chant will put on the prodigal gentleman, the moment he gets into a fine country ſeat, and hears himſelf called Your honour. In certain countries, the memory of paſt induſtry carries a dreg along with it, which nothing but expenſive living has power to purge away.

Let this ſuffice at preſent upon the ſubject of intereſt: it is ſo connected with the doctrine of credit, that it will recur again at almoſt every ſtep as we go along.

END OF THE FIRST PART.

AN
INQUIRY
INTO THE
PRINCIPLES OF POLITICAL OECONOMY.

BOOK IV.
OF CREDIT AND DEBTS.
PART II.
OF BANKS.

CHAP. I.
Of the various Kinds of Credit.

WE have already pointed out the nature of credit, which is confidence; and we have deduced the principles which influence the rate of intereſt, the eſſential requiſite for its ſupport.

We come now to treat of domeſtic circulation; where we are to deduce the principles of banking. This is the great engine calculated for carrying it on.

That I may, with order, inveſtigate the many combinations we ſhall here meet with, I muſt point out wherein banks differ from one another in point of policy, as well as in the principle upon which their credit is built.

If we conſider them relative to their policy, I divide them into banks of circulation, and banks of depoſit. This every one underſtands.

If

4

If according to their principle, they are eſtabliſhed either on *private*, or *mercantile*, or *public credit*.

This laſt diviſion I muſt attend to in the diſtribution of what is to follow; and therefore it is proper to ſet out by explaining what I underſtand by the terms I have here introduced.

1mo, Private credit. This is eſtabliſhed upon a ſecurity, real or perſonal, of value ſufficient to make good the obligation of repayment both of capital and intereſt. This is the moſt ſolid of all.

2do, Mercantile credit. This is eſtabliſhed upon the confidence the lender has, that the borrower, from his integrity and knowledge in trade, may be able to replace the capital advanced, and the intereſt due during the advance, in terms of the agreement. This is the moſt precarious of all.

3tio, Public credit. This is eſtabliſhed upon the confidence repoſed in a ſtate, or body politic, who borrow money upon condition that the capital ſhall not be demandable; but that a certain proportional part of the ſum ſhall be annually paid, either in lieu of intereſt, or in extinction of part of the capital; for the ſecurity of which, a permanent annual fund is appropriated, with a liberty, however, to the ſtate to liberate itſelf at pleaſure, upon repaying the whole; when nothing to the contrary is ſtipulated.

The ſolidity of this ſpecies of credit depends upon circumſtances.

The difference between the three kinds of credit lies more in the object of the confidence, and the nature of the ſecurity, than in the condition of the borrower. Either a private man, a merchant, or a ſtate, may pledge, for the ſecurity of a loan, a real or a moveable ſecurity, with an obligation to refund the capital. In this caſe, the obligation ſtands upon the ſolid baſis of private credit.

Either a private man, a merchant, or a ſtate, may ſtrike out projects which carry a favourable appearance of ſucceſs, and thereupon borrow conſiderable ſums of money, repayable with intereſt. In this caſe, the obligation ſtands upon a mercantile credit.

Either a private man, a merchant, or a ſtate, may pledge (for the ſecurity of money borrowed) a perpetual annual income, the fund of which is not their property, without any obligation to refund the capital: ſuch obligations ſtand upon the principles of public credit.

I allow there is a great reſemblance between the three ſpecies of credit here enumerated: there are however ſome characteriſtic differences between them.

1mo, In the difficulty of eſtabliſhing and ſupporting them.

Private credit is inſeparable, in ſome degree, from human ſociety. We find it ſubſiſting in all ages: the ſecurity is palpable, and the principles on which it is built are ſimple and eaſy to be comprehended. Public credit is but a late invention: it is the infant of commerce, and of extenſive circulation. It has ſupplied the place of the treaſures of old, which were conſtant and ready reſources to ſtateſmen in caſes of public diſtreſs: the ſecurity is not palpable, nor readily underſtood, by the multitude; as it reſts upon the ſtability of certain fundamental maxims of government. Mercantile credit is ſtill more difficult to eſtabliſh; becauſe the ſecurity is the moſt precarious of any: it depends upon opinion and ſpeculation, more than upon a fund provided for repayment of either capital or intereſt.

2do, They differ in the nature of the ſecurity and object of confidence.

Private credit has a determinate object of confidence, viz. the real exiſtence of value in the hands of the debtor, ſufficient to ſatisfy both capital and intereſt. Public credit has the viſible ſecurity of a fund appropriated for the perpetual payment of the intereſt. Mercantile credit depends wholly upon the integrity, capacity, and good fortune of the debtor.

3tio, The third difference is with regard to the caſe of transfer.

Public debts ſtand generally on the ſame bottom. No part of the ſame fund is better than another: the price of them is publicly known, and the ſecurities are laid in the moſt convenient way for transfer, that is, circulation, without conſent of the debtor. This is far from being the caſe in private ſecurities. Nor is it the caſe in the mercantile, except in bills payable to order, in which caſe alone,

alone, the creditor can effectually transfer without the consent of the debtor.

4to, The fourth difference is discovered in the stability of the confidence.

Nothing can shake private credit, but an appearance of insolvency in the very debtor. But the bankruptcy of one considerable merchant, will give a very great shock to mercantile credit over all Europe: and nothing will hurt public credit, so long as the stipulated interest continues regularly to be paid, and so long as the funds appropriated for that payment remain entire.

From what has been said, I hope the three species of credit have been sufficiently explained; and from what is to follow, we shall feel the utility of this distribution.

CHAP. II.

Of private Credit.

PRIVATE credit is either real, personal, or mixed.

Real security or credit, every body understands. It is the object of law, not of politics, to give an enumeration of its different branches. By this term, we understand no more than the pledging an immoveable subject for the payment of a debt. As by a personal security we understand the engagement of the debtor's whole effects for the relief of his creditors. The mixed, I have found it necessary to superadd, in order to explain with more facility, the security of one species of banks. The notes issued by banks upon private credit, stand upon a mixed security: that is, both real and personal. Personal, so far as they affect the banker, and the banking stock pledged for the security of the paper: and in the second place, upon the securities, real and personal, granted to the banker for the notes he lends, which afterwards enter into circulation.

The ruling principles in private credit, and the basis on which it rests, is the facility of converting, into money, the effects of the debtor; because the capital and interest are constantly supposed to be demandable. The proper way, therefore, to support this sort of credit to the utmost, is to contrive a ready method of appretiating every subject affectable by debts; and secondly, of melting it down into symbolical or paper money.

In former times, when circulation was confined, the scheme of melting down the property of debtors, for the payment of creditors, was impracticable; and accordingly we see that capitals secured on land property were not demandable. This formed another species of credit, different from any we have mentioned; which only differed from public credit in this, that the solid property producing the income, was really in the hands of the debtor. This subdivision we have omitted, as its basis rests solely upon the regular payment of the interest. Of this nature are the contracts of constitution in France, and the old infeftments of annual rent in Scotland. There are few nations, I believe, in Europe, where a vestige, at least, of this kind of security does not remain.

In order, then, to carry private credit to its greatest extent, all entails upon lands should be dissolved; all obligations should be regularly recorded in public registers; the value of all lands should be ascertained, the moment any security is granted upon them; and the statesman should interpose between parties, to accelerate the liquidation of all debts, in the shortest time, and at the least expence possible.

Although this method of proceeding be the most effectual to secure, and to extend private credit, yet it is not, at all times, expedient to have recourse to it; as we have abundantly explained in the 27th chapter of the second book; and therefore I shall not here interrupt my subject with a needless repetition.

CHAP. III.

Of Banks.

IN deducing the principles of banks, I ſhall do the beſt I can to go through the ſubject ſyſtematically.

I have divided credit into three branches, private, mercantile, and public. This diſtribution will be of uſe on many occaſions, and ſhall be followed as far as it will go, conſiſtently with perſpicuity: but as I have often obſerved of ſubjects of a complex nature, they cannot be brought under the influence of a few general principles, without running into the modern vice of forming ſyſtems, by wire-drawing many relations in order to make them anſwer.

The great operations of domeſtic circulation are better diſcovered by an examination of the principles upon which we find banking eſtabliſhed, than by any other method I can contrive. It has been by inquiry into the nature of thoſe banks which are the moſt remarkable in Europe, that I have gathered the little knowledge I have of the theory of circulation. This induces me to think that the beſt way of communicating my thoughts on that ſubject, is to lay down the reſult of my inquiries relative to the very object of them.

After comparing the operations of different banks in promoting circulation, I find I can divide them, as to their policy, into two general claſſes, viz. thoſe which iſſue notes payable in coin to bearer; and thoſe which only transfer the credit written down in their books from one perſon to another.

Thoſe which iſſue notes, I call banks of circulation; thoſe which transfer their credit, I call banks of depoſit.

Both indeed may be called banks of circulation, becauſe by their means circulation is facilitated; but as different terms ſerve to diſtinguiſh ideas different in themſelves, thoſe I here employ, will anſwer the purpoſe as well as any others, when once they are defined; and

and circulation undoubtedly reaps far greater advantages from banks which iſſue notes transferable every where, than from banks which only transfer their credit on the very ſpot where the books are kept.

I ſhall, according to this diſtribution, firſt explain the principles upon which the banks of circulation are conſtituted and conducted, before I treat of the other.

This will lead me to avail myſelf of the diviſion I have made of credit, into private, mercantile, and public: becauſe, according to the purpoſes for which a bank is eſtabliſhed, the ground of confidence, that is, the credit of the bank, is ſettled upon one or other of them.

In countries where trade and induſtry are in their infancy, credit muſt be little known; and they who have ſolid property, find the greateſt difficulty in turning it into money, without which induſtry cannot be carried on, as we have abundantly explained in the 26th chapter of the ſecond book; and conſequently the whole plan of improvement is diſappointed.

Under ſuch circumſtances, it is proper to eſtabliſh a bank upon the principles of private credit. This bank muſt iſſue notes upon land and other ſecurities, and the profits of it muſt ariſe from the permanent intereſt drawn for the money lent.

Of this nature are the banks of Scotland. To them the improvement of that country is entirely owing; and until they are generally eſtabliſhed in other countries of Europe, where trade and induſtry are little known, it will be very difficult to ſet thoſe great engines to work.

Although I have repreſented this ſpecies of banks, which I ſhall call *banks of circulation upon mortgage*, as peculiarly well adapted to countries where induſtry and trade are in their infancy, their uſefulneſs to all nations, who have upon an average a favourable balance upon their trade, will ſufficiently appear upon an examination of the principles upon which they are eſtabliſhed.

U 2 It

It is for this reason, that I have applied myself to reduce to principles all the operations of the Scotch banks, while they were in the greatest distress imaginable, from the heavy balance the country owed during the last years of the late war, and for some time after the peace in 1763. By this I flatter myself to do a particular service to Scotland, as well as to suggest hints which may prove useful, not only to England, but to all commercial countries, who, by imitating this establishment, will reap advantages of which they are at present deprived.

For these reasons, I hope the detail I shall enter into with regard to Scotland, will not appear tedious, both from the variety of curious combinations it will contain, as also from the lights it will cast upon the whole doctrine of circulation, which is the present object of our attention.

In countries where trade is established, industry flourishing, credit extensive, circulation copious and rapid, as in England, banks upon mortgage, however useful they may prove for other purposes, would not answer the demands of the trade of London, and the service of government, so well as the bank of England.

The ruling principle of that bank, and the ground of their confidence, is mercantile credit. The bank of England does not lend upon mortgage, nor personal security: their profits arise from discounting bills; loans to government, upon the faith of taxes, to be paid within the year; and upon the credit cash of those who deal with them.

A bank such as that of England, cannot therefore be established, except in a great wealthy mercantile city, where the accumulation of the smallest profits amount, at the end of the year, to very considerable sums.

In France, under the regency of the Duke of Orleans, there was a bank erected upon the principles of public credit. The ground of confidence there, and the only security for all the paper they issued, were the funds appropriated for the payment of the interest of the public debts.

It is for the sake of order and method, that I propose to explain the principles of banking, according to this distribution. I must however confess, that although I represent each of them as having a cause of confidence peculiar to itself, to wit, either private, mercantile, or public credit; yet we shall find a mixture of all the three species of credit entring into the combination of every one of them.

Banking, in the age we live, is that branch of credit which best deserves the attention of a statesman. Upon the right establishment of banks, depends the property of trade, and the equable course of circulation. By them * *solid property* may be melted down. By the means of banks, money may be constantly kept at a due proportion to alienation. If alienation increases, more property may be melted down. If it diminishes, the quantity of money stagnating, will be absorbed by the bank, and part of the property formerly melted down in the securities granted to them, will be, as it were, consolidated anew. These must pay for the country the balance of their trade with foreign nations. These keep the mints at work; and it is by their means, principally, that private, mercantile, and public credit, is supported. I can point out the utility of banks in no way so striking, as to recall to mind the surprizing effects of Mr. Law's bank, established in France, at a time when there was neither money or credit in the kingdom. The superior genius of that man produced, in two years time, the most surprizing effects imaginable; he revived industry; he established confidence; and shewed to the world, that while the landed property of a nation is in the hands

* Solid property, here, is not taken in the strictest acceptation. In countries of commerce, where banks are generally established, every denomination of good personal security, may be considered as solid property. Those who have personal estates may obtain credit from banks as well as landed men; because these personal estates are secured either on lands, or in the funds, or in effects which contain as real a value as lands, and these being affected by the securities which the proprietors grant to the bank, may with as much propriety be said to be melted down, as if they consisted in lands. In subjects of this nature, it is necessary to extend our combinations, in proportion to the circumstances under which we reason.

hands of the inhabitants; and while the lower classes are willing to be industrious, money never *can* be wanting. I must now proceed in order, towards the investigation of the principles which influence this intricate and complicated branch of my subject.

CHAP. IV.

Of Banks of Circulation upon Mortgage or private Credit.

BANKS of circulation upon mortgage or private credit, are those which issue notes upon private security, payable to bearer on demand, in the current coin of the nation. They are constituted in the following manner.

A number of men of property join together in a contract of banking, either ratified or not by public authority, according to circumstances. For this purpose, they form a stock which may consist indifferently of any species of property. This fund is engaged to all the creditors of the company, as a security for the notes they propose to issue. So soon as confidence is established with the public, they grant credits, or cash accompts, upon good security; concerning which they make the proper regulations. In proportion to the notes issued in consequence of those credits, they provide a sum of coin, such as they judge to be sufficient to answer such notes as shall return upon them for payment. Nothing but experience can enable them to determine the proportion between the coin to be kept in their coffers, and the paper in circulation. This proportion even varies according to circumstances, as we shall afterwards observe.

The profits of the bank proceed from the interest paid upon all the securities which have been granted to it, in consequence of credits given, and which remain with it unretired.

Out

Out of which must be deducted, first, the charge of management; secondly, the loss of interest for all the coin they preserve in their coffers, as well as the expence they are put to in providing it; and thirdly, the expence of transacting and paying all balances due to other nations.

