AN

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL OECONOMY:

BEING AN

ESSAY ON THE SCIENCE

OF

Domeſtic Policy in Free Nations.

IN WHICH ARE PARTICULARLY CONSIDERED

POPULATION, AGRICULTURE, TRADE, INDUSTRY, MONEY, COIN, INTEREST, CIRCULATION, BANKS, EXCHANGE, PUBLIC CREDIT, AND TAXES.

By Sir JAMES STEUART, Bart.

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AN

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL OECONOMY.

BOOK III.

OF MONEY AND COIN.

PART II.

THE PRINCIPLES OF MONEY APPLIED TO TRADE.

CHAP. 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.

THE political oeconomy 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 aſſiſts 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.

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 ſeignorage 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 rendring 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 metalic 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.

The firſt introduction of coinage muſt make prices fall.

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 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), *cæteris 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.

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

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.

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 accompt.

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.

and ought to raiſe proportionally the price of commodities.

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 ſeigniorage, 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 ſell 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.

and how an overturned balance of trade attaches prices to the denominations of coin.

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.

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 accompt.

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.

and are preferved upon articles of home conſumption,

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 are torn away by foreign competition for articles of exportation.

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.

CHAP. 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 $\frac{1}{13}$ 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.

This

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.

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

"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 mo"ney; and conſequently, upon gold, the balance of trade is 4 *per* "*cent.* againſt England in favour of France."

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 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.

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

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.

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 accompt, 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.

Obj. Exchange regulates the price of bullion.

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.

Anſw. Denied: exchange only raiſes its price; the mint price pulls it down.

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.

Balance upon the real par, no mark of a balance upon trade; proved by examples.

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

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?

Balance of trade, what?

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?

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.

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

of

of their reſpective trade is unfavourable, the nearer they will ſeverally come to 100; below which they never can fall. Theſe fluctuations will conſtantly be marked in exchange; becauſe all circumſtances 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 propoſition.

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 Germany 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 proportion 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 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 contain, 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 $\frac{926}{1080}$ 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 determine) then we may conclude,

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

2*do*, That the great duty laid upon the fabrication of the French coin, either deceives the Engliſh nation, and makes them conclude, from the courſe of exchange, that their commerce with France is extremely diſadvantageous: or, if it be really diſadvantageous, 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.

CHAP.

CHAP. 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 rendring 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 analize 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 adviſeable 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.

CHAP. 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 ſpight 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.

Plan laid down in this chapter.

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.

How coinage is impoſed by authority.

Were the government of England to call in, at preſent, all the coin in the nation, in order to be recoined, and to fix the mint price of it, as gold and ſilver ſtandard bullion, at —— *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.

How by conſent.

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 —— *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.

When by authority, what is the conſequence?

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 —— *per cent.* loſs in carrying the coin to the mint.

The metals are exported.

If

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 $23\frac{1}{13}$ *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 recoining 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.

How coinage influences the price of inland commodities.

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.

A caſe not to be reſolved by this theory, but left to be verified by experiment.

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.

An objection anſwered.

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 dimi-

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 conſent.

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.

ticle. 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.

That bullion is brought to the mint when trade is favourable.

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.

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

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,

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.*

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

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.

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

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

CHAP. 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.

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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.

The plan of an experiment propoſed.

Suppoſe peace * reſtored, and a balance of trade favourable to England; 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.

The conſequence of this will be to recall the old guineas from abroad.

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

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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.

Juſt as we can eſtimate a man's eſtate by the weight of his purſe.

* 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 of a miſcellaneous chapter at the end of a ſubject.

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

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 analized, 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 accompt, 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.

1*mo*, The

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

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

What is meant by *metal?*

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

What by *money?*

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

What by *coin?*

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.

What by *bullion?*

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.

What by *price?*

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.

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

2*do*, The ſecond is owing to the common method of eſtimating the value, and the proportions between *gold* and *ſilver*; *coin* and *bullion*; *money* and *merchandize*. 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 pre-

cious

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 acceptation, 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.

Prices attached to denominations of coin.

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.

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

How to avoid ſuch ambiguities in ſpeech.

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

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.

3*tio*, 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 phænomenon 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 $\frac{1}{2}$ ſols. He means, that the fine ſilver it contains is worth no more than 56 $\frac{1}{2}$ ſols, according to the mint price of the fine metals.

4*to*, Another

4*to*, 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.

5*to*, 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 accompt, 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 accompt. 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 ſynonimous, and yet are directly oppoſite; AFFOIBLISSEMENT, *et* DIMINUTION *de la monnoïe*. 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 ½ 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 ½ 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 ½ 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 accompt, 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?

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

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 nowiſe, I think, be at the expence of the nation, but at the expence of thoſe foreigners who have occaſion for paper draughts upon London.

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.

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.

Proved by an example.

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

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 accompt, ſo as to preſerve it at all times invariable?

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 accompt.

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 by an example,

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

of ſtock; 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

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. 5. Will not the impoſition of coinage in England frequently ſtop the mint?

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. Certainly; when the balance of trade is unfavourable.

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-

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?

Intricacy of this queſtion.

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.

Reſolution of it.

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.

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 merchandize, 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 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 riſque 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.

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

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.

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

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.

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

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.

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

Anſwer to this.

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.

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 accompt, 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.

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

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.

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

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

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.

1mo, 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.

2do, 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.

3tio, 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 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.

1*mo*, 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, rendring 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.

2*do*, 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 ſixpences 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.

Mixt metal better than copper for ſmall d no-

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

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 thraldom of little prejudices in favour of eſtabliſhed cuſtoms, which have frequently nothing but cuſtom to recommend them.

Mixed metal never to be bagged up with fine.

4*to*, 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.

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 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.*

The remedy of weight upon ſilver what.

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 12×24=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 $\frac{3}{10}$ of a crown, value in the coin 49 livres, 16 ſols. Into what coined.

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

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

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 ſols 6 deniers upon every marc of fine ſilver. To know how much this makes *per cent.* ſtate it thus, Mint price of a marc of fine ſilver.

$$55.162 : 55.38 :: 100 : 108.2.$$

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 $8\frac{1}{5}$ 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

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, $\frac{11}{12}$, or 22 carats fine. Upon this the workmen are allowed $\frac{12}{32}$ parts of a carat, for the *Remede d'alloy*; which reduces the ſtandard to $21\frac{20}{32}$ carats fine, to $1\frac{12}{32}$ 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 ſols.

