them having become every year greater, government was obliged to engage certain funds for thirty two years to come, and sometimes longer; and many branches of taxes, which formerly had been granted for short terms, were then made perpetual. After the peace of Utrecht, the expences of the state were greatly diminished, and money began to regorge: so that in the year 1716, the first foundation of the sinking fund was laid, by opening a subscription for paying off about ten or eleven millions sterling, at that time, charged upon several branches of taxes, the produce of which amounted annually to 724 849 *l.* sterling.

The proprietors of these debts were allowed to subscribe into this new fund, at an interest of 5 *per cent.* redeemable by parliament: and in case the whole subscription should not fill at that rate, the bank and South Sea company became bound to make it up, upon receiving a like annuity in proportion to their subscriptions.

The bankers debt, of which we have spoken, the only public debt owing at the revolution, made part of those which were to be subscribed for.

The taxes which had been appropriated for the discharge of those capitals, from temporary, were made perpetual; with a clause added, that when the surplus of the fund, after payment of interest, had discharged the capitals of all the national debt due the 25th of December in that year, the whole produce of the fund itself should remain at the disposal of parliament.

After this first operation in reducing the interest, the bank was satisfied with a reduction to 5 *per cent.* of that paid to them; and

they began to circulate exchequer bills at a more moderate interest than formerly.

Public credit was now daily gaining ground. In 1719, the South Sea company, whose capital was then swelled to eleven millions at *5 per cent.* with a sum of 9397 *l.* sterling for the expence of management, enlarged their views; and finding great profits to arise from such a fund under one administration, formed a project of acquiring a large sum of the public debts, which remained outstanding upon the original funds appropriated for them.

For this purpose they proposed to government to acquire, 1. The property of above 16 millions of redeemable debts, bearing then 4 and *5 per cent.* interest; and to reduce the whole to *4 per cent.* at midsummer 1727. 2. To acquire a sum of 794000 *l.* of annuities upon lives, and for long terms, as they should agree with the proprietors, at *5 per cent.* upon the purchase-money, until 1727; and at *4 per cent.* afterwards. Annuities were then valued at fourteen and twenty years purchase, according to their length: they rose, however, during the operations of the South Sea, to 25 and 30 years purchase. 3. They were to have a sum added to their former allowance for the charge of management, in proportion to this augmentation of their stock. 4. That for the advantage which might follow upon this agreement with government, they were to pay into the exchequer above seven millions sterling, toward discharging other national debts outstanding. And in the last place, they engaged to circulate a considerable sum of exchequer bills, and to pay the interest of 2 pence *per cent. per diem*, which should grow upon them during seven years\*.

From

\* After the long and particular account I have given of the Mississippi, I shall not enter into a like detail, concerning a scheme which proceeded upon the very same principles; to wit, the artificial raising the value of a stock, by promising dividends, out of funds which were nowise proportioned to them.

I shall

From the operations we have been describing, we perceive, that the point of view in England, from the peace of Utrecht, has always been, to reduce the interest of the national debt; but never to leave in the hands of the creditors, any part of the savings made, in order to

I shall therefore, in a very few words, compare some of the operations of the South Sea scheme, with those of the Mississippi; and in doing it, point out the principal differences between them.

The great profits upon the Mississippi were expected from the interest paid by government for the great loan, the farms of the revenue, and the profits upon their trade.

Those of the South Sea were, at setting out, 1. The profits upon their trade: 2. The allowance made them: 3. The difference of receiving *5 per cent.* for the money they laid out in purchasing the public debts, when money was at *4 per cent.* as it was when the scheme was set on foot: and 4. The surplus money subscribed into the stock above par, in consequence of the artifices used to enhance the value of it.

The seven millions they were to pay to the state, seemingly for no value received, were a sort of compensation for receiving the *5 per cent.* for 7 years, at a time when money was worth no more than *4 per cent.*

These advantages raised, at first, the value of the original stock of eleven millions. The consequence was, that the proprietors of the 16 millions of the redeemable debts, which were to be bought in when they came to subscribe their capitals into the new stock, transacted them at a proportional discount; which discount, being good against the government in favour of the company, served to discharge proportionally the seven millions the company was to pay. This gave an additional value to the stock; and so it rose, greatly indeed above that proportion. Then the company promised a dividend of *10 per cent.* for one half year, upon their capital, at midsummer 1720; this dividend was to be paid in stock, which was constantly rising in its value; but no information was ever given the public concerning the funds which were to produce this dividend; so every one concluded that there were hidden treasures in their hands, which enabled them to promise such large dividends. Accordingly, stock rose from 300 *per cent.* to 375; then to 400, and at last to 1000 *per cent.*; and in proportion as it rose, the wealth of the former subscribers augmented from the surplus above par, paid by the latter, and those who subscribed last, bore all the loss upon the blowing up of the scheme.

But one great difference between the South Sea and Mississippi, was this: That in France there was abundance of money in the hands of the public, for purchasing the

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actions,

to diminish the capital. These savings have constantly been thrown into a sinking fund, *supposed* to be intended for extinguishing the capital; and were it employed for that purpose for a few years only, and not diverted to other uses, I am persuaded the consequence would

actions, at the exorbitant price to which they rose; but in England there was not: consequently, in France, the rate of interest fell to 2 *per cent.* and in England, the great demand for money to borrow, raised it beyond all bounds.

Those who subscribed in money, paid down no more than 10 *per cent.* at subscribing; but became bound to pay up the remainder. But when the stock tumbled, people were better pleased to lose the 10 *per cent.* they had paid, than to pay up the remaining 90 *per cent.* according to the terms at subscribing. Those indeed who subscribed their former capitals at a vast discount, did not labour under the same inconvenience of want of money; but that discount became as real a loss to *them*, as the cash subscribed became a loss to the money subscribers, the moment that those who were in the secret; and who, by the most infamous chain of artifices, had blown up the public frenzy, began to realize and sell out, and that the whole was discovered to be a cheat. So that upon the whole, the English scheme had much less foundation than the French. The first blew up from an absolute necessity, and for want of any bottom at all; the last from misconduct, and rather from folly than knavery. I return to an account of the scheme.

The original capital of the South Sea company, was 11 750 000 *l.*: the redeemable debts they were to purchase in, amounted to 16 750 000 *l.*; and the value of the irredeemable, or what were called the *absolute terms*, was computed at 15 058 000 *l.* together 31 808 000 *l.* sterling.

The proprietors of this original capital of 11 750 000 *l.* consulted their own advantage only, in purchasing in this large sum of debts, which were to be converted into additional stock; and therefore founded very high the great advantages of such a transformation of them; 1<sup>mo</sup>, From the profits of the trade, which they were to enjoy exclusively. And, 2<sup>do</sup>, From the great addition to their wealth, from the constant rising in the price of their stock. They carried their views to nothing less than obtaining a majority in the house of commons, by the weight of their wealth, and of becoming the absolute rulers of the nation.

The public being from the beginning intoxicated with such ideas, subscriptions for stock were opened at 200 *per cent.* above par; and some of the proprietors of the 31 808 000 *l.* subscribed at first their capitals at a proportional discount; that is, they

would be, to reduce interest in England lower than ever perhaps it has been seen in any nation. That interest may be reduced, by making money regorge in the hands of the lenders, is, I think, an uncontroverted principle: that by regorging in France, *anno* 1720, it reduced interest to 2 *per cent.* is a fact indisputable. I shall not pretend to say positively, that the total appropriation of the sinking fund, and an augmentation upon annual grants, to make up the void, would in Great Britain work this effect in a few years; but I think it is very probable that it would: and if the domestic creditors, in any state, where debts, *due to strangers*, are swelled to such a height as to exceed the whole profits made upon trade, shall by

made over a debt of 100 *l.* for 33  $\frac{1}{3}$  in South Sea stock; and successively, the subscription rose to 1000 *per cent.* These immense profits being incorporated into the gains of the general stock, were proportionally shared by the subscribers themselves, who became proprietors; and the higher the stock rose, the more these gains augmented. This influenced the infatuation; and the dividends augmenting in proportion to the price of subscription, there appeared no end of the rising of the stock.

The first dividend offered, as has been said, was 10 *per cent.* half-yearly, in stock: this was afterwards converted into no less than 30 *per cent.* in money, for that half-year: and when stock rose to 1000, a dividend of no less than 50 *per cent. per annum*, in money, was promised for twelve years to come.

Had stock risen to 2000 *per cent.* the dividend could have as easily been carried to 100 *per cent. per annum*, as it had been to 50 *per cent.* when at 1000.

But whence was this dividend to be paid? The company and the directors took good care never to give to the public any light as to that particular.

To prevent, therefore, such abuses in the rising of the South Sea, it ought to have been provided by parliament, that in taking in subscriptions, and offering dividends, the directors should have informed the public, 1<sup>mo</sup>, Of the money owing to them by government. 2<sup>do</sup>, Of the money gained by the subscriptions above par. And 3<sup>tio</sup>, Of the profits upon their trade. And, on the other hand, of the debts due by them; and of the nett balance upon their books, in their favour.

This would have been fair dealing. But to pretend the necessity of secrecy, in a point where a nation is interested, was in itself a mere pretext; and had it been otherwise, it might have been answered, that a company which is obliged to have recourse to such secrets, ought to be prevented from dealing with those who were to remain ignorant of *them*, however deeply interested.

their influence, and from a motive of present advantage, obstruct a scheme of this nature; the consequence will prove, in the first place, to discourage, and then totally to extinguish commerce, and in a little time to occasion an unavoidable bankruptcy; as shall be farther explained in a succeeding chapter. I return to the South Sea company.

The proposal of the South Sea company, mentioned above, was accepted of, and ratified by act of parliament, 6 Geo. I. chap. 4th. But the disaster which befel credit, in consequence of the ambitious views of those who were in the administration of that company, prevented the nation from reaping all the advantages which might have proceeded from it.

The reign of K. George I. though little disturbed by foreign wars, produced not the smallest diminution upon the capital of the public debts; and those which subsisted at the peace of Utrecht, stood, at his death, at 50 354 953 *l.* The same taxes subsisted; and every one almost was by this time made perpetual, except indeed the land tax and malt duty, which to this day continue to be annual grants.

But alas! this apparent revenue, arising from a multitude of taxes, was of no use towards defraying the smallest *extraordinary* expence of government. Every article of it was engaged for debts; and the operations for reducing the interest were calculated only to produce a fund for discharging the capital. The civil list, indeed, that is to say, the expence of civil government, exclusive of army, navy, ordnance, and incidental articles, was paid from the permanent taxes, and considered as a charge upon them. But were not armies and navies then become as regular an expence upon every state in Europe as judges and ambassadors? Undoubtedly they were. Yet after the peace of Utrecht, in laying down the plan which has constantly been followed ever since, for defraying the regular expence of British government, these two great and unavoidable expences were considered as contingent only, and provided for by annual grants: and because armies, in time of peace, in former reigns, had proved dangerous to liberty from  
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the abuse of power, they were still considered in the same light, at a time when liberty and trade were continually threatened from their armed enemies and rivals abroad.

When the continuance of peace, in the reign of George the First, had produced the effect of reducing interest, on many occasions, to 3 *per cent.* the sinking fund began to gather strength. The land tax, from the year 1722, had not exceeded two shillings in the pound; and the *extraordinary* expence of government, according to the annual grants of the 13 years of his reign, did not exceed 34 800 000 *l.* or 2 670 000 *l.* a year.

Public tranquillity was very little disturbed during the first twelve years of the succeeding reign; and all the *extraordinary* expence did not much exceed three millions *per annum*: yet that expence, small as it was, compared with what it has been since, was almost every year made out, by taking one million at least from the sinking fund; and in the years of the least expence, such as 1731 and 1732, the land tax was reduced to one shilling in the pound, at the expence of taking two millions and a half from the sinking fund.

These steps of administration I neither censure, or approve of. I must suppose every statesman to have good reasons for doing what he does, unless I can discover that his motives are bad. May not the landed interest, who composed the parliament, have insisted upon such a diminution of their load? May not the proprietors of the public debts have insisted on their side, that no money out of the sinking fund should be thrown into their hands, while the bank was making loans upon the land and malt duties at 3 *per cent.*? Might not the people have been averse to an augmentation of taxes? When three such considerable interests concur in a scheme, which in its ultimate, though distant consequences, must end in the notable prejudice of perpetuating the debts, although opportunities offer to diminish them, what can government do? They must submit; and which is worse, they cannot well avow their reasons.

Such

Such combinations must occur, and frequently too, in every state loaded with debts, where the body of the people, the landlords, and the creditors, find an advantage in the non-payment of the national debt. It is for this reason that I imagine, the best way to obviate the bad consequences of so strong an influence in parliament, would be, to appropriate the amount of all sinking funds in such a manner, as to put it out of a nation's power to misapply them, and by this force them either to retrench their extraordinary expences, or to impose taxes for defraying them.

The second period of George II's reign, was from the breaking out of the Spanish war in 1739, to the peace of Aix-la-Chapelle in 1748. During these ten years, (1748 being included) the extraordinary expence was, upon an average, very near seven millions; and at the end of the year 1738, the public debts amounted to 46 661 767 *l.* bearing 1 962 053 *l.* interest.

The first expedient for borrowing money during the war, was to continue the duty on salt for seven years; and to mortgage it at once for 1 200 000 *l.* according to the old plan. To this was added, the expedient of lotteries, and loans upon indeterminate annuities, according to the current value of money.

An additional excise upon spirituous liquors, brought in where-withal to compensate these additional sums of interest; and the East India company, for lending one million at 3 *per cent.* upon this occasion, had their charter continued from 1766 to 1780. This operation I also consider as an anticipation; and as it was to commence at the distance of 23 years from the time of the grant, could not fail of being very burdensome to the nation, however convenient it might be at that particular time.

Were the India company now, 1766, to purchase the renewal of their charter for 14 years, what a sum might be expected from it! Yet the value given for the grant they then obtained did not exceed 30 000 *l.* because the other annuities of 3 *per cent.* were sold at that time for 97 *l.* or, in the language of the funds, at 3 *l.* premium for every 100 *l.* subscribed; and this so early in the war as 1743.

The

The practice of borrowing upon premiums had taken place in Queen Anne's reign, and has of late years been very common. The credit of Great Britain is so firmly established, that in whatever way government inclines to borrow, the money'd men are willing to lend, provided the loan be made at the then rate of interest.

To avoid therefore the establishment of funds at different rates, in proportion to the fluctuations of money, the bargain is made at one determinate interest. Suppose, for an example, 3 *per cent.* Then, according as it is found to rise above that rate in the market, a premium is paid out of the money subscribed; as in this case 3 *l.* was paid out of the 100 *l.* subscribed; that is, the subscriber retained it, and obtained his 3 *l.* annuity, for the payment of 97 *l.* so this remained a 3 *per cent.* loan, instead of being, as it really was, at 3  $\frac{3}{100}$  *per cent.* and was sold and transferred as every other 3 *per cent.* without occasioning any perplexity.

As the war continued, interest rose, from the demand for money, when the supplies became deficient.

The year following, viz. 1744, this manifested itself, by the conditions offered by government, which were: That, of two millions to be borrowed at 3 *per cent.* as before, upon the whole sum, 1 500 000 *l.* should be formed into perpetual annuities, and the remaining 500 000 *l.* into a lottery, consisting of 50,000 tickets, to be sold at 10 *l.* each. The original subscribers to this loan subscribed therefore 10 *l.* for the ticket, and 30 *l.* for the annuity, in all 40 *l.*; for which they were to receive 3 *per cent.* But the premium consisted in this; that every subscriber for 10 tickets, that is, 400 *l.* of the total fund, had an annuity for life given to him of 4 *l.* 10 *s.*

This made five thousand annuities on lives, of 4 *l.* 10 *s.* each, or 22 500 *l.* a year to be added to the interest of 3 *per cent.* on the two millions, that is, to 60 000 *l.* a year of perpetual annuities. So that the whole loan of two millions this year cost government 82 500 *l.* of interest, or 4  $\frac{1}{4}$  *per cent.*; 22 500 *l.* of which was to extinguish with the lives of the subscribers.

Now, if we suppose these life-annuities worth 20 years purchase\*, this was the same thing as if government had given a deduction of 90 *l.* out of the 400 *l.* subscribed; consequently the remainder, which was 310 *l.* produced 12 *l.* This makes the rate of interest upon the loan to have been 3.87 *per cent.* And as government inclined that the loan should be made in that way, the lenders were willing that it should be so; and the difference between 3.87 *per cent.* (the then rate of money) and  $4\frac{1}{2}$  interest, which was paid by government, was a sinking fund, as it were, for the gradual extinction of the capital of the lottery for 500,000 *l.* during the lives of the annuitants.

In 1746, perpetual or determinate annuities were constituted at 4 *per cent.* and the premium upon the ten lottery tickets was raised to 9 *l.* life-annuity.

It would be unnecessary to trace the various methods of contriving the premiums given in the succeeding years of this war. The principle upon which they were regulated was always to proportion them to the rate of interest at the time; and the motive was, I suppose, that by this method of borrowing, a part at least of the debt would become extinguished with the lives of the subscribers. There might perhaps be another, to wit, that by swelling the capital, for value not received, there was an appearance of borrowing at a lower rate of interest than what in reality was the case. Thus in 1747, when 6,300,000 *l.* were borrowed, instead of giving not quite  $4\frac{1}{2}$  *per cent.* for this sum, they gave 4 *per cent.* upon 6,930,000 *l.* which capital, although money should return to 3 *per cent.* was still to stand at its full value; whereas, had 6,300,000 *l.* been borrowed at  $4\frac{1}{2}$  *per cent.* there would have been a saving of 600,000 *l.* upon the capital; and at the peace, the interest of  $4\frac{1}{2}$  *per cent.* would equally have come down to 3 *per cent.* with the other funds.

\* This may seem a high valuation, and is, in fact, far beyond what any of those annuities sold for: but as the interest of money cannot be estimated, for a constancy, at more than 3 *per cent.* and that probably the best lives were chosen, the value to government of such annuities may well be estimated at 20 years purchase. By De Moivre's tables, annuities for the most favourable ages, interest being at 3 *per cent.* are valued at 19.87 years purchase; and his valuations are generally allowed not to be too high.

During this first war of George the Second, the land-tax was constantly at 4 *s.* in the pound; and new branches of customs, excise, or other inland duties, were created in proportion to the swelling of the national debts, which, on the 31st of December 1748, amounted to 78,293,313 *l.* sterling, bearing 3,005,325 *l.* interest; and the sinking fund, or surplus of all permanent taxes then imposed, after paying the civil list, and the interest upon this capital, amounted to 1,060,948 *l.* sterling. During this war, the debts were increased above what they were at the end of 1738, by 31,631,546 *l.* sterling capital, and by 1,043,272 *l.* of interest or annuities.

The war was no sooner over, and the national expence diminished, than money began to regorge in the hands of the monied interest: an infallible consequence of such a violent revolution, when extraneous circumstances, such as occurred after the peace 1763, do not prevent it.

To profit of this conjuncture, government, early in 1749, proposed that all the public creditors upon capitals bearing 4 *per cent.* interest, redeemable by parliament, and amounting to upwards of 57 millions, who should accept of 3 *per cent.* from December 1757, should have their debts made irredeemable until that time; and in the interval should continue to have 4 *per cent.* till December 1750; and  $3\frac{1}{2}$  *per cent.* from thence, until the total reduction to 3 *per cent.* in December 1757.

This bold undertaking had the desired effect. Many obstacles were thrown in the way; but the regorging capitals in the hands of many, made every one fear the reimbursement for himself; and the credit of France was then so low, that very few chose its funds as an outlet for their superfluous money.

But an outlet, unfortunately, was not wanting at the end of the last war in 1763, as we shall shew in its proper place.

Here then is a notable instance of the effects of regorging money. A small sum, when compared with a nation's debt, operates upon the whole capital; as a small balance upon trade affects the whole mass of reciprocal payments.

The reimbursement of 57 millions offered by government, in 1749, was, to the conviction of all the world, an impracticable scheme; but the stockholders seeing a large sum ready to be sub-

scribed, at the interest offered, and feeling the effects which that regorging money must, in all events, have produced, willingly, and wisely perhaps, consented to the offer made them. Had they refused, and had the scheme proposed become abortive thereby, perhaps the nation might have been so far animated against the creditors, from the disappointment, as to have consented to be at the expence of defraying the service of the following years, without encroaching upon the sinking fund. What effect this would have produced upon the rate of interest, in that conjuncture, no man can tell, nor will the real consequence of such a measure ever be known, until the happy trial be made. That it would have brought interest below 3 *per cent.* in December 1757, is, I think, evident: for as matters stood, had the creditors of 57 millions been able to hold out, I must do them the justice to believe, they would not have consented to the proposal made to them; and an addition of all the sinking fund thrown among them annually, at a time they could not dispose of what they had, upon better terms than those offered them, would undoubtedly then, as at all times, operate a very great national relief, in bringing down the interest.

During the tranquillity which continued from the peace of Aix-la-Chapelle, in 1748, to the commencement of hostilities in 1755, the money expended for extraordinary services amounted on an average to above four millions *per annum.* The expence of government was then increased, by supporting the colonies, and by several great and uncommon outgoings at home, for purposes mentioned in the supplies of those years.

A little before the breaking out of the last war, that is to say, on the 5th of January 1755, the national funded debt was reduced to 72 289 674 *l.* upon which was paid an annuity of 2 654 500 *l.* and the sinking fund amounted to 1 308 814 *l.*\*. At the end of 1763, the year of the peace, the funded debt amounted to 1 305 867 89 *l.* 10 *s.* besides above 9 millions not provided for. So that at the end of last war the national debt exceeded 140 millions; besides the value of the annuities granted in 1757, 1761, and 1762. Hence it ap-

\* To this funded debt must be added the unfunded debt, which I do not know exactly; and the value of the annuities granted in 1745, and 1746.

pears,

pears, that the war occasioned an augmentation of upwards of 58 297 116 *l.* upon the funded national debt; besides the difference between the unfunded debts at the beginning and end of the war; and also the value of those annuities\*.

I shall, before I conclude this chapter, present a short scheme of the state of the nation at that time: but first let us take a view of the methods used to borrow so large a sum in the short period of eight years.

Until 1757, money was borrowed by government, at a little above 3 *per cent.* but then a loan of 5 millions being necessary, government consented to create annuities of 4  $\frac{1}{2}$  *per cent.* irredeemable for 24 years. By this expedient the monied people eluded the operation of reducing the interest of this fund, upon the return of peace. How far this expedient was to be preferred to the former, of increasing the capital beyond the money paid; or whether it would not have been still better to have paid for the money wanted, according to the current rate of interest in the market at the time, waiting until a peace might afford a favourable opportunity of reducing it, I shall not take upon me to determine.

I have observed how rash it is for any one to censure acts of administration, when the motives of a statesman's conduct are unknown. This, however, I have sometimes ventured to do, in speaking of things which happened many years ago; but we ought to be more cautious as we come nearer to our own times, because not having, as in this case, a course of experience to point out the errors, we must entirely rely upon our own sagacity, and reason only from analogy.

During the last war, as in that preceding it, taxes were increased in proportion to the interest of the money borrowed; and new impositions were now laid on the articles of great consumption, which produced abundantly. The new malt-duty of 3 *d.* *per* bushel, and the new beer-duty of 3 *s.* *per* barrel, bring in net into the exchequer near 820 000 *l.* *per annum,* and discharge the interest of above 27 millions sterling, at 3 *per cent.* Such a sum raised at the end of a

\* The annuities of 1757, are estimated, by the author of the Considerations on Trade and the Finances, at 472 500 *l.* or at 14 years purchase; and the annuities of 1761, 1762, at 6826 875 *l.* or at 27  $\frac{1}{2}$  years purchase. But this valuation seems too low, for the reasons given in the note, p. 394.

war so very expensive, and at the very time when the credit of France was totally fallen, must have operated in the strongest manner, and did in fact operate more, perhaps, than any other consideration to put an end to that war, the most glorious that Europe has beheld since the beginning of this century, or perhaps in any age whatever: advantageous to Great Britain, notwithstanding all the expence, providing that the consequences happen to correspond to what may be reasonably expected.

I shall now set before my reader a short state of the taxes, debts, and public funds of Great Britain, at this bright period of her history.

From the best authority I have been able to procure, the revenue of the state, considered under the three general branches of customs, excise, and other inland duties, which comprehend the whole permanent income of this kingdom, was then as follows:

Customs net into the exchequer, about	- - -	£ 2 000 000
Excise in all its permanent branches net, about		4 600 000
Other inland duties net	- - - - -	1 000 000
Land tax at 4s. in the pound	- - - - -	2 000 000
Annual malt tax net	- - - - -	613 000
In all	- - - - -	<u>10 213 000</u>

Let us next state the annual charges and appropriations settled upon this fund.

First then the civil list, to the amount of	£ 800 000
2do, The interest of about 131 millions of funded debts at different rates of interest, about	4 500 000
3tio, The interest of nine millions not then provided for, supposed to be at 4 per cent.	- 360 000
In all of regular and permanent annual charge	<u>5 660 000</u>
So there remains free, about	4 553 000

From which if we deduct the annual grants of land and malt-taxes, which extend together, as above, to

	<u>2 613 000</u>
There will remain as the produce of the sinking fund*	<u>1 940 000</u>

In

\* I find that the sinking fund is now estimated at 2 100 000l. by the author of the Considerations on Trade, &c. above cited. I am also informed that the net produce of the customs exceeds 2 000 000l. considerably: but 4 600 000l. is rather the gross

In that state, nearly, stood the affairs of Great Britain after the conclusion of the peace in 1763.

It now only remains to offer some conjectures why, after this period, money was not found to regorge, as after the peace of Aix-la-Chapelle, so as to furnish an opportunity of reducing the rate of interest upon all redeemable debts, and by that of raising the amount of the sinking fund, and more firmly establishing the national credit.

After the fall of the credit of France towards the end of 1759, Great Britain had the command of all the money to be lent in Europe; and accordingly amazing sums were borrowed in 1760, 1761, and 1762. Of the sums borrowed, a great part, no doubt, was the property of strangers; but they, not being so well acquainted with the affairs of this nation as the English themselves, instead of subscribing to the loans, lent the money to our own country people, who, in hopes of a great rise upon the return of peace, filled the subscriptions with borrowed money.

The consequence was, that no sooner did the funds begin to rise after the peace, than every creditor demanded his money of those who had invested it in the public funds. This obliged the latter to bring their stock to market, and this again had naturally the effect of keeping the funds very low. Some, more prudent than the rest, had borrowed upon a long term of repayment; which had the effect of putting off still longer the settlement of the funds in the hands of the real proprietors, and of taking them out of those who only held them nominally.

Besides this accidental cause of the low price of the funds, other circumstances, no doubt, greatly contributed to produce the same effect.

However great the balance of trade, that is, of exportations above importations, may have been of late in favour of England, still the

gross than the net produce of the permanent duties of excise; that is, of all the excise duties, excepting the annual malt-duty. It must also be observed, that the annuities payable to the national creditors, amounted, the 5th January 1764, to more than 4 720 000l. But on the other hand, the interest of the unfunded 9 millions is rated too high, as appears from the author above quoted. I cannot pretend to give exact details. The general sketch here stated is sufficient for my purpose.

mighty



mighty sums drawn out by strangers have certainly, upon the whole, prevented much money from coming home on the general or grand balance of payments. While that remains the case, it is impossible money should regorge at home in the hands of the natives, and until this happens, there is no hope of seeing the 3 *per cents.* above par. But then the rise, small as it is, since the peace, may encourage us to hope that that time is not far off: for had the profits of our trade been quite unable to balance the loss upon our foreign debts, the funds would undoubtedly still continue to fall, which is demonstrably not the case from the circumstances of the loan in April 1766, obtained by government, with the assistance of a lottery indeed, at 3 *per cent.* \*

Here

\* The loan of 1766, was 1 500 000 *l.* at 3 *per cent.* Every subscriber for 100 *l.* had an annuity of 3 *per cent.* on 60 *l.* and 4 lottery tickets, valued to them by government at 10 *l.* each, in all 100 *l.* The prizes and blanks in the lottery amount to 600 000 *l.* and bear 3 *per cent.* paid by government. The annuities amount to 900 000 *l.* and bear also 3 *per cent.* The number of tickets are 60 000. Hence, at 10 *l.* each, they amount to 600 000 *l.*

The advantage government reaps by this way of borrowing, is, that the desire of gaming, raises the lottery tickets above their value, when thrown into the hands of the public; and this advanced value being a profit to those who receive them in part of their subscription, that profit they share with government. Example. In April 1766, when government borrowed 1 500 000 *l.* at 3 *per cent.* the 3 *per cents.* were only at 89: consequently, the difference between 89 and 100, which is 11 *l.* must have been supposed to be the sum which the subscribers, from the propensity of people to game, had a reasonable, or rather a certain expectation of gaining upon the sale of 4 lottery tickets, that is, 2 *l.* 15 *s.* upon every one.

To know therefore the real par of a lottery ticket, you must proceed thus: it costs the subscribers 10 *l.* for which they receive from government 3 *per cent.* This 10 *l.* as 3 *per cents.* stood at 89, is worth at that rate no more than 8 *l.* 18 *s.* add to this sum what the public must pay for the liberty to play, which we have stated above at 2 *l.* 15 *s.* and you have the exact par of a lottery ticket at 11 *l.* 13 *s.*

Whatever they sell at above 11 *l.* 13 *s.* is profit to the subscribers, whatever they sell below 11 *l.* 13 *s.* is a loss to them.

This profit, though small in appearance, is greatly increased from another circumstance, viz.

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Here then was an outlet provided for more money than all that could regorge at home, viz. the payment of those foreign creditors, to whom the stock-holders were indebted. Besides this, the sale by government, of such tracts of land in the new acquired islands in the West Indies, provided another; money was even placed in the funds of France soon after the peace, until the adventurers were checked by the operations of the King's council, in reducing both capitals and interest upon them, contrary to the original stipulations with the creditors. A lucky circumstance for Great Britain, as it forces, in a manner, all the money of the continent into the English funds, which equally remain a debt upon the nation, whether high or low in the market.

That the subscribers may sell their subscriptions at a time when they have really advanced but a small part of it. The first payment is commonly of 15 *per cent.* on their subscription: when they sell, they make this profit upon the whole capital. Suppose then 15 *per cent.* paid in: if the profit upon selling be no more than 1 *per cent.* upon the capital, that 1 *per cent.* turns out no less than 6  $\frac{2}{3}$  *per cent.* upon the money they have advanced. Thus a person who is possessed of 1500 *l.* only, may subscribe for 10 000 *l.* in this loan: he pays in his 1500 *l.* and receives his subscription; when he sells, he sells 10 000 *l.* subscription, upon which he gains 1 *per cent.*: 1 *per cent.* of 10 000 *l.* is 100 *l.* so (in one month suppose) he gains by this means 100 *l.* for the use of 1500 *l.* But as a counterbalance for this profit, he runs the risk of the falling of the subscription, which involves him in a proportional loss if he sells out; or in the inconvenience of advancing more money than he had to employ in that way, in case he should prefer keeping his subscription for a longer time, in hopes of a rise in the public funds. By this mode of borrowing, government profits by the disposition of the people to game. But this propensity has its bounds, and at present it is found by experience not to exceed 60 000 lottery tickets, or 600 000 *l.* Were, therefore, a subscription of 3 millions taken in upon the same plan with the present of 1 500 000 *l.* the regorging number of tickets would so glut the market, that the whole would fall below the par of their supposed value.

C H A P. VI.

*State of the public Credit in France, their Debts, Funds, and Appropriations, at the Peace 1763.*

WERE it as easy to get information of the political state of France as of Britain, one might attempt to give such a sketch of their affairs as we have now done of the other; but when we consider the lame accounts given by French authors who have made researches of that kind their particular study, it would be inconsiderate in a stranger ever to undertake a task so difficult.

In France, the finances are considered as a political arcanum, of great consequence to the state, to conceal from vulgar eyes. It is not long ago, since the farmers of the greatest part of the revenue used regularly to burn their books at the end of the year, to prevent the King's servants from knowing the state of the most essential part of his affairs. Cardinal de Fleuri abolished this custom, and obliged them to lay every thing open to his eyes.

I shall now endeavour to communicate, in as short and distinct a manner as I can, an idea of the present state of the French revenue; of the taxes from which it proceeds; of the manner they are administered; of the purposes to which they are appropriated; and of the state of the King's debts at the end of the last war.

From this view we shall form a general notion of their public expences; of their public debts; and of what is most material, of the resources of that kingdom in time to come.

For this purpose, I shall divide the whole revenue of France, that is, all that is raised on the people, to whatever purpose it may be applied, into five branches; and after having first explained the nature of each, I shall give a general detail of them in their order.

The first branch is what is called the King's ordinary revenue. This is composed of about twelve articles of permanent taxes, supposed

posed to be sufficient for defraying the whole expence of government; civil and military, in time of peace.

The second is composed of all the extraordinary impositions which were laid upon the people, in consequence of debts contracted in the former war, ended in 1748.

The third, what was imposed during the last war, for the service of the state, and for paying off the debts then contracted.

The debts of France, contracted in periods anterior to those two wars, are charged on the ordinary revenue, as we shall presently see.

The fourth branch consists of two articles: The first comprehends certain perpetual taxes appropriated for certain state expences, not charged upon the ordinary revenue. The second, what is computed to be the expence of levying all the taxes, and also the profit of the farmers: or in other words, what the people pay more than the public receives from the hands of the tax-gatherers.

The fifth and last branch, comprehends the taxes paid to the court of Rome, to the clergy, and to the poor; with other duties belonging to private persons. Under one or other of these five branches, may be very properly arranged all the taxes paid by the French nation.

First general branch.

The King's ordinary revenue, with the charges upon it for the year 1761.

Articles of revenue.	Fr. money.	Sterling ditto.		
	livres.	l.	s.	d.
1. Domain (the King's landed estate)	6 000 000	266 666	13	4
2. Taille (the land-tax)	56 600 000	2 315 555	11	1 $\frac{1}{2}$
3. Double capitation (the poll-tax)	53 200 000	2 364 444	8	10 $\frac{1}{2}$
4. Ditto upon such as have civil employments, pensions, &c.	6 700 000	297 777	15	6 $\frac{1}{2}$
5. 2 s. in the pound on all civil employments.	6 800 000	302 222	4	5 $\frac{1}{2}$
	129 300 000	5 746 666	13	3 $\frac{1}{2}$
Carry over				
	F f f 2			

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	129 300 000	5 746 666 13 3 $\frac{1}{2}$
6. The mint, or coinage	2 400 000	106 666 13 4
7. Decimes and capitation of the clergy	12 400 000	551 111 2 2 $\frac{1}{2}$
8. Free gifts from the states of Burgundy, Provence, Languedoc, and Brittany	10 000 000	444 444 8 10 $\frac{1}{2}$
9. Paulette, or annual tax upon hereditary offices	2 600 000	115 555 11 1 $\frac{1}{2}$
10. Tax on the Lutheran clergy of Alface	200 000	8 888 17 9 $\frac{1}{2}$
11. Regale, or the sovereign's right on ecclesiastical benefices	1 400 000	62 222 4 5 $\frac{1}{2}$
12. General farms	112 500 000	5 000 000 — —
<b>Total of the ordinary revenue</b>	<b>270 800 000</b>	<b>12 035 555 11 *1<math>\frac{1}{2}</math></b>
Of this total the general farms	livres. l. s. d.	
amount to	112 500 000 5 000 000 — —	
And the other branches to	158 300 000 7 035 555 11 1 $\frac{1}{2}$	
The farms were increased <i>anno</i> 1762 by	11 500 000	511 111 2 2 $\frac{1}{2}$
<b>Total ordinary revenue at the end of the war</b>	<b>282 300 000</b>	<b>12 546 666 13 4</b>
Articles of Expence.		
Household of the King and royal family	9 400 000	417 777 15 6 $\frac{1}{2}$
Ditto, their personal expence	4 600 000	204 444 8 10 $\frac{1}{2}$
Carry over	14 000 000	622 222 4 5

\* These reductions of French money to sterling, are computed at the rate of 22  $\frac{1}{2}$  livres to the pound sterling. Hence 270 800 000 livres make 12 035 555 l. 11 s. and 1  $\frac{1}{2}$  d. sterling, or nearly 1  $\frac{1}{4}$  d. as stated, though the amount of the partial sums differs by 1 d.

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	14 000 000	622 222 4 5
King's stables and stud	2 500 000	111 111 2 2 $\frac{1}{2}$
Hunting equipages	1 600 000	71 111 2 2 $\frac{1}{2}$
Alms	600 000	26 666 13 4
Pay of the palace guards, ( <i>gardes de la porte</i> ) &c.	3 300 000	146 666 13 4
King's buildings	6 600 000	293 333 6 8
<b>Total expence of the court</b>	<b>28 600 000</b>	<b>1 271 111 2 2</b>
Pay of all the household troops	8 000 000	355 555 11 1 $\frac{1}{2}$
Pay of all the other troops of France	48 000 000	2 133 333 6 8
Fortifications	6 000 000	266 666 13 4
Artillery for land service	6 600 000	293 333 6 8
Military gratifications, over and above the pay	10 000 000	444 444 8 10 $\frac{1}{2}$
Pay of general officers commanding in provinces and fortresses	2 000 000	88 888 17 9 $\frac{1}{2}$
Pay, &c. of the <i>marechaussée</i>	2 200 000	97 777 15 6 $\frac{1}{2}$
Expence of prisoners of state	1 200 000	53 333 6 8
Ordinary expence of the navy	25 000 000	1 111 111 2 2 $\frac{1}{2}$
<b>Total regular military expence by land and sea</b>	<b>109 000 000</b>	<b>4 844 444 8 10</b>
Royal pensions	9 000 000	400 000 — —
The appointments of the King's ministers	310 000	13 777 15 6 $\frac{1}{2}$
Carry over	9 310 000	413 777 15 6 $\frac{1}{2}$

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	9 310 000	413 777 15 6½
Ditto of the first presidents of all the parliaments in France, expence of criminal profecutions, and many other articles of that sort	22 000 000	977 777 15 6½
Appointments of the venal employments, of the robe, treasurers, receivers, comptrollers, &c.	10 000 000	444 444 8 10½
Bridges, highways, dykes, &c.	4 000 000	177 777 15 6½
For the royal academies	1 400 000	62 222 4 5½
To the King's library	1 800 000	80 000 — —
Extraordinary and casual expence upon the two last articles	400 000	17 777 15 6½
For lighting and cleaning the city of Paris	840 000	37 333 6 8
Appointments of the secretary of the cabinet council, for couriers, and other expence	1 400 000	62 222 4 5½
Ditto of ministers at foreign courts	1 800 000	80 000 — —
<b>Total sum of this branch</b>	<b>52 950 000</b>	<b>2 353 333 6 8</b>
Interest at 2½ per cent. upon 990 000 000 livres, or 44 000 000 l. sterl. of the late King's debts, constituted after the bankruptcy 1720	24 750 000	1 100 000 — —
Interest at 2½, upon 94 millions due to the company of the Indies, upon their old accompts 1720	2 350 000	104 444 8 10½
<b>Carry over</b>	<b>27 100 000</b>	<b>1 204 444 8 10½</b>

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	27 100 000	1 204 444 8 10½
Farther allowed to the company, for paying their dividends	2 400 000	106 666 13 4
Annuities on lives constituted during the last war	16 000 000	711 111 2 2½
<b>Total interest of debts</b>	<b>45 500 000</b>	<b>2 022 222 4 5</b>

This article of 16 millions of annuities on lives is the only charge cast upon the King's ordinary revenue, in consequence of the last war.

	Fr. money. livres.	Sterling ditto. l. s. d.
Recapitulation of the expences.		
Expence of the court	28 600 000	1 271 111 2 2½
Fixed military ditto, by sea and land	109 000 000	4 844 444 8 10½
Justice, pensions, &c.	52 950 000	2 353 333 6 8
Interest of debts	45 500 000	2 022 222 4 5½
<b>Total expence</b>	<b>236 050 000</b>	<b>10 491 111 2 2½</b>
Total ordinary revenue at the end of the war	282 300 000	12 546 666 13 4
The first deducted from the latter, Remains free	46 250 000	2 055 555 11 1½

Besides the articles of expence here stated, there are many others, to which no limit can be set. The *comptant*, or the King's private orders for secret service, and many different expences, form a great article. Subsidies also to foreign courts: in short, much more, in all human probability, is spent, than all the produce of this permanent revenue can answer. So that from this no relief from

from debts can be expected, except so far as it may be augmented by the falling in of the annuities on lives. But public debts are to be paid only by funds appropriated for that purpose: and were this revenue to be relieved of the whole 45 millions of interest charged upon it, I have little doubt but the King's expence would augment in proportion.

I shall delay making any observation upon the nature of the impositions which produce this revenue, until we come to the subject of taxes, to which it naturally belongs.

Besides this ordinary revenue of the Kings of France, which (if we except 26,600,000 livres, or 1,182,222 *l.* 4 *s.* 5  $\frac{1}{4}$  *d.* upon the capitation, added on account of the war only for a time) may be considered as their civil list; there are other branches of revenue, which are to be looked on as extraordinary supplies, imposed for raising money in time of war, and for paying off the debts contracted, upon the return of peace. Of this nature are *dixiemes* and *vingtiemes*; taxes very contrary to the spirit of the French nation, and to which they never have submitted without the greatest reluctance, and only on very urgent occasions.

The credit of France fell very low towards the end of the former war, which began in 1744, and ended in 1748. The parliament-registred with great unwillingness every edict imposing new burthens. The *dixieme* was a great augmentation of revenue, for the time it lasted; but being an imposition which the Kings of France never have been able to make perpetual, it could not be pledged for such large sums as are required in time of war, and which no nation, however wealthy, can furnish annually, as they are demanded.

To supply, therefore, the want of a fund to be mortgaged, and consequently the want of public credit, the King's banker M. de Monmartel, with other men in business, joined their credit, and supplied the King's extraordinary occasions. They opened a sort of bank *anno* 1745, where they received money at  $\frac{1}{2}$  per cent. per month, the principal payable on demand. This fund gained credit; payments being regularly made as soon as demanded.

Upon settling accounts after the peace, *anno* 1748, the King was found indebted to this bank for a vast sum of money. In order to pay it, lotteries were set on foot. The tickets were given to the bankers, and they by the sale of them withdrew their own paper, which was circulating with very good credit on the exchange of Paris. In order to furnish a fund for this lottery, the King had interest with the parliament to get a twentieth penny established, or one shilling in the pound, upon all the revenues of private people in France, except the clergy, and some hospitals. The same was charged upon the industry of all corporations of trades and merchants; and to these was added a capitation upon the Jews.

This was thrown into what they call the *caisse d'amortissement*, or sinking fund; and appropriated for paying off the lotteries, and some of the antient debts which were to be drawn, for this purpose, by lot; and for other extraordinary expences incurred in consequence of the war. This tax was to subsist, I believe, till 1767. It was this *caisse d'amortissement* which was shut up in 1759, by which step a mortal blow was given to French credit.

Besides this first twentieth penny, there were five other taxes imposed, and appropriated during a determinate number of years, not exceeding 15 in some, 12 in others, for paying off the debts contracted in the war ended 1748, and for some extraordinary expences of government.

These shall be specified in the following general view of this branch of the French revenue.

Second general branch.

Extraordinary taxes established after the peace of Aix-la-Chapelle, with their appropriations.

	Fr. money. livres.	Sterling ditto. l. s. d.
The first twentieth penny on all income - - - -	23 800 000	1 057 777 15 6½
Ditto upon tradesmen and merchants incorporated - - -	6 500 000	288 888 17 9¼
Ditto upon the Jews - - -	1 400 000	62 222 4 5¼
Total of the twentieth penny, which formed a sinking fund, shut up in 1759 - - - -	31 700 000	1 408 888 17 9¼
The farm of the posts and <i>relais</i> of France - - - -	6 000 000	266 666 13 4
Two shillings in the pound of the capitation added to it - - -	5 520 000	245 333 6 8
The farm of stamp-duties on leather, and duties on tanners bark - - - -	2 960 000	131 555 11 1¼
The farm of duties upon gunpowder and saltpetre - - -	2 988 000	132 800 — —
Two shillings in the pound of the twentieth penny added - - -	3 170 000	140 888 17 9¼
Total of this second branch of French taxes - - - - }	52 338 000	2 326 133 6 8

Appropriations of this fund, as follows:

1. For paying, during 10 years, a part of the 990 millions, of

livres,

	Fr. money. livres.	Sterling ditto. l. s. d.
livres, of old Annuities, charged above on the King's ordinary revenue, and bearing an interest of 2½ per cent. the yearly sum of - - - - -	5 000 000	222 222 4 5¼
2. To the India Company, in discharge of a debt due to them: for 12 years - - - - -	2 000 000	88 888 17 9¼
3. For paying the prizes of the bankers' lotteries every year as they are drawn: for 12 years	3 800 000	168 888 17 9¼
4. Towards making good deficiencies upon the funds appropriated for the war, yearly, till paid - - - - -	18 700 000	831 111 2 2½
5. Ditto upon the funds appropriated to the new <i>Ecole militaire</i> .	1 200 000	53 333 6 8
6. For payment of perpetual annuities created during last war	14 500 000	644 444 8 10¼
7. For making good deficiencies upon the artillery and magazines, during the war 1762: for 12 years, the annual sum of - - - - -	1 800 000	80 000 — —
8. Ditto upon the article of foreign affairs - - - - -	8 690 000	386 222 4 5¼
Total appropriation - - - -	55 690 000	2 475 111 2 2½

This branch of revenue appears, by this state, to be totally appropriated to certain purposes.

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Were appropriations adhered to in France, and could one be certain that debts are actually discharged, at the period appointed, in consequence of the appropriation for that purpose, we might form a better judgment of the *actual* amount of the debts of France, than in fact any man can do who is not in the administration.

Of this second branch of taxes I consider the twentieth penny, the two shillings in the pound augmentation upon it, and a like augmentation upon the double capitation; amounting in all to above 40 millions a year, as a resource which France may have at all times, in cases of necessity; although I do not suppose it will be possible to establish them as a fixed revenue. They will probably, however, as matters stand, be continued; either in whole or in part, until the great load of debts, recently contracted, shall be considerably diminished.

As for the remaining sum, arising from the posts, leather, and saltpetre, these I consider as perpetual; because by their nature they are not burdensome to the people.

We are not to understand that the annual sum of five millions of livres, appropriated for paying off the capital of 990 millions of the old annuities, bearing  $2\frac{1}{2}$  per cent. stated in art. 1st, was intended to be applied to these capitals, at the rate they stand. In France it is supposed that he who gets 20 years purchase of the interest of his debt, is always fairly paid off; and people there are so fond of reimbursements, even at this rate of making them, that when, about the year 1755, a like scheme of paying off those old annuities was suggested, it was upon condition that every one having, for instance, an annuity of 100 livres, should, in order to be intitled to this reimbursement, pay to the King 20 years purchase of it, or 2000 livres ready money; and that being complied with, his contract was to be put into the lottery wheel, with all the rest subscribed for, and if it happened to be drawn, he was to receive 4000 livres; to wit, the 2000 he had paid down, and the other 2000 as the value of a capital of 4000 livres, at  $2\frac{1}{2}$  per cent.

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This every body must allow procures a wonderful facility in paying off debts. If the English creditors could be engaged to enter into the spirit of such reimbursements, government, I am persuaded, would not apply so closely as they do, to reduce the interest upon them; whereby a great distress comes upon poor widows and orphans, who have their all vested in the funds. This inconvenience is avoided in France: the poor are cherished by the comfort of high interest; the state is set free; and the creditors rejoice in getting back their money, in any shape whatever.

The war of 1756 breaking out, obliged the King to think of every expedient to increase his income. Had he set out by borrowing upon annuities for lives, at 10 per cent. and by mortgaging his ordinary revenue for the payment of them, his credit would have been more solid, and the plan of running in debt more systematical: but in the end, it would have involved him in the terrible dilemma of either making a bankruptcy, in order to reinstate himself in the possession of his ordinary revenue, or of making him depend more than he inclined upon his parliament; whose authority is absolutely necessary for laying a perpetual and regular imposition, which alone can form a solid basis of national credit.

He was therefore resolved, in one way or other, to increase the impositions on the people in the time of war, in order to avoid the consequences he foresaw from the loss of his fixed revenue.

The King's ministers at this time could not convince the parliament of Paris, that in order to borrow money upon the best terms, it was necessary to have a sure fund for paying the interest of it.

It had been usual to borrow money, on pressing occasions, from the farmers of the revenue, bankers, and financiers, as they are called, at 7 and even 10 per cent. They understanding the chain of the affairs of France, used to obtain credit both abroad and at home, from people who would not lend directly to the King; although they knew at the time of the loan that the money was borrowed

borrowed for his use. The reason was, that the King was under an absolute necessity to keep faith with this set of men, upon whom the credit of France has depended for many ages: and as the profits they used to make were very great, ministers knew, by a sort of instinct, when they had gained enough; and in clearing their accounts in the usual way, a sufficiency was left to them, to repay what they had borrowed from others.

Perhaps the parliament thought, and perhaps with reason, that in the main it was cheaper to borrow in this way, at 10 *per cent.* than in the English way, at 3 *per cent.* because of the great facility in paying off the debts which attended it; but this is only a conjecture. That there was however a contrast of sentiments between the parliament, and the minister of the finances at that time, who had contracted English ideas of credit, is most undoubted; and it was this contrast which brought on the bankruptcy in 1759, when the sinking fund was shut up against the creditors by an act of power. To judge of the sentiments of both parties with candour, let us then examine the plan of borrowing proposed by the one, and by the other.