In proportion, therefore, as the interest upon the bank securities exceeds the loss of interest on the coin in the bank, the expence of management, and of providing funds abroad to pay balances, in the same proportion is their profit; which they may either divide, accumulate, or employ, as they think fit.

Let it be observed, that I do not consider the original bank stock, or the interest arising from *that*, as any part of the profits of the bank. So far as regards the bank, it is their original property; and so far as regards the public, it serves for a collateral security to it, for the notes issued. It becomes a pledge, as it were, for the faithful discharge of the trust reposed in the bank: without such a pledge, the public could have no security to indemnify it, in case the bank should issue notes for no permanent value received. This would be the case, if they thought fit to issue their paper either in payment of their own private debts, for articles of present consumption; or in precarious trade.

When paper is issued for no value received, the security of such paper stands alone upon the original capital of the bank, whereas when it is issued for value received, that value is the security on which it immediately stands, and the bank stock is, properly speaking, only subsidiary.

I have dwelt the longer upon this circumstance, because many, who are unacquainted with the nature of banks, have a difficulty to comprehend how they should ever be at a loss for money, as they have a mint of their own, which requires nothing but paper and ink to create millions. But if they consider the principles of banking, they will find that every note issued for value consumed, in place of value received and preserved, is neither more or less, than a partial spending either of their capital, or profits on the

5 bank.

bank. Is not this the effect of the expence of their management? Is not this expence paid in their notes? But did ever any body imagine that this expence did not diminish the profits of banking? Consequently, such expence may exhaust these profits, if carried far enough; and if carried still farther, will diminish the capital of the banking stock.

As a farther illustration of this principle, let me suppose, an honest man, intelligent, and capable to undertake a bank. I say that such a person, without one shilling of stock, may carry on a bank of domestic circulation, to as good purpose as if he had a million; and his paper will be every bit as good as that of the bank of England. Every note he issues, is secured on good private security; that security carries interest to him, and stands good for the notes he has issued. Suppose then that after having issued for a million sterling, all the notes should return upon him in one day. Is it not plain, that they will find, with the honest banker, the original securities, taken by him at the time he issued them; and is it not true, that he will have, belonging to himself, the interest received upon these securities, while his notes were in circulation, except so far as this interest has been spent in carrying on the business of his bank? Large bank stocks, therefore, serve only to establish their credit; to secure the confidence of the public, who cannot see into their administration; but who willingly believe, that men who have considerable property pledged in security of that good faith, will not probably deceive them.

This stock is the more necessary, from the obligation of paying in the metals. Coin may be wanting, upon some occasions, to men of the greatest landed property. Is that any reason to suspect their credit? Just so of banks. The bank of England may be possessed of twenty millions sterling of good effects, to wit, their capital; and the securities for all the notes they have issued; and yet that bank might be obliged to stop payment, upon a sudden demand of a few millions of coin.

Runs

Runs upon a bank well established, betray great want of confidence in the public; and this want of confidence proceeds from the ignorance the greatest part of men are in, with regard to the state of their affairs, and of the principles upon which their trade is carried on.

From what has been said, we may conclude, that the solidity of a bank which lends upon private security, does not so much depend upon the extent of their original capital, as upon the regulations they observe in granting credit. In this the public is nearly interested; because the bank securities are really taken for the public, who are creditors upon it in virtue of the notes which circulate through their hands.

CHAP. V.

Such Banks ought to issue their Notes on private, not mercantile Credit.

LET me, therefore, reason upon the example of two bankers; one issues his notes upon the best real or personal security; another gives credit to merchants and manufacturers, upon the principles of mercantile credit, which we have explained above; the notes of the one and the other enter into circulation, and the question comes to be, which are the best? If we judge by the regularity of the payment of notes on presentation, perhaps the one are as readily paid as the other. If we judge by the stock of the two bankers, perhaps they may be equal, both in value and solidity; but it is not upon either of these circumstances that the question depends. The notes in circulation may far exceed the amount of the largest bank stock; and therefore, it is not on the original stock; but on the securities taken at issuing the notes, that the solidity of the two

currencies

currencies is to be estimated. Those secured on private credit, are as solid as lands and personal estates; they stand upon the principles of private credit. Those secured on the obligations of merchants and manufacturers, depending upon the success of their trade, are good or bad in proportion. Every bankruptcy of one of their debtors, involves the bank, and carries off either a part of their profits, or of their stock. Which way, therefore, can the public judge of the affairs of bankers, except by attending to the nature of the securities upon which they give credit *.

CHAP. VI.

Use of subaltern Bankers and Exchangers.

HERE it may be urged, that the great use of banks is to multiply circulation, and to furnish the industrious with the means of carrying on their traffic: that if banks insist upon the most solid sureties before they give credit, the great utility of them must cease; because merchants and manufacturers are never in a situation to obtain credit upon such terms.

This argument only proves, that banks are not, alone, sufficient for carrying on every branch of circulation. A truth which no body will contravert. But as they are of use in carrying on the great branches of circulation, it is proper to prevent them from engaging in schemes which may destroy their credit altogether.

* It must be observed, that in this example, the banker who issues his notes upon mercantile security, is supposed to grant a permanent loan to the merchant or manufacturer, as he would do to those who pledge a personal security. This is totally repugnant to the principle of banks secured on mercantile credit. Such banks never grant loans for indefinite duration, upon any security whatsoever. They will not even discount a bill of exchange, when it has above two months to run.

I have

I have observed above, that this method of issuing notes upon private security, was peculiarly well adapted to countries like Scotland, where trade and industry are in their infancy.

Merchants and manufacturers there, have constant occasion for money or credit; and at the same time, they cannot be supposed to have either real or personal estates to pledge, in order to obtain a loan directly from the banks, who ought to lend upon no other security.

To remove that difficulty, we find a set of merchants, men of substance, who obtain from the banks very extensive credits upon the joint real and personal security of themselves and friends. With this assistance from the bank, and with money borrowed from private people, repayable on demand, something below the common rate of interest, they support the trade of Scotland, by giving credit to the merchants and manufacturers.

To this set of men, therefore, are banks of circulation upon mortgage to leave that particular branch of business. It is their duty, it is the interest of the country, and no less that of banks, that they be supported in so useful a trade; a trade which animates all the commerce and manufactures of Scotland, and which consequently promotes the circulation of those very notes upon which the profits of the banks do arise.

These merchants are settled in all the most considerable towns: they are well acquainted with the stock, capacity, industry, and integrity of all the dealers in their district: they are many; and by this are able to go through all the detail which their business requires; and their profits, as we shall see presently, are greater than those of banks, who lend at a stated interest.

The common denomination by which they are called in Scotland, is that of bankers; but to avoid their being confounded with bankers in England (whose business is very different) we shall, while we are treating of the doctrine of banks, call them by the name of exchangers, since their trade is principally carried on by bills of exchange.

As

As often as these exchangers give credit to dealers in any way, they constantly state a commission of ½ *per cent.* or more, according to circumstances, over and above the interest of their advance-profits, which greatly surpass those of any bank. One thousand pounds credit given by a bank, may not produce ten pounds in a year for interest: if given by a banker, to a merchant, who draws it out, and replaces it forty times in a year, there will arise upon it a commission of 20 *per cent.* or 200 *l.*

This set of men are exposed to risks and losses, which they bear without complaint, because of their great profits; but it implies a detail, which no bank can descend to.

These exchangers give way, from time to time; and no essential hurt is thereby occasioned to national credit. The loss falls upon those who lend to them, or trust them with their money, upon precarious security; and upon merchants, who lay their account with such risks. In a word, they are a kind of insurers, and draw premiums in proportion to their risks.

To this set of men, therefore, it should be left to give credit to merchants, as the credit they give is purely mercantile; and to banks alone, who give credit on good private security, it should be left to conduct the great national circulation, which ought to stand upon the solid principles of private credit.

From this example we may discover the justness of the distinction I have made between *private* and *mercantile* credit: had I not found it necessary, I would not have introduced it.

CHAP. VII.

Concerning the Obligation to pay in Coin, and the Consequences thereof.

IN all banks of circulation upon mortgage, the obligation in the note is to pay in coin, upon demand: and in the famous book of Mr. Law, there was a very necessary clause added; to wit, that the coin was to be of the same weight, fineness, and denomination, as at the date of the note. This was done, in order to prevent the inconveniencies which might result to either party, by an arbitrary raising or sinking the denominations of the coin; a practice then very familiar in France.

This obligation to pay in coin, owes its origin to the low state of credit in Europe at the time when banks first began to be introduced; and it is not likely that any other expedient will soon be fallen upon to remove the inconveniences which result from it in domestic circulation, as long as the generality of people consider all money, except coin, to be false and fictitious.

I have already thrown out abundance of hints, from which it may be gathered, that coin is not absolutely necessary for carrying on domestic circulation, and more will be said on that subject, as we go along. But I am here to examine the nature and consequences of this obligation contracted by banks, to discharge their notes in the current coin of the country.

In the first place, it is plain, that no coin is ever (except in very particular cases) carried to a bank, in order to procure notes. The greatest part of notes issue from the banks, of which we are treating, either in consequence of a loan, or of a credit given by the bank, to such as can give security for them. The loan is made in their own notes; which are quickly thrown back into circulation by the borrower; who borrowed, because he had occasion to pay them away. In like manner, when a credit is given, the bank pays (in her notes) the orders she receives from the person who has the credit: in this manner are notes commonly issued from a bank.

Coin, again, comes to a bank, in the common course of circulation, by payments made to it, either for the interest upon their loans, or when merchants and landed men throw the payments made to them into the bank, towards filling up their credits; and by way of a safe deposit for their money. These payments are made to the bank in the ordinary circulation of the country. When there is a considerable proportion of coin in circulation, then the bank receives much coin; and when there is little, they receive little. Whatever they receive is laid by to answer notes which are offered for payment; but whenever a draught is made upon them for the money thrown in as above, they pay in paper.

As we are here searching after the principles, not after facts, it is out of our way to inquire what may be the real proportion of coin preserved by banks of circulation, for answering the demand for it.

Mr. Megens, a very knowing man, and a very judicious author, lately dead, who has writ a small treatise in the German tongue, translated into English, under the title of *The Universal Merchant*, delivers his sentiments concerning the proportion of coin preserved in the bank of England, which I shall here transcribe in the translator's words. Sect. 60.

The bank of England consists of two sorts of creditors, the one of that set of men, who, in King William's time, when money was scarce and dear, lent the public 1,200,000 pounds, at 8 *per cent.* interest, and 4000 pounds were allowed them for charges, amounting in whole to 100,000 pounds a year, an exclusive right of banking as a corporation for 13 years, under the denomination of the proprietors of the bank; and which, for obtaining prolongation of their privileges, has been since increased by farther loans to the public at a less interest, to near the sum of 11,000,000 pounds, which if

if we compute the interest at 3 *per cent.* (as what they have more on some part answers incident charges) it produces 330,000 pounds a year; and as they divide annually 5 *per cent.* to their proprietors, which is 550,000 pounds, it is evident that they make a yearly profit of 220,000 pounds, *out of the money of the people who keep cash with them*, and these are the other sort of creditors: and as for what money the bank lends to the government, they have for the most part but 3 *per cent.* interest, I conclude that *the credit cash they have in their hands* may amount to 11,000,000 pounds, and thereout is employed in loans to the government, discounting of bills, and in buying gold and silver 7,333,333$\frac{1}{3}$ pounds, which at 3 *per cent.* interest or profit, will amount to the above 220,000 pounds, and remains 3,666,666$\frac{2}{3}$ pounds in cash, sufficient for circulation and current payments. And experience has evinced, that whenever any mistrust has occasioned any run upon the bank for any continuance, and the people not finding the treasure so soon exhausted as they surmised, it flowed in again faster on the one hand than it was drawn out on the other.

This gentleman lived long in England. He was very intelligent in matters relating to commerce; and his authority may, I believe, be relied on as much as on any other, except that of the bank itself; which, it would appear, has some interest in keeping those affairs a secret.

We see by his account, that the bank of England keeps in coin $\frac{1}{3}$ of the value of all their notes in circulation. With this quantity, business is carried on with great smoothness, owing to the prosperity of that kingdom, which seldom owes any considerable balance to other nations.

But the consequence of the obligation to pay in coin, is, that when the nation comes to owe a balance, the notes which the bank had issued to support domestic circulation *only*, come upon it for payment of a foreign balance; and thereby the coin which it had provided for home demand only, is drawn out.

It

It is this circumſtance, above all others, which diſtreſſes banks of circulation. Were it not for this, the obligation to pay in coin might eaſily be diſcharged; but when in virtue of this pure obligation, a heavy national balance is demanded of the bank, which has only made proviſion for the current and ordinary demand at home, it requires a little combination to find out, at once, an eaſy remedy.

This combination we ſhall, in the following chapters, endeavour to unfold: it is by far the moſt intricate, and at the ſame time the moſt important in the whole doctrine of banks of circulation.

Another inconvenience reſulting from this obligation to pay in coin, we have explained in the third book. It is, that the confuſion of the Engliſh coin, and the lightneſs of a great part of it, obliges the bank of England to purchaſe the metals at a price far above that which they can draw back for them after they are coined. We have there ſhewn the great profit that might be made in melting down and exporting the heavy ſpecies. This profit turns out a real loſs to the bank of England, which is conſtantly obliged to provide new coin, in proportion as it is wanted. This inconvenience is not directly felt by banks, in countries where there is no mint eſtabliſhed.

Here then is another bad conſequence of this obligation to pay in the metals, which a proper regulation of the coin would immediately remove. In countries which abound in coin, banking is an eaſy trade, when once their credit is well eſtabliſhed. It is only when either a foreign war, or a wrong balance of trade has carried off the metals, that the weight of this obligation to pay in coin is ſeverely felt.

CHAP. VIII.

How a wrong Balance of Trade affects Banks of Circulation.

IT is commonly ſaid, that when there is a balance due by any nation, upon the whole of their mercantile tranſactions with the reſt of the world, ſuch balance muſt be paid in coin. This we call a wrong balance. Thoſe who tranſact the payment of this balance, are thoſe who regulate the courſe of exchange; and we may ſuppoſe, without the leaſt danger of being deceived, that the courſe is always higher than the expence of procuring and tranſporting the metals; becauſe the overcharge is profit to the exchanger, who without that profit could not carry on his buſineſs.

Theſe exchangers, then, muſt have a command of coin; and where can they get it ſo eaſily, and ſo readily, as from banks who are bound to pay in it?

Every merchant who imports foreign commodities, muſt be ſuppoſed to have value in his hands from the ſale of them; but this value muſt conſiſt in the money of the country: if that be moſtly bank paper, he muſt give the bank paper to the exchangers for a bill, whoſe buſineſs it is to place funds in thoſe parts upon which bills are demanded. The exchanger again (to ſupport that fund which he exhauſts by his draughts) muſt demand coin from the banks, for the notes he received from the merchant when he gave him the foreign bill.

