

## C H A P. XXI.

*How by a return of a favourable Balance the Bank may be enabled to pay off the Debts due to Foreigners, and thus deliver the Nation from that Burthen.*

WE have said, that the banks in contracting debts, and mortgaging the property of Scotland to strangers, for the payment of a grand balance, really acted as the guardians of the public, by interposing their credit, and by constituting themselves as debtors for the whole; taking for their relief, proportional securities upon the effects of individuals.

We have also pointed out how, by this operation, the mass of bank securities comes to be greatly augmented.

Before the payment of any balance for the behoof of Scotland, the securities in the hands of the bank can only be equal to the notes in domestic circulation, and accumulated profits thereon. Let this be called (A). In proportion as these notes come back upon the bank, in a demand for bills to pay balances, in the same proportion is there a sum of securities added to the former mass (granted upon new credits given for filling up the void thereby occasioned to circulation) which quantity I shall call (B).

(A) then represents the securities equivalent to the notes in circulation.

(B) represents the securities equivalent to the debts contracted by the bank in favour of strangers.

Now let us suppose trade to become favourable; or that the interest of the money, which the natives had sent abroad, to invest in foreign countries, begins to flow back: what will be the effect of this?

I say, that this balance will be paid to Scotland, either in coin, or in the metals, or in produce, or in manufactures, or in bills.

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In every case, it must be supposed to be beyond the consumption of Scotland; otherwise it will not be a balance in their favour. Whatever part of it, therefore, proves to be beyond the consumption of Scotland, will be turned into money. This money must either consist in the metals, or in foreign bills. If it consist in the metals, it will, if coined, fill up, *pro tanto*, a part of circulation; this will make a proportional part of bank paper return upon the bank, and extinguish a proportional part of their securities; which we have called (A). But then there will be more coin in circulation than formerly; consequently, more coin will enter into payments made to the bank than formerly. But we must suppose, that before this favourable turn of commerce, there was coin enough both in the bank and in the country for the uses of domestic circulation; consequently, the bank will send off this superfluity of coin, and with it they will refund a part of the debt they formerly contracted.

Through all this chain of reasoning, we must always suppose the money in circulation to be a *determinate sum*; otherwise the superadding this foreign balance in coin will not occasion, as we have said, a return of a proportional part of the bank paper.

In the next place, let us suppose this favourable balance to consist in foreign bills, upon London, Amsterdam, &c. These will be discounted by the bank, and notes issued for them. The bills will be sent off by the bank, in order still to extinguish a part of what is owing to foreigners. These notes, again, being superfluous to circulation, which we suppose to be full, will return upon the bank and still diminish the mass of (A).

By these operations we see how (A) will be constantly diminishing; but then in the same proportion we see how the mass of foreign debts will also be diminishing: consequently (B), which was engaged for them, will be returning to be the free property of the bank; and as we suppose no variation upon the sum in circulation, we may consider this as a sort of conversion of (B) into (A), and when all (B) shall be thus converted into (A), then the debt

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formerly contracted by the bank, in favour of Scotland, will be totally paid off by the same method (only inverting the operations) by which it was contracted.

## C H A P. XXII.

### *Of Banks of Circulation established on mercantile Credit.*

I HAVE examined, with all the care I am capable of, the nature of banks calculated for the melting down of solid property, and converting it into paper for the use of circulation:

The nature of such banks is but little known in countries where they have not been established, and a distinct account of them may suggest hints, which in time may prove useful.

People who do not employ their thoughts on the theory of trade and credit, are apt to overlook objects of real utility; and those who do, have seldom the opportunity of being informed of the customs of different nations. Were my experience greater, or had I more opportunities to dive into the recesses of this great object, the work I now present to the public would better deserve its attention.

I now proceed to a deduction of the principles upon which are founded those banks which are principally calculated for the use of commerce; and as the ground-work of my inquiry, I shall trace some of the principal operations of the bank of England.

The establishment of this great company was formed about the year 1694. Government at that time having great occasion for money, a set of men was found who lent to it about 1,200,000 *l.* sterling, at 8 *per cent.* for the exclusive privilege of banking for 13 years; with this additional clause, that 4000 *l.* sterling, *per annum*, should be given them to defray the expence of the undertaking.

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This sum of 1,200,000 *l.* sterling, was the original bank stock. It has been since increased to 11,000,000 *l.* by farther loans to government, for the prolongation of their privileges; as has been taken notice of in the 16th chapter of the second part.

This stock, as in banks of circulation upon mortgage, is only to be considered as a subsidiary security to the public for the notes they issue: were it the principal and only security for their paper, this bank would then be founded on the principle of public, not of mercantile credit; under which last denomination we are going to point out in what the nature of it differs from those we have already explained.

It is a rule with the bank of England to issue no notes upon mortgage, permanent loan, or personal security. The principal branches of their business may be comprehended under four articles, viz. 1. The circulation of the trade of London; 2. The exchequer business of Great Britain; 3. The paying the interest of all the funds transferable at the bank; 4. Their trade in gold and silver. I shall now shortly explain the nature of these four great operations; and first as to the circulation of the trade of London.

When we speak of the circulation of trade, we understand the circulation of money paid on the account of trade.

The great occupation of the London merchants engages them to simplify their business as much as possible. For this, they commit to brokers every operation which requires no peculiar talents or ingenuity in the merchant himself; and, for a like reason, they commit to the bank and private bankers the care of their cash.

A Scots merchant begins by drawing money from the bank, for which he pays interest: a London merchant begins by putting money into the bank, for which he draws no interest at all.

A London merchant, therefore, can give no order upon the bank, unless at a time when he has money lodged in it.

If he has occasion for money at any time, he sends to the bank the bills he has, before they become due, and the bank discounts them at certain rates, according to their nature.

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If it be a foreign bill, the bank in discounting it, retains of the sum, at the rate of *4 per cent. per annum*, for the time the bill has to run; but if the bill be at a longer day than 60 days, they will not discount it. So in this case, the merchant must keep his bill until it is within 60 days of the term of payment.

The reason for this is evident: the security upon which such bills stand, is purely mercantile. The nearer, therefore, the payment is, the less risk the bank incurs from the failure of those who are bound in it.