The minister, M. de Silhouette, proposed to the King, to levy, as a solid fund of credit to borrow upon, a general subvention, as it was called, over all France; or in other words, to make the repartition of a large annual payment, over all the cities, towns, villages, and suburbs in France.

This was to be divided according to the supposed wealth and quantity of circulation every where. Every district was ordered to report to the King's council their opinion concerning the particular mode of raising their proportional part of it, in the best way relative to their situation. This report the council was to examine, and to approve or amend the proposal given in, according to information.

This was perhaps the best plan of taxation, if properly executed, that ever has been thought of, for a nation already under a regular  
admi-

administration of government, and accustomed to pay considerable impositions.

It removes the inconvenience attending all general taxes, which never fail to affect unequally different places and districts. It admits of a prudent mixture of excises, with taxes upon possessions, according to the internal circumstances of every place. It confines them to towns, where alone all excises at least can be levied with propriety. It lightens the oppression of tax-gatherers; because the corporation may employ whom they will for that purpose. In a word, it is a tax administered with all the advantages of a farm.

This tax, the general subvention, after it had been imposed by edict, registered in a Bed of justice September 1759, fell to the ground, from the nature of the French constitution; because it could not be levied without a systematic administration, supported by the authority of the courts of law, to which the parliament would not give their concurrence, for a very plain reason.

The general subvention being very extensive, and calculated for a fund of credit to borrow upon, was, by its nature, of a species proper to become a perpetual tax, as all excises are. The parliament of Paris seemed to think it agreeable to the constitution, which they are sworn to maintain, to preserve at all times in their hands a certain power over the King's purse, in order to prevent an extravagant minister from impoverishing the King and the kingdom at once, or running them into the inextricable confusion of an infallible bankruptcy.

This circumspection of the parliament was represented in another light at court; and odious parallels were drawn between what had happened in England about the middle of the last century, and what soon might be expected in France.

Upon such topics every one judges as he is affected. The minister was railed at by the parliament-party, in the most virulent manner. Who was in the right, and who was in the wrong, upon the general question, of the propriety of raising so large an imposition, to serve as a fund of credit, under a government like that



of France, I shall not here examine. But that a solid fund should be provided, in one way or other, proportional to the actual deficiency of the annual supplies, and to what could not be raised within the year, for the uses of the war, was, I think, entirely agreeable to principles.

This the minister had proposed in the subvention, though perhaps the plan was too great; and the parliament, when they rejected the proposal, sensible that the exigencies of the state demanded a supply of money, proposed in their turn, as an equivalent for the general subvention, to coin for 600 millions of notes, which were to have the sanction of parliament for their fund of payment; but no provision was made for the ready circulation of them in the interim.

Here then is an example where the sentiments of the French nation were divided upon the principles of public credit. And this affords a good opportunity of reconciling them, and of confirming the doctrine we have been endeavouring to establish.

The minister felt the disadvantage of the King's borrowing upon a lame security; he therefore proposed a solid and permanent fund of credit for performing the obligations to be contracted with the creditors.

The parliament, on the other hand, examined the situation of the people, who, they thought, were no longer in a capacity to pay the taxes already imposed; and therefore concluded, that it was unnecessary to establish any new one. They therefore proposed to augment circulation, by providing a means whereby alienations might be carried on, and by that they expected to render the taxes already imposed more productive.

Both parties were in the right, as commonly is the case in such disputes; but they did not perceive how their opinions could be reconciled.

Had circulation been facilitated by the establishment of a bank upon true principles, perhaps the taxes already imposed, might have produced a sufficient fund for carrying on the war, without the expedient of the general subvention.

But the manner proposed by the parliament to increase circulation, by paying with paper money, and not providing a fund for realizing it when it came to stagnate, was an expedient entirely delusive. The paper would soon have fallen to a great discount: the remembrance of the Mississippi would probably have been revived, which would have occasioned the locking up of the coin; and the kingdom might have been involved in the greatest distress and bankruptcy.

The minister should therefore have concurred with the parliament in a scheme for establishing a bank: the King might safely have entrusted the administration of it to parliament, and even have supplied coin from the royal treasury for circulating the paper. But the minister, I suppose, took it for granted, that taxes *would* be paid, providing they were imposed; and the parliament, that the paper *would* circulate, providing it was issued.

The reasonings I have ascribed to each party in this dispute, are not founded upon information: they are only natural conjectures which I form from the opposition of sentiments between men who were all, I suppose, well acquainted with the situation of France, and who respectively took part according to the combinations which occurred to them.

The remonstrances of the parliament at that time were filled with an enumeration of distresses, all of which are the necessary effects of a scanty circulation. In the King's edicts there is strong reasoning upon the principles of public credit. The candour I feel in my breast; while I examine the merits of this important dispute, will I hope serve as an apology for all mistakes in point of exact information.

The result upon the whole was what might have been expected. The subvention was dropt, and the proposal of the paper was rejected by the King.

The middle term adopted by the parties, shewed however, I think, that in the main the minister had been in the right; because the taxes were increased and paid: had the paper been issued, the success, I am persuaded, would not have been favourable in proportion.

But instead of a permanent subvention, a tax of the most odious nature was established, which, from this very circumstance, there was little danger of seeing long continued.

In the preceding year, a second twentieth penny upon possessions had been imposed, to which had been added 2 shillings in the pound of the tax itself; a new poll-tax upon certain classes of the people in proportion to the number of their servants; an additional duty upon the stamps upon silver and gold plate; higher duties on foreign manufactures imported; and 20 per cent. on all former duties on consumption. The second twentieth was to continue until two years after the peace; the other duties for eight years longer.

Notwithstanding this heavy load already laid upon property, the parliament, rather than consent to the subvention, agreed to impose a third twentieth penny upon possessions; and to render this tax more productive, additional poll-taxes upon place-men, &c. were comprehended in that edict. Thus ended the dispute: the minister was dismissed, and the edict for the general subvention was withdrawn.

Besides the second and third twentieth penny, several augmentations of revenue were obtained during the last war, which I shall presently mention, two of which, for their peculiarity, I shall briefly explain.

The clergy of France, strongly pressed by the King, supported by his parliaments, to give in a declaration of their income, in order to be taxed at so many shillings in the pound, like other subjects, after many evasions, at last succeeded in disappointing the scheme. They offered an extraordinary free gift equivalent to the two twentieths, to be paid annually until 1765, and this was accepted.

The ordinary free gift of the clergy is at the rate of a million and a half of livres a year; this they doubled and paid at the rate of three millions a year, which we may consider as two shillings in the pound of all the clergy possess in France, which makes their revenue to be about thirty millions a year, and I believe it does not far exceed it.

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The other branch of revenue is something analogous to a circumstance in the history of English taxes: it was called an extraordinary free gift to be paid by every corporation in France. Charles I. had a very exact valuation put upon all England, when he proposed to levy ship-money. This was found so correct that it served for a basis to regulate the distribution of the sum of 100 000 l. a year paid to Charles II. for his courts of wards and liveries\*.

In like manner the King of France had a very accurate estimate made of all France, when he formed his edict for a general subvention, which had pretty much the fate of the ship-money. And though the parliament refused their consent to the great subvention, they agreed to establish the epitome of it in August 1759: which see in the note †.

\* Davenant's Ways and Means, Article of Monthly Assessments.

† This free gift was imposed upon all cities, towns, burroughs, villages, and suburbs, in France. And those lying within the jurisdiction of every Intendant were joined in one sum, leaving the repartition of them to those magistrates, as the custom is.

For the generality of Amiens	- - - -	153 300
For the generality of Orleans	- - - -	356 000
For the generality of Paris	- - - -	1 578 000
For the generality of Chalons	- - - -	200 900
For the generality of Poitiers	- - - -	265 200
For the generality of Soissons	- - - -	60 700
For the generality of Tours	- - - -	34 434
For the generality of Rochelle	- - - -	131 800
For the generality of Bourges	- - - -	105 600
For the generality of Moulin	- - - -	91 770
For the generality of Riom	- - - -	165 628
For the generality of Lyons	- - - -	397 454
For the generality of Artois	- - - -	150 000
Sum total	- - - -	3 690 786
		Sterling.
		£ 164 034 18 8

The duties imposed by this arret are to be levied upon all classes of the people, nobility, commons, clergy, even nuns and monks; no exception is made except in favour of hospitals for their own consumption only.

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This tax, small as it is, may be of infinite consequence in times to come. The great difficulty of raising taxes is in the beginning; and if the levying of this trifle in every city, town, village, and suburb, in France, be carefully conducted, with a view to subsequent augmentations, and if it be properly distributed upon every branch of consumption and revenue, nothing will be so easy to the King as, by his own private authority, to enforce a gradual augmentation of it, and perhaps in time to absorb in it, the whole, or at least the greatest part of the revenue of his kingdom.

Besides the two twentieths, and the free gift of the cities, several other taxes of less moment were either imposed, renewed, or continued for a longer term, and then sold for raising money for the service of the year, viz.

1mo, Five years of the free gift of the clergy of France; amounting to 15 millions, were paid down at once by that body.

2do, That of the clergy of Alsace, paid in the same way, for the same term, produced 3 millions.

3tio, A duty on firewood, &c. in the city of Paris, valued at 3 400 000 a year, sold for 7 years, for 10 millions.

4to, Another duty upon the consumption of eggs, butter, &c. valued at 2 400 000, sold for 15 years for above 30 millions.

5to, A like sum got from the farmers general, for allowing them to raise the price of their tobacco 10 per cent. for 10 years. The annual amount of this I do not know.

6to, And in the last place, the third twentieth penny, which produced 36 270 000 a year, was sold for the two years for which it was imposed, for 60 millions.

Thus, of all the impositions raised during the last war, the second twentieth, and an epitome of the subvention raised in all cities, towns, villages, and suburbs, in France, remain unalienated.

In order to throw all the light I possibly can upon the present state of that nation, I shall next briefly recapitulate the extent of the annual supplies raised for the service of the different years of the war, from 1756 to 1762 inclusive; in which I shall point out,

as well as I can, how this third branch of revenue was appropriated.

It is in this manner only I can communicate to the reader what I can guess concerning the present state of that nation. Could we know, as with us, the amount of taxes, and outstanding debts at every period, that detail would be unnecessary.

The extraordinary grants of 1756, amounted to 121 millions, 5 377 777 l. sterling.

In October 1755, the farms of almost all the taxes were renewed. Upon such occasions, it is usual for the farmers to advance sums in proportion to the extent of their farms, for security of the lease; for which advances the King, at that time, allowed them an interest out of their yearly farm-rent of 5 per cent. and the sums advanced were appropriated for the service of the year 1756. Here follow the sums advanced upon the several farms:

	Fr. money. livres.	Sterling ditto. l. s. d.
1. Upon the general farms, after repaying what had been advanced upon the former lease, nett into the royal treasure	40 000 000	1 777 777 15 6 $\frac{1}{2}$
2. Upon the farm of the posts of France	3 000 000	133 333 6 8
3. Upon the farm of the stamps upon leather	1 000 000	44 444 8 10 $\frac{1}{2}$
4. Upon the farm of the <i>paulette</i>	1 000 000	44 444 8 10 $\frac{1}{2}$
5. Upon the farm of duties on gun-powder and salt-petre	1 000 000	44 444 8 10 $\frac{1}{2}$
6. The farm of the market of Poiffi was sold for seven years, for	15 000 000	666 666 13 4
This sum was the price of the total alienation of the duties col-		
Carry over	61 000 000	2 711 111 2 2

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	61 000 000	2 711 111 2 2
lected in that market for the whole time; which duties should be marked as a branch of revenue; but as the annual amount of them cannot be ascertained, it is here thrown in as an extraordinary means of supply arising from the sale of a tax.		
7. Besides those casual supplies from the new farms, there was levied this year, for the sale of five years revenue of the free gift of the clergy of France, to 1761 exclusive	15 000 000	666 666 13 4
8. And for that of Alface	3 000 000	133 333 6 8
9. Raised by a lottery, for which the annual sum of 3 800 000 was set apart for 11 years	32 000 000	1 422 222 4 5 1/4
10. And for the sale of the duties upon firewood, &c. in Paris, for 7 years	10 000 000	444 444 8 10 1/2
<b>Total extraordinary supplies for 1756</b>	<b>121 000 000</b>	<b>5 377 777 15 5 3/4</b>

The supplies for 1757, amounted to 136 millions, £ 6 044 444 sterl.

- 1. Two lotteries, for which were appropriated, for the first, 3 800 000 during 12 years; and

for

	Fr. money. livres.	Sterling ditto. l. s. d.
for the second, 4 000 000 during 11 years. These sums were annually to be drawn, and paid every year; for which was paid to the King, for the first, 36 millions; for the second, 40 millions; together	76 000 000	3 377 777 15 6 1/2
2. The ordinary revenue was charged with 6 millions of life annuities, at 10 per cent. fold for	60 000 000	2 666 666 13 4
	<u>136 000 000</u>	<u>6 044 444 8 10 1/2</u>

The supplies for 1758, amounted to 135 millions, £ 6 000 000 sterl.

- 1. The first was a loan of 40 millions, upon a perpetual annuity of 5 per cent. proposed to be paid off by way of lottery, at the rate of 3 200 000 yearly
- 2. The King obliged those who have hereditary offices proportionally to purchase additional salaries, to the extent of 1 million a year, at the rate of 20 years purchase, or forfeit what they had
- 3. The additional 10 per cent. upon the price of tobacco, was fold this year to the farmers, for

40 000 000	1 777 777 15 6 1/2
20 000 000	888 888 17 9 1/2
30 000 000	1 333 333 6 8
<b>Carry over</b>	<b>3 999 999 19 11 1/2</b>

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	90 000 000	3 999 999 19 11 $\frac{3}{4}$
4. The ordinary revenue was charged with 3 600 000 livres, life-annuities, upon two lives, at 8 per cent.; fold for the sum of	45 000 000	2 000 000 — —
	<u>135 000 000</u>	<u>5 999 999 19 11<math>\frac{3}{4}</math></u>

The supplies for 1759, amounted to upwards of 194 millions, £ 8 652 923 sterl.

1. The first supply for this year was the epitome of the general subvention, called an extraordinary free gift from all the cities, towns, burghs, villages, and suburbs in France	3 690 786	164 034 18 8
2. 3 600 000 livres of perpetual annuities, borrowed upon the general farms, at 5 per cent. until reimbursement, fold for	72 000 000	3 200 000 — —
These are called the contracts upon the farms; each one thousand livres capital.		
3. The free gift of the clergy, for five years from 1761 inclusive, fold at once for	16 000 000	711 111 2 2 $\frac{1}{2}$
4. The second twentieth penny produced for this year	35 000 000	1 555 555 11 1 $\frac{1}{4}$
Carry over	126 690 786	5 630 701 11 11 $\frac{3}{4}$

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	126 690 786	5 630 701 11 11 $\frac{3}{4}$
5. Sold to the magistrates and heads of colleges in some towns in Flanders, some branches of their own taxes, for	8 000 000	355 555 11 1 $\frac{1}{4}$
6. The ordinary revenue was charged with 3 millions of annuities, called <i>tontines</i> , fold for	60 000 000	2 666 666 13 4
	<u>194 690 786</u>	<u>8 652 923 16 5</u>

The supplies for 1760, amounted to above 251 millions, £ 11 186 430 sterling.

1. The Paris-duties above mentioned fold for 15 years	30 283 900	1 345 951 2 2 $\frac{1}{2}$
2. The 3d shilling in the pound fold for two years, for	72 340 000	3 215 111 2 2 $\frac{1}{2}$
3. The 2d shilling produced this year	35 000 000	1 555 555 11 1 $\frac{1}{4}$
4. Raised by perpetual annuities, at 3 per cent. secured on the King's ordinary revenue*	60 000 000	2 666 666 13 4
Carry over	197 623 900	8 783 284 8 10 $\frac{1}{2}$

\* When the bad consequences of shutting up the sinking fund were discovered, the King opened subscriptions, such as were the *tontines* of the last year, this of 60 millions, and one the next year of 30 millions; in which the discredited paper was received, in part payment of the sum. This I suppose is the reason why the supplies of 1759 and 1760 appear so high, and also why money appears to have been borrowed at so low a rate as 5 per cent. upon *tontines*, and 3 per cent. on article 4th of this

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	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	197 623 900	8 783 284 8 10 1/2
5. The free gift of the cities, &c.	3 690 787	164 034 19 6 1/2
6. By a lottery at 5 per cent. where the discredited paper (the payment of which was stopt, when the sinking fund was shut up in 1759) was taken in payment for one half, was raised	50 000 000	2 222 222 4 5 1/2
7. Borrowed from the officers of the town-house of Paris, at 5 per cent. secured on the ordinary revenue	380 000	16 888 17 9 1/2
	<u>251 694 687</u>	<u>11 186 430 10 7 1/2</u>

The supplies for 1761, exceeded 120 millions, £ 5 364 034 sterl.

1. Charged upon the ordinary revenue, 200 000 livres a year upon lives and other annuities, at 10 per cent. in favour of the order of the Holy Ghost, sold for	2 000 000	88 888 17 9 1/2
2. Borrowed on the duties upon leather, at 3 per cent. These were the annuities which were ordered to be	30 000 000	1 333 333 6 8
Carry over	32 000 000	1 422 222 4 5 1/2

year; because the interest of that part only which was paid in specie is stated; not the interest upon the discredited paper subscribed, which was paid out of the first twentieth.

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	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	32 000 000	1 422 222 4 5 1/2
reimbursed after the peace of 1763, at 20 years purchase; and which, I suppose, had been subscribed for, partly, in discredited paper.		
3. Charged on the ordinary revenue, 4 millions a year, for annuities at 8 per cent. upon two lives, sold for	50 000 000	2 222 222 4 5 1/2
	<u>82 000 000</u>	<u>3 644 444 8 10 1/2</u>
4. Besides these sums, there was the amount of the 2d twentieth, and the small subvention, or free gift, which continued to be applied to the current service, as they had not been sold off;		
inde	38 690 787	1 719 590 10 8
Total	<u>120 690 787</u>	<u>5 364 034 19 6 1/2</u>

The supplies for 1762, exceeded 159 millions, £ 7 076 923 sterl.

1. The farms which had been lett in 1755, came to be again renewed this year; from which arose a sum for the security of them, of	83 200 000	3 697 777 15 6 1/2
Carry over	83 200 000	3 697 777 15 6 1/2

	Fr. money.	Sterling ditto.
	livres.	l. s. d.
Brought over -	83,200,000	3,697,777 15 6½
2. There was no borrowing this last year of the war. The second twentieth, which never had been fold; the third twentieth, which this year became free, as it was imposed a-new for two years more; and the little free gift by all the towns of France; made together an additional sum of - - -	76,030,787	3,379,146 11 9¾
	<u>159,230,787</u>	<u>7,076,923 17 4¾</u>

Recapitulation of the expence of the seven years of the war.\*

	Fr. money.	Sterl. ditto.
	livres.	l.
For 1756 - - -	121,000,000	5,377,778
For 1757 - - -	136,000,000	6,044,444
For 1758 - - -	135,000,000	6,000,000
For 1759 - - -	194,690,786	8,652,924
For 1760 - - -	251,694,687	11,186,431
For 1761 - - -	120,690,787	5,364,034
For 1762 - - -	159,230,787	7,076,924
Total - - -	<u>1,118,307,047</u>	<u>49,702,535</u>

Having gathered together, from the best information I can, the amount of all the extraordinary supplies raised in France, for the service of the last war, let us suppose, that at the peace, no part of

\* The Sterling money, in this recapitulation, is reduced to the nearest integer, neglecting fractions of a pound.

2 any

any capitals borrowed had been paid off, according to the plan laid down for that purpose at the time of contracting. Let us suppose, I say, that all the lottery funds and life-annuities, as well as those annuities which were intended to be paid off by way of lottery, stood at their full extent, without diminution, at the peace, and then calculate what sum of debt should have remained upon France in consequence of the war.

As for the sums raised, either upon renewing the farms of the revenue, the amount of new taxes imposed, or such branches of them as were fold at once for a sum of money, they remain no debt upon the King; and are therefore to be considered (as they really were) extraordinary resources drawn from the people, without any recourse to credit or borrowing.

	Fr. money.	Sterling ditto.
	livres.	l. s. d.
These sums collected from the above supplies, and laid together, amount to - - -	520,926,948	23,152,308 16 -
Let us then state the whole of the supplies as above - - -	1,118,307,047	49,702,535 - -
And from thence deduct the extraordinary resources drawn from the people, as above, to wit - - -	520,926,947	23,152,308 16 -
There will remain a capital of } borrowed money - - - }	597,380,100	26,550,226 4 -
Of this the life-annuities (charged upon the ordinary revenue) form a capital of - - -	217,000,000	9,644,444 8 10¾
The lotteries form a capital of -	108,000,000	4,800,000 - -
Carry over -	325,000,000	4,444,444 8 10¾

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	- 325 000 000	14 444 444 8 10½
And the perpetual annuities, a capital of	- 272 380 100	12 105 781 15 6½
In all, as above	- 597 380 100	26 550 226 4 5

Let us next see the amount of annual payments for discharging either the capital or the interest.

	Fr. money. livres.	Sterling ditto. l. s. d.
For the life-annuities until extinguished, paid out of the ordinary revenue	- 16 200 000	720 000 — —
To discharge the lottery fund, in 12 years at most	- 11 600 000	515 555 11 1¼
Suppose the perpetual annuities all at 5 per cent.; <i>inde</i>	- 13 619 000	605 288 17 9¼
Annual sum of interest	- 41 419 000	1 840 844 8 10½

Let me now draw up a state of the taxes raised for defraying the expences of this war. In that I shall only comprehend such articles as existed at the peace, unfold: as for the other, we may consider them only as expedients for raising money for the current service; but which, in time to come, may serve to augment the revenue.

Third

Third general branch.

	Fr. money. livres.	Sterling ditto. l. s. d.
1. The 2d twentieth, never alienated	- 35 000 000	1 555 555 11 1¼
2. The 3d twentieth, imposed for the years 1762 and 1763, not alienated	- 30 000 000	1 333 333 6 8
3. The free gift of the cities, towns, &c. never alienated	- 3 690 786	164 034 18 8
	<u>68 690 787</u>	<u>3 052 923 16 5¼</u>

Let me now proceed to the fourth general branch of taxes, or of money raised upon the people of France: *1mo*, To the profit of the farmers: *2do*, Towards defraying the expence of collecting the three foregoing branches of revenue, which amount to about 403 millions: And *3tio*, To pay what is appropriated to certain purposes within the country, here to be specified.

Fourth general branch.

	Fr. money. livres.	Sterling ditto. l. s. d.
1. First then, the net profits of all the farmers of the revenue are calculated to amount to about	- 17 240 000	766 222 4 5½
2. The expence of levying all the revenue is calculated to amount to about 10 per cent. of the whole; <i>inde</i>	- 40 300 000	1 791 111 2 2½
3. There is a revenue appropriated for keeping up the water-works at all the royal palaces	- 1 200 000	53 333 6 8
Carry over	- 58 740 000	2 610 666 13 3½



	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over -	58 740 000	2 610 666 13 3 $\frac{1}{4}$
And to the invalids, St. Cir, and the <i>hotel militaire</i> - - -	7 300 000	324 444 8 10 $\frac{1}{2}$
There are taxes imposed for clothing the militia, to the a- mount of - - - - -	3 800 000	168 888 17 9 $\frac{1}{2}$
All the towns in France have par- ticular branches of taxes appro- priated to themselves, for pave- ment, buildings, &c. and for maintaining the police; which amounts to - - - - -	15 000 000	666 666 13 4
And the duties levied in the courts of law for sentence money, emo- luments to the judges ( <i>epices</i> ), and expence of registrations, the vast sum of - - - - -	27 000 000	1 200 000 — —
	<hr/>	<hr/>
	111 840 000	4 970 666 13 3 $\frac{1}{2}$

Formerly, all the officers of the courts of justice had salaries paid out of the King's revenue. These were insensibly diminished in every reign, and those court-fees were augmented in order to fill up the void; from which the greatest oppression ensues.

If to the sum in this last article we add 22 millions above stated as a charge upon the ordinary revenue for salaries to first presidents, &c. and other expences of the law, we shall find that the article of justice alone costs near 50 millions of livres, a year, to the public. The greatest part of this sum should be considered as the interest of money borrowed by the Kings of France, the capitals whereof are still outstanding; and if the capitals were paid off, a great augmentation of income would arise from it. But the bad footing

footing upon which their credit stands, renders even this burden expedient on some occasions; because the King can oblige all those who have such hereditary offices, to lend money upon an augmentation of their salaries.

To conclude this enormous catalogue of taxes paid by the kingdom of France, we must not omit the last branch, which comprehends the heads following:

Fifth general branch.

	Fr. money. livres.	Sterling ditto. l. s. d.
1. What is paid for bulls, dispen- sations, baptisms and burials, to the pope, bishops, and inferior clergy, very near - - - - -	10 000 000	444 444 8 10 $\frac{1}{2}$
2. For the support of hospitals, a fort of poors rates - - - - -	11 500 000	511 111 2 2 $\frac{1}{2}$
3. To branches of impositions, of various kinds, belonging to pri- vate people, peers of France, go- vernors of provinces, and officers of all the royal jurisdictions within the kingdom - - - - -	20 000 000	888 888 17 9 $\frac{1}{2}$
	<hr/>	<hr/>
	41 500 000	1 844 444 8 10 $\frac{1}{2}$

General recapitulation of all the money raised in France by public authority, for whatever purpose employed.

	Fr. money. livres.	Sterling ditto. l. s. d.
1. The King's ordinary revenue as it stood at the peace 1762. - - -	282 300 000	12 546 666 13 4
2. The extraordinary revenue raised at the peace 1748 - - - - -	52 338 000	2 326 133 6 8
	<hr/>	<hr/>
Carry over - - - - -	334 638 000	14 872 800 0 0

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	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	334 638 000	14 872 800 0 0
3. The extraordinary revenue raised on account of last war, and for the payment of debts then contracted, not sold at the peace	68 690 787	3 052 923 17 4
4. The expence of raising the taxes, and emoluments of the farmers, with other branches perpetually appropriated for defraying regular expences	111 840 000	4 970 666 13 4
5. Taxes paid to the church, poor, and private persons	41 500 000	1 844 444 8 10
<b>Sum total raised annually in France</b>	<b>556 668 787</b>	<b>24 740 834 19 6</b>

Charges, or appropriations of it:

1. Charges upon the ordinary revenue <i>per list</i> above	236 050 000	10 491 111 2 2
2. Ditto upon the second general branch <i>per ditto</i>	55 690 000	2 475 111 2 2
3. Ditto upon the third general branch for lotteries and perpetual annuities constituted during the war: the life-annuities being already charged in article 1st	25 219 000	1 120 844 8 10
4. Ditto upon the fourth general branch totally exhausted <i>inde</i>	111 840 000	4 970 666 13 4
5. Ditto upon the fifth general branch ditto	41 500 000	1 844 444 8 10
<b>Carry over</b>	<b>470 299 000</b>	<b>20 902 177 15 6</b>

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	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over	470 299 000	20 902 177 15 6
There remains (unappropriated) for all extraordinary expences of state, which compleats the sum total of what is raised in France	86 369 787	3 838 657 4 —
	<u>556 668 787</u>	<u>24 740 834 19 6</u>

In this light does the state of the French affairs appear, from the sketch I have been able to give of it.

Had the sum of 86 millions, remaining as unappropriated at the peace, been any way sufficient for paying off claims which have not appeared upon the state we have given, and for all extraordinary expences, the credit of France would not have been so low as it then was, and still continues to be.

The expence of a kingdom must constantly exceed the amount of all regular and permanent income.

At the end of a war what great sums of debts unprovided for are constantly found! Taxes also, when stretched as they were, and imposed in so great a proportion upon possessions, in respect of what was raised upon consumption, must always diminish in their produce; but the expence and charges never fall short. This is more especially the case in a country where paper credit is not established.

The constant complaints for want of money to carry on circulation in the time of war, is a proof of it. When peace returns, and money is kept at home, then all taxes are readily paid in France, and half the burden of them is not felt, although they be more productive than before.

As I said in setting out, I do not pretend that the account I have given of this dark affair, is in any degree so correct as to satisfy a French minister; but it is a rough sketch, which contains the ge-

neral state of their affairs; and if it be worth any man's while, who is better informed, he may correct it, and thereby bring on a farther inquiry into the true state of the question.

What interest a nation, which is not in an actual state of bankruptcy, can have in concealing its affairs, I cannot find out. How much more then is it not the interest of a mighty kingdom, which possesses such amazing resources, to expose its situation in a fair light to the world, to which it must, upon all occasions, have recourse for assistance in point of credit?

Of the many branches which compose this great national revenue of above 550 millions, there are several articles which must of necessity be cut off, so soon as the debts are brought into a regular form. The double poll-tax is most oppressive on the poorer sort, and therefore was imposed only for a time: the three twentieths, as they are levied, are no less so upon the higher classes of the people.

These four articles amount, however, to 116 millions. If we deduct this from the revenue, as we have stated the account of it, it will not only exhaust the balance of 86 millions, but it will create a deficiency, upon the whole, of 30 millions, which can only be compensated by discharging a corresponding part of the burden of debts, while those branches do subsist.

But then the same resources are open upon every new emergency; and as they have now begun to be collected, they will be more easily paid at another time.

Besides, what an acquisition will be made to the revenue by the extinction of 16 millions of life-annuities, and by the expiration of so many anticipations of taxes for terms of years!

On the other hand, it is not to be supposed that the King will continue to demand of the clergy, above 1 500 000 livres a year, or one shilling in the pound upon their benefices. That body is becoming daily more and more indebted, by the practice introduced of late, of making payment of their free gifts to the King, by borrowing the money, instead of paying every one's proportion out of

his

his benefice. This in time may oblige them to accept of pensions for their benefices, and to make over their revenue in tithes to the King: they will, at least, in one way or other, become entirely at his mercy, and at that of their own creditors.

Before I conclude, I must say a word concerning the method of levying the taxes in France.

The most general distribution I can make of this, is to reduce it under four principal heads.

The first comprehends the general *receptes*; to wit, the *taille*, or land-tax, the *capitation*, or poll-tax, and all the twentieths. These are administered by the intendants of the provinces, who both make the distribution of them upon the subjects, and who levy them by officers under their direction; and for the expence of levying, is superadded to the taxes, 10 *per cent.* upon the whole. When they are collected, they are paid in to the receivers general at Paris, who deliver them in, and account for them to the royal treasury.

The second comprehends all the taxes which are farmed. The farmers are vested with the King's authority for raising the duties let to them, according to certain regulations; and as they are obliged to keep open books, the expence of management is known, and at every new lease a reasonable profit is allowed to them over and above.

The third branch comprehends all free gifts of determinate sums of money, imposed according to certain regulations prescribed to those bodies politic who pay them; into which may be comprehended all taxes upon the clergy; because they levy them themselves.

The fourth comprehends retentions which the King makes out of the salaries he pays. This needs no explanation.

What farther observations may be made on this head will find a place when we speak of taxes.

C H A P. VII.

*Comparative View of the Revenue, Debts, and Credit of Great Britain and France.*

**I**N comparing the state of credit in the two nations, I must first observe, that it is not so essential to compare the extent of the revenue of both countries, as the resources they have for obtaining extraordinary supplies in case of need.

Whatever be the permanent revenue of a state, we may be very certain that the exigencies of it will be in proportion; and whenever any extraordinary expence is to be incurred, it must be provided for by extraordinary means.

In examining the state of Great Britain and France, we have found this observation verified. If the expences of the year do no more than absorb the revenue of it, and if the sinking funds appropriated for paying off incumbrances be properly applied, the state has no reason to complain.

This distribution evidently points out how necessary it is not to confound those branches of revenue which are appropriated to state expences, with those which ought to be set apart for the payment of debts and interest. This however I apprehend is too much neglected in both kingdoms.

If times of tranquillity be not made use of, to disengage those funds which necessity had opened, it cannot be denied, that future exigencies must then seek for a supply, from resources as yet undiscovered.

That nation, therefore, which has certain branches of revenue lying dormant in time of peace, has the advantage in point of resources.

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In this respect the advantage hitherto has lain on the side of France; she has had her *dixiemes*, *vingtiemes*, and double poll-tax, which have never been imposed except in cases of necessity.

But on the other hand, Great Britain has a noble and opulent branch of permanent taxes, which composes her sinking fund. Were this employed in times of peace; as it ought to be, it would prove in time of war a more ready fund of credit than any France can boast of.

Those extraordinary resources of France cannot be mortgaged. They are supplies for the current service; but they are no fund of credit. Whereas the sinking fund of Great Britain is always ready in the mean time to supply urgent demands. While this subsists, there is no danger of being obliged to break faith with all the public creditors, upon a demand for a million and a half sterling, as was the case with France in 1759. The one resembles a credit in bank; the other the rents of a great estate. The sinking fund affords time to raise new supplies, in proportion to the debts contracted; and if these, when new, and raised in time of war, prove sufficient to answer the interest of the loan, they will probably do more as they continue to be levied, and upon the return of peace.

One very remarkable difference between the state of credit in the two nations is, that in Britain the object of attention is the rate of interest; in France it is the speedy repayment of the capital. The great care of a British minister is to support the price of the funds: the meaning of which is, to keep the interest of money low. Did not the price of the funds regulate the rate of money, the state would be nowise concerned in the price of them.

Now the credit of Great Britain is so firmly established, that she may command money at all times, providing she will give the interest required.

The case is totally different in France. Her credit is not well established; that terrible Mississippi-monument, of near a thousand millions, standing fixed upon the ordinary revenue to this day at 2½ per cent. first reduced from the most exorbitant interest, by successive

cessive

cessive acts of power, after the late King's death, and afterwards from a moderate interest to 2½ per cent. in the year 1720, is reason sufficient to deter monied men from lending to France upon perpetual interest.

In borrowing upon life-annuities at 10 per cent. and upon lotteries at nearly the same rate, for 11 or 12 years, France obtains credit for large sums. She also borrows with tolerable success at 5 per cent. when there is a lottery-clause put in, which stipulates a large sum to be annually paid for extinguishing the capital. The reason is, she is more punctual to such engagements: they remain constantly under the eye of the public: the stock-holders consider their money as constantly coming in; and any interruption in the payment gives a general alarm. But when funds are settled at perpetual interest, people lose sight of the capital altogether. The contracts by which they are commonly constituted, are not so easily transferred as other funds: in a word, it is not the taste of the French nation to lend their money in that way, and far less the taste of strangers; and the reason is, that as matters have hitherto been conducted, it has by no means been their interest.

Before the commencement of the late war, no security in France was looked upon as better than the actions of the company of the Indies. This was a fund of perpetual interest. They brought in to purchasers little more than 4 per cent. and every body wished to have them. Every action bore a dividend of eighty livres a year; and the action itself sold from eighteen to nineteen hundred livres. The war had not lasted four years, when the dividends were reduced to one half, and the capital fell to about 700.

In short, all perpetual funds in France, whether upon government or company-security, are very precarious; and while this is the case, we may decide that the credit they are built on is precarious also.

C H A P. VIII.

*Contingent Consequences of the Extension of Credit, and Increase of Debts.*

HAVING applied the principles of public credit to the state of facts in Great Britain and France, such as I have been able to collect, I must observe, that all short sketches of this kind are intended only to satisfy a general curiosity which mankind has, to know a little of every thing. Although they may appear superficial and incorrect, to persons thoroughly instructed in those matters, they still are for our purpose; which is only to take them as something approaching nearer to truth than bare suppositions can do; and they sufficiently answer the purpose of illustrating the subject we are upon.

I now proceed to inquire what may be the consequences of this mighty change produced upon the policy of industrious and trading states, from the establishment of credit, debts, and taxes.

I have, from the very beginning of this inquiry, occasionally taken notice of the influence that such a change must make upon the spirit and manners of a people. The lower classes, who are slow in forming combinations, do not soon comprehend the necessary consequences of such revolutions. Even ministers have been often at a loss to judge of the consequences which might follow upon some steps of their own conduct relative thereto, although taken upon mature deliberation.

When public credit is employed for raising money upon a plan of refunding the capital, either by uniform annual payments exceeding the interest, or by funds established for sinking the capital, no contingent consequences can happen, providing the plan be

executed: the debts contracted will be paid, and matters will return to their former state.

When public credit is employed for raising money upon payment of a perpetual interest; or if, whatever be the plan laid down, capitals should not happen to be discharged, and that the debts should swell continually; in this case, the contingent consequences are many and various, far exceeding any man's sagacity to investigate.

If we judge of them from what past experience teaches us, we may conclude, that, in one way or other, all debts contracted will in time disappear, either by being paid, or by being abolished: because it is not to be expected that posterity will groan under such a load any longer than it is convenient; and because in fact we see no very old public debts as yet outstanding, where interest has been regularly paid.

This is a very rational conclusion from past experience; but it is only relative to the circumstances of past times. While the debtors are the masters, there is no difficulty of getting clear of debts: but if the consequence of this new system should be to make the creditors the masters, I suppose the case might be different. Farther,

In former times public debts were contracted between the state and its own subjects; but at present we see that in such loans, foreigners, even enemies, are invited to concur: and the better to engage them to it, a total immunity is promised from all taxes upon the interest to be paid by the borrowers.

This circumstance has already drawn the attention of Princes, in the discussion of their reciprocal concerns. We saw how, in the treaty of Dresden, which took place after the King of Prussia's invasion of Saxony in 1745, it was provided by the 6th article, that all debts due by the bank of the *Steuer* to that Prince's subjects, were to be paid, on presentation of their contracts.

We have not indeed as yet seen wars carried on for the payment of debts; but the case may happen, and kingdoms may be carried off upon such pretensions, as well as private property. What

a chain

a chain of contingent consequences arises from this single combination, were this a proper place to introduce them!

But without going to the supposition of Princes or nations becoming reciprocally engaged in debts, and thereby involving such mighty interests in the support of public faith, we may easily conceive, that a monied interest, of a long standing, may have influence enough to operate a change upon the spirit and manners of a people.

Let me here take the example of Great Britain. Do we not see how the spirit of that nation is totally bent upon the support of public credit? And do we not see how absolutely their commercial interest depends upon it? Can it be supposed, that every one has combined all the consequences which may flow from the constant swelling of their debts? Or indeed is it possible to determine what will be the consequences of them? This however we may suppose at least, because we see the progress of it already, that the interest of the creditors will daily gather strength, both in parliament and without: and if from small beginnings it has arrived at the pitch we now see, it is very natural to conclude, that, in time, it may become stronger, and at last, that the creditors of the nation may become the masters of it.

When any one interest becomes too predominant, the prosperity of the state stands upon a precarious footing. Every interest should be encouraged, protected, and kept within due bounds. The following speculations are intended for the application of principles to new and unexperienced combinations; where natural causes may work their direct and immediate effects, and thereby prove prejudicial to the general welfare, unless they be foreseen in some degree, and proper remedies be prepared against them.

Europe was possessed by our ancestors free from taxes; our fathers saw them imposed, and we see how fast they become mortgaged for our debts. We can as little judge of the extent of our credit, as they could of the possibility of contributing so large a fund for the support of it.

As the plan of imposing taxes has been extended, we see the public coffers every day receiving a vast flux of money, and like the heart in the human body, throwing it out again into circulation. Happy state, could it be lasting, and were this flux and reflux preserved in a due proportion to all the uses for which it is intended! But states have their vices, as well as private people. Public opulence should be proportioned to public exigencies: but how often do we see ambition putting on the face of public spirit, and animating the resentment of a nation, under colour of providing for her security? Hence wars, from wars expence: recourse is had to credit, money is borrowed, debts are contracted, taxes are augmented; all this increases circulation, which demands a supply of currency: this is procured by melting down the solid property. These operations performed, the public money is either sent abroad, or remains at home. If sent abroad, more property must be melted down, in order to fill up the void. If it remains at home, it will animate every branch of circulation; and when the exigency, which required this additional quantity of money, is over, what circulation finds superfluous, will stagnate in the hands of the monied interest, and will either form a new fund for contracting more debts, or it will be laid out in the purchase of the property formerly melted down, which produced it; and thereby will be consolidated a-new.

Every interest in a state must influence the government of it, in proportion to its consequence and weight; and every government must influence the spirit of the people who live under it.

Now, as we have seen how industry creates wealth; how wealth and confidence create credit; how credit creates debts and taxes; how these again occasion an augmentation of money, by the melting down of property; and how this property is transferred to a new set of men, who were once the monied interest, and who afterwards acquire the lands, and consolidate this additional circulation; does not this chain of consequences represent a kind of circle, returning into itself? And is it not plain, that without

the intervention of this engine, the money created in proportion to the demand for it, the chain would be cut off, before it could reach the link from which it first set out? Will not this conversion of a monied interest into a landed interest, insensibly inspire the bulk of the landlords with sentiments analogous to a monied interest? Is not that evidently more and more the case every day in England? And from this may we not prognosticate the solidity of public credit in that nation?

If on the other hand we find, as in France, industry in times of peace drawing wealth from other nations, and thereby increasing the coin, upon which alone credit is circulated through the kingdom; and then foreign expence sending it away in times of war; must not circulation keep pace with the coin, that is to say, be circumscribed within the proportion of it?

If the solidity and extent of the French King's free revenue should afford credit to borrow this coin; and if, instead of providing a proportional supply of currency to fill up this new loan, the coin borrowed be sent out of France; how will the ordinary circulation be carried on?

Let us here recal to mind what was said in the 22d chapter, upon banks, where we distinguished voluntary circulation, which is buying, from involuntary circulation, which is paying: we there observed how paying must always take place of buying; consequently, we may here determine that taxes must be paid before buying, that is consumption, can go on. The deficiency therefore of coin for circulation, will, first, proportionally affect the trade, manufactures, and consumption of France, and afterwards the revenue which arises from them. Is not this the constant complaint in France, when war carries off their coin? The remonstrances of all their parliaments are filled with it.

In times of peace, the amount of what comes from the people is greater than in time of war: but then there is coin sufficient for all the payments; and when they are made to the royal treasury, they immediately return into circulation, and no hurt is felt.

I insist

I insist the more upon this principle, and I introduce it in so many different ways, and under such a variety of views, because I take it to be one of the most important considerations in the whole doctrine of credit, and one which I have never seen suggested by any French, or English writer upon this subject. Many are the complaints for want of money; but no method have I ever seen proposed for obtaining it from solid property; the easiest and safest of all operations, when conducted with honesty, and according to principles.

As money therefore is the means of closing the chain of consequences already mentioned, and forming it into a circle, as has been said, we plainly see how, when it is wanting, the same effects cannot be produced; and consequently the country of France, when money is confined to the coin, will be very long in adopting the sentiments of a monied interest; whether for its profit or loss, in the end, is not here the question.

We have now traced the contingent consequences of public credit so far as to shew how it may tend to influence the spirit of a people, and make them adopt the sentiments of a monied interest.

The allurements of acquiring land-property is very great, no doubt, especially to monied men. The ease and affluence of those, on the other hand, who have their capitals in their pocket-books, is very attracting to the eyes of many landlords, especially at a time when they are paying the heavy taxes laid upon their possessions.

The firm establishment of public credit tends greatly to introduce those reciprocal sentiments of good-will among the two great classes of a people, and thereby preserves a balance between them. The monied interest wish to promote the prosperity of the landlords; the landlords, the solidity of credit; and the well-being of both depends upon the success of trade and industry.

Let us now suppose what is actually the case in Great Britain, that from the swelling of public debts an enormous fund of property is created. This is formed out of the income of the whole

nation; and as it has been purchased by those who have lent money to the state, in common language it is included in what we call the monied interest: it is however very distinct from it, as will be understood from what is to follow.

The capital of the public debts is the price which was paid for the annuities due to the creditors, and is now no more money to them than land is money to the landlord. It may be turned into money, no doubt; but so may land.

By the monied interest, properly, should be understood, those who have money, not realized upon any fund, and who either employ it in the way of trade, in the way of industry, in jobbing in land, in stock, or in any way they please, so as to draw from it an annual income. While it is fixed, that is, given for any permanent value, it ceases to be money; when it is called in, it becomes money again. Let stock, therefore, suffer ever so many alienations from hand to hand, it still continues stock: it never can become land, it never can become money, until it be paid off. I hope this idea is clear, and understood. Stock, therefore, I here consider as one great branch of solid property; so far as the security of government is solid and good; and as such, may be melted down into money by banks, as well as any other thing.

Now I have said that this fund is formed out of the income of the whole nation; consequently by *fund*, here, I do not understand the capital, which exists no more, but the interest which is drawn for it: it is this interest, I say, which arises from the land, money, trade, industry, &c. From the land, out of the amount of the taxes charged upon it; from the money, trade, industry, &c. out of the amount of proportional taxes, such as excises, customs, salt-tax, stamp-duties, and the like.

The more the debts increase, by the monied interest realizing into this branch of solid property, the more the taxes must augment; and consequently, the more the solid property of the funds themselves will be affected, as well as the land.

From



From this exposition of the matter, I think it appears pretty evident, that as proportional taxes affect every man's income, according to his consumption; the landlord, *ceteris paribus*, who pays a land tax, as well as his proportion upon his consumption, is more hardly dealt with than the proprietor of the other branch of solid property, the funds, who only pays the proportion of the last.

But the condition of the stockholder is not equal to that of the landlord, for two very plain reasons. The first is, that the income of his stock cannot increase; that of the land may. The second is, that the swelling of this great capital of stock has the effect of sinking the interest upon it, and consequently of diminishing the income of the stockholder; and in proportion to that diminution, the value of land is augmented. Now I readily allow that the augmentation upon the *value* of lands is no inducement to a landlord to turn them into money; because he would then lose upon his money, what he gains upon the additional price received. But it is a great advantage in this respect, that he thereby diminishes the interest he pays upon his debts, if he has any; and if he has none, it enables him to borrow at a lower rate for the future; and by improving his lands with the money borrowed, he augments his income much beyond the proportion of the interest paid.

It is therefore necessary, in imposing land taxes, rightly to combine every circumstance; that the load of all impositions may be equally distributed upon every class of a people who enjoy superfluity, and upon no other. If, after a fair deduction of principles, this shall appear a thing possible to be done, we may expect to see statesmen engaged to depart from the old maxim of grasping at what is readiest and nearest at hand, to wit, the landed property, with a view to spare a class of people, which, in a well regulated state, never can be made to feel the burden of any proportional tax whatsoever; I mean the industrious poor.

I now proceed in my inquiry into the nature and consequences of the swelling of this great branch of property, the public funds.

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As to the nature of it, we have said already, that it is formed by realizing money into stock. When government borrows, the lenders must be people who have money. If the loan is made at home, the money is no sooner paid in, than it is spent; and as we may suppose that it would not have been lent, had either the lenders found it necessary for their current expence, or had they found a more profitable way of realizing it than by lending it to government, we consider it as in a state of stagnation; but being lent to government, it is thrown into a new channel of circulation.

Farther, this money stagnating in the hands of the lender, either proceeded from his income, which exceeded his expence, or from the profits of his industry. In either case, the country is neither poorer or richer, when considered in a cumulative view, than if the same sum had been lent to private people at home.

Let us next suppose the money to have been borrowed for the exigence of a foreign war. In this case, if it be borrowed at home and sent abroad, it must first be converted into the money of the world, gold and silver, and then sent off, to the diminution of this kind of property; or it must go abroad in the money of the country, credit, to the diminution of the annual income upon which the credit is established. As this last operation may not be so clear, an example will explain it.

Government borrows a million; it is paid in paper, and must be sent to Holland. If at that time a balance be due by Holland for a million, bills will readily be found for it. In this case, the balance of trade is borrowed by government, and is converted into a capital of a million in the public funds, the interest of which will remain at home, and continue to be the property of the nation. But as the value of this balance is sent to Holland and spent abroad, it is, upon the whole, to the nation, as if the balance had not been due to them. This I call a *lucrum cessans* to the country.

But suppose no balance due at the time the million comes to be sent off, I say the consequence will be, to alienate in favour of foreigners a part of the annual income, proportional to the whole

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interest

interest paid for the loan, whether it has been subscribed for by foreigners, or by natives.

If the subscription comes from foreigners, the consequence is evident: it is equally so in the other case, upon a little reflection.

Suppose then the million subscribed for, and paid, in London. Bills are sought for; none are found, I mean in the way of reciprocal compensation, does not this sum immediately become a balance against London? And as a country loses all such balances, and that the country to which they are due gains them, this million is lost to England; and forms what I call a *damnum emergens*; that is to say, her former property or income is so far diminished, or comes to be transferred to strangers.

From this we may conclude, that in all matters of public borrowing, it is of no consequence whether the subscription be filled by natives, or by foreigners, when the value of it is to be sent abroad.

Let us next examine the state of the question when the loan is made in order to be spent at home, as is the case after a war, when the unfunded debts come to be paid off.

We have said that loans are filled by money stagnating, which the owner desires to realize: if he cannot do better, he lends it to government; if he can do better, he will not lend it.

While the uses of domestic circulation absorb all the money in the country, that is to say, when there are private persons ready to borrow all the money to be lent, at this time government cannot borrow at home; and if they did, by offering a high interest for it, the borrowing would do harm to circulation; because it would raise interest at home, or disappoint those who would gladly borrow it, for little more than the interest offered by government.