Beſides the wrong balances of trade tranſacted in this manner, which banks are conſtantly obliged to make good in coin, every other payment made to foreigners has the ſame effect. It is not becauſe it is a *balance of trade*, but becauſe it is a payment which cannot be made in paper currency, that a demand is made for coin. Coin we have called the money of the world, as notes may be called the money of the ſociety. The firſt then muſt be procured when we pay a balance to foreigners; the last is full as good when we pay among ourselves.

It is proper, however, to observe, that there is a great difference between the wrong *balance of trade*, and the general *balance of payments*. The first marks the total loss of the nation when her imports exceed the value of her exports; the second comprehends three other articles, viz. 1. the expence of the natives in foreign countries; 2. the payment of all debts, principal and interest, due to foreigners; 3. the lending to other nations.

These three I call the general balance of foreign payments: and these added to the wrong balance of trade may be called the *grand balance* with the world.

Now as long as the payment of this *grand balance* is negotiated by exchangers, all the coin required to make it good, must be at the charge of banks.

How then is this coin to be procured by nations who have no mines of their own?

CHAP. IX.

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

Did all the circulation of a country consist in coin, this *grand balance*, as we have called it, would be paid out of the coin, to the diminution of it.

We have said that the acquisition of coin, or of the precious metals, adds to the intrinsic value of a country, as much as if a portion of territory were added to it. The truth of this proposition will now soon appear evident.

We have also said, that the creation of symbolical money, adds no additional wealth to a country, but only provides a fund of circulation out of solid property; which enables the proprietors to consume and to pay proportionally for their consumption: and we have shewn how by this contrivance trade and industry are made to flourish.

May we not conclude, from these principles, that as nations who have coin, pay their *grand balance* out of their coin, to the diminution of that species of their property, so nations who have melted down their solid property into symbolical money, must pay their *grand balance* out of the symbolical money; that is to say, out of the solid property of which it is the symbol?

But this solid property cannot be sent abroad; and it is alleged that nothing but coin can be employed in paying this *grand balance*. To this I answer, that in such a case the credit of a bank may step in, without which a nation which runs short of coin, and which comes to owe a *grand balance* must quickly be undone.

We have said that while exchangers transact the balance, the whole load of providing coin lies upon banks. Now the whole solid property melted down, in their paper, is in their hands; because I consider the securities given them for their paper, to be the same as the property itself. Upon this property, there is a yearly interest paid to the bank: this interest, then, must be engaged by them to foreigners, in lieu of what is owing to them by the nation; and when once a fund is borrowed upon it abroad, the rest is easy to the bank. This shall be further explained as we go along.

I do not pretend that the common operation of providing coin, when the *grand balance* is against a nation, is as simple as I have represented it. I know it is not: and I know also, that I am not in any degree capable to explain the infinite combination of mercantile operations necessary to bring it about; but it is no less true, that these combinations may be shortened: because when the whole of them have been gone through, the transaction must land in what I have said; to wit, that either the *grand balance* must be paid out

out of the national stock of coin, or it must be furnished by foreigners upon a loan from them; the interest of which must be paid out of that part of the solid property of the nation which has been melted down into paper. I say farther, that were not all this solid property, so melted down, in the hands of banks, who thereby have established to themselves an enormous *mercantile* credit; there would be no possibility of conducting such an operation: that is to say, there would be no possibility for nations to run in debt to nations, upon the security of their respective landed property.

CHAP. X.

Insufficiency of temporary Credits for the Payment of a wrong Balance.

I HAVE said, that when the national stock of coin is not sufficient to provide banks with the quantity demanded of them, for the payment of the *grand balance*, that a loan must take place. To this it may be objected, that a credit is sufficient to procure coin, without having recourse to a formal loan. The difference I make between a loan and a credit consists in this, that by a credit we understand a temporary advance of money, which the person who gives the credit expects to have repaid in a short time, with interest for the advance, and commission for the credit; whereas by a loan we understand the lending of money for an indefinite time, with interest during non-payment.

Now I say, the credit, in this case, will not answer the purpose of supplying a deficiency of coin; unless the deficiency has been accidental, and that a return of coin, from a new favourable *grand balance*, be quickly expected. The credit will indeed answer the present exigency; but the moment this credit comes to be replaced, it must be replaced either by a loan, or by a supply of coin; but, by the supposition, coin is found to be wanting for paying the *grand balance*; consequently, nothing but a loan, made by the lenders either in coin, in the metals, or in a liberty to draw, can remove the inconvenience; and if recourse be had to credit, instead of the loan, the same difficulty will recur, whenever that credit comes to be made good by repayment.

Upon the whole, we may conclude, that nations who owe a balance to other nations, must pay it either with their coin, or with solid property; consequently, the acquisition of coin is, in this particular, as advantageous as the acquisition of lands; but when coin is not to be procured, the transmission of the solid property to foreign creditors is an operation which banks must undertake; because it is they who are obliged either to do that, or to pay in coin.

CHAP. XI.

Of the Hurt resulting to Banks, when they leave the Payment of a wrong Balance to Exchangers.

WE have seen in a former chapter, how exchangers and banks are mutually assistant to one another: the exchangers by swelling and supporting circulation; the bank by supplying them with credit for that purpose. While parties are united by a common interest, all goes well: but interest divides, by the same principle that it unites.

No sooner does a nation incur a balance against itself, than exchangers set themselves to work to make a fortune, by conducting the

the operation of paying it. They appear then in the light of political usurers, to a spendthrift heir who has no guardian. The guardian should be the bank, who, upon such occasions, (and upon such only) ought to interpose between the nation and her foreign creditors. This it may do, by constituting itself at once debtor for the whole balance, and by taking foreign exchange into its hand, until such time as it shall have distributed the debt it has contracted for the nation, among those individuals who really owe it. This operation performed, exchange may be left to those who make that branch their business, because then they will find no opportunity of combining either against the interest of the bank or of individuals.

When a national bank neglects so necessary a duty, as well as so necessary a precaution, the whole class of exchangers become united by a common interest against it; and the country is torn to pieces, by the fruitless attempt it makes to support itself, without the help of the only expedient that can relieve it.

Those exchangers having the *grand balance* to transact with other nations, make use of their credits with the bank, or of its notes, to draw from it their coin, in order to export it. This throws a great load upon the bank, which is constantly obliged to provide a sufficient quantity for answering all demands; for we have laid it down as a principle, that whatever coin or bills are necessary to pay this *grand balance*, in every way it can be transacted, it must ultimately be paid by the bank; because whoever wants coin for any purpose, and has bank notes, can force the bank to pay in coin, or stop payment.

It cannot, therefore, be said, that exchangers do wrong; nor can they be blamed, in drawing from the bank whatever is wanted for the purpose of paying to foreigners what is their due; that is, what is justly owing to them. If they do more, they must hurt themselves; because whatever is sent abroad more than is due, must constitute the rest of the world debtors to the country which sends out their coin. The consequence of this is to turn exchange against

against foreigners, and to make it favourable for the nation which is creditor. In this case, were the creditors still to continue sending coin abroad, they would *lose* by that operation, for the same reason that they *gain*, by sending it out when they are debtors.

It is very common for banks to complain, when coin is hard to be procured, and when large demands are made upon them; they then allege unfair dealings against exchangers; they fall to work to estimate the balance of trade, and endeavour to show that it is not in reality against the country.

But alas! this is nothing to the purpose; the *balance of trade* may be very favourable, although the *balance of payments* be greatly against the country; and both must be paid, while the bank has a shilling of cash, or a note in circulation. So soon again as the *grand balance* is fairly paid off, it is impossible that any one can find an advantage in drawing coin from a bank; except in the single case of melting down the heavy species, in nations which give their coinage gratis. Of this we have treated at sufficient length in another place.

Banks may indeed complain, that men of property are sometimes sending their money out of the country, at a time when it is already drained of its coin; that this raises exchange, and hurts the trading interest.

Exchange must rise, no doubt, in proportion as the grand balance is great, and difficult to be paid: But where does the blame lie? Who ought to provide the coin, or the bills for paying this grand balance? Have we not shewn that it is the bank alone who ought to provide coin for the ready answering of their notes? Have we not said, that the method of doing this is by sacrificing a part of the interest due upon the obligations in their hands, secured upon the solid property of the country, and by the means of foreign loans upon that fund, to procure either the metals themselves, or a power to draw on those places where the nation's creditors reside?

Which

4

Which of the two has most reason to complain, the bank, because the inhabitants think fit to send their effects out of the country, being either forced so to do by their creditors, or choosing so to do for their private advantage; or the creditors of the bank, and the country in general, when, from the obstructions the bank throws in the way, when required to pay its notes, exchange is forced up to an exorbitant height; the value of what private merchants owe to strangers is raised; and when, by discouraging trade in their hands, a general stop is put to manufactures and credit in general?

In a word, the bank has no reason to complain, unless they can make it appear, how any person, exchanger or other, can find an advantage in sending coin out of the country, at a time when there is no demand for it; or when there is no near prospect of it, which is the same thing? To say that a principle of public spirit should prevent a person from doing with his property what is most to his advantage, in favour of saving some money to a bank, is supposing the bank to be the public, instead of being the servant of the public.

Another argument to prove that no profit can be made by sending out coin, except when the balance is against a country, is, that we see all runs upon banks stop, the moment exchange becomes favourable. Were there a profit to be made upon sending off coin, independently of the debts to be paid with it, which cannot be paid without it, the same trade would be profitable at all times. As this is not the case, it follows, that the principle we have laid down is just; to wit, that the balance due to foreigners *must* be paid by banks, while they have a note in circulation; and when once it is fairly paid by them, all extraordinary demands *must* cease.

We now proceed to another point, to wit, What are the consequences of circulation, when a great balance draws away a large quantity of coin from the bank, and sends it out of the country?

CHAP.

CHAP. XII.

How the Payment of a wrong Balance affects Circulation.

THAT I may communicate my ideas with the greater precision, I must here enter into a short detail of some principles, and then reason on a supposition.

It has been said, that the consequence of credit and paper-money, secured on solid property, was to augment the mass of the circulating equivalent, in proportion to the uses found for it.

These uses may be comprehended under two general heads. The first, payment of what one owes; the second, buying what one has occasion for: the one and the other may be called by the general term of ready-money demands.

Whoever has a ready-money demand upon him, and property at the same time, ought to be furnished with money by banks which lend upon mortgage.

Now the state of trade, manufactures, modes of living, and the customary expence of the inhabitants, when taken all together, regulate and determine what we may call the mass of ready-money demands, that is, of alienation. To operate this multiplicity of payments, a certain proportion of money is necessary. This proportion again may increase or diminish according to circumstances; although the quantity of alienation should continue the same.

To make this evident, let us suppose the accounts of a whole city kept by one man; alienation will go on without any payment at all, until accounts are cleared; and then nothing will be paid, but general balances upon the whole. This however is only by the bye. The point in hand is to agree, that a certain sum of money is necessary for carrying on domestic alienation; that is, for satisfying ready-money demands: let us call this quantity (A).

 Next,

Next, in moſt countries in Europe, (I may ſay all) it is cuſtomary to circulate coin, which, for many uſes, is found fitter than paper, (no matter for what reaſon); cuſtom has eſtabliſhed it, and with cuſtom even ſtateſmen muſt comply.

The paper-money is generally made payable in coin; from cuſtom alſo. Now, according to the manners of the country, more or leſs coin is required for domeſtic circulation. Let it be obſerved, that hitherto we have not attended to foreign circulation, of which preſently: and I ſay, that the manners of a country may make more or leſs coin neceſſary, for circulating the ſame quantity of paper; merchants, for inſtance, circulate much paper and little coin; gameſters much coin, and little paper: one example is ſufficient.

Let this quantity of coin, neceſſary for circulating the paper-money, be called (B), and let the paper be called (C); conſequently (A) will be equal to the ſum of (B) and (C). Again, we have ſaid, that all balances owing by nation to nation, are paid either in coin, in the metals, or in bills; and that bank paper can be of no uſe in ſuch payments. Let the quantity of the metals, coin, or bills, going out or coming into the country for payment of ſuch balance, be called (D).

Theſe ſhort deſignations premiſed, we may reaſon with more preciſion. (A) is the total maſs of money (coin and paper) neceſſary at home: (A) is compoſed of (B) the coin, and of (C) the paper, and (D) ſtands for that maſs of coin, or metal, or bills, which goes and comes according as the *grand balance* is favourable or unfavourable with other nations.

Now, from what has been ſaid, we may determine, that there ſhould at all times remain in the country, or in the bank, a quantity of coin equal to (B); and if this be ever found to fall ſhort, the bank does not diſcharge its duty. It is unneceſſary to determine what part of (B) ſhould be locked up in the bank, and what part ſhould remain in circulation: banks themſelves cannot determine that queſtion: all we need to ſay is, that it is the profit of banks to accuſtom people to the uſe of paper as much as poſſible; and therefore they will draw to themſelves as much coin as they can.

When a favourable balance of trade brings exchange below par, and brings coin into the country, the conſequence is, either to animate trade and induſtry, to augment the maſs of payments, to ſwell (A), and ſtill to preſerve (C) in circulation; or to make (A) regorge, ſo as to ſink the intereſt of money below the bank lending price; and then people will carry back the regorging part of (C) to the bank, and withdraw their ſecurities; which is conſolidating, as we have called it, the property which had been formerly melted down, for want of this circulating equivalent (money).

This is conſtantly the conſequence of a ſtagnation of paper, from an overcharge of it, thrown into circulation. It returns upon the bank, and diminiſhes the maſs of their ſecurities, but never that of their coin.

From this we may conclude, that the circulation of a country can only abſorb a determinate quantity of money (coin and paper); and that the leſs uſe they make of coin, the more uſe they will make of paper, and *vice verſa*.

We may alſo conclude, that when trade and alienation increaſe, *cæteris paribus*, ſo will money; that is, more ſolid property will be melted down; and when trade and alienation diminiſh, *cæteris paribus*, ſo will money; that is, ſome of the ſolid property formerly melted down, will conſolidate, as we have called it.

Theſe viciſſitudes in the maſs of circulation are not peculiar to paper currency. In countries where nothing circulates but the metals, the caſe is the ſame; only the operation is more aukward and expenſive. When coin becomes ſcarce there, it is hardly poſſible, in remote provinces, to find any credit at all: and in the center of circulation, the uſe of it (intereſt) muſt riſe very conſiderably, and ſtand high for ſome time, before even intelligent merchants will import bullion to the mint; which is the only bank they have to fit it for circulation. When the metal is coined, then men

men of property are enabled to borrow, or to sell their lands. On the other hand, when a favourable balance pours in a superfluity of coin, and at the same time cuts off the demands of trade for sending it abroad, it frequently falls into coffers; where it becomes as useless as if it were in the mine; and this clumsy circulation, as I may call it, prevents it from coming into the hands of those who would have occasion for it, did they but know where to come at it. Paper, on the other hand, when banks and trade are well established, is always to be found. Thus, in an instant, paper-money either creates or extinguishes an interest equal to its value, in favour of the possessor. No part of it lies dead, not for a day, when employed in trade: it is not so of coin.