Mint price of a marc of fine gold.

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

The difference, therefore, between the mint price of fine gold, and the worth of it in the coin, (viz. 61 livres 3 ſols 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 $8\frac{1}{5}$ 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.

Of the proportion of the metals.

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

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

How to diſcover it.

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.

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 : 801.61 :: 1 : 14.47.

The proportion is as 1 to 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.$\frac{9}{19}$, but more exactly as 1 to 14.47, which is very nearly as 1 to 14.5.

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

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.

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.

Proportion of a French grain weight to a troy grain.

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!

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 ſols, which makes the full marc of 4608 grains to be worth 50 livres 4 ſols. The ſtandard of the plate is $11\frac{10}{24}$ 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 ſols.

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 ſols 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 ſols 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 ſols 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.

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.

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

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 ſols. 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 ſols per marc below the value of her coin. Nothing but the advanced value of her ſpecie in foreign currency, could poſſibly produce ſuch a phænomenon. 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 ſols, which is but 18 ſols 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.

Before

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

Preſent ſtate of the wearing of the French ſilver coin.

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.

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 $\frac{137}{1000}$ 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.

CHAP. 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 ſuperadds 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.

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

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

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 *remede* of weight on ſilver.

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 fineneſs of ſilver is different in different coins.

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.

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

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.

How they reckon their ſilver ſtandard.

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.

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 $23\frac{67}{3\,3\,1}$ florins. If therefore 4645.4 aces of fine ſilver be worth $23\frac{67}{3\,3\,1}$ 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 *per cent.* ſtate thus,

25.1 : 25.472 :: 100 : 101.48

Price of coinage in Holland is about $1\frac{1}{2}$ per cent. on ſilver.

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

Of the Dutch gold coins.

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; ſo let the maſs of gold be of what weight ſoever, it is always ſuppoſed to contain 288 parts, that is, 12×24: at this rate the fineneſs of ducats is 283 parts fine gold, and 5 parts alloy. How the fineneſs is reckoned.

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, Exact quantity of fine gold in a marc weight of Dutch ducats as they come from the mint.

288 : 283 :: 5088 : 4999.6.

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 *per cent.* ſtate thus,

71 : 71.687 :: 100 : 100.96.

Price of coinage upon ducats about 1 per cent.

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

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

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.

The Rider

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.

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

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.

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

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 $\frac{11}{12}$ 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 $\frac{5120}{26.714}=191.65$.

Quantity of fine gold in a florin of riders.

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

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

To put the ducat upon a par with riders it ſhould circulate for 5 florins $4\frac{1}{8}$ ſtivers.

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.

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 $4\frac{1}{8}$ ſtivers.

Utility of not fixing the denomination of ducats.

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, $5.4\frac{3}{8}$ florins. If, therefore, in order to bring the currency of ducats upon a par with the riders, they were fixed at $5.4\frac{1}{8}$ 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 guineas and Portugal gold; the melting and recoining 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 phænomenon 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 $4\frac{5}{8}$ ſtivers; thoſe which have circulated (were it for a day) fall, from that very circumſtance, to 5 florins $4\frac{3}{8}$ ſtivers; which is a diminution of near $\frac{1}{4}$ *per cent.* of their value. This phænomenon 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 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.

Quantity of fine ſilver in a florin piece.

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 gold in a florin of riders.

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.

Inveſtigation of this proportion as to the ducat;

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 *ſt.* The ſecond, at the value of new ducats from the mint, to wit, 5 *f.* $4\frac{5}{8}$ *ſt.* The laſt, at the merchant price of good ducats, which have circulated, to wit, 5 *f.* $4\frac{3}{8}$ *ſt.*

In the firſt caſe (the ducat at 5 *f.* 5 *ſt.*) 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.* 4⅝ *ſt.*) 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 ⅜ *ſt.*) 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.

by which it appears that the late war has raiſed the value of gold, and ſet the market price of the metals in Holland at 1 to 14.785.

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.* 5½ *ſt.* 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.

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

The preſent proportion as to ducats is 1 to 14.785.

14.62 : 100 :: 14.785 : 101.12.

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.* 4⅜ *ſt.* 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 ¼ *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.

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

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.

Proportion between the mint weights of Holland, 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.

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

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

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 $\frac{1}{5}$.

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 $\frac{3}{4}$.

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 $1\frac{1}{2}$ ſtiver.

24 livres French, contain 1996.88 grains poids 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 *ſt.* 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 *ſt.* is no argument againſt the high converſion I have given it, to wit, above 11 *f.* 12 *ſt.* 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 *ſt.* 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.

Owing to the lightneſs of the gold coin in England at that time,

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.* Gui-

neas, 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.* $10\frac{1}{2}$ *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 *ſt.*) for 11 *f.* 11 *ſt.* 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 *ſt.* 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 $14\frac{1}{2}$. Now this guinea muſt be worth more than 11 *f.* 11 *ſt.* 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 ſtivers more, that is 11 *f.* 13 *ſt.* 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 $14\frac{1}{2}$, 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 *ſt.*

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

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 *ſt.* 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 *ſt.* ſuch ſums as have been borrowed at the value of 10 *f.* 10 *ſt.* 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.

Defects of the ſilver currency of Holland.

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

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 $\frac{1}{3}$ 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.

rencies 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 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 ſac 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 aukward 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.

Frauds of money-jobbers in Holland.

Farther, if a money-jobber gets ſome ſacs 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* ſac 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 $\frac{3\,7\,4}{2\,5\cdot 8\,3}$ 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.

Another abuſe in the ſilver coin of Holland.

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.

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 phænomena.

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,

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

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

3*tio*, 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.

Solution of it.

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 cur-

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

the

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 phænomenon 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 *ſt.* 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 *ſt.* Such good ſilver pieces are not very common in ordinary circulation; but as it frequently happens that people receive ſilver in ſacs, 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 aukward 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.

AN

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL OECONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART I.

OF THE INTEREST OF MONEY.

INTRODUCTION.