The intention of this operation of discounting bills, is plainly to employ the cash in the bank in a way to draw an interest for it; but as merchants allow their money to lie dead for as short a time as they possibly can, the bank must have quick returns for what they advance upon discount, in order to be constantly ready to answer all demands. This is no loss to the bank, and a prodigious advantage to trade, as I shall briefly explain.

The bank is constantly receiving cash from every person who keeps their cash with it. This occasions a constant fluctuation of payments, which of course must leave at all times a considerable sum of other people's money in the bank; because it never is in advance to any one.

By long practice in the trade, this sum of money becomes determinate: let us call it the *average-money* in the hands of the bank. It is then with this average-money alone, that the bank can discount bills. Now if the trade of London does afford bills to be discounted at different dates within 60 days, sufficient to absorb the whole average-money of the bank, appropriated for discounting; this branch of business would not go forward with the celerity required for the trade of London, did the bank indulge merchants so far as to discount at a longer day.

From this we learn another reason why the bank of England discounts no bill which has more than 60 days to run. The first, mentioned already, is for the greater security of payment; and the second, which we now discover, is in order to be able to discount

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more bills than otherwise they could do, did they discount at a longer day.

As I am here upon the subject of discounting bills of exchange by the bank of England, an operation it has in common with all the private bankers in the capital, I must answer a question I have frequently heard proposed.

How it happens, that in a city of so great trade as London, it is possible that people should be found even among merchants, who allow their money to remain in the hands of bankers without interest; when in Scotland, a place of so little trade, interest may always be got for money for the shortest time?

The answer to this question is to be derived from the very principles of trade itself.

The money which merchants have either in the hands of the bank, or of bankers, though very considerable at all times, is in perpetual fluctuation: it cannot then be lent to any but a banker, who would consent to pay interest for the sums in hand. But no such banker can be found, nor ever will be found, until all the bankers in London consent to such a regulation. The reason is plain. One principal use the bankers make of the average-money in their hands, is the discounting of bills. Who then could pay interest for money, and discount, in competition with others of the same trade, who have it for nothing?

But suppose the bank, and all the bankers in town, should come to the resolution of giving interest for the money in their hands, what would be the consequence?

Answer, that upon such an alteration, discount would rise above the present rates, to the great prejudice of the trade of the nation; and bankers would lend the money in their hands upon a more precarious security for the sake of a higher interest.

All the landed men who reside in London, and many other wealthy people, not concerned in trade, constantly keep their money either in the bank, or in some banker's hand, without interest: this enables bankers in general to discount foreign bills at *4 per cent.* as

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has been said, even when the rate of interest is rather above that standard. This is, as it were, a contribution from the rich and idle, in favour of the trade of the nation.

Let, therefore, gentlemen who have much idle money, think of any other expedient than that of obtaining interest for it, from those who discount bills in London. Not one of them can afford to do it, and thrive by his business; and the hurt which would result to trade in general, will constantly be a sufficient bar against a general resolution for that purpose.

What has been said, will, I hope, prove satisfactory as to the resolution of the question above proposed, so far as regards London. It remains to be answered, how those who supply the place of bankers in Scotland, and even the banks themselves, can afford to pay interest for any sum put into their hands for a short time.

I answer, that as to the Scotch exchangers, as we have called them, the profits on their trade admit of borrowing money at interest, which that of the bank of England and private bankers cannot do. If these last can gain 4 or 5 *per cent.* by discounting of bills, it is all they can honestly expect: every other employment of the money in their hands is precarious, either as to the security or promptitude of calling it in, to answer the demands which are made upon them.

As to the Scotch banks, we have seen how directly contrary to all principles it is, to borrow money in Scotland. How it diminishes the profits upon their own trade, and hurts the circulation of the country; but although it diminishes their profit, it carries along with it no positive loss to them, as would be the case with a London banker, who would pay interest for all the money in his hands, when he never can draw any back, except for that part which we have called the average.

Every London banker is obliged to have a certain sum of cash constantly in his chest, the interest of which would be all lost, did he pay for it: whereas the exchangers in Scotland never have a shilling by them; and when any demand is made upon them, they

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draw the money from the banks, in consequence of their credit by cash accmpts.

Besides foreign bills, which the bank of England discounts at 4 *per cent.* they also discount inland bills, and notes of hand between merchants in London, at 5 *per cent.*

The inland bills to be discounted at the bank must all be payable in London. The bank calls in no money from any distant quarter of the kingdom.

As the discounting of notes of hand between London merchants might operate the same effect, as if the bank should advance them money upon personal security, in case the notes were drawn for obtaining credit, in place of paying money really due between the merchants, in the course of business, the clerks of the bank keep a watchful eye over this branch of management, and, by examining the reciprocal draughts of merchants between themselves, they easily acquire a knowledge of the state of their affairs, and are thereby enabled to judge how far it is expedient to launch out in discounting either the notes or bills wherein they are concerned.

I shall not pretend to assign a reason why, in the price of discount, the bank makes a difference of 1 *per cent.* between foreign and inland bills of exchange. It may either be an indulgence and encouragement to foreign trade; or it may be upon the consideration of the better security of foreign bills, which commonly pass through several indorsations before they are offered to be discounted at the bank.

I come next to the circulation between the bank and the exchequer.

The bank of England is to the exchequer, what a private person's banker is to him. It receives the cash of the exchequer, and answers its demands.

Cash comes to the exchequer from the amount of taxes. The two great branches of which are the excise and customs. To explain

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this operation with the more distinctness, I shall take the example of the excise.

The excise is computed to bring in annually from London, and the fifty two collections over all England, nett into the exchequer, above four and a half millions sterling.

The fifty two collectors send the amount of their collections to London eight times a year, *almost entirely in bills*. As the same may be said of the remittances of all the other taxes, we may from this circumstance observe by the way, that London alone must constantly owe to the country of England a sum equal to all the bills drawn upon it; that is to say, to all the taxes which the country pays: a circumstance not to be overlooked, from which many things may be learned, as will be taken notice of in the proper place.