We must now suppose a bank established in a country which owes a balance to other nations.

In this case, the bank must possess, or be able to command, a sum of coin or bills equal to (B) and (D); (B) for domestic, and (D) for foreign circulation.

Those who owe this balance (D), and who are supposed to have value for it, in the currency of the country, in order to pay it, must either exhaust a part of (B), by sending it away, or they must carry a part of (C) to the bank, to be paid for in coin. If they pick up a part of (B) in the country, then the coin in circulation, being diminished below its proportion, the possessors of (C) will come upon the bank for a supply, in order to make up (B) to its former standard. Banks complain without reason. If they carry part of (C) to be changed at the bank, for the payment of (D), they thereby diminish the quantity of (C); consequently there will be a demand upon the bank for more notes, to support domestic circulation; because those which have been paid in coin are returned to the bank, and have diminished the mass of (C); which therefore must be replaced by a new melting down of solid property.

Now I must here observe, that this recruit, issued to fill up (C) to the level, is an addition made to the mass of securities formerly lodged with the bank; and represents, not improperly, that part of the landed property of a country which the bank must dispose of to foreigners, in order to procure from them the coin or bills necessary for answering the demand of (D).

When notes, therefore, are carried to the bank for payment of debts due to the bank, they then diminish the mass of solid property melted down in the securities lodged in the bank: but when notes are carried to the bank, to be converted into coin or bills, for foreign exportation, they do not diminish the mass of the securities: on the contrary, the consequence is, to pave the way for the augmentation of them; because I suppose that the notes, so given in to the bank, and taken out of the circle, are to be replaced by the bank to domestic circulation, to which they belonged; and the bank must be at the expence of turning the value of these additional securities granted for them into coin or foreign bills.

Is not this quite consistent with reason, fact, and common sense? If a country contracts debts to foreigners, is it not just the same case as when one man contracts a debt to another in the same society? Must not the ultimate consequence of this debt be, that it must be paid, either with the coin, with the moveables, or with the solid property of the debtor, transferred to the creditor, in lieu of the money owing?

When a nation can pay with its coin, or with its effects, (that is to say, with its product and manufactures) the operation is easily and mechanically performed by the means of trade: when these objects are not sufficient; or when land, or an annual and perpetual income out of it, must make up the deficiency; then more skill and expence is required; and this expence falling upon banks, makes their trade less lucrative than in times when commerce stands at par, or is bringing in a balance.

Were trade to run constantly against a country, the consequence would be, that the whole property of it would, by degrees, be transferred to foreigners. This the bank of St. George at Genoa has operated with regard to Corsica, as has been observed. But in that case, banks never could neglect laying down a plan whereby to to avoid the loſs they caſually ſuſtain, when ſuch a revolution comes ſuddenly or unexpectedly upon them.

The method would be, to eſtabliſh an annual ſubſcription *abroad*, for borrowing a ſum equivalent to the *grand balance*; the condition being to pay the intereſt of the ſubſcriptions out of the revenue of the country.

If the ſecurity offered be good, there is no fear but ſubſcribers will be found, while there is an ounce of gold and ſilver in Europe.

The bank of England has an expedient of another nature, in what they call their *circulation*; which is a premium granted to certain perſons, upon an obligation to pay a certain ſum of coin upon demand. This is done with a view to anſwer upon preſſing occaſions. But England being a proſperous trading nation, which ſeldom has any conſiderable *grand balance* againſt her, (except in time of war, when the public borrowings ſupply in a great meaſure the deficiency, as ſhall be afterwards explained) this bank circulation is turned into a job; the ſubſcriptions being lucrative, are diſtributed among the proprietors themſelves, who make no proviſion for the demand; and were it again to come, (as has been the caſe) the ſubſcribers would, as formerly, make a call on the bank itſelf, by picking up their notes, and pay their ſubſcriptions with the bank's own coin.

To obviate this inconvenience, which was ſeverely felt in the year 1745, the bank of England ſhould have opened a ſubſcription in ſome foreign country; Holland, for example; where ſhe might have procured large quantities of foreign coin: ſuch a ſeaſonable ſupply would have proved a real augmentation of the metals; the ſupply they got from their own domeſtic ſubſcribers was only fictitious *.

But

* At this time there was another circumſtance, beſides the demand of a balance to be paid abroad, which diſtreſſed the bank, viz. a ſuſpicion which took place, that if the rebellion had ſucceeded, the credit of the bank would have totally failed.

This

6

But banks in proſperous trading nations ſit down with caſual and temporary inconveniencies; and exchangers carry on a profitable trade; whether the nation be gaining or loſing all the while. For ſuch nations, and ſuch only, are banks advantageous. Were banks eſtabliſhed in Spain, Portugal, or any other country which pays a conſtant balance from the produce of their mines, they would only help on their ruin a little faſter.

In the infancy of banking, and in countries where the true principles of the trade are not well underſtood, we find banks taking a general alarm, whenever a wrong balance of trade occaſions a run upon them. This terror drives them to expedients for ſupporting their credit, which we are now to examine, and which we ſhall find to have a quite contrary tendency.

The better to explain this combination, we muſt recall to mind, that the payment of the *grand balance* in coin or bills is unavoidable to banks. We have ſaid that this balance is commonly paid by exchangers, who pick up the coin in circulation; a thing the bank cannot prevent. This we have called exhauſting a part of (B): the conſequence of this is, to make the proprietors of (C) come upon the bank, and demand coin for filling up (B): to this the bank muſt alſo agree. But by theſe operations (C) comes to be diminiſhed, below the level neceſſary for carrying on trade, induſtry, and alienation: upon which I have ſaid there commonly comes an application to the bank to give more credit, in order to ſupport domeſtic circulation, which if complied with, more ſolid property is conſequently melted down.

This ſwells the maſs of ſecurities, and raiſes (A) to its former level. But here the bank has an option to refuſe more credit: in

This very caſe points out the great advantage of banks upon mortgage of private credit.

We have ſaid, that the credit of ſuch banks ought to be eſtabliſhed upon the principles of private ſecurities only. If their notes be iſſued upon ſolid property, then no rebellion can influence them: but of this more hereafter.

the

the former operations it had none. Now if the bank, from a terror of being drained of coin, ſhould refuſe to iſſue notes upon new credits, for the demands of domeſtic circulation; in this caſe, I ſay, they fail in their duty to the nation, as banks, and hurt their own intereſt. As to their duty to the nation, I ſhall not inſiſt upon it; but I think I can demonſtrate that they fail in point of combination, with reſpect to their own intereſt, and that is enough.

I ſay, then, that as long as there is one ſingle note in circulation, and any part of a grand balance owing, that note will come upon the bank for payment, without a poſſibility of its avoiding the demand. Refuſing therefore credit, while any notes remain in the hands of the public, is refuſing an intereſt which may help to make up the paſt loſſes: but of this more hereafter.

In the next place, I think I have demonſtrated, that ſo ſoon as the *grand balance* is paid, it is impoſſible that any more demands for coin can come upon the bank for exportation. Why then ſhould a bank do ſo ſignal a prejudice to their country, as to refuſe to lend them paper, which the ready-money demands of the country muſt ſuſpend in circulation? And why do this at ſo great a loſs to themſelves? It has been ſaid above, and I think with juſtice, that this recruit, iſſued to fill up circulation, adds to the maſs of bank ſecurities, and very properly repreſents that part of the income of the ſolid property of the country, which the bank muſt diſpoſe of to foreigners, in order to procure from them the coin or bills neceſſary for anſwering the demand of payment of a *grand balance*.

In this light nothing can appear more imprudent, than to refuſe credit.

A bank is forced to pay to the laſt farthing of this balance; by paying it, the notes that were neceſſary for circulation are returned to them; and they refuſe to replace them, for fear that their ſupplying circulation ſhould create a new balance againſt them! This is voluntarily taking on themſelves all the loſs of banking, and rejecting the advantages.

Such

Such management can only be prudent when the circulating notes of a bank are very few, and when the balance is very great. In that caſe, indeed, were the thing poſſible, it might be prudent to give over banking for a while, till matters took a favourable turn. But if we ſuppoſe their notes to exceed the balance due, then all the hurt which can be done is done already; and the more notes are iſſued, and the more credit is given, ſo much the better; becauſe the intereſt upon all that is iſſued above the balance, muſt be clear profit to the bank.

To bring what has been ſaid within a narrower compaſs, and to lay it under our eye at once, let us call the domeſtic circulation of a country, where a bank is eſtabliſhed, (A).

The ſpecie itſelf, to carry it on, (B).

The balances to other nations, (D).

The bank muſt have a command of credit and coin equal to the ſum of (B) and (D). If they have the value of (D) in any foreign place, where a general circulation of exchange is carried on; then they have only occaſion for (B) at home, and can furniſh bills to the amount of (D).

If (D), in conſequence of bills drawn, ſhall come to be exhauſted, the bank muſt replace it again, by new contracts, to ſtrangers.

But as ſoon as (D) is paid, either in coin or in bills, then whatever coin is drawn from the bank, and ſent away by private people, (exchangers, &c.) muſt form a balance due to the country; which balance will render exchange favourable, and will occaſion a loſs to thoſe who ſent away the coin. In this caſe, the more credit the bank gives, ſo much more will their profits increaſe.

To conclude: Let banks never complain of thoſe who demand coin of them, except in the caſe when it is demanded in order to be melted down, or for domeſtic circulation, which may as well be carried on with paper.

And ſo ſoon as a demand for coin to pay a foreign balance begins, it is then both the duty and intereſt of all good citizens to be as aſſiſtant as poſſible to banks, by contenting themſelves with

paper

paper for their own occafions, and by throwing into the bank all the coin which cafually falls into their hands. As to duty, I fhall offer no argument to enforce it. But I fay it becomes a national concern to affift the bank; becaufe the lofs incurred by the bank in procuring coin, falls ultimately on every individual, by raifing exchange; confequently, prices, by raifing the intereft of money to be borrowed; and laft of all, by conftituting a perpetual intereft to be paid to foreigners, out of the revenue of the folid property of the country. Upon fuch occafions, a good citizen ought to blufh at pulling out a purfe, when his own intereft, and that of his country, fhould make him fatisfied with a pocket book.

CHAP. XIII.

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

IN every queftion relative to this fubject, we muft return to principles. This is the only fure method of avoiding error. The intelligent reader, therefore, muft excufe fhort repetitions, and confider them as a facrifice he is making to thofe of flower capacities, to whom they are ufeful.

The principle of banking upon mortgage, is to lend and give credit to thofe who have property, and a defire to melt it down. This is calculated for the benefit of trade, and for an encouragement to induftry. If fuch banks, therefore, borrow, it muft be done confiftently with the principles upon which their banking is founded. If the borrowing fhould tend to deftroy thofe advantages which their lending had procured, then the operation is contrary to principles, and abufive. So much for recapitulation.

While

While trade flourifhes and brings in a balance, banks never have occafion to borrow; it is then they lend and give credit. This, I believe, we may take for granted.

When the country where the bank is eftablifhed begins to owe a balance to other nations, the bank, as we have feen in the laft chapter, is obliged to pay it in coin or in bills. We have there fhewn, that in fuch cafes it is inconfiftent with their principles and intereft, to withhold lending and giving credit, fo far as is neceffary for keeping up the fund of circulation to that ftandard which alienation and ready money demands require.

To refufe credit, and at the fame time to borrow *at home*, muft then, at firft fight, appear to be doubly inconfiftent. But in order to fet this point in the cleareft light I am capable, I fhall reafon upon a fuppofition analogous to the fituation of the Scotch banks, and by that means avoid abftraction as much as I can.

Let me then fuppofe that Scotland, during the laft years of the war ended in 1763, and ever fince (I write in 1764) from the unavoidable diftrefs of the times, was obliged, 1. to import confiderable quantities of grain in fome bad years; 2. to refund the Englifh loans of money fettled there in former times; 3. to furnifh fome of the inhabitants with funds, which they thought fit to place in England; 4. to pay the amount of additional taxes impofed during the war; while, at the fame time, feveral of the ordinary refources were withdrawn; fuch as, 1. a great part of the induftrious inhabitants who went to fupply the fleets and armies; 2. the abfence of the ordinary contingent of troops; and 3. the cutting off feveral beneficial articles of commerce. Let me fuppofe, I fay, that from a combination of thefe loffes incurred, and advantages fufpended, Scotland has loft annually, for eight years paft, two hundred thoufand pounds. I am no competent judge of the exactnefs of this eftimate, it is of no confequence to the argument; but I think I am far beyond the true computation.

On the other hand, let me fuppofe, that the fum of currency in paper, fufficient (with the little coin there was) to circulate the

whole

whole of the alienations in Scotland; (that is to say, the whole domestic circulation, supposing no balance to be owing to England or other countries) to be one million sterling. I am persuaded I am here below the true estimate, but no matter.

Is it not evident, from this supposition, and from the principles we have been deducing, that unless the banks of Scotland had alienated annually in favour of England, a fund for paying the interest of two hundred thousand pounds capital, and either brought down the coin, or given bills on London for the sum of that capital every year; that the million of Scots currency would have been diminished in proportion to the deficiency; and would not the consequence of that be, *cæteris paribus*, to bring the currency below the demand for it; and, consequently, to hurt trade, industry, and alienation?

Now supposing the banks, instead of providing, in England, a fund equal to this grand balance, (as I have said they should do) to remain in consternation and inactivity, giving the whole of their attention to the providing coin and bills to supply the demand of exchangers, whose business it is to send out this annual balance; what will the consequence be?

I answer, that if the banks, in such a case, do not follow the plan I have proposed, the consequence will be, that two hundred thousand pounds of their paper will be, the first year, taken out of the domestic circulation of Scotland; will be carried to the bank, and coin demanded for it. If the coin is found in the bank, it is well; it goes away, and leaves the paper circulation of Scotland at 800,000 *l.* This void must occasion applications to the bank for credits to supply it. Is it not then the interest of the bank to supply it? We have said in the former chapters that it is. But now let us suppose it objected, that if banks should issue notes at such a time, their cash having been exhausted, they would be obliged to stop altogether, upon a return of those notes issued upon additional credits.

To this I repeat again, because of the importance of the subject, that notes issued to support the demand of circulation never can return upon the bank, so as to form a demand for coin; and if they

they do return, it must be in order to extinguish the securities granted by those who have credit in bank. (I except always that regular demand for coin, at all times necessary for circulating the paper for domestic uses) and if those notes return of themselves, without being called in, this phænomenon would be a proof that circulation is diminishing of itself: but supposing such a case to happen, it is plain that such return can produce no call for coin; because when the notes return it is not for coin, but for acquitting an obligation or mortgage, as has been often repeated.