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 Miſſiſippi'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 Miſſiſippi, 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 ſpunge 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 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 acceptation 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 treaſures. Wars brought it out; becauſe then circulation augmented; peace again cutting off theſe extraordinary demands, the coin ſtagnated again, and returned to the treaſures.

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 diſtreſs 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 $8\frac{1}{3}$ *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 conveniencies 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 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

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.

CHAP. V.

Of the Regulation of Intereſt by Statute.

FROM the principles deduced in the preceeding 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 entring 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 phænomenon 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 to

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.

CHAP. 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 entred 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.* ſells at par, money may be ſaid

to

to be then at 4 *per cent.* If the ſame ſtock falls to 89, then the value of money riſes to near $4\frac{1}{2}$: if the ſame ſtock riſes to 114, then the value of money falls to about $3\frac{1}{2}$; 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.

CHAP. 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 accompt; 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 accompts 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 expreſly 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 precarioufneſs 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.

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 more

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 ſurprizing 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

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

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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.

CHAP. 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 mer-

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.

AN INQUIRY INTO THE PRINCIPLES OF POLITICAL OECONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART II.

OF BANKS.

CHAP. I.

Of the various Kinds of Credit.

WE have already pointed out the nature of credit, which is confidence; and we have deduced the principles which influence the rate of 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 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.

1*mo*, 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.

2*do*, 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.

3*tio*, 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.

1*mo*, 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.

2*do*, 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.

3*tio*, The third difference is with regard to the caſe 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*to*, 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 infeftments 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.

CHAP. III.

Of Banks.

IN 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 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 entring 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 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.

CHAP. IV.

Of Banks of Circulation upon Mortgage or private Credit.

BANKS 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

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 ſureties 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.

As often as theſe exchangers give credit to dealers in any way, they conſtantly ſtate a commiſſion of ½ *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.

CHAP. 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.

CHAP. 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?

CHAP. IX.

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

DID 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

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 againſt

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?

CHAP.

CHAP. 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

banks

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, *cæteris paribus*, ſo will money; that is, more ſolid property will be melted down; and when trade and alienation diminiſh, *cæteris 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 aukward 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

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 of

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

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 inconveniencies; 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.

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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

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.

CHAP. XIII.

Continuation of the ſame Subject; and of the Principles upon which Banks ought to borrow Abroad, *and* give credit at Home.

IN 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, *cæteris 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 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 phænomenon 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 rendring 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 London,

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 remembred, 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 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

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 ſmalneſs of the ſum advanced, upon which the profit was made, and the miniſterial intereſt which was neceſſary to obtain a ſhare in thoſe ſubſcriptions, rendred 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 gameſters? 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 gameſter, and as an ignorant gameſter too; becauſe he was giving odds upon an equal bett. 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 de-"mand" (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 car-"rying money to London as a commodity, and not as the balance "of trade."

CHAP. 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, 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 inconveniencies, 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 aukward 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 entring 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 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.

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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

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 ſaddled 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.

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*mo*, 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*do*, 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*tio*, The capitals due to the bank muſt not be demandable by the bank, as long as the intereſt is regularly paid.

4*to*, Every one who conſtitutes his property according to the regulations, muſt be entitled to a proportional credit from them.

5*to*, 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*to*, Government muſt ſupport the bank in proportion to the extent of their funds.

7*to*, 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 incumbred 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 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 accompt 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 ſkreen 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?

CHAP. XVIII.

Is it the Intereſt of Banks to grant Credits and Caſh Accompts 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 creditors,

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.

CHAP. 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.

1*mo*, As to the circulation of paper for domeſtic uſe.

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.

2*do*, 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.

3*tio*, 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-

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 every one 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 *merchandize*: money, with reſpect to the denomination it carries by law; merchandize, 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 accompts 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 authoriſed 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.

In

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

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.

CHAP. 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.

This

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

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 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 indorſations 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.

The

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 preceeding 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.

The

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.

This,

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 Swiſs: 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 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*mo*, By multiplying the circulation of paper it would ſend off the coin.

2*do*, 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.

CHAP. XXIII.

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

IN 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 Miſſiſippi 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 *Viſa*) 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'etat*, 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.

CHAP. XXIV.

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

IN 1709, there was a new general coinage in France; by which operation the King gained 23 $\frac{1}{13}$ *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, rendring the paper *monnoie fixe*; becauſe the denominations contained in it did not vary according to the variations of the coin: I ſhould have called it *monnoie 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.

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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 oppreſ- "ſion 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

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 downfal.

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 mag- " nificence, 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 com- " mendable, 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.

CHAP. 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 year 1719, perhaps the credit of the bank might have been rendred precarious; but they neither ſaw it or ſought 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 rendring 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*.

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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 æra and beginning of all the confuſion. From this loan proceeded the downfal of the whole ſyſtem.

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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 Miſſiſippi ſcheme, in the order of time in which they followed one another.

CHAP. 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 Miſſiſippi, 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, careleſneſs 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 Miſſiſippi 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 *monnoie 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 200 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 compleated 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.

	livres.
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

	livres.
ſum of - - - - - - - - -	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.

CHAP. 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 unſupportable 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 ſold 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 ſold 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 phænomena ariſing from the eſtabliſhment of the bank, and company of the Indies. If the com-

pany

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,

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CHAP. XXX.

Inquiry into the Motives of the Duke of Orleans in concerting the Plan of the Miſſiſippi.

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 ſuppoſeable 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 *per annum* - -	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 bare-faced, 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, ſold 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.

The number of the actions ſold to the public was very inconſiderable, compared with thoſe ſold 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 acknowleged 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.

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 adminiſtring 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 unſold, 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 he 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 Miſſiſippi.

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 Miſſiſippi 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

the

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 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 ſurpriſing that I ſhould take ſo much pains to vindicate the two principal conductors of that ſcheme. My intention 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.

CHAP. 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 ſore 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 *numerary* 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 $2\frac{2}{27}$ are to 1; that is to ſay, that 207 "livres 8 ſols $1\frac{7}{8}$ 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 deno-"mination 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 deliberation, 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 cor- " reſpond 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 ac- " cording to ſome *bleſſoit l'equité*" (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 reve- " nue 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?

CHAP. XXXII.

Concluſion of the Miſſiſippi Scheme.

