

A N .
I N Q U I R Y .
I N T O T H E
P R I N C I P L E S O F P O L I T I C A L O E C O N O M Y :
B E I N G A N
E S S A Y O N T H E S C I E N C E
O F
D o m e s t i c P o l i c y i n F r e e N a t i o n s .

I N W H I C H A R E P A R T I C U L A R L Y C O N S I D E R E D
P O P U L A T I O N , A G R I C U L T U R E , T R A D E , I N D U S T R Y ,
M O N E Y , C O I N , I N T E R E S T , C I R C U L A T I O N , B A N K S ,
E X C H A N G E , P U B L I C C R E D I T , A N D T A X E S .

By Sir JAMES STEUART, Bart.

Ore trahit quodcumque potest atque addit acervo. Hor. Lib. i. Sat. i.

V O L . I I .

L O N D O N :
Printed for A. MILLAR, and T. CADELL, in the Strand.
M D C C L X V I I .

C O N T E N T S
O F T H E
S E C O N D V O L U M E.

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 seigniorage, upon the coin of a nation, in so far as they affect the price of bullion, and that of all other commodities,	Page 1
Intricacy of this subject,	2
Recapitulation of some principles,	—
The first introduction of coinage must make prices fall	3
Consequences of the exclusive privilege of coining,	4
A wrong balance of trade raises the price of bullion to the value of coin, and ought to raise proportionally the price of commodities,	5
How traders obstruct the operation of this principle, while the balance of trade continues fluctuating,	6
And how an overturned balance of trade attaches prices to the denominations of coin,	7
How profits consolidate into prime cost,	8
And are preserved upon articles of home consumption,	9
But are torn away by foreign competition, for articles of exportation,	—
How this hurts the industrious, and how the state may indemnify them,	10

C O N T E N T S.

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, 11

Theory of prices upon articles of exportation, —

How the course of exchange is regulated, 13.

Price of exchange, what? —

Where coinage is free, the price of bullion ought to be invariable, —

And fluctuating where coinage is imposed, —

Bullion in England dearer than in France, 14.

Because the price of it is kept up by the mint, —

And is allowed to fall in France 8 per cent. below the coin, —

This a wise regulation, —

England loses by this sometimes 8 per cent. upon her trade with France, 15.

And at a medium 4 per cent. as is proved by a matter of fact, 17.

Easy to be verified at all times by the price of bullion and course of exchange in the Paris market, 18.

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

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

The real par not to be calculated by the intrinsic value of the coin, unless bills were drawn in weight of fine bullion, 19.

Obj. Exchange regulates the price of bullion, 20.

ANSW. Denied: Exchange only raises its price, the mint price pulls it down, —

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

Balance of trade, what? 21.

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, —

Proof of this proposition, 22.

Application of these principles to the English trade with France, 24.

CHAP. III. Is the loss which the course of exchange marks upon the trade of Great Britain with France, real or apparent, 25.

Reason for proposing this question, —

Suppositions, —

Principles, —

C O N T E N T S.

Principles, Page 25

How the paying for coinage affects the profits on goods exported, 26

When the balance is favourable, 27

And how, when unfavourable, 28

How the paying for coinage affects the profits on goods imported, —

When the balance is favourable, —

And how, when unfavourable, —

The more trade is favourable, the more advisable it is to impose a price upon coinage, 29

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 a nation, 30

Two ways of imposing coinage, —

Plan laid down in this chapter, 31

How coinage is imposed by authority, —

How by consent, —

When by authority, what the consequence, —

The metals are exported, —

How, in France, this is prevented in some measure, 32

French policy as to coin not generally understood, —

How coinage influences the price of inland commodities, 33

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

An objection answered, —

Coinage affects the price of bullion immediately, and that of commodities indirectly, 34

Consequence of the price of coinage, when imposed with consent, —

That bullion is brought to the mint, when trade is favourable, 35

How the mint price of the metals may be allowed to vary, 36

Influence of this method of imposing coinage, on the price of commodities, and value of the pound sterling, 37

CHAP. V. How an experiment may be made to discover with certainty the real effects of the imposition of coinage, 38

Plan of the experiment proposed, 39

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

8 During

C O N T E N T S.