Notes are paid in, I say, because circulation has thrown them out. Now if circulation has thrown them out as superfluous, it never can have occasion for coin in their stead; because coin answers the same purpose.

But then it is urged that they do not return, because circulation has thrown them out, but because coin is wanted: be it so. Then we must say, that circulation is not diminished, as we at first supposed; but that the return of another year's balance, makes a new demand for coin necessary.

Now I ask, how the withholding this 200,000 *l.* from circulation, after the first year's drain, can prevent the balance from returning? There are by the supposition still 800,000 *l.* of notes in the country; will not exchangers get hold of two hundred thousand out of *this* fund, as well as out of the million? For he who owes, *must pay*, that is, *must circulate*. It is only the circulation of the industrious, of the rich, in short *buying*, that is to say, *voluntary circulation*, which is stopped for want of currency: *paying*, that is, *involuntary circulation*, never can be stopped; debtors *must* find money, as long as there is any in the country, were they to give an acre for a shilling, or a house for half a crown. Now those who owe this foreign balance are debtors; consequently, they must draw 200,000 *l.* out of circulation, the second year as the first, whether the standard million be filled up or not. The withholding, therefore, the credits demanded upon the first diminution, has not the least effect in preventing the demand for coin the year following: it only distresses the country, raising exchange, and the interest of money, by rendring money scarce;

ſcarce; and what is the moſt abſurd of all, it deprives the bank of 10,000 *l.* a year intereſt, at 5 *per cent.* upon 200,000 *l.* which it may iſſue anew.

Suppoſe again, that a ſecond year's demand for a balance of 200,000 *l.* comes upon the bank: if the coin is out, as we may ſuppoſe that after ſuch a drain it will not be in great plenty, expedients muſt be fallen upon. In ſuch a caſe, if the bank does not at once fairly borrow at London (without any obligation to repay the capital) a ſum of 200,000 *l.* and pay for it a regular intereſt, according to the rate of money, with an obligation to pay, as government does, quarterly *, on the change of London, it will be involved in expedients which will create a monſtrous circulation of coin in the bank, perhaps double of the ſum required, and all thoſe operations will land in the end (as to the bank) in paying the intereſt of this ſum out of the maſs of its ſecurities or ſtock. If the bank ſhould borrow this 200,000 *l.* in London, in the manner we have ſaid, the circulating fund of coin will be nowiſe diminiſhed; there will be no call extraordinary, no riſing of exchange; the bank will have *this* in its hands; and if it riſes, it is the bank, not the exchangers who will profit by it.

But let us ſuppoſe that inſtead of this, it ſhould have recourſe to temporary credits upon which the capital is conſtantly demandable, or to other expedients ſtill leſs effectual for anſwering the call which is to come upon it for the ſecond year's balance: what will be the conſequence? To this I anſwer, that thoſe merchants, or others who owe the balance, will apply to exchangers for bills, for which they muſt pay a high exchange: theſe bills will be brought from the exchangers with notes, (taken out of circulation) and will reduce this to 600,000 *l.* the exchangers will carry theſe to the bank and demand coin. If the bank ſhould make uſe of an optional clauſe, to pay in ſix months, with intereſt at 5 *per cent.* the exchangers will obtain ſix months credit at London, and in conſequence of that, their bills will be honoured and paid. This credit

* Although the intereſt or dividends on government ſecurities be paid every half year only, yet by purchaſing partly in one fund, and partly in another; for inſtance, half in Old South Sea annuities, and half in New, purchaſers may have their intereſt paid quarterly.

coſts

coſts them money, which is added to the exchange: the bank, at the end of ſix months, pays in coin, which in the interval it muſt provide from London. It pays alſo ſix months intereſt upon the paper formerly preſented by the exchanger: add to the account, that bringing down the coin muſt coſt the bank at leaſt 12 ſhillings *per* hundred pounds, and as much more to the exchanger who receives it in order to ſend it back again; and after all theſe intricate operations which have coſt ſo much trouble, ill blood, ſtagnation and diminution of circulation, expence in exchange to the debtors of the balance, ſtreſs of credit upon exchangers for procuring ſo large advances with commiſſion, &c. expence to the bank in providing coin, expence to the exchangers in returning it; after all, I ſay, the operation lands in this: that 200,000 *l.* of notes, taken out of the circulation of Scotland, returns to the bank who muſt have provided, at laſt, either coin, or credit at London for them. This return of 200,000 *l.* of notes does not diminiſh the maſs of thoſe obligations lodged in the bank, in virtue of which they are creditors upon the proprietors of Scotland: conſequently, the bank has conſtituted itſelf debtor to England for thoſe funds which have been *torn from it* in the manner above deſcribed: conſequently, had it, by a permanent loan, conſtituted itſelf voluntarily debtor to England from the beginning, it would have paid no more, nay leſs than it has been obliged to pay; circulation would not have loſt 200,000 *l.* and the bank would have had the intereſt of 200,000 *l.* added to its former ſecurities, which would compenſate (*pro tanto* at leaſt) the expence of borrowing that ſum in England upon a permanent fund. Inſtead of which it compenſates the intereſt of a temporary loan, with the ſame ſum of intereſt taken out of the ſecurities in its hand. If, therefore, from an ill grounded fear of iſſuing as much paper as is demanded, it ſhall withhold it, there reſults to itſelf a loſs equal to the intereſt of what it refuſes to lend; that is to ſay, there is a *lucrum ceſſans* to the bank of the intereſt of this 200,000 *l.* at 5 *per cent.* or at 10,000 *l.* a year; which other banking companies will fill up, and thereby extend their circulation.

If,

If, besides refusing credits, it should call in any part of those already given, it still diminishes circulation: but then by that operation it diminishes the mass of its securities, and so diminishes the sum of the interest annually paid to itself. If it goes farther and borrows money at home, such loans will be made in its own paper, which will diminish farther the mass of circulation; and if it goes on recalling the credits and mortgages, it will soon draw every bit of its paper out of circulation, and remain creditor upon Scotland only for the balance it has paid to England on her account. Such are the consequences, when a bank which lends upon private security withholds credit, at a time when a national balance is due, and when applications are made to it for new credits, to fill up the void of circulation occasioned by the operations used for the payment of the balance: such also are the additional fatal consequences, when to this it adds so inconsistent an operation as that of borrowing in its own notes, or recalling the credits it had formerly given.

By the first step it only appears passive in allowing natural causes to destroy both the bank and the nation, as I think has been proved.

By the second, it is active in destroying both itself and the country.

What benefit can ever a bank which lends upon private security reap by borrowing within the country of which it is the center of circulation; nay, what benefit can it ever reap from withholding its notes from those who can give good security for them!

Every penny it borrows, or calls in, circumscribes its own profits, while it distresses the country. After all the combinations I have been able to make, I can discover but one motive which (through a false light) may engage a bank to this step, to wit, jealousy of other banks.

As this speculation is designed to illustrate the principles of circulation, from circumstances relative to the present state of the Scotch banks, let us call things by their names.

The banks of Edinburgh resemble, more than any other in Scotland, a national bank. Let me then suppose all that can be supposed,

posed, viz. that the abundance of their paper has given occasion to lesser banks to pick up from *them* every shilling of coin which these lesser banks have ever had; and that these have had the address also to throw the whole load of the balance upon those of Edinburgh: let this be supposed, more cannot, and let us allow farther, that this must ever continue to be the case. In these circumstances, what motive can the banks of Edinburgh have for withholding credit from those who are able to give security? What motive can they have for borrowing up their own notes?

Indeed I can account for this plan of management in no other way than by supposing, that disgusted at the long continuance of an unfavourable balance of trade against their country, and vexed to find the whole load of it thrown upon themselves, they have taken the resolution to abandon the trade, and are taking this method of recalling their paper altogether.

Let me suppose the contrary, and I shall not be able to discover how it is possible that such a conduct can turn to their own advantage, throwing out all consideration of the public good, which for some time, no doubt, must be greatly hurt by it.

As long as any considerable quantity of their notes is in circulation, and that the principal exchangers reside at Edinburgh, they never can avoid the loss of paying the balance; and by refusing to fill up the void occasioned by the return of their notes, they deliver the whole profit of replacing them to the other banks, their rivals.

Let me next estimate the losses they sustain by furnishing coin to the other banks, and for the payment of the balance; and then compare these with what they lose by not keeping circulation full.

I shall suppose the balance to cost them two hundred thousand pounds *per annum*; and I shall suppose that all the lesser banks put together have occasion for two hundred thousand pounds in their chests: Is not this computation far above what can possibly be supposed?

Will it be allowed that if the banks of Edinburgh willingly submit to pay the whole of the bills of exchange demanded on London,

don, for this balance, they will have at least the preference in replacing that sum to circulation?

If they pay the balance of 200,000 *l.* a like sum of their notes must come in to them, without diminishing one shilling of the interest paid upon the securities lodged in their banks; consequently, the only loss incurred is the difference between the interest they receive, which is 5 *per cent.* and what it would cost them to borrow a like sum in London, and to remit the interest of that sum four times a year.

Now the value of a 4 *per cent.* is at present about 96; so in paying 20*s. per* quarter on the change of London, the Edinburgh banks may have at London a capital of 96 *l.* Let me call it only 94 *l.* supposing their credit not to be quite so good as that of the funds. I think it as good to the full; and I am sure it is so. At this rate, the 200,000 *l.* will cost them an interest of 8510 *l.* instead of the 10,000 *l.* which they will receive for the like sum added to their former securities. Now I suppose that they have recourse to exchangers to remit this interest, and that they pay for it 5 *per cent.* (which is an absurd supposition, as they will have the exchange entirely in their own hands) and that they give all the bills for the 200,000 *l.* at par, (also a ridiculous supposition) the 5 *per cent.* on 8510 *l.* is 425 *l.* 10 *s.* which added to the interest, makes 8935 *l.* 10 *s.* so that after all, they will have upon the whole transaction 1064 *l.* 10 *s.* of profit.

Next, as to the loss incurred in furnishing 200,000 *l.* to the other banks: If this coin be demanded of them by those banks, the demanders must, for this purpose, draw 200,000 *l.* of Edinburgh notes out of the circulation of Scotland; which I have supposed may be replaced in some little time by the Edinburgh-banks; consequently, if this sum also be borrowed at London, there will result upon this operation, as well as upon the last, a profit of 1064 *l.* 10 *s.* But then indeed they must be at the expence of bringing down the coin borrowed, at 12 *s. per* 100 *l.* because those banks will insist upon having coin, and refuse bills on London. This will cost 1200 *l.* from which deduct the profit of 1064 *l.* 10 *s.* gained by the first operation, remains of loss upon this last transaction 135 *l.* 10 *s.* no great sum *. Does it not follow from this reasoning, that the banks of Edinburgh will have the whole business of exchange in their own hands? What exchanger then will enter into competition with them? The domestic transactions with the merchants and manufacturers of Scotland will be their only business. Farther,

What prevents the banks of Edinburgh to have offices in every trading town in Scotland, where their notes may be regularly paid on presentation, and new credits given as circulation demands them?

The only objection I can find to this plan of banking, is the difficulty of finding credit at London to borrow such large sums.

This, I think, may also be removed, from the plain principles of credit. If the banks of Edinburgh enter into a fair coalition, as they ought to do, I think, in order to form really a national bank, totally independent of that of England; may they not open a subscription at London, and establish a regular fund of their own, as well as any other company, such as the India, or South Sea? By borrowing in the beginning at a small advance of interest above the funds, and paying as regularly as government does, will not all those who make a trade of buying and selling stock fill their loan, rather than invest it in any other carrying a less interest? And if the whole land securities, and stocks of those banks

* We are not to suppose that this yearly balance of 200,000 *l.* is always to continue. We have seen how it has been occasioned by a course of unfavourable circumstances, which have run Scotland in debt; we have seen how the banks may interpose their credit, in order to assist the country in paying it; and we shall see, before we dismiss this subject, how they will be enabled to repay it, and set Scotland free, by a return of a favourable balance upon their commerce. Let it then be remembred, that all those contractions in England are properly the debts of Scotland, not of the banks. Scotland, therefore, and not the banks, must be at all the expence thereby incurred. These points shall be explained as we go along.

banks at Edinburgh be pledged for this loan, will it not ſtand on as good a bottom as any fund upon earth? And can it be doubted but parliament will encourage ſuch a ſcheme, upon laying the affairs of Scotland and the banks properly before them?

By this means they will really become a national bank: becauſe England ſeems at preſent to be to Scotland, what all the reſt of the world is to England. Now, the bank of England has no ſuch fund of credit on the continent, that I know; and were that country to fall into as great diſtreſs, by a heavy balance, as Scotland has been, ſhe would find as many difficulties in extricating herſelf by domeſtic borrowings, bank circulation, &c. as Scotland has found by the like domeſtic expedients. She would then be obliged, for her relief, to have recourſe to a fund opened in Holland, Spain, or Portugal, like to what I propoſe for Scotland with reſpect to England.

I have heard it alledged, that the whole diſtreſs occaſioned to the banks and circulation of Scotland, was occaſioned by a falſe ſtep taken by them, ſome years ago; at the time when the lowneſs of the Engliſh funds, and a proſpect of a peace, occaſioned great remittances from Scotland, and a withdrawing of the large capital of, perhaps, 500,000 *l.* owing in Scotland to Engliſh perſons of property.

At that time, it is ſaid, the banks imprudently launched out in giving extenſive credits to the debtors of thoſe capitals, and to thoſe who wanted to remit the funds they had ſecured in the hands of people who could not pay them; that this threw a load of paper into circulation, which it could not ſuſpend, being far beyond the extent of it; and that, conſequently, the paper came back upon the bank, produced a run for coin, which ſoon exhauſted, in a manner, all that was in Scotland; and that the country has never been able to recover itſelf ſince.

This repreſentation is plauſible, and has an air of being founded on principles: in order therefore to ſerve as a further illuſtration of the ſubject of circulation, I ſhall point out where the fallacy lies.

4 It

It is ſaid the banks did wrong in giving thoſe credits. I ſay, they did right; but they did wrong in not providing againſt the conſequences.

Had they refuſed the credits, the Engliſh and other creditors would have fallen directly upon their debtors, and obliged them to pay, by a ſale of their lands, at an under value; which, I think, would have been an infinite loſs to Scotland. In this way the price would have been paid in bank paper, taken out of circulation; for we have ſaid, that *he who owes muſt pay*, be the conſequence what it will. This paper would have come upon the banks at any rate; and being a balance due to ſtrangers, muſt have been paid by the banks. The banks therefore did right to ſupply the credits demanded; but then they might have foreſeen that the whole load of paying thoſe debts would fall upon them; which they being in no capacity to do, ſhould have immediately pledged in England, the intereſt of the credits they had given out, after ſupplying the want of Scots circulation, and when the notes came in, they would have had at London the capital of that intereſt prepared for paying them off, and no inconvenience would have been found.

The only thing then the bank ſeem to have miſjudged, was the granting thoſe credits too haſtily, and to people who perhaps would not have inveſted their funds in England, had it not been from their facility in giving credit.