THE Regent, perſuaded that the blunder of the 21ſt of May was abſolutely irreparable, fell to work next to clear accompts with the company.

He owed them 1600 millions capital, and 48 millions a year of intereſt upon it.

On the other hand, he had in his 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 $2\frac{1}{2}$ *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 farewel 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 Miſſiſippi 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*.

1*mo*, Of

1*mo*, Of the above total of notes coined, there remained in the bank at that time, for - - - - - 707 327 460 livres.

2*do*, Subſcribed for at 2½ *per cent.* in June 1720 530 000 000

3*tio*, Carried to the bank by private people as a fund of credit there - - - - - 200 000 000

4*to*, 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:

1*mo*, 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.

2*do*, 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

3*tio*, 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 - - - - - - - - - - 2696 millions.

Of which in the bank, October 10, 1720 707 mil.

And paid in coin - - - - - 90

This ſubſtracted - - - - - 797 millions.

There remained outſtanding in bank notes * 1899 millions.

Add to this 100 millions ſtill due by the King to the company for the *billets d'etat* 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,

1*mo*, Of rents conſtituted in June 1720, on the town-houſe, at $2\frac{1}{2}$ *per cent.* or at the 40th penny - - - - 25 millions.

2*do*, 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 not s 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*tio*, Ditto at ditto upon lives at 4 *per cent.* or at the 25th penny - - - - - - - - 4 millions.

4*to*, Due to the company upon the original ſtock of 100 millions ſtill paid them at this day at 5 *per cent.* 5 millions.

5*to*, For the 200 millions of credit at the bank, ſuppoſe at the rate of 3 *per cent.* - - - - 6 millions.

6*to*, For the laſt 200 millions provided for in different ways, ſuppoſe at $2\frac{1}{2}$ *per cent.* - - - - - 5 millions.

7*to*, 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. 1

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 Miſſiſippi 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 ſols *per* marc, the then value; which makes about 8 146 600 *l.* ſterling. A large

ſum, no doubt; but little more than $\frac{1}{5}$ 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 Miſſiſippi 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.

CHAP. 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 preceeding 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 phænomenon 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 rendred 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 *arret* 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 Miſſiſippi ſcheme was conducted, is only intended as an illuſtration of the principles of credit in general; I ſhall firſt account for the wonderful phænomenon above mentioned, and then ſhew how, in the greateſt of all the French diſtreſs, their credit might have been re-eſtabliſhed in a more ſolid manner than ever.

As to the wonderful phænomenon 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.

1*mo*, 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.

2*do*, 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.

3*tio*, 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, adminiſtred 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 accompts 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, ſells 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.

This augmentation, therefore, upon the value of all capitals, during the Miſſiſippi, 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 phænomenon.

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.

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 ſols *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 regiſtred a declaration in parliament, ſetting forth,

1*mo*, That all future changes either upon the denominations of paper or coin, were contrary to the maxims of good government.

2*do*, That all ſtipulations between the King and his creditors were to be inviolable. And,

3*tio*, 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.

CHAP. 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.

1*mo*, 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

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 firſt 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.

2*do*, 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 *monnoie 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.

3*tio*, 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, deſireable 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.

4*to*, 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 ſolliciting a run upon the bank. The ſtroke ſhould have been ſtruck at once.

CHAP. 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.

CHAP. 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.

1*mo*, 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.

2*do*, 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.

CHAP. 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 accompt.

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 $\frac{268}{288}$ parts fine, and $\frac{20}{288}$ 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 ſubtilties 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.*

CHAP. 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 knowlege 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 foot-

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, 1*mo*, That every ſhilling written in the books of the bank, is actually locked up, in coin, in the bank repoſitories.

2*do*, 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,

1*mo*, 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,

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.

2*do*, 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 $\frac{1}{106}$ *per cent.* or perhaps $\frac{1}{8}$ *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 $\frac{1}{8}$, or perhaps but $\frac{1}{106}$ 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. Univerſ. 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 $\frac{1}{2}$ *per cent.* on pieces of eight and rix-dollars $\frac{1}{4}$; 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 adminiſtred, 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 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 Miſſiſippi. 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.

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 accepter, (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.

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*mo*, 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.

2*do*, How to remove the domeſtic inconveniences which occur in paying with the metals or coin.

3*tio*, 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 accompt, 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 accompt 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 accompt, 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 invariable 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 anfwers the purpoſe. But whether we ſay that bullion *riſes* in the markets of Paris and London; or that the value of their currencies *ſink*, 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 $\frac{4.3999}{101.7}$=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 $29\frac{1}{2}$ *d.* if you reckon by the ſilver, or $30\frac{3}{4}$ *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 accompt 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 analize them, before the doctrine we are upon can be diſtinctly underſtood.

I ſhall therefore conclude my chapter with this propoſition:

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 *poids de marc*,	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.

CHAP. 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. In both caſes, the additional expence they are put to remains in the country, and is repaid them 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 expor-

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 Miſſiſippi, 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.

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-

ing

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

ſions 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 *merchandize*, 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.

By

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 ſol 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 in

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 pro-

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.

AN

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL OECONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART IV.

OF PUBLIC CREDIT.

CHAP. I.

Of the various Conſequences of Public Debts.

THE 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

volved, 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, ſtock-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 rendred 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, 1*mo*, 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.

2*do*, 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.

3*tio*, 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.

4*to*, If

4*to*, 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.

5*to*, 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 extenſion 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 inſlaved. On this revolution, the exigencies of that great empire were ſupplied

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 adminiſtred 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 circula-

tion; that is, by their induſtry. Venice, Genoa, and the Hanſtowns, 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.

CHAP. 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.

From

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, chevaucheés, ſubventions, exactions, chevaleries, aides, mariages, toultes, impoſitions, priſons, ſervitudes, and *nouvellettes*.

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, ſold 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 preceeded, that in 1356, the ſeptier of wheat, or 4 Wincheſter buſhels, ſold for 17 ſols 8 deniers of the then currency, which was 12 livres to the marc fine ſilver, and a French ſoldier'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 ſold 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 ſold 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 ſold; 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 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 dif-

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 Ryſwick, 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

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 Ryſwick; 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 Ryſwick, 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 11 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 Ryſwick, 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 refunded.