The bills sent by the fifty two collectors, are drawn payable to the commissioners of excise; they indorse them to the receiver general; he carries them to the bank as they fall due, and gets a receipt for the amount; this receipt he carries to the exchequer, who charge it in their account with the bank, and deliver tallies to the receiver general for the amount of his payments; these tallies he delivers to the commissioners of excise, who enter them in their book of tallies. This operation is performed once every week, and serves as a discharge from the commissioners to the receiver general.

The bank, again, keeps an account with the exchequer, which is settled once every day, by two clerks, who go from the bank to the exchequer for that purpose. When coin is wanted by the exchequer, for payments where bank notes will not answer, the coin is furnished by the bank; when paper will serve the purpose, paper is issued.

Besides this operation in the receipt of taxes, the bank advances to government, that is to the exchequer, the amount of the land or other taxes imposed, which are to be levied within the year. This we see is a loan upon *government security for a short term*, quite consistent with the principles upon which the bank is established. The large

sums the bank is constantly receiving of public money, and the great assistance it obtains from thence in carrying on the other branches of their trade, enable it at present to make advances of money to government at 3 per cent. It observes the same rule with respect to the great companies of the East Indies, and South Sea, for the same reason: but no advances are made to private people; and in discounting of bills and notes of hand, the regulations above mentioned are adhered to.

Thus the whole amount of taxes is poured into the bank, in the manner we have been describing.

The bank also keeps the transfer books of all the funds negotiated at the bank; and out of the public money in its hand, it pays the interest of those debts, for which government allows to the bank a sum proportionate to the expence of that branch of management.

When the bank, as a company, lends to government upon a permanent fund, the capital whereof is not demandable, this operation is foreign to their business as a bank, and is conducted by the company, as an article of management of their private property.

Let us now examine by what channels their notes enter into circulation, and the security upon which they stand.

When issued in the discount of bills, they stand upon the principles of mercantile credit, and depend upon the goodness of the bills discounted. When issued upon the faith of taxes to be paid within the year, they stand upon the security of that payment, which is of a very complex nature, as any one may perceive. As long as the inhabitants of England consume exciseable goods, the excise will be paid: as long as trade goes on, customs will be paid: and as long as government subsists, the collateral security of the state will serve to make up all deficiencies in the amount of taxes. No security, therefore, can be better than the notes of the bank of England, while government subsists. The losses that great company meet with from bad debts, I am informed, are very inconsiderable.

The greatest risk the bank runs, is in discounting bad bills; but by the extent of their business in this branch, and by circulating the cash of all the merchants who keep accounts with them, they acquire so perfect a knowledge of the state of their affairs, that it rarely happens that any one can fail for very considerable sums, without the bank's having a previous notice of it. A sudden loss may no doubt happen, without a possibility of being foreseen; but the matter of fact proving that their losses upon bad bills are inconsiderable, we may thence infer, that there is but little mystery to the bank, with regard to the credit of London merchants.

I come now to the last branch of their management; to wit, their trade in gold and silver.

For the circulation of bank notes, coin is necessary. We have seen, in treating of the Scotch banks, how coin is brought in: to wit, in consequence of all the payments made to the bank, in which there must be a proportion of coin equal to what is found in common circulation. What is not paid in coin, comes in, in their own notes, which are thereby taken out of the circle; and consequently make place for a subsequent supply, which issues in the manner we have described.

In times of peace, and a favourable balance of trade, the bank suffers little by the obligation it is under to pay in coin, except so far as the great confusion of the present currency affords an occasion to money-jobbers, to melt down the new guineas. The extent of this traffic I am no judge of, and the bank no doubt has an interest in preventing it as far as the laws have provided a remedy against it.

But when large payments are to be made abroad, the distress of the bank is no doubt very great.

In Scotland, the banks, upon such occasions, are totally drained of coin. They have no market for the metals; because they have no mint to manufacture them into coin. It is different with respect to the bank of England; their distress proceeds from another cause.

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The exportation of the heavy guineas in time of war, and of a wrong balance upon the trade of England, leaves circulation provided with a light currency, in which the bank is obliged to pay their notes; and the intrinsic value of the gold in which they pay, regulates the price of the metals they are obliged to buy at market. If they provide them themselves from abroad, they must pay the price of them in bills of exchange. But then the lightness of the currency at home, sinks the value of the pound sterling, as it raises the value of the ounce of gold and silver. So the only considerable loss they incur, is in providing the metals, which must ever be considerable, so long as the old guineas remain in circulation.

The loss upon coining silver is still greater than upon gold; because, besides the loss incurred by reason of the lightness of the gold, the metals in the silver and gold coin of Great Britain, are not proportional to the value they bear in the London market, where they have been bought, as has been sufficiently explained already in another place\*.

It is with great diffidence that I propose an expedient to a company, so knowing in the arts and science of trade, for preventing, in a great measure, this loss in providing the metals for the use of circulation. The bank is directed by long experience, and by a knowledge of many facts and circumstances hid from me; and which, therefore, I cannot combine into a theory founded chiefly upon reason.

The expedient I propose has been pointed out in the preceding parts of this inquiry, and I only recapitulate it briefly in this place, to recal it to mind while we are on the subject of the bank of England.

First, then, while the coin is of unequal weight, the value of the currency never can be permanently the same. Did the bank seriously set about forming a plan for the reformation of the coin, I have no doubt but government, as well as the voice of the nation, would go along with it in forwarding the execution of so noble a design.

\* See Book III. Chap. 21. Quest. 7.

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The second step I would recommend, is that government should enable the bank to establish a fund in Holland, Antwerp, Hamburg, and perhaps at Cadiz and Lisbon, for borrowing (though at a high interest) sums of money equal to what may be due by England to the continent upon certain emergencies.

I cannot pretend to lay down any plan for this operation; but I proceed upon this principle: that if on like occasions the British government can find credit to borrow so large sums for the uses of war, at a very moderate interest, surely the bank of England may imitate her example for the uses of trade; and had she a credit abroad, upon which she could draw, I think it must follow, that the coin of the nation might be kept at home.