Banks therefore ſhould well examine the ſtate of circulation, and of the grand balance, in difficult times, before they give credit. If circulation be full, they may, with juſtice, ſuſpect that the credits are demanded with a view of expediency, to tranſport property out of the country, which otherwiſe might have remained. But in favour of circulation, or in favour of what might be exacted by foreign creditors, banks never can miſjudge in giving credit; becauſe, if they ſhould refuſe to do it, they in the firſt place incur a loſs themſelves; and in the ſecond place, they diminiſh the fund of circulation, and thereby hurt the country. Now when, at ſuch

ſuch times, a credit is aſked or given, that demand is a warning to banks to prepare; and by preparing they are ready, and no loſs is incurred.

Upon the whole, it is an unſpeakable advantage to a nation to have her foreign debts paid by her bank, rather than to remain expoſed to the demands of private foreign creditors; becauſe, when a bank pays them, I ſuppoſe her to do it upon a loan in the funding way, where the capital is not demandable by the creditor; whereas when private citizens are debtors to ſtrangers, the capitals are always demandable; and when a call comes ſuddenly and unexpectedly, the country is diſtreſſed. What would become of Great Britain, if all her debts to ſtrangers were demandable at any time? It is the individuals who owe, in effect, all that is due to foreigners; becauſe they pay the intereſt: but they pay this intereſt to the public; and the public appears as the debtor to all ſtrangers, who have no right to exact the capital, although the ſtate may ſet itſelf free whenever it is convenient.

I have ſaid above, that after all the combinations I had been able to form, I could diſcover but one motive to induce a bank to withhold credit at a time when it was demanded for the uſe of domeſtic circulation, viz. jealouſy of other banks. What my combinations could not then diſcover, my inquiries have ſince unfolded.

It is ſaid, that the banks finding ſo great a propenſity in the inhabitants of Scotland to conſume foreign manufactures and produce, fell upon this expediency of calling in the old, and of refuſing new credits, in order to cut off ſuch branches of hurtful luxury and expence.

Could the execution of ſuch a plan prove a remedy againſt the vice complained of, this circumſtance alone would more clearly demonſtrate the utility of banks upon mortgage, than all I have been able to ſay in favour of that eſtabliſhment.

Let us therefore have recourſe to our principles, in order to diſcover what influence a bank can have in this particular.

We

We have diſtinguiſhed between *neceſſary* and *voluntary* circulation: the *neceſſary* has the *payment of debts*; the *voluntary* has buying for its object.

We have ſaid that he who owes is either a bankrupt, or *muſt pay*, as long as there is a ſhilling in the country.

But he who buys, or inclines to buy, *muſt have money*, or he can buy nothing; for if he buys on credit, he then falls immediately into the former category, and *muſt pay*.

By withholding money for the uſes of circulation, which banks may do for ſome time, buying *may* be ſtopped; paying *never can*.

Now if the maſs of money in circulation is brought ſo low, that the *higher* claſſes of the people, who conſume foreign productions, cannot find money to buy with, what are we to ſuppoſe will be the caſe with manufacturers, and with the merchants who buy up *their* work? Could this operation of the bank affect the *higher claſſes* only, by curbing their anti-patriot expences, without affecting the *lower claſſes*, by curbing their induſtry, I ſhould think it an admirable diſcovery. If it even could be made to affect thoſe merchants and ſhop-keepers only, who deal in foreign commodities, ſo as to diſcourage them from carrying on that buſineſs, there would reſult from it a notable advantage.

But alas! wherein are they hurt? They trade in ſuch commodities, not becauſe they are bad citizens, but becauſe they are freemen, and ſeek profit wherever the laws permit.

Perhaps, they find more difficulty than other people in forcing coin from the bank, as matters ſtand: perhaps, they are loaded with opprobrious appellations for extorting ſuch payments from the bank: perhaps, their credits with the bank are recalled. But muſt not thoſe who buy from them, pay them? And muſt not the bank give coin, or bills, for the notes they receive, when preſented for payment? Why, therefore, throw difficulties in the way? All the world knows, that no human engine can prevent a merchant from laying all the expences of his trade upon the conſumer. Correct the taſte of the conſumers, and you may ſtop the trade: no

7 other

other reftraint will be of any confequence. But in order to correct the tafte of confumers, do not deprive them abfolutely of money; becaufe the money the landlord receives, comes from the farmer, for the price of his grain, &c. Would it be a good fcheme for preventing foldiers from drinking brandy, to cut off their fubfiftence-money? Give a drunkard but a penny a day, it will go for liquor; and thofe who are fond of foreign clothing, will take the price of it from their bellies, to put it on their backs.

If this fcheme of the bank's withholding credit, proves, at prefent, any check to thofe dealers in Englifh goods, it will be but for a very fhort time. They have been taken by furprize; and, perhaps, thrown into inconveniencies from an unexpected change of bank management; but as long as there is a demand for fuch commodities, there will be a fupply; and when people owe, they *muft pay*. No operation of a bank can prevent this.

I muft, therefore, according to principles, difapprove of this public-fpirited attempt in the banks of Edinburgh; becaufe, if it fhould fucceed, it will have the effect of ruining all the trade and induftry of Scotland, in order to prevent the fale of Englifh goods: and if it does not fucceed, which is more than probable, from the affiduity of other banks in fupplying credit, it will have the effect of ruining the banks of Edinburgh themfelves.

This ftep, of calling in the bank credits, and opening a fubfcription for a loan, is reprefented by others in a light fomewhat different. By thefe it is alledged, that in the beginning of the year 1762, when the Edinburgh banks withdrew $\frac{1}{5}$ of all their cafh accompts, and opened a fubfcription for borrowing-in their own notes, at an intereft of 4, and even 5 *per cent.* the demand for money, to fend to England, was not occafioned by the great balance owing by Scotland, but to the high premium money then bore at London; becaufe, fays the author of a letter to J . . . F . . . . . . Efq; publifhed at that time,

" This demand arifes from a profit on carrying money to London, *as a commodity*, and not as a balance of trade."

It

It is not eafy to comprehend how there could be much profit in carrying money to London at 3 *per cent.* lofs by exchange, from Scotland, where it bore 5 *per cent.* intereft.

It is true, that at certain times, there were confiderable profits made upon ftock-jobbing; by which fome won, and others were ruined. I agree, that the country was greatly hurt by the folly of thofe who played away their own property, and by the roguery of others, who borrowed that of their neighbours, with an intention of gaming at their rifk. But is this a vice which any bank can correct, while it has a note in circulation?

If, therefore, it was a fentiment of patriotifm which moved the banks to fuch a plan of conduct, I fay they thereby did more hurt to induftry, by contracting circulation, than good to Scotland, by attempting a thing which was beyond their power to accomplifh.

If they were moved to it by a principle of felf prefervation, I fay they loft their aim, by cutting off their own profits, which would have done much more than indemnify them for the lofs of borrowing at London, at the time when money there was hardeft to be got: for whatever exorbitant expence of exchange gamefters may incur, to procure ready money to play with, the rate of the ftocks at that time never was fo low, as to afford a profit upon money remitted at 3 *per cent.* lofs by exchange, while that money was bearing 5 *per cent.* intereft at home.

The loweft rate of ftocks was in January 1762. Towards the end of that month 3 *per cents.* fell to $63\frac{1}{4}$: this makes the value of money to be about 4 *l.* 12 *s.* *per cent.* In thefe funds, certainly, no body could inveft, with profit, money fent from Scotland.

After the new fubfcription had been open for fome time, fcrip indeed, or 4 *per cent.* fell in this month fo low as $74\frac{1}{2}$, that is, money rofe to 5.4 *per cent.* whereas had fcrip ftood at the proportion of the 3 *per cents.* it fhould have been worth about 84: but at the beginning of a war with Spain, when the minds of men were depreffed, and filled with apprehenfions, and when a new loan was perhaps expected at a higher intereft than ever government had

given,

given, was it natural for people to be fond of investing in a 4 *per cent.* stock, which was to fall to 3 *per cent.* in a few years?

Besides, let us examine the profit to be made by investing even in that fund. 100 *l.* produced in Scotland 5 *l.* interest, that capital remitted to London at 3 *per cent.* exchange, was reduced to 97 *l.*: now if 74.5 *l.* produced 4 *l.* the produce of 97 *l.* would be about 5 *l.* 4 *s.* Would any man for the sake of $\frac{1}{5}$ *per cent.* advance of interest on money remitted, ever think of sending large sums to London to be invested in a falling stock?

I allow that, upon opening subscriptions, great profit was sometimes made by those who contracted with government, and who received the subscriptions at prime cost. But this profit depended entirely upon the subsequent rise of the subscription, when the original subscribers brought it first to market; as also from the small sums they had advanced: this operation was over before the end of January 1762. The smalness of the sum advanced, upon which the profit was made, and the ministerial interest which was necessary to obtain a share in those subscriptions, rendred it extremely difficult for people in Scotland to share in the profit by remitting large sums in the proper point of time.

Farther, might not the banks, in the short period during which such large profits were made, had they had the exchange in their hands, have raised it so high as to frustrate the attempts of our Scots gamesters? If it be said, that exchangers would have disappointed them, by giving it lower; I answer in the negative: because to that set of men exchange will rise, of itself, in proportion to the value of money *in the place to which people incline to remit it.* And could money at any time bring in, at London, 20 *per cent.* interest, exchange upon that place would rise universally in proportion.

The only motive, not already mentioned, for sending money to London at this time, under so great disadvantages, was the prospect of a great rise upon the stocks, in the event of a peace. Upon which I observe, that the value of that probability was included in the then price of stock; and had the probability of a peace, in January 1762, been

been great, stocks would have risen in proportion: he, therefore, who vested his money in stock, by remitting from Scotland at that time, upon an expectation peculiar to himself, I consider as a gamester, and as an ignorant gamester too; because he was giving odds upon an equal bett. This every man does, who, without any prospect of a profit peculiar to himself, pays a high exchange to bring money to a market, where he buys at the same price with those who pay no exchange at all.

From these considerations, I am led to differ from the ingenious author of the letter to J. F. Esq; who says, "That in the present "case" (the circumstances operating in January 1762,) "the demand" (for money to remit to London) "is unlimited, and no "provision the banks can make can be of use; on the contrary, "could they find a treasure, suppose of a million, it would only "serve to increase it; because this demand arises on a profit on carrying money to London as a commodity, and not as the balance "of trade."

CHAP. XIV.

Of optional Clauses contained in Bank Notes.

As we are examining the principles upon which banks of circulation upon mortgage, which issue notes payable in coin, are established in Scotland, it is proper to take notice of every circumstance which may arise from the extensive combination of the interests of trade and circulation, especially when we find such circumstances influencing the political welfare of society.

An optional clause in a bank note is added to prevent a sudden run upon banks, at a time when more coin may be demanded of them than they are in a capacity to pay.

Banks not regulated by ſtatute, are private conventions, in which the parties may include what conditions they think fit. Banks, therefore, may inſert in their notes, the conditions they judge moſt for their own advantage. Thus, they may either promiſe peremptory payment in coin upon demand, or they may put in an alternative, that in caſe they do not chooſe to pay in coin, they may pay in bills, or in transfer of their ſtock, or in other circulating paper not their own; or they may ſtipulate a certain ſpace of time after the demand, with intereſt during the delay. All theſe alternatives are inſerted, in order to avoid the inconvenience of running ſhort of coin, and of being obliged to ſtop payment altogether.

We have ſaid above, that the profits of banks conſiſt in their enjoying the ſame intereſt for the notes they lend, as if the loan had been made in gold or ſilver. This is a very great object, no doubt; but the policy of nations has eſtabliſhed it, and therefore we ſhall ſuppoſe it to be an uncontroverted principle.

In which ever way, therefore, an optional clauſe is inſerted, it ſhould be ſuch as to cut off all profit from the bank, upon all paper preſented for payment, from the time of preſentation; and every artifice uſed to ſuſpend the liquidation of the paper, to the advantage of the bank, and prejudice of the bearer, ſhould be conſidered as unfair dealing in the bank, and prohibited by law.

When the optional clauſe has no tendency to procure advantage to the bank, in prejudice of the holder of the paper (except ſo far as the holder is thereby deprived of the uſe of coin, which on certain occaſions cannot be ſupplied by the paper) it becomes the duty of a ſtateſman to examine how far it is expedient to ſuffer ſuch ſtipulations to be inſerted, in a money which is calculated to carry on the mercantile intereſt of the nation.

Banks, we have ſaid, are the ſervants of the public, and they are well paid for their ſervices. Although the notes iſſued by them are not commonly made a legal tender in payment; yet the conſequence of a well eſtabliſhed bank, is to render them ſo eſſential to circulation,

I

circulation, that what is not a legal obligation becomes one, *in fact*, from the force of cuſtom.

Let us therefore examine the advantages which reſult to banks from this optional clauſe, and the loſs which reſults to a nation from their uſe of it, and then compare the advantages with the inconveniencies, in order to determine whether or not it is expedient to permit ſuch obſtructions in the circulation of paper.

The advantages which banks reap is confined to that of gaining time, at the expence of paying intereſt. The intereſt paid by them is an aukward operation. They receive intereſt for the note; becauſe they have in their poſſeſſion the original ſecurity given for the notes when they were firſt iſſued; and they begin to refund this intereſt to the holder of the note from the time they make uſe of the optional clauſe. Could the banks, therefore, borrow coin in a moment, and pay no intereſt for the coin which they pay to the holder of the note, they would certainly never make uſe of this optional clauſe. But this coin is not to be found in a moment; and the banks, to ſave themſelves the trouble, and the expence of augmenting the fund of coin, or of procuring a fund out of another country, upon which they might draw for the payment of that national balance, which, by becoming banks, they tacitly engage to pay for the nation, render the credit of individuals precarious with ſtrangers, and raiſe a general diſtruſt of the whole ſociety which they ought to ſerve. Here then is a very great loſs reſulting to a nation from the eſtabliſhment of banks. Were no bank eſtabliſhed, no merchant would contract a debt to ſtrangers, without foreſeeing the ready means of diſcharging it with the coin circulating in the country. In proportion as this coin came to diminiſh, ſo would foreign contractions of debt diminiſh alſo. Thus *credit*, at leaſt, might be kept up, although trade might be circumſcribed, and manufactures be diſcouraged. Now when, in order to advance trade and encourage manufactures, a ſtateſman lends his hand towards the melting down of ſolid property, and countenances banks ſo far as to leave that operation to them, with the emolument of receiving intereſt

for

for all their paper; and when, in order to facilitate the circulation of this paper, the very inhabitants concur in throwing all their ſpecie into a bank, is it reaſonable to indulge banks ſo far as to allow them to add an optional clauſe, which diſappoints the whole ſcheme, which ſtops trade, ruins manufactures, raiſes the intereſt of money, and renders the operation of melting down property quite ineffectual for the purpoſes which it was intended to anſwer? Farther,

The loſs a bank may be at, in providing coin, is ſuſceptible of eſtimation, let it be brought from ever ſo diſtant a country; becauſe we know that the quantity to be provided, never can exceed the value of the *grand balance*. But who can eſtimate the loſs a nation ſuſtains, when an interruption is put to carrying on trade and manufactures? When the induſtrious claſſes of inhabitants are forced to be idle for a ſhort time, the conſequences are hardly to be repaired: they ſtarve, they deſert; the ſpirit of induſtry is extinguiſhed; in ſhort, all goes to ruin.