	Page
During this experiment a close attention must be had to the rate of prices,	40
And if they vary how to discover the true cause,	—
Farther consequences of this experiment,	—
Can we estimate the wealth of a nation by the quantity of its coin?	42
Just as we can estimate a man's estate by the weight of his purse,	43
CHAP. VI. Miscellaneous questions and observations concerning the doctrine of money and coin,	44
The use of a miscellaneous chapter at the end of a subject,	—
QUEST. 1. Why does the doctrine of money appear so intricate?	45
ANSW. Because it is perplexed with jargon,	—
The denominations of coin are confounded with the intrinsic value,	—
The terms metal, money, coin, bullion, and price, are all considered as synonymous,	46
What is meant by <i>metal</i> ? what by <i>money</i> ? what by <i>coin</i> ? what by <i>bullion</i> ? what by <i>price</i> ?	—
Of the abuse of the terms <i>rising</i> and <i>sinking</i> , and of the inaccuracy of speech, Prices attached to the denominations of coin,	47
<i>Coinage raises the value of coin</i> , is a more proper expression, than <i>coinage sinks the price of commodities</i> ,	—
How to avoid such ambiguities of speech,	—
A case which cannot be resolved by this theory,	—
In speaking we do not distinguish between pure metal, and that which is mixed with alloy,	48
Of the abuse of terms relative to denominations of coins,	49
This illustrated by an example,	—
Farther obscurities from the abuse of language,	—
How to avoid such abuse,	50
QUEST. 2. What is the difference between raising the value of coin, by imposing coinage, and raising the denomination of it?	—
ANSW. The first is real, and affects foreign nations; the other does not, Proved by an example,	51
How the arbitrary method of raising the denominations of coin affects prices at home,	—
QUEST. 3. How will the imposition of coinage affect the creditors of Great Britain?	53
ANSW.	5

C O N T E N T S.

	Page
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,	53
Proved by an example,	—
How the imposition of coinage advances the credit of France,	54
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, A scale of value realized in metal never can be exact; because the metal itself varies in its value,	—
1. From the manufacturing of it. 2. From the interest of money. 3. From the manners of a people,	55
The only exact scale of value is that which can measure the metals like every other commodity,	—
Explanation of this proposition, by an example, And by an application to the bank of Amsterdam,	56
How the locking up the coin in that bank renders the value of it more stable,	—
QUEST. 5. Will not the imposition of coinage in England frequently stop the mint?	57
ANSW. Certainly: when the balance of trade is unfavourable, But this is an advantage to England which France now enjoys,	58
The coin of France passes in other nations above its value as a metal, and returns to France unmelted,	—
QUEST. 6. Is not this return a loss to France?	—
Intricacy of this question,	59
Resolution of it,	—
It is no loss to France,	60
Another view of this question,	—
QUEST. 7. If by overrating gold the English lose their silver, why should not France by overrating silver lose her gold?	61
ANSW. Because the English rate their gold above the value of it in their own market. The French do not so with their silver,	—
How the proportion of the metals is kept nearly the same in all European markets?	62
Because when home demand disturbs the proportion, foreign trade brings it even again,	—
Coins of gold and silver should be proportioned at the rate of the market at home,	63
And	—

C O N T E N T S.