Let us next suppose that after a war, when the unfunded debts are either bearing a high interest, or selling at discount, government shall find an advantage in opening a subscription, which may be filled from abroad, at a lower rate than the then actual value of money. Suppose, I say, the Dutch should be willing to lend at 3 per cent. while money in England stood at 4 per cent. I ask if, in this

this case, government ought to borrow from Holland, at the expence of sending the interest out of the country, rather than suffer such debts to sell at discount; or to continue paying a higher interest at home for what they owe?

It is my opinion that still they ought to borrow, for the following reasons. That if the high interest at home proceeds from want of money, that is to say, from circulation not being full enough, it is their interest to borrow, were it for nothing else than to supply circulation; because unless this be full, all industry must languish. But suppose it should be said that circulation is full enough, that industry suffers no check from that quarter, but that there being no superfluity of money, interest stands 1 per cent. higher than it would do were there considerable stagnations. In that case also, I think it is their interest to borrow, were it for no other reason than to produce such stagnations.

It is a general rule every where, that there is no having enough without having a superfluity; at least there is no certainty of one's having enough without finding a superfluity. Borrowing, therefore, in small sums, at such a time, will produce stagnations at home, from which succeeding loans may be filled, after circulation is sufficiently provided: and even in case more should be borrowed from strangers than is necessary, and that in consequence of it, too much should come to stagnate at home, after the demand of government is over, in that case, the monied interest would lend, in their turn, to other states, where interest is higher; and the annual returns from that quarter would more than compensate what must be sent away, in consequence of the former borrowing.

From these combinations, let us draw some conclusions.

1<sup>mo</sup>, That the effect of public borrowing, or national debt, is to augment the permanent income of the country, out of stagnating money, and balances of trade.

2<sup>do</sup>, That this income so created, may be either the property of natives, or of strangers.

3<sup>to</sup>, That when money is found to stagnate, in a country where circulation is not diminishing, it may be supposed to proceed from the coming in of a right balance of trade.

4<sup>to</sup>, If stagnations in one part are found to interrupt circulation in another, public borrowing, for domestic purposes, has the good effect of giving vent to the stagnation, and throwing the money into a new channel of circulation.

5<sup>to</sup>, That the sum of interest paid by any nation to strangers, shews the general balance due by the nation, after deducting all the profits of their past trade out of all the expence of their foreign wars.

But here it must be observed, that as on one hand we are comprehending all that is paid to foreign creditors, on account of the funds they have in England, for example, so on the other hand, must be deducted from this, all the like payments made to Englishmen by other nations.

6<sup>to</sup>, From this last circumstance we discover, that the lending to other nations by private hands, produces the same effect to a nation as if the state were actually paying off the debts due to strangers. Consequently, when Moses permitted the Jews to lend to strangers at interest, and forbade such loans among themselves, his view was to establish a foreign tribute, as it were, in favour of his own nation, instead of establishing luxury at home.

7<sup>mo</sup>, As the balance due to a nation upon her trade, is found to compensate, *pro tanto*, the money she spends abroad, we may from the same principle conclude, that so soon as she ceases to expend money abroad, the balance of trade in her favour, if not realized at home in some new improvement, will diminish, *pro tanto*, the interest, or capitals due to strangers. This is evident from the nature of balances, of which we have treated already.

8<sup>vo</sup>, The consequence, for example, of England's owing large sums to strangers, will, from the same principle, constantly prevent exchange from rising very high in her favour, when the balance of her trade is to be paid to her: because on every such occasion,

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her foreign creditors will be glad to disappoint exchangers, by furnishing bills for their interest, or capitals, to those who owe the balance; the consequence of which is plainly to diminish the foreign debts.

This circumstance implies no loss to the nation which is creditor in the balance of trade, and debtor upon the capitals; because we have proved that the price of exchange never affects a nation, but only certain individuals, who pay it to others.

This is sufficient, I think, to point out in some degree the nature of a national debt. I come next to examine the consequences of its constant augmentation, without proper measures being taken, either to pay it off, or to circumscribe it within certain bounds.

In what is to follow, I shall throw all consideration of capitals totally out of the question; and as to the amount of taxes, it is quite indifferent whether the money proceeding from them be in consequence of an improvement made upon those already established, or from new impositions: such combinations will come in more properly afterwards.

If the interest paid upon the national debt of England, for example, be found constantly to increase upon every new war, the consequence will be, that more money will be raised on the subject for the payment of it. The question then comes to be, 1. How far may debts extend? 2. How far may taxes be carried? And 3. What will be the consequence, supposing the one and the other carried to the greatest height possible?

I answer to the first, that abstracting from circumstances which may disturb the gradual progress of this operation, before it can arrive at the *ne plus ultra*, debts may be increased to the full proportion of all that can be raised for the payment of the interest. As to the second, How far taxes may be carried, I shall not here anticipate.

\* We must always carefully avoid confounding the grand balance of payments with the balance between importation and exportation, which I consider as the balance of trade.

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the subject of the following book, any farther than is necessary to resolve the question before us.

Taxes, we have said, either affect income, or consumption. The land-tax of England is now at 4 shillings in the pound, upon a supposed value of the property affected by it, which is all real and personal estates, the stock upon lands, and some few other particulars excepted.

This tax may be carried to the full value of all the real estates in England. As for personal estates it never can affect them proportionally; and that part of the statute of land-tax which passes every year, and imposes 4 shillings in the pound on personal estates, carries in it a vestige of our former ignorance in matters of taxation.

The notion of imposing (*facto*) 20 shillings in the pound upon the real value of all the land-rents of England, appears to us perfectly ridiculous. I admit it to be so; and could I have discovered any argument, by which I could have limited the rising of the land-tax to any precise number of shillings under twenty, I should have stated this as the maximum, rather than the other.

The second branch of taxes comprehends those upon consumptions, excises, and the like. The maximum as to this class must be determined by foreign trade; because this is affected in a certain degree by the price of domestic industry. Other taxes have not this effect, as we shall shew in its proper place.

But as foreign trade is not essential to the domestic industry, consumption, circulation, &c. of any nation, as has been proved in the second book, but only to their increasing in wealth proportionally to other nations; if foreign communications should be cut off entirely, I perceive no limit to which I can confine the extent of proportional taxes. Let me therefore suppose a term beyond which impositions of all kinds must come to a stop, and then ask, in the third place, what will the consequence be? I answer, that the state will then be in possession of all that can be raised on the land, on the consumption, industry and trade of the country; in short, of all  
that

that can be called income, which they will administer for the creditors.

When this comes to be the case, debts become extinguished of course; because they come to be consolidated with the property: a case which commonly happens when a creditor takes possession of an estate for the payment of debts equal to its value.

Then government may continue to administer for the creditors, and either retain in its hand what is necessary for the public expence of the year; or if it inclines to shew the same indulgence for this new class of proprietors as for the former, it may limit the retention to a sum only equal to the interest of the money wanted; and in that way set out upon a new system of borrowing, until the amount of taxes be transferred to a new set of creditors. This is the endless path referred to in the ninth chapter of the second book, which after a multitude of windings returns into itself.

A state, I imagine, which would preserve its public faith inviolable, until a period such as I have been supposing, would run little risk of not finding credit for a new borrowing. The prospect of a second revolution of the same kind would be very distant; and in matters of credit, which are constantly exposed to risk, such events being out of the reach of calculation, are never taken into any man's account who has money to lend.

The whole of this hypothesis is, I readily agree, destitute of all probability; because of the infinite variety of circumstances which may frustrate such a scheme. I only introduced it to shew where the constant mortgaging of a public revenue may end; and to disprove the vulgar notion, that by contracting debts beyond a certain sum, a trading nation which has a great balance in its favour, must be involved in an unavoidable bankruptcy. To say that a nation must become bankrupt to itself, is a proposition which I think implies a contradiction.

C H A P. IX.

Of Bankruptcies.

IN the last chapter we have been running through a chain of consequences relative to the increase of public debts, which appear as extravagant to us at present, as it would have appeared to Davanant, to have supposed the debts of this nation to grow up to their present height, without the risk of involving the nation in a general bankruptcy.

But those consequences are only contingent. The present debts may either be paid off, or the nation may be involved in a general bankruptcy. In either case, the vast property in the funds, this great article of permanent income, belonging to natives and to foreigners, must wither and decay, and at last disappear altogether.

We may therefore decide, that one of three events must happen, viz. either, 1. Debts will swell to such a pitch as at last to pay themselves: or, 2. The nation will be involved in a bankruptcy: or, 3. They will be fairly paid off.

The first supposition we have examined; the second we are now to consider; the last will be the subject of the following chapter, with which I shall conclude this book.

I shall advance no argument to prove that the scheme of a public bankruptcy is either lawful, honourable, or expedient, if voluntarily gone into by a state; because I think it is diametrically opposite to every principle of good government. It is a maxim uncontroverted, that a contract is binding between the parties contracting, and that it ought to be fulfilled in every article. If the public good be alleged as an overruling principle, to which every other must give way, I readily admit the exception. There is another of equal force, the impossibility of performance. When such arguments

are used to engage a nation to commit a deliberate act of bankruptcy, two things must be examined: the first, is the interest which the public has in adopting the scheme: the second, the consequences of it. What reasons a state may have, I shall consider afterwards; at present, I shall enquire what might be the consequences of a general and total bankruptcy in England; from which we may gather what difference it would make, were it only partial; and by such an inquiry, we may be led to discover the proper method of breaking faith, in case it should become unavoidable. This is what in another place I called bringing credit decently to her grave; when after being overstretched, it cannot longer be supported.

A bankruptcy may take place in two ways: either as a consequence of circumstances, which cannot be prevented; or by a deliberate act of government.

Were the trade and industry of England to decay, the amount of taxes might so far diminish, as to prove insufficient to pay the interest of the national debt, and defray the expence of government. Were the people to be blown up into a spirit of revolt against taxes, the same event would probably happen. In either case, the natural and immediate consequences of the bankruptcy would probably follow one another in this manner:

1<sup>mo</sup>, Every creditor of the state would become poorer in proportion to the diminution of his income.

2<sup>do</sup>, Consumption and the demand for work would diminish in proportion to the part of that income withheld, which the creditors annually expend for these purposes.

3<sup>tio</sup>, Trade would directly suffer, in proportion to that part of the said revenue yearly thrown into it by the public creditors at present; and it would consequently suffer, in proportion to the hurt resulting to private credit, from the consequences of the bankruptcy.

The creditors then would lose all, the trade of England would be undone, and the multitudes who live in consequence of the demand for their industry from the one and the other, would be reduced to misery. These immediate effects would first manifest themselves in

the capital. The consequences would soon be felt all over England: a diminution upon the consumption of the fruits of the earth; a stagnation of that commerce which is carried on between London and the country (which we have seen to be equal to the amount of all the taxes and land-rents spent in London) would soon throw every thing into confusion. But taxes would be abolished: of that there is no doubt. Let a deliberate bankruptcy take place without any abolition of them by law, they would soon sink to nothing, from the utter impossibility there would be found to pay them.

A total bankruptcy, therefore, coming upon England, either from a decay of her trade, or a disturbance in collecting the public revenue, would have the effect of plunging the nation into utter ruin at home: what might be the consequences from abroad, I leave to the reader's sagacity to determine.

Let me now suppose a bankruptcy to take place from a deliberate act of power, with a view of expediency.

The difference between the two consists only in this; that in the first, all the consequences we have mentioned would follow one upon another, without a possibility of preventing them: in the other, a plan to prevent them might be concerted.

Let me then suppose, that government shall find it expedient, at any time, to use a sponge for the public debts; that they shall fear no external bad consequences, either from the resentment of those states who may be hurt by it, or from the ambition of others who may profit by it; that they shall coolly resolve to sacrifice the interest of all the creditors in favour of the whole body; and that they shall deliberate upon the plan to be followed, in order to bring about so great a revolution, without essentially hurting any interest in the state, that of the creditors alone excepted.

In that case, I imagine, they would begin by ordering the amount of all that is paid to the creditors, to be set apart as a fund for the execution of the plan.

They would purchase all over England, every article of produce and manufacture which might remain upon hand for want of a market:

market: they would feed all those who would be forced to be idle for want of employment: they would instantly put proper employments into their hands; one week's delay in the execution of this part of the plan would throw the manufacturing interest into such confusion, as to be past all remedy: they would furnish credit to all the merchants subsisting, in proportion to what they had lost by the extinction of the funds: they would establish offices every where, to supply the wants of those who would be totally ruined, until by degrees they could re-establish confidence, the parent of trade, the mother of industry. By such precautions, properly taken, and properly executed, none would suffer but the unhappy creditors and their families, who, from great opulence, would be reduced to poverty.

As far as human prudence is insufficient for going through so great a detail all at once; so far would the effects of a general bankruptcy add hurtful consequences to those which in every case are unavoidable.

Were a statesman endowed with the supernatural gift of turning the minds of a nation at his will, and of foreseeing every consequence before it happened, such a plan might be executed. Another who, with the greatest capacity ever man was endowed with, would, for expediency, not for necessity, deliberately undertake a general bankruptcy, I should consider as a madman.

I should rather prefer to submit to the natural consequences which might result from an accidental bankruptcy, than endeavour to avoid them by a plan too complicated for human wisdom to execute.

Let us next suppose the scheme to be fairly executed from a view of expediency, no matter how, and all inconveniences prevented during the execution, what would be gained by it?

If by the supposition all taxes be kept alive, for at least a certain time, in order to prevent a total confusion, certainly no body could gain during that period; even the state itself would lose, because every branch of consumption would infallibly diminish. But that

time elapsed, and taxes reduced to the lowest, who would be the gainers? We shall see when we come to the doctrine of taxation, that a sudden abolition of them, in consequence of a bankruptcy, would be advantageous to no body, but to creditors upon mortgage, and to the idle: not to landlords; because their incomes would diminish more than in the proportion of the present land-tax, at least their improvements would be interrupted, and their rents ill paid: not to the manufacturing classes; because at present they pay no taxes, but in proportion to their idleness or extravagance, as shall be proved: the monied interest, not secured on land, would I suppose be extinguished; trade and credit at an end. The gains then would be confined to those who have money secured upon land, where the capital is demandable. In such a situation, interest would rise beyond all bounds; and a debt which might have been considered as a trifle before, might then carry off an estate. The idle also who live peaceably upon a very moderate income, would find a great advantage from the fall of prices for want of consumption, and from the distress of the industrious; but the indigent poor, who are supported from charity, would suffer: all the great establishments for labour and industry, would fall to the ground: the numbers of poor who are there maintained, would come upon a society, which is beginning to lose those tender feelings of compassion, which are more common in countries of idleness, in proportion as misery is more familiarly before them.

To say all in one word, a total bankruptcy, and abolition of taxes, would bring this nation back to the situation it was in before taxes, and debts were known.

Does any body imagine that our present situation is not analogous to our present policy, and that it is possible that independently of the same circumstances we should long continue to enjoy the advantages we feel? No: were we in the same situation as formerly, we should feel as our fathers felt. They had as good understandings to improve their circumstances as we have; but they had to do with an idle, we with an industrious common people. Trade and

and credit have been long at work to perform this great revolution: the operation is not as yet completed, and a total bankruptcy now would destroy every good effect for a long time.

Were taxes made to cease, the large sums which proceed from them would disappear entirely. Money would not, as some imagine, be equally distributed among those who now pay the taxes, and proportionally increase every man's income. The reason is plain: the money paid for taxes, circulates; because it is demanded. Were taxes suppressed, people having less occasion for money than formerly, would circulate less in proportion. It is the necessity of paying taxes, which *creates* this money for the payment of them; and when this method of *creating* is not contrived, the taxes cannot be paid, as has been often said. Now it is this great flux of money from taxes which animates the trade of England: take them out of the circle, what becomes of the whole?

To suppose, therefore, so great a revolution in the circulation of a country, as that produced by the cessation of taxes; and to suppose no interruption from it upon the state of industry, and the employment of the people of this nation, is a proposition I must reject, as being contrary to all principles; and to this among the rest, that it would be a most sudden, and a most violent revolution; which throughout the whole course of this inquiry, we have found to involve inconveniencies beyond the power of any theory to extricate.

Upon the whole we may determine, that the fatal consequences of a bankruptcy would be many; and that the good resulting from a total abolition of taxes, would be confined to two objects. 1. A relief to those who pay them upon their possessions, or persons. 2. A diminution of prices in favour of the idle at home, and of trade abroad: great objects, no doubt, could they be obtained at less expence than the consequences of a total failure of public credit and domestic industry. Perhaps when we come to examine the principles of taxation, we shall find that taxes do not raise prices so much as is generally believed; and those which influence the application

application of public money, will point out better expedients than a bankruptcy for compassing those great national purposes.

But let us suppose a case, which may possibly happen, as matters seem to go on. Suppose, I say, that by continuing to carry on long and expensive wars, the sum of interest paid to strangers should exceed all that the nation can gain by her trade. In this case, there must be a general balance of payments against her every year, which very soon would manifest itself by the most fatal consequences.

The bank of England would be the first to feel them, by the departure of all the coin and precious metals. Trade would feel them next, and then indeed they would become universal.

In such a situation, I fairly acknowledge, that I cannot discover any expedient to avoid a bankruptcy. Engaging the foreign creditors to become citizens, by the allurements of the greatest privileges, and bills of naturalization, are vain speculations. Unless some resource, hidden from me, should, upon such an occasion, open itself, in the deep recesses of future events, I believe the nation would soon be driven upon the fatal rock of bankruptcy. The idea of a nation's becoming bankrupt to itself, I have always looked upon as a contradiction; but that it may become bankrupt to the rest of the world, is quite consistent with reason and common sense.

I shall not take upon me to suggest what mode of bankruptcy would in such a case be the best; a total, or a partial one. The partial, I am afraid, would, in England, work effects almost as hurtful as the other. But if ever the case should happen, the only way will be, to watch over every symptom of the approaching catastrophe, and to improve circumstances to the best advantage.

Of what infinite consequence is it then for a British statesman to inquire into the amount of debts owing to strangers, and into the state of the balance of trade? In speaking of exchange, I threw out many things concerning the idea of putting that branch of business

business into the hands of the bank, in conjunction with the exchequer. Were the state brought into the dilemma of either submitting to this gradual decline of trade, from a cause which could not be removed; or of being pushed to the necessity of leaping into the terrible gulph of a deliberate bankruptcy; in such a dilemma, I say, what infinite advantages might not be drawn from the management of exchange?

I have heard it said, that the debt owing to strangers was a great advantage to England; because it drew people to that market where their funds are settled. I allow all the force any one can give to this proposition: But alas! what would it avail, whenever England becomes incapable to furnish goods equivalent to all her imports from abroad, added to all she owes to her foreign creditors?

I am very far from supposing the present situation of England to forebode the approach of any such disaster; but it is good to represent to one's self some determinate object, by which we may judge of our situation in times to come.

Debts have increased far beyond the imagination of every mortal. Great men have uttered prophecies, which have proved false, concerning the consequences of a debt of one hundred millions. From this most people conclude, that they will go on until some unforeseen accident shall dash the fabric to pieces. I have been pretending to shew how they may go on in a perpetual chain. But alas! one fatal combination was there omitted; and now that it has been taken in, I think it serves as a datum, to resolve the most important problem of this science, viz. How to determine the exact extent of public credit. The solution of which is, That it is not necessary that public credit should ever fail; from any augmentation of debts whatever, due to natives; and that it must fail, so soon as the nation becomes totally unable either to export commodities equal to all their imports and foreign debts, or to pay off a proportional part of their capital, sufficient to turn the balance to the right side.



From this proposition two corollaries may be drawn.

*1mo*, That the most important object in paying off debts, is to get quit of those due to strangers.

*2do*, That whatever circumstance has a tendency towards diminishing the burden of foreign debts, should be encouraged.

If it be said, that whenever our foreign debts exceed the balance of our trade, the best way would be to break faith with strangers, and keep it with the subjects of the state: I answer, that were the thing possible, which I apprehend it is not, the consequence might prove equally hurtful.

The greatest of all the inconveniencies proceeding from a bankruptcy, is the ruin of industry, and the stop put to circulation. Can it then be supposed, that a country might execute so glaring a scheme of treachery to all her neighbours, and still continue her correspondence with them in the open way of trade? Certainly not. Were all foreign trade to be stopt at once, what a revolution would it occasion! The circulation of foreign trade, in the city of London only, exceeds perhaps the amount of all the taxes. A stop put to that would occasion such a stagnation, as would ruin the nation as much as if the bankruptcy were to become universal. I do not here pretend minutely to trace consequences, which are infinite: all that can be done, is to suggest hints, which every one may pursue, in proportion to the extent of his combinations.

The intention of touching upon this subject at all, is to shew, that the expedient of a sponge, which is frequently talked of as a remedy against the consequence of debts, is, perhaps, more dangerous than any thing that can be feared from them. The reason is, that the sponge implies a more sudden bankruptcy than any one brought on in a gradual way, by natural causes.

Were natural and irresistible causes to operate a total failure of all profit upon the trade of Britain, one cannot say how far the other nations of Europe might not find it their interest to assist us, providing we did our utmost to preserve our good faith to them. And as I think I have made it sufficiently evident that nothing can

can be gained by openly violating such engagements, the best resolution a nation can take, is to adhere to them to the last extremity, and to banish from their thoughts every idea which may be repugnant to them.

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## CHAP. X.

### *Methods of contracting and paying off Public Debts.*

WE are now to collect together, in one view, the several methods of contracting and paying off the debts of a nation. Such methods may be deduced, either from principles, or from what practice has pointed out.

The foundation upon which public credit is built, is the existence of a sure and sufficient fund for performing the engagements contracted.

When, in the early times of public credit, the repayment of the capital was the chief object of the lender, a much more extensive fund was necessary than at present, when no more is required than the payment of the interest. As such funds never can be formed but from taxes, or general contributions from the people, the greater they are, the larger must the contribution be. Whenever therefore there is occasion to contract debt, the chief object of a statesman's care should be, to model the spirit of his people so as to dispose them to concur in the proper resolutions to render the plan proposed as easy as possible in the execution.

In the first place, the body of the people must be made sensible that the consequence of contracting debts must imply a diminution upon the income of some individuals; but that the fewer the obstacles thrown in the way of the loan are, the less will that diminution be.

In the second place, he must gain the confidence of his people; so far as to impress them with a firm belief that he will consult *their* good, and nothing else, in what he undertakes.

And in the last place, he must gain the confidence of those from whom he is to borrow; and convince them that all covenants between the public and them will be religiously performed.

In a limited and free government, these three requisites are essential to the firm establishment of public credit.

Where the power of the statesman is unlimited, he may substitute his authority over the people, in the place of confidence; but with respect to those who are to lend, he will find no room for any such substitution: confidence *here* is the only expedient.

All therefore that is required as to the people, is to *enable* them to do what he requires of them.

For that purpose he must establish credit with them, for finding the contributions he is to exact of them; because they will have as much occasion for it, in paying what is demanded of them by authority, as he himself has in paying what he is obliged to in consequence of his engagements.

If this general plan be not followed, the consequence will be, that taxes will fail on one hand, and public credit on the other.

If all this operation cannot be previously concerted, the plan of borrowing must be circumscribed to funds previously established.

When money is borrowed before the fund is prepared, every obstacle which occurs in establishing it is a drawback upon the confidence of those who lend, and renders the conditions less favourable to the state which borrows.

In the contract of loan, the first article to be agreed upon is the rate of interest. We have, in the beginning of this book, examined the causes of its rise and fall; and have in general determined, that when the demand is for borrowing, interest rises; when for lending, interest falls.

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As the object of the borrower is to have interest low, the statesman who intends to borrow, must use all possible means to increase the quantity of money in circulation.

But if coin alone be used as money, and if this coin be sent out of the country, when borrowed, and if what is sent away cannot be replaced at will, the scheme of augmenting money becomes impracticable: it will daily become more scarce, more difficult to procure, and interest must rise higher every day. Symbolical or paper money, that is credit, must then be established at home, upon the firmest basis: this will enable every one to pay what he owes; consequently, the taxes will be paid, the creditors will receive what is due to them regularly, money will every year augment in proportion as debts are contracted; and if borrowing do not augment beyond that proportion, interest will not rise; and if borrowing should fall below that proportion, interest will sink.

Is not this whole doctrine verified in the strongest manner by the operation of the Mississippi? At the death of the late King of France, money had disappeared. Some years before, he had, for seven millions in coin, engaged his kingdom for thirty-two millions; upon a distant fund indeed, but still it became a debt to be paid. Paper money had not been introduced three years, when interest fell to 2 *per cent.* The paper indeed was a bubble *in fact*; but we have shewn that it became so from bad management only.

By the augmentation of money, capitals cease to be so valuable. By the melting down of property, the very capital, though in the hands of the state, may be turned into money by the creditor, whenever he has occasion for it; in the same way as the coin which is buried in the vaults of the town-house of Amsterdam, is constantly performing all the uses of circulation.

The method, therefore, of borrowing money to the best advantage, is previously to establish a fund of credit, arising from annual taxes; to provide the people who are to pay them with money in proportion to their property or industry; and to prevent

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the latter from ever failing for want of the medium, money, for carrying it on.

So long as interest stands high, relatively to other states with which you are at war, throw as much money as possible into the hands of your creditors, in payment of the debts already contracted; because the more you throw in there, the more you will draw out, if you have occasion to borrow more; and if you have no occasion to borrow more, the lower you will reduce the interest, by augmenting the fund of money to be lent.

From these principles I conclude, that every nation which sets out by contracting debts with its own citizens, must *begin* by borrowing upon condition of repaying the capital in a short term of years. This is also the best method to engage the people to contribute largely without murmuring. The reason is, that when taxes begin to be imposed, the mass of circulation becomes proportionally augmented; and the paying back considerable sums to the creditors, prevents, on the one hand, the debts from increasing so fast, and supplies circulation, and facilitates new borrowings on the other. While this plan of augmenting circulation is carrying on, the statesman must prevent his expence abroad from diminishing it proportionally at home. This is to be accomplished by opening loans for foreign expence in foreign countries, and by paying the *interest only* of such loans, with the greatest punctuality.

The difficulty of performing this, is no argument against it. It must either be done, or credit will be hurt; because without obtaining credit abroad, it is impossible to defray any expence incurred abroad, beyond what the metals of your country and the exports from it can pay: that is, in other words, beyond the quantity of metals exported, and general balance in your favour upon all reciprocal payments with the world.

If it be said, that nations never pay the interest of their debts anywhere but at home, I answer, that it is so much the worse for them; because wherever the debts or interest is to be paid, the lender

always states his account as if the payment were made in his own house. All the expence to him of sending his money to the place of subscription, and of drawing back his returns, are compared with the interest offered by the borrower; and if upon the whole he lender finds his account in the bargain, he subscribes; otherwise not. Since therefore the money borrowed must in this case be sent abroad, it is an advantage for the borrower to be under an obligation to provide a method of sending it; and by that means he will borrow cheaper than he can do, when he refunds to every lender all his expence and trouble in getting his interest remitted to him.

I am now deducing principles, and therefore shall not enter into a discussion of the many objections which occur against this plan, from foreign considerations; such as the facility it might procure to a statesman of defrauding his foreign creditors, and several others which might be formed: all I say is, that this is a cheaper and more systematical way of borrowing, and it has this good effect, that it constantly points out the state of the external debt, from which alone a bankruptcy is to be feared.

Were a favourable balance to return after an expensive war, the payment of this foreign debt would be the consequence, as much as now when the payment is made at home, and rather more so; because who ever owed a balance (to England, I suppose) would then pay his debts at London, with money due by England, payable at Antwerp, for example; consequently, he would transfer at discount; and when he transferred in favour of an Englishman, the debts may be considered as discharged upon the foreign fund, and stated anew upon the funds payable in London. Could the payment of the interest of the public debts be rendered susceptible of such transfers upon all occasions, it would, I imagine, have a remarkable effect in favour of public credit.

This thought suggested itself, while I was considering the situation of a country where borrowing is in its infancy; and it occurred as an expedient for preventing foreign expence from draining

*the country of the money necessary for circulation at home. This, in every combination of circumstances, is the most important object of a statesman's care, while he is engaged in wars abroad.*

Now whether the money of a country be paper or coin, it is equally taken out of circulation, by every foreign payment. When it is coin, it goes out of the country, as well as out of circulation: when it is paper, it does not go out of the country, certainly, but by coming upon the debtor in it for payment, it is equally taken out of circulation; and what the debtor gives for it (viz. a bill of exchange upon another country) goes out of the country. And unless that bill of exchange can be paid with value exported in merchandize, it will remain a debt upon the country, contracted in favour of some other nation.

This I hope will be sufficient to recall to mind what has been so fully explained in the 13th chapter upon banks; where the same question was stated with regard to the payments Scotland was obliged to make to England, towards the end of last war. The same principles operate in the case before us, and may be applied to every circumstance of it; with this difference only, that here the statesman's interest is more closely connected with that of his banks than was the case during the distress in Scotland: because if he does not support them by a systematical chain of conduct, he will drain the fund of circulation by his remittances; his credit will fail; his taxes will not be paid; and his people will be oppressed. But if he pursues his plan systematically, circulation will be kept full; his credit will be supported; his taxes will be paid; his people will be easy: because no check will be put either to industry or to consumption for want of money; a great part of the former solid property will be melted down into money; whatever part of that money is lent to the state will be, by that operation, consolidated into a new species of property, the public funds; and if after the borrowing scheme is over (that is, when peace is restored) circulation should be contracted, a part of the money will stagnate in the hands of individuals, and will, in their favour, be realized

in that part of the solid property which was melted down in order to produce it. That is, lands will be sold by the former proprietors, and will be acquired by those who have money not realized in stock; and for which circulation has no farther demand. This is the reason why, at the end of every war which has run the nation in debt, lands have constantly risen in their value, even when considerable quantities of them have been offered to sale.

If it be said that the stock-holders are those whom we commonly see buying the lands, and not those who have sums not realized:

I shall, in answer, observe, that the stock-holders can only buy lands by selling their stock, to those who have money not realized; so it is still the money not realized which is employed in buying every article of solid property: and even after that operation, the money still remains in circulation; because it is impossible to realize even paper money itself, except when the creditor in it becomes proprietor of the property upon which it is secured; and if the money be coin, it is plain that this cannot be realized any farther than it is by nature. When therefore we say, that a man realizes his money, we do not mean any thing farther, than that he gives his money to another in exchange for solid property. Thus when an estate is bought in a country where banks upon mortgage are established, a part of the price is commonly taken out of circulation altogether; because in consequence of the price paid, the bank is refunded what it had melted down of the land sold; consequently, that paper becomes consolidated a-new, as it were, with the lands which are relieved of the mortgage.

But when lands are sold in a country where there is no paper, the price remains in circulation as before; and if the quantity of coin in circulation should exceed the uses for it, a case which seldom happens in these days, it would be exported, and realized abroad.

When this complicated and systematical scheme of credit is not established, the infallible consequence is, that money disappears: consequently, interest rises. The taxes formerly imposed cannot be paid:

paid: consequently, it is in vain to seek to augment them; because in proportion as they are augmented, they become less productive. If money be borrowed upon remote funds, engaged for other debts previously contracted, and if public faith be at all events to be preserved, the consequence must then be, that the public will be eat up by usurers.

This was the case in England during the wars of Queen Anne.

So early as 1706, government, as has been said, began to borrow at 6 per cent. upon funds already engaged. What was the consequence? The exchequer having no money to pay the interest as it fell due, paid with tallies; these fell to great discount, and had they remained long in that discredited situation, lending would have stopt, or interest would have risen, as in France, so high as to lose the name of interest altogether. This was the case, in the example above cited, when seven millions ready money, borrowed by the late King of France, became a debt of thirty-two millions on the state.

Upon the occasion above mentioned, government availed themselves of the bank of England, as I say every private citizen should have a power to do, on every occasion, when his credit is good, though money should fail him. They engaged the bank to discount all tallies issued for interest of debts; that is, in other words, to turn those sticks into money: but as public credit was so low that money could not be found to discharge even the interest of the advance made by the bank, the government consented, that all advances of that kind should bear compound interest quarterly, at 6 per cent. What a monstrous profit to the bank! what a charge upon the state! Had banks of circulation upon mortgages been established at that time, money would have come in at a moderate simple interest to individuals, who would have availed themselves of them, for the payment of all public burdens. Instead of which, industry was made to suffer; the public money did not come in; taxation stopt; expences went on, and deficiencies were paid by the public at this monstrous charge.

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On the other hand, had it not been for the assistance the bank then gave the state, in circulating those exchequer tallies, bills, &c. it is very certain that credit would have failed as totally in England as it had done in France in 1708, when Desmaretz undertook the finances. This minister had no bank to avail himself of, and accordingly he run France in debt at the rate of two hundred millions of livres per annum, during seven campaigns; of which, I am persuaded, he did not receive one half, or near it, in effective value.

What I have said will, I hope, be sufficient to shew that the only way for any state to borrow, is previously to provide a fund for making good what is agreed upon with the lenders; and that all expedients to supply the want of it will in the end bring great expence upon the people, either by involving them in an excessive burden of debts, in case public engagements should be held sacred, as has constantly been the case in Great Britain; or by driving the state to a bankruptcy, as was the case in France upon the death of the late King. I call it a bankruptcy, because all that was owing was not paid. A man who pays no more than 19 s. 11  $\frac{1}{2}$  d. in the pound, is a bankrupt, as well as he who cannot pay one farthing.

I now come to the methods of paying off debts when already contracted.

Public debts may be divided into two classes, redeemable and irredeemable. Redeemable debts may be paid off in several ways, which we shall briefly enumerate before we compare their several advantages.

First then, such debts may be paid off at once, by refunding to the creditors the whole capital, with all arrears of interest.

2do, They may be paid off yearly, according to a certain rule to determine the preference, and order of payment: for this purpose, a determinate sum must be set apart as a sinking fund.

3tio, They may be paid off cumulatively and proportionally every year, by incorporating the sinking fund into the money appropriated

for discharging the interest, and by placing all that is paid beyond the interest, as payment in part of the capital.

4to, They may be paid in one sense, as shall be farther explained, by reducing the interest upon the capitals, without diminishing them.

5to, They may be paid off by converting them into annuities for lives.

6to, And lastly, they may be paid off under the value of the capitals, by the means of lotteries; where the state may gain what the creditors choose to lose from a desire of gaining.

To one or other of these methods may be reduced all the fair and honest expedients which a state may employ to get rid of their debts, without any breach of public faith, or without proceeding to the extremity of prescribing conditions of payment, which the creditors are forced to accept against their will.

As for the irredeemable debts, I apprehend, that, without consent of the creditors, no change upon the condition of loan can justly be made.

I shall next point out the advantages and disadvantages of the several methods of discharging debts, as they may affect the separate, or cumulative interest of a state.

Were large debts which have subsisted for a long time, to be paid off all at once, it would occasion a sudden and a violent revolution, which is always attended with inconveniences.

Were, for example, the proprietors of lands to consent to sell off a part of their estates for the payment of the public debts, the quantity of land brought to market, would sink the price of it very considerably; from which would arise a great detriment to landlords. I shall not here inquire from whence such a sum of money could come.

Could a treasure be brought from India (let me suppose) sufficient at once to discharge the debts of Great Britain, circulation would become so glutted with money, that interest would fall to nothing.

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This would be a temporary loss to all the former creditors, until they had time to lend to the other states of Europe, who would, in consequence of the revolution, sink the rate of interest upon their own debts. Something like this was the consequence of paying off all the debts of France with bank notes in 1720, upon which interest fell, as we have observed above, to 2 per cent.

When, in the second place, debts are paid off partially every year, according to a certain rule, it is expedient to have the capitals reduced into shares of a determinate value, as is the practice in France, that they may be drawn out as in a lottery. The lots drawn may then be paid, and no detriment will follow to any particular creditor, more than to another: because if by being paid there be either profit or loss to the creditor, it will affect the value of the whole stock in proportion. If, upon the establishment of such a plan, the stock be found to rise, it will be a proof that either the interest formerly paid was below the common rate, or that the credit of the state was looked upon as precarious: if it should sink, contrary conclusions may safely be drawn.

This is a common method of paying off debts in France, where funds are more commonly divided into shares than in Great Britain.

In 1759, the King opened a subscription for seventy-two millions of livres upon the general farms: this sum was divided into seventy-two thousand actions, bearing 5 per cent. and it was stipulated, that upon the renewal of the farms in 1762, twelve thousand actions should be drawn by lot, and paid off monthly; so that in six months the whole debt was to be discharged.

The third method of applying what is annually paid above the interest, in extinction of the capital, is the measure proposed by Cardinal Richlieu for discharging the debts of France; only the Cardinal went to work in a very arbitrary way, both in determining the interest, and in fixing a value upon the capital, equally detrimental to the creditors.

To apply this to an example. Had England at the time government first established a sinking fund, arising out of the savings which were made upon reducing the rate of interest, from time to time, continued to pay to the creditors the same annual sums as formerly; and thereby applied what was paid beyond the interest, to the payment of the capital, there could not have been any misapplication of the sinking fund; and the debts by this time would have been greatly diminished. Whereas by applying the sinking fund to the service of the year, for the ease of the people and advantage of the creditors, the consequences *may* prove exceedingly inconvenient.

The fourth method of reducing debts is that adopted by Great Britain, viz. by reducing the interest paid upon them. From this we discover the reason why taxes, even in time of war, are seldom augmented in this kingdom much above the proportion of the interest of the money borrowed.

We have, in the second chapter of the first book, boldly declared this to be against principles, and the authors of such a scheme were there stigmatized as men of no foresight: we now see how much people may be mistaken in their conclusions in political matters, when they are formed upon too narrow combinations.

Were capitals intended *ever* to be paid, no doubt the conclusion would be just; but if it be resolved, that capitals shall never be considered as the object of attention, and that the interest alone shall be looked upon as the real burden, then all payment of capitals is unnecessary, except so far as by paying a part of them, it may serve to reduce the interest upon the rest, by making money regorge in the market beyond the uses found for it.

This plan cannot be carried on while a nation is engaged in an expensive war, which absorbs all the money to be lent: but it becomes the object of a statesman's care, after peace is restored, and when trade begins to bring in a balance upon exportations.

We have seen how that balance tends every year to diminish the capitals due to strangers, and to keep money at home. Then is the

time to extend taxation beyond the uses found for money to pay the interest. Two or three millions extraordinary, raised at the close of a war, and thrown into the hands of the creditors of Great Britain, in extinction of their capitals, would soon engage them to cry for mercy. They would find no outlet but France for such sums; and it is precisely after a war, that France is busy in playing off the arbitrary operations on her debts, which reduces her credit too low for any one to trust her with money. Let peace continue for a few years, confidence will there advance apace, and then it will become more difficult to make money regorge in England.

To say that taxes are already beyond all bounds, is, in other words, to say the nation is no more in a state of defence: because should Britain be again involved in an unavoidable war, the consequence will be, either to render more taxes indispensable, or to oblige the nation to submit to any terms demanded by her enemies.

If it be therefore true, that taxes may still be augmented, the most proper time for augmenting them, is, at the very close of a war; because then every circumstance favours the scheme, as we shall now explain.

We have said above, and experience proves the truth of it, that at the end of a war circulation becomes too full for domestic uses; and that the superfluity of money is realized upon property. This is the consequence of a sudden stop in national expence. Were taxes at such a time augmented, part of this regorging money would find a vent by the augmentation upon domestic circulation which taxes would occasion; which augmentation would circulate into the exchequer, instead of becoming consolidated with property, as has been said, and coming into the hands of government, would be poured into those of the creditors, in payment of part of their capitals. There it would regorge a-new; because it is observed, in general, that those who have property in the funds are not apt to squander money when unexpectedly thrown into their hands; on the

the contrary, they are commonly found to live very much within their income\*.

But suppose it should not immediately regorge, it would then increase expence and consumption; consequently, would advance industry, and render every branch of excises more productive. In every combination we can form, public opulence would be augmented: money would regorge at last; and then the creditors would come with their application to government to suspend the reimbursement of capitals, and to accept, in lieu of that, a diminution upon the interest.

This is the golden opportunity for diminishing the public burden occasioned by debts; and this method of compassing so desirable an end, is far preferable to that of compelling creditors to submit to a diminution, by offering a sudden reimbursement, which was put in practice in Britain in the year 1749, as has been observed. Had the public waited with patience one year longer, and then thrown in a few millions more than they did into the hands of the creditors, the proposal of reducing the interest would have come from

\* Experience shews, that when the debts of a nation have come to a height, the public creditors become people of great consequence, upon account of the ease and affluence of their circumstances. They are not exposed to the many hidden expences incident to land proprietors. They are a class in the state but lately known; the capital of their wealth is hid; and opinions concerning their figure and rank are as yet unformed. Whereas the family of a land proprietor is known; his expence may surpass that of his predecessors without much observation; but if it should fall below it, he commonly sinks in the estimation of his neighbours, who seldom combine circumstances which can only be guessed at. An heir to a landed estate, is bred up from his infancy with the notion of living like his father: the son of a monied man has commonly very different sentiments; and even when any of this class takes a turn to expence, the lustre of it is all displayed round their own bodies; that is, in their own house, and in their own families: no country seats, hounds, horses, servants in every quarter, family interest to keep up, little oeconomy in spending. In a word, every one feels better than I can describe, that landed men commonly exceed, and monied men commonly live within their income.

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the other quarter; which in all bargains with creditors is of the greatest consequence to the debtor.

The sum of interest thus diminished, upon an obligation to suspend the reimbursements of capitals for a limited time, three questions will naturally occur: 1. Whether the taxes should be diminished in proportion: or 2. If they should be allowed to subsist with a view to apply the overplus of them to national purposes: or 3. Whether it may not be most adviseable to turn such a part of the debts into annuities for lives, as may absorb the saving upon the former interest paid. The first two questions I reserve for the following book, where they will be fully examined; the last is the fifth expedient proposed for acquitting the public debts. As the nature of it is abundantly evident, I shall only repeat what I formerly observed, that this method of establishing a sinking fund, has the advantage of being less exposed to misapplications than any other.

The last expedient of paying off capitals, below the original value, by the means of lotteries, should only take place after interest is brought so low as to cut off any near prospect of reducing it still farther.

I shall not pretend to guess at the lowest point to which the rate of interest may be brought, by the expedients of increasing money at will, by the means of banks upon mortgage. I have in the seventh chapter of the first part of this book, thrown out a hint of a land-bank, which opens a very wide field of speculation; but in this place, it would be unnecessary to enlarge upon that subject.

Let me suppose the rate of interest brought lower in Britain than any where else, it will nevertheless be subject to periodical risings, on many occasions.

Upon every such emergency, capitals will sink in the market below par.

It is then only that a state can have recourse to this last expedient of opening lotteries, and taking in subscriptions at the market price of the funds subscribed into them. And although the annuities to

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be paid upon the lottery fund, be regulated by the rate of interest at the time, and consequently considerably above the standard of the other debts; yet the same methods of reducing it afterwards will constantly produce their effects, and thereby diminish the capital by degrees.

In like manner, in time of war, when the public funds fall greatly in their price, government may open new subscriptions, and receive payment for them in their own paper at the market price, allowing a small premium in the rate of interest. If the creditors willingly subscribe upon these conditions, no violation of public faith can be alledged. By this operation, the capitals will be diminished, and the advanced rate of interest paid during the war, will return upon the peace to where it was: then the new subscriptions may be paid off, or subscribed for again at a lower rate than before.

Suppose it then resolved, that in time of war, the nation's creditors should be allowed, at certain times, to subscribe their capitals in books opened at the bank for that purpose, one quarter *per cent.* above the selling price. Would not this have the good effect of supporting the price of stocks on one hand, and of reducing the capital of the national debt upon the other? Example.

Let me suppose that in time of war, the 3 *per cents.* fell at 74  $\frac{1}{2}$ , might not government receive them at 75, and constitute the new subscription at 4 *per cent.*? What interest could any one have not to subscribe, who at such a time intends to sell his stock? His 3 *per cent.* sold to government at 75, and turned into a 4 *per cent.* would afterwards, when sold in the market, produce  $\frac{1}{4}$  *per cent.* more than if it had not been subscribed into the new fund.

Perhaps in Change alley, where calculation is carried to the utmost pitch of refinement, even this eventual advantage to government might sink the value of the new 4 *per cents.* Let this be allowed. The answer is, that when people compute with such nicety, and comprehend in their calculations every circumstance the most minute, it is, I think, the interest of a state (whose views should

extend

extend far beyond the period of human life) to grant a premium upon such subscriptions more than sufficient to indemnify the subscribers, according to the most rigid calculation concerning their present advantage.

The smallest profit to be discovered by the nicest pen will engage the monied man to subscribe; consequently, the capitals of debts may be diminished, at a loss to the public almost imperceptible. And for this imperceptible loss in the mean time, the greatest national advantage may be obtained at a distant period.

It is now full time to close this book, which has swelled far beyond its due proportion. The subject of credit and debts is so connected with many questions relating to taxes, and to the application of their amount, that the connection of the subject would have suffered little in blending them together. But as I find it is a great relief to the memory to interpose, now and then, a pause; and as taxes were intended to be treated of by themselves, according to the plan I at first proposed, I shall make no alteration in it.

At the end of the first and second books, I subjoined a chapter of recapitulation; in the third book, this was supplied by a very full table of contents; here, because of the intimate connection of the subject of this and the following book, I shall refer the reader to the end of the volume, for a full recapitulation of both.

END OF THE FOURTH BOOK.

THE PRINCIPLES OF POLITICAL OECONOMY

AND AN INQUIRY INTO THE PROPER APPLICATION OF TAXES, AND OF THE PROPER AMOUNT OF THEIR AMOUNT.

BY ADAM SMITH, ESQ. OF EDINBURGH.

**PRINCIPLES OF POLITICAL OECONOMY.**

IN FIVE BOOKS.

**BOOK V.**

**OF TAXES, AND OF THE PROPER APPLICATION OF THEIR AMOUNT.**

IN TWO PARTS.

**INTRODUCTION.**

THE subject of taxes is so closely connected with every branch of political oeconomy, that I have not been able to avoid anticipating a subject, which, according to my plan, is left for the conclusion of this work.

What has been hitherto introduced concerning taxation, in treating of industry, trade, money, credit, and debts, relates principally to the effects of taxes upon circulation, prices, and several other things relatively to those subjects.

What therefore remains, not as yet touched upon, chiefly concerns the principles which determine the nature of every tax, relatively to the interest it is intended to affect.

To investigate the different consequences of taxes when imposed upon possessions, and when upon consumption, are questions which relate directly to the principles of taxation. But in this book I shall also have occasion to trace out, farther than as yet I have done, certain combinations concerning the effects which taxes have in multiplying the fund of circulation: and as the augmentation of taxes tends greatly to increase money, I am thence led to examine, how far the advantage gained by the suppression of taxes may not be more than compensated to a nation, by the inconveniences proceeding from so great a diminution of circulation.

Taxes have all along been supposed to enhance the price of living; we shall therefore have an opportunity of investigating the proper extent to be allowed to that general proposition.

AN INQUIRY INTO THE PRINCIPLES OF POLITICAL ECONOMY

CHAP. I.

Of the different Kinds of Taxes.

TAXES have been established in all ages of the world, under different names of tribute, tithe, tally, impost, duty, gabel, custom, subsidy, excise; and many others needless to recapitulate, and foreign to my subject to examine.

Though in every species of this voluminous category, there are certain characteristic differences; yet one principle prevails in all, upon which the definition may be founded.

I understand therefore by tax, in its most general acceptation, a certain contribution of fruits, service, or money, imposed upon the individuals of a state, by the act or consent of the legislature, in order to defray the expences of government.

This definition may, I think, include, in general, all kinds of burdens which can possibly be imposed. By fruits are understood either those of the earth, of animals, or of man himself. By service, whatever man can either by labour or ingenuity produce, while he himself remains free. And under money is comprehended the equivalent given for what may be exacted in the other two ways.

I have no occasion to consider the nature of such taxes as are not in use in our days. Tributes of slaves from conquered nations are as little known in our times, as contributions of subsistence from the subjects of the state.

I divide, therefore, modern taxes into three classes. 1. Those upon alienation, which I call proportional: 2. Those upon possessions, which I call cumulative or arbitrary: and 3. Those exacted in service, which I call personal. These terms must now be fully explained, that I may use them hereafter without being misunderstood.

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A proportional tax presents a simple notion.

It is paid by the buyer, who intends to consume, at the time of the consumption, while the balance of wealth is turning against him; and is consolidated with the price of the commodity.

Examples of this tax are all excises, customs, stamp-duties, postage, coinage, and the like.

By this definition, two requisites are necessary for fixing the tax upon any one: first, he must be a buyer; secondly, he must be a consumer. Let this be retained.

A cumulative or arbitrary tax, presents various ideas at first sight, and cannot well be defined until the nature of it has been illustrated by examples.

It may be known, 1<sup>mo</sup>, By the intention of it; which is to affect the possessor in such a manner as to make it difficult for him to augment his income, in proportion to the tax he pays.

2<sup>do</sup>, By the object, when instead of being laid upon any determinate piece of labour or consumption, it is made to affect past and not present gains.

3<sup>tio</sup>, By the circumstances under which it is levied, which imply no transition of property from hand to hand, nor any change in the balance of wealth between individuals.

Examples of cumulative taxes are land-taxes, poll-taxes, window-taxes, duties upon coaches and servants, that upon *industrie*, in France, and many others.

A personal tax is known by its affecting the person, not the purse of those who are laid under it. Examples of it are the *corvée*, in France; the six days labour on the high roads, and the militia service before pay was allowed, in England\*.