I have been an eye witness to large sums in new English guineas thrown into the melting pots of the Dutch mints, for the small profit of less than 1 per cent. gained by coining them into ducats. A small duty imposed upon coinage in the English mint, would prevent this practice abroad; and then British coin would come safe back again, upon every return of a favourable balance on their trade. At present it comes home in bullion, which the bank must buy dear; the state must coin at a considerable expence; and the bank after all must give it to circulation at the mint price, which is many per cent. below prime cost, as matters have stood for several years.

From this review of the constitution of the bank of England, and of the principles upon which it is founded, we may discover how impossible it is, that banks upon mortgage and private credit, can ever receive any considerable assistance from it; and how groundless all insinuations concerning its jealousy of such companies must be.

A more natural object of its jealousy is that of the London bankers, who carry on a trade similar to its own, in many respects, and who, in the course of their business, draw from it very large quantities of coin.

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This, however, occasions no ill will on the part of the bank. The trade of London requires the assistance of all the bankers there, as well as of the bank. Were it otherwise, the bank, by discounting bills at a less profit, might soon oblige them to shut up shop. In this view of the matter, the drawing coin from the bank cannot be prevented.

The bankers call for no more than their business requires. Could the bank, therefore, circulate the whole trade of London, the consequence would be, to issue as much coin as at present: and the coin which issues from bankers, like to that which issues from the bank, if it be for the uses of domestic circulation, returns to the bank in proportion as it issues: and if it be for payment of a foreign balance, the bank knows well that the expence of providing for that, must land upon it, in spite of every method to prevent it.

I must now explain the difference between the effects produced upon the circulation of coin, by the operations of banks established upon mortgage and private credit, and by those of the bank of England, which we have said to be established upon mercantile security.

The consequence of a bank upon mortgage, is to fill the nation with paper money, and to reduce the quantity of coin to the lowest sum possible. For the truth of this proposition, I appeal to the experience of Scotland, and of Rome, where banks upon mortgage, and moveable pledges, are found established. From these facts, and from the principles of their constitution, which is to melt down property into money, it follows, that when the credit of such money is well established, the coin, which is the money of the world, will be employed in trading with the world, and the paper, which is the money of the society, will be employed in trading with the society.

The consequence of this, is, that when the balance of trade runs against a country where banks upon mortgage are established, the coin first goes out; and when, by borrowing, it can be brought back, the interest paid for the coin borrowed, adds an additional balance against the country, until the whole revenue of it becomes the property

property of other nations. From this we may conclude, that the establishment of such banks is as dangerous a weapon in the hands of an idle nation, as an extensive credit is to the family of a young spendthrift.

But let us consider the consequences of such banks to an industrious people, who preserve, upon the average of their trade, a favourable balance with other nations.

The coin, then, goes out to return, and serves as a check upon the course of exchange. I here suppose proper regulations in the mint, and an entire liberty to export coin. Permitting the exportation of coin where you have a mint, for paper to supply its place, and a favourable balance on your trade to bring it back, is like establishing two shops for the course of exchange. If the exchanger will not serve trade at the price of transportation and insurance, the coin will do it for him.

In such a country, a bank, properly established, will find great profit upon the interest of their notes, notwithstanding of the obligation to provide, at all times, the quantity of coin necessary for circulation. All the great objects of trade will then be fulfilled; the rest must be left to the operation of political causes.

If the balance of the trade of such a country should have the effect of bringing in an addition of coin; which, because of the paper, would become unnecessary for circulation; this coin, or the value of it, will either be added to their stock in trade, or will be lent to other nations. This is the case of the Swifs: they are an industrious and a frugal people; they receive annually from their trade, and from the service of their citizens in many countries in Europe, a constant addition to their wealth, more than their trade demands, which they lend to their neighbours; by these means they increase the revenue of the society; and this increase has effects almost similar to an extension of their territory; because it is a means of increasing their population beyond the proportion of the natural produce of their lands; and the food they import from Germany and other countries, is paid with the money which arises from the

interest of what they have lent abroad. All these operations are the consequences of credit and circulation.

In a country where a mercantile bank is established, the melting down of property is greatly circumscribed; and consequently coin becomes more necessary.

We have often said, that a circulating value (money) must constantly bear a proportion to alienation. Circumstances will determine what proportion of coin and what proportion of paper will be necessary for carrying it on. These circumstances, under banks of circulation upon mortgage, multiply paper so much that little coin is required.

Let us now examine how far the paper of a mercantile bank, like that of England, tends to supply the demand of circulation.

Were no bank established at London, all bills would be paid, or discounted in coin.

The bank, therefore, melts down into paper money all the bills discounted by them, and throws it into circulation.

It also melts down into paper all the sums it advances either to government, or to the great trading companies. In this respect it acts upon the principle of banks upon mortgage.

It also melts down into paper all the interest upon the public funds discounted at the bank. All this sum of paper issues from the bank into the city of London, and proportionally supplies the circulation of that great capital.

Let us next examine how this paper can find its way into the country of England, there to supply the use of coin.

The whole consumption of London for meat, beer, fire, and an infinity of articles of manufacture for domestic use and foreign exportation, comes from the country of England.

Did the country owe nothing to London, the sums due for those commodities would be sent into the country in the current circulation of London, which, by what we have seen, absorbs a very large quantity of paper.

But we have said above, that the whole amount of taxes, almost, is remitted to London in bills: this could not be the case, were not



the capital constantly indebted to the country. This circumstance confines the circulation of bank notes chiefly to London, and some other cities, to which the inhabitants of London resort, and whither they carry in their pockets the money of the capital, viz. bank notes. For these reasons, bank notes can never be common in the country: and if, at any time, a scarcity of currency *there*, proves hurtful to industry, the defect cannot be remedied but by establishing banks of circulation upon mortgage in the principal towns of England.

It may be here objected that such a regulation in England, where there is already so great a bank settled on different principles, might draw along with it the following hurtful consequences, viz.

1<sup>mo</sup>, By multiplying the circulation of paper it would send off the coin.

2<sup>do</sup>, The taxes would be paid in this paper, which could not be received at the bank of England, and that would throw the whole nation into confusion.