	Page
And nations cannot fix that proportion by any convention among themselves,	63
Why is the proportion of the metals so different in Europe and in Asia?	—
Answer to this,	—
QUEST. 8. Is it the interest of Princes to debase the standard of their coin?	64
ANSW. It is their immediate interest when they are debtors, and it is their interest to raise it when creditors; but always unjust,	—
Who are debtors and who creditors; and how Princes who incline to rob their subjects may avoid robbing themselves at the same time,	65
Example of a Prince who is now employing this engine against his enemies, not his subjects,	—
Writers against this practice have used wrong arguments to dissuade Princes from it,	66
The proper arguments against it are three,	67
1. It disturbs the ideas of people with regard to value,	—
2. It either robs the class of debtors, or creditors,	—
3. It ruins credit,	—
This last circumstance will probably put an end to the practice;	—
QUEST. 9. What is the best form to be given to coin?	—
Difference between medals and coins,	—
Of indenting the impression,	—
The less the surface, the wearing is the less,	68
The advantage of having heavy pieces for the greatest part of the coin: yet small denominations are useful in some cases, for preventing the rise of prices,	—
Mixed metal better than copper for small denominations, as appears from the practice in Germany,	—
Mixed metal never to be bagged up with fine,	69
CHAP. VII. Of the regulations observed in France, with regard to coin, bullion, and plate, 70	
The marc is the unit of French weight at the mint,	—
The remedy of weight upon silver, what?	—
The standard of fineness is 11 fine to 1 of alloy,	—
Remedy of alloy, what?	—
Quantity of fine silver in a marc, as it is delivered at the mint,	71
Into	71

C O N T E N T S.

	Page
Into what coined,	71
Mint price of a marc of fine silver,	—
The price of coinage $8\frac{1}{2}$ per cent. upon silver,	—
Remedy of weight upon gold,	—
The fineness of standard gold,	72
The remedy of alloy upon gold,	—
The marc into what coined,	—
Mint price of a marc of fine gold,	—
The price of coinage $8\frac{1}{2}$ per cent. upon gold,	—
Which no way stops the mint,	—
Of the proportion of the metals,	73
How to discover it,	—
The proportion is as 1 to 14.47,	—
Gold contained in a louis d'or, and silver in a crown of 6 livres,	—
Proportion of a French grain to a troy grain,	—
Proportion between the louis and the guinea,	74
Of the fineness of French wrought plate,	—
Goldsmiths profit by the imposition of coinage,	75
And never find the mint in competition with them for the metals,	—
Advantages of the French regulations,	—
High price of bullion in the Paris market during the year 1760,	76
Present state of the wearing of the French silver coin,	77
CHAP. VIII. Of the regulations observed in Holland, with regard to coin and bullion, 78	
Present state of the Dutch currency,	—
Regulations in the Dutch mint,	79
Their unit of weight is the marc Hollands troes,	—
The remedy of weight on silver,	—
The fineness of silver is different in different coins,	—
Florins are $\frac{1}{12}$ fine with one grain of remedy,	—
How they reckon their silver standard,	—
Exact quantity of fine silver in a marc weight of Dutch florins as they come from the mint,	80
Mint price of fine silver,	—
Price of coinage in Holland is $1\frac{1}{2}$ per cent. upon silver,	—
VOL. II. a	Of

C O N T E N T S.

	Page
Of the Dutch gold coins,	80
The ducat has no legal denomination,	—
The fineness of it 23 carats 8 grains,	81
How the fineness is reckoned,	—
Fineness of the ducats of the empire,	—
Exact quantity of fine gold in a marc weight of Dutch ducats as they come from the mint,	—
Mint price of fine gold,	—
Price of coinage upon ducats about 1 per cent.	82
The price of coinage upon both species should be the same,	—
The rider	—
Has a legal denomination, and is a lawful tender in payments to $\frac{1}{3}$ of the sum,	—
As it is always coined by the state, and for the state there can be no mint price,	—
Regulation as to the fineness, denomination, and weight of the rider,	83
Quantity of fine gold in a florin of riders,	—
To put the ducat upon a par with riders, it should circulate for 5 florins $4\frac{1}{2}$ stivers,	—
Utility of not fixing the denomination of ducats,	—
How to find the proportion of the metals in the coin of Holland; and a wonderful phenomenon in the value of ducats,	84
Were all the coin of full weight the proportion would be as 1 to 14.62,	—
Quantity of fine silver in a florin piece,	85
Quantity of fine gold in a florin of riders,	—
Investigation of this proportion as to the ducats,	—
By which it appears that the war has raised the value of gold, and set the market proportion of the metals in Holland at 1 to 14.785,	86
Which is a rise in the value of gold of 1.12 per cent.	—
The intention of this minute detail is to calculate the real par of the coins of Europe,	87
Proportion between the mint weights of Holland, England, France, and Germany,	—
Par of a pound sterling (in weighty silver) with Dutch florins in riders, is 11 florins 12 stivers,	88
Par of a pound sterling in gold with ditto, is 11 florins $3\frac{1}{2}$ stivers,	—
Par	—

C O N T E N T S.