Beſides, when banks do not lay down a well digeſted plan for paying regularly, and without complaining, this *grand balance* due to ſtrangers, they are forced to have recourſe to expedients for preſerving their credit, more burdenſome, perhaps, than what is required of them; and not near ſo effectual for removing the inconveniences complained of.

The expedients they fall upon to obtain credit, coin, and bills, are ſo various, and ſo complicated, that they alone are able to explain them.

Sometimes we ſee them entring into contracts with private merchants and exchangers, *(living among themſelves!)* who engage for a certain premium to furniſh coin as it is demanded. The conſequence of this, is, to expoſe the bank to a new demand for coin, from the very contractors, in order to fulfil their engagements; an abuſe we have taken notice of above in ſpeaking of the *bank circulation* of England.

Let

Let us ſuppoſe that theſe undertakers for coin do really ſet out by doing *in part* what banks ſhould *effectually* do themſelves; that is, by bringing from another nation, the coin which they are to ſupply. What is the conſequence? The banks pay the undertaker for this coin in their own notes. Did they only engage to pay a certain intereſt for the coin ſo provided, then the end would be accompliſhed, with the additional expence to them of paying the undertaker for his expence, trouble, and profit. But if they, inſtead of paying intereſt for the coin ſo furniſhed, ſhall iſſue their notes for the full value of it; ſuch notes can never enter into domeſtic circulation, ſo as to be ſuſpended in it as it were; becauſe it is not domeſtic circulation which has demanded them: they muſt then return upon the bank, either from the very hand who received them, or at leaſt, after a ſhort circulation; and thus draw out again the whole coin furniſhed by the undertaker. This produces a prodigious circulation of coin, and induces people to imagine that either the *grand balance* is inexhauſtible, or that the premium upon money at London is very high; or that people can contrive a fictitious balance, as a means of profiting upon coin, after the balance has been actually paid *.

This method of providing coin is abſolutely deluſive, and opens a door to infinite abuſe. Thoſe who furniſh the coin to the bank, are either in the combination againſt the bank, and draw it out as faſt as they throw it in; or they are not in the combination: if they are in the combination, they profit by it; if they are not, they are hurt by their contract, and other exchangers draw the advantage; but the bank is equally a loſer in both caſes.

Let me ſuppoſe that they are not in the combination, and that they honeſtly procure the coin at their own expence. If they are paid in notes for the coin they furniſh, we muſt ſuppoſe that the

* The directors of the bank of England have had recourſe to a like expedient with as little ſucceſs. They uſed, during the war, to buy up, with their paper, the coin brought in by privateers; and after they had been at this trouble, the notes they had given for it returned upon them, and drew it out again.

coin

coin they have procured, is not in consequence of a loan, but of a *credit* given them in the place from which the coin is sent: for I never can suppose that any merchant will borrow coin upon a *loan*, and lie out of so large a capital while he has bank notes in his hand to pay up what he has received. If he has procured this coin upon *credit*, will not this, when it comes to be replaced, augment the grand balance against the nation in favour of the country or city which granted that credit? And must not that balance be paid by exchangers out of the coin received by the bank? If, therefore, we suppose that the undertaker does not draw out the very coin he had just delivered into the bank, will not exchangers do it for him; will not they be ready with notes, as soon as the coin is lodged in the bank, to draw it out, and send it off, in order to furnish the undertaker with bills to fill up his credit, for the coin he had received from people residing in the place to which the exchangers have sent coin, to be ready to answer their draughts? Does this differ in the least from what is called drawing and redrawing, which is sufficient to ruin any man, and must not a like practice ruin a bank, by raising exchange to a monstrous height?

This being the case, the shortest and the best method of preventing such abuses, is to oblige banks to pay upon demand, in coin or bills, at the option of the holder of the note. This will force them into the method of providing them; to wit, fairly borrowing money from nations to whom we owe, and paying a regular interest for it, without an obligation to refund the capital, until the grand balance shall take a favourable turn; in which case, the banks will regorge with coin drawn from strangers, and these strangers will then find as great an interest in being repaid, as the bank found in borrowing from *them*, while the balance was in *their* favour.

We have said, that a statesman should oblige all public banks to pay regularly upon demand, in coin or bills, at the option of the holder of the note. But then he must facilitate to them the means which he has in his power, of providing themselves with the coin, or bills demanded.

For

For that purpose, he must, first, provide them with a mint, for how, without a mint, can a bank convert into coin the metals it may provide from other countries? Next, he must put that mint under such regulations as to cut off all profit from money-jobbers, who will be ready to draw coin out of the bank the moment they find the least advantage in tampering with it. In order to prevent this abuse, a reasonable rate of coinage should be imposed, according to the principles laid down in the third book; and when banks have occasion to pay a balance out of the nation's coin, a drawback for part of the coinage should be given them. This drawback will support the value of the coin, and the loss of the remainder will engage them to export bullion preferably to coin, when it is to be found: and if no drawback were given, the coinage would be totally lost to the bank.

When this deduction is given, the coin must be melted down, and stamped in bars at the mint; both in order to prevent frauds in the drawbacks, and to disappoint strangers who receive it at the price of bullion, from gaining the price of coinage when they return it back. And in the last place, all light coin should be banished out of circulation, and made to pass by weight for bullion, at the current price of the market. All banks should both receive and deliver coin by weight, when the sums are so considerable as to require full bags of coin to pay them. It is not here necessary to repeat what has been said upon this subject at so much length in another place.

The method of facilitating to banks the means of providing bills for the payment of foreign balances, is, secondly, to assist them in procuring loans beyond the district of their own circulation. If government shall be satisfied that the intention of demanding such loans, is to enable the bank to interpose their credit in favour of the trade and industry of those who circulate their paper, and who have no way of paying such balances, but with their solid property; in that case, government will, undoubtedly, assist the bank in obtaining

loans

loans for so national a purpose, by declaring the security upon which they desire the loan to be good, and by becoming answerable to the public for the solidity of it.

CHAP. XV.

Of subaltern Banks of Circulation, and of their Competition with one another.

WE have hitherto treated of the principles which influence national banks of circulation, we now come to examine some peculiarities attending banks of a subaltern nature, which for the most part trust to the national bank for all supplies of coin; and when this resource fails them, they are thereby involved in difficulties which are not easily got the better of. Besides this inconvenience, to which all subaltern banks are subject, they are frequently exposed to competition with one another.

A national bank enjoys such great advantages from the stability of its credit, and the regularity of its operations, that it is not easy for any other private company to establish themselves upon the same solid system.

When any banking company is established, which draws its support from a national bank, the facility of carrying on the business by so great an assistance, naturally engages other companies to imitate their example. From thence arises a competition. All such banks begin to consider the circulation of their own district as their undoubted property, and they look with an eye of jealousy upon every note which does not carry their own mark.

The great point of their ambition is to gain credit with the national bank; and could they obtain of that company to receive their notes, or to give them credit for their draughts, in cases of necessity, they would be at their ease; because the national bank would then be at the whole expence of providing coin and bills, and they would have nothing to think of, but to extend the sphere of their own circulation.

With respect to all these subaltern societies, the national bank will no doubt steer an equal course. I suppose every one to be settled upon good security; without which they do not deserve the name of banks.

In proportion to their stocks, and according to the state of the national balance, they may, as well as any private person, on many occasions, draw considerable supplies of coin from the national bank, without lying under any obligation to it; because when exchange is low, they can realize any part of their stock into coin, out of the national bank, at very little loss, excepting the interest of it: for interest must always be reckoned upon every guinea which lies in their chest.

Did these banks consider one another in a proper light, they must see in an instant that the solidity of every one is equally good; because I now suppose them all standing upon the principles of private, not mercantile credit, as above explained.

What benefit then can they possibly reap from their mutual jealousies, from gathering up each other's notes, and coming with a run upon one another from time to time? The consequences of this will be, to oblige themselves and others to preserve for *domestic circulation* a larger quantity of coin than is necessary, and thereby to diminish their own profit: to take up their attention in providing against their own reciprocal attacks, and thereby neglect the providing a supply for that demand which is indispensable; to wit, the payment of the grand balance due to other nations; at which time the resource of the national bank will certainly fail them. The managers of every one of them will pretend that it is they who are saddled with this burden; but the nature of the thing speaks for itself.

Wherever

Wherever this grand balance is transacted, the exchangers residing in the place will have recourse to the bank there established; and if there be more than one, that which pays with the greatest readiness will have the best credit, the most notes in circulation, and the largest profits upon the whole. If any one is found slow, or difficult in paying its paper, exchangers will be the more punctual in making their demand for payment, and they will even be averse to receiving such notes from their correspondents.

Every man who has occasion for credit from a bank, will apply to that whose notes are the most esteemed. In short, there will be profit, in the main, to the bank which pays the best, although I allow that at particular times there may be some additional inconveniences, unless a regular plan be laid down on the principles above deduced.

This however is a vague reasoning; because the matter of fact is not known. All that can be said with certainty, is, that while no public regulation is made with regard to banking, every one will carry on the trade according to his views of profit; and private animosities between different companies, will only tend to distress the nation and themselves, as experience has, I believe, discovered.

If, as matters stand, a very great inconvenience results to Scotland from the want of a communication of paper credit with England, and if thereby an exchange of 4 and even 5 *per cent.* has been paid for bills upon London, because all the coin of the country is locked up in banks; I ask what would be the consequence, if banks had their will in banishing from the circulation of their own district, every other notes but their own? In that case, we might, in a short time, find an exchange of 4 and 5 *per cent.* between Fife and Lothian, between Glasgow and Ayr, and so of the rest. What would then become of manufacturers, who could not dispose of their work at the distance of a few miles, without having recourse to exchangers for their payment? If such an abuse were once allowed to creep in,

in, there would be no other remedy but to destroy banks altogether, and throw the little coin there is into circulation.

On the other hand, when banks are in a good understanding, when they are established on solid principles, when their paper is issued on proper security, the public is safe; and in every little district, under the wings of their own bank, there will arise a set of exchangers, who will give credit to merchants and manufacturers, and who will have recourse to their own bank for the coin or bills necessary for their occasions. This will naturally divide the payment of the grand balance among them, in a due proportion to their circulation.

I shall now consider the principles which may direct a statesman to settle banking upon mortgage on a proper footing, to serve every national purpose.

CHAP. XVI.

Of some Regulations proper to be made with regard to national Banks.

FROM what has been said, we may conclude, that were a national bank upon mortgage, established on a plan calculated to answer the purposes of the most extensive domestic circulation, it might be regulated in the following manner.

1mo, Let a large stock of property, of one species or other, be provided, in order to gain the confidence of the public, and let it be pledged for the payment of all the notes.

2do, Let all solid property intended to be melted down into paper money, be first constituted in such a manner as to be easily sold, and in the mean time secured to the company, for their advance, preferably

preferably to every other perſon, and let it be of a revenue fully ſufficient to acquit the intereſt for ever.

3tio, The capitals due to the bank muſt not be demandable by the bank, as long as the intereſt is regularly paid.

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

5to, All bank ſecurities muſt be pledged in the hands of government for the intereſt of whatever money the bank may borrow with their conſent, beyond the diſtrict of their own circulation.

6to, Government muſt ſupport the bank in proportion to the extent of their funds.

7to, Let bank notes be payable to bearer, either in coin, or in inland bills to the value, or in a transfer of a correſponding intereſt at — *per cent.* all in the option of the holders.

Were ſuch regulations eſtabliſhed, the borrowing from banks would become very eaſy; any man who is maſter of his property, though incumbred with debts, might put it into bank regulation, might raiſe upon it what ſum he thought fit, with which all his debts might be paid off; he might even give credit upon it to thoſe who otherwiſe are not in a ſituation to obtain it: for which credit given, a profit in the rate of intereſt might be allowed to him. Were a plan concerted conſiſtently with the principles which have ſuggeſted this general ſketch, all borrowing and lending of money would ſoon center in the bank. Securities would be eaſy, and expence greatly avoided.

A national bank, when rightly conſtituted, may however be ſafely indulged in more extenſive methods of circulating their paper than upon land ſecurity. The bank of England is allowed by charter to iſſue notes for diſcounting bills of exchange, it may trade in gold and ſilver, may advance money to government upon the ſecurity of taxes impoſed and levied within the year. But it is in general debarred commerce, and every precarious object of traffic. The reaſon is plain. The paper it iſſues becomes the property of the nation, and may form in a ſhort time the greateſt part of the currency of it. In ſuch a caſe, were the bank expoſed to loſſes by trade, or inſolvency of debtors for great ſums, the whole credit of the nation might be ruined, and all the lower claſſes of the manufacturing inhabitants undone, before ſuch a blow could be repaired.

Under proper regulations, bank paper might be made a legal tender in every payment: in which caſe it is hardly poſſible that any conſiderable demand for coin ſhould ever be made upon them, except for the payment of the *grand balance.*

This national bank may have different offices, in different cities within the kingdom, and theſe will make ſubaltern banks both uſeleſs and unprofitable. It might even be ſtipulated, that a certain proportion of bank ſtock, in the name or for the behoof of any city, ſhould entitle that city to a proportional part of the adminiſtration within their own diſtrict. As theſe are only ſpeculations, not plans, I need not ſet about removing objections, which are conſtantly many and well grounded, whenever any new eſtabliſhment or innovation is propoſed. All I aim at is to ſet this principle in a clear light, to wit, that it is the intereſt of every trading ſtate to have a ſufficient quantity of paper, well ſecured, to circulate through it, ſo as to facilitate payments every where, and to cut off inland exchanges, which are a great clog upon trade, and are attended with the riſk of receiving the paper of people whoſe credit is but doubtful.

For this purpoſe, I have propoſed that inland bills ſhould be demandable from the bank at par, as well as ſpecie.

It would be an admirable improvement upon this ſcheme, to make a like regulation as to foreign bills. However, this ſpeculation is reſerved for another opportunity. All I ſhall ſay, at preſent, upon that head, is, that as we have ſeen how the whole national balance muſt be paid by banks (who circulate paper payable in coin on demand, and who conſequently muſt, on ſome occaſions, draw the metals from abroad for that purpoſe, in order to fill up the void made by exchangers, who ſend them out) and it would, I think, be ſhortning, in ſome meaſure, that operation, and be a means, at the ſame fame time, of indemnifying the bank in this refpect, to regulate matters fo, that all foreign exchanges might be tranfacted there at fixed rates, according to the place where the exchange is to be made, without erecting any monopoly for that purpofe in favour of the bank, or depriving any one of the liberty to deal in exchange, who can afford it at more reafonable terms than the bank; but of this more when we come to the doctrine of exchange.