To which I answer, 1. That if the coin were sent off, it would return, as has been said, while the trade of England flourishes: and 2. That this new bank paper coming in place of the coin, would no more be sent to London than coin is sent now. The debts due by the country for taxes, would be compensated by the reciprocal debts due by London for subsistence, &c. and the compensation would go on as at present by bills: but were the case otherwise, and did a change of circumstances oblige the country to make delivery in coin to London, the holders of the country notes would constantly, as is the case in Scotland, have recourse to the bank established in the district, for the coin wanted to be sent to London.

When I accidentally, as at present, happen to apply a principle to a particular case, whereby an innovation is implied, I constantly fear a secret rebuke from many impatient readers. I therefore beg a little indulgence upon account of my good intention, which is only to support ideas to be approved of, or rejected by those who have the capacity to form plans upon them, and power to put them in execution.

## C H A P. XXIII.

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

IN deducing the principles of credit, I have it chiefly in view, to set in a fair light, the security upon which paper-money is established: and as I imagine, this important branch of my subject will still be rendered more intelligible, by an example of the abuse to which this great engine of commerce is exposed, I now propose to give my reader a short account of the famous bank of circulation first established in France by Mr. Law; but afterwards prostituted (whether by design, or by fatality, I shall not here determine) to serve the worst of purposes; the defrauding the creditors of the state, and a multitude of private persons.

So dreadful a calamity brought upon that nation, by the abuse of paper credit, may be a warning to all states to beware of the like. The best way to guard against it, is to be apprised of the delusion of it, and to see through the springs and motives by which the Mississippi bank was conducted.

After the death of the late King of France, Louis XIV. the debts contracted by that Monarch were found to extend to 2000 millions of livres, that is, to upwards of 140 millions sterling.

It was proposed to the Duke of Orleans, regent of the kingdom, to expunge the debts by a total bankruptcy. This proposal he rejected nobly; and instead of it, established a commission (called the *Vija*) to inquire into the claims of such of the nation's creditors as were not then properly liquidated, nor secured by the appropriation of any fund for the payment of the interest.

In the course of this commission, many exorbitant frauds were discovered; by which it appeared, that vast sums of debt had been contracted, for no adequate value paid to the King.

After many arbitrary proceedings, this commission threw the King's debts, at last, into a kind of order.

Those formerly provided for were all put at 4 per cent. The creditors to the amount of six hundred millions, which had not been liquidated, nor provided for, had their claims reduced, by the commission, to two hundred and fifty millions; for which they obtained notes of state, (*Billets d'etat*, as they were called) bearing an interest of 4 per cent. *alfo*.

These operations performed, the total debts of the late King were reduced to the sum above mentioned; to wit, two thousand millions; bearing an interest of 4 per cent. or eighty millions *per annum*.

From the necessities of government, and the distressed situation of the kingdom, this interest was ill paid: and there hardly remained, out of an ill paid revenue, wherewith to defray the expence of the civil government.

About this time Mr. Law presented to the Regent the plan of a bank of circulation.

For the better understanding this affair of Mr. Law's bank, and the views he had in establishing it at that time, I must give a short account of the most material variations of the French coin, before and after the King's death, 1st September 1715; which I shall make as short as possible, consistently with perspicuity.

#### C H A P. XXIV.

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

**I**N 1709, there was a new general coinage in France; by which operation the King gained 23  $\frac{1}{4}$  per cent. upon all the specie coined. (Dutot, vol. i. p. 104.)

Out

Out of the marc of standard gold were coined 30 louis d'ors, of 20 livres denomination each. - Out of the marc of standard silver, 8 crowns, of 5 livres denomination each: so that the silver was put at 40 livres the marc.—But,

By edict of the month of September 1713, the old King appointed a diminution of the denomination of silver and gold coins; by which, after eleven successive changes, the coin of France was ordered to be brought down, from 40 livres the marc, to 28: so that the 8 crowns, which were called 40 livres in the month of September 1713, by the 2d day of September 1715, (the day after the King's death) were to be called only 28 livres. I say called, because certainly the crowns had suffered no variation but in their name.

On the 13th of August 1715, (a few days before the King's death) he issued a declaration; ordering that for the future the coin should remain at 28 livres *per marc*.

From this I conclude, that his intention was to leave, at his death, the coin of his kingdom of the same standard he had found it to be at the beginning of his reign, and at which he had preserved it invariably, during the flourishing state of his kingdom, for the space of 46 years; that is, until the year 1689.

He could not fail to be sensible of the infinite prejudice occasioned to debtors and creditors by the variations he had practised upon the coin from 1689.

To this standard, then, it was brought the very day after his death, and no sooner: therefore his debt of two thousand millions of livres should regularly be estimated according to that rate; or at about 40 shillings sterling for every 28 livres: 40 shillings being, within a trifle, the value of 8 ounces or one marc of standard silver, Paris weight.

At this rate of conversion, the two thousand millions were equal to 142,857,140 *l*. sterling.

Soon after the King's death, on the 2d of January 1716, the new ministry issued an edict, which totally destroyed all. This was the most

most extraordinary operation, I believe, ever invented; and to it was owing the establishment of Mr. Law's bank: I must therefore explain it.

There had been no general coinage since 1709; the louis d'or had then been coined at 20 livres, and the crowns at 5, as has been said. The edict of 2d January 1716, ordered a new general coinage, on the same footing, both as to weight, fineness, and denomination, as that of 1709: the only difference was, that the first had an old man's head upon it; the other had that of a child of six years old.

By this first operation, there was an end put to the former diminutions on the denomination of the coin; which was now raised again to 40 livres the marc, as in 1709\*. This is nothing:

There being no difference between the old coin and the new, except the stamp, the old coin was called in, and a new face was stamped on the very same pieces. But when the louis d'ors were called in, they were received at the mint at no more than 16 livres; and by a stroke of the wheel, they were, in an instant, converted into 20 livres, the denomination of the new coin.

Thus a person who brought 20 old louis d'ors to the mint, received back 16 of his own 20, new stamped, and no injustice was said to be done, from this demonstration of ministerial algebra, viz.  $16 \times 20 = 20 \times 16$ . Can any thing be more clear and instructive! Some of my readers may not give credit to this; but it is true nevertheless.