	Page
Par of a French louis with ditto, 11 florins, $3\frac{1}{2}$ stivers,	88
Par of 24 livres French in silver with ditto, 11 florins $1\frac{1}{2}$ stivers,	—
Great balance of trade against France in September 1761,	—
Low value of the pound sterling in Holland in 1761,	—
Owing to the lightness of the English gold at that time,	89
And not to the wrong balance of their trade, as was alleged,	91
Defects of the silver currency of Holland,	—
Account of this currency,	92
Regulation for the payment of foreign bills in coin,	—
Ditto for current bills—ditto for merchandize,	—
The denominations of the several silver currencies not proportioned to their intrinsic value,	—
Cause of this.—Regulations concerning the weighing of silver species in banks current,	93
All allowances for light weight are an abuse,	94
Frauds of money-jobbers in Holland,	—
The best silver coin in Holland is upon an average 1 per cent. too light,	—
From which it follows that the actual proportion of the metals is as 1 to 14.479,	95
Another abuse in the silver coin of Holland,	—
Reason of the great apparent scarcity of the silver coin in Holland,	96
A paradox to be resolved,	—
Resolution of it,	97

C O N T E N T S,

BOOK IV.
OF CREDIT AND DEBTS.

PART I.

Of the Interest of money.

INTRODUCTION,	Page 101
CHAP. I. What credit is, and on what founded,	105
CHAP. II. Of the nature of obligations to be performed, in consequence of credit given,	108
CHAP. III. Of the interest of money,	112
CHAP. IV. Of the principles which regulate the rate of interest,	115
CHAP. V. Of the regulation of interest by statute,	121
CHAP. VI. What would be the consequences of reducing, by a British statute, the legal interest of money below the present level of the stocks?	125
CHAP. VII. Methods of bringing down the rate of interest, in consequence of the principles of demand and competition,	129
CHAP. VIII. Is the rate of interest the sure barometer of the state of commerce?	135
CHAP. IX. Does not interest fall in proportion as wealth increases?	139

PART II.

Of Banks.

CHAP. I. Of the various kinds of credit,	141
CHAP. II. Of private credit,	144
CHAP. III. Of banks,	146
CHAP. IV. Of banks of circulation upon mortgage or private credit,	150
CHAP. V. Such banks ought to issue their notes on private, not mercantile credit,	153

C O N T E N T S.

CHAP. VI. Use of subaltern bankers and exchangers,	Page 154
CHAP. VII. Concerning the obligation to pay in coin, and the consequences thereof,	157
CHAP. VIII. How a wrong balance of trade affects banks of circulation,	161
CHAP. IX. How a grand balance may be paid by banks, without the assistance of coin,	162
CHAP. X. Insufficiency of temporary credits for the payment of a wrong balance,	164
CHAP. XI. Of the hurt resulting to banks, when they leave the payment of a wrong balance to exchangers,	165
CHAP. XII. How the payment of a wrong balance affects circulation,	169
CHAP. XIII. Continuation of the same subject; and of the principles upon which banks ought to borrow abroad, and give credit at home,	178
CHAP. XIV. Of optional clauses contained in bank notes,	195
CHAP. XV. Of subaltern banks of circulation, and of their competition with one another,	202
CHAP. XVI. Of some regulations proper to be made with regard to national banks,	205
CHAP. XVII. When, and in what case, banks should be obliged to keep open books,	208
CHAP. XVIII. Is it the interest of banks to grant credits and cash accounts to exchangers and others, who make a trade of sending coin out of the country?	210
CHAP. XIX. Application of the principles above deduced, towards forming the policy of circulation,	212
CHAP. XX. Objections to this doctrine,	215
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 burden,	218
CHAP. XXII. Of banks of circulation, established on mercantile credit,	220
CHAP. XXIII. Of the first establishment of Mr. Law's bank of circulation, in the year 1716,	235
CHAP. XXIV. Account of the variations of the French coin some time before and after the death of Louis XIV.	236
CHAP. XXV. Continuation of the account of Law's bank,	239
CHAP. XXVI. Account of the royal Mississippi bank of France, established on public credit,	243

C O N T E N T S.