Having thus explained what I mean by proportional, cumulative, and personal taxes, it is proper to observe, that however different

\* The *corvée* in France is the personal service of all the labouring classes, for carrying on public works. Were they paid for in money, it is computed they would amount to no more than 1200000 livres a year. This tax was omitted in the account of the French revenue.

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they may prove in their effects and consequences, they all agree in this, that they ought to impair the fruits and not the fund; the expences of the person taxed, not the savings; the services, not the persons of those who do them.

This holds true in every denomination of taxes. In former days, when annual tributes of slaves were paid, and even at present among the Turks, where it is customary to recruit the seraglios of great men by such contributions, I consider the young women who are sent, as part of the fruits of the people who send them. This is a fundamental principle in taxation; and therefore public contributions, which necessarily imply a diminution of any capital, cannot properly be ranged under the head of taxes. Thus when the Dutch contributed, not many years ago, the hundredth part of their property towards the service of the state, I cannot properly consider that in the light of a tax: it was indeed a most public spirited contribution, and did more honour to that people, from the fidelity with which it was made, than any thing of the kind ever boasted of by a modern society.

C H A P. II.

*Of proportional Taxes, and their proper Object.*

W HATEVER exists for the use of man, so far as it is considered as a fund for taxation, may be classed under the following heads: 1. The produce or fruits of the earth; 2. the produce of the industry of man; or 3. his personal service. Farther,

Fruits cannot be obtained without the necessary labour of man and cattle. As this labour presupposes all the necessary consumption of maintenance, &c. the produce of the land must be understood, with regard to taxes, to be that part of the fruits only which remains

remains after deducting an equivalent for all necessary expences in making the earth produce them. The net produce alone of the earth is to be considered as a fund liable to taxation; and every contribution which bears not a just proportion to that quantity, is wrong imposed, as shall be shewn as we go along.

Again, as to the produce of work: this cannot be brought into existence without some expence, viz. the maintenance of the workman; that is to say, his food, raiment, fire, lodging, and the expence he is at for tools, and every other necessary. This we shall, for the future, call his physical-necessary. The value of the work, over and above an equivalent for these articles, is the only fund to be taxed with regard to the workman.

As to work itself, we have seen above (Book II. chap. 26.) in the general distribution of things which may be purchased with money, how it was ranged under the class of things incorporeal. For that reason, the work performed cannot come under taxation; and therefore the person working, who by work acquires a balance in his favour, is brought to be affected by proportional taxes upon the articles of his consumption; and when it is found that these articles suffer no alienation before they are consumed by him, and consequently escape taxation, then he may either be laid under the cumulative taxes, which will affect his wealth, or under the personal, which are paid in work itself, and in that respect may be considered as the fruit of the man.

Nothing would be so easy as a general rule for imposing proportional taxes, did the labourers of the ground actually consume a part of the fruits of the earth, and the other industrious classes a part of their own work, in lieu of this physical-necessary. In that case, nothing but what remained of fruits and work, not already consumed by the immediate producers, would come to market for the use of those who do not work; but who have an equivalent to give for it; out of the produce of past industry. Were that, I say, the case, then at the time of alienation (or, as we expressed it in the 26th chapter of the second book, at the time when the balance of wealth

wealth is going to turn in favour of the industrious, against the idle consumer) a tax proportional to the value of the alienation might, with the greatest propriety, be imposed, as we shall presently discover.

This, I hope, will recall to mind the principles deduced in the chapter above cited, where we made it appear, how the industrious classes, who furnish consumable commodities for the price of their overplus, must constantly have the balance of wealth turning in their favour: and when once they arrive at a certain degree of ease, proportional to their ambition, then they give over working, and become incorporated into the class of those who have enriched them.

Thus matters go on in a perpetual circle. The industrious become easy, and the public lays the consumers under a perpetual contribution in proportion to their expence.

The hypothesis we have made, is not entirely agreeable to matter of fact; because the operation of taxes is far more complex than we have described it to be; but by simplifying it, as I have done, it serves to give an idea of the result, or general consequence of proportional taxes, which, when properly imposed, do affect the idle only, but never the industrious.

Were, I say, the operation of taxation as simple as we have represented it, nothing would be more easy than to deduce its principles. Nothing would come to be refunded to the labourer or workman, at the sale of his surplus. This surplus would be equal to the whole produce of the earth, and whole industry of the country, deducting the physical-necessary of all the industrious; and this physical-necessary need not then be deducted; because it is supposed to be consumed in the very production of the surplus, as the aqueous part of sea water is consumed before you can have the salt.

This illustrates what has been said, viz. that the fruits of the earth are only to be reckoned to exist, after deducting the necessary expence of providing them. For though in fact a farmer possesses

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all his crop after harvest, yet part of it, *as to him*, is virtually consumed out of his own stock, or that of others who have furnished him food and necessaries all the time it was coming forward: consequently, that part neither belongs to the ground, or to the farmer. If it be urged still, that the whole must be supposed to exist with regard to the state, I agree to the proposition; but according to our argument, it must not be supposed to exist in favour of the state, to the prejudice of the farmer; for this reason, that the total of the farmer's expence must be understood to have been taken from the surplus of other people's industry, and therefore if the crop be supposed to exist with respect to the state, because it is in the farmer's yard, the surplus of industry which he has consumed must not be supposed to exist in favour of the state, at the same time. But as the farmer is supposed to have paid the tax upon what he has borrowed and consumed, he must *draw it back* from those who, in their turn, are to consume his crop: and if he draws it back, he cannot be said to pay it, although the state profits of it as much as if he did.

Does it not appear from this analysis, that a state can only take gratuitously and proportionally out of the surplus of fruits and industry? Now what is here called surplus, relatively to the industrious, is the necessary fund of consumption for all the rich and idle; consequently, were the state to diminish any part of the *quantity*, the idle and the rich would be deprived of a sufficiency: but in regard that those who do not work give money, which is the price of all things, in exchange for what they consume, there the state steps in, and says, we ask nothing of those who have nothing but their physical-necessary, this they have been allowed to take; we take none of their surplus from them, this we allow them to sell to you: but as for you, who do not work, and have in your coffers wherewithal to purchase the labours of your industrious brethren, this labour you shall not profit of, unless you give the state a certain value out of your wealth, in proportion to the work and fruit you are going to consume, although you have contributed nothing towards the production of it.

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Hence it appears evident, that without *money* there could be no tax imposed: for were the state to take their proportion of the real surplus, and dispose of it out of the country, a part of the inhabitants would be starved. But by an equivalent's being found, quite different from the surplus itself, of no use for subsistence, the whole produce of industry is left for the use of those who have it; the state takes what part of the equivalent they please from the idle; and no body starves, but such as have not money, nor industry, nor the talent of exciting the compassion of the charitable.

By this simple representation of a most complicated operation, I have been able to deduce the capital principle of proportional taxation. If the reasoning be found solid, it may be retained; because we shall have occasion to recur to it, at almost every new combination.

CHAPTER III.

*How proportional Taxes are drawn back by the industrious, and how that drawing back is the only reason why Taxes raise the Prices of Commodities.*

WHAT perplexes our notions in the theory of proportional taxation, is, that the industrious man, instead of bringing his surplus to market, is obliged to bring the whole of his work.

Let me, therefore, suppose him to be creditor upon one part of his work, and proprietor of the other. This will divide it, as it were, into two parts, which I shall call (A) and (B).

(A) represents that part upon which he is creditor, and answers to all the expence he has already been at; that is, to his physical-necessary, as we have called it. This we have said ought to be considered.

considered as virtually consumed by the workman, and if a tax be raised upon it, it must not affect *him*; that is, he must draw it totally back from the person to whom he disposes of it. (B) on the other hand, represents that part of which he is proprietor, to wit, his profit; and therefore may either be taxed or not, as the state shall think fit.

If it be taxed in the hands of the industrious man, without suffering an alienation, the tax will be of a cumulative nature. If it be left free to him, and taxed to the person who buys it, it will be of the proportional kind, as we shall see afterwards. Again,

In the first case, it will check the growing wealth of the industrious man; in the second, it will accelerate the dissipation of the buyer.

Taxes, therefore, of the first kind, are proper to be imposed in countries where the state is jealous of growing wealth, as we have observed in the 25th chapter of the second book. If the tax, again, be laid upon the buyer, then the balance turns in favour of the industrious man, in proportion to the full amount of (B), and produces no other effect than to accelerate the dissipation of the buyer.

Let us now take in a new combination.

If, when the work is brought to market and sold, the price shall not exceed the value of the industrious man's (A), then he is of the class of those we call *physical-necessarians*, who accumulate no profits. If the price of it be less than (A), he becomes a load upon the state, a bankrupt to those who have fed him upon credit, and will die for want, unless he be supported by charity.

So far with regard to the seller: next as to the buyer.

The buyer appears at market with his money. When he comes there he must give, first, an equivalent for the prime cost of the merchandize; that is, he must refund every expence necessarily incurred in producing it; or he must refund the value of (A). Next, the industrious man has a claim upon him for his profits, viz. his (B). Then comes the state, who claims a part of his wealth, in regard that he is going to purchase what his own industry has not produced.

duced. This is the tax; I shall call it (C). This tax will be found of the proportional kind. It will not affect the growing wealth of the feller, but it will accelerate the dissipation of the buyer; and will pull down the scale against him, in favour of the industrious. This is a proper tax, in countries where the state observes the maxim of sharing the wealth of those who dissipate.

Let us now take in another combination. Let us suppose this buyer to be an industrious person, and the thing bought to be a necessary material for the manufacture in which he is employed. Is it not plain, that when the second industrious man comes to market to sell his work, which I also suppose composed of his (A) and his (B), that his (A) is a still more compounded body? It first includes his own physical-necessary, as above: 2. the (A) and (B) of the man from whom he bought the materials: and 3. the (C) which he paid to the state for the liberty of acquiring what he himself had not produced.

Whoever therefore buys from the second industrious man, must, in like manner, refund to him his full (A); he must also pay him his (B); and then he will find the state claiming their (C); as in the former operation.

This being done, let us examine the interests of all parties. The first industrious man has no reason to complain of the tax; because he was paid his necessary expence (A), and also his (B) for his profit; and the state realized the tax at the expence of the second industrious man, who paid it. Now we said that the dissipation of his wealth was accelerated in proportion to the value of what he paid for (C); but as he is none of the idle, and as the thing bought was a material necessary for his manufacture, the second buyer finds himself obliged to refund the whole amount of the first (A), (B), (C); because the sum of them make a part of the second man's (A). Now it is the refunding of this (C) to the industrious man which is the only circumstance, from which proceeds the rise in the price of commodities, in consequence of proportional taxes. Moreover, the second buyer must pay the second industrious man's (B), in

(B), in favour of the balance which is going to turn against him; and last of all, he must pay the second (C), which is the share the state requires of him, in order to accelerate his dissipation.

Now let us observe, that if the commodity bought by the second industrious man, be not necessary for the existence of his manufacture, it cannot enter into his (A), and therefore must be diminished upon his (B); and if his (B) cannot pay it, then he will owe it to some body, and for the future must either abstain from such expences, or leave off working, in favour of those who can live without them.

Let me illustrate all this by an example.

A tanner sells his leather to a shoemaker; the shoemaker in paying the tanner for his leather, pays the tanner's subsistence and profit, and the tax upon leather.

The man who buys the shoes for his own consumption, refunds all this to the shoemaker, together with his subsistence, profit, and the tax upon shoes; consequently, the price of shoes are raised, only by refunding the taxes paid by the industrious.

But if the shoemaker's subsistence shall happen to include either tavern expences, or his consumption on idle days, he will not draw these back; because other shoemakers who do not frequent the tavern, and who are not idle, will undersell him: he must therefore take his extraordinary expence out of his profits; and if his profit be not sufficient, he must run in debt to the tavern-keeper.

The extravagance and idleness, therefore, of particular workmen does not check industry, nor raise prices; for these will always be in proportion to demand, and there is no reason why demand should either rise or fall, because a particular workman is extravagant, or consumes a commodity not necessary for his manufacture or subsistence.

From this example there arises a new combination: that in proportion as the industrious do not consume of the produce of their own industry, but come to market with the whole, and then purchase the work of others, they are considered, as to taxes, in the light of idle consumers, who do not work, but purchase with money.

money the fruits of the industry of others. By this operation, the taxable fund is augmented beyond the extent of the general surplus called (B). The reason is plain. Whatever is brought to market is supposed to be surplus, as it may there be bought by the idle, as well as the industrious. The only difference is, that the first do not draw back the tax, and that the second do, as we have already shewn.

From this reasoning we may conclude, that the way to carry proportional taxes to their utmost extent, is to draw all commodities to market, to engage every one to carry thither the whole produce of his industry, and buy whatever he stands in need of.

But which way will you engage either a farmer to sell his crop, and buy subsistence from another; or a shoemaker to sell his own, and buy his neighbour's shoes? The thing is impracticable; and were it attempted, it would prove an arbitrary proceeding, and a cumulative tax laid upon their industry: a tax which, by the nature of it, they cannot draw back, as we shall presently see, and from this circumstance alone proceeds the whole oppression of it.

Let me next analyze the price paid by the last buyer, whom we have called the rich and idle consumer of the manufacture, who can draw nothing back from any body.

Is it not composed of the whole value of the subsistence, of the work, of the profits, of the tax? The whole reimbursement of all former payments and repayments lands upon him. Those who have been at all the expence, appear in the light of his servants and agents, who have only advanced money upon his account.

How absurd, therefore, is it either to say, that all taxes fall ultimately upon land; or as others, for no better reason, pretend, that they fall upon trade. I say, that this category of taxes which I have now been describing, and which I shall still more fully explain in a subsequent chapter, never can either fall upon, or affect any person but the idle; that is to say, the not industrious consumer. If there be found a possibility for any consumer to draw back the tax he has paid, I say he is of the class of the industrious, in one way or other: and I farther

I farther say, that such a tax raises the price of the commodity. But by drawing back, I understand, that the repayment is an inseparable consequence of his having paid the tax. I do not, for example, say that a place-man draws back his taxes by the emoluments of his office: but I say a brewer draws back his excise by the sale of his beer.

Let this principle also be retained, that with respect to the consumption of superfluities by the manufacturing classes, they must be considered as being of the class of the rich and idle, as much as the first Duke in England. When therefore the extravagance of the manufacturing classes becomes general, and when the rate of the market can afford them great wages, relatively to the price of necessaries, such profits consolidate into the price of the manufacture, according to the principles laid down in the 10th chapter of the second book. The statesman then must endeavour to create a competition, by introducing fresh and untainted hands into such branches. This will be a sure check upon the industrious, and, if rightly applied, will prevent all frauds, all pretences for the rise of the price of labour on account of taxes: and, if carried to the full extent, will prevent any industrious person from enjoying either a day's idleness, or the smallest superfluity; except in consequence of his peculiar dexterity, or extrinsic advantages.

CHAP. IV.

*Of cumulative Taxes.*

I SHALL not here repeat what I have already said concerning the characteristics of this kind of imposition; but after citing some examples, I shall examine it more closely, as to its nature and consequences.

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The most familiar examples of it to an Englishman, are tithes, land-tax, window-tax, and poors-rates.

The most familiar examples to a Frenchman, are the *Taille*, *Fourage*, and *Ufencil*, (which go commonly together) also the *Capitation*, the *Dixieme*, the *Vingtieme*, and the *Industrie* \*.

The nature of all these taxes, is, to affect the possessions, income and profits of every individual, without putting it in their power to draw them back in any way whatever; consequently, such taxes tend very little towards enhancing the price of commodities.

Those who come under such taxes, do not always consider that their past industry, gains, or advantages of fortune, are here intended to suffer a diminution, in favour of the state; for which outgoing they have, perhaps, made no provision.

When people of the lower classes, instead of being subjected to proportional taxes, are laid under such impositions, there results a great inconvenience. They are allowed to receive the whole profit of their industry, which in the former chapter we called their (B), the state however reserving to itself a claim for a part of it; this, instead of being paid gradually, as in a proportional tax, is collected at the end of the year, when they have made no provision for it, and consequently, they are put to distress.

Besides, how hard is it to deprive them of the power of drawing back what they pay? And how ill judged to trust money with those

\* The *Taille* is properly a land-tax, to which men called *noble* are not subjected. The reason of which is, that it was originally imposed in lieu of such personal military services as were peculiar to the lower classes.

The *Fourage* and *Ufencil* are laid upon all those who pay the *taille*, and are in proportion to it. The first is appropriated for the subsistence of the cavalry, when they are in quarters; the last for kettles and small utensils for the infantry.

The *Capitation* is the poll-tax. The *Dixiemes* and *Vingtiemes* have been already explained, and tithes are well known to every one.

The *Industrie* is that imposition, arbitrarily laid on by the Intendants of provinces, upon all classes of industrious people, in proportion to their supposed profits in every branch of business.

*impossible*

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who are supposed only to gain an easy physical-necessary? An equivalent for procuring the articles of ease and luxury, should not be left in the hands of those who are not permitted to enjoy them.

From this we may conclude, 1. That the more such taxes are proportional to the subject taxed, 2. the more evident that proportion appears; and 3. the more frequently and regularly they are levied, the more they will resemble proportional taxes, and the less burden will be found in paying them. Let me illustrate this by some examples.

The stoppage upon a soldier's pay, either for the invalids, or Chelsea, is a cumulative tax; but the method of levying it gives it all the advantages of one of the proportional kind. *1st*, It bears an exact and determinate proportion to the value of his pay. *2dly*, This proportion he knows perfectly. And *3tio*, Instead of receiving the whole into his own possession; and paying the hospital at the end of the year, it is regularly and gradually retained from him at every payment.

Tithes are a cumulative tax; but they are accompanied with all the three requisites to make them light; although in other respects they are excessively burdensome. *1st*, They bear an exact proportion to the crop. *2dly*, This proportion is perfectly known. *3dly*, Nature, and not the labourer, makes the provision. But they fall upon an improper object: they affect the whole produce of the land, and not the surplus; which last is the only fund that ought to be taxed.

The land-tax in Scotland bears, *1st*, a very determinate proportion to the valuation of the land; and has, *2dly*, the advantage of being well known to every contributor; so that provision may easily be made for it. But the third requisite is wanting: the proprietor having the public money in his hands, often applies it to private purposes; and when the demand is made upon him, he is put to distress.

The *taille*, in many provinces of France, bears, first, a very exact proportion to the value of the land\*.

But in the second place, the proportion is entirely unknown to the man who pays it; being nowhere to be seen but in the offices of the intendant and his deputies.

And in the last place, the whole payment comes at once.

What hides, and consequently destroys this proportion, is, that after the distribution is laid on, as in Scotland, at so many shillings in the pound of valuation, the full sum intended to be raised does not come in; either because the intendant has given exemptions to certain parishes, on account of the accidents of sterility, hail, mortality among the cattle, and the like; or because the property of a part of the parish has fallen into the hands of people exempted from the *taille*; or that others, who were really bound to pay part of it, are become insolvent. The intendant must then make a second, and perhaps a third general distribution of the deficiency upon all the contributors, in the most exact proportion to the first, but yet by their nature impossible to be foreseen. It is for these reasons chiefly that the *taille* in that kingdom is so grievous.

These second distributions of the tax, *1<sup>st</sup>*, destroy the proportion between the tax and the revenue taxed. *2<sup>dly</sup>*, They make it impossible to judge of the amount of them. And lastly, the demand comes at once, when, perhaps, the money has been otherwise applied.

The French tax upon industry is more grievous still; because none of the three requisites above-mentioned are allowed to operate.

This tax is supposed to be proportional to the profits made upon trade, and other branches of industry, not having the land for

\* This sort of *taille* is called *tariffée*; because it is imposed according to a valuation of the land. It is a late improvement; but still is exposed to numberless inconveniences, which are mentioned in the text.

their object. All merchants and tradesmen, in cities, and in the country, pay the tax called *Industrie*; and the reason given for establishing this tax, as I have said in another place, is in order to make every individual in the state contribute to the expence of it, in proportion to the advantages he reaps. Nothing would be more just, could it be put in execution, without doing more hurt to the state, than the revenue drawn from it can do good.

I shall now shew how, in this tax, all the three requisites we have mentioned are wanting.

*1<sup>mo</sup>*, By its nature, it can bear no exact proportion to the profits of the industrious man; since nobody but the person taxed can so much as guess at their extent.

*2<sup>do</sup>*, It cannot possibly be provided for, as no check can be put upon the imposer, unless so far as general rules are laid down for each class of the industrious; and from these again other inconveniences flow, as shall be observed.

*3<sup>tio</sup>*, It comes at once upon poor people, who have been frequently forced to beg for want of employment before the tax-gatherer could make his demand; and those who remain, frequently become beggars before they can comply with it.

I say, that from the general rules laid down for regulating this tax, as to every class, a workman who has a large family to maintain, is no less taxed than one who has no charge but himself: and it will be allowed, I believe, that the profits of one industrious person of the lower classes, is in no country sufficient to pay any considerable tax, and maintain a large family, much less a sickly one. I therefore imagine, that cumulative taxes never should be raised upon such classes of inhabitants as have no income but their personal industry, which is so frequently precarious.

Merchants also ought not to be subjected to any tax upon their industry. They ought to be allowed to accumulate riches as fast as they can: because they employ them for the advancement of industry; and every deduction from their profits is a diminution upon that so useful fund.

When cumulative taxes are laid upon any of the industrious classes, they tend to check growing wealth; and are most familiarly imposed in monarchical states, where riches are apt to excite jealousy, as has been observed.

But as to the class of land proprietors, that is to say, the more wealthy inhabitants, who live upon a revenue already made, the impropriety of cumulative taxes is much less. They are however burdensome, and disagreeable in all cases, and ought to be dispensed with, when the necessary supplies can be made out by proportional taxes, without raising the prices of labour too high for the prosperity of foreign trade.

From the examples I have given of this branch of taxation, I hope the nature of it may be fully understood, and that for the future no inconvenience will arise from my employing the term of *cumulative tax*. I shall now subjoin its definition.

A *cumulative tax*, is the accumulation of that return which every individual, who enjoys any superfluity, owes daily to the state, for the advantages he receives by living in the society. As this definition would not have been understood at setting out, I thought it proper, first, to explain the nature of the thing to be defined.

## CHAP. V.

### *Of the Inconveniences which proceed from proportional Taxes and of the Methods of removing them.*

A PROPORTIONAL tax, as I have said, is that which is levied upon the idle consumer, at the time he buys the commodity; and while, by consuming it, the balance of wealth is turning against him, in favour of the seller. This tax is consolidated

olidated as it were with the price of the commodity, and must of necessity raise it.

I say, it is levied at the time of buying, and affects the buyer, in consequence of his consumption; because we have seen, that when the commodity is not consumed by the purchaser, then upon a subsequent alienation he is refunded all he paid. I consider him therefore, in that case, not as *paying*, but as *advancing* it for another; and while any part of the commodity remains unconsumed, there still remains the equivalent of a proportional part of the tax in the hands of him who advanced it.

I shall now proceed, as in the former chapter, by giving some examples of such impositions; and in examining them, endeavour to shew their nature and consequences.

The most familiar to an Englishman are, *excises, customs, malt-tax, stamp-duties*, and the like.

To a Frenchman the *gabelle, the traittes, the aides, tobacco, &c.*\*

In all kinds of this imposition we find the tax regularly reimbursed

\* The *gabelle* is a branch of the general farms; and consists of an excise upon salt. The manufacture of the commodity is in the hands of the farmers; and they, for a liberty to sell salt at a certain price, far above the expence of the manufacture, pay to the King an annual revenue of 28 millions of livres.

This I call a proportional tax, relatively to consumers; although in reality no tax-gatherers are employed for the collection of it, contrary to what is the case of all excises; which are never farmed by government to the manufacturers of the commodity taxed.

The *traittes*, or, as they are otherwise called, the five great farms, were established by Colbert, when he took away a multitude of customs paid upon the transportation of goods from one province to another. They answer very much to our customs, or to the duties of tannage and poundage, and are let to the farmers general for the sum of 12 millions.

The *tobacco* is of the same nature with the salt tax. The farmers general have the exclusive privilege of selling it at a price fixed by the King.

For the farm of the tobacco is paid 15 millions.

The

buried from hand to hand; it adheres so closely to the commodity, that it becomes as essentially a part of the value, as carriage, packing, and the like incident charges, enter into the prices of goods. It never can affect the industrious person who does not consume; and never can be avoided by him who does. Such taxes therefore necessarily raise the price of the commodity taxed.

Having already pointed out the principal advantages of proportional taxes, which is to throw the whole of the burden upon the rich, whom we have called the idle consumers, the better to distinguish them from the opulent class of the industrious; I must now enumerate the principal inconveniences complained of, from this mode of taxation, and trace out the principles from which they may be ascertained and removed.

The principal inconveniences alledged against proportional taxes may be reduced to three:

1<sup>mo</sup>, That they have the effect of raising the price of labour, and the produce of industry, and thereby prove hurtful to the prosperity of foreign trade.

2<sup>do</sup>, That they discourage consumption, by carrying the prices of many things too high for people of a middling rank in life.

3<sup>tio</sup>, That they are both expensive in the collection, and oppressive, from the many restrictions put upon liberty, in order to prevent frauds.

In analyzing every one of these inconveniences, it will be proper to inquire, how far the conclusions against those taxes are drawn from matter of fact; how far from plausible appearances only;

The *aides* resemble our excises more than those we have mentioned. They consist in duties upon liquors, either brought into towns, or sold by retail in public houses; and upon all articles of food sold in corporations, except grain of every kind, which is free. They comprehend also a multitude of other duties superfluous to enumerate. They are collected by tax-gatherers at the gates of every town, who also have access to all public houses, where retail is laid under additional rates. The *aides* are farmed at 38 600 000 livres. These were the rates in the farms let in 1755. They have been since augmented in 1762, as has been observed.

and

and so far as they are real, not imaginary, to discover the methods of removing them.

As the first inconvenience lies in raising the price of all kinds of labour, and consequently of manufactures, I must distinguish between the consequence of raising prices at home, and of raising them upon articles of exportation; and I must consider the one and the other relatively to the collective body of a state, and not to some few individuals in it.

High prices at home are no discouragement to the industrious, most certainly, however disagreeable they may prove to consumers; and while they stand high, it is a proof that the demand of the consumers does not diminish.

High prices upon goods to be exported, are to be judged of by the proportion they bear to those in other countries.

Now the price of a manufacturer's wages is not regulated by the price of his subsistence; but by the price at which his manufacture sells in the market. Could a weaver, for example, live upon the air, he would still sell his day's work according to the value of the manufacture produced by it, when brought to market. As long as he can prevent the effects of the competition of his neighbours, he will carry the price of his work as high as is consistent with the profits of the merchant, who buys it from him in order to bring it to market; and this he will continue to do, until the rate of the market is brought down.

It is therefore the rate of the market for labour and manufactures, and not the price of subsistence, which determines the standard of wages. Were proportional taxes to raise the price of subsistence, and by that circumstance to discourage manufactures, we should see the generality of workmen living with sobriety, depriving themselves of superfluity, confining themselves to the plain but sufficient physical-necessary, working with all the assiduity that a man can support, and still not able to supply the market at the ordinary rates.

When

When in any country the work of manufacturers, who live luxuriously, and who can afford to be idle some days of the week, and still live upon their wages, finds a ready market, this circumstance alone proves beyond all dispute, that subsistence in that country is not too dear, at least in proportion to the market prices at home; and if taxes on consumption have, in fact, raised the price of necessaries, beyond the former standard, this rise cannot, in fact, discourage industry: it may discourage idleness; and idleness will not be totally rooted out, until people be forced, in one way or other, to give up both superfluity and days of recreation.

People are very apt to draw conclusions from what they think ought to be, according to the particular combinations they form to themselves; and for this reason it is generally thought, because taxes are higher in England than in some other countries, that foreign trade should therefore be hurt by them. But the sloth and idleness of man, and the want of ambition in the lower classes to improve their circumstances, tends more, I suspect, to circumscribe the productions of industry, and thus to raise their price, than any tax upon subsistence which has been hitherto imposed in that kingdom.

The whole of this doctrine is proved by experience, and is confirmed by our natural feelings. Many have been amazed to see how well the manufacturing classes live in years of scarcity, which frequently have the effect of doubling the price of the most necessary articles of subsistence. Are they not found, in bad years, more assiduous in their labour? Do they then frequent ale-houses, as in the years of plenty? Are they found idle one half of the week? Why should a tax laid on by the hand of nature prove such a spur to industry; and another, similar to it in its effect, laid on by the hand of man, produce such hurtful consequences? Were a tract of bad years, I dare not say an increase of taxes, to continue long enough to bring manufacturers to a habit of sobriety and application, a return of plenty, and low prices, would

throw

throw into their coffers; what many of them dissipate in riot and prodigality.

Even this conclusion will be too general, if every combination be taken in. Manufacturers there are, who work hard, and live soberly six days of the week, and who at the end find little superfluity, notwithstanding the high price of labour. Alas! they have many mouths to feed, and only two hands to supply the necessaries. This is the fatal competition so much insisted on in the first book, and by which a door is opened to great distress. Either the unmarried gain what the married should, and become extravagant, or the married gain no more than the unmarried can do, and become miserable.

The average between the two ought to determine the rate of wages in every modern society.

The remedies for this unequal competition, flowing from the happy liberty we enjoy, have been considered in another place.

The inconvenience here under examination will not be removed by an abolition of taxes; nor will it increase by the augmentation of them, as long as manufacturers, upon an average, enjoy superfluity and idle days.

Under these circumstances I conclude, that if foreign trade suffers by the high prices of commodities in our markets, the vice does not proceed from our taxes, but from our domestic luxury, which swells demand at home. Were we less luxurious, and more frugal in our management in general, all classes of the industrious, from the retailer down to the lowest manufacturer, would be satisfied with more moderate profits. Let not, therefore, a statesman regulate his conduct upon suppositions, nor conclude any thing from theory, nor from arguments *à priori*, drawn from the supposed effects of taxes; but let him have recourse to information and experience concerning the real state of the matter.

Let him inquire what are the prices abroad; what are the prices at home; how those who work in exportable commodities live;

what superfluities they enjoy; and what days of idleness they indulge in.

If he finds that goods are not exported, because of high prices, while manufacturers are enjoying superfluity, and indulging themselves in idleness, let him multiply hands, and he will reduce them all to their physical-necessary; and by thus augmenting the supply, he will also reduce the prices in his markets at home.

If he wants to reduce prices still lower, in favour of exportation, but finds that he has occasion for the amount of certain taxes, which enhance the value of this physical-necessary, to which he has reduced his industrious classes, then let him grant a bounty upon the quantity exported, more than equivalent to all the taxes paid by those who provide it; and let the people at home continue to pay dearer than strangers, in favour of the state. If you only want to promote exportation by lowering prices, there will be no occasion to lower them universally, any more than there is occasion to put a large plaister over the whole body, to cure a small pimple on a particular part of it.

I have said, that while the rate of the market remains the same, so will the prices of every part of labour and industry, which enters into the composition of the thing brought to market. This is consistent with reason, and experience proves the truth of it; because we do not see wages fluctuate with the price of living. If they do not fluctuate in that proportion, how can we conclude that a rise in the price of subsistence, occasioned by taxes, should raise wages more than when the price is raised by a natural scarcity. It may be answered, that the imposition of a tax gives a general alarm; the effect it must have upon prices is immediately felt; and manufacturers then insist upon an augmentation: whereas, when nature either produces the same, or even a greater effect, people submit to what they think comes from the hand of God, and content themselves with the hopes of better times. I shall allow this argument all its force. But I must observe, that when manufacturers can thus capitulate with their employers, and insist upon

upon an augmentation of their wages, the demand of the market must be greater than the supply from their work. This is the circumstance which raises the price of labour. Let the demand of the market fall, the prices of labour will fall, in spite of all the reasons which ought naturally to make them rise. The workmen will then enter into a hurtful competition, and starve one another, as has been often observed. Let the demand of the market rise, manufacturers may raise their wages in proportion to the rise of the market; they may, in the cheapest years, enjoy the highest wages; drink one half of the week, and laugh at their employer, when he expects they should work for less, in order to swell his profits in the rising market.

I have endeavoured to throw this question into different shapes, the better to apply different principles to it; and upon the whole, I must determine that proportional taxes will,

*1mo,* Undoubtedly raise the price of every commodity upon which they are properly and immediately imposed; and if they be laid upon bread, and other articles of nourishment, they will directly raise the price of these articles in proportion; but the price of labour will be raised consequentially only, and according to circumstances.

That if taxes be laid upon the day's labour of a man, they will raise the price of that day's labour. What I mean by this, is, that if every one who employs a man for a day, were obliged to pay a penny to the state, for a permission to employ him, the employer would charge a penny more at least upon the day's work performed by the labourer. Were a tax equivalent to it laid on the labourer by the year, it would be of a cumulative and arbitrary nature, and would not raise the price of his wages in proportion; but were it laid upon the workman at a penny a day, and levied daily, in this case, he might raise his wages in proportion. But this is not the practice any where.

*2do,* The price of subsistence, whether it be influenced or not by the imposition of taxes, does not determine the price of labour.

This is regulated by the demand for the work, and the competition among the workmen to be employed in producing it.

370, If wages rise beyond the physical-necessary of the workman, they may be brought down by multiplying hands, but never by lowering the price of necessaries; because every man will make a profit of the low price, but will regulate his gain by the rate of demand for his labour.

470, If, therefore, the price of his physical-necessary be raised upon him by the effect of taxes, he must work the harder to make it up.

570, If hands increase, after he is reduced to his physical-necessary, the whole class of the manufacturers will be forced to starve.

670, The increase of hands means no more than the augmentation of the quantity of work produced. If, therefore, the same hands work more than formerly, it is the same thing as if their numbers were increased.

From these positions it seems to result, that whenever it is found that manufacturers enjoy wages more than in proportion to their physical-necessary through the year, reckoned upon the general average of married men and bachelors, the method of reducing them to the proper standard, is either to multiply hands, if you want to reduce prices in your own market, or to augment the price of their physical-necessary, if you incline they should remain the same. When the hands employed are really diligent, and prices still too high, then it may be expedient to increase their numbers, providing they enjoy considerable profits. This will cut them off, and reduce the price of commodities; because it will augment the supply.

When the hands employed are not diligent, the first expedient is to raise the price of their subsistence, by taxing it. By this you never will raise their wages, until the market can afford to give a better price for their work. If, when they are brought to be fully employed, you incline to sink the price of labour universally, you must

must take off some of the impositions which affect subsistence; and at the same time gradually throw in fresh hands, in order to promote competition, which alone will force them to lower their prices in proportion. The whole delicacy of this operation is to prevent competition from taking place after the industrious are reduced to moderate profits; and to promote competition, or to raise the price of their subsistence, until they be brought to the proper standard. Having insisted so fully upon these principles in the xviiiith chapter of the second book, I here refer to it.

I have said, that the price of work is not regulated by the price of subsistence, but by the price of the market for the work. Now I say, that the price of the market may in a great measure be influenced by the price of subsistence. This is a new combination.

The first proposition is undeniable. The price of the market at all times regulates the price of work; because it regularly makes it fluctuate, in proportion to its own fluctuations. The price, again, of subsistence only influences it; because two circumstances may destroy that influence. A high demand for work will raise the price of wages in years of plenty: a low demand will sink the price of wages in years of scarcity. When therefore it is said, that the price of subsistence influences the rate of markets, we only mean, that the average price of subsistence, when good and bad years are taken together, have a certain influence in regulating prices. But this average price of subsistence cannot every where regulate the value of work, as the average price of a ship's cargo can regulate the price of every part of it; because the variations there are at too great a distance of time, to be able to compensate one another with respect to all the manufacturing classes of a people.

Could a plan be concerted, either to preserve the price of grain at one uniform standard, or within the limits of 15 or perhaps 20 per cent. at all times; and were this to be executed by the assistance of a tax at one time, and a bounty as it were at another; it would certainly have an admirable effect in every industrious nation. It would

would in a manner take away the difference between good and bad years. The industrious finding themselves subsisted at all times nearly at the same expence, would not feel those alternate motives to be idle and extravagant at one time, and diligent and sober at another.

I have enlarged so much upon the nature of this first inconvenience proceeding from proportional taxes; that I have left myself very little to say as to the second, which is,

2do, That they discourage consumption, by raising prices too high for people of a middling rank in life.

In answer to this, I must observe, that all the amount of proportional taxes is refunded to the industrious consumer, so far as they are raised on articles *necessary* for his subsistence; and when he is either idle, or consumes a superfluity, he is classed along with the idle and rich. Now if the rate of market prices be high, relatively to the income of certain individuals, it can only be because the supply of the things they want to consume is not above the proportion of the demand of those who are richer.

If, therefore, the rate of the market affords such profits to manufacturers as to render them idle and luxurious, how can the augmentation of these profits, by the abolition of taxes, and consequent diminution of the price of subsistence, ever diminish the competition of the rich, unless the supply be augmented?

But if the high prices of our own markets cut off the demand of strangers, then every principle laid down in the 10th and 18th chapters of the second book, must be applied to bring them down: and so far as taxes, which are imposed either to supply the exigencies of the state, or to cut off consolidated profits, enjoyed by manufacturers in consequence of our own extravagance, have contributed either to raise them, or to support them when raised, above the foreign standard, a full equivalent, in the way of bounty, must be given for them, in order to bring the exportation price of goods below the level of foreign competition.

I come

I come now to the last inconvenience alleged against proportional taxes, to wit, the expence of collecting them, and the oppression which is a consequence of the many restrictions laid upon liberty, in order to prevent frauds.

As to the expence of collection, it is entirely in proportion to the disposition of the people to defraud the public.

In France; the collecting the branches of cumulative taxes, such as the general receipts, comprehending the *taille*, poll-tax, &c. costs the state no less than 10 *per cent.* or two sols in the *livre*, which is superadded to those impositions, in order to defray that expence. Whereas in England the expence of collecting the excise, administered by commissioners, who act for the public, not by farmers who act for themselves, does not cost above 5 *l.* 12 *s.* 6 *d.* in the 100 *l.*

This matter of fact is sufficient to prove, that excises, when under a proper administration, are not so very expensive in the collection as is generally imagined; and they would still be attended with less expence, were some proper alterations made in the present method of imposing them. This will appear as we go along:

The *oppression* of levying excises does not, in any proportion, so much affect those who really *pay* them, as those who only advance them for the consumers.

This distinction which we have already made, will appear well founded; upon examining the complaints which are commonly made against the collectors of this duty.

We have seen that in the taxes upon salt and tobacco in France, there are no duties collected upon the people; the farmers of the salt have all the salt marshes and salt pits assigned to them by the King; no person, not privileged, is allowed to make salt for the consumption of those provinces which are subjected to the *Gabelle*.

In like manner the distribution and sale of tobacco is exclusively in the hands of the farmers: they buy it either from Great Britain, or from the Dutch at second hand; they manufacture it themselves, and sell it over all France, at the price set upon it by the King; and we saw, that during the last war, they paid thirty millions down for a permission to raise the price of it 10 *per cent.* during ten years.

This



This price fixed upon the sale of tobacco, answers exactly to what we know under the name of affize, which ought constantly to attend all excises\*: for want of observing exactly that regulation, the publicans and victuallers in England raised the price of their strong beer one halfpenny per quart, in consequence of an additional duty of three shillings per barrel imposed anno 1761, which is at the rate only of one farthing per quart †.

When the sale of an exciseable commodity is vested in a company who manufacture it, by exclusive privilege, the whole oppression of collection is avoided; because the company itself then pays the duty, and they draw their reimbursement from proportional profits on the sale of the goods.

This is the greatest advantage of the farm above the public management of a tax.

\* When excises are imposed upon any commodity, it is contrary to all principles in fixing the affize, not to superadd the whole duty imposed to the former selling price. This however is sometimes omitted, with an intention to make part of the duty fall upon the manufacturer, to the ease of the subject. The consequences are,

1mo, The manufacturers blow up the spirit of the people against the tax, who never would think of making an outcry, were they not excited to it by the interested motives of the manufacturers. Were high profits allowed on imposing the tax, manufacturers would be quiet: and if the profits were afterwards found to be too high, it would then be a popular measure to reduce the selling price, and also a means of setting people on the side of government, against the manufacturers, who are their real tax-gatherers.

2do, It is impossible to compass the end proposed. A proportional tax, rightly imposed, must be drawn back; and all attempts to prevent it, only occasion a multiplication of frauds, and a bad manufacture.

In fixing affizes upon the manufacture of goods, which in different years vary in their price, regard should be had to such variations; otherwise the manufacturer is distressed, and the public is ill served: and the one or the other happening, the people are animated against such duties.

The only expedient to share the profits of the manufacturers of exciseable commodities, is to lay them under some cumulative tax which they cannot draw back, such as making them pay for a licence.

† It must, however, be observed, that the price of beer was not raised, either by the brewers, or by the victuallers, on account of the additional malt-duty, anno 1760.

When

When excises are levied upon those who manufacture the commodity excised, the oppression of the laws falls upon the manufacturers, although they only advance the tax, and draw it back from the consumers upon the sale of the commodity.

It is greatly for the advantage of every consumer in the kingdom, that no fraud in the collections should pass unobserved; because all the profits arising from frauds belong to the manufacturer, who in reality is the tax-gatherer, as much as the farmers in France, when they sell their salt and tobacco. But as the farmers appear in the light of King's officers, and that the collectors seem to bear hard on those with whom they live, people foolishly imagine, that were brewers, for example, more gently dealt with, beer would come the cheaper to themselves. This is a mere delusion; because no brewer whatever will sell his beer cheaper than either an affize, or the ordinary rate obliges him to do, let his profit, from frauds, be ever so great, and his address in committing them ever so successful; and the less productive the tax turns out to be, the more the other impositions upon the people must be augmented, in order to make up the deficiency.

If we compare therefore the oppression of excise-laws felt by those who only advance these impositions, with the ease which the consumers find who really pay them, we may judge of the advantages which the proportional taxes have over the cumulative.

The excise, as paid by the brewer, is really of the cumulative kind. The exciseman demands money of him, at a time when no alienation takes place, and perhaps when he is not prepared to make the advance for his customers, who must refund it to him with profit: besides the hopes of being able to defraud is disappointed, and it is always disagreeable to be disappointed in what we either wish or hope.

Were all mankind honest, the inconveniences of levying such taxes would be less; but as that is not the case, methods must be fallen upon to disappoint the intention of committing fraud. The only way to accomplish this, is, to render it difficult and dangerous. While every individual has a liberty to manufacture an exciseable

commodity in whatever place he thinks fit to enter for that purpose, when every one has a liberty to sell liquors, which, upon retail only, are subjected to excise (as is the case in France) must not collectors be multiplied in proportion to the occupation which such policy implies? And will not these collectors oppose frauds to frauds, in order to profit by them, at the expence of the merchant or manufacturer? This will sow discord and hatred between two classes of the same society, and thereby the state is hurt. All discord hurts a state, as it does a private family.

It is out of my way to lay down plans for preventing such inconveniences. It would require an intimate knowledge of every circumstance relating to the country for which the remedy is intended.

I shall therefore endeavour only to throw out some useful hints, by mentioning the impositions where the inconveniences in levying are the least; and by comparing these with other impositions, where the oppression in levying appears to be greater, the contrast of circumstances will suggest the principles upon which a plan might be formed.

There are many more frauds and difficulties in collecting excises in the country than in cities, from the number of manufacturers employed in them. It is just so with the *aides* in France, from the number of retailers. There are very few frauds and little difficulty in gathering the malt-tax; because the object is unwieldy, and the places of manufacture are fewer.

The frauds upon tobacco and salt in France, do not proceed from those who manufacture them, but from those who introduce foreign goods to supply the place of those manufactured by the company. This shews that excises should be made as general as possible over a country; because local exemptions introduce, as it were, a foreign country into the center of a state.

Stamp-duties are seldom defrauded by forging the stamp; but in France, where they extend to almost every *deed* of alienation, the public is defrauded by private bargains.

Customs are defrauded by the liberty given to trade in every port; and from the want of convenient public magazines, as a proper repository for all goods brought by sea.

It may be said, in general, that frauds are most frequent upon the new establishment of taxes; that those who complain most of the oppression of them, are precisely those who have the least reason for it; and that the cause of their complaint proceeds rather from the inconvenience in paying when they are not prepared, and the disappointment in defrauding, than from any real oppression arising from the laws of excise: the hardships of these laws are owing to the necessity of general rules to prevent frauds; and such rules would be unnecessary, could the liberty of committing frauds be circumscribed.

One very good method of raising proportional taxes, without great expence or oppression, when the situation of a country will admit of it, is to levy no such duties, but at the gates of towns and villages, which in this light appear to be political inclosures. At those gates every produce of the lands, and every manufacture not made in the town, might pay a tax upon coming in; every manufacture made in the town, might pay a tax on going out: all fruits consumed in the country might be free; all manufactures made and consumed in the towns might be free also. If we consider the quantity of exchange between the inhabitants of towns and those of the country, and between town and town; that fund, I believe, would be found sufficient to raise more by proportional taxes than what is raised in any country in Europe.

A second method of diminishing the expence, and also the burden of proportional taxes, is to exact nothing of the manufacturers, but to prohibit the delivery of the manufacture to any one who does not present a permit from the excise office, signifying that the tax has been paid. This is the method observed in the Austrian low countries, where excises are carried to a very great height. There the transporters or carriers of exciseable goods, are formed into a corporation, and none else dare to transport them.

Whoever has seen the execution of those regulations will not be very fond of them; but the inconveniences which occur proceed from the political situation of all those towns, the public debts of which are so enormous, that to pay the interest of them excises have been carried so high as to banish manufacturers into the country, where few excises are levied. It is from the country and many considerable villages, which have not the privilege of running in debt, that the manufactures of that country are carried on. No industrious man can afford to live in the towns of the Austrian Netherlands, except he who supplies their consumption; and in no place, I know of, is work so dear as there.

Were great excises levied upon the furnishers of the goods, as is the case in Great Britain, and were as little restraint laid upon their frauds, those duties would not produce what they do; and the oppression would be intolerable; whereas by the policy established, nothing but the high price of goods is complained of. A third method of avoiding both expence and oppression in levying proportional taxes, would be to confine the fabrication of all articles charged with them to certain places properly inclosed. Were those undertakings few and large, were spacious magazines of all sorts prepared, at the public expence, in all sea-port towns, and surrounded with walls, an entire liberty might be allowed within the inclosures, and no questions would be asked, but on going in and coming out. Under such regulations a state would reap great benefit. 1<sup>st</sup>, There would be considerable savings in collecting. 2<sup>dly</sup>, There would be great savings on the number of hands employed in manufacturing: forty men, in a large brew-house, make more beer than an hundred disposed as they are in country villages. This resembles the introduction of machines into manufactures.

The objection from the infringement of liberty is more a pretext, in order to facilitate fraud, than any thing else. Are not those who manufacture exciseable commodities, the servants of the state? Are they not even the collectors of the public revenue? With what face then can they pretend to be indulged in the means of defrauding

ing their customers of those taxes which they wish to put into their own pockets, by withholding them from the public. Has liberty any other meaning, but an entire permission to do whatever is not forbid by general and wholesome laws, calculated for the universal good of the society; and shall this class of men, who are enriching themselves as much by the profits they have in advancing the taxes, as by their industry, be considered in as favourable a light as another who is paying a cumulative tax out of his income, one farthing of which he never can draw back.

If any should misinterpret the doctrine of this chapter, I must put them in mind of my original plan, which was to keep constantly in view those virtuous statesmen who think of nothing but the good of their subjects. Taxes and impositions in their hands, are the wealth of the father of the family; who therewith feeds, clothes, provides for, and defends every one within his house. The increase of taxes on this supposition is national oeconomy, as shall be afterwards shewn; frauds are the thefts of servants impairing the public good, and particularly the means of self-defence against the incroachments of ambitious neighbours.

As it is the duty of every statesman to make his people happy and flourishing, perhaps the speculations of one whose only interest in throwing them upon paper is to fill up his leisure agreeably, may some time or other tend to promote so glorious a purpose.

CHAP. VI.

*Cumulative and proportional Taxes compared with one another, and farther examined.*

AFTER examining separately the nature and effects of cumulative and proportional taxes, it remains, for the more fully understanding this subject, to take a view of them together; the better

better to find out wherein they really differ, and how far the difference is only apparent.

It has been observed, that the payment of taxes diminishes no part of the produce of either land, or industry; the whole amount of these remains entire to the subjects of the state.

The taxes are paid out of the money which circulates in the alienation of them: from which we have concluded that they must constantly be confined within a certain proportion to alienation. We have also observed, that the imposition of taxes augments the mass of circulation, and makes it requisite for a statesman to contrive some method of increasing money in proportion to their increase. I hope these propositions have acquired an additional confirmation, from what has been already said in the preceding chapters.

We have also seen how the amount of proportional taxes is ultimately taken from the superfluity of the rich, whom we have called the idle consumers: and how they are advanced by one set of the industrious, and refunded by another, until at last they fall upon those who cannot draw them back from any body. These last have been said to *pay* the taxes, the others only to *advance* them.

If therefore we suppose, all desire of defrauding out of the way, we shall find the whole burden of proportional taxes confined to the inconvenience of advancing their amount by the industrious, and to the payment of them by the rich, which proportionally diminishes their income. Where credit therefore is well established, where payments are regularly made by buyers to sellers, and where people proportion their expence to their free income, the weight of proportional taxes will be very small. I appeal to experience for the truth of this.