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 rendred 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 mnch, 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.

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

ing that value into money. The whole of the money coined before the end of the war in 1697, did not amount to $8\frac{1}{2}$ 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 Ryſwick; 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 ſticks, 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

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.

CHAP. 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.

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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 con- "tent 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 phænomena; 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 phænomena 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 ſpunges 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.

1*mo*, 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.

2*do*, 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.

3*tio*, 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 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 ſpight 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 indiſpenſibly neceſſary, either, 1*mo*, To have a ſum locked up in treaſure? Or, 2*do*, A fund appropriated, to borrow upon in time of war, which may ſerve to pay off the debts in time of peace? Or, 3*tio*, 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 ge-"neral ſpunge) but as ſhe cannot, certainly, ſupport all the bur-"then, ſo neither does reaſon dictate that ſhe ſhould be entirely "ſet 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.

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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 antient 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.

Other

Other annuities conſtituted upon the *taille* ſold for ſix years purchaſe, which, by the ſame rule, were to be paid off in 8 ½ 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 ½ 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 ½ years purchaſe, which were to be paid in 11 ½ 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, 1*mo*, That all the debts were then, by an act of power, put at 4 *per cent.* without any regard to the original ſtipulations. 2*do*, 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.

He

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 $\frac{1}{5}$; the ſecond claſs was diminiſhed $\frac{2}{5}$; the third claſs $\frac{3}{5}$; and the laſt of all, ſums due to brokers, uſurers, &c. were diminiſhed $\frac{4}{5}$.

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 felling 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 Miſſiſippi; 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.

The

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.

To this Henry IV. ſucceeded; and by the capacity and unwearied application of his great miniſter M. de Sulli, 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

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 preceeding 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 Ryſwick, 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 - - - - - - - - £ 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 for the current ſervice of the ſtate - - - 1 105 835.

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 uſurious 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 burdenſome 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 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 ſuſpend: 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 Ryſwick. 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 794 000 *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 Miſſiſippi, 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 Miſſiſippi; and in doing it, point out the principal differences between them.

The great profits upon the Miſſiſippi 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 Miſſiſippi, was this: That in France there was abundance of money in the hands of the public, for purchaſing the

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*mo*, From the profits of the trade, which they were to enjoy excluſively. And, 2*do*, 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*mo*, Of the money owing to them by government. 2*do*, Of the money gained by the ſubſcriptions above par. And 3*tio*, 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

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 the

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.

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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 IId'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 wherewithal 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.

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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 $3\frac{9}{97}$ *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 $4\frac{1}{8}$ *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 $\frac{1}{8}$ 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 130 586 789 *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 ½ *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 preceeding 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 6 826 875 *l.* or at 27 ½ 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 4 *s.* in the pound - - - -		2 000 000
Annual malt tax net - - - - - -		613 000
In all - - - - - - - - -		10 213 000

Let us next ſtate the annual charges and appropriations ſettled upon this fund.

Firſt then the civil liſt, to the amount of	£ 800 000	
2*do*, The intereſt of about 131 millions of funded debts at different rates of intereſt, about	4 500 000	
3*tio*, 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		5 660 000
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		2 613 000
There will remain as the produce of the ſinking fund *		1 940 000

In

* I find that the ſinking fund is now eſtimated at 2 100 000 *l.* by the author of the Conſiderations on Trade, &c. above cited. I am alſo informed that the net produce of the cuſtoms exceeds 2 000 000 *l.* conſiderably: but 4 600 000 *l.* 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 4 720 000 *l.* 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.

That

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.

CHAP. 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 adminiſtred; 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. livres.	Sterling ditto. 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	2 515 555 11 1¼
3. Double capitation (the poll-tax)	53 200 000	2 364 444 8 10½
4. Ditto upon ſuch as have civil employments, penſions, &c.	6 700 000	297 777 15 6½
5. 2 s. in the pound on all civil employments.	6 800 000	302 222 4 5¼
Carry over	129 300 000	5 746 666 13 3½

	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 $1\frac{3}{4}$
10. Tax on the Lutheran clergy of Alſace - - -	200 000	8 888 17 $9\frac{1}{4}$
11. Regale, or the ſovereign's right on eccleſiaſtical benefices	1 400 000	62 222 4 $5\frac{1}{4}$
12. General farms - -	112 500 000	5 000 000 — —
Total of the ordinary revenue	270 800 000	12 035 555 11 *$1\frac{1}{4}$
Of this total the general farms amount to 112 500 000 livres.	5 000 000 l. — s. — d.	
And the other branches to 158 300 000	7 035 555 11 $1\frac{1}{4}$	
The farms were increaſed *anno* 1762 by - - - - -	11 500 000	511 111 2 $2\frac{1}{2}$
Total ordinary revenue at the end of the war - -	282 300 000	12 546 666 13 4
Articles of Expence.		
Houſhold 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 $\frac{1}{4}$ *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 2½
Hunting equipages - -	1 600 000	71 111 2 2½
Alms - - - -	600 000	26 666 13 4
Pay of the palace guards, *(gardes de la porte)* &c. - - -	3 300 000	146 666 13 4
King's buildings - - -	6 600 000	293 333 6 8
Total expence of the court	28 600 000	1 271 111 2 2
Pay of all the houſhold troops -	8 000 000	355 555 11 1¼
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 10½
Pay of general officers commanding in provinces and fortreſſes	2 000 000	88 888 17 9¼
Pay, &c. of the marechauſsée	2 200 000	97 777 15 6½
Expence of priſoners of ſtate	1 200 000	53 333 6 8
Ordinary expence of the navy	25 000 000	1 111 111 2 2½
Total regular military expence by land and ſea - -	109 000 000	4844444 8 10
Royal penſions - - -	9 000 000	400 000 — —
The appointments of the King's miniſters - - -	310 000	13 777 15 6½
Carry over	9 310 000	413 777 15 6½

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over -	9310 000	413 777 15 6½
Ditto of the firſt preſidents of all the parliaments in France, expence of criminal proſecutions, 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 5¼
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 5¼
Ditto of miniſters at foreign courts	1 800 000	80 000 — —
Total ſum of this branch -	52 950 000	2 353 333 6 8
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
Carry over	27 100 000	1 204 444 8 10½

	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
Total intereſt of debts - -	45 500 000	2 022 222	4	5

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.