CHAP. XVII.

When and in what cafe Banks fhould be obliged to keep open Books.

IF no national bank be eftablifhed under proper regulations, and entire liberty allowed to every one to take up the trade who can iffue his notes, I think it would be againft all principles of good policy not to oblige fuch banks to keep open books, to be infpected regularly by fome authority or other; in order to fee upon what fecurity that paper ftands, which is the inftrument of commerce, a part of every man's private property, and which, if any part of it fhould once fail, either through the knavery, mifconduct, or misfortune, of a particular company, would caft a general difcredit upon all paper, and be a means of bringing on thofe calamities which we have fo often mentioned.

I know the ordinary objection againft this, is, the inconvenience of throwing open the fecrets and myfteries of trade. As to the myfteries of trade, this point fhall be examined in another place. But here, I fay, there is no queftion of trade in which any rifk is implied: and if any one can fuppofe, that, at any time, the affairs of a bank are in fo ticklifh a fituation as not to bear infpection, that very fuppofition fhews how neceffary it is not to permit fuch a bank to continue this circulation. The only infpection, in which the public is interefted, is to know the quantity of notes iffued, and the extent and nature of the fecurities pledged for them. They have no bufinefs to examine the ftate of their cafh, or of particular people's credit. They may be without a fhilling in their coffers, and ftill their paper be as good as if they had a million. Such an infpection, as I propofe, would rather confirm than fhake their credit, but it would be a means of preventing them from launching out into fpeculations in matters of commerce, which is not their diftrict; and from gaming with national property.

If it be faid, that this infpection would lay open the affairs of many private men, debtors to the bank, I anfwer in the negative; becaufe no man's credit is hurt by his having a cafh account, and no infpection is requifite, as to the ftate of that accompt with the bank. The credit may be either quite full, or quite exhaufted; this particular interefts no body but the parties themfelves; but it is effential to know upon what fecurity the credit has been given; becaufe every man who has a note of fuch a bank in his poffeffion, has a very good title to be informed concerning the fecurity on which it ftands.

It is not fufficient to fay, that the holder of the note, if he doubts of the fecurity, may demand payment. It is not here the intereft of any individual, but that of the public which is attended to: and if, according to the principles of common reafon, it be juft, that a creditor fhould have it in his power to watch over the abilities of his debtor, fo as to fecure his payment; certainly it is equally juft, that the public (which I confider here as the creditor) fhould be made certain, that what is circulating with as great facility as the King's coin, contains a real value in it. Would it be a good anfwer from any man who held a piece of falfe money in his hand, for the ufe of circulation, to fkreen himfelf, by alleging that if it be falfe, no body need to take it. It is the right of every man to detect falfe coin; but it is the right of government *only* to detect falfe paper: becaufe law only can authorife fuch an inquifition. Does not the charter of the bank of England eftablifh this right in government?

If the bank be confined to certain particular branches of solid trade, where little risk is incurred, might not government examine, when necessary, whether these regulations have been observed; and how can this be done without such an inspection as is here recommended?

CHAP. XVIII.

Is it the Interest of Banks to grant Credits and Cash Accompts to Exchangers and others, who make a Trade of sending Coin out of the Country?

THE answer to this question is very short.

From the principles we have deduced, it is plain, that it is both the office and interest of banks to give credit to all who can give good security for it.

The cause of doubt upon this question, arises only from certain inconveniences which have been of late experienced in Scotland; but which never would have been felt, had banks attended to their true interest, in providing funds to answer the demands of those who are either obliged, or who find an interest in paying off what the nation owes upon the grand balance to foreigners.

To set this matter in a clear light, let me suppose that, some time ago, the banks had at once withdrawn all the credits granted to exchangers; and opened a subscription for a loan of money, equal to what they might estimate the sum borrowed by that set of men within the country, for the sake of carrying on their business.

According to principles, these two operations should go hand in hand: the recalling the credits would, no doubt, have greatly distressed exchangers; but as long as they could find money to borrow

borrow from private hands, that inconvenience would have been lessened. Besides, I apprehend that the late custom among exchangers, of borrowing at 4 *per cent.* owes its existence to the difficulty they felt in obtaining extensive credits from the bank; and if this be the case, then there has been a *lucrum cessans* to the bank of 5 *per cent.* upon the amount of all these borrowings; because exchangers, I apprehend, would prefer a credit from the bank at 5 *per cent.* to a loan at 4 *per cent.* payable on demand, according to the occasions of those who keep their money with them.

The most effectual method, therefore, to hurt exchangers, would have been to have recalled all their credits, and offered to borrow, upon the same terms, what was lent to them.

The execution of such a plan would, I think, have been, 1. diametrically opposite to the interest of the banks; 2. would have occasioned such a run upon exchangers, as to throw them into great distress; and 3. would have ended in the total ruin of the trade of Scotland.

That such a plan is diametrically opposite to all principles of banking, I suppose, is by this time sufficiently understood.

That it would have occasioned a run upon exchangers, is pretty certain: because however good their credit might be, it must be acknowledged to be inferior to that of the banks; and therefore no body would prefer them for debtors, to the bank, upon the same terms.

The third consequence is as evident, upon a short reflection, as the other two. The run upon the exchangers would have obliged them to make a call upon all the merchants and dealers in Scotland, to whom they gave credit: for which purpose, and for which alone, they find an interest in borrowing at so high an interest as 4 *per cent.*

The call, then, made by the exchangers upon their debtors, is neither more or less than a call upon the money employed in the trade of Scotland.

Now we have said, that whoever owes *must pay*. The merchants of Scotland owe to exchangers; the latter are pressed by their creditors, and *must pay* with what they have, which consists in money only: when that is exhausted, they must shut up shop. *They* again call upon the merchants, who *must pay* with what they have. This consists in goods, and in the manufactures of Scotland; and these they *must* sell at any price. There may not be time sufficient to export with advantage. To whom then must they sell? To people within the country, who have no money to buy with; because credit is withheld by that body which only can give it. I conclude with the old saying of the law,

Unum quodque eodem modo solvitur quo colligatum est.

The best method to establish credit in an industrious nation, is a bank properly regulated: and the best methods to ruin it effectually, when established, are the inconsistent operations of such a bank.

CHAP. XIX.

Application of the Principles above deduced, towards forming the Policy of Circulation.

FROM the principles above deduced, there arise three principal objects of attention.

The first, the circulation of paper for domestic uses.

The second, the method of providing coin for that purpose.

The third, the method of paying foreign balances.

These three objects are absolutely different in their nature, and they are influenced by different principles. The consequence of blending them together, is to render the subject, which is abundantly intricate in its own nature, still more dark and perplexed. What is to follow has no relation to any plan proposed for execution; it is only intended as a farther illustration of the general principles which influence this branch of my subject.

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

I It

It has been said, that the great utility of banks of circulation upon mortgage, was to facilitate the melting down of solid property; in order to enable every one who has property, to circulate *the capital* of it for the advancement of industry.

For this purpose he comes to a bank, pledges the capital he wants to melt down, and receives for his obligation, bearing interest, paper money which bears none.

This paper money, I suppose to be as solidly secured as the principles of private credit can make it. I suppose the bank to be established by authority, according to the regulations already mentioned, and the notes made a legal tender in every payment of *domestic debts*; by which I understand *debts* payable within the country.

From these data, I say, that the regular method by which the bank should acquit the obligation in the notes, is by restoring the security granted at issuing the notes, if they be returned by the debtor in it; or by a transfer of a sum of interest equivalent to the notes, if they are presented by any other. All farther obligations laid upon banks to pay in coin, or inland bills, is only an equivalent expected from them in lieu of their great profits *.

When paper issued for domestic circulation returns to a bank, were it not for the profits on their trade, I see no reason why a

* It must here be observed, that in every country where there is a national coin established, it is absolutely necessary to connect with it the denominations of the paper; in order to affix a determinate value to these denominations. This may easily be done without implying, as at present, an obligation on the bank to realize into coin every bit of paper in circulation.

The *interest*, therefore, of the credits given by the bank, may be demandable from the debtors in coin; and the transfers of interest made by the bank, to those who bring in notes for payment, may also be demandable in coin from the bank.

These payments will bear a small proportion to the paper in circulation, as interest must be very low; and coming at fixed terms of payment, provision will easily be made for them.

This regulation will support the coin of the country, and as the *interest* of all the paper becomes demandable in coin, the intrinsic value of the *interest* will effectually support the value of the *capital*.

bank

bank ſhould pay in any other ſpecies of property than what it received; and if, by the intereſt they receive for their notes, they are abundantly indemnified for all the difference between paying in coin and in transfer, I think the public would be a gainer to diſpenſe with that obligation in lieu of an abatement of intereſt; which would be an advantage to commerce, not to be counterbalanced by the other.

Farther, the buſineſs of providing coin is totally different from that of ſupporting domeſtic circulation: it is founded on different principles: it requires men of a particular genius to conduct it: the difficulties to be met with are not conſtant; and therefore cannot form a regular branch of bank adminiſtration.

2do, The method of providing coin for domeſtic circulation is the buſineſs of mints, not of banks.

I have, in the third book, treated very fully of the doctrine of coin, and of mints. I have ſhewn the difference between money, which *is the ſcale for reckoning value*, and coin, which *is certain denominations of money, realized in a proportional weight of the precious metals*. I have ſhewn how neceſſary a thing it was to impoſe the price of coinage upon the metals manufactured into coin: and I have ſaid, that it was inconſiſtent with all principles, to allege that the metals, when coined, ſhould thereby acquire no additional value.

The expence, therefore, of providing the metals ſhould be thrown upon thoſe who want coin; and the mint ſhould be obliged to convert gold and ſilver into coin, upon the demander's paying the coinage.

This coin loaded with the price of coinage, never will be ſent abroad to pay a foreign balance; never will be locked up in banks, which will have little occaſion for it. It will, therefore, remain in circulation, and ſerve thoſe purpoſes for which the inhabitants think fit to employ it.

This coin, I ſay, never will be exported, as long as any uncoined metals can be found in the country: and if upon a national diſtreſs it

it is thought fit to facilitate the exportation of it, the ſtate may (as we obſerved above) appoint the mint to receive it back, in order to melt it down into ingots, ſtamped with the mark of ſterling, repaying to the bearer —— *per cent.* of the coinage.

3tio, The trade of paying off foreign balances will then become a particular branch of buſineſs: of which we ſhall treat more at large, when we come to examine the principles of exchange.

All that is neceſſary to be ſaid in this place, is to recal the principle we have mentioned above, viz. that when a nation cannot pay in her metals, manufactures, and natural produce, what ſhe owes to ſtrangers, ſhe muſt pay in her ſolid property; that is, ſhe muſt mortgage the revenue of ſuch property, for a capital *borrowed out of the country*, which capital ſhe muſt employ for the payment of her foreign debts.

This operation then ſhould be performed by a regular and ſyſtematic plan.

CHAP. XX.

Objections to this Doctrine.

THAT bank notes can never be received as ſpecie, but from a perſuaſion that they may be exchanged for it on demand.

To this I anſwer, that it is ſufficient they be received as value; and that they anſwer every purpoſe in carrying on alienation. The uſe of *money* is to keep the reckoning between parties, who are *ſolvendo*; the uſe of ſpecie or coin is to avoid the inconvenience of giving credit to perſons who perhaps may not be ſo.

When merchants make delivery in accompt, they then give credit to their cuſtomers: when they ſell for bank bills, they give credit to the bank: when they are paid in coin, they give credit to no no body; becauſe they receive the real value in the coin. Where then is the difference between receiving the real value, and receiving an obligation for it, concerning the validity of which every one in the country is perfectly ſatisfied?

Is there a merchant, in any country in the world, who will ſell one farthing upon an hundred pounds cheaper to a perſon who pays in coin, than to another who pays in good paper; unleſs the extrinſic circumſtances of the country ſhould, at that time, give an advanced price to the *metal* of which the coin is made.

Money, we have ſaid, ought to be invariable in its value: coin never can be ſo, becauſe it is both *money* and *merchandize*: money, with reſpect to the denomination it carries by law; merchandize, with reſpect to the metal it is made of.

But it is urged, that if I have coin I may pay any where within the commercial world, at the expence of tranſportation, and inſurance. I grant this to be true.

But I anſwer, that the principal uſe of coin, is, not to ſend it out of the country; but to keep accompts clear among inhabitants within the country. If there be a variation in the value of coin, according to circumſtances, that variation muſt affect the inhabitants in their tranſactions. No one can gain upon this coin, without ſuppoſing a relative loſs to ſome other, whether they perceive it or not. Muſt not this diſturb all reckoning? Muſt it not diſturb prices? Since at different times, I may be paying the ſame denominations of coin for the ſame commodity; and yet be paying, really, more value at one time than at another. Is not then the moſt invariable money the beſt calculated for the intereſt of trade, and proſperity of manufactures? Whence ariſe complaints againſt paper money, and regrets for want of coin? They iſſue from thoſe who both wiſh to profit of the riſing value of the metals contained in the coin, and who endeavour to perſuade the public, that its intereſt, and not their own, is their object.

What a trifle is a foreign balance, let it be ever ſo great, compared with the whole alienations of a country! Is it reaſonable to diſturb

diſturb the harmony of all domeſtic dealings, in order to furniſh an opportunity to a few clear-ſighted people, who can, upon ſome occaſions, profit of the fluctuating value of the ſubſtance of which the coin is compoſed, to the prejudice of the ignorant? If the country owes a balance to other nations, let it be paid; nothing ſo juſt; nothing ſo eſſential to the intereſt of the country which is the debtor. If the precious metals are the moſt proper vehicles, as I may ſay, for conveying this value, let them be procured and ſent off; but never let us ſay, that becauſe *ſome* of our money *may* be made of that metal, that all our money ſhould be made of it; in order that thoſe who tranſact the balance may have an opportunity of ſending our metals away with greater eaſe, and thereby of depriving us of the means of carrying on alienations among ourſelves. Let every one that has coin ſend it away: nothing can be more juſt; nothing more conſiſtent with principles: but let him ſend it away as a *manufacture*; carrying in its boſom the price of making it, which he has paid, and for which his foreign creditors will make him no allowance.

Exchangers run to the coin of the nation, for paying, with the leaſt expence to themſelves, the balance they are about to tranſact. When that reſource is cut off by the impoſition of coinage, the nation will preſerve at leaſt her darling ſpecie; and then exchangers will be obliged, by the beſt of all compulſions, their own intereſt, to think of other expedients; bullion, manufactures, and natural produce. And when all theſe come to fail, a regular plan muſt be laid down, and authoriſed by government, for obtaining credit in other countries, by mortgaging the revenue of the ſolid property of the kingdom; according to the principles we ſhall diſcover when we come to treat of exchange.