Let us next examine the nature of cumulative taxes, as we have called them, in order to distinguish them from the others.

In these, alienation is not necessary at the time they are paid; from which it follows, that, in many cases, they cannot be drawn back. When a man pays his land-tax out of his rent, what remains to him will

will not buy more of any thing than if he had paid nothing. Nay, were the state to indulge him and take his tax in corn; the corn which remains to him would not bear an advanced price, unless the state should export the quantity he had given; and then indeed, by diminishing the supply, it might raise the price of grain in general; but every one having grain to sell would profit of the rise upon the price, as well as the landlord, whose share does not commonly amount to one third of the crop.

But were a tax laid on in so regular a proportion to the value of any property, as to prevent the proprietor from making use of that part which the public intends to take from him, those who pay cumulative taxes would thereby acquire one very great alleviation of their burden.

I have said that when a brewer pays the excise, the tax, as to him, is of the cumulative nature. It is so in a certain degree, no doubt, as may be seen without farther explanation; but it still so far retains its own nature as to be easily drawn back from the consumer. But how can a soldier draw back the tax he pays to Chelsea?

From this material distinction between the two impositions, I conclude, that no objection can lie against proportional taxes, so far as they affect the industrious; because they draw them compleatly back: and that great objections lie against cumulative taxes, when they affect the industrious, because they cannot draw them back; and consequently, they may affect the physical-necessary of the contributor, in case no profit should remain to him upon his labour. On the other hand, I think little objection can be made to cumulative taxes, when they are imposed upon possessions, which produce a visible annual revenue, clear to the proprietor. This is the nature of the *dixiemes* and *vingtiemes* in France; where the whole amount of the person's income is taken upon proper proof, and taxed in proportion to it, without any subsidiary or second levy's taking place, to make up a determinate sum.

Cumulative taxes would also be far less burdensome to the lower class, could they be levied, so as, first, to preserve the proportion of them

them to the actual profits on industry: secondly, to make that proportion sensible to the people: and in the last place, to *retain* the tax, instead of allowing them first to receive it, and afterwards obliging them to refund it.

In proportion as these three requisites do not take place, such taxes become grievous to all who have no fixed income.

To put a tax upon a man's dwelling house, in proportion to its windows, or hearths, when the house produces no fixed income to him, and when he has none independent of it, may take away a part of his physical-necessary. To put a tax upon him because he has a head, is more grievous than to put a tax upon his hands, in proportion to what they daily gain.

If cumulative and proportional taxes be compared, with respect to the different effects they are found to have upon our opinions as to taxes in general, we find that both of them deceive the contributors, but in different ways.

In the cumulative taxes, the person who pays does not always perceive the reason of his paying. He imagines that he is taxed only because it is known that he is able to pay a certain sum.

In the proportional, the deceit is of another nature. When a person buys a consumable commodity, which has paid an excise, he does not perceive that the price he pays for it comprehends a tax upon his past gains, in favour of the public; but he concludes the whole to be necessary, in order to procure what he has an inclination to consume. An example will make this plain.

Suppose a tax laid upon wheel carriages, and that every person in the state were liable to pay a certain sum in proportion to the number of carriages he has for his convenience. The tax-gatherer comes at the end of the year and demands the sum. The person complains that he is not at liberty to have a coach or a chaise without paying duty for it; and that while he has occasion for one carriage only, and has but one pair of horses, he is obliged to pay for several sets of wheels.

Now, suppose this cumulative tax were turned into a proportional one, and that wheels were to pay a stamp-duty, or the like,

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in the hands of the wheelwright. The price would immediately rise; but this rise would soon become familiar to the man who has the carriage; and he would then be no more hurt by this additional expence, than if it had proceeded from some new and expensive fashion of wheels: in short, wheels would generally begin to bear an advanced price, and very soon no body would inquire how it came about, nor once complain of the tax.

To set this in another light, the difference between the two impositions resembles that between long and short accounts, which to poor people is very great. When the expence of living is insensibly and universally augmented, by the effect of proportional taxes, then the industrious man, who enjoys neither superfluity or idleness, may and can augment the price of his work in proportion. This augmentation forms then a part of what has been called his (A), which he draws fully back when he comes to market. But if the same, or even a less sum be raised upon him by a cumulative tax, it comes upon him at the end of the year, or at the end of the quarter, and let him be ever so provident, he cannot draw it back, or raise the price of his work, because of the unequal competition of other people of his own class, who, from a variety of circumstances, cannot all be so equally loaded by the cumulative as by the proportional taxes. Besides, they may not be so provident as himself, and may work for subsistence, without making any allowance for what they are to pay the state at the end of the year. Thus a double inconvenience ensues. The industrious poor are oppressed by the tax-gatherers, and the tax is ill levied. In the other case, the first never see a tax-gatherer, and the money is paid. Besides these advantages in favour of proportional taxes, there is still another, that if this tax be improperly laid on, the defect will manifest itself by checking consumption only; whereas in the other case, it will be known by the distress of individuals.

If the liberty not to consume be taken away, as in the gabelle in some provinces in France, then the imposition changes its

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nature and becomes a cumulative tax, as may be easily perceived\*.

It has been said, that so far as the three inconveniences of the cumulative taxes can be prevented, they cease to be oppressive. From which we see the reason why excises are so easily paid when those who manufacture the commodities charged with them, are contented to compound for them. This changes the tax into one of the cumulative kind; but gives it every requisite to make it easy. Let me take an example.

A brewer who pays excise for all he brews, is exposed to the daily visit of the excise-man, to whom he pays the duty. Here the brewer's imposition participates of several of the inconveniences attending cumulative taxes. But let me suppose that after a certain time he finds that 100*l.* is the annual amount of his excise. If he makes a composition for it at that rate, he comes under a regular cumulative composition, with every advantage. He thinks no more of frauds; he no more grudges what he pays; and becomes in a manner collector of that imperceptible duty paid by all his customers.

The easy method of transforming those taxes into one another, shews their resemblance sufficiently, and the differences which we have pointed out, shew the principles which regulate the proper manner of imposing them.

\* The *gabelle*, or salt-tax in France, is not levied in every province; because of certain privileges of exemption, which some have all along enjoyed.

This opens a door to the greatest abuse, by smuggling salt from places where it is free, into places where the tax is imposed, at many 100 per cent. above the value; and obliges the King to use great severity upon those who are loaded with this duty.

The consumption of every family is fixed to a certain quantity; and if it be found that they have not bought, from the King's granaries, to the full extent of what is reckoned necessary for them, it is supposed that the deficiency has been made up from contraband salt, and the deficiency is exacted.

CHAP. VII. OF POLITICAL OECONOMY. 523

Consequence of Taxes when the amount of them is properly applied.

WE have now seen the objects affected by taxes, and the inconveniences which result to those who are obliged to pay them.

It comes next to be examined, whether or not taxes of all kinds be a great load upon a people, a grievous infringement of their liberty, a means of bringing many honest and industrious people to great distress, and a great discouragement to marriage. I answer without hesitation, that taxes may be, and most commonly are accompanied with all these and many more inconveniences; but I must add, that they proceed from the abuse, and not from the nature of taxes.

In my inquiries, I have constantly in my eye, how man may be governed, and never how he is governed. How a righteous and intelligent statesman may restrain the liberty of individuals, in order to promote the common good; never how an ignorant and unrighteous statesman may destroy public liberty, for the sake of individuals.

Raising money by taxes must always be burdensome, less or more, to those who pay it; and the advantages resulting from taxes can only proceed from the right application of the money when raised.

When individuals only make a profit of the inconvenience of taxes, the public loses, no doubt; because they are paid for the advantage of the public, not for that of private people. If the money raised be more beneficially employed by the state, than it would have been by those who have contributed it, then I say the public has gained, in consequence of the burden laid upon individuals; consequently, the statesman has done his duty, both in imposing the taxes, and in rightly expending them.

Taxes, in this last view, may be considered as a saving out of every private fortune, in order to procure a public fund to be expended for the public benefit.

I have frequently recourse to the familiar examples of private oeconomy, in order to make applications from it to the political; which, however different it may appear, will be found easily deducible from the same principles.

Let me suppose two persons, (A) and (B), living in the same neighbourhood, of the same rank and fortune, enjoying great superfluity, but spending yearly the whole of their income in different ways.

Let the income of both be supposed to be 2100*l.* sterling; and let the branches of their expence be ranged under six different heads. Let (A) be supposed to spend upon the first 100*l.* on the second 200*l.* on the third 300*l.* on the fourth 400*l.* on the fifth 500*l.* on the sixth 600*l.* in all 2100*l.*

Let us suppose (A) to enjoy in every one an ample sufficiency. (B), on the other hand, spends upon his first article 600*l.* and upon each of the other five, no more than 100*l.* Here the first article of (B's) expence is sixteen times greater than any of the rest; and by the supposition, 100*l.* is supposed to denote an ample sufficiency upon each article.

I come to (A), and I say to him, you disapprove of the extravagance of your neighbour (B) upon his first article of expence, where he spends sixteen parts of his income, and where you spend but one; and yet you must allow that upon every other article of his expence, he is a better oeconomist than you. Would it not be for your interest to bring the other articles of your expence down to his standard, without increasing any thing upon your first article, which is already within the compass of what may be called sufficient.

To what purpose, says (A), would you advise me to so strict an oeconomy? And what should I do with so great a saving on my annual income? Be in no pain about that, I shall lay it out for you in discharging your debts; in providing for your children, and giving

giving them a good education; in improving your estate; repairing your house; making up your inclosures; all shall be usefully spent; and out of 600*l.* a year, you shall have every thing necessary for your family.

Here is the representation of a scheme between a good statesman, and a people whose interest he consults.

After the imposition of taxes, the individuals of a state, whose income is already formed, begin to pay greatly more than they used to do for every thing they consume. A great part of this additional price goes to the public, and is thereby laid out for national purposes. The whole of such expences are thrown into circulation, as much as if the rich proprietors had laid it out upon articles entirely adapted to their own taste.

Is it not evident, that in this way of appropriating the income of a country, it must produce a more extensive encouragement to industry of all kinds, than if the proprietors only had spent it? They never would have thought of becoming merchants, or of setting up manufactures for the supply of foreign markets: their whole expence would have been calculated to supply their own wants; and it would have been indifferent to them whether these were supplied by natives or by strangers.

Let us apply this doctrine to common experience. Let us compare the nature of circulation in a trading town, with that of a country place, where many gentlemen of large fortunes reside. How extensive the objects of the first! how contracted those of the latter!

Let us compare again the exigencies of government, with those of a trading city, what a variety of *new* wants here occur to be supplied, which the city never could have occasion for?

I have shewn that the great amount of taxes is taken from the income of those individuals whose fortune is already made, or whose daily profits are considerable: I have suggested how circumscribed the expence of this class must be, when considered with respect to the employment it procures to the body of a people. Does not

not the experience of former ages show how apt private opulence is to sink into treasures, when a taste for industry does not animate the lower classes to create new objects of desire in the wealthy? Wherein is a state benefited by the luxurious gratifications of the rich, unless it be by the employment they procure for those who provide the objects of luxury? Those very gratifications are, in one sense, taxes upon the rich in favour of the industrious: they increase expence, and throw money into circulation. In Spain and Portugal, where industry is not introduced among the lower classes, it is the strangers who in effect levy such taxes upon them. Were the taxes they pay, properly applied to the encouragement of the arts, instead of being appropriated to private purposes, and to enriching private men, whose taste for expence is always circumscribed to the objects of their own wants, how soon should we see them vying with us in every market of Europe, and supplying themselves as far as their country is calculated for it.

The reciprocal wants of industrious nations, resemble the reciprocal wants of tradesmen; all may be employed in supplying one another, as well as themselves.

When the amount of taxes is properly laid out in premiums, for the encouragement of the industrious, the prices of labour upon articles of exportation, may be brought so low, that all nations who do not follow the example, must languish and decay. Luxury at home will then cease to hurt the trade of the nation. In her treaties of commerce, she may throw open her ports to many articles of foreign consumption, without running any risk by such allowances; and on the other hand, she will reap the greatest advantages from a reciprocal permission.

The example I have given, by which I have illustrated the nature of public contributions, must not be understood to tally with respect to proportion. It would be both ridiculous and impossible to reduce all the expences of rich men to the purely sufficient. All I meant was, to shew how taxes, when properly applied, may be considered as public oeconomy; and how the levying of them has no direct tendency to hurt a nation in point of ease and prosperity.

CHAP. VIII.

Of the extent of Taxation.

ONE good way to discover the nature of taxes, is, to examine how far it may be possible to carry them. This is my intention in this chapter.

I have said that the object of taxes was income, and not stock. I have shewn how those of the proportional kind affect the income of stock already made, and persons who enjoy large profits upon their daily industry. I have pointed out the impropriety of cumulative taxes, when imposed upon such as draw nothing more from their industry than an easy subsistence; and I have given a general preference to those of the proportional kind; because they constantly imply both alienation and consumption: alienation in those who advance the taxes, consumption in those who pay them.

Could, therefore, taxes be levied upon every alienation, where consumption is implied, and that in proportion to the whole superfluity of those who are to consume, proportional taxes would be carried to their utmost extent.

I shall now analyze this subject, in order to discover how far that extent may reach; and by this inquiry, the principles of taxation will be the better understood.

The objects of alienation comprehend all that is in commerce among men, moveable and immoveable.

What is moveable is generally consumable, what is immoveable is generally not so.

As consumption is a requisite, together with alienation, in order to form a proper basis for proportional taxes, we see how contrary to principles it would be, to tax the alienation of lands, houses, &c. in the same proportion as consumable commodities. These are



*funds*, not *income*; and the money with which they are purchased, must be considered in the light of a fund, while it is in the hands of the buyer. When once it comes into the hands of the feller of the immoveable objects, it frequently, indeed, partakes of the nature of income; that is to say, it is spent in the consumption of fruits, and of the labour of man; and then it will be affected by taxes.

This may suffice to recal to mind the principles we laid down in the 26th chapter of the second book, concerning the effects of the vibration of the balance of wealth between the members of a modern state.

The next thing we are to consider, is the state of circulation. As to that, we have frequently observed, how it must be in proportion to alienation.

This proportion is not determined by the value, or denominations of the money circulating; but by that value combined with the frequency of transitions from hand to hand; as the force of a cannon ball is estimated by the weight of the ball, and the swiftness of the motion at the time it strikes.

Let us now lay aside the consideration of immoveable property; and examine the nature of consumption, alienation, and sale, with respect to other things.

Consumption comprehends every thing produced by the earth, or by man; alienation is confined to that part which is exchanged between men; and sale to that part of alienation which is exchanged for an equivalent in money.

Whatever part is consumed without alienation, ought, I think, to be out of the reach of proportional taxes, unless, by some circumstance or other, it can be made to fall under the eye of the public, in a manner *resembling* its coming to market. Thus a tax upon malt is levied at the malt-house, as if it were sold to the malster, although it be made for the consumption of the grower of the barley. In like manner, a tax upon corn for bread may be levied either

either at the mill where it is ground, or at the oven where it is baked\*.

The worst kind of proportional taxes are those which are levied upon *private* manufacturing; and upon unmanufactured consumption, where no alienation takes place. An example of the first we have in the excise upon malt, cyder, candles, &c. made in private houses for private use: the last is known in Holland, where a man cannot kill his own pig, or his own calf, without paying a tax. Were taxes of that nature extended to the making of bread, cooking of victuals, &c. I apprehend they would become of a nature more burdensome than any hitherto invented, unless public cooks were established, as public ovens are in many parts of France: in such cases, taxes might be levied upon every part of consumption.

Investigations of this nature are so disagreeable, that it is with reluctance I mention them; but when, in fact, such taxes are found established in different countries, it is highly proper, that the nature of them should be inquired into.

Taxes in Holland are so multiplied, as to descend to this category, in many places, as we have seen by the example just given; but even these, however oppressive they may appear to those who are not accustomed to them, are still less so than many of the cumulative kind we have mentioned, particularly the tax upon industry and the capitation in France. They approach nearer to proportional taxes, and derive every alleviation of their burden from that circumstance. He who pays such taxes, sees that he can avoid them, by retrenching his consumption; and when they fall upon the necessaries of life, he may draw them back, providing he be an

\* Examples of these kinds of taxes were familiar in former times. Vassals were obliged to grind in their Lord's mill, bake in his oven, press their wine in the public press of the territory, &c.

This was found very useful, in ages when alienation and sale were little known; but now they are considered as oppressive, and so I think they are, when compared with proportional taxes, which only take place upon the sale of the commodity: but still they are far preferable to many taxes of the cumulative kind.

industrious man, and that every one who enters into competition with him for employment, be equally subjected to the same burden. But they are more burdensome than those where sale takes place; because when a poor man, who wishes to consume, wants money, he considers himself in the same light as if the thing were not to be sold; but when he has that which he has acquired by his labour, and cannot consume it for want of money to pay for a permission, as it were, he must either starve for hunger in the midst of plenty, or be reduced, perhaps, to beggary, for having preserved his life by defrauding the tax.

What has been said, is, I think, sufficient to shew the varieties which occur, when taxes are imposed upon bare consumption, where no alienation takes place: they must, in every respect, be ranged under those of the proportional kind, although some principal requisites be wanting to engage any one to approve of their institution.

It appears still more difficult to establish a proportional tax upon barter, or the exchange of commodities one for another, unless sale be understood. This would be the case were a private person, not subject to the excise upon malt made in his own house, to pay in that commodity. He would not there escape the imputation of fraud; and might, with propriety, be considered as a retailer. I do not, however, doubt but examples of taxes upon barter might be found; some even occur to myself; but they are almost too trifling to mention\*.

The last and principal requisite, to render proportional taxes easy and light, is sale. There the burden must be proportional to the buyers purse; and if it prevents the consumption of the thing taxed, the defect will manifest itself.

Of these taxes we may say, that they are in proportion to circulation; and accordingly, we see how difficult it was to raise them,

\* Two gentlemen in France exchange casks of their wine, they are both obliged to pay a tax upon removing the wine from their cellar. This duty is called *Remuage*.

so long as circulation remained confined to the small quantity of coin in the country. As money increased, both by the increase of trade and alienations, they became more productive; and were the nature of them rightly understood, and were they properly imposed, they would soon be more generally adopted.

In treating of public credit, I have said that it is the duty of a statesman to augment the quantity of money, in proportion as he intends to multiply taxes on his people. I shall now, before I conclude this chapter, explain the meaning of what was there thrown out relatively to another subject.

The money of a country, we have said, bears no determinate proportion to circulation; it is the money circulating, multiplied by the number of transitions from hand to hand. Again, we have said, that the prices of all things are determined by demand and competition. The meaning of this, as it concerns the present question, is, that in proportion to the competition of those who appear with money, in order to acquire what comes to market, a larger or a smaller sum is brought into circulation.

Now, according to the principles laid down in the first chapter, we saw how the full value of the industrious seller's expence and profit were made up to him in the sale of his work; and if he even advanced any tax upon any part of his work or consumption, that it was refunded to him by the buyer, who, if he consumes in the light of an idle man, pays for the whole.

Farther, when a proportional tax is imposed, we said it was, in a manner, as if the state interposed at the time of alienation, and exacted of the purchaser a certain value in money, in proportion to the commodity, as the price of the permission to acquire what his own industry had not produced. From this I draw the following consequence, that in proportion to the tax an additional sum of money is drawn into circulation, which would otherwise have remained in the pocket of the purchaser; consequently, on imposing proportional taxes, they cannot, at first, exceed that proportion of money

which is found in the pockets of the consumers, over and above what they used to pay for what they consumed.

The truth of this proposition is established upon many facts. First, in countries where people keep their money locked up, proportional taxes are very well paid. Hence the great amount of the *alcavala* and *cientos* in Spain, which amount together to 14 per cent. upon every consecutive alienation of the commodities, chiefly indeed for the consumption of the rich.

Secondly, When excises were augmented in England, in the reign of King William, Davenant tells us, that the price of the goods excised fell.

Thirdly, When a war has lasted any time in France, taxes cease to be so productive.

Are not all these, and many other appearances, resolved upon the same principle, viz. that taxes must come out of that money which exceeds what was necessary for carrying on alienation before they were imposed?

In Spain they draw money from the chests of the hoarders, and increase circulation for a while.

In England, during King William's wars, the quantity of money being very small, and trade being very low, the tax upon malt could come out of no other fund than the price usually given for barley.

In France, people are better acquainted with taxes, and the great bulk of excises are administered by the farmers, who never lower their price; so that the diminution of the mass of coin diminishes consumption.

But when methods can be fallen upon to increase money according to the uses found for it, taxes will continue to produce, consumption will not diminish, and circulation will keep pace with them.

Could we suppose, that before the imposition of taxes, every person in a state had laid it down as a rule, to spend the whole of his income,

income, but none of his treasure, in the consumption of what is brought to market, it is plain, that in a luxurious nation, taxes might be carried so high as to draw the last farthing of the treasure into circulation, even though it were supposed to exceed the value which demand had fixed for all that was brought to market. But without a luxurious turn this would not be the case. There are countries abounding with coin, which it is impossible to come at by proportional taxes. The reason is plain: the value which demand fixes upon the total of the articles of consumption exposed to sale in the country, bears but a trifling proportion to the coin which remains locked up. This was the case in ancient Greece. In that case, proportional taxes can never exhaust the treasure; because were they to be made high upon articles of the first necessity, all the poor would starve; if upon articles of superfluity, demand would stop.

Proportional taxes, therefore, can only be raised in proportion to the desire of spending money; and as this desire depends upon the spirit of the people, so must the extent of taxes.

Let me now trace a little the progress of money brought into circulation by proportional taxes in a luxurious nation. I shall call the value, fixed by demand, for all that comes to market (Y). The sum levied in consequence of the alienation of it, or in other words, the sum of the proportional taxes (X). And the whole money of the country (Z). This premised, it will follow, from what has been said, that so soon as all the money of the country is brought into circulation, then (Z) will be exactly equal to the sum of (Y) and (X).

Let us next suppose the whole alienation to be made at once. Will not (Z) then immediately appear divided into (Y) and (X)? What then will become of those two sums which we suppose to enter into circulation at the same time? I answer, that (Y) will go entirely free to the industrious seller: that it is, or should be, nearly equal to the former value of what came to market before taxes were imposed: and that (X) is an additional sum drawn from the idle consumers, who live upon an income already made. But suppose (X) to be augmented, until it exceeds the quantity of money formerly

formerly superfluous for carrying on alienation: then I say, that either taxes will become proportionally less productive, or consumers must melt down the capital of their funds into paper money, to the amount of the deficiency of (X); and this will supply circulation with the additional sum required in consequence of the imposition of taxes.

Now, I think, it is a lucky circumstance, that the additional sum of taxes should be paid by those very people who are the best able to borrow it upon their funds.

Let us proceed to examine the progress of (Y) and (X) as they continue in circulation. (Y) is no sooner come into the hands of the industrious seller, but he has occasion to go to market: that moment I consider him as one of the rich; and the money which, at the time he sold, had acquired the denomination of (Y), now resumes that of (Z). When he comes to buy a commodity with what was formerly his (Y), there is immediately a part of it converted into a new (X), and the remainder keeps the denomination of (Y) in the hands of him from whom he buys. By this progress it is plain, that after a certain number of alienations, or transitions from hand to hand, the whole quantity (Y) will be converted into (X).

Experience shews this to be the fact; because the amount of taxes, in a short time, far exceeds the value of all the money of a country.

Let us next follow the progress of (X).

Upon the first alienation of any part of what comes to market for the consumption of the proprietors of (Z), a proportional part of (Z) is transformed into (X), and is carried into the public coffers. Were it there to be locked up, and not thrown back into circulation, it is plain, that in a short time the whole of (Z) would be converted into (X), and would be shut up in the exchequer.

When the amount of taxes, therefore, is sent out of the country in time of war, must not this produce a similar effect? Has not the exporting that amount the same effect with the locking it up, since the one and the other equally take it out of circulation? Does it not then

then follow, that if more money be not obtained, either by borrowing it back from strangers, or by melting down more solid property, that selling must stop, and (Y) disappear as well as (X). The rich, therefore, must give over buying, and the proprietors of all that comes to market must deal by barter with one another.

How naturally do all these consequences follow one upon the other! and how exactly do they correspond to the principles which run through that part of the last book where we treated of banks and public credit!

Taxes are not raised, at this time, to remain in treasures, but to answer the exigencies of the state. The moment, therefore, that the money arising from them comes out of the public coffers, it loses the character of (X) and resumes that of (Z), in the same manner that (Y) was transformed into (Z), by being brought to market to buy a commodity. This new (Z), as we may call it, no sooner returns into circulation, than it becomes again converted into (Y) and (X), with this difference, however, that what came from the exchequer, so far as it is converted into (X), returns directly into it again.

Hence it follows, that states commonly pay their servants the full of their salaries, and make them refund a part in consequence of cumulative taxes, instead of proportionally diminishing what is due to them. And when the salaries themselves are intended to be laid under poundage, which in fact is an actual diminution of them, they choose that the tax should appear to be a deduction out of what is supposed due; because it seems less arbitrary to impose a tax, than to diminish a salary, without assigning any reason for it; but indeed, besides this reason, it commonly happens, that the particular appropriations and administration of the revenue render that method easier.

With respect to proportional taxes they affect the expences of the state in the same manner as those of individuals; with this difference, as we have said, that the part (X) returns into the exchequer; but

but the part (Y) is fairly spent by the state, as by the idle consumer.

From what has been said, we may gather the principles which lead to the most extensive establishment of proportional taxes, viz. either to draw by particular regulations, the whole real and gross produce of land and work to market; or at least to bring it under the eye of the state, in consequence of some modification or manufacture performed upon it, as was observed with respect to malt-houses, mills, and public ovens. When, by such contrivances, the whole gross produce falls under taxation, the proportional taxes must be gently laid on, and gradually raised until they begin to interrupt consumption; then they must be diminished for a while, until dissipation increases; a case which will probably happen, as it commonly keeps pace with industry.

If we suppose the rich to set out on a plan of living upon their capitals, instead of living upon their incomes, as we have hitherto supposed, then indeed taxes may augment to a degree not to be estimated. This combination has already found a place in the 26th chapter of the second book, where we examined it with regard to the progress of industry. In that place it was said, that in proportion to credit and industry, it might be possible in the compass of a year, to produce commodities to the value of the whole property of the most extended kingdom. Were that the case, to what a height might not taxes be carried?

(Y) then would represent the whole value of the country, and consequently, (X) would swell in proportion, according to the competition among the inhabitants, to purchase every particular article. Subsistence and necessaries might be taxed low in proportion to the abilities of those of the lower classes; articles of luxury might be taxed in a higher proportion, in order to draw the more into the exchequer.

Were taxes thus carried to their utmost extent, still every person in the state must be left at liberty to save, or to spend the whole,  
or

or any part of his stock, or income; which is not the case when cumulative taxes are imposed. Proportional taxes, tho' carried to their utmost extent, will not deprive an industrious man of his physical-necessary, nor of the reward of his ingenuity, nor of that rank in wealth, to which his birth or expence entitles him\*.

When taxes have the effect of interrupting this harmony of expence, of restraining the liberty of squandering, or of saving, or of oppressing one set of men more than another, in all such cases, they are improperly imposed; and instead of being too high, as it is commonly supposed, I think it is a demonstration that they are really lower than they need to be. The classes of men in a modern state, resemble the horses in a team. When every horse draws fairly and equally, the whole force is exerted; but if any one happens to be strained by an overcharge thrown upon him, the force of the team is greatly diminished.

When proportional taxes are carried to their full extent, I then presume every one will be obliged to pay as much as possible; I do not mean that every one will be forced to pay to the extent of his abilities, but I say, that the generality will; and therefore, were cumulative, or personal taxes, to be superadded on those who already pay all they can, they would, by affecting them unequally, deprive many of their physical-necessary, or small profits; and consequently destroy the proper balance of their competition. The setting the lower classes free from cumulative taxes, will only have the effect of putting the growing wealth of the penurious and saving part of the industrious inhabitants out of the reach of taxation. This ought in good policy to be done, as has been shewn in another place. But, farther, we have observed, that taxes can only be increased in proportion to the spirit of dissipation in the people. To force money, therefore, out of the hands of those who do not incline to spend it, is forcing the spirit of

\* A man's rank, in a modern society, seems to be determined more according to his birth, or to his expence, than according to his stock, or income.

the people; and if not tyranny, is at least great severity. Besides, we shall presently shew, how these savings cannot escape being taxed, whenever they begin to produce an income; and allowing that they may be greatly accumulated, and thrown into trade, yet still they must in one way or other appear in alienation, and become subject to the proportional taxes. The only part, therefore, of the savings not affected by taxes, will be confined to that which is locked up. This in a prodigal nation should never be touched. The inconveniencies resulting to the state from so small an inequality of taxation, is too trifling to be attended to, and too difficult to be prevented.

I come next to examine the extent of cumulative taxes.

If we suppose the proportional taxes to be carried to their full extent, there will be little place found for the cumulative, as has been said. The only objects left for them are the savings locked up, and the pure profits upon trade.

But let us suppose proportional taxes out of the question, as they must be when contrary to the spirit of a particular nation; and then inquire into the principles which regulate the imposition of cumulative taxes, in order to discover to what extent they may be carried, and what consequences may follow when they are brought to a height.

This branch has two objects; first, income, which is determinate; secondly, profits from industry, which are and must be very uncertain.

Income, I divide into two sorts; that which proceeds from every branch of solid property, capable of producing it: Land, houses, even cattle, furniture, &c. all may, in some respects, produce an income, more or less permanent according to circumstances. This sort of income is established by lease. The second sort is the interest of money, constituted by the contract of loan.

In imposing cumulative taxes upon income, it is very proper to consider the nature of every species of it, with respect to stability. Landed property is fixed, and can not escape taxation, were the tax

to be carried to the extent of the full income, as has been observed. Were the same proportion to be laid on houses, they would soon fall to ruin, because the annual proprietor would not keep them up. Like circumstances must be attended to, in taxing every other article of revenue.

The method of ascertaining the value of this kind of property, is to oblige all leases to be recorded, under a sufficient penalty. This is the method in France, for the sake of the *controle*, which is exacted upon recording them; and this, no doubt, facilitates the raising of the twentieth penny, which operates upon all such incomes.

The value once ascertained, the whole income is at the mercy of the state, in proportion to the impossibility of avoiding it, by any change on the nature of the fund. It is from this circumstance that I call all such taxes arbitrary impositions. And I call them also cumulative; because the reason given by the statesman for imposing them, is, that it is just every one should pay a general tax, for the support of the state, in proportion to his abilities.

As these taxes cannot be carried beyond the value of the income which the proprietor cannot withdraw from under the burden, we see the impossibility of establishing them upon that income which proceeds from money. If a tax of so much *per cent.* be imposed upon money lent at interest; the lender may immediately call in his capital from his debtor, and send it away beyond the reach of the tax. If the calling it in be prohibited, then all credit is destroyed for the future, and no more money will be lent. If the statesman should incline to profit of the advantage found in securing money upon land-property; and if, trusting to the desire moneyed-people have of settling their capitals in that way, he should take one or more *per cent.* upon capitals so secured; it will still have the effect of hurting the credit of landed men, who have frequently no good security but their land to give.

It was formerly the practice to allow the landlords to retain a part of the interest, in consideration of the tax they paid upon that part of their land, which was pledged for the security of the money borrowed; but when credit is once established, that regulation has no other effect, than to oblige them to borrow so much dearer than other people, who have no retention to claim. Where indeed credit is precarious, such a regulation would be a premium for good security.

In general, I believe, we may safely determine, that all attempts to lay a tax upon the income of so fluctuating a property as money, where the capital is demandable, will prove unsuccessful.

The case is different, when the capital is not demandable, as has been observed in the end of the 8th chapter upon public credit; where we were suggesting a reason for taxing the interest of national debts, when grown up to the full amount of all the income of a country. But a material distinction was there made, between those debts which were supposed to be consolidated into a permanent property, and new contracts which were to be considered as debts upon that property.

We see, therefore, the extent of cumulative taxes upon possessions which produce an income. Let us next examine how they may be made to affect other articles.

We have observed how improper, and how contrary to principles it is, to impose proportional taxes upon those branches of sale, which do not change the balance of wealth between the contracting parties. Yet cumulative taxes may then take place; because there is no reason to make them general, or proportional.

When lands, for example, carry titles along with them, as is the case in many countries; and when, as with us in Scotland, they carry a right to vote for a member of parliament, a very heavy tax might be imposed upon the alienation of them. The same may be said of every other estate which requires a feudal investiture

ture to complete the right. Thus the *Lods et vente* in France, which is a portion of the price of such lands due to the superior or lord-paramount of the fee, amounting in many cases to the sixth part of the price, is a hint for a cumulative tax to be raised upon the alienation of this kind of property.

Were cumulative taxes properly laid upon personal service, a regularity in levying them at short intervals, and according to some determinate proportion, would do a great deal towards communicating to them all the advantages of those of the proportional kind.

Thus a tax laid upon those who work by the day, may be levied in such a manner as to be tolerably easy. A penny a day (or more if necessary) paid by every industrious man, regularly, once a week, would soon enable him to raise his price in that proportion. But then deductions must be allowed for all accidental impediments; and were a plan to be concerted, many other considerations would enter into it, which it would be superfluous here to mention, and which, perhaps, may occur in another place.

The two articles which, in analyzing the extent of proportional taxes, we observed had escaped that imposition, to wit, money locked up, and the pure profits on trade constantly accumulated into the stock, are equally ill adapted to bear a cumulative tax. I can see no way of taxing money locked up, any more than money lent, without opening a door to the greatest oppression. And as to the pure profits on trade, although they appear to be income, I rather consider them as stock, which, according to principles, ought not to be taxed. My reason for not considering them as income, is because we have supposed them to be accumulated by the merchant into his trading stock. They resemble the annual shoots of a tree, which augment the mass of it, but are very different from the seed or fruit which is annually produced, and is annually separated from it. If they are spent by the merchants, then they are undoubtedly income, and will be affected by proportional taxes; but as they may also not be spent, and become stock, the cumulative tax will affect them in both cases.

CHAP. IX.

*The consequences of an Abolition of Taxes.*

HAVING endeavoured to deduce the principles of taxation, by examining the combinations which occur when we suppose it augmented to the highest degree, I must now look for new combinations, which will suggest themselves upon examining the consequences of a total, or a partial abolition of taxes.

So far as taxes are absolutely necessary for the support of government, no body, I suppose, can wish to see them abolished. The object, therefore, of a statesman's attention in levying taxes for indispensable national purposes, should turn upon the principles we have been examining. What now follows relates to the consequences of abolishing taxes once established, so far as it proves a revolution in the oeconomy of a state. This will lead us to examine the consequences of taxes, considered as voluntary public contributions, independently of the absolute necessity of raising them to supply the exigencies of the state. We are therefore to examine the consequences of so great a change to the whole body of the society, considered as a nation, which requires a public stock, to which it may have recourse upon every extraordinary occasion.

When the interest of a whole people is examined with respect to taxes, they may very properly be divided into the following classes.

*1mo*, Those who receive the amount of taxes, viz. the creditors and servants of the state, and those to whom they give employment.

*2do*, Those who advance the taxes, viz. all the different classes of the industrious.

*3tio*, Those who pay the taxes, viz. all the rich and idle; or, in other words, all those who cannot draw back what they have paid.

In

In these classes are comprehended those who pay the taxes, and those who receive the amount of them; consequently, in whatever concerns taxes, the common interest of the whole taken together is what must regulate the conduct of the statesman.

In order to determine this first and general question, viz. the consequence of abolishing taxes relatively to the cumulative interest of a whole state, it is proper to inquire,

*1mo*, What will be the consequence of abolishing taxes, relatively to those who now receive the amount of them, viz. the creditors and servants of the public, and those to whom they give employment.

*2do*, What will be the consequences of abolishing taxes relatively to trade, industry, and manufactures: that is, whether these great objects are carried on to most advantage, when every individual contributes largely in providing a fund to be administered by a statesman; or when no body contributes any thing, but when every one retains the whole of his income, and the profits of his industry, and disposes of them as he thinks proper.

*3tio*, What will be the consequence of abolishing taxes, relatively to that part of the people who now complain that they are forced to contribute to every tax, although by their exclusion from the emoluments of lucrative employments, they bear a greater burden than others not better entitled to exemption, who thereby profit at their expence?

To determine so intricate a question, several combinations of circumstances must here be examined, and from the particulars resulting in every case, we shall, towards the end of this chapter, endeavour to point out the general conclusion. I begin by examining the consequences arising to the creditors, and to those who serve the state, from the cessation of those expences which flow from the produce of taxes, either in paying the interest of debts, or in defraying the whole *actual* expence of government.

As to the creditors, this question has been already discussed. We have seen that the withholding the interest due to them would have the consequence of bringing on such a convulsion in the state, by the breach



breach of faith, and ruin of public credit, as would throw every thing into confusion. But with respect to the servants of the state, we must inquire, whether the raising taxes for defraying this article of expence be more hurtful to the people in general, than the consequences of such a revolution in circulation and employment, which would follow, if the taxes were to be suppressed, and the servants employed by the state dismissed.

When the necessity of raising taxes is out of the question, the hurt they do in general to a country is when, by the imposition, the money is taken out of those hands who would have employed it for the advancement of the prosperity of the state, in order to throw it into those who will employ it otherwise. From this let us now draw some conclusions.

*1mo*, That if money be taken from those who would have employed it in feeding themselves, and in continuing their industry, the cessation of such a tax is in a manner giving bread to those who are starving.

*2do*, If money were to be taken from those who, having more than bare necessaries, would, by its use, increase the demand for domestic industry, and were that money bestowed on a set of men who would employ it in the purchase of foreign commodities; the cessation of taxes, in such a case, would, so far, take the bread out of the mouths of foreigners, and give it to our own countrymen.

The abolition of the first species of taxes is advantageous to a state in every combination, let the money arising from it be ever so well employed. As to the second species, the abolition is not necessary; because the vice lies only in the misapplication of the amount.

Let us then suppose taxes to become unnecessary, and all those of the hurtful kind, depriving the industrious of bread, and enriching foreigners at the expence of citizens, to be taken off.

Suppose that after all, there should still remain more taxes than are sufficient for supplying all the necessary charges of government, when administered with prudence and with oeconomy, and that

that this surplus is bestowed in gratifying individuals, beyond the value of all the services they do the state: I ask whether this superfluous expence is immediately to be cut off, and taxes diminished in proportion; or whether it would not be more proper to let the taxes subsist, and to think of a better method of applying the amount of them?

I answer, that according to the state of the question, the body of the people, who are all made to contribute towards the enriching of a few of their number, may justly complain of the inequality of their condition, and have a title to demand an abolition of their taxes, unless it can evidently be made appear, that by granting their request, there would follow a prejudice to the state, which would affect their own interests as individuals.

To discover how far this may be the case, let us form as many combinations as we can, relative to the effects of diminishing taxes, and candidly examine the most natural consequences of every one. If we find that the mass of a people gain, in general, more than they lose by paying taxes imposed with moderation and propriety, and still more if it appears that their ease and prosperity depend upon the levying and expending of such taxes; I think we may conclude, that all diminutions of them which hurt the interest of the greater body, are in general hurtful to the society.

Let me first suppose a general reform of all unnecessary expence to take place at once, and a proportional abolition of taxes to go hand in hand with it. Would not all those who at present subsist by the superfluous expences of government, be reduced to misery? Would not all those who supply unnecessary wants, equal to the whole amount of the taxes suppressed, be forced to be idle in proportion? The millions who contribute in paying those sums would be differently affected. Those who pay out of a fixed and certain income, would feel an immediate benefit from it; those who contribute by proportional taxes would also be gainers; providing they be of the idle class; but all the industrious would lose in proportion, if the prices of subsistence should not fall with the dimi-

nution of their taxes. All the manufacturers of exciseable goods, who had been used to *advance the taxes*, as we have observed, would gain considerably. For the diminution of the taxes would be total as to them, though not to their customers; because traders would never want pretences for keeping up the price of their commodities beyond the proportion of what it ought to be, when duties are taken off.

I decide with the greater certainty as to this particular, from the analogy it bears to the consequence of changing the denominations of the coins in France, which long experience shews never to have the immediate effect of regulating prices proportionally.

But as we are here considering the consequences of a sudden abolition of taxes, let us, for a moment, consider, with an eye of humanity, the scenes which would unavoidably open to our view, both in the formerly opulent habitations of those who were wont to wallow in public money, and in the comfortable dwellings of many others of every denomination, who, either as the reward of merit, or as the recompence of painful industry, had supplied the wants of useles armies, navies, arsenals, dock-yards, &c. formerly paid out of taxes, now abolished, and who thereby had subsisted and brought up their families.

Are not all these children of the state? Have they not had fathers and mothers who have been greatly relieved by procuring such outlets for them? Have they not children who are educated and brought up with the amount of their salaries, and profits of their service? Have they not had people of every class of industry, who have gained their bread by providing for their wants, while they were supplying those of the state, now become superfluous? In one word, does not the money they receive, circulate and return to the grand river, as I may call it, in the same manner as that of other members of the state?

For these reasons, I say, that taxes once properly imposed, and brought to circulate through a certain channel for a long time, cannot, *suddenly*, be suppressed, without occasioning far greater misery and

and distress than can arise from them, when levied with any degree of intelligence. This is nowise peculiar to the suppression of taxes; it is equally the same, in every sudden revolution of property. When the Templers were universally rooted out of Christendom, who doubts of the afflictions, misery, and distress, which followed to every class of inhabitants employed by them, in every kingdom in Europe? Could so large a consumption as that of so great an order cease at once, without drawing along with it numberless inconveniences? Did not the reformation itself, otherwise so great a blessing, starve a multitude of poor who were fed by the monasteries? Did not the secularization of so many ecclesiastical benefices do great prejudice to many families, by blotting out an infinity of ways of procuring an easy livelihood for their children? Let those who do not feel the truth of what I here advance, examine the state of the protestant nobility in Germany, where you find the same hardships still subsisting, though in a degree much inferior to what it must have been at the time of this sudden revolution, which took bread from thousands of the younger sons of noble families.

Such revolutions have happened; such inconveniences have been felt: but they were not the deliberate act of any particular statesman. They were the effect of those convulsions which the human passions occasion. No body can justly impute them as necessary consequences of a reformation in religion. But let any statesman now, from a cool reflection upon the unnecessary load of employments in church, state, army, navy, finances, and law, and from a principle of distributive justice, abolish *at once* all that is superfluous, and the taxes, at the same time, out of which the emoluments arise, he will very soon set before the eyes of his people, such a scene of compassion, as will quickly blot out the remembrance of the favour.

We should not then find some individuals reduced to want, but numerous families; not a parcel of beggars starved, but industrious manufacturers; not a set of ecclesiastics, who from their state of celibacy and retreat, appeared already, in a manner, separated from

the commonwealth, but a multitude of people connected by marriage, by society, and by all the tender bonds which unite mankind. Such a scene, I say, would not fail to excite compassion in the heart of those very men in whose favour the desolation was to be brought on; and the statesman would thereby lose the whole merit of his ill judged zeal for distributive justice, and be considered in the most unfavourable light that passion or prejudice could suggest.

This is a digression introduced with no intention to favour a misapplication of public money, but to point out how far a reformation in this particular is a delicate operation.

A good physician never attacks a disease by violent remedies; when mild ones, with time, may be made to produce the same effect. Nothing can resemble an ingrained disease in a human body, more than an ingrained vicious habit in a state. The spirit of a nation is influenced, as has been said, by the administration of its government. So large a sum of misapplied money creates a political disease, which must be purged away by degrees; and new doors must be opened to receive those whose former method of subsistence is thereby intended to be cut off.

Let me next examine the consequence of a gradual and insensible reduction of taxes, relatively to trade, industry, and manufactures.

It would be both tedious and superfluous to trace the steps by which such an operation ought to be conducted. Let me suppose it complete; but let it not be so very gradual as to blot out all remembrance of the age of taxes, and of their effects.

We have sufficiently analyzed the whole progress of circulation; we have shewn how it must constantly be in proportion to alienation, and how, when deficient, industry suffers a check. Even when peace is restored after an expensive war, we have shewn how circulation diminishes, from the abatement of public expences, how money stagnates, and how it is consolidated upon property of a more permanent nature.

Let us now apply these principles to the question before us. Let taxes be abolished ever so gradually, the circulation of the exchequer must cease in proportion; consequently, the whole alienation, and the whole industry which is the object of that alienation, must cease also. The money issued from thence at present, continues its progress from hand to hand, and all is found necessary for circulation, in this age of taxation, as we have called it. What a deal of industry is implied in the circulation of a sum equal to all the taxes! Let those who choose to calculate, state the following proportion, because I will not here interrupt my subject.

As the whole money of the country is to all the alienations performed by it, so is the sum of taxes to that part of alienation which will fall with them.

If a gradual diminution of taxes must have the effect of extinguishing so much industry, it will have the effect of starving the industrious who lived by it. But before they starve, the price of work must fall below the price of the narrowest subsistence: because the never failing foreign demand for subsistence, will keep it above the rate of their slender abilities, as long as any trade remains.

To imagine a foreign outlet for cheap manufactures, while the subsistence of workmen is at par with other nations, is against all principles; as it is against experience, to see a country without revenue, and without taxes, carrying on with success the operations of industry and foreign trade.

Compare, therefore, the situation of such manufacturers with those in the age of taxes. Compare those who would augment a supply far beyond all the demand for it, with those who are paying large taxes, and as regularly drawing them back, either upon the sale of their work, or in consequence of wages which enable them to be idle two or three days in a week.

In such a situation, how ardently would the former wish to see the idle consumers furnishing again a copious supply of money to government, for removing such inconveniences. They would then quickly perceive that they had not been of that class which had

felt the load of taxes; they would recal to mind the joyful hours they had spent in public houses; the fortunes which every industrious man might hope to accumulate, while every branch of industry was kept alive, by the means of a copious circulation.

If, therefore, the industrious classes of a people cannot be benefited by an abolition of taxes; let us next inquire, to whom the advantage would accrue.

It has been said, that the idle consumers pay all taxes of the proportional kind; the proprietors of lands, houses, &c. bear every where a very large share of taxes both proportional and cumulative. This class of men, therefore, are those who bid the fairest to reap a benefit from an abolition of them. But the proprietors of lands are by no means included in the class of idle consumers, in every respect; altho' they may be considered in that light, with respect to such taxes upon their consumption as they do not draw back from their direct industry, in producing some manufacture which they may sell again, with a profit proportional to the tax they paid. They are masters of a property, which, in a country of industry, is daily augmenting in its value. Their fortunes, often swell faster than those of any one class of the industrious; but they augment by annual income; the fortunes of all the rest, increase by the capital. Every penny raised in a landlord's rent, is equivalent to half a crown gained by a merchant.

If it be true that taxes, rightly imposed, do no prejudice to any of the manufacturing, or any-wise industrious classes of a people; and if it be true, that an abolition of those taxes, by contracting circulation, would discourage industry; then we may determine that the landlords would lose much more in finding the improvement of their lands interrupted, than all they can gain by adding their taxes to their present fortunes.

Combinations of this sort are so involved, that I cannot pretend to unfold them step by step, as might be done in cases of a more simple nature. The conclusions therefore drawn from researches of this kind, do not command that assent, which we find in a man-

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ner extorted from us upon other occasions. In this chapter, I have not undertaken to demonstrate that the judicious imposition of taxes is advantageous to a country in every respect. My view is to point out the advantages they actually have. The common opinion is that they are hurtful. Our feelings, however, have raised doubts with many great men concerning the truth of that proposition. If my investigations, however imperfect; and however liable to objections, should facilitate to others the clearing up a point, which is beyond the reach of my capacity to extricate, this consideration will be a sufficient encouragement for me to proceed.

Let me, therefore, lay aside the thoughts of analyzing the effects of taxes, with such accuracy as to form a demonstration of their being more beneficial than hurtful to an industrious nation, and that the throwing them back into circulation does more good, than the raising them does harm. But let me shew, in general, that the interest of landed men, who, I think have, beyond all doubt, been proved to be those who, in the first place, pay a considerable part of proportional taxes, does by no means require an abolition of them.

The proprietors of lands, whom we have hitherto considered as being of the class of the idle consumers, advance their rents by the great demand produced for subsistence, in consequence of industry. This, if it does not raise the price of subsistence, keeps it, at least, at an equal standard; and that standard must bear a proportion to what it is worth in other nations, as long as trade subsists. But let trade decay, let domestic industry fail, it will not be the foreign price which will then support the rate of our markets. What a multitude of circumstances contribute to the exportation of our superfluity! I can send from Charing-crofs, any parcel whatever, to the distance of fifty miles, cheaper than from my own country habitation, where I can have a man, with a cart, for two shillings a day. From Charing-crofs, I can send, at an hour's warning, many thousand tons weight: here I could not do the same in many weeks. Near London, an extended common-

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may be inclosed and improved in a season: here, the improvement of a small field is the business of a man's life. Let me even consider how matters are changed within these fifty years. Undertakings which now are executed with little difficulty, were then absolutely impracticable. An army was necessary thirty years ago to make a road of a hundred miles, and the inhabitants were astonished at the execution of it\*.

Were it necessary, at this time, to do as much every year, if money be but provided, hands will not be wanting, either to conduct or execute the plan.