Recapitulation of the expences.	Fr. money. livres.	Sterling ditto. l.	s.	d.
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	5¼
Total expence - - -	236 050 000	10 491 111	2	2½
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 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 6 1/2
Ditto upon tradeſmen and merchants incorporated	6 500 000	288 888 17 9 1/4
Ditto upon the Jews	1 400 000	62 222 4 5 1/4
Total of the twentieth penny, which formed a ſinking fund, ſhut up in 1759	31 700 000	1 408 888 17 9 1/4
The farm of the poſts and *relais* 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 1 1/2
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 9 1/4
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 $2\frac{1}{2}$ *per cent.* the yearly ſum of - - - - -	5 000 000	222 222 4 $5\frac{1}{4}$
2. To the India Company, in diſcharge of a debt due to them: for 12 years - - -	2 000 000	88 888 17 $9\frac{1}{4}$
3. For paying the prizes of the bankers lotteries every year as they are drawn: for 12 years	3 800 000	168 888 17 $9\frac{1}{4}$
4. Towards making good deficiencies upon the funds appropriated for the war, yearly, till paid - - -	18 700 000	831 111 2 $2\frac{1}{2}$
5. Ditto upon the funds appropriated to the new *Ecole militaire*	1 200 000	53 333 6 8
6. For payment of perpetual annuities created during laſt war	14 500 000	644 444 8 $10\frac{1}{2}$
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 $5\frac{1}{4}$
Total appropriation - -	55 690 000	2 475 111 2 $2\frac{1}{2}$

This branch of revenue appears, by this ſtate, to be totally appropriated to certain purpoſes.

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.*

This

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 Silhouëtte, 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 adminiſtred with all the advantages of a farm.

This tax, the general ſubvention, after it had been impoſed by edict, regiſtred 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 Miſſiſippi 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 preceeding 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.

The

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	
		Sterling.
Sum total - - - - - -	3 690 766	£ 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.

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.

1*mo*, Five years of the free gift of the clergy of France, amounting to 15 millions, were paid down at once by that body.

2*do*, That of the clergy of Alſace, paid in the ſame way, for the ſame term, produced 3 millions.

3*tio*, A duty on firewood, &c. in the city of Paris, valued at 3 400 000 a year, ſold for 7 years, for 10 millions.

4*to*, Another duty upon the conſumption of eggs, butter, &c. valued at 2 400 000, ſold for 15 years for above 30 millions.

5*to*, 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.

6*to*, 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 6½
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 10½
4. Upon the farm of the *paulette*	1 000 000	44 444 8 10½
5. Upon the farm of duties on gun-powder and ſalt-petre -	1 000 000	44 444 8 10½
6. The farm of the market of Poiſſi 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 Alſace - -	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 $5\frac{1}{4}$
10. And for the ſale of the duties upon firewood, &c. in Paris, for 7 years - - -	10 000 000	444 444 8 $10\frac{1}{2}$
Total extraordinary ſupplies for 1756 - - - -	121 000 000	5 377 777 15 $5\frac{3}{4}$

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

	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 6½
2. The ordinary revenue was charged with 6 millions of life annuities, at 10 *per cent.* ſold for	60 000 000	2 666 666 13 4
	136 000 000	6 044 444 8 10½
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 - -	40 000 000	1 777 777 15 6½
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 - - -	20 000 000	888 888 17 9½
3. The additional 10 *per cent.* upon the price of tobacco, was ſold this year to the farmers, for -	30 000 000	1 333 333 6 8
Carry over -	90 000 000	3 999 999 19 11½

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over -	90 000 000	3 999 999 19 11¾
4. The ordinary revenue was charged with 3 600 000 livres, life-annuities, upon two lives, at 8 *per cent.*; ſold for the ſum of - - - - -	45 000 000	2 000 000 — —
	135 000 000	5 999 999 19 11¾

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, burgs, 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, ſold 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, ſold at once for - -	16 000 000	711 111 2 2½
4. The ſecond twentieth penny produced for this year - -	35 000 000	1 555 555 11 1¼
Carry over -	126 690 786	5 630 701 11 11¾

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over -	126 690 786	5 630 701 11 11¾
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 1¼
6. The ordinary revenue was charged with 3 millions of annuities, called *tontines*, ſold for	60 000 000	2 666 666 13 4
	194 690 786	8 652 923 16 5
The ſupplies for 1760, amounted to above 251 millions, £ 11 186 430 ſterling.		
1. The Paris-duties above mentioned ſold for 15 years -	30 283 900	1 345 951 2 2½
2. The 3d ſhilling in the pound ſold for two years, for - -	72 340 000	3 215 111 2 2½
3. The 2d ſhilling produced this year - - - - -	35 000 000	1 555 555 11 1¼
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 10¼

* 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 year;

	Fr. money. livres.	Sterling ditto. l.	s.	d.
Brought over -	197 623 900	8 783 284	8	10¼
5. The free gift of the cities, &c.	3 690 787	164 034	19	6¼
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	5¼
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	9¼
	251 694 687	11 186 430	10	7¼

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	9¼
2. Borrowed on the duties upon leather, at 3 *per cent.* - -	30 000 000	1 333 333	6	8
Theſe were the annuities which were ordered to be				
Carry over -	32 000 000	1 422 222	4	5¼

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.

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over -	32 000 000	1 422 222 4 5$\frac{1}{4}$
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$\frac{1}{4}$
	82 000 000	3 644 444 8 10$\frac{1}{2}$
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 -	120 690 787	5 364 034 19 6$\frac{1}{2}$
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$\frac{1}{2}$
Carry over -	83 200 000	3 697 777 15 6$\frac{1}{2}$

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over -	83 200 000	3 697 777 15 6¾
2. There was no borrowing this laſt year of the war. The ſecond twentieth, which never had been ſold; 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 1 9¼
	159 230 787	7 076 923 17 4¾

Recapitulation of the expence of the ſeven years of the war.*

	Fr. money. livres.	Sterl. ditto. 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 - -	1 118 307 047	49 702 535

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.