	Page
CHAP. XXVII. A short account of the French company of the Indies,	247
CHAP. XXVIII. Chronological anecdotes,	250
CHAP. XXIX. Continuation of the royal bank of France, until the time the company of the Indies promised a dividend of 200 livres <i>per</i> action,	252
CHAP. XXX. Inquiry into the motives of the Duke of Orleans in concerting the plan of the Mississippi,	256
CHAP. XXXI. Continuation of the account of the royal bank of France, until the total bankruptcy the 21st of May 1720,	265
CHAP. XXXII. Conclusion of the Mississippi scheme,	270
CHAP. XXXIII. Why credit fell, and how it might have been supported,	276
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,	284
CHAP. XXXV. How a bank may be safely established in France, as matters stand at present,	289
CHAP. XXXVI. Of banks of deposit and transfer,	291
CHAP. XXXVII. Of the bank of Amsterdam,	292
CHAP. XXXVIII. Of the agio of the bank of Amsterdam,	294
CHAP. XXXIX. Continuation of the same subject; and concerning the circulation of coin through the bank of Amsterdam,	298

P A R T III.

Of Exchange.

CHAP. I. OF the first principles of exchange,	310
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,	316
CHAP. III. How to remove the inconveniences which occur in paying balances with the metals or coin of a nation,	325

C O N T E N T S.

	Page
CHAP. IV. How the price of exchange, in a prosperous trading nation, may be prevented from operating upon the whole mass of reciprocal payments, instead of affecting the balance only,	333
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 they who ought to conduct that operation,	344

P A R T IV.

Of public Credit.

CHAP. I. OF the various consequences of public debts,	348
CHAP. II. Of the rise and progress of public credit,	351
CHAP. III. Of anticipations, or borrowing money upon assignments to taxes, for the discharge of principal and interest,	354
CHAP. IV. Of the state of public credit in France before the reign of Louis XIV. and of the sentiments of the great Richlieu upon that subject,	367
CHAP. V. Of the present state of public credit in Great Britain,	380
CHAP. VI. State of the public credit of France; their debts, funds, and appropriations, at the peace 1763,	402
CHAP. VII. Comparative view of the revenue, debts, and credit of Great Britain and France,	438
CHAP. VIII. Contingent consequences of the extension of credit, and increase of debts,	441
CHAP. IX. Of bankruptcies,	456
CHAP. X. Methods of contracting and paying off public debts,	465

C O N T E N T S.

BOOK V.

Of Taxes, and of the proper application of their amount.

	Page
INTRODUCTION,	482
CHAP. I. Of the different kinds of taxes,	484
CHAP. II. Of proportional taxes, and their proper object,	486
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,	490
CHAP. IV. Of cumulative taxes,	495
CHAP. V. Of the inconveniences which proceed from proportional taxes, and of the methods of removing them,	500
CHAP. VI. Cumulative and proportional taxes compared with one another, and farther examined,	517
CHAP. VII. Consequences of taxes, when the amount of them is properly applied,	523
CHAP. VIII. Of the extent of taxation,	527
CHAP. IX. The consequences of an abolition of taxes,	542
CHAP. X. Are taxes a spur to industry, as some pretend?	556
CHAP. XI. Considerations upon land taxes, with some observations upon those of England and France,	561
CHAP. XII. Miscellaneous questions upon taxes,	577
CHAP. XIII. Recapitulation of the fourth book,	593
CHAP. XIV. Recapitulation of the fifth book,	637

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

B O O K I I I.
O F M O N E Y A N D C O I N.

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

C H A P. I.

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

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.

VOL. II.

B

I am