Under these circumstances, it was natural for the inhabitants to wish to dispose of their old coin, at any other market than at the King's mint. They did what they could to smuggle it to Holland; where the industrious Dutchman stamped a 16 livre piece with the head of a child, as well as the King of France could do, and sent

\* Here is also an operation upon debts. The day before this edict, that is, the 1st of January 1716, the value of the King's debts was (as has been said) above 142 millions sterling: but an edict comes, raising the coin to 40 livres *per marc*; and consequently, reducing the debts to the value of 100 millions sterling.

it

it back to France for a 20 livre piece. These operations were prevented as well as government could; and every method was tried to force in the old coin to the mint.

Mr. Law judged this a very proper occasion to form the plan of a bank of circulation, upon the principles we have already explained.

He gave in his scheme to the Duke of Orleans; by whom it was approved of; and the bank was established the 2d of May of the same year 1716.

The first thing Mr. Law did, was to buy up with bank notes this old coin, at a price above what the mint gave, but many *per cent.* below the proportion of its value: his paper (payable in the new coin at 40 livres *per marc*) was run upon for this, as well as other reasons; and an immense profit ensued.

This anecdote, I think, is curious, and tends to unfold Mr. Law's combinations, in the proposal he made to the Duke of Orleans for erecting a bank at this period of time.

## C H A P. XXV.

*Continuation of the Account of Law's Bank.*

THE bank accordingly was established in favour of Law and Company, by letters patent, of the 2d of May 1716. The Company was called, the General Bank; and the note run thus:

The bank promises to pay to the bearer at sight — livres, in coin of the same weight and fineness with the coin of this day, value received at Paris.

The first fund of this bank consisted in 1200 actions (or shares) of one thousand crowns, (or 5000 livres) bank money; in all six millions; the crown being then 5 livres, 8 to the marc; silver coin

coin at 40 livres *per marc*, as has been said; which makes this livre just worth one shilling sterling: consequently, the shares were worth 250 *l.* sterling, and the bank stock worth 300,000 *l.* sterling.

By the clause in the note, by which the bank was obliged to pay according to the then weight and fineness of the coin, those who received their paper were secured against the arbitrary measures common in France of raising the denomination of the coin; and the bank was secured against the lowering of it. In a short time, most people preferred the notes to the coin; and accordingly they passed for 1 *per cent.* more than the coin itself.

This bank subsisted, and obtained great credit, until the 1st of January 1719: at which time the King reimbursed all the proprietors of the shares, and took the bank into his own hand, under the name of the Royal Bank\*.

Upon this revolution, the tenor of the note was changed. It ran thus: The bank promises to pay to the bearer, at sight, — livres, in *silver coin*, value received at Paris.

By this alteration, the money in the notes was made to keep pace with the money in the coin; and both were equally affected by every arbitrary variation upon it. This was called, rendering the paper *monnaie fixe*; because the denominations contained in it did not vary according to the variations of the coin: I should have called it *monnaie variable*; because it was exposed to changes with respect to its real value.

Mr. Law strenuously opposed this change in the bank notes. No wonder! it was diametrically opposite to all principles of credit. It took place, however; and no body seemed dissatisfied: the nation was rather pleased: so familiar were the variations of the coin in those days, that no body ever considered any thing with regard

\* Here the bank departed from the principles of private and mercantile credit, upon which Law had formed it, and proceeded upon those of public credit. Public credit in France is the credit of the Sovereign, the solidity of which depends upon the maxims which he follows in the course of his administration.

to coin or money, but its denomination: the consequences of the variations in the value of denominations, upon the accounts between debtors and creditors, were not then attended to; and the credit of the notes of the royal bank continued just as good as that of Mr. Law; although the livres in *this* contained a determinate value; and the livres in *that* could have been reduced at any time to the value of halfpence, by an act of the King's authority, who was the debtor in them. Nay more, they in fact stood many variations during the course of the system, without suffering the smallest discredit. This appears wonderful; and yet it is a fact.

Political writers upon the affairs of France at this period, such as De Melon, Savarie, Dutot, and others, abundantly certify the incredible advantage produced by the operations of Mr. Law's bank; and the chain of events which followed, in the years 1719, and 1720, when it was in the King's hands, shew to what a prodigious height credit arose upon the firm foundation laid by Mr. Law †.

But

† Dutot, speaking of the great value of paper in notes and actions, throws out several reflections, in the passage I am now to transcribe from him, which, at the same time that they prove the great advantages resulting to France from the establishment of credit among them, abundantly evince how lame this author's ideas were concerning the principles of paper credit, and of circulation. He says, (vol. ii. p. 200.) “*This paper* was indeed just so much real value, which credit and confidence had created, “in favour of the state: and by this sum was circulation augmented, independently “of all the coin which was then in France.”

“Upon this revolution, Plenty immediately displayed herself through all the towns, “and all the country. She there relieved our citizens and labourers from the oppression of debts, which indigence had obliged them to contract: she revived industry: “she restored that value to every fund, which had been suspended by those debts: “she enabled the King to liberate himself, and to make over to his subjects, for more “than fifty-two millions of taxes, which had been imposed in the years preceeding “1719; and for more than thirty-five millions of other duties, extinguished during “the regency. This plenty sunk the rate of interest; crushed the usurer; carried “the value of lands to eighty and a hundred years purchase; raised up stately edifices  
VOL. II. I i “both

But alas! the superstructure, then, became so far beyond the proportion of the foundation, that the whole fabric fell to ruin, and involved a nation, just emerging from bankruptcy and inanition, into new calamities, almost equal to the former.

As long as the credit of this bank subsisted, it appeared to the French to be perfectly solid. The bubble no sooner burst, than the whole nation was thrown into astonishment and consternation. No body could conceive from whence the credit had sprung; what had created such mountains of wealth in so short a time; and by what witchcraft and fascination it had been made to disappear in an instant, in the short period of one day.

Volumes have been since writ in France, by men of speculation, in order to prove, that it was a want of confidence in the public, and not the want of a proper security for the paper, which occasioned this downfall.