The number of people, *well employed*, makes the prosperity of a state; and the profits of the opulent classes, by the augmentation of industry, more than compensates all the burden of their taxes. They grow in relative wealth; and the acquisitions they make, are commonly exempted from the cumulative taxes raised upon their possessions. In proportion to their industry in improving their lands, their fortunes augment. The present system of taxes does not interrupt their operations. Were any great change in that particular to take place, which might sink the market prices of subsistence, even allowing that it would prove an advantage to foreign trade, they, I am sure, would be the first who would feel the inconvenience.

It may be wondered, why I have not suggested, as a consequence of taxes, the increase upon the price of the earth's productions, which is a direct indemnification to all the landed interest, more than equivalent to the taxes they pay. But taxes upon land, do not augment the price of grain, as they raise the price of exciseable goods. The reason is plain. The tax upon land affects only the proprietor's share of the produce of his lands: were he to attempt to raise the price of his grain, in proportion to the tax he pays, his farmer, who pays no land-tax for his portion, would undersell him in the market. A tax never can raise a price, except

\* Wade's road through the highlands of Scotland.

when

when it is laid on so universally, as to make it impossible for any person to avoid it, who falls in competition with another who pays the duty. It is from this principle that smuggling often ruins fair traders: the smuggled goods are sold cheaper than those which pay duty, and the fair trader is thereby forced to sell below what he can afford.

On the whole, I believe that when this question is thoroughly understood, it will be found, that taxes affect prices far less than any one could imagine; except in the case of excises, rightly imposed, and levied without fraud. There indeed they have their effect; but in every other mode of imposing them, I am apt to believe that they do not produce the consequences commonly ascribed to them. I have already suggested the reason in a former chapter upon this subject; where the influences of competition in the markets where commodities are sold, has been proved to work more irresistible effects in regulating the price of work in general, than any thing that taxes, not immediately imposed upon the very article of consumption, can produce. But if in spite of all that has been said, it should be urged that the prices of labour and manufactures rise in proportion to taxes, I answer, that the difficulties resulting upon this hypothesis, would be many more than could be objected to the other theory. Could, for example, any man assign a reason, why a pound of the best snuff in England should be sold dearer than in France, where it pays a duty of above two shillings sterling; why many articles of manufacture can be afforded cheaper in England, than in Scotland, where taxes are certainly lower, and although a day-labourer in the first be paid a shilling, and in the last little more than eight pence; why subsistence should be absolutely dearer in Scotland than in England, taken upon an average; why universal experience should prove, that when the price of subsistence is raised by scarcity, work instead of rising, is constantly lower than at other times?

From all these appearances, added to the arguments I have used to prove that taxes are not prejudicial to industry, I conclude, VOL. II. B. b. b. b. that

that the theory I have attempted to give is just in the main; and that when taxes are judiciously imposed, and actually levied without oppression, they enrich a nation.

*1mo*, By putting into the hands of a good statesman, the means of removing every abuse; of rendering the state respected by its enemies; of supporting every class of industrious inhabitants, when their particular branch falls under distress; of providing an outlet for many young people, who in time become ornaments to their country, and instruments of her defence; of supporting foreign trade by bounties on exportation; of encouraging the improvement of lands, the establishment of colonies, the extension of fisheries, and every other scheme for augmenting the production of subsistence and manufactures.

*2do*, That the multiplication of taxes, exclusive of the encouragements just mentioned, which are bestowed gratuitously on trade and manufactures, do, of themselves, and independently of the proper application of their amount, augment, demonstratively, the mass of circulation, alienation and industry; and in this respect may be considered as a voluntary contribution, in the first place at least, from the rich who pay them, to the industrious who directly draw them back.

*3tio*, As to that part of the people, who pay their taxes without sharing the advantages of those who serve the state in lucrative employments, I say the industrious part of them pay nothing; and the demand for what they produce, is greatly increased by the expence of those very men who are the objects of their envy; and farther, that if an alteration were to be made on the revenue, by any abolition of taxes, those who imagine themselves hurt at present, might find, by sad experience, a much greater, and much more real hurt, from what would disturb the harmony of the present system.

To conclude, we have a tolerable notion of the state of industry in former times, when taxes were little known: we may see the progress it is making in countries where, at present, impositions are

are comparatively lower than elsewhere; and we may compare the state of those countries with our own, as to ease and happiness. From such inquiries, nothing, I apprehend, can be concluded in favour of the progress of industry, from an abolition of taxes.

That such an abolition may produce some good effect, as yet unknown, I shall not pretend to deny: we have not lived long enough to see any experiment of this kind put in practice.

From the exposition I have given of this matter, there arises a great difficulty to be solved.

Taxes are paid, no doubt, and no body according to this theory seems to pay them. The industrious draw them back; the proprietors of land and solid property are said to be indemnified; prices, it would appear, are not to fall by a diminution of taxes, in favour even of the most idle consumer; they are not made to rise in consequence of an augmentation on them: Whence then do taxes proceed? From what fund do they arise? What interest do they affect? I can solve all these difficulties, by an answer to another question. From whence arises the value of a small parcel of flax, when wrought into fine lace? It arises from the price paid for time well employed; which produces nothing when spent in idleness. This is the fund out of which the greatest part of taxes is paid; it is a fund created by the industrious Britons, which I hope will increase for many centuries, tho' taxes should increase in proportion. It is worth more than ten times all the taxes which could be raised, and all the landed property without it. Let that time be spent in idleness, and the whole produce of this island would not supply the expences of government for a month.

CHAP. X.

*Are taxes a spur to industry, as some pretend?*

IT is not easy to find out, *a priori*, how taxes should prove a spur to industry. What makes several people adopt this opinion is their feelings, in consequence of many circumstances arising from experience, rather than what reason, or the nature of the thing has pointed out. But as nothing can be produced without an adequate and natural cause, it is proper to examine this political problem, by an application of the principles we have laid down in the former chapters. If these be just, we shall discover by them, how it happens that in countries where taxes are high, where living is dear, and where every circumstance seems to render the means of subsistence difficult to obtain, people live in the greatest plenty, are best and most easily subsisted, and that industry there makes the greatest progress.

For the solution of this question, let us call to mind the principles which influence the multiplication of mankind, and the increase of labour and industry, laid down in the first book. We there explained how the wants of mankind promote their multiplication.

Money, the instrument of alienation, was represented as the primum mobile in this operation; a desire in the rich of acquiring every thing with money, that is *demand*, was shewn to be the spur to industry in the poor. It was said, that if riches did not inspire a taste for luxury, that is for the consumption of the labour of man, these riches would not circulate; and that they would then be adored rather as a god, than made subservient to the uses of men.

Connect herewith that the imposition of taxes is a method of bringing money into circulation; that those of the proportional kind

kind have the effect of drawing from the rich, an additional price upon every thing they buy, which goes for the use of the state, and which otherwise would not have entered into circulation at that time.

From these principles, I conclude, that taxes promote industry; not in consequence of their being raised upon individuals, but in consequence of their being expended by the state; that is, by increasing demand and circulation.

From the principles above laid down, I cannot discover the shadow of a reason, to conclude that the taking arbitrarily away from some individuals, a part of their gains by cumulative taxes, or proportionally from others, by augmenting the price of what they buy and consume, must in any respect imply an incitement in the consumers to demand more; and without this it never can excite the industrious to augment the supply.

I readily allow that every one who has been obliged to pay a tax, may have a desire to indemnify himself of the expence he has been put to, by augmenting his industry; but if on the other hand, taxes have put every one to a considerable additional expence, in proportion to his estate, it would be absurd to allege this diminution of his fortune, as the cause of a desire to augment his consumption.

Examine on the other hand, the use made by the state of the money raised, and you will easily perceive the justness, I think, of the above mentioned principles. This money belongs to the public, and is administered by private people. Public expence is defrayed with a full hand; they who bestow the money, bestow it for the public, not for themselves; and they who work for the public, find, or ought to find, the greatest encouragement to be diligent.

Every application of public money implies a want in the state; and every want supplied, implies an encouragement given to industry. In proportion, therefore, as taxes draw money into circulation, which otherwise would not have entered into it at that time,

time, they encourage industry; not by taking the money from individuals, but by throwing it into the hands of the state, which spends it; and which thereby throws it directly into the hands of the industrious, or of the luxurious who employ them.

It is no objection to this representation of the matter, that the persons from whom the money is taken, would have spent it as well as the state. The answer is, that it might be so, or not: whereas when the state gets it, it will be spent undoubtedly. Besides, had it been spent by individuals, it would have been laid for the supply of private wants, which are not near so extensive as those of the public: and farther, when money is so taken from rich individuals, it obliges them to find out a way of procuring more, out of their solid property; and when this facility is not procured for them by their statesman, we see how taxes become both oppressive and ill-paid. On the contrary, when it is provided, either by the returns of foreign trade, which greatly augment the coin of a country; or by banks, which melt down property into paper circulation; we see taxes augmenting constantly, without creating any impediment to consumption, or discouragement to industry. All these consequences hang in a chain, and hence the solidity of the principles upon which they depend may be gathered.

After this solution of the question proposed, let those who are versed in history combine circumstances, and examine whether facts do not prove the truth of what I have said.

During the time of the Roman empire, when the riches of Asia flowed into the coffers of Rome, and were constantly exhausted by the prodigality of the emperors, we perceive, from many circumstances, to what a degree the consumption of superfluities augmented. The price of certain commodities rose to an excessive height; industrious people, of the lowest extraction, were daily seen to amass prodigious fortunes; these are proofs of circulation. But when we consider the expences of a Lucullus, or of a Crassus, who consumed, it is said, the work of ten thousand slaves,

slaves, and compare the consequence of that consumption with the expence of a modern, who should consume the industry of ten thousand freemen, we shall find a wonderful difference in the effects of the one and of the other, with respect to circulation, and the encouragement given to industry.

There was no alienation between Crassus and his ten thousand slaves, notwithstanding all the work consumed; consequently, the only circulation implied by this consumption was in proportion to the necessaries which the master was obliged to purchase for so great a multitude: and if we still suppose all those necessaries to have been produced by their own labour, then the state of Rome could not, but by an arbitrary imposition laid upon Lucullus and Crassus, draw one farthing out of their coffers; consequently, industry could not increase in proportion to the loads of wealth brought from Asia by those generals. Whereas were Lucullus now at London, or at Paris, he would not be able to spend a shilling, without giving a penny, and perhaps more, out of his treasure to the state, which would immediately throw it back into circulation.

As we are now on the subject of circulation among the ancients, let me briefly trace the progress of it in Europe, through different modifications, to our own times, and so close this chapter.

When the seat of empire was translated to Constantinople, and all the Asiatic provinces attached to the Emperors of the East, a stop was put to the augmentation of coin and bullion in the empire of the West. A considerable part of what had formerly been there returned to Constantinople, and the remainder fell a prey to the barbarous nations which overran it. This may be called the first period.

These barbarians, by enslaving all the ancient inhabitants, and by forcing them to perform every kind of service, must have had little use for coin. What they coined appears to have been broad and thin.

Let any one reflect upon the insensible waste of silver plate, and the still greater loss on coin which circulates; the vast sums carried



off in the time of the Croisades; the quantities buried or thrown into rivers in times of devastation; and add to these circumstances, that from the fifth century after Christ, till the discovery of the Indies, there was, probably, little or no silver or gold brought into Europe; and it will appear very natural, that coin should have been at that time much more scarce than formerly.

How contracted circulation was during the 13th and 14th centuries, may be gathered from the anecdote concerning alienation in France, mentioned in the third chapter upon public credit.

But farther, the great subordination established by the feudal form of government, and the military services to which such numbers were bound, had the effect of preserving the ancient simplicity of manners, so unfavourable to industry. The consequence was, that Princes could raise no taxes; and that all the money the people had was locked up in their chests. We know there were in those days abundance of wealthy people; but their wealth inspired them with no disposition to consume at the expence of ready money.

The discovery of the Indies opened a third period, and threw great riches into the hands of the Spaniards: the house of Austria was the first enriched, and appeared with great splendor for some time. Charles V. by his extensive dominions, had an opportunity of distributing this new gotten treasure among his subjects in Flanders, his native country: this set industry to work in that quarter. The Portugueze discovered the East Indies: a new enticement to luxury; a new motive to become expensive. The Hollanders became a trading people, and with the money which their industry had drawn from the magnificent Spaniard, they shook off his yoke. Money insensibly began to circulate. Princes immediately found, as has been said in the second book, that it was necessary for them also to augment their revenue, in order to maintain a proper superiority over their subjects in point of riches. The increase of circulation among individuals made it more easy to raise taxes; and the throwing the amount of them back again, in gratifications to the chief people of the state, engaged those who came by money in a man-  
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ner gratuitously, to expend it as freely as they received it. No wonder, then, if Princes found it an easy matter to load their subjects. They were supported in this scheme by the great men of the state, who found a benefit from it. This revolution has totally changed the face of affairs in the present period of circulation. Courts are splendid; armies are numerous; buildings, in cities and in the country, are magnificent; an old city, compared with a new one, appears hideous; all public works are carried on with that solidity which we admire in those of ancient Princes and states, when nations led into captivity were employed to perform them. In those days the magnificence of Princes was in proportion to the groans of their subjects; now they are in proportion to their wealth and ease. Whence proceeds the difference, the effects are the same? From good government, and a well regulated political oeconomy.

C H A P. XI.

*Considerations upon Land-Taxes, with some Observations upon those of England and France.*

OF all the kinds of cumulative taxes, that which is properly imposed upon lands seems the best: that is, it implies the fewest inconveniences to the persons paying, and to the state in raising it. That it is an unequal imposition is plain and certain: this character is unavoidably attached to every species of cumulative taxes, in one way or other. It has also the effect of casting a general discredit upon the purchase and improvement of land; because the proprietors are naturally exposed to augmentations, which may, almost with the same ease, be carried to the total amount of the income, as to any proportional part of it. This has

been mentioned in a former chapter, where the interest of a nation's debts was supposed to increase so as to equal the value of all the land-rents, and the whole revenue of individuals.

Land-taxes are imposed in various forms in different countries, and all are supposed to bear a determinate proportion to the rent. This, however, is never, nor indeed can it ever be the case. The value of land is varying perpetually, from the industry of the inhabitants. Besides this inequality, there are other inconveniences proceeding from the unequal distribution of property. In Scotland, for instance, land is divided into large portions; very few small lots are to be found. The class of farmers, for the most part, labour the lands of others, who have large possessions. This is less the case, I believe, in England, and still less in France and in Germany. A land-tax, therefore, being supposed universal, would, in Scotland, do little harm: in England, it falls heavier upon the small proprietors; because the sum exacted bears a greater proportion to the supposed superfluity of the proprietor. In France, it is still worse; for there the exemptions of the numerous class of nobles, and many other circumstances mentioned above, entirely destroy even the shadow of proportion. It is out of my way to enter into any long detail upon this head, with respect to different countries.

I shall therefore confine myself to a very few observations upon the method of laying this tax in England; and upon a project which has been long in agitation in France, to raise their land-tax by way of tithe upon the fruits.

This scheme was first proposed to the late King of France by the *Marechal de Vauban*, in 1699, and the proposal was renewed some years ago in a performance called the *Reformateur*. But as it would prove hurtful and burdensome to France, in a great degree, from a circumstance which has not been attended to, the examination of this system of taxation will serve as a good illustration of this part of our subject.

The land-tax in England has, in my humble opinion, two remarkable defects. First, The sums imposed at so many shillings in the

the pound \* upon every district of the kingdom, whether cities, towns, universities, or open country, even upon the King's palaces, inns of court, &c. are not distributed according to any rule of proportion upon the property of individuals; but this operation is left to assessors.

Secondly, All personal estates, except property in the public funds, and stock upon land, supposed necessary for agriculture, are charged in the same proportion as land-rents.

I shall now point out the inconveniences and bad consequences of these two capital defects.

When a tax is imposed at so many shillings in the pound upon the income of a whole district, every article of the property which produces it ought to be specified. If this be omitted, there is a legislative authority vested in those who make the distribution.

The articles which compose the whole property, and the revenue of each article being once determined, the state has it in its power to impose the tax according to what proportion it thinks fit; of one, two, or more shillings in the pound. But then, in favour of the contributors, the different articles which produce the supposed total, ought either to be specified in the law, or reference should be made to a book of valuation where they are recorded.

It is no easy matter to frame the valuation of all the property of a country: and it is a scheme I should be very far from proposing, unless the spirit of a nation took such a turn as to wish for it. But where a determinate sum has been in use to be levied upon a certain district, it does not appear so difficult to make a proportional distribution of it according to equity, and to adhere for the future to that distribution, considering it as a *proportional* valuation, if not a *real* one. This is done every year, and without it no such tax could

\* That the assessments, in the annual act for the land-tax, are generally understood to be at the rate of 1, 2, 3, or 4 shillings in the pound, is true; but it is to be observed, that no such rate is mentioned in the statute with respect to real estates or land. The rate of a certain number of shillings in the pound occurs only with regard to personal property.

be raised. But when annual distributions are made, discontents constantly arise; and the pretended equality thereby observed, produces worse effects than the inequalities which would follow from the other scheme: because the change in the relative value of possessions would then be chiefly owing to the industry of every proprietor in improving his lot.

How valuations in England were made originally I cannot tell; but in Scotland, it is very certain, that as to lands they were all set down in a book of valuation at their supposed rents at that time. So let the sum raised be what it will, every man at least knows that his proportion must be according to his valuation in the general register.

In England, the case is totally different. The proportion every district is to pay, is indeed recorded by an original distribution made many years ago in King William's time. By this it appears what every city, county, university, &c. is to pay according as the tax is imposed at one, two, three, or four shillings in the pound. This is precisely the regulation in France, as shall be more fully observed; but still such regulations nowise prevent the most grievous inconveniences which attend this tax; because the burden of it does not

\* There is no vestige in the history of England, since Dooms-day book, of any regular valuation being made of all the *lands* of the kingdom, nor of any tax imposed, singly, on that branch of property.

The subsidies, monthly assessments, and pound rates, in the different stages of the monarchy, have all been mixed duties; composed of a charge upon the lands, upon the money and personal estates of the subject, and frequently including a poll-tax, where qualities, that is rank, were differently charged.

The whole operation of distributing and raising this duty, has been by commissioners named by the King, or by parliament, who sometimes upon oath, and sometimes not; inquired into the extent of every one's private fortune; and assessed them accordingly. Whoever wishes to have a more full account of this confused method of raising a land-tax in England, may consult Davenant's *Ways and Means*, Article of Monthly Assessments, and Aids upon a Pound-rate.

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confist in the total amount, so much as in the partial distribution upon the inhabitants in every subdivision.

In England, let me suppose the proportion of the general sum for a particular district to be ten thousand pounds, at four shillings in the pound. How is this to be levied as the law stands? Instead of books of valuation, which shew at least the proportion of every man's property, if not the real value of it, assessors are constantly called in, who examine the rents of all the lands according to the last leases of them. If they have been improved and let at a higher rent than formerly, the proportion of the tax is augmented. If they have not been let, but still remain in the possession of him who improved them, the tax is not augmented. If the tax be found to fall too heavy upon the lands and houses, then personal estates are made to contribute, as is the case in London. All questions or disputes about the repartition of the tax are determined, without appeal to the courts of law, by the commissioners appointed for laying on the tax; as in France they are determined by the Intendant. Without this regulation all would run into confusion, for the reason I am now going to mention, and which regards the second defect in this tax.

Any proprietor of lands is entitled, from the words of the statute, to insist that the whole personal estates of those of the district shall enter into computation of the total value upon which the sum imposed is to be assessed. Were such questions to come before a court of law, where the judges are obliged to determine almost according to the letter of it, I believe no land-tax could be levied in that kingdom. But manners, not laws, govern mankind. The spirit of the English nation is such, as to be incompatible with every thing which favours of oppression. Hence the few complaints against the assessors, or those who judge between parties. And as the land-tax is levied without any complaints, except as to the total amount; while that remains the case, the fewer the innovations made upon it are, the better.

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In France, the sum of the *taille* to be raised upon the kingdom for the year is determined in the King's council; and the proportion of every district (called an *Election*) is there particularly specified. The district of an Intendant is called a generality, and comprehends in it several elections. The Intendant, therefore, makes the distribution of the general sum imposed upon every election, and upon every town, village, and parish in it, according to a certain proportion; and rules are prescribed to the collectors of every parish, concerning the method of taxing every species of income, every emolument of industry, even every animal in the possession of those who are subject to this tax. This proportion is calculated to carry the most scrupulous attention to every man's gain, upon all effects belonging to him, and upon every possibility of making profit by industry. All this is carried into execution with the greatest seeming equality in the minute subdivisions.

But as the first imposition of the tax is not proportioned to the actual value of the income it is intended to affect, and as the Intendant does not set out by a particular valuation of every man's possession, before he distributes the tax upon the several parishes, he is obliged to make up the deficiencies by second and third distributions.

Although this *taille* affects every species of property producing an income, as well as every kind of industry and employment, it does not affect every landlord for his rent, so much as every cultivator under lease, for his supposed profits.

Land-rents in France belong, for the most part, to the higher classes; and these, whether they be well born or not, are exempted from this tax, providing they be *noble*; a word which has no reference to birth, but to certain privileges which any man, who has money, may acquire.

It was in order to avoid this exemption, that the Marechal de Vauban wanted to substitute a tenth instead of the present *taille*; for a reason we shall presently see.

All

All the land-rents, therefore, of the nobles are exempted from the *taille*, and are only affected by vingtiemes and dixiemes; but when they cultivate their own lands, their privilege of exemption from the *taille* is confined to as much as four ploughs can labour; and this farming must be carried on by menial servants, unmarried, in order to prevent such proprietors from defrauding the tax, by really letting their lands under pretext of holding them in farm.

This exemption, as to their land-rents, is more apparent, however, than real. It is not the *lands* of the nobles, but the *rent* paid out of them which is exempted from the *taille*; consequently, by imposing an exorbitant *taille* upon the lessee, very little remains for the land-rent; and this tax being laid upon a set of people who are loaded with many others, is in the end more burdensome to the proprietor, than if he paid it himself. But a change in this policy is impracticable. The gentlemen of France will probably never submit to a *taille*; and although, by yielding up that point of delicacy, their rents might be raised in the end; yet as matters stand, they know they enjoy the rents they have, free of tax, and if once they were made to pay any part of them, they do not know where such payments might terminate.

To avoid the infinite oppression which results from the French principle of sharing every man's profit as soon as he makes it, the Marechal de Vauban proposed to abolish the *taille*, as it is paid at present, together with the *capitation*, *industrie*, and all the train of cumulative taxes committed to the management of the Intendants; and to establish in their room what he called a royal Tenth, meaning by this term, a proportion of all the fruits of the earth, similar to what is established in favour of the clergy. This he proposed to lay on, according to the exigencies of the state, from one twentieth part to one tenth upon every article of the gross produce of land, over all France. This he imagined to be equal to one tenth of the land-rent. And the author of a book published under the title of the *Reformateur*, containing a new plan of taxation, in which there are some things worthy of observation, follows in this particular the

Marechal

Marechal de Vauban, without ever considering the true nature of a tax of this kind.

Of all the taxes upon the income of land-property, the tithe is the worst; and it has undoubtedly been established among men, before agriculture or taxes were understood. Lands in all countries are of different qualities: some are proper for bearing rich crops of grain, others are indifferent; some produce pasture, others forrest; the revenue of some consists in wine, in mines, and in a thousand different productions, which cost, some more, some less expence to cultivate. The tithe takes without distinction a determinate proportion of the fruits, in which is comprehended the tithe of all the industry and expence bestowed to bring them forward. As an example of this, let me suppose a field of corn, which cannot pay the proprietor above  $\frac{1}{3}$  of the grain it produces, many I know cannot pay above  $\frac{1}{4}$ , but let me suppose it  $\frac{1}{3}$ : another may pay with ease  $\frac{1}{2}$ ; another even  $\frac{2}{3}$ ; the fields about Padoua pay  $\frac{1}{2}$ ; grass fields pay still more; and rich hay fields will pay in some places  $\frac{2}{3}$ , and even  $\frac{3}{4}$ .

How then is it possible there should be any equality in a tax which carries off, without distinction, a certain proportion of the fruits, when those fruits bear no determinate proportion at all to the expence of raising them? But besides the inequality of this tax among proprietors, I ask how it is possible that any rent should be determined for lands, which are subject to a *variable* tithe, sometimes at  $\frac{1}{10}$ , sometimes at  $\frac{1}{20}$  of the produce? Let me demonstrate the impossibility of such a plan, by an example.

I suppose the Marechal's plan established, and that the tithe to be imposed is to be deducted from the rent stipulated between master and tenant. This was his intention: he has in many places declared, that all tithes were to come out of the land-rent, which indeed is the only fund upon which a land-tax ought to be established. And he has as often declared that he never intended this land-tax should exceed one-tenth of the rent, or two shillings in the pound.

I suppose

I suppose a field, producing every year 1000 bushels of grain, to be let: it is to pay a variable tithe, sometimes of 100 bushels, sometimes of 50, according to the exigencies of the state. I farther suppose one third of the produce to be equal to what the farmer can pay the landlord for rent. And I suppose the rent to be paid in bushels of grain.

According to these suppositions, the rent must be  $333\frac{1}{3}$  bushels subject to the tithe. Suppose it to be laid on at  $\frac{1}{10}$ , or 100 bushels. Deduct this from  $333\frac{1}{3}$ , remains to the proprietor  $233\frac{1}{3}$ . The tithe comes next year to  $\frac{1}{20}$ ; this makes 50 of deduction, remains to him  $283\frac{1}{3}$ . So instead of 10 *per cent.* of his rent, he pays in the first case 30 *per cent.* and when at the lowest, he pays 15 *per cent.* which is thrice as much as the Marechal proposed to take.

But how are masters and tenants to reckon with one another? Lands are not let according to a determinate proportion of increase. Suppose an estate in lands of different kinds, how is the tithe to be deducted then? Is the master to take the tenant's word both for the quantity and the value of every article he has paid as tithe, of every field, of every article in his possession, even of the chickens in his yard? If on the other hand, this variable tithe is to be thrown upon the possessor, which, indeed, is the only possible supposition, which way are lands to be let, when we see that the difference of the imposition, at different times, is no less than 15 *per cent.* or three shillings in the pound? This, however, would be the only method for masters and tenants to reckon.

But let me suppose another proprietor to let a grass field adjacent to that which bears grain, and that both were to be of an equal rent, supposing all tithes out of the way. The gross produce of the grass would be to the rent, little above the proportion of 4 to 3. Let us then call the gross produce 1000, as in the other case,  $\frac{2}{3}$  of which would be 750, for the rent. One tenth of the whole taken from that would leave the rent at 650, or little above 13 $\frac{1}{2}$  *per cent.* deduction at the highest tithe, and 6 $\frac{1}{2}$  *per cent.* at the lowest.

VOL. II.

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What inequality, therefore, would not such an imposition occasion upon land-rents, and what inextricable difficulties in letting of grounds? From what has been said, without farther inquiry, we may declare that no land-tax can possibly be raised, with any equality, by a royal tithe; and the Marechal has never considered farther, than how the King could with certainty and ease to himself, appropriate a portion of the lands in his kingdom, leaving the proprietors and their tenants to settle accounts the best way they could.

On the whole, nothing can make us approve of the Marechal's royal tithe, unless it be the present oppression which proceeds from the method of levying the *taille*; by which it happens that in France few incline to acquire the full property of lands.

Most of the great estates consist of fee-farm-rents. A man of three thousand a year land estate, covers sometimes with his nominal property (*dominium directum*) a whole country of fifty parishes; but the real property (*dominium utile*) of this vast extent is subdivided into a number of small fees, of which he is only lord paramount; and what remains is the property of the lower classes, who pay what is called *Rentes Seigneuriales*, or noble rents, consisting in money and grain. These rents can nowise be affected by any tithe imposed, because they bear no proportion to the produce: and supposing they did, as in some provinces, where they are called *agriers*, (which is the  $\frac{1}{6}$  or  $\frac{1}{8}$  sheaf paid to the lord) the tithe, instead of taking a tenth of the *agrier*, takes a tenth of the whole crop; consequently, only one tenth of this sixth or eighth sheaf falls upon the lord; the tithe of all the rest falls upon the poor proprietor or lessee, who the more he is industrious is oppressed the more by this imposition; because it carries off the tenth of his expence and labour, as well as of the farm which he rents.

This is the tax which the Marechal de Vauban recommended to be raised universally over all the land-property of France, when the tithe was at the highest. To this the late reformer adheres; but proposes the twentieth instead of the tenth; and after a nice calculation

lation of the gross produce of France, he estimates one twentieth part of it to be worth about 95 millions of livres *per annum*. Hence I conclude, that the twentieth part of the income, or one shilling in the pound of all the revenue of solid property in France, fairly collected, would not much exceed one third of that sum, or about 30 millions, or 1 333 333 *l.* sterling. This first part, therefore, of the Marechal's tithe, imposed at  $\frac{1}{20}$ , would lay a tax equal to three shillings in the pound on the poor lessees and vassals of the nobles; while, contrary to his express intention, the whole fee-farm and noble rents of France, would escape taxation. From this we may conclude, that no tax upon land-rents can possibly be raised by way of tithe: as also that when it is taken in kind it is the most oppressive, the most unequal, and the most discouraging to industry, that ever was contrived.

The Marechal's principal motive for proposing this mode of taxation, was to avoid the difficulty of obliging the nobles to pay the *taille*. He found also, that there would be great ease in collecting this revenue for the King, without demanding money of the lower classes. The consequence, however, would have been, either to ruin all lessees, if they continued to pay the same rent for the lands as formerly; or to introduce the greatest inequality imaginable among proprietors, if the tithe had been totally cast upon their rents: but as to the method of settling accounts between master and tenant, in consequence of this tithe, both the Marechal and the reformer are totally silent.

The Marechal's *Dixme royale*, with all its defects, is a book of great value, from two considerations.

The first, that he had all possible access to come at the true state of the nation. The second, that he wrote with great impartiality, and with a sincere desire to serve the landed interest, without intending to hurt that of the King his master. From this book, we have an opportunity of judging of his notions of taxation; and from the consequences he himself points out, we discover the miserable

state of the common people in France, whose situation at this day is not much changed for the better.

The Marechal's scheme was to reduce the whole revenue of France under four heads.

The first, a general tithe of all the fruits of the earth, without distinction, which we have already explained.

The second, a tithe upon every income whatsoever, even upon the profits of labour, servants wages, employments, possessions, and trades of all denominations.

The third, was a modification of the *gabelle*, or the duty upon salt.

The fourth, which he calls the fixed revenue, was to be composed of the domain, and several other branches of taxes which he allowed to subsist, judging them, I suppose, not hurtful to the state.

I shall now shew wherein the Marechal's plan of taxation is contrary to principles, and leave the reader to make his conclusions.

First, he has declared in many places, that his intention was only to impose a tax upon the income of land, which he understands to be that part which remains after the deduction of all expences of cultivation &c. in other words, what every one understands by land-rent, and which, no doubt, is the only proper object of taxation: but in order to impose upon this part his royal dixme when at the real tenth, he takes the tenth part of the whole produce, instead of the tenth part of what goes for the rent; and, as far as I have been able to discover, he never perceives that there is the greatest difference between these two quantities.

The second article was the tithe of every income, not consisting of the fruits of the earth.

Where an income arises from a branch of property which can render it determinate, I shall form no objection to a tithe or two shillings in the pound upon it. But when he comes to tax lawyers, attorneys, physicians, &c. according to the value of their emoluments, I own I cannot find a possibility of preventing abuse in the collection, or inequality in the imposition of the tax.

The

The Marechal's principal point in view was agreeable to the standing maxim in France, to make every one contribute according to his income. Very right, so far as it is possible, without implying much greater inconveniences than what can be compensated by this imaginary equality. I call it imaginary, because in the execution it will be found, that no body will really pay what they ought, except those whose income cannot be concealed. Whenever any part can be hid, there must, in my opinion, result a great inequality, and great oppression, in endeavouring to ascertain it.

A short observation will suffice to give a view of his notions with regard to merchants and trade in general. His intention was to be very indulgent to this class of inhabitants; and he feels all the advantages of trade. He proposes, however, to proscribe all notes of hand payable to bearer, as it is a method of concealing wealth and exacting interest for money; which he supposes to be contrary to scripture. Trade would be ill carried on with the Marechal's restrictions.

When he comes to the lower classes, which he supposes to comprehend one half of the people, to wit, all tradesmen, manufacturers, and day-labourers, their wives and children; he takes the example of a weaver, as a middle term, to judge of the gains of the tradesmen and manufacturers. He supposes this weaver to have a wife and family, to work 180 days only (because of the many holidays, as well as accidental avocations) at  $10\frac{1}{2}d.$  sterling a day. This makes his year's labour worth  $7l. 17s. 5d.$  sterling. Of this he takes  $10s. 10\frac{1}{2}d.$  for the greatest tithe. Besides this, he exacts of him for his salt-tax, for four persons in his family,  $12s. 9d.$  So that this man, whose whole labour is only worth  $7l. 17s. 5d.$  sterling, is to pay  $1l. 3s. 7\frac{1}{2}d.$  of cumulative taxes out of it, which is above  $\frac{1}{7}$  of the whole fund of his poor subsistence: after which he adds, "This, in my opinion, is a tax high enough for a weaver, who has only his two hands to gain his bread with, and who has house rent, meat and clothes to provide for a family, who frequently can gain very little for themselves." To this I must agree.

I shall

I shall give one specimen more of what the Marechal considered as an ease procured to day-labourers, in their then situation; which relief, however, they have not hitherto obtained.

These he also supposes to work 180 days in the year, at not quite 8½d. sterling. He values his year's labour at 6l. 10s. 6d. sterling, and here is the employment of this sum according to the plan.

He is to pay for tithe of his <i>industrie</i>	£ 0 8 8½
For his salt-tax	0 12 9
For five English quarters of rye	4 7 1
For clothes to the family, utensils, and repairs	1 1 11½
	<hr/>
	6 10 6

I have been the more particular upon this part of the plan, because it gives us a notion of what the Marechal thought a moderate easy tax laid upon 8,000,000 of inhabitants, to wit, 2,000,000 men and 6,000,000 women and children, according to his calculation.

I come next to the tax he proposed to lay upon salt, of which mention has been made.

This tax is of the nature of an excise, and is called the *gabelle*, which we have explained already in a note; and the objections to it, as the Marechal has proposed them, are no less than three very material ones.

First, the proportion of the duty is far too great, considering the value of the commodity. The second is, that being imposed upon an article of subsistence, it operates immediately on the price of the salt, and only consequentially on the price of labour. This is no great objection, were the proportion moderate; because infensibly the price of labour would rise, were the tax generally and exactly levied in proportion to the consumption: but this was not the case; and this circumstance opens the last objection, and the greatest of all, to wit, that the tax, proportional in its nature, is rendered cumulative, by being raised at the end of the year, in order to oblige every one to consume the salt required.

Now

Now by this mode of levying the tax it loses every advantage, and becomes an addition to the tithe laid upon the industry of the consumer. If every man in England were to be rated at the end of the year, in proportion to the excise of as much beer as he may reasonably be supposed to consume, would that be an excise? certainly not. It would be a poll-tax to all intents and purposes, which no man could draw back.

I have little or nothing to object to the fourth article of the Marechal's plan. He proposed no essential change, either as to the imposition, or method of levying the taxes which composed it. The principal heads of them are;

1mo, The royal domain, or the king's landed estate, together with all casualties attached to royalty, or feudal superiority; stamp-duties, and the *controle* of public acts by notaries.

2do, The customs upon importation and exportation.

3tio, Certain taxes of the purely proportional kind; among which was one upon tobacco, and one upon liquors drunk in public houses in the country. Here entire liberty is left to the consumers; and the taxes are principally calculated to affect, or, as he calls it, to punish luxury, intemperance, and vanity. With this view, he wittily proposes an imposition upon large and ridiculous wigs, at that time much in fashion, and upon several other articles of extravagance.

This is a short sketch of the Marechal's system of *royal tithe*, considered as to the principles only, upon which the several taxes were intended to be imposed. The treatise contains several admirable things; especially with regard to recapitulations of inhabitants, lands, houses, animals, &c. highly deserving the attention of the statesman, who intends to execute any plan for national improvement.

I shall now set before the reader the Marechal's calculation, as to the amount of the four articles, when at the lowest, and at the highest taxation.

2

When:



When the tithe is understood to mean the 20th part of the fruits, &c.

	Livres.
I. The tithe of the lands	60 000 000
II. The tithe of all revenue and industry	15 422 500
III. The salt-tax at eighteen livres the <i>minot</i> *	23 400 000
IV. The fixed revenue	18 000 000

Total of the four articles, when at the lowest taxation 116 822 500

When the tithe is understood to mean the tenth part of the fruits, the two first articles are just double of what they are stated at above, viz.

The salt-tax at thirty livres the <i>minot</i>	150 845 000
The fixed revenue never changes, and stands always at	39 000 000
	18 000 000

Total of the four articles, when at the highest taxation 207 845 000

In imposing this tax upon the fruits, he allowed no exemptions, not even in favours of the princes of the blood: for this he gave an excellent reason. Tithes, said he, were the ancient patrimony of kings. The Roman emperors and kings of France enjoyed them. From those duties no noble was exempted. This appears from the ecclesiastical tithe, which, he alledged, to be nothing but the royal patrimony, alienated in favour of the church; conse-

\* The *minot* is a measure of capacity equal to three Paris bushels, or the fourth part of a septier; which is about one half of an English quarter. This makes the *minot* to be about an English bushel. The Marechal proposed that this quantity, when at the lowest price, should be sold for 18 livres, or 1 l. 6 s. 1 1/2 d. sterling; and when at the highest, at 30 livres, 2 l. 3 s. 6 1/2 d. from which we may judge of the exorbitancy of the gabelle, even after all the diminution he thought proper to make upon it. The French money mentioned in the Marechal's *Dixieme royale*, is here converted into 52 1/2 d. sterling, for the French crown of three livres: because the silver coin in France, at the time he wrote, was 30 livres 10 sols the marc (*Dutor*, chap. 1. art. 6.); and at present it is at 49 livres 16 sols.

quently,

quently, there is nothing derogatory in paying the tithe, although nothing be more so than paying the taille. So great is the difference between terms, when the ideas of a nation are connected with them!

CHAP. XII.

Miscellaneous Questions relating to Taxes.

THE subjects of credit, debts, and taxes, have been so extensively treated of in the two last books, that I hope no question I now can propose will serve for any purpose, but to suggest the solution of it, so far as it comes under the principles we have been deducing.

QUEST. I. What is the most proper method for imposing a land tax?

I answer, that according to equity and justice, all impositions whatsoever ought to fall equally and proportionally on every one, according to his superfluity; but in land-taxes this equality is not so essential as in most others. The great hurt arising from inequality in taxation proceeds from the inequality occasioned thereby in the competition between the classes of the industrious. When the same tax affects people of the same class differently, those who bear the heaviest load gain less, though their industry be equal. But in land-taxes the case is different: the tax there only diminishes an income already made, and in fact diminishes the value of the property; so that were land-taxes made perpetual deductions, the whole loss of the tax would fall at once upon the actual possessors at the time it is imposed. Every subsequent purchaser, by deducting the land-tax out of the rent, would calculate the value

of the remainder only; and the consequence of the tax would be, virtually, to transfer a part of the land-property to the state.

The consequences of such a change upon property may produce a variety of new combinations. The state may then sell this portion of their property; they may with the price received pay off part of their debts; they may acquire certain districts of the country, where, being both sovereign and proprietor, they may abolish taxes, which would then in a great measure affect themselves only, and establish manufactures for foreign exportation.

Although an absolute equality in this tax is not so very requisite, still the inequality ought to be ascertained, and every income intended to be affected by the tax should be specified in one way or other. For this purpose, the best method seems to be, to make the regulation of any one year a rule for the subsequent years, until it be judged proper to make a new general valuation of every part. This is a consequence of what has been said: a fluctuating annual valuation, which is the case in France, produces numberless inconveniences; and upon the whole, they are far greater than those which it is intended to avoid.

I agree that the same land may be worth more one year than another; but it is impossible by a fluctuating valuation to ascertain that difference over a whole country, to the satisfaction of every one; and although, by fixing it at one rate upon every possession, inequalities must take place, yet fixing it from rising in proportion to improvement, will prove an encouragement to industry, which will greatly overbalance such an inequality. Every one then will be in the way of acquiring an addition to his income, free of land-tax; and if this be thought too great an encouragement to improvement, let the regulation be only fixed for a determinate time; suppose a century. This is no more than giving every one a lease as it were of their land-tax for a hundred years; and experience shews, that without granting long leases it is impossible that lands should ever be improved.

Were

Were innovations practicable, according as right reason and plain principles direct, it is very certain that a land-tax might be imposed in a better way than I have here suggested. But to what purpose would it be to lay down schemes beyond the power of execution, when the principles already deduced so plainly point them out?

QUEST. 2. Which is the best method of levying taxes; by farm, or by the management of commissioners appointed by the state?

The best way to answer this question, is to shew the inconveniences and advantages of both. The arguments against farming are, *1<sup>mo</sup>*, The great fortunes made by the farmers occasion jealousy, and expose to the eyes of the people a set of men who are become rich at their expence; hence envy arises, and hatred against government.

*2<sup>do</sup>*, In years of scarcity, war, or public calamity, deductions of the rent, or annual sums paid by the farmers, are demanded, and can hardly be refused, and the farmers always overvalue their loss; here therefore is an unequal bargain: the farmer *must* gain, the state *may* lose.

*3<sup>tio</sup>*, The people pay less willingly to the farmers than to the King; magistrates in general support the raising of duties with more unwillingness; and severities upon delinquents are less easily born.

These inconveniences are avoided in the management. There men of the best abilities may be entrusted with that employment; experience shews that many branches of taxation have been carried to great perfection under management, and men of probity and capacity will act with as great zeal for the public as for themselves.

The principal arguments for farming are; the advantage of having a fixed and certain revenue to depend on at regular terms; that the farmers act with more zeal for themselves, and with greater impartiality in employing under-officers, as well as more frugality, and therefore can afford to give a higher rent, with con-

considerable profit to themselves, than can be made effectual under the best management: besides, every one judges himself capable to administer the King's affairs, because he finds profit in it; but people think twice before they undertake to be farmers of a revenue they do not well understand.

In the administration of taxes, it ought to be the object of a statesman's attention and care to profit of every advantage attending the different modes of levying them. It is not sufficient to inquire into the general consequences of the two modes of administration, the management and the farming of taxes: those of the cumulative kind especially, affecting the lower classes, would be very improper objects of a farm; because it would be in a manner delivering over the greater part of a people to the rapacity of tax-gatherers.

On the other hand, the farming of proportional taxes is not liable to so many inconveniences. The farmers there are principally employed in watching over those who *advance* the taxes, and who are themselves, as has been said, in reality the tax-gatherers over the people.

When therefore circumstances permit, without inconvenience, the fabrication of exciseable goods to be incorporated with the farm, this of all others is the best method of levying taxes. Examples of this are familiar almost every where. The farmers of the salt and of the tobacco in France are in this situation. In retailing those commodities, they collect the price they pay for the composition; that is, for the farm of them. It is not the same of the aids in France. There the farmer superintends the immediate tax-gatherer, to wit, the retailer of spirituous liquors, or of other things subject to the tax. The circumscribing the number of places where exciseable commodities are fabricated, and the shutting them up within inclosures, would greatly facilitate the levying of all excises, whether by farm or by management.

In order therefore to decide whether the preference ought to be given to the management or to the farm, circumstances are to be weighed.

weighed. When a tax is new, or has been ill managed, or has fallen, without any visible cause, below what it formerly produced, or ought to have done; when the amount is unknown, by being of an extensive collection: in such cases, short farms, and even several subdivisions of them in a country, may be of use. But when a tax is well understood, and a good plan of levying it laid down, it may be well raised, and perhaps better improved, under a management; as also, when it is of a nature to be easily understood, and when the very exercise of levying it points out all the frauds possible to be committed.

Davenant, who well understood this question, in his 4th Discourse upon revenues, recommends farms which are not *absolute*, but *limited*, as the best. By limited, he understands, that the farm should first be given for a fixed sum; that the farmers should carry on an open administration, liable to the government's inspection in every particular; that in case the profits of the farm should exceed the rent stipulated, a certain sum should be ascertained for the charge of management, and the surplus should belong to the King, allowing a certain poundage to the farmers to animate their diligence\*.

He very justly observes, that a tax, when farmed, in order to be improved, will naturally draw, at first, a less rent than the sum liquidated as a free profit by the former management; because the farmers will be willing to secure to themselves a good profit; and next, because they will be obliged to make a considerable advance, as a security for fulfilling their engagement, which must also be considered as a deduction out of the produce of the tax.

All the advantage therefore in farming must be looked for after the expiration of the lease; for which reason, the shorter the term is, the better: three years, it seems, was the common term in England, in Davenant's time.

All new imposed taxes ought to be raised with the greatest lenity, not to revolt the minds of the people: the first year's defi-

\* This plan of Davenant's was carried into execution in France by Monsieur Silhouette; in 1759.

ciency is well bestowed, if government can but discover the different ways which may be fallen upon to defraud the tax, and form a good judgment how far the amount of it may go in time, when the management is brought to perfection. As long therefore as a management continues to improve a tax newly laid on, I should not think of farming it: but when, either from the extent of the imposition, or the nature of it, frauds begin to multiply, and management begins to become more and more difficult, then is the time immediately to put it into farm, either for different districts of a country, or in sub-farms. If this be delayed, frauds will daily increase; and the difficulty of preventing them will carry government to the expedient of imposing penalties, severe in proportion to the frequency of the crime. Commissioners will constantly put these in execution with reluctance; the management will become slack; or if penalties are rigorously exacted, they will become a handle for oppression; and even though justice be done, and none but delinquents be punished, yet still the people will be ill affected with the punishment of an action which in itself they are too apt not to consider as a crime: whereas in farming, frauds will be prevented by vigilance more than by fear of punishment; and this is by far the better expedient. Thus instead of feuds daily increasing, they will daily diminish, and the tax will improve yearly.

Here Davenant well observes, that *nothing but divine wisdom can at first create perfect order; but in all human affairs it must be the work of time, and the result of much labour and application.*

One good reason for managing a tax before it be farmed, is to learn the nature of it, and of the frauds it is liable to. When these are not rightly known, the farmer can more easily surprize the government, and obtain from it new regulations, under the pretext of preventing frauds; which regulations they may abuse, and turn to other purposes than those intended.

Davenant has a very good remark, p. 154. That a new tax, imposed upon consumption, and ill levied, equally raises the price

upon the consumers, and the whole profit centers in the hands of those who retail. That when an old excise becomes ill levied, the profit is divided between the inferior officers (who collect it) and the retailers. The reason is, that a branch which is well understood, is not so liable to *frauds* as to *collusion*. This shews that in every case, such a duty should never be imposed without exerting every endeavour to have it rightly collected. The state should also keep a watchful eye upon the augmentations made in the price of excisable commodities, in order to keep the augmentation justly proportioned to the duty. If this be neglected, the overcharge hurts consumption, diminishes the produce of the tax, and enriches the retailers only. Here competition is necessary to be introduced: the public may even erect a manufacture which may regulate prices, and so soon as they are properly ascertained, the selling price may be fixed by an affize.

An ill levied imposition is attended with this additional inconvenience, that it establishes inequality among the industrious of the same class; consequently, an unequal competition. This happens when particular officers are diligent and exact in doing their duty, while others are remiss. The profits of retailers are *high* in proportion to the *negligence* of the officers of the revenue; and their extraordinary profits, enable them to undersell and to ruin those who are exactly looked after: the consequence of this is, to diminish the number of retailers; to introduce hurtful monopolies; and in general, to hurt the whole branch of the manufacture. All remissness, therefore, in collecting an excise, draws along with it a prejudice to the Prince and his people: and the relative profit, which balances this loss, falls into the pockets of the fraudulent manufacturer, and the corrupt and negligent collector. This is not all: the deficiency must be made up in another way; for taxes must produce the sums wanted. Thus the remissness in collection occasions a new additional burden to be laid on the people.

QUEST. 3. What is meant by *income*, when applied to individuals, and to a state, and what is the nature of the *expence* which must diminish it, when it is considered as the object of taxation?

The great intricacy of this question proceeds from hence, that what is really an expence to one is the income of the other: so that without applying our reasoning to every particular fact, no general explanation can be rendred intelligible. My reason for proposing it in this place, is, that in commenting upon some passages of Davenant, in his discourses upon the revenues of England, I may have an opportunity of illustrating some things which have been already examined.

Davenant was an admirable writer; he had a remarkable genius for political theory, and his sentiments upon many things are very generally adopted. My intention here is not to refute opinions, but to avail myself of his combinations, in order to explain my own ideas.

In his first discourse upon revenues, we find the following passage.

“ The number of the people leads us to know what the yearly income may be from land, and what from mines, houses, and homesteads, rivers, lakes, meers, ponds, and what from trade, labour, industry, arts and sciences: for where a nation contains so many acres of arable land, so many of pasture and meadow, such a quantity of wood and coppices, forrests, parks and commons, heaths, moors, mountains, roads, ways, and barren and waste land; and where the different value of this is computed, by proper mediums, it is rational to conclude, that such a part of the people’s expence is maintained from land, &c. and such a part from mines, houses, &c. and that such a part is maintained from trade, labour, &c. and the poor exceeding so much the rich in numbers, the common people are the proper medium by which we may judge of this expence.

