ing to the regulations mentioned above. This part of their currency is about ½ *per cent.* better, in intrinſic value, than ducats at 5 *ſ.* 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, ½ *per cent.* better than ducats at 5 *ſ.* 5 *ſt.* Such good ſilver pieces are not very common in ordinary circulation; but as it frequently happens that people receive ſilver in facs, for their daily expence, who do not mind the difference of ½ *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

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

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 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,

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

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

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 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

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

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

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

In his days, credit was not so well established, nor was it stretched as at present: it was more accustomed to violent shocks, and could bear a rougher treatment. But in order to come the better to a thorough knowledge of this matter, let us examine into what might be the consequence, if Great Britain should, at this time, bring down, by statute, the rate of interest *below the level of the stocks*, which I take to be the best rule of determining the present value of money; and this is also the best method of examining the expediency of Child's method of reducing interest, under the present combination of all our political circumstances.

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 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 folid property, as has been explained; and then the bufinefs of a ftatefman is to contrive expedients for bringing the rate of it as low as poffible, in order to fupport foreign trade, and to rival all neighbouring nations, where intereft is higher. When foreign trade again comes to decline, from the multiplication of abufes introduced by luxury, low intereft ftill continues ufeful, for fupporting public credit, fo neceffary for defending a nation againft her enemies.

If money confifted only in the precious metals, which are not to be found in every country, but muft be purchafed with the produce of induftry, and brought from far; and if no other expedient could be fallen upon to fupply their place for the ufes of circulation; then the poffeffors of thefe metals would in a manner be mafters to eftablifh what rate of intereft they thought fit for the ufe of them.

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

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

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

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

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

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

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

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

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

Do not the notes he gets ftand (though that is not expreffed) upon the fecurity of his land? Now, can any man affign any other reafon but cuftom, why his own notes, carrying expreffly in their bofom the fame fecurity, might not be iffued, without his being obliged to interpofe the bank between the public and himfelf: And for what does he pay that intereft? Not that he has gratuitoufly received any value from the bank; becaufe 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.

If

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, notwith-

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ſtanding the additional freight and charges, they grew rich by their trade, while the others were hardly making any profit. This he accounts for, from the low rate of their intereſt. He ſuppoſes both Dutch and Engliſh to have carried on this trade with borrowed money; for which the firſt paid 3 *per cent.* and the other 6 *per cent.*

But at preſent, were it poſſible to get 6 *per cent.* for money in London, what Dutchman would lend his father a ſhilling at 3 *per cent.*? The Engliſh ſtocks are as currently bought and ſold, nay, all the ſtockjobbing tricks are practiſed with the ſame ſubtlety at Amſterdam as in Change-Alley: from which I conclude, that a great part of the advantage of low intereſt is now loſt to that nation; and I conclude farther, that it is the common intereſt of all trading nations to bring it as low as poſſible every where.

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

The only foundation for ſuch a regulation was the precariouſneſs of credit in former times. Were all the circulating paper in a nation ſecured by law, either upon the lands or revenue of the country appropriated for that purpoſe, there could be no injuſtice or inconvenience in making paper (ſo ſecured) a legal tender in all payments. Again, how extraordinary muſt it appear to any reaſonable man, that the ſame paper which paſſes on one ſide of a river, ſhould not paſs on its oppoſite bank, though running through the ſame country?

The reaſon indeed is very plain: the ſubaltern juriſdictions are different; and the debtors in the paper are different: but if the paper of both ſtood upon a ſecurity equally good, what is to hinder both to be received as a legal tender in all payments over the kingdom? Should not little private objects of profit among bankers (who are the ſervants of the ſtate, and who are ſo well paid for their ſervice) be over-ruled, when the conſequences of their diſputes are found 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

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profits, in all commercial nations, according to the exact proportion of the respective rates of interest, and promptitude of payments among them; or whether these are determined by the circumstances of demand and competition in the several foreign markets where the trade is carried on, I leave to merchants to determine. All I shall remark is, that a well founded credit, and prompt payments, will do more service to trade, than any advantage trading men can reap from the different rate of interest in different countries.

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

Another circumstance which puts nations, in our days, much more on a level than they were in former times, I have already hinted at. It is *that general average* which the great loads of national debts, and the extension of credit, through the several nations of Europe, who pay annually large sums of interest to their creditors, has established. Let me suppose the Dutch, for example, to have fixed, by placard, the rate of their interest at 3 *per cent.* I say, that so soon as the *general average* of interest comes to stand above that rate, from the price of public funds in England and France, we may safely conclude, that their trade cannot be carried on with any very considerable sum of money borrowed at 3 *per cent.* The consequence then must be, to send the money which regorges in the hands of the frugal Dutch, into other countries, where it can produce a better return, exclusive of all expences of remitting and drawing. What the consequences of this lending to foreigners may be to Holland, shall be afterwards examined.

To conclude; I believe it will be found, that what has led some to believe that low interest is the barometer of commerce, has been owing to this; that in some of the most commercial countries and cities interest has been found to be lower than in great kingdoms: but *that*, I imagine, is entirely owing to the frugality of their manners, which cuts off the borrowing of the rich for the

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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-

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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.