This, if we judge by what has been writ, has been the general opinion of that nation to this day: and since it was found impossible, in France, to create confidence in circulating paper, which had no security for its value, many people there, and some even

both in town and country; repaired the old, which were falling to ruin; improved the soil; gave a value to every fruit produced by the earth, which before that time had none at all. Plenty recalled those citizens, whom misery had forced to seek their livelihood abroad. In a word, riches flowed in from every quarter. Gold, silver, precious stones, ornaments of all kinds, which contribute to luxury and magnificence, came to us from every country in Europe. Whether these prodigies, or marvellous effects, were produced by art, by confidence, by fear, or by whim if you please, one must agree, that that art, that confidence, that fear, or that whim, had operated all these realities which the antient administration never could have produced.

What a difference in the situation of France at the beginning of the regency; and the situation in which she was in November 1719!

Thus far, the system had produced nothing but good: every thing was commendable, and worthy of admiration." These are the sentiments of Dutoit, concerning this system of paper credit.

among ourselves, conclude, that a great part of the wealth of Great Britain, which consists in paper, well secured, is false and fictitious.

I shall now proceed to set before my reader the great lines of the royal Mississippi bank of France, from the 1st of January 1719, to the total overthrow of all credit, upon the fatal 21st day of May 1720. This was a golden dream, in which the French nation, and a great part of Europe was plunged, for the short space of 506 days.

CHAP. XXVI.

Account of the Royal Mississippi Bank of France, established on Public Credit.

IN order to unravel the chaos of this affair in a proper manner, it will not be amiss to begin by giving the reader an idea of the plan which naturally might suggest itself to the Regent of France, from the hint of Mr. Law's bank. By the help of this clue, he will be the better able to conduct himself through the operations of this system, as the French call it.

The Regent perceived, that in consequence of the credit of Law's bank, people grew fond of paper-money. The consequence of this, he saw, was, to bring a great quantity of coin into the bank. The debts of France were very great, being, as has been said, above 2000 millions. The coin, at that time, in France, was reckoned at about 1200 millions, at 60 livres the marc, or 40 millions sterling. The Regent thought, that if he could draw either the whole, or even the greatest part of this 1200 millions of coin into his bank, and replace the use of it to the kingdom, by as much paper, secured upon his word, that he should then be able

to pay off, with it, near one half of all the debts of France: and by thus throwing back the coin into circulation, in paying off the debts, that it would return of itself into the bank, in the course of payments made to the state; that credit would be thereby supported, as the bank would be enabled to pay in coin the notes as they happened to return, in the course of domestic circulation.

This was both a plausible and an honest scheme, relatively to a Duke of Orleans, whom we cannot suppose to have been master of the principles of credit; and very practicable in a country where there was so great a quantity of coin as 40 millions sterling, and a well established credit in the bank, which prevented all runs upon it from diffidence. Nothing but a wrong balance of trade could have occasioned any run for coin; because, for the reason already given, the paper bore for the most part a premium of 1 per cent. above it.

Accordingly, during the whole year 1719, the credit of the royal bank was without suspicion, although the Regent had, by the last day of December of that year, coined of bank paper, for no less a sum than 769 millions, reckoning in 59 millions of paper, which had been formerly issued by the *general bank of Law and company*; for which he had given value to the proprietors, when he took the bank into his own hands, as we have said above.

I must here observe, that by this plan of the Regent, there was, in one sense, a kind of security for the notes issued. So far as they were issued for coin brought in from the advanced value of the paper, this coin was the security: in the second place, when the coin was paid away to the creditors of the state, the Regent withdrew the obligations which had been granted to them; and although I allow that the King's own obligation withdrawn, was no security to the public, who had received bank notes for the payment; yet still the interest formerly paid to the creditors, was a fund out of which, upon the principles of public credit, the annual interest for the notes was secured. Had, indeed, the French nation perceived upon what bottom the security for the paper stood, during

the year 1719, perhaps the credit of the bank might have been rendered precarious; but they neither saw it or sought after it: and the men of speculation were all of opinion, that as long as there was no more paper issued by the bank *than there was coin in the kingdom*, there could be no harm done. Of this any person who has read Dutot, de Melon, Savarie, and others, will be perfectly satisfied\*. And I desire no farther proof of the total ignorance of the French in matters of this kind, than to find them agreeing, that bank paper is always good, providing there be coin in the nation

\* It is astonishing to find how gravely Messrs. de Melon and Dutot reasoned concerning the nature of paper money, and the effects of changing the value of the coin. They both seemed to agree that a livre was a livre whether it was the 28th or the 50th part of a marc of silver; whether it was a denomination upon paper, well or ill secured, no matter which.

The whole reasoning turned merely on the question, who were robbed, and who fantastically enriched by such absurd operations upon the coin of a country?

The jargon of such men certainly contributed a great deal to darken the understandings of the ministry at this time; and to make them believe that the affairs of money were infinitely more obscure and more difficult to be understood than they really are.

There are thousands of examples where mankind, with their learning and reasoning, have turned common sense into inextricable science; this I think is a famous instance of it: and it is rendering no small service to the world, to destroy, in a manner, what others have been at so much pains to establish. This is restoring common sense to its native dress, in which it becomes intelligible to every one.

I know very well that the ministry of France have now very different notions concerning paper credit; but these notions have not as yet reached the press, except in some of the King's answers to the remonstrances of the parliament of Paris in 1760. These answers were dictated upon sound principles, and do great honour to the ministry.

The old notions still prevailed in the remonstrances of the parliament. This plainly appears from the proposal they made to the King, at that time, to issue paper to the amount of 200 millions, which the parliament was to make good. An expedient to avoid doing that which right reason demanded of them, viz. first to secure a fund for the paper, and then to borrow upon that fund. This proposal from the parliament, and the King's rejecting it, proves that credit was then better understood in the cabinet than in the *palais*.

to realize it, although that coin be not the property of the bank. [Dutot, p. 132, 133.] On the contrary, it is very evident from what has been said, that although there should be a thousand times more coin in a country than the bank paper, still that bank paper must be a mere delusion, and, in fact, of no value whatsoever, except so far as the bank is possessed of the value of it in one species of property or another.