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 ſold 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. livres.	Sterling ditto. 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 - -	1 118 307 947	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	10½
The lotteries form a capital of -	108 000 000	4 800 000	—	—
Carry over -	325 000 000	4 444 444	8	10½

	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 1½
Suppoſe the perpetual annuities all at 5 *per cent.*; *inde* - -	13 619 000	605 288 17 9½
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	1 1/4
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
	68 690 787	3 052 923	16	5 3/4

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	5 1/4
2. The expence of levying all the revenue is calculated to amount to about 10 *per cent.* of the whole; *inde*	40 300 000	1 791 111	2	2 2/3
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	3 3/4

	Fr. money. livres.	Sterling ditto. l. s. d.
Brought over -	58 740 000	2 610 666 13 3¾
And to the invalids, St. Cir, and the *hotel militaire* - -	7 300 000	324 444 8 10½
There are taxes impoſed for clothing the militia, to the amount of - - -	3 800 000	168 888 17 9¼
All the towns in France have particular branches of taxes appropriated to themſelves, for pavement, 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, emoluments to the judges *(epices)*, and expence of regiſtrations, the vaſt ſum of - - -	27 000 000	1 200 000 — —
	111 840 000	4 970 666 13 3½

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, diſpenſations, baptiſms and burials, to the pope, biſhops, and inferior clergy, very near - -	10 000 000	444 444 8 10½
2. For the ſupport of hoſpitals, a ſort of poors rates - -	11 500 000	511 111 2 2½
3. To branches of impoſitions, of various kinds, belonging to private people, peers of France, governors of provinces, and officers of all the royal juriſdictions within the kingdom - -	20 000 000	888 888 17 9¼
	41 500 000	1 844 444 8 10¼

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
Carry over -	334 638 000	14 872 800 0 0

	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 4½
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 10½
Sum total raiſed annually in France	556 668 787	24 740 834 19 6½
Charges, or appropriations of it.		
1. Charges upon the ordinary revenue *per* liſt above - -	236 050 000	10 491 111 2 2½
2. Ditto upon the ſecond general branch *per* ditto - -	55 690 000	2 475 111 2 2½
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 10½
4. Ditto upon the fourth general branch totally exhauſted *inde*	111 840 000	4 970 666 13 4
5. Ditto upon the fifth general branch ditto - - -	41 500 000	1 844 444 8 10
Carry over	470 299 000	20 902 177 15 6

	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 —
	556 668 787	24 740 834 19 6

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 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 adminiſtred 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.

CHAP. VII.

Comparative View of the Revenue, Debts, and Credit of Great Britain and France.

IN 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.

In

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 Miſſiſippi-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 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.

CHAP. 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.

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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 allurement 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.

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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, *cæteris 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.

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

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*mo*, 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*do*, That this income ſo created, may be either the property of natives, or of ſtrangers.

3*tio*, 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*to*, 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*to*, 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*to*, 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*mo*, 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*vo*, 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.

CHAP. 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 Davenant, 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*mo*, Every creditor of the ſtate would become poorer in proportion to the diminution of his income.

2*do*, 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*tio*, 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 ſpunge 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 cooly 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 credit have been long at work to perform this great revolution: the operation is not as yet compleated, 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 ſo 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 acknowlege, 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

fineſs 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.

1*mo*, That the moſt important object in paying off debts, is to get quit of thoſe due to ſtrangers.

2*do*, 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 ſpunge, 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 ſpunge 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

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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.

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 Miſſiſippi? 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

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 any where 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

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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 a-new upon the funds payable in London. Could the payment of the intereſt of the public debts be rendred 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*

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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 $\frac{3}{4}$ *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.

2*do*, *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.

3*tio*, *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.

4*to*, *They* may be paid in one ſenſe, as ſhall be farther explained, by reducing the intereſt upon the capitals, without diminiſhing them.

5*to*, *They* may be paid off by converting them into annuities for lives.

6*to*, 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.

This

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 be

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.* ſell at $74\frac{3}{4}$, 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.

AN INQUIRY INTO THE PRINCIPLES OF POLITICAL OECONOMY.

BOOK V.

OF TAXES, AND OF THE PROPER APPLICATION OF THEIR AMOUNT.

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.

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*mo*, 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*do*, 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*tio*, 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 1 200 000 livres a year. This tax was omitted in the account of the French revenue.

they

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.

CHAP. II.

Of proportional Taxes, and their proper Object.

WHATEVER 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 all

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.

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.

CHAP. 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 con-

ſidered

ſidered 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 pro-

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 ſeller, 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 analize 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 *Uſtencil*, (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 *Uſtencil* 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.

who

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, *1ſt*, deſtroy the proportion between the tax and the revenue taxed. *2dly*, 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*mo*, 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*do*, 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*tio*, 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

lidated 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 tunnage 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

burſed 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*mo*, 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*do*, That they diſcourage conſumption, by carrying the prices of many things too high for people of a middling rank in life.

3*tio*, 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 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 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,

1*mo*, 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.

2*do*, 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.

3*tio*, 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.

4*to*, 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.

5*to*, If hands increaſe, after he is reduced to his phyſical-neceſſary, the whole claſs of the manufacturers will be forced to ſtarve.

6*to*, 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 batchelors, 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 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 xviiith 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,

2*do*, 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, adminiſtred 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 aſſize, 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 aſſize, 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,

1*mo*, 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.

2*do*, 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 aſſizes 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 aſſize, 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. *1ſt*, There would be conſiderable ſavings in collecting. *2dly*, 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 defraud-

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 preceeding 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

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.

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 1600 *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 analize 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 ſeller 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 maltſter, 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

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 feller'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 adminiſtred 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, 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 monied-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 inveſti-

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ture to compleat 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 analizing 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.

1*mo*, Thoſe who receive the amount of taxes, viz. the creditors and ſervants of the ſtate, and thoſe to whom they give employment.

2*do*, Thoſe who advance the taxes, viz. all the different claſſes of the induſtrious.

3*tio*, 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.

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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,

1*mo*, 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.

2*do*, 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 adminiſtred 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.

3*tio*, 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.

1*mo*, 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.