“ There is a certain sum requisite to every one for food, raiment, and other necessaries; as for example, between 7 and 8*l. per annum*; but some expending less, and some more, it may not be improper to compute, that the mass of mankind, in England, expend, one with another, near 8*l. per annum*: from whence it  
“ may

“ may be concluded, that an *annual income of so many millions* is needful for the nourishment of such and such a number of people.”

The reasoning here takes a wrong turn. It is, of no consequence to compute the value of things consumed without alienation. It is of no use to know that the value of the physical-necessary of an Englishman is 8*l.* a year; because if this sum is supposed to be an exact quantity of income, not one farthing of tax can be imposed upon it. So that imposing, for example, 5 *per cent.* upon this article would only be raising the physical-necessary to 8*l.* 8*s.* which 8*s.* must be paid, not by the physical-necessarian, but by some body having superfluity who employs him: and if there was not superfluity enough in England to answer to 8*s.* a head, such a tax could not be levied.

He afterwards supposes that the income of this class may amount to about twenty millions a year, which at 8*l.* each, answers to two millions and a half of people. He states the income of lands at fourteen millions, and the income of trade at ten millions, in all at forty four millions a year: and hence he concludes, that taxes ought to be imposed in some proportion to this total.

Now if he supposes the first article of twenty millions, arising from the income of those who are employed in arts and manufactures, according to the former calculation of 8*l.* a head, to be as ready a fund for taxation as the land-rents, we must examine, by the principles we have deduced, whether there be any ground for such a supposition.

Let me suppose one of this great class to work a whole day for his victuals only. Here is an alienation of work for food. It is impossible, however, to raise a tax in money upon this alienation; because it may easily be supposed that neither party has a farthing. The only method therefore, in such a case, to impose a tax, would be, either to oblige the workman to set apart a portion of his day’s work for one who would pay the public for the value of it, or to oblige the person who gives him his food, to pay the public for the privilege of employing him in his service. The one and the

other are examples of proportional taxes. But this method of taxation is absolutely unknown. In this example there is an alienation, which, I have said, constantly implies a superfluity of one kind or other. The labour of the person working is, here, superfluous to himself; therefore a part of it may be applied towards the public. But the bread he receives is in no part superfluous, and therefore cannot be laid under taxation *as to him*. But then the bread given for the labour is superfluous to the person who gives it; and as this implies that he has a superfluity of bread, the state may demand a share of that superfluity.

By this exposition of the matter it appears, that in order to raise a tax, in whatever way it be done, some kind of superfluity must be supposed. It also points out how it should be laid on: for if by mistaking the proper object, a part of the *bread* should be taken from the *workman*, instead of being taken from the *man who employs him*, the tax would affect the physical-necessary of the labourer, instead of affecting the superfluity of the employer.

Let us next suppose a workman able to do no more than what is requisite to dig the ground for roots to eat, instead of digging it to procure bread from a man who has bread to spare; still there will be no alienation; consequently, no possibility of establishing a tax: for if you either take a part of his labour, or of his food, you deprive him equally of his physical-necessary. Yet the work of this man, and his food, may be valued at so much money; and thus may enter, in one sense, into Davenant's general article of income or expence; but it does not follow that any tax can be raised upon such an income.

To estimate, therefore, the total value, in any nation, of what is the object of taxation, we must go another way to work. The first article must be the *annual income* of all *funds*. By funds, here, I understand the capital wealth already made, in opposition to the produce of industry, which may be considered as the materials of which such funds are composed. The fund therefore is the accumulation of savings, which, not having been spent by the industrious, form  
a capital

a capital of a nature to produce an income, either from land, or from any other valuable thing. Thus land-rents, annuities, interest of money, emoluments of offices, salaries, even wages of servants; in short, every fixed income, I range in this first article, which I call *annual income*, produced from a capital already formed, either real or supposed.

This may be laid under taxation by a pound-rate, or otherwise, and forms that kind of tax which I call cumulative and arbitrary; because a man who has any sort of visible revenue, comes under this general rate, let him have ever so many necessary deductions out of it, ever so many debts and incumbrances. From such circumstances, cumulative taxes frequently turn out extremely burdensome.

The second object of taxation is upon alienations made for money. Whenever we come to dispose of money in the purchase of any thing, the state has an opportunity of exacting a part of it as a tax; but while it remains hid, it can neither be come at, or laid under contribution, without extortion or violence.

All branches of expence may be laid under taxation by excises, which I call *proportional taxes*; because a man is never subjected to them, but in proportion to his expence; and his expence ought naturally to proceed from his income.

As for trade, I do not clearly see how the profits of it can be regularly taxed. In France, indeed, they are taxed under the first head, and are considered as an income. Such an imposition is not well judged; because *there* the materials for making the fund are taxed as if they were the income of a fund already made. It is only the savings out of the profits upon trade, placed so as to produce a permanent revenue, which properly can be considered as a fund: the *income* therefore of these savings, and not the savings themselves, should come under that branch of taxation.

Customs are improperly called taxes upon trade. If ill imposed they stop trade, or render it less profitable, by diminishing the demand for the goods so taxed; but they take nothing from the profits already made.

In a trading nation, the great branches of commerce produce a certain determinate profit, subject; I allow, to augmentations and diminutions, from accidents and circumstances impossible to be foreseen: and the customs imposed upon exportation and importation differ from excises more in the method of levying them than in any thing else.

Davenant, in my opinion, would have given a better idea of the sum which taxes might have been supposed capable of producing in England, had he examined the amount of all the branches of revenue, and of all the species of sale, than in the manner he has done. These two points known, it would be expedient next to inquire, in what manner the several articles could be made subject to either cumulative, or proportional taxes.

I must now take notice of another passage of Davenant, where he explains himself upon the question before us: it is in his fifth discourse upon revenues, where he says,

“ By annual income, we mean the whole that arises in any country from land and its product, from foreign trade, and domestic business, as arts, manufactures, &c. and by annual expence we understand what is *of necessity* consumed to cloath and feed the people, or what is *necessary* for their defence in time of war, or for their ornament in time of peace: and where the annual income exceeds the expence there is superlucration arising; which may be called wealth or national stock.

“ The revenue of a government is part of this annual income, as likewise a part of its expence, and where it bears too large a proportion with the whole, as in France, the common people must be miserable and burdened with heavy taxes.

I must comment a little upon this passage.

I have no objection to this exposition of the matter; the ideas are intelligible and clear: but I object against the application of his doctrine to taxes; because it would lead to error. Here are my reasons:

*1mo*, Income is called the whole of the earth's productions: this I may admit to be just, except when we consider income as an ob-

ject of taxation. But if we retain the same definition to express the income of one, for example, who labours the soil for his own subsistence, as well as of another who labours it as a trade, the difference in paying their taxes out of it will be very great. He who draws nothing from the ground but his physical-necessary, can be laid under no taxation; because he has no superfluity. And if he be obliged either to give a part of his crop in tax, or to sell any part of it for money to be paid to the public, this diminishes his physical-necessary, and forces him to starve: whereas the other who exercises labour as a trade, may be obliged to pay a part of his surplus by way of tax or rent; and still his physical-necessary may remain untouched.

It is for this reason, that in treating of these matters, I am always at the greatest pains to point out, that nothing can be the object of taxation, except what is over and above the physical-necessary of every one.

In all countries where a *land-tax, steuer, taille*, or by whatever name it goes, is established, care must be taken to prevent the husbandmen from confining their labour to such a small spot of ground as is barely sufficient to produce their own physical-necessary, unless when they have a trade to assist them in paying what the public demands of them.

From this circumstance, and this only, it happens, that the land-tax in England is so little burdensome, comparatively to what it is in many nations of Europe. Lands in England are let in large portions: no body will let a farm so small as to be proportioned to the supplying of the mere physical wants of the farmer. But in other countries, where the œconomy is different; where inheritances in land are constantly divided, as moveables, among all the children; the lots become so small, that the proprietor can draw no more from them than his own subsistence; and then when a land-tax is imposed, this poor little portion being valued in proportion to what it can produce, as well as the greatest estate in land, the husbandman is starved, although the tax demanded of him be laid on in the

the exact proportion to the produce of his land, while he that has a surplus is quite easy.

*Small Farms*

I would therefore recommend, in countries where this minute subdivision of lands has taken place, that for the future none under a certain extent or value should be suffered to be divided among the children, but ordered to be sold, and the price divided among them; and that the same regulation should be observed upon the death of such proprietors whose lands are not sufficient to produce three times the physical-necessary of the labourers. This would engage a people to exercise agriculture as a trade, and to give over that trifling husbandry which produces no surplus, and which involves so many poor people in the oppression of land-taxes. This plan can never be recommended as a plan to be executed all at once: it must be done by degrees, and in proportion to the progress of industry. The principle is so evident, that I never found any one who did not immediately agree to the justness of my observation; although in imposing land-taxes I have nowhere found it attended to.

Here then is the use of theory; it directs us in practice to avoid difficulties, which might otherwise be judged unfurmountable.

2do, I farther observe, that it is a more hurtful error still to mistake the produce of industry for the taxable income arising from it, than to mistake the gross produce of land for the rent: because the profits upon industry bear a smaller proportion to its produce, than the rents of lands do to their full fruits.

The best method of raising money upon the lower classes of the industrious, is rightly to lay their consumption under proportional taxes, which they may easily draw back; because they will raise the price of their work proportionally.

From this we may conclude, contrary to the common opinion, that the test of well imposed taxes is to raise prices in proportion. When they are rightly imposed, every one who sells a commodity

\* Some small attention is paid to the poorer sort of landholders in England: for, by the annual act for a land-tax, no poor person shall be liable to the pound-rate, whose lands, &c. are not worth 20 s. per annum value.

which

which has paid a tax, will draw it back, whether he be industrious or not. If he consumes it, he cannot draw it back, but by raising the price of his work; which again he cannot do, unless the tax be made so general as to affect all his competitors; and unless the consumption he has made be unavoidable to every one of them.

When we reflect upon the large quantities of exciseable goods which are consumed as superfluities, we must conclude that the rise of prices, daily complained of, proceeds more from our manners than from the taxes we pay.

3tio, The expence of a people is not merely what is sufficient to subsist them; but what they consume, either in fruits, or manufactures. Had indeed Davenant computed the value of this necessary quantity, and deducted it from the income, according to his acceptation of income, the remainder would have been a tolerable good representation of what I mean by income, or taxable fund; because whatever a people consume beyond the necessary, I consider as a superfluity which may be laid under taxation.

4to, I must also differ from him in his idea concerning superlucration, wealth, or national stock.

According to him, this is the quantity of income remaining after the following deductions: 1mo, What is necessary to clothe and feed the people. 2do, What is necessary for their defence in time of war, and ornament in time of peace. But according to my notions, I must also deduct all that is consumed in superfluities; for what is consumed, whether necessarily or superfluously, never can make an article of superlucration, wealth, or national stock.

The superlucration then of a nation consists in the augmentations made upon her stock of every kind, capable of producing a proportional income: it is the converting into something durable the well employed time of the inhabitants. In this sense the new pavement of London, the roads, buildings, ships, &c. in England, are all articles of superlucration, as well as the improvement of the lands, and consolidation of the balance of her trade, which has created that part of the public funds belonging to natives.

QUEST.



QUEST. 4. Is it possible to convert a land-tax into one of the proportional kind?

This is a curious speculation; and as it is a short exercise upon several principles of this science, it comes in properly at the conclusion of our work.

To make a land-tax proportional, the proprietors of land should be enabled to draw back the burden, in the sale of the earth's productions. This they cannot do, as matters stand. The farmers who pay no land-tax undersell them; because they have no tax to draw back.

Since the tax, therefore, cannot be drawn back directly, let us apply our principles to discover a method how this might be done indirectly.

Let nothing but lands be subject to this imposition.

Let every part of them be valued, and recorded in a general register.

Let bread, butchers-meat, and subsistence of all kinds, be laid under an excise, *in all markets*; and nowhere else, at a rate sufficient to raise the tax intended to be laid upon the lands; and let the amount of this tax be drawn back by the landlords, in proportion to the valuation by which they have paid the land-tax.

That this is a reasonable imposition, appears from the whole plan of this work. We have seen, in the first book, how the great body of the people is divided into labourers and free hands; that the free hands are the inhabitants of towns, who go to market for subsistence, and consume what corresponds to the land-rents; consequently the landlords, who at present pay a cumulative tax, which they cannot draw back in any shape, are justly intitled to the amount of this proportional tax, laid upon the great articles which produce their land-rents; and which are consumed by the inhabitants not employed in agriculture.

Every one who has writ concerning taxes has endeavoured to contract the object of them as much as possible: more, I imagine, with a view to ease the public than the people. I have followed another

another course. I have been for multiplying the objects of taxation as much as possible, and for making them more in proportion to expence than to property or income. But that I may conform myself in some measure to the ideas of those who have examined the same subject, I shall propose a tax, which would fill up the place of every other; and could it be levied, would be the best perhaps ever thought of.

It is a tax, at so much *per cent.* upon the sale of every commodity.

CHAP. XIII.

*Recapitulation of the Fourth Book.*

PART I. *Of the Interest of Money.*

INTROD. I INTRODUCE the subject of credit and debts, by giving a general idea of its extent. It comprehends the method of establishing a solid security for money borrowed; of extending the object of such security in proportion to circumstances; of supporting the credit of the borrowers, when overstretched; and of preventing, as far as possible, the fatal consequences of a bankruptcy, when it can be no longer supported.

I shew how all mysteries relating to credit proceed from our ignorance only of its true nature; which is confidence established upon a visible and palpable fund of payment. I observe how delicate a thing credit is, and how gently it must be dealt with; how incompatible the forms of common law are with the discussion of questions which arise between merchants; how necessary it is to form a jurisprudence peculiar to trade, and to support it by manners more than by authority; and when credit is once set upon its

true basis, how all aerial schemes, bubbles, and public bankruptcies will be avoided.

CHAP. I. Here I shew how impossible it is to establish credit by authority; how inseparably it is connected with liberty and independence; and still how compatible it may be with that supreme power which is vested in every government.

CHAP. II. The object of credit is money lent; the basis of loan is the payment of interest. If money be wanting, credit will die; consequently, there must be a method found for augmenting and diminishing the quantity of money in proportion to the demand for it. It is augmented, by converting land into paper-money; it is diminished, by relieving the land of the engagement upon it, and extinguishing the paper-money. This is no more than a contrivance for turning into a circulating value, which is the principal characteristic of money, the obligations of private men, which in all countries are considered to be of an equal value with any coin.

I here explain what is meant by money stagnated, and by money realized. Money, while it is employed in circulation, can carry no interest; the moment it lies idle to one man, were it but for a day, it may be worth interest to another, who willingly pays for the use of it, when he has occasion either to buy what he wants, or to pay what he owes. If no body be found who wants it, then it is said to stagnate in the hands of the proprietors. This denotes that circulation is full. He therefore desires to realize it; that is, to purchase with it some kind of income. For this purpose, if it be coin, he sends it to some place where coin is wanted. If it be paper, he demands of the debtor in the paper either to give him an interest for it, or to convert it into coin, which is the money of the world. Both are called realizing; and in proportion as money is realized, circulation diminishes.

Hence I conclude; that as the use of circulating money is to carry on alienation, so the use of stagnated money is to produce an interest; consequently, a perpetual interest is better than money, when it is not wanted for the use of circulation. If therefore, by

the policy of a country, the capital of every perpetual interest can be immediately converted into money for the use of circulation, the inconvenience of capitals not demandable is removed; because although you cannot make the debtor pay, you can sell what he owes you to another, who will; and this equally suits your convenience.

CHAP. III. The simplicity of manners among the primitive christians, circumscribing very much the uses for money in circulation, a great quantity of the coin was consequently locked up. Paper money then was superfluous; because even coin itself so far exceeded all the uses of their circulation, that it was considered in the light of jewels and plate with us.

Taking interest for it, when lent, appeared to them as unreasonable, as if a lady, in these times, were to ask a price for lending her jewels to a friend.

However, as money was necessary on many occasions to those who had none locked up, the Jews, who have always despised land-property, made a trade of lending; and this drew an odium upon the practice. I can ascribe it to no other cause. Our manners are totally changed; and Christians lend money at interest as well as Jews. Neither trade, industry, or credit, can subsist without it; and as money cannot be lent, without allowing interest to be taken, interest is become the basis of the whole system of credit, and comes to be examined in the following chapters.

CHAP. IV. Before industry was established, the calls for money to borrow were few, and chiefly confined to Princes in time of war, and prodigal proprietors of land in time of peace. Their demands were urgent, and the interest they paid was in proportion. The lenders possessed but a small part of the coin of the country; because the bulk of the people locked up all they could. Those who hoarded, would not lend; and this greatly diminished the fund of borrowing: besides, Princes and prodigals had no sooner spent the money borrowed, than it fell again into the hands of those who

hoarded; and the lenders found, no doubt, great difficulties in procuring fresh supplies.

When industry and trade brought money out of its repositories, when the necessity of permitting interest appeared evident to the church, the coin then began to make its appearance, and was ready to be lent. This opened a market for money. The price of money is the rate of interest. At this market, the borrowers and lenders appear in competition among themselves, according to circumstances. If more money is demanded to be borrowed than is offered to be lent, the competition takes place among the borrowers, and interest rises. If more is offered to be lent than is demanded to be borrowed, interest falls. Those who borrow money may be divided into two classes, viz. those who intend to spend it, and those who intend to trade with it.

When more money is to be lent than the first class demands, the rate of interest will be regulated by what merchants can give for it: when there is less, it will rise to what the prodigals will give for it.

But this first class must have good credit, or their borrowing will be cut off. When therefore a statesman finds, that the borrowing of such people hurts the commercial interest of his country, by keeping interest high, he should weaken their credit, by tying up their lands by entails. When their borrowing becomes necessary for the encouragement of industry, and for bringing all the money there is into circulation, then their credit should be enlarged, by promoting an expeditious sale of every branch of their property.

CHAP. V. Thus, without the aid of law, the interest of money is regulated by demand. But a state must not totally overlook the interest of the class who spend more than their incomes. It would be inhuman to throw them into the jaws of usurers. Statutes therefore prevent interest from rising above a certain rate. This preserves them, and renders the dissipation of their fortunes more gradual.

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But although a statesman has it in his power to guard his people against the oppression of usury, by preventing the rate of money from rising above the ordinary standard of demand, he cannot equally force it down below this standard, even although the interests of trade should require it: because if the monied men can lend their capitals abroad, at a higher interest than they can procure for them at home, they will distress the landed interest, by demanding what they owe; and all the money will be sent abroad, as was the case in Scotland in 1762.

This was not the case a hundred years ago. No money then could be lent abroad by Englishmen; because those who would give high interest had no credit. Thus government could bring it down at will; monied men were forced to consent; and the price of land rose in proportion as interest fell.

\* As it is the extravagance of men of property which raises the rate of money above what is consistent with the interest of trade, the expedients to bring it down, are, 1. To circumscribe borrowing by the prodigal: 2. To suspend borrowing by the state: and 3. To throw as much public money as possible into the market, by paying off debts. When a statesman has by such measures brought the rate of money considerably below the legal price, he may, by a new statute, prevent its rising again so high as formerly; but still he must keep in his eye the rate of money, and state of credit in rival nations, in order to avoid the inconveniences already mentioned.

CHAP. VI. If Great Britain were to regulate the rate of money below what the fluctuations of demand are commonly found to carry it, then in time of war, as soon as demand, which can be subject to no statute, got up to the high standard, the whole landed interest would be torn to pieces by their creditors: for the debtors could not borrow from one to pay another, because no man would give them credit. This would put an end to all their expence; the funds which supply it at present (the land-rents) would be carried off by creditors; and all the industrious who serve such proprietors of land would suffer considerably for want of employment. The conclusion which

the

\* National extravagance must have the same tendency

the generality of people would draw from this phenomenon would be, that high interest, instead of being hurtful, is advantageous to trade.

CHAP. VII. Hence we may conclude, that low interest is principally advantageous for carrying on foreign commerce, and that the best method to keep it low, is to keep circulation full, by facilitating the melting down of property.

This expedient has been contrived by merchants in the establishment of banks upon mortgage; and there is a possibility that landed men, some centuries hence, may find out that they may imitate the example of traders, and contrive the means of borrowing cheaper than they can do at present.

Were a particular nation to carry such expedients into execution with success, it would have the effect of bringing down the rate of money every where. This would sink the general average of the whole, but never would prevent the operation of those principles by which it had been brought down; and the most intelligent nations would still have the same advantages as before, of keeping their interest low relatively to their neighbours, which is the great desideratum for the support of public credit, as well as of foreign trade.

CHAP. VIII. But although it is of very great advantage to trade to have interest low, we cannot judge of the prosperity of trade from this circumstance alone.

That nation gains the most upon her trade who draws the greatest balance from the rest of the world. Now the balance cannot be judged of by the rate of interest; because this depends more upon manners and policy than upon the state of industry. Industry must be supported by superior dexterity, natural advantages, and promptitude of payments, as well as by low interest. Prompt payment alone, is of more consequence to the industrious populace, than a small difference upon the rate of interest. That encourages the whole class of manufacturers. Low interest is principally an advantage to the merchants who are obliged to employ credit for collecting their work; and merchants themselves who trade upon credit,

often

often gain more by quick returns than what will compensate a considerable difference in the rate of interest. Low interest may more properly be called the barometer of public credit than of foreign commerce.

CHAP. IX. From what has been said, I conclude, that the rate of interest does not sink as wealth increases; because it is influenced by many circumstances, which do not depend upon opulence. It depends upon the spirit and manners of a people, and will fluctuate with them.

## PART II. Of Banks.

CHAP. I. HAVING deduced the principles which regulate the rate of interest, I proceed to investigate those which influence domestic circulation; and as banks are the great engine by which circulation is carried on, in tracing the nature of banks we shall fully understand its policy and principles.

Banks either circulate notes, or transfer credit written in their books: the first are called banks of circulation; the latter banks of deposit.

All banks are founded on credit, and according to the nature of their institution, I may divide the credit they are built on into three kinds, viz. private, mercantile, and public.

Private credit is when the ground of confidence is real property, pledged for the security of the loan.

Mercantile credit is when the cause of confidence is in the trading stock, abilities, integrity, and good fortune of the person who obtains it.

Public credit every one understands. It is when the ground of confidence is a fund secured by public faith, in favour of the creditors,

ditors, for the interest and capital due, which last however is never exigible from the state.

Private credit is the most solid of the three; mercantile credit is the most precarious; and public credit depends entirely upon the maxims of every government with regard to public faith.

It is the object of confidence, not the quality of the person obtaining credit, which determines the nature of the credit. A merchant may grant bond on the credit of his lands; a landed man's bill, as member of a mercantile company, may only affect his stock in trade, and a Prince may pledge a province for a sum of money.

The debts of a state, and the bills of merchants, are more easily transferred than private securities.

Public and mercantile credit stand upon a more precarious bottom than private security. A suspicion of insolvency will shake the two former; real insolvency only will destroy the latter.

These are some of the peculiarities which characterize the differences between the three kinds of credit. The justness of the distinctions I have made appear from them, and from other circumstances mentioned in this chapter; and the utility of such distinctions will appear from their application as we proceed.

CHAP. II. To establish private credit, on the most solid and extensive bottom, the effects of debtors should be rendered of a ready conversion into money; the sale of lands should be rendered easy and expeditious; no entails or cloggs by mortgage and the like, should be allowed; debts upon possessions ought to be registred, and those due to banks (the great public debtors) should always be considered in a most favourable light.

CHAP. III. Banks of circulation upon private credit, are of great use in the infancy of industry. In countries where it is only taking root, the greatest obstruction it meets with is a scarcity of money. When money is scarce, payments are ill made; and when the uses for money increase, if money be not made to augment in proportion, alienation will cease to go on, and payments will daily be more precarious. This is so evident that I shall not insist upon it.

Now

Now as every individual in a state does, less or more, support industry by consuming its produce, money must be provided for every one in proportion to the value of his property. This opens at once the principle of banks upon private credit.

He who has money will, every where, willingly lend to every one who can give good security for it; and the obligation granted by the borrower is considered by the lender as better to him than the money he lends. Before the establishment of banks, such loans were made in coin; but as people discovered that a good obligation was as good as coin, they discovered also, that when obligations could be made to circulate, they might supply its place.

For this purpose, banks found out an expedient of dividing obligations secured upon property into small parts of the capital sum; and by delivering them back to the borrower, with an obligation to pay them in coin to the bearer on demand, they constituted themselves debtors to the public for every note. The consequence of this was, that the coin of the country became less useful in circulation; and as the banks demanded it, and even gave premiums for obtaining it, it came into their hands, and served the purpose of changing notes; that is, of subdividing the sums mentioned in them, into the lowest denominations of the money of the country.

There is not a nation in Europe so ignorant as not to feel the use of this policy; but there are few who have discovered how to establish the confidence of the public in this general debtor, the bank. The reason is, that people imagine a bank should at all times be able to turn all their paper into coin. Were this possible to be done, where would be the use of banks? How could they multiply money?

From this short exposition, we may understand the difference between banks upon private, mercantile, and public credit. The first lend upon the security of possessions; the second, upon bills of exchange, which is called discounting; the third, upon the security of the public funds.

CHAP. IV. A scarcity of money only being found to stop the progress of industry, and thereby to circumscribe the gains of merchants who supply consumption; and they perceiving that men of property become bad customers, more from the impossibility of making payments than for want of an inclination to consume, joined together, and formed a considerable stock which they exposed to the eyes of the public. This gave them credit, and every one who had money to lend was fond of placing it in their hands. Other people who wanted to borrow, applied to them for money. Their answer was, we have no coin; but if you want money for any purpose, we can assist you in credit, if you will give us security upon your estate. Here is, said they, a note of ours, which any body will take from you as payment for what you want. This was the same thing to the man who wanted money for a particular use, as if they had given him coin; and as such demands became frequent, the notes were printed, and insensibly banking was established.

States perceiving the abuse which might follow, were every one allowed to issue paper in this manner, judged it proper to erect companies, who lent them considerable sums as a security for their faith to the public; and the superior credit of such companies drew the confidence of the public, and circumscribed the dealings of individuals. Thus the trade of Lombards, who had formerly supported circulation by their bills of exchange payable to order, received a farther extension by the establishment of banks, who, by issuing notes payable to bearer, rendered them, in all commercial countries, every bit as useful as any coin.

Banks once established, regulations became necessary; and of these the first and fundamental one, was, to issue no notes but upon good security. If it be asked, what security should be taken? The answer is, the best those who want credit can give. In a country where trade and industry are little known, but where a taste for refinement is taking place, demand must be encouraged, in order to augment the supply. And as this demand for consumption should,

should, naturally, come from men of landed property; the bank, therefore, should first resolve to issue notes upon the security of that kind of property.

When industry becomes more extended, and when trade becomes more secure, from the solidity of mercantile funds, banks may then begin to discount bills of exchange, and as this branch of credit enlarges, the bank will by degrees participate of the nature of those secured upon mercantile credit.

When public credit, again, is well established, they will lend upon government securities, pledged in their hands, and thus become founded upon public credit.

According therefore to the principal object of their trade, they are said to stand upon private, mercantile, or public credit.

When a proprietor of lands gives his bond to a bank, it should be understood, that as long as he regularly pays the interest of the money borrowed, the bank is not to demand the capital.

For this bond they give notes, which are considered as ready money, and therefore carry no interest. So the profit of the bank is to receive interest for what they lend, and to pay none for what they owe.

What they owe is the paper they issue. They owe this to the public; and the security which the public has, is the security which the bank received from the person who borrowed from them.

Hence the solidity of banks upon mortgage. Their notes become money, and this money is secured upon the whole stock of the bank, and the whole property engaged to them.

But as the stock of the bank is of a determinate value, and as the notes they issue may very far exceed it, the credit of a bank will be precarious, unless the value of the securities upon which they lend, be equal to all the notes in circulation. It will also be precarious in proportion as the securities themselves are so. Hence the interest the public has to take care that banks give credit upon nothing but the best security.

CHAP. V. A bank, therefore, which lays down a rule to lend upon the mortgage of solid property only, would destroy confidence,

if it should launch out in giving credit to those who have no solid property to pledge.

CHAP. VI. The use of all banks is to support domestic circulation: this is two-fold; that carried on by consumers, and that carried on by traders and manufacturers, who supply consumption.

The circulation carried on among the first is in proportion to their income, and their credit should be in proportion to the funds which produce it. The circulation carried on by the last is in proportion to the demand for their industry.

If a bank be established on the credit of solid funds, it is very plain that they cannot support the circulation of manufacturers and dealers upon the same terms, or in the same way they do that of proprietors. They may indeed discount bills; but they cannot give a permanent credit upon a security which is not founded upon property. This opens a new combination.

Trade and industry are dispersed through many hands, and if the stock of those who carry them on be compared with what is necessary for that purpose, it will appear very small. What is deficient in stock must be made up to them in credit; and this will be in proportion to their integrity, capacity, and good fortune. A frail security for paper, which is to become the money of a nation! Such securities must either be rejected by every bank whatever, or the whole fabric will tumble into ruin. But this subaltern class of dealers may have recourse to merchants, whose wealth and funds are solid and extensive. To these a bank may give credit, and they again, in their dealings with the other class, may indemnify themselves of all the risk they run, by profits in proportion to it.

This class of merchants I call *exchangers*; because they deal principally by bills of exchange in the credits they give, which are of the greatest advantage to an infant trade and a growing industry.

CHAP. VII. When banks were first established, there was no money known but coin, and many there still are, who do not clearly see how money can possibly be made of any thing but metal. The scarcity of coin raised the rate of interest, and when banks began to lend

lend their paper, they exacted the same interest as if they had been lending coin. Hence they were obliged to promise payment of their notes, in coin, upon demand. In consequence of this, the policy of circulation proceeds upon the supposition, that bank notes are equal to coin in every respect; and when any interruption happens in the ready exchanging them at the bank, all runs into confusion. I shall afterwards shew how this might be prevented.

While a country has a balance of trade, either at par or in her favour, no body has occasion for coin, except to reduce bank notes to their lowest denomination of money. But when a balance is due to other nations which must be paid in gold and silver, every one who wants coin for that purpose, runs to the banks, which are obliged to pay in it, and then they are thrown into distress. Hence we may conclude, that a bank taking upon itself the obligation of paying in coin, without carrying its policy farther than the banking trade, cannot stand its ground in a country which owes, upon an average, a balance to other nations. This opens a new and a most curious combination.

CHAP. VIII. In the mechanical operations of trade, when they are not combined upon principles, and directed by a superior policy, every balance due from one nation to another upon the whole of their reciprocal payments, that is, in consequence of their debts and expences abroad, as well as in the course of their mercantile operations, must be paid in the metals.

For transacting this balance, there is a set of merchants who deal in the business of exchange. Every debtor to another country is supposed to have value in his hands for it, which he converts into bank-paper; with this he buys a bill of exchange, drawn upon the place where he is debtor, and the exchanger who sells it, demands coin of the bank, which he sends off for payment of his bills. If during this operation the bank should stand with its hands across, and only think of expedients to provide coin, it is evident, that if specie should totally fail in the country, trade must be at an end, and the credit of the bank would be undone: for no body will enter into

into

into every combination necessary to discover the impossibility of converting the whole paper currency of a nation into gold and silver. Thus a bank which cannot pay in coin, will be supposed to be ruined, though in reality it may be worth half the property of the state.

Is it not then of great consequence to banks, and to a nation, that the principles of their trade, and the security of their paper, should be well understood? And is it not wonderful, that they themselves have not made evident a thing which they must understand far better than any one who has not had their experience?

CHAP. IX. When a country gentleman owes money in town, beyond what his rents can pay, does he not borrow from some body who has money? Does not this borrowing prevent his lands and his houses from being torn to pieces by those who have a right to demand money of him? Would he not be laughed at, if he were to delay pledging a part of his property, in order to secure the whole?

The case is just the same with banks. They owe a sum of coin equal to all the paper they have in circulation. In this they represent the country gentleman. Foreign nations demand payment from them in coin; because it is the same thing whether this demand be made directly on the bank, or on those who can demand it of the bank. Such nations represent the town. Must not then the bank borrow upon the credit of the securities pledged at the time they issued their notes, and which to them represent the gentleman's lands? And can they borrow from any but those who have money? Their own country can have none to lend, while they owe a balance; they must therefore borrow from other nations, and transfer what they borrow to their creditors abroad.

Hence I conclude, that as nations which have coin pay what they owe with it, and thereby diminish its quantity; so nations whose money is their land, must pay in land, to the diminution of that species of property: and as a man who owes a thousand pounds upon his estate is only proprietor of it for the remaining value;

value; in like manner, a country which pays an annual interest to other nations, is only proprietor of what remains.

CHAP. X. If the country gentleman, who is pushed by his creditors for money, which he cannot expect to draw from his rents as they become due, should borrow, for a few weeks, from one who, after that time, will have occasion for his money himself, he will be put to all the expence of giving security for it, and at the end of that short time, he will be at as great a loss as ever to find money to reimburse the man who had lent it him. This represents the expedient used by banks to obtain temporary credits, instead of a permanent loan upon a regular interest.

CHAP. XI. When trade goes on well, and produces a regular balance in favour of a country, the trade of banking is easy, and few employments require less capacity. But when the balance begins to be unfavourable, and when, in self-defence, they are obliged to deal in exchange, the case is different.

Whatever balance is due abroad must be paid by the banks, as has been said, either in coin or in credit. As long as they pay in coin, the business of paying the balance is left to exchangers, who conduct the operation. But whenever banks borrow abroad, upon a permanent loan, and thereby acquire a fund to draw upon, the business of exchange falls naturally into their hands, and they may profit of it according to circumstances. In this case, not one shilling of coin can go out of the country, in the way of payment; because there will be a loss to any one who sends it away, when he can pay cheaper by a bill.

CHAP. XII. But the most complicated combinations arise from the consequences of a wrong balance on the state of domestic circulation. I hope this matter will be more easily comprehended, from the short recapitulation I am now to give of it, after all that has been said upon the doctrine of taxes, and of the difficulty of paying them, when money is sent abroad.

Money is the instrument of alienation; and when this instrument is taken away, alienation must cease. Now, it is a matter of



indifference as to circulation, whether money be rendered scarce by being sent out of the country by the state in time of war, or by the subjects who owe it to strangers in time of peace. A determinate quantity of money is requisite for domestic circulation. In whatever way this comes to be diminished, it is the duty and interest of banks to fill up the void as fast as possible, by readily furnishing credit at all times to those who can give security for what they demand. If banks, by paying balances, shall have exhausted their fund of coin, the fault is their own. Why did they not in time provide the necessary funds abroad? But in whatever manner they pay the balance, the consequence is, to take a sum of money equal to it out of domestic circulation; and this cannot be replaced but by more money lent by them upon new securities. If an ill grounded fear should at such a time engage them to refuse credit, when demanded, the country will be in a worse situation than if banks had never been established, from the sudden diminution of money, which, without that establishment, never could have happened.

But if banks would consider the whole foreign balance as immediately their own debt) and it is so, when they are obliged to pay it) they would provide the easiest method of acquitting it: since none of the expence incurred can fall upon them, in any proportion to the gain they make, in receiving interest for all they lend, and in paying none for what they owe within the sphere of their own circulation.

CHAP. XIII. Whatever contracts circulation, hurts a bank, and offers no relief to it with respect to the payment of balances. If they borrow money at home, they cut off the branch they stand upon, unless they continue at the same time to give credit to all who demand to borrow upon good security. This last combination was omitted in the chapter I am now recapitulating; because of the multiplicity of those I was obliged to introduce, in order to demonstrate how hurtful it is for banks voluntarily to diminish the circulation of the country where they are established. I shall therefore

therefore bring it in here, and refer to the chapter for the other combinations which cannot be abridged.

Did banks, upon mortgage, make it a rule to borrow all the money offered to them, at a small deduction from the common interest, while at the same time they continued to lend as formerly to every person of good credit; the consequence in a little time would be, that they would become the absolute center of all borrowing and lending; and the greatest part of the expence of drawing securities would be saved.

Every person who had money to lend, would lend it to the bank; and every one who had money to borrow, would borrow it of the bank. Upon these two operations, the difference of interest paid, and received, would more than balance the additional expence of so great a detail. But then indeed some new law would be necessary to facilitate securities. The clogs laid upon solid property oblige the bank to insist upon conditions, which put it out of the power of many persons of good credit to borrow from them. But I do not propose plans: my aim is confined to principles; and from those I have mentioned a new clause in bank notes would arise, viz. to pay in coin, or by a transfer of interest at a determinate rate, at the option of the bearer, not of the bank.

CHAP. XIV. This would be an optional clause, very different from that lately introduced into Scotland, where the option of paying interest was left to the bank. This has since been wisely suppressed; because it proved a heavy clog upon circulation, and enabled the bank to avoid doing what their own interest, and that of the nation, required of them, viz. the ready payment of all balances against the country. But in suppressing optional clauses, government should facilitate the means of paying balances, and of providing coin. This is done by establishing and supporting the credit of the banks, in proportion to the solidity and extent of their funds. An example of this nature occurred in Ireland, in April 1760, when the parliament interested itself directly in the support of the credit of some private bankers. A mint also is necessary;

cessary; or if this should be judged improper or superfluous, some assistance at least should be given in conveying coin from the place of its fabrication.

CHAP. XV. All branches of policy are brought to perfection by degrees, when, instead of being established at once on sound principles, they introduce themselves mechanically, by custom and practice only. When therefore a national bank is not found to answer all the purposes expected from it, private people imitate their plan, and fill up the void. Thus in Scotland, when the banks of Edinburgh did not sufficiently support circulation in the more distant parts of the country, private banking companies were erected, and degenerated into a great abuse. Every one issued notes payable to bearer. Thus the public was filled with paper money, the credit of which was quite unknown to many, who were however forced to receive it.

Whatever is payable to bearer, is payable to the public; and no doubt the public has a good right to prevent the issuing of notes by any but such as it has confidence in. When a note is payable to order, every one who circulates it is responsible for the value; but when it is payable to bearer, there is no recourse upon any but the first grantor of the obligation. Such regulations therefore should be made in this respect as may give a solidity to the paper, facilitate a general circulation, and prevent the establishment of a currency confined to particular districts within the same country, which tends to introduce a course of exchange from one town to another. This would be the case, were the circulation of every county carried on by the county bank. A communication, therefore, of interest between the banks of a country is requisite, or else the obligation to pay should not be confined to the place where the bank is established.

CHAP. XVI. Here I resume the principles I have deduced, in a short sketch of a general plan of regulations for a bank of circulation.

CHAP. XVII. If proper regulations upon the banking trade should be found inconsistent with the laws and manners of a people, which require a more extensive liberty to every one to carry on what commerce he thinks fit, I think it is reasonable that every company of merchants who issue paper, payable to bearer, without the sanction of government, should be obliged to subject their books to some kind of public inspection, that it might be seen whether the credit they grant to individuals be of a sufficient solidity to answer for the notes they circulate.

CHAP. XVIII. The numberless distresses of the Scots banks at the end of last war, made it necessary to show, in a particular chapter, what the consequences might have been, had the banks at that time totally withdrawn their credits, and given up business. This step would, *1mo*, have cut off their whole profits of banking. *2do*, It would have ruined the whole class of exchangers; and with them, *3tio*, the whole trade and manufactures of Scotland.

CHAP. XIX. Here I take a farther step into those intricate combinations. I now shew how the whole obligation, both of paying in coin, and discharging foreign balances, may be taken off from those who administer a national bank. Their notes are proposed to be paid by a proportional transfer of interest. All interest due *by* banks on that account, and *to* banks for credit given, is proposed to be paid in coin at certain terms. Those who have occasion for coin are to buy it at the mint: but this coin is entirely calculated for domestic circulation; and therefore a very moderate quantity of it will be necessary. And for the payment of all sums due to foreign nations, I lay it upon government, according to the plan proposed in the 5th chapter, upon exchange.

Thus the whole policy of circulation is divided into three distinct branches:

*1mo*, The melting down of property, and keeping circulation full at all times. This is the business of banks.

*2do*, The providing of coin is the business of mints.

3<sup>to</sup>, The granting bills on foreign parts, for value in the national currency, is the business of the state.

CHAP. XX. The objection to this doctrine is, that if notes are not payable in coin, they cease to be of value. The answer is short. The use of paper money is to keep reckonings of value between people who have property; the use of coin is to avoid giving credit to people who have none.

The value of the paper in the country is ascertained by the value of the interest which is paid for it in coin; and by not paying the capitals in coin, you prevent its being carried off without necessity, whenever a balance becomes due; which balance might be paid by the means of credit.

CHAP. XXI. I shew, by many arguments, (afterwards employed in the 10th chapter, upon public credit, and which render this combination more simple than I should otherwise have been able to make it in this place) that the return of a favourable balance of trade will clear the bank of all the foreign debts contracted by it, for the relief of the country; as a like favourable balance on the trade of Great Britain has the effect of setting that nation free from a proportional part of the money due to strangers. In this case, the favourable balance is incorporated in the public funds due to natives: in the other case, it is incorporated with the stock of the bank securities, and enables them to relieve that part of them which was engaged for the interest paid out of the country.

CHAP. XXII. The constitution of the bank of England differs essentially in some particulars from that of banks upon mortgage, and private credit. It is not so much calculated for multiplying the currency, by melting down private property, as for facilitating the circulation of the trade of London, and exchequer of Great Britain.

The grounds of confidence upon which the notes of this company stand are very great.

1<sup>mo</sup>, A capital of eleven millions sterling, for which they are creditors to the nation.

2<sup>do</sup>, A

2<sup>do</sup>, A sum of credit-cash at all times in their hand, of about eleven millions more.

3<sup>to</sup>, The bills of exchange of all the great merchants of Europe, which they discount.

4<sup>to</sup>, When they issue paper to government upon the faith of taxes, or circulate exchequer bills, they have the security of the public faith for the short advance of a few months.

This bank, I have said, is more useful for promoting circulation than for augmenting it. It has however lent its assistance in this respect on very critical occasions. It has circulated exchequer bills; and tallies, which, from discredit at the time, were as ill calculated to supply the use of money, as lands or houses are, from their unwieldy nature. The great advantage the public reaped from such operations, abundantly shew the utility of banks, which are calculated for that very purpose.

The principal operations of this bank are, to receive and pay away the greatest part of all the national revenue, expences, and debts; to discount bills of exchange payable at London, and to supply the country with coin.

The demand of London for subsistence and manufactures from the country of England is so great, that the whole amount of what is sent up to that city, for taxes, and for land-rents there expended by the proprietors, does not compensate it. From which it follows, that by the bank's not giving credit upon private securities, the whole of their paper is in a manner confined to the capital; and if any part of that paper casually goes into the country, it quickly returns, in payment of what would otherwise be remitted in bills. So that paper circulation in the country of England is very inconsiderable, when compared with the coin.

The intention of this chapter is to examine and compare the principles of the two species of banking, and to point out their several consequences as to circulation; from which I am led to think, that if banks of circulation were to be established in the country towns of note in England, they would greatly promote industry

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every where, and occasion no inconvenience from their contract with the national bank.

CHAP. XXIII. After deducing the principles upon which the solidity of paper money is established, I proceed to point out the bad consequences of issuing bank-notes upon a precarious security. The bank established in France by Mr. Law, and the fatal catastrophe it brought upon that nation, furnish excellent matter for illustrating the doctrine of paper credit.

The late King of France left, at his death, a debt upon his kingdom of 142 millions sterling; the coin being at 28 livres the marc of silver.

CHAP. XXIV. In a few months after his death, the debt was reduced to 100 millions, by the turn of a wheel. The coin was put at 40 livres the marc. But as the hundred millions sterling, *in intrinsic value*, after the reduction, contained as many livres in *verbal denomination*, as the hundred and forty millions did before, the greatest inconvenience discovered by the people was confined to the necessity imposed upon them to sell their old coin at the King's price.

At this time Law set up his bank, and without doubt assisted people in that respect, with very great benefit to himself.

CHAP. XXV. He divided the capital stock of the bank into 1200 shares, of 5000 livres each (the livre at this time was exactly a shilling sterling); and the purport of the notes he issued was, that payment should be made, at all times, in livres of the same intrinsic value.

This bank was established on the principles of the Scots banks, and lent sums upon every species of good security. The consequence was, that in less than three years, France, from being in the most miserable situation for want of money, credit, consumption, and industry, was raised, as by magic, to the greatest affluence. The reason was plain: there wanted nothing but an instrument to set all the inhabitants to work. This Law gave them in a moment;

moment; and their own work was the cause of the affluence which astonished them.

This effect was produced by an inconsiderable sum of notes: they did not exceed three millions sterling when Law gave up his bank. But credit and confidence were established by that small sum; and the notes brought out all the coin which had been formerly locked up. It is not a great quantity of money, but an exact proportion of it, according to demand, which supports trade and industry. That proportion may be sustained by the means of banks, but by no other expedient whatever.

CHAP. XXVI. Law's bank was no sooner established, than he sought to enlarge his bottom. He found a trading company ruined in their affairs, though intitled to great privileges. He found also large sums of public state billets circulating at great discredit, from an ill paid interest. He got a grant of the company to himself and associates. He opened a subscription for 200,000 shares, of 500 livres each. He took payment in those discredited obligations; and when he had got the state billets, (given in at subscribing) he engaged the Regent to promise punctual payment of the interest. This was no sooner done, than the discredited paper, which was become an action, or a share, as we have called it, only by being subscribed for to Mr. Law, rose above par. The nation cried out, a *Miracle!* Law was a favourer, in the eyes of some, a conjuror in the opinion of others.

His credit and his capacity for conducting the greatest undertaking within the power of numbers and computation, being established; inspired the Duke of Orleans with a scheme of unbounded ambition, which, in favour of many who have never rightly comprehended the nature of it, I have been at very great pains to trace, in the eight following chapters. And as a recapitulation is useful to assemble ideas within a small compass, which have been dispersed through many combinations in the work itself, I shall here, in a few lines, give a general idea of the whole plan.

The

The Regent perceiving the use of paper money, well secured on solid property, resolved to take the bank into his own hands, in order to issue paper sufficient to pay off the whole debt of France. Now paper issued for paying debts is secured upon no fund at all. It is the same as if it were issued for payment of meat and drink. The whole security therefore was his own word.

But the difficulty was to prevent this paper from instantly returning upon the bank; because it far exceeded all the uses of circulation, and, consequently, could not be suspended in it.

The expedient fallen upon was to raise the value of the actions of Law's company, (which by the subsequent incorporation of new privileges were multiplied beyond 600 000) to a great height, by promising great dividends upon them. The company accordingly promised a dividend of 200 livres a year, upon a capital which was originally worth no more than 500 livres.

The great quantity of paper money dispersed had sunk the rate of interest to 2 *per cent.* The dividend, therefore, combined with the rate of interest, carried the market price of the action to 10 000 livres. Here was a new fund provided as an outlet for all the bank notes paid to the creditors; and in proportion as they bought the actions from the Regent, or the company, whom I here consider as the same, the notes were to be cancelled.

By this operation all the debts of France were to be converted into actions of the company of the Indies, and were to share its fate. But then it must be remembered, that this company had in a manner the whole revenue of France in farm; and by a recapitulation of the different branches of their profits, their income amounted to eighty millions of livres a year. So that if matters had been well managed, had credit been supported by fair dealing, had no arbitrary acts of power, in tampering with denominations of coin and money, taken place, and had the Regent supported and encouraged the company; they in fact might have been able to pay more than all that was required of them; and the very diminution of the interest of the public debts, by the fall of money

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to 2 *per cent.* was, in effect, cutting off one half of the capital. So that if we suppose the total value of the 2000 millions of debt equal to 100 millions sterling, the debts of France, by this scheme, would have been reduced to an annuity of 2 *per cent.* on a 100 millions, or two millions sterling a year paid to the company, who then represented the creditors of the nation.

But the project was too great; the capacity of those who were in the management was too small, and the time was too short for bringing about so great a revolution: thus it failed; but in a way which suggests no reason to believe that it might not have been supported.

CHAP. XXXIV. The denomination of the paper was reduced to one half by an act of power: a man who, for example, had a bank note for 100 *l.* had it reduced to 50 *l.* This at once destroyed the whole credit of France. But it would have stood its ground, without doubt, had the Regent called the fifty pounds with which he paid such a note, one hundred pounds; although, if you abstract from the interests of debtors and creditors, which never were attended to, it was absolutely the same thing. The altering the denomination of paper implies, however, this additional injustice above that of altering the denomination of coin, that it changes the value of the paper in all cases; because it contains no other value than the denomination: whereas coin has a value independent of that, which no law can alter.

CHAP. XXXV. The form of a bank proposed for France, in this chapter, is pretty much the same with that mentioned in chap. 16; only here I have not even admitted the payment of the interest in coin, for fear that an act of power, by carrying off a few thousand louis d'ors on a present exigency, might totally ruin the credit of such a bank, and consequently draw ruin on the whole nation.

This bank is intended merely as an office for keeping accounts between people of property, and thereby of greatly increasing and supporting circulation.

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CHAP.

CHAP. XXXVI. Having dismissed the subject of banks of circulation, I come next to those of deposit. Here I deduce the principles upon which the bank of Amsterdam is established.

This bank issues no paper, and grants credit upon no security but coin locked up in their vaults. Consequently, the ground of their credit is the faithful preservation of this coin. Were it at any time to be diminished below the value of the credits written in their books, the nature of the bank would be changed. Were the coin to be lent on good security, such a bank would then immediately become a bank of circulation upon mortgage; since it would be the same as if the credit had been at first granted upon that security. Were the coin disposed of for no value, the bank would be from that moment bankrupt in fact, although the secret might be kept for a long time.