2*do*, 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 adminiſtred 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 uſeleſs 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 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 monaſtries? 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 compleat; 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 analized 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

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 manner

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 analizing 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-croſs, 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-croſs, I can ſend, at an hour's warning, many thouſand tuns weight: here I could not do the ſame in many weeks. Near London, an extended common

may

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 ſells 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,

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.

1*mo*, 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.

2*do*, 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.

3*tio*, 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 adminiſtred 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 manner

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.

CHAP. 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.

conſiſt 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.

In

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 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 $\frac{1}{4}$ of the grain it produces, many I know cannot pay above $\frac{1}{5}$, but let me ſuppoſe it $\frac{1}{4}$: another may pay with eaſe $\frac{1}{3}$; another even $\frac{2}{5}$; 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, $\frac{3}{4}$ 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 $\frac{3}{4}$ *per cent.* at the loweſt.

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 Seignoriales*, 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 calcu-

lation

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 7 *l.* 17 *s.* 5 *d.* ſterling. Of this he takes 10 *s.* $10\frac{1}{2}$ *d.* for the greateſt tithe. Beſides this, he exacts of him for his ſalt-tax, for four perſons in his family, 12 *s.* 9 *d.* So that this man, whoſe whole labour is only worth 7 *l.* 17 *s.* 5 *d.* ſterling, is to pay 1 *l.* 3 *s.* $7\frac{1}{2}$ *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 fre-"quently 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 $8\frac{1}{4}$ *d.* ſterling. He values his year's labour at 6 *l.* 10 *s.* 6 *d.* ſterling, and here is the employment of this ſum according to the plan.

	£		
He is to pay for tithe of his *induſtrie* - -	0	8	$8\frac{1}{2}$
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	$11\frac{1}{2}$
	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 inſenſibly 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 rendred 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,

1*mo*, 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.

2*do*, The cuſtoms upon importation and exportation.

3*tio*, Certain taxes of the purely proportional kind; among which was one upon tobacco, and one upon liquors drank 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 ta xation.

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 *minot* * - -	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. - -	150 845 000
The ſalt-tax at thirty livres the minot - -	39 000 000
The fixt revenue never changes, and ſtands always at	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 $\frac{1}{2}$ *d.* ſterling; and when at the higheſt, at 30 livres, 2 *l.* 3 *s.* 6 $\frac{1}{2}$ *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 $\frac{1}{4}$ *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 (Dutot, 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. 1. 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*mo*, 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*do*, 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*tio*, 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-

ſiderable 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 Silhouëtte, in 1759.

ciency

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 exciſeable 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 aſſize.

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

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 com-"mons, 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 need-
" ful 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 do- " meſtic 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:

1*mo*, 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

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the exact proportion to the produce of his land, while he that has a ſurplus is quite eaſy.

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 unſurmountable.

2*do*, 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.

3*tio*, 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.

4*to*, 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: 1*mo*, What is *neceſſary* to clothe and feed the people. 2*do*, 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

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.

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

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the generality of people would draw from this phænomenon 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 rendred of a ready converſion into money; the ſale of lands ſhould be rendred 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, rendred 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 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 ne-

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, 1*mo*, have cut off their whole profits of banking. 2*do*, It would have ruined the whole claſs of exchangers; and with them, 3*tio*, 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:

1*mo*, The melting down of property, and keeping circulation full at all times. This is the buſineſs of banks.

2*do*, The providing of coin is the buſineſs of mints.

3*tio*, 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*mo*, A capital of eleven millions ſterling, for which they are creditors to the nation.

2*do*, A

2*do*, A ſum of credit-caſh at all times in their hand, of about eleven millions more.

3*tio*, The bills of exchange of all the great merchants of Europe, which they diſcount.

4*to*, 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

every where, and occaſion no inconvenience from their contraſt 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 cataſtrope 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 ſaviour, 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 remembred, 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

to

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.

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 gilders, which he wants to ſend away in coin. He goes to the caſhier and ſells his thouſand gilders 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 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, 1*mo*, 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.

2*do*, To remove domeſtic inconveniences in paying with the metals, or national coin, every unavoidable balance.

3*tio*, To hinder the expence of acquitting a ſmall balance from occaſioning a loſs on the compenſation of reciprocal debts.

And, 4*to*, 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 rendring 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 an 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 ſyſtematical 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 ſpunge: 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 analize 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 compleated, 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 preceeding 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*mo*, 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*do*, 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*tio*, 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 con-

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 711 111 *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

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 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

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,

1*mo*, May be applied annually, to the diſcharge of certain capitals, at the option of the ſtate. Or,

2*do*, According to a certain rule, to determine the preference.

3*tio*, By appropriating the fund, for the payment of a proportional part of the whole outſtanding capital. Or,

4*to*, By reducing the intereſt of the capitals. Or,

5*to*, By converting the whole of the capitals into determinate annuities, proportionate to the extent of the ſinking fund. Or,

6*to*, 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.

CHAP. XIV.

Recapitulation of the Fifth Book.

Of Taxes.

INTROD. HAVING 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.

1*mo*, The proportion between the tax and the object taxed is determinate.

2*do*, The proportion may be known to every body.

3*tio*, 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.

Theſe

Theſe inconveniences are more apparent than real, as will appear from what follows.

1*mo*, 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.

2*do*, 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.

3*tio*, 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.

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.

The

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.

1*mo*, 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.

2*do*, 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.

3*tio*, 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.

It

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 rendring 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 preceeded by a fair valuation of every article of revenue

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 adminiſtred 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 knowlege 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.

FINIS.

A TABLE of COINS,

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				
	2 A Crown by ſtatute	- -	- -	- -	- -	429.68	523.2	520.2	581.
	3 A Shilling by ſtatute	- -	- -	- -	- -	85.935	104.65	104.	116.2
	4 A Silver Pound ſterling by ſtatute 1601	- -	- -	- -	- -	1718.7	2093.	2080.8	2324.1
	5 A Gold Pound ſterling by ſtatute 1728	113.	137.61	136.8	152.8				
	6 A Silver Pound ſterling in currency = $\frac{20}{63}$ 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	2044.2	2032.2	2269.9
	10 A Shilling current = $\frac{1}{65}$ 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 = $\frac{1}{11}$ 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.				
	2 A Florin in ſilver	- -	- -	- -	- -	148.	180.3	179.2	200.21

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FINIS.