CHAP. XXXVII. The intention of establishing a bank of this nature at Amsterdam was to fix the seat of trade in that city. The ordering all bills of exchange to be paid to the bank in coin, and the giving to the holders of the bills only a credit in bank for the value, was an effectual means of obliging the proprietors of that credit to carry on their trade in the place where their funds were established beyond a possibility of removing them, except by transferring them to others who, by accepting of the transfer, came under the same necessity. Were indeed trade to become incompatible with the situation of the city, as if an earthquake should fill up the port, then the bank would either be removed elsewhere; or the credit writ in their books would become of no more value than gold in an inaccessible mine. This regulation also prevented the circulation of bad coin; because when payment of bills was made to the bank, they took care that nothing but good coin should be received.

From these regulations it appears that money cannot be multiplied by banks of deposit; but on the other hand, it cannot be diminished by exportation, without the act of the bank; and the transfer

transfer of credit answers every use of coin in trade, and prevents also its waste in circulation.

CHAP. XXXVIII. Coin is liable to constant vicissitudes. Its denomination may be changed by an act of power, and its real weight may be diminished in circulation. But when it is locked up, all these inconveniences are prevented. Bank money, therefore, being the value of the coin locked up, is constantly the same: whereas all coin which circulates is liable to variations; consequently, these variations are relative to the coin which circulates, and not to the bank-money. The difference between the one and the other is called *agio*.

CHAP. XXXIX. Many have imagined the treasure of the bank of Amsterdam to be immense; because no body can ever take any thing from it, and that it is constantly receiving new augmentations: but the policy of the bank itself destroys this supposition, and shews plainly, that the sum locked up never can exceed what is absolutely necessary for circulating the trade of the city.

It is true, no person can go to the bank and demand to have the amount of his written credit paid him in coin. But were the written credits to exceed the uses found for them, the value of such bank-money would diminish; consequently, the value of the circulating coin would increase, which is the same thing. Now as this would prove a great discredit to the bank, they employ a set of cashiers or brokers to keep the balance even. Their business is to buy and sell bank credit with current coin, and to these the bank gives credit. When there is a demand for bank credit, the cashiers sell it for coin, and both parties going to the bank, a new credit is written, or the cashier's credit is transferred to the buyer. When, on the other hand, coin is demanded for bank credit, the cashiers pay for it with coin which the bank lends them; and for their repayment, they transfer to the bank the credit they have bought with it. This needs a little explanation. Suppose one to have credit in bank for a thousand guilders, which he wants to send away in coin. He goes to the cashier and sells his thousand guilders of bank credit: the

bank lends this thousand gilders to the cashier, and the man who sells the credit gets the coin, and makes a transfer of the credit in favour of the cashier. But as he owes this sum to the bank, he transfers this credit to the bank itself, in payment of the thousand gilders borrowed; and then the bank may expunge it, if they please, from their books; because it is due to themselves. Thus although no money can be demanded of the bank by one who has credit, they can give the money to a third party who does it for them.

### PART III. *Of Exchange.*

#### CHAP. I. FOREIGN circulation is carried on by bills of exchange.

When reciprocal debts are contracted by different countries, the creditors in both take payment at home for the bills they draw to the order of those who pay; and they again indorse the bills to their creditors abroad.

In this contract four parties concur: the domestic and foreign creditors; the domestic and foreign debtors. This operation can extend no farther than to the amount of reciprocal and equal debts; if there be a balance owing upon one side, this balance must be paid in value, either in money or merchandize. Now as a debt is much easier discharged by compensation than by payment, merchants endeavour to profit of this compensation; but as every one endeavours alike when there is a balance on one side, it operates upon the whole of the exchange, and every one must bear his share of the expence of paying it.

If London should owe a balance to the world, after compensating all that the world owes to her, every London-debtor to the world will wish to compensate; consequently, he will look out for one who is creditor to the world: but this search betrays the secret, and shews that

that he is the demander; upon which the other avails himself of his situation, and refuses to compensate without profit. Hence the secrecy said to be requisite in this branch of trade. It is requisite to the trader only, whose interest is concerned; because whatever one set of merchants in a place wish to conceal, another set have constantly an interest to divulge. The interest of the state consists in preserving an equality of profit and loss among them all; and in facilitating to them the paying and receiving the balances due upon the total of all their transactions. The loss of the nation is upon the balance due by the country; the expence of paying the balance, which is the price of exchange, is only a relative loss to some of her subjects, and a relative gain to others.

The attention, therefore, of a statesman in what regards exchange, is, *1mo*, To take care that the true par between the value of the national money and the money of other nations, shall be as much as possible proportional to the quantity of metal contained in each.

*2do*, To remove domestic inconveniences in paying with the metals, or national coin, every unavoidable balance.

*3tio*, To hinder the expence of acquitting a small balance from occasioning a loss on the compensation of reciprocal debts.

And, *4to*, When he finds an inconvenience in allowing the metals or coin to go out of the country, he must assist in having the balance paid in the way of credit.

CHAP. II. The best method for determining exactly the true and intrinsic 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 respective value of fine bullion with the respective denominations of the coin in the two places exchanging; and to state the difference only, as the price paid for the exchange. To render this more practicable, a proposal for rendering all mint-weights more determinate is set forth in a note.

CHAP. III. When upon the whole of a nation's trade with the rest of the world, a balance is due, it must be paid, either in intrinsic value,

value, which totally discharges it, or by giving security for it, and paying interest until the charge can be obtained. We consider in this chapter the methods of discharging it.

A statesman is the best judge when his people ought to pay with bullion, and when with credit. If he approves of their paying with bullion, that is, with gold and silver, he should render the exportation of the metals as easy as possible. If a duty be laid upon coinage, he need not be afraid that any one will send off the coin, as long as bullion can be found; and when this runs short, if he does not choose that his coin should go out, he must lend his assistance in paying with credit. If he finds it against his interest either to pay in one way or in the other, he must put a stop to the trade which creates the balance: for while such trade is permitted, he will find it beyond his power to prevent the payment of that balance in the most hurtful way possible to his country.

I here observe, that in countries unacquainted with trade, and in others where the whole external commerce is carried on by strangers, a good expedient for cutting off such hurtful branches of traffic is to lay all the restraints possible on the exportation of the metals, in order to promote the exportation of what the country can offer in return. But when trade and industry are established, these restrictions cease to be useful; because merchants then find a profit upon exporting domestic productions, which they never can have upon exporting an intrinsic value.

A statesman, therefore, should conduct his operations according to the situation of his country. If foreign trade be unprofitable, cut it off as much as possible, and lay every restraint upon the exportation of coin. If it be profitable, lay no restrictions on payments; because you are sure you will gain upon the whole. And if, in any particular case, you incline to keep your coin at home, mortgage your country, and pay with your credit.

If, when you are obliged to check foreign trade, and lay prohibitions on the exportation of coin, exchange is found to rise to a great height against you, yet will this exchange produce no national

loss:

loss: it will be paid within the country by those who consume foreign commodities, to those who are at the trouble and expence of transacting the balance.

CHAP. IV. Here I demonstrate what before I had in a manner taken for granted, viz. that the price of exchange is neither a national loss, or a national gain; but whether it be favourable or unfavourable, it produces an instability in the profits upon trade, and should therefore be kept at par by all possible methods. I also shew how exchange is favourable to exportation, when the balance is against a country, and how the exchange is unfavourable in that respect in proportion as the balance is for that country: and as whatever exchange is gained by exporters is lost by importers, and *vice versa*, some have concluded, that an unfavourable balance does of itself destroy its own pernicious effects, and sets the balance even. I endeavour to disprove this proposition, by shewing how the importers are indemnified, as to their loss by the exchange, from the additional price they get for their foreign commodities at home; whereas the exporters cannot raise their prices abroad; because foreign competition will not permit them. So that in one case the wrong balance hurts the rich consumer at home, who can bear the loss; and in the other, the right balance hurts the poor manufacturer, who cannot. Hence I conclude, that it is greatly for the interest of a trading state to keep exchange, at all times, as nearly at par as possible.

That this is a practicable scheme, I prove by a matter of fact, and by an experiment made in France by a late minister; where, upon a certain occasion, the exchange having risen to a great height against France, he immediately brought it to par, by ordering bills upon Holland to be furnished at that rate, to those who should demand them; and by taking upon himself the expence of sending the money paid for such bills, to the place upon which they were drawn.

I observe, however, that such operations can only be recommended to statesmen who preside over the interests of flourishing trading



trading nations; because in proportion as they are benefited by facilitating the payment of the casual balances due by them from time to time, in so far is a prodigal nation hurt, by facilitating the dissipation of their property, and by contriving a ready method of transferring it to foreigners.

CHAP. V. When a nation owes a balance, after all the payments they have been able to make, either in coin, bullion, bills, or merchandize, it is evident, that what remains can only be satisfied by obtaining credit for it, at the expence of mortgaging the country and paying interest for the remaining balance. When this, however, happens to be the case, it involves the nation-debtor in a multitude of expensive operations conducted by exchangers, who constantly find a profit in carrying them on, though at a very great loss to individuals within the country. To prevent this inconvenience, I propose, that the statesman should take upon himself the obtaining of credit abroad, for the balance due by the country he governs; and that the expence incurred by this operation should be defrayed by the public, whereby every individual within the state will contribute his share towards maintaining a uniformity in the profits upon trade, and supporting the stability of commerce, from the regularity of the course of exchange at all times. This operation resembles very much another of which we have already spoken in treating of banks of circulation upon mortgage. There we recommended the payment of foreign balances as a proper branch of bank administration: here we recommend it to a statesman to interpose voluntarily between his subjects and their foreign creditors. This is the best method of supporting commerce, when it happens accidentally to fall under the discouragement of an unfavourable balance.

PART IV. *Of Public Credit.*

CHAP. I. THE credit of a state resembles, in most things, that of an individual: they differ however in this, that when a private man contracts a debt, he himself is answerable for it. When a state contracts a debt, those who contract the obligation in the name of the state are not responsible for it. Hence it happens, that private people are commonly more anxious about paying their debts than statesmen are who administer for the public. Another difference is, that public debts do not so much affect the prosperity of a state as private debts do that of the debtor. The interest of a private debtor is simple and uncompounded; that of a state is so complex, that the debts they owe, *when due to citizens*, are, on the whole, rather advantageous than burdensome: they produce a new branch of circulation among individuals, but take nothing from the general patrimony.

In deducing the principles of public credit, we must suppose it the established maxim in the state to adhere to the faith of their engagements; and that a permanent fund is appropriated for the payment of the interest of all the money borrowed: a liberty must be supposed, at the same time, to redeem the obligation by adequate payment; and also an easy transfer of the capital from hand to hand, to indemnify every creditor for the loss of his capital, which is not demandable from the state, as the case commonly is in private securities.

The consequence of the swelling of public debts, is, to occasion a proportional augmentation of contributions out of private property. The consequence of this again, is, to produce a vibration in the balance of domestic wealth. This creates a monied interest, which swells in proportion as public debts increase; and which may swell to so great a height as to transfer the income of a whole nation from the nominal proprietors to the public creditors.

A statesman, therefore, ought carefully to attend to the spirit of the nation he governs, before he gives way to a regular and systematic augmentation of public debts. In monarchies, the proprietors of lands may bear for a while the temporary diminutions of their annual income, though they will not easily be made to subscribe to a plan which evidently tends to deprive them of all they have, and to transfer their power and property to a set of men whom they have always considered as their inferiors.

In monarchies, therefore, a great increase of public debts will more probably bring on a national bankruptcy, than in governments which participate of the republican form.

The consequences, therefore, of the swelling of public debts may be, either, *1mo*, To disturb the tranquillity of the state, by an attempt to transfer the property of it from the real possessors to a new created monied interest: or,

*2do*, If a systematical plan of borrowing upon solid security be not laid down, it may mechanically draw on a general bankruptcy: or,

*3tio*, If debts be allowed to swell beyond due bounds, so as to hurt the interest of the great body of the proprietors, the state may be engaged to adopt the fatal expedient of a sponge: or,

*4to*, If the spirit of the people prove compatible with the system of borrowing and supporting public credit to the utmost extent, then the whole income of the nation will remain in perpetual fluctuation, passing from one set of creditors to another, the statesman still retaining the administration of it for their use: or,

*5to*, If the debts contracted become the property of foreigners, these will either remove into the country where their funds are, or the income of the whole will be converted into a foreign tribute.

CHAP. II. While public expence was defrayed from treasures, public credit was a thing unknown. While supplied from rapine and extortion, it never could exist. During the simplicity of ancient manners, when there was neither industry or circulation, credit was

was unnecessary: the coin was more than sufficient to serve every purpose of alienation.

When trade and industry began to make a progress in Europe, in the Hans towns, and in the republics of Genoa and Venice, the consequences of their credit were soon felt by Princes, who awkwardly began to imitate their example; first, by borrowing money upon mortgages of their lands and principalities; and afterwards, by imposing taxes and selling them for what they could get to a most rapacious set of men, the tax-gatherers. This spread oppression, and this again soon brought the Prince to poverty.

Taxes, however, once established in this violent method, and upon urgent occasions, came, in time, to be improved, and formed a large fund, which now serves as a solid basis for public credit.

CHAP. III. While taxes were only appropriated for a time, for the repayment of the debts contracted by a state, the attention both of the state and of the lenders was totally fixed upon the discharge of the capitals: but in proportion as money increased, in consequence of the whole system of modern political oeconomy, the lenders formed to themselves a new point of view, viz. the acquisition of a permanent interest arising from a transferable capital.

In order to make his change of policy from borrowing with an intention to repay the capital, to borrowing with an intention to pay a perpetual interest, the more sensible, I have traced in this chapter the progress of the first, by a review of the plan of public credit in England until the end of the last century.

Here I analyze briefly the sentiments of Dr. Davenant, and compare them with those established in our days, when the latter policy has taken place; and upon the whole I determine, that the difference in the system of public credit then and at present, has proceeded principally from the difference in the state of circulation, and from the expedients now fallen upon for increasing the quantity of money, in proportion to the uses found for it.

CHAP. IV. I then compare the state of public credit in France, during the administration of Cardinal de Richlieu, with that of

England after the revolution. Here I endeavour to point out the influence which the different forms of government have upon the stability of public credit, both in contracting and in paying off public debts.

In France, the power of the Prince furnishes many expedients for paying off capitals, which had been borrowed at an exorbitant interest in times of public distress.

In England, the limited power of the crown, and the responsibility of ministers for their exercise of it, is a great security to those who lend money to the state; and consequently, proves a very great advantage in contracting debts upon reasonable terms.

The longer the two states subsist, the greater will the advantage be found in favour of that which adheres the most strictly to the faith of its public engagements.

When the credit of France and England are compared together, the difference between them is most remarkable. The strict adherence to the faith of public engagements has established, in England, so nice and scrupulous a credit, that the smallest deviation from its principles may prove fatal to the whole system. The credit of France, on the other hand, has been accustomed to a rougher usage; and the frequent acts of power, to the prejudice of creditors, rather occasion a temporary damp than a total destruction of their credit for the future. Such acts of power, however, in critical circumstances, prove extremely hurtful; and the advantage of a well established credit will, in all probability, either open the eyes of that nation to their own interest, or bring calamities upon them, which now appear little to be feared, in their present situation.

CHAP. V. This chapter contains a short sketch of the plan of public credit, as carried on in Great Britain, from the end of the last century, to the conclusion of the peace in 1763. I here enumerate the principal operations, calculated for enlarging the fund of British circulation, by engaging the bank of England to turn into money the discredited bills and tallies of the exchequer. I have

have pointed out the principle which circumscribes this power in the bank within certain limits. I have traced the progress and fluctuations of the interest of money; which have constantly been in proportion to the demand for borrowing or lending in the market at the time. I have mentioned the rise of the sinking fund, and the use which has been made of it. I have endeavoured to explain the methods of borrowing by *premium*, and have pointed out the inconvenience attending that plan, as long as the principal view of diminishing a nation's debt is confined to expedients for lowering the interest of the capital. I have given a progressive state of the augmentation of the debts of Great Britain at the end of every war; to which I have subjoined a short state of the nation at the last peace.

I conclude my chapter, by assigning reasons for the present low state of public credit in Great Britain; which has been principally owing to the large sums of borrowed money invested in the funds before the peace, upon the prospect of a sudden rise in their price, on the return of public tranquillity. This rise would, undoubtedly, have happened, had it not been obstructed by the necessity which the nominal stockholders were put to, of bringing their funds to market, in order to answer the demands of those from whom they had borrowed what they had invested in stock: and until this operation be completed, that is, until the funds of Great Britain become vested in the real proprietors of them, the state of public credit will constantly be undetermined.

CHAP. VI. Having given a short sketch of the present state of public credit in England, I endeavour, in this chapter, to extract, from the best private authorities to which I could have access, a parallel view of the affairs of France, so far as relates to its revenues, taxes, and debts, at the peace 1763.

By the revenue of France, I here understand, not only what comes clear and nett into the King's coffers, but also what is farther levied upon his people. The parallel therefore will not hold between

between the revenue of France and that of England, as represented in the preceding chapter, without attending to this difference.

The nett revenue of England charged with all its debts and expence of government, we have said to amount to 10 213 000 *l.* The gross revenue of France, on the other hand, appears to amount to 24 740 834 *l.* sterling.

But if from this be deducted that part which never enters the royal treasure, and which is expended in levying the revenue, and in appropriations for particular perpetual expences, to the amount of 6 815 111 *l.* sterling, there will remain of net income, paid into the King's coffers, and charged with all the debts and expence of government, only 17 925 723 *l.* sterling.

If from this sum we deduct the total amount of the net revenue of Great Britain, (10 213 000 *l.* sterling) the remaining sum of 7 712 723 *l.* sterling, will shew the excess of the French revenue above that of England.

The foregoing sum of 17 925 723 *l.* sterling, arises from the following branches:

1<sup>mo</sup>, Those which compose the King's ordinary revenue; which, at the peace 1763, amounted to 12 546 666 *l.* sterling, burdened with the payment of 2 022 222 *l.* sterling of interest of the debts charged upon it.

2<sup>do</sup>, The extraordinary taxes established for a limited time, after the peace of Aix-la-Chapelle. These amount to 2 326 133 *l.* and are totally appropriated for the payment of capitals, and interest upon them, incurred during the late wars, according to the principles of public credit in practice in England, during the reign of K. William and Q. Anne: and so soon as this fund has cleared the charges upon it, it is to cease, being no permanent branch of revenue.

3<sup>tio</sup>, The extraordinary revenue raised on account of the last war. This amounts to 3 052 923 *l.* sterling, and consists of the second and third twentieth penny, granted for a very limited time, and appropriated, as the former branch, for discharging the debts lately contracted.

tracted. The sum of these three branches made the total of the 17 925 723 *l.* paid in to the King's treasury, and burdened with all the public debts.

If we therefore suppose the two last branches of French revenue to be continued until all the debts charged upon them are paid, then we shall find the state of that kingdom reduced to the King's ordinary revenue of 12 546 666 *l.*; from which however must be deducted at least one half of the capitation. This half amounts to 1 182 222 *l.* sterling, and is so burdensome, that its continuance will be impossible. The revenue therefore will be reduced to 11 364 444 *l.* sterling, charged with 2 022 454 *l.* sterling, interest of debts; of which indeed 7 111 111 *l.* are annuities upon lives, and must therefore be extinguished in time.

According to this view, the revenue of France will be 11 364 444 *l.* sterling, charged with the annual payment of 2 022 222 *l.* interest of debts: and the revenue of Great Britain is 10 213 000 *l.* charged with the annual sum of 4 860 000 *l.* interest of debts.

What remains free for France is 9 342 222 *l.* sterling; and for England, 5 353 000 *l.*

But out of this free revenue of France must be deducted the permanent articles of expence charged upon the ordinary revenue, exclusive of the interest of debts already deducted. These articles amount to the sum of 8 468 889 *l.* which being deducted from 9 342 222 *l.* leaves a free balance of no more than 873 333 *l.*

On the other hand, if we suppose the net amount of the revenue of Great Britain, after paying the interest of its debts, to be, as above, 5 353 000 *l.*; and if the expence of the current service of the year, including the civil list, be supposed to amount to 4 800 000 *l.* sterling, as it nearly did, before the commencement of last war, there will remain of free balance 553 000 *l.*\*

\* But if the current annual expence should not exceed 3 600 000 *l.* or 4 400 000 *l.* including the civil list, which is nearly the present estimate, we may then add 400 000 *l.* to the free balance, and state it at 950 000 *l.* in round numbers.

From all which we may conclude, that, abstracting from extraordinary supplies for extraordinary exigencies, the revenue of both nations is pretty nearly in proportion to their current expence; and, therefore, their respective powers, when engaged in war, will be in proportion to their credit at the time.

CHAP. VII. In comparing the credit of the two nations, two things enter into consideration. First, the confidence of the world, in the solidity of their respective public faith. This I take to be totally in favour of the British nation. The second is, the solidity and extent of the funds, which are to be provided in security of the sums to be borrowed upon future emergencies. These resources, in France, we have seen to consist in their dixiemes, vingtiemes, double capitation, and extraordinary impositions upon the clergy, and other bodies politic; taxes so burdensome in their nature, and so contrary to the spirit of the French nation, that it is hardly possible they ever can be made so permanent as to answer any other purpose than a short temporary appropriation.

The true resources of France are confined to those taxes upon consumption above enumerated, which do not enter into the ordinary revenue, and which are now imposed and appropriated only for a time. When these taxes become free, they may no doubt be rendered perpetual, and appropriated for a future fund of credit.

On the side of Great Britain, the case is different. The greatest part of her revenue is already perpetual; and the only two branches of annual grants, the land-tax and malt-duty, are not so excessively burdensome, nor so repugnant to the genius of the people, as to render the raising of them at all precarious. And were this nation once to adopt the system of raising money, in time of peace, sufficient to defray the charges of government, the sinking fund would prove a resource for the future, far above any thing that France can boast of.

CHAP. VIII. Having by this short sketch of the state of credit in Great Britain and France, prepared a sort of canvass for our farther reasoning, I proceed to apply principles to some combinations, which

which might be formed concerning the consequences of an over-stretched credit.

In proportion as credit is used for borrowing money to be sent abroad, either a supply of currency must be provided for filling up the void, or alienation, trade, industry, &c. must suffer a check.

And even if money should be borrowed to be spent at home, an additional quantity of it must be added to circulation; because this new expence of the state will require it.

Every fund of property may be converted into money, with the assistance of credit, providing the statesman lends his hand to the operation: and the fundamental principle for supporting credit of all kinds, is, to provide every one with money, who has property to pledge for it.

When money is borrowed by a state, to be spent abroad, the loan must either be made in coin, or in paper. If in the first, it is exported; because coin is the money of the world: if in paper, it must either be converted into coin, and exported, or it must be remitted by bills, drawn upon countries, debtors to England, for example; or, in the last place, it must be paid in the way of credit, by constituting England debtor to the Continent for it. When it is paid by bills drawn upon countries, debtors to England, then the consequence of such a loan is to convert the balance of trade into a capital in the public funds.

In whatever way money is borrowed by a state, whether from natives, or foreigners, the consequences are the same. The operation of a favourable balance of trade will transfer what is owing to foreigners in favour of natives; and a wrong balance of trade will transfer the property of natives to foreigners.

If no check be put to the augmentation of public debts, if they be allowed constantly to accumulate, and if the spirit of a nation can patiently submit to the natural consequences of such a plan, it must end in this, that all property, that is income, will be swallowed up by taxes; and these will be transferred to the creditors, the state retaining the administration of the revenue.

The state, in that case, will always consider those who enjoy the national income as the body of proprietors. This income will continue the same, and the real proprietors will pay the taxes imposed; which may be mortgaged again to a new set of men, who will retain the denomination of creditors; until by swallowing up the former, they slip into their places, and become the body of proprietors in their turn, and thus perpetuate the circle.

CHAP. IX. But as a thousand accidents may put an end to public credit, before such intricate revolutions can be accomplished, the consequence must be a bankruptcy. This may either happen by a deliberate act of government, or from the natural consequences proceeding from an over-stretched credit.

I here endeavour to shew, that it is impossible to form a supposition of circumstances, in which a deliberate act of bankruptcy can be a prudent measure. The only end that could be proposed to be attained thereby, would be, to relieve those who are oppressed by taxes. But a sudden abolition of taxes would have the effect of ruining the landed interest, as well as all the manufacturing classes. Sudden revolutions are constantly pernicious; and no revolution can be so sudden as that of a bankruptcy. If such a revolution should happen, from circumstances which can neither be foreseen or prevented, the best expedient would still be, to adhere, as much as possible, to the faith of public engagements; because no expedient would be so productive of good consequences, in such a calamitous situation.

While the debts of a nation are due to its subjects, and while there remains any balance due in favour of the nation, no increase of debts can *necessarily* bring on a bankruptcy. It is a contradiction to suppose that a nation can become bankrupt to itself. But when, on the general state of payments between a nation and the world, there is found an annual balance due, which cannot be compensated either in the way of payment, or in the way of credit, then indeed a bankruptcy becomes unavoidable.

From

From this reasoning we may conclude, that the method of determining the exact extent of public credit, is to keep a watchful eye upon the increase of debts due to foreigners, and to compare these with the favourable balance upon the trade of the nation. When those debts and this balance begin to draw near to an equality, if part of the capital of the public debts be not immediately paid off, by an augmentation upon public contributions, the infallible consequence will be a state-bankruptcy.

CHAP. X. The first requisite for contracting public debts, is to establish a fund for fulfilling public engagements. This procures the confidence of the lender. The next is, to establish an extensive plan of credit at home, which may be sufficient at all times to keep circulation full.

When, from the effects of borrowing, too great sums are, from time to time, drawn out of circulation, the void must speedily be filled up. If this be neglected, taxes will not be paid, as has been often observed: besides, if money be allowed to become too scarce, in proportion to the demand for it, interest will rise, and borrowing will become proportionally more burdensome to the state in general.

Foreign expence frequently drains the fund of circulation at home: hence a multitude of inconveniences arise. To prevent these, I suggest a new scheme of borrowing, by opening subscriptions in foreign countries where the interest is annually to be paid. This being to be remitted by the country borrowing, a statesman may, with the greater ease, obviate the inconveniences which might arise to circulation from such remittances.

In this chapter, I endeavour to prove by new arguments and illustrations, that national distress is more owing to a scanty circulation, than to circumscribed property; and a statesman who neglects to employ every method for keeping up the circulating equivalent within the state he governs, to the full proportion of all the uses found for it, fails in the most essential requisite for promoting

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the prosperity of his people; and the establishment of his own credit.

Having pointed out the methods of contracting debts, I proceed to the method of paying them. This may be accomplished in six different ways, by the help of a sinking fund; which,

*1mo*, May be applied annually, to the discharge of certain capitals, at the option of the state. Or,

*2do*, According to a certain rule, to determine the preference.

*3tio*, By appropriating the fund, for the payment of a proportional part of the whole outstanding capital. Or,

*4to*, By reducing the interest of the capitals. Or,

*5to*, By converting the whole of the capitals into determinate annuities, proportionate to the extent of the sinking fund. Or,

*6to*, By the means of lotteries, where the state may gain what gamesters are willing to lose.

I point out the advantages and inconveniences of every plan. The first five expedients are too plain to require a recapitulation. The sixth amounts briefly to a supposition, that the interest of the public debts is brought, by a proper chain of administration, to a lower rate than in any other part of Europe. In this situation, accidental circumstances will occasion (as at present) fluctuations in the price of the stocks. When they fall below par, let government open subscriptions for lotteries, to be paid in stock at the market price. Subscriptions also might be opened, and the old capitals might be received at the market price, and constituted a-new at the current interest, with a small premium above the rate at the time. By such means, the sum of the old capitals would be reduced, and a small benefit would accrue to the subscribers. Then, upon the rise of the stocks, the interest on these subscriptions might be reduced again; from which a double benefit would result; the price of stocks would be supported on one hand, and the capitals of the public debts would be reduced on the other.

## C H A P. XIV.

*Recapitulation of the Fifth Book.**Of Taxes.*

INTROD. **H**AVING already explained the effect of taxes upon domestic circulation; it now remains to investigate the principles by which they are to be imposed on their proper objects.

CHAP. I. I divide taxes into proportional, which affect consumption, or, more properly, what may be called expence; cumulative, which affect property; and personal, which consist in personal service. These I explain by giving examples of each.

CHAP. II. Proportional taxes may be so imposed as to affect almost every expence of living; and as all expence should arise from income, not from stock, the first principle of taxation, is, to confine all impositions to income only: whatever affects a capital is oppressive and unjust. But as in all expence there is alienation, although in all alienation expence is not implied, the best method to avoid the mistake of taxing stock instead of income, is, to impose the tax in such a manner as to affect the consumers only; in which case, whoever buys to sell again will draw the tax completely back.

CHAP. III. In this chapter, I fully explain the operation of drawing back proportional taxes.

When the commodities charged with such taxes are either not consumed by purchasers, or by the industrious classes, they are constantly drawn back, except so far as the consumption made by the latter is an article of superfluity.

Hence I conclude, that the price of *labour* is raised by proportional taxes, in proportion to industry only, though the price of the

the *commodity taxed* be raised in proportion to the tax. Consequently, the more taxes are found to increase the price of labour, the more we may conclude in favour of the industry of the manufacturing classes: and the more they bring into the exchequer, the more we may conclude in favour of the ease and opulence of those who consume the objects of such taxes.

CHAP. IV. The proper object of cumulative taxes, is the large possessions of the higher classes of a people, which can bear a diminution in favour of the state, without danger of encroaching upon their necessary or easy subsistence. It is not so when they are laid upon the lower classes; because these are either composed of the industrious, or of beggars. The first should be enabled to draw back from the rich, what they advance for the public service. The latter have nothing to give; to tax them is but adding to their misery, without relieving the wants of the state.

The great advantages of proportional taxes over the cumulative, may be reduced to three.

*1mo*, The proportion between the tax and the object taxed is determinate.

*2do*, The proportion may be known to every body.

*3tio*, The time of paying the tax is regular and gradual; because in paying for the commodity you pay for the tax, and your liberty in buying such commodities is unrestrained; consequently, the expence is supposed to be in proportion to what your income can afford. Whereas in the cumulative taxes, it is, first, hardly possible to preserve the proportion between the tax and the ease of a person's circumstances. In the second place, it is impossible for the state to ascertain exactly that proportion. And in the last place, the demand for the tax is made at a time when people are often unprepared.

CHAP. V. The principal inconveniences alleged against proportional taxes, are, 1. That they raise prices: 2. Discourage consumption: and 3. That they are oppressive and expensive in the collection.

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These inconveniences are more apparent than real, as will appear from what follows.

*1mo*, A proportional tax, rightly imposed, and properly levied, will undoubtedly raise the price of the objects taxed; but it will only consequentially raise the price of the labour of the industrious man who pays it; because he will draw it back in proportion only to his diligence and frugality.

The price of labour is regulated by demand, and is influenced only by proportional taxes.

*2do*, As to discouraging consumption, if taxes raise prices, this circumstance proves the increase of consumption; because if consumption were to diminish, taxes would not be paid, and prices would fall of course, even to the detriment of the industrious. These are always the consequences of proportional taxes, when wrong imposed.

*3tio*, As to the expence and oppression in levying them, these inconveniences are, in a great measure, in proportion to the disposition of the people to defraud the public: for when they are fairly paid, and honestly collected, proportional taxes are little more expensive, and infinitely less oppressive than any other. I conclude my chapter by some observations drawn from the practice of different countries, which point out a method of avoiding both the oppression and the expence of levying proportional taxes.

CHAP. VI. All taxes are paid out of the circulating money of a country; consequently, they cannot exceed a certain proportion of that sum. It is not, therefore, from the value of the property, or the quantity of consumption, that any one can form a guess of the probable amount of taxes, so much as from the easy and expeditious circulation, which facilitates alienation and sale.

Were taxes, indeed, paid in kind, they might bear a proportion to fruits and labour; but then they would diminish the fund of subsistence: whereas they now draw a share of that quantity of money which circulates through the hands of every individual.

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The great difference between cumulative and proportional taxes, consists in this. That in the first, he who pays them cannot draw them back in proportion to his industry; in the last, he may: but so far as any one of an industrious class proves idle or extravagant, every proportional tax will affect his daily profits, as every cumulative tax will affect the income of a fund already acquired. This deduction of principles is of great use in imposing taxes; because it points out the method of giving to many cumulative taxes usually imposed on the lower classes, all the advantages of those of the proportional kind.

CHAP. VII. Taxes ought to be imposed for the benefit of the public, not of private people: and while that object is fulfilled, taxes are beneficial in every respect. When they are properly levied, they only abridge unnecessary private expence: when they are properly applied by the state, they advance improvement every where; and those who have fortunes already acquired, will be brought to contribute to the ease of the lower classes.

Thus by the help of cumulative and proportional taxes, rightly imposed, and rightly expended, circulation is greatly increased; industry is advanced; the public good is augmented, not diminished; and the burden of payments becomes so equally proportioned, as not to be felt in any degree sufficient to overbalance the advantages resulting from the general system.

CHAP. VIII. Having said that cumulative taxes affect the income of funds already acquired, I observe, that this income proceeds from moveable or immoveable property. The first of which will constantly avoid the grasp of every statesman who attempts to lay a tax upon it. Cumulative taxes, therefore, if carried to their utmost extent, may absorb the whole income of *immoveable property*; but of that only.

Proportional taxes, again, have been said to affect the superfluity of those who consume the objects of them; consequently, if every thing which is consumed were first to suffer an alienation for money, a proportional tax might be imposed upon it.

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The method, therefore, of carrying proportional taxes to their utmost extent, is, to draw to market every thing consumable; and insensibly to raise the tax upon it, so high as to absorb, as much as possible, the whole superfluity of the consumers.

Taxes being carried to that height, the state will become proprietors of the whole income of the immoveable funds, and the industrious classes alone will augment their wealth, in proportion to their frugality.

From this general principle it appears, that for the establishment of proportional taxes, consumption is requisite, together with alienation; consequently, where alienation takes place without consumption, as in the sale of lands, and other immoveable subjects, a proportional tax cannot be, properly, imposed. And also where consumption takes place without alienation, as when the fruits of the earth are consumed by those who raise them, proportional taxes cannot, with any propriety, be levied. Farther,

As taxes do not bear a proportion to effects, but to circulation, it follows, that they can only be raised, properly, upon alienation by sale. Many examples however may be found of proportional taxes, imposed in different countries, where neither sale or even alienation takes place. These I observe to be the worst kind of proportional taxes, and the most oppressive to those who pay them.

From the principle that taxes are in proportion to circulation, and not in proportion to consumption, we discover the reason why of old they were so difficult to be raised. Consumption then went on as now, in many respects, in proportion to the number of inhabitants; but circulation, that is, alienation by sale, bore no proportion to it.

The effect of every increase in circulation is to swell the amount of taxes; and when they are extensively imposed in a country of industry, the whole currency is thereby made to flow through the coffers of the public, as the blood of the human body flows through the heart, and is by that diffused through every member.

CHAP. IX. I next examine the consequences of a total abolition of taxes, the better to discover the effects which such an alteration would produce, first, upon the prosperity of the whole community; and next, upon that of the principal classes of inhabitants, which compose it. These I reduce to three.

*1mo*, Those who administer government, and who are maintained from the amount of taxes.

An abolition of them, with respect to this numerous class, would draw consequences along with it, directly destructive to their interest; and, consequently, prejudicial to that of all the industrious classes who supply their consumption.

*2do*, With respect to the second class, which I suppose to be composed of the industrious part of the people, I observe, that an abolition of taxes must proportionally imply a diminution of circulation; this would produce a proportional diminution upon alienation; consequently, would interrupt the industry of many, and thereby throw them into a hurtful competition among themselves for subsistence. And as it has been proved, that the industrious classes pay no taxes, as matters stand, providing they be diligent and frugal, they consequently would *gain* nothing, and must *lose* a great deal by the abolition of them.

*3tio*, In the third class I comprehend those whom we have hitherto considered as the opulent and idle consumers. Of this category the proprietors of land form a considerable branch. They, we have said, draw back no part, either of the cumulative or proportional taxes, which affect them; but although they be deprived of that immediate indemnification, competent to the industrious, they reap, in another way, advantages which more than compensate all the burden laid upon them. These proceed from the consequences of that spirit of industry which is diffused over the whole people; in consequence of which, their lands are improved, the produce of them is readily disposed of, and what proves superfluous for domestic consumption meets with a ready market abroad, and thereby supports the value of all productions within the country.

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It may be asked, then, where the burden of taxes falls, since every class of inhabitants seems to gain some advantage by them?

I answer, that they imply no burden when rightly imposed. The augmentation of industry, in consequence of the increase of circulation, provides a fund of well employed time, which, converted into money, is more than sufficient to pay all the taxes not immediately affecting the income of solid property; and the constant improvement of this, in consequence of the former, is more than sufficient to indemnify the land-proprietors.

Taxes, in this light, resemble the expence laid out upon new establishments for improvement; because in their consequences they augment the prosperity and ease of the whole people, not by being levied, but by being properly applied, as is farther explained in the next chapter.

CHAP. X. Here I examine whether taxes be a spur to industry, as some pretend.

The doubt concerning this point has arisen from what daily experience has shewn, that nations become industrious in proportion to the taxes they pay. It is not very evident, that the *payment* of a tax by any person should enable him to discharge it with more facility, unless it be from the profit he reaps in drawing it back from others, with an additional profit to himself. But it is palpable that the amount of taxes being properly *expended* by a state, will increase circulation, and give fresh encouragements to industry of every kind.

I close this chapter with a short representation of the nature of ancient and modern circulation, accompanied with observations upon their respective effects in rendering mankind industrious.

CHAP. XI. Of all cumulative taxes, that laid upon land-property produces the greatest amount, with the least oppression to the contributors. This leads me into a particular inquiry into the nature of the land-tax, as it is established in Great Britain, and in France.

To render a land-tax equal and easily born, the imposition ought to be preceded by a fair valuation of every article of revenue

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intended to be taxed, and no other income but that proceeding from an immoveable fund of property, ought to be affected by it. From this I am led to disapprove of the method of assessment established in England by the land-tax; and also of blending a tax upon solid property, with an equal imposition upon personal estates, which we have shewn to be of a nature incompatible with cumulative taxation.

The defects of this kind of imposition in France (where it is called the *taille*) are different. There the rents of lands, which are the proper object of every land-tax, are frequently withdrawn from under the influence of it, in consequence of the privileges enjoyed by the higher classes, which are exempted from the *taille*. The consequence is, that the French land-tax falls upon that part of the lower classes who are employed in the cultivation of the soil. From this proceeds a double inconvenience.

If those who cultivate are proprietors, their portions are, commonly, very small, and a land-tax which would be light to a considerable proprietor, is quite intolerable to those who draw little more from their portion than what is necessary for their own subsistence. If those who cultivate are lessees to the more considerable proprietors, the burden falls upon them independently of the land-rent, which ought naturally to bear it.

As a proof that this is a true representation of the matter, I review the Marechal de Vauban's scheme for new modelling the system of French taxation: and from the intolerable oppression which would follow the execution of it, we may judge of the present state of taxes in a nation where that scheme was intended as a considerable alleviation of their burden.

Nothing but the establishment of industry and extensive credit, with a substitution of proportional taxes, instead of the many cumulative ones, imposed on the lower classes in France, can ever produce a facility in paying the considerable impositions laid upon that nation.

CHAP. XII. The most proper method of imposing a land-tax is, without doubt, to confine the imposition to the rent of lands only, and

and to lay it on in proportion to them. But how is it to be expected that ever such a plan can take place in a nation where the proprietors of land govern the state? In France, the power of the King has never been able to establish a tax upon the rent of lands, for any longer duration than that of a foreign war. In a neighbouring nation, it has now been established for the greatest part of a century. Were it there to become perpetual, it might be converted into a new domain, or it might prove a fund for discharging, at once, a very great part of the national debt.

When taxes are imposed, it is of great consequence to establish a right administration of them. The easiest method for a state, is to give them in farm; and this was the general practice every where, on the first establishment of taxes. But here no general rule can be laid down.

Cumulative taxes are better administered by commissioners, than let out in farm. The operation of levying them is simple; but when they are farmed, the lower classes of the people are apt to be oppressed. When farms are properly established, an open management of them is absolutely requisite: from this new improvements naturally arise, which give to the farm almost every advantage of the management by commissioners. This improvement is, to divide the profits upon the farm between the state and the farmers: a plan put in execution in France not many years ago.

No question whatever appears more difficult to resolve, than that of ascertaining the fund out of which taxes ought to be paid. Through the whole course of this inquiry, I have endeavoured to shew, that the real fund of taxes is the money circulating among the inhabitants, either in consequence of sale, or of payments. In order to expose this question in a new light, I have commented upon two passages of Davenant, where he estimates this fund from the quantity of national consumption.

From this he is led to compute the yearly taxable expence of every man in England at 8*l.* sterling; when perhaps the circulation of money through the hands of many may not be twenty shillings.

lings: whereas, according to my theory, it is these twenty shillings only that can be laid under any taxation whatever.

I thought this method of comparing the result of Davenant's reasoning with mine, might better serve to support the latter than any other I could contrive.

The last question proposed in this chapter is no more than a hint to shew, that a proportional tax, laid upon meat and drink, is the most proper equivalent for a land-tax; because those who purchase their subsistence with money are, according to the principles of the first book, those who consume that part of the fruits of the earth which is equivalent to the land rent. If this be arbitrarily laid under an imposition, by a pound rate, or otherwise, the proper drawback, if any be allowed, should be from a tax laid upon those who consume that part of the earth's produce which belongs to the landlords.

I have now concluded this inquiry, according to the plan I at first proposed. It is the fruit of eighteen years close, though agreeable application; interrupted only by many intervals of bad health, and many strokes of adverse fortune.

It never was, till lately, my intention to offer to the public, during my life, what I had composed purely for my own instruction and amusement. But upon comparing my sentiments in several points with those of the generality of my friends, they have been found so widely different, that I was thought in duty bound to my country, to submit them to the criticism of the public.

To this I have the more willingly submitted, as I thereby shall pursue my first intention in taking my pen; which was, to clear up my ideas on this subject. And since I can now draw no farther knowledge from my own inquiries, I must expect it from the criticisms of those who may think it worth their while to animadvert upon my notions.

F I N I S.

A

The number of grains of fine m  
in use in the

3840 Troy-grains, 4676.35 Pa

Table of Coins, reduced to Gr  
Paris, Colon

- English Coins. { 1 A Guinea by statute
- 2 A Crown by statute
- 3 A Shilling by statute
- 4 A Silver Pound sterling
- 5 A Gold Pound sterling
- 6 A Silver Pound sterling
- 7 A Silver Pound sterl. a
- 8 A Gold Pound sterling
- 9 A Pound sterling at th
- 10 A Shilling current =
- 11 A Guinea in silver, or
- 12 A Guinea at the propo
- 13 A Pound troy, or 12

- French Coins. { 1 A Louis d'or
- 2 A Crown of six livres
- 3 A Crown of three dit
- 4 A Livre
- 5 A Louis d'or, or 24 li
- 6 A Marc of Paris weig
- 7 A Marc of gold coin
- 8 A Marc of silver coin

- German Coins. { 1 A Carolin legal weigh
- 2 A Ducat of the Empir
- 3 A Florin of Conventio
- 4 A Dollar of Conventio
- 5 A Dollar of Exchange
- 6 A Florin current = 1/7
- 7 A Carolin in Silver at

- Dutch Coins. { 1 A Dutch-Ducat
- 2 A Florin in silver

[ T

# A T A B L E O F C O I N S,

Shewing the Quantity of Fine Metal contained in them.

The number of grains of fine metal in every coin is sought for in the regulations of the mint of the country where it is coined, and is expressed in the grains in use in that mint: from that weight it is converted into those of other countries, according to the following proportions:

3840 Troy-grains, 4676.35 Paris-grains, 5192.8 Holland-aces or grains, and 4649.06 Colonia-grains, are supposed to be equal weights; and the coins in the table are converted according to those proportions.

Table of Coins, reduced to Grains of fine Metal, according to the Troy, Paris, Colonia, and Holland-weights.		Gold Coins.				Silver Coins.			
		Troy.	Paris.	Colonia.	Holland.	Troy.	Paris.	Colonia.	Holland.
English Coins.	1 A Guinea by statute	118.651	144.46	143.65	160.45	429.68	523.2	520.2	581.
	2 A Crown by statute	-	-	-	-	85.935	104.65	104.	116.2
	3 A Shilling by statute	-	-	-	-	1718.7	2093.	2080.8	2324.1
	4 A Silver Pound sterling by statute 1601	-	-	-	-	-	-	-	-
	5 A Gold Pound sterling by statute 1728	113.	137.61	136.8	152.8	-	-	-	-
	6 A Silver Pound sterling in currency = $\frac{20}{3}$ lib. troy	-	-	-	-	1639.38	1996.4	1984.7	2216.
	7 A Silver Pound sterl. at the proportion of gold to silver as 1 to 14 $\frac{1}{2}$	113.	137.61	136.8	152.8	1638.5	1995.3	1983.7	2215.7
	8 A Gold Pound sterling at the same proportion of 1 to 14 $\frac{1}{2}$	118.4	144.18	143.34	160.11	1718.7	2093.	2080.8	2324.1
	9 A Pound sterling at the mean proportion in gold and in silver	115.769	140.98	140.16	156.55	1678.6	2041.2	2032.2	2269.9
	10 A Shilling current = $\frac{1}{20}$ of a pound troy	-	-	-	-	81.961	99.8	99.	110.82
	11 A Guinea in silver, or 21 shillings standard weight	-	-	-	-	1804.6	2197.6	2184.8	2440.3
	12 A Guinea at the proportion of 1 to 14 $\frac{1}{2}$ , worth in silver	-	-	-	-	1720.4	2095.1	2082.8	2326.4
	13 A Pound troy, or 12 ounces English weight	5760.	7019.2	6973.5	7789.2	-	-	-	-
French Coins.	1 A Louis d'or	113.27	137.94	137.13	153.17	-	-	-	-
	2 A Crown of six livres	-	-	-	-	409.94	499.22	496.3	554.3
	3 A Crown of three ditto	-	-	-	-	204.97	249.61	248.15	277.1
	4 A Livre	-	-	-	-	68.34	83.23	82.74	92.42
	5 A Louis d'or, or 24 livres in silver	-	-	-	-	1639.7	1996.9	1985.2	2217.4
	6 A Marc of Paris weight, fine gold or silver	3783.87	4608.	4581.1	5116.9	3783.87	4608.	4581.1	5116.9
	7 A Marc of gold coin effective weight, in fine	3398.3	4138.5	4114.3	4593.4	-	-	-	-
	8 A Marc of silver coin effective weight, in fine	-	-	-	-	3402.3	4143.4	4119.2	4600.9
German Coins.	1 A Carolin legal weight	115.45	140.6	139.78	156.12	-	-	-	-
	2 A Ducat of the Empire ditto	52.8	64.37	64.	71.48	-	-	-	-
	3 A Florin of Convention	-	-	-	-	179.73	218.87	217.6	243.
	4 A Dollar of Convention	-	-	-	-	269.59	328.31	326.4	364.5
	5 A Dollar of Exchange, the Carolin = 9 flor. 42 kreutzers	17.85	21.74	21.615	24.14	-	-	-	-
	6 A Florin current = $\frac{1}{10}$ of a Carolin	10.54	12.84	12.77	14.26	-	-	-	-
	7 A Carolin in Silver at the proportion of 1 to 14 $\frac{1}{2}$	-	-	-	-	1674.	2038.6	2026.8	2263.8
Dutch Coins.	1 A Dutch Ducat	51.76	63.	62.67	70.	148.	180.3	179.2	200.21
	2 A Florin in silver	-	-	-	-	-	-	-	-

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F I N I S.

The reader is desired to correct the following errors, especially such as are distinguished by an asterisk \*, which pervert the sense entirely.

E R R A T A.

Page. Line.  
2. 8. of, r. as  
7. 2, 7. manufactures, r. manufacturers  
9. 32. their grains, r. their gains  
71. 26. \* 55.162, r. 51.162  
73. 13. \* 801.61, r. 801.68  
82. 4. \* 1 1/2, r. 1 1/2  
85. 15. \* 24.572, r. 25.572  
87. 1. \* price, r. piece  
93. 15. \* 1201.26, r. 120126  
118. 16. this, r. the  
119. 18. \* seems, r. comes  
132. 32. \* considerable, r. inconsiderable  
143. 27. case, r. ease  
149. 9. property, r. prosperity  
152. 24. that, r. their  
156. 4. advance-profits, r. advance; profits  
157. last. *dele*, back.  
158. 17. *dele*, the  
160. at the end, *add*, \* severely felt.

Page. Line.  
108. penult. \* of, r. to  
182. 26. \* brought, r. bought  
197. 15. \* no, r. the same  
249. 3. last, r. East  
254. 13. \* 5000, r. 500  
261. 15. he, r. the  
326. 9. \* exportation, r. importation  
333. 23. \* bills to, r. bills on  
344. 16. exchange-property, r. exchange  
369. 21. \* mixed, r. raised  
394. 12. \* determinate, r. indeterminate  
406. 14. *after* King's library, *add*, and archives of France.  
411. 24. \* 1762, r. 1744.  
429. last. 4 444 444, r. 14 444 444

N. B. In page 182. line 10. *for* quarterly, read half-yearly, and then the note at the bottom of the page may be struck out.

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