And on the other hand, let the bank paper exceed the quantity of coin in the proportion of a thousand to one, yet still it is perfectly good and sufficient, providing the bank be possessed of an equivalent value in any species of good property. This I throw in here to point out how far the French were, at least at that time, and many years after, when Dutot and Melon wrote, from forming any just notion of the principles of banking. And, I believe, I may venture to say, that the only reason why banks have never been established in France, is, because the whole operation is still a mystery to them. I ground this conjecture upon an opinion of M. de Montesquieu, who thinks that banks are incompatible with pure monarchy; a proposition he would never have advanced had he understood the principles upon which they are established.

The next remarkable and interesting revolution made upon this famous bank, was by the *arret* of February 22, 1720; which constituted the union of the royal bank with the company of the Indies.

By this *arret*, the King delivered to that company the whole management of the bank with all the profits made by him since the first of January 1719, and in time coming. Notwithstanding this cession, the King remained guarantee for all the notes, which were not to be coined without an order of council: the company was to be responsible to the King at all times for their administration; and, as a security for their good management, they engaged to lend the King no less than sixteen hundred millions of livres.

Here is the era and beginning of all the confusion. From this loan proceeded the downfall of the whole system.

But

But before I proceed to explain the scheme of the Regent in these operations upon credit, I think it will contribute to the clearing up of the subject in general, to premise some short account of the rise and progress of this great company of the Indies; and to give a short abstract of some of the most memorable transactions during the Mississippi scheme, in the order of time in which they followed one another.

## C H A P. XXVII.

*A Short Account of the French Company of the Indies.*

CARDINAL de Richlieu, that great minister to Louis XIII. was the first who established trading companies in France, anno 1628, about the time of the siege of Rochelle.

He then set on foot the companies of the West and East Indies. Several others, viz. one for Canada, one for the Leeward Islands, and another for Cayenne, were successively established in the beginning of the reign of Louis XIV. These companies, before 1664, had frequently changed their forms, and had succeeded very ill.

At that time the great Colbert was in the administration of the King's affairs. He engaged his master to think seriously of establishing the trade of his kingdom upon solid principles; for which reason all the undertakers of the former projects of commerce to the new world were reimbursed; and a new establishment was made, called the *Compagnie des Indes Occidentales*.

This exclusive trade comprehended that of Canada, the Caribbee Islands, Acady, Newfoundland, Cayenne, the French continent of America, from the river of the Amazons to that of Oronoko, the coasts

coasts of Senegal, Gorce, and other places in Africa; the whole for 40 years.

The same year, 1664, there was another company formed for the East Indies, of which we shall speak afterwards.

The greatest encouragement was given to these new establishments. Large sums were advanced by the King for several years, without interest, and upon condition, that if, at the end of that term, any loss was found on the trade, it should fall upon the money due to the King.

—On examining into the West-India company's affairs, after ten years administration, that is to say, in the year 1674, it was found, that instead of profiting of their extensive privilege, by carrying on a regular trade themselves, they had sold permissions to private people to trade with them.

This abuse in the company had, however, inspired a taste for trade among the French; which the King wishing to improve, he reimbursed to the company all their expences; added their possessions to his domain, and threw the trade open to his subjects.

Thus ended the first company of the West Indies, called by the French, the *Compagnie d'Occident*.

After the suppression of this company, the French trade to America was carried on and improved by private adventurers, some of which obtained particular grants, to enable them to form colonies. Of this number was Robert Chevalier de la Sale, a native of Rouen. It was he who first discovered the river Mississippi, and who proposed to the King, in 1683, to establish a colony there. He lost his life in the attempt.

Hiberville, a Canadian, took up the project; but soon died. He was succeeded by Antony Crozat, in 1712, who had better success; but the death of the King in 1715, and the rising genius of Mr. Law, engaged the Regent of France to make Crozat renounce his exclusive privilege of trading. Upon which, by edict of the 6th of September 1717, was formed the second *Compagnie d'Occident*, in favour of Mr. Law: to which was added the fur trade of Canada, then in  
the

the hands of private adventurers, and the farm of the tobacco, for which he paid 1,500,000 livres a year.

I now come to the last India company.

I have already mentioned the establishment of it by the great Colbert in 1664.

After his death, want of experience in those who succeeded him, abuse of administration, carelessness in those who carried on the company's business, competition between different companies, and, in short, every obstacle to new establishments, concurred with the consequences of the long and expensive wars of Louis XIV. to render all commercial projects ineffectual; and all the expence bestowed in establishing those companies was in a manner lost.

In 1710, the merchants of St. Malo undertook the East India company. It languished in their hands until 1719, and their importations were not sufficient to supply the demand of France for India goods: for this reason it was taken from them, and incorporated with Mr. Law's company of the West Indies, in May 1719.

By this incorporation was established the great *Company of the Indies*, which still subsists in France: the only monument extant of the famous and unfortunate Law.

For the better understanding, therefore, what is to follow, let us attend to some historical and chronological anecdotes, relative to the wonderful operations of this Mississippi bank, and company of the Indies. These I shall set down according to the order of time in which they happened, that my reader may have recourse to them as he goes along.

Without the help of this table, I should be involved in a history of those events, which however amusing it might be to some readers, would be quite inconsistent with the nature of this inquiry.



## C H A P. XXVIII.

*Chronological Anecdotes.*

1709. **A** GENERAL coinage in France: the marc of standard silver, worth two pounds sterling, put at 40 livres denomination.

September 1713. The late King reduces the denomination of the silver coin to 28 livres the marc, and the gold in proportion.

These reductions were made gradual and progressive, and were finally to take place no sooner than the 2d of September 1715.

August 1715. The King declares, that in time coming, the coin was to remain stable at 28 livres the marc of fine silver.

September 1715. The King dies.

January 2, 1716. The Regent of France orders a new general coinage; raises the silver coin to 40 livres the marc, and calls down the old King's coin (though of the same weight, fineness, and denomination) 20 per cent.

May 1716. Mr. Law's bank established: bank notes coined; and the old coin bought up at great discount.

September 6, 1717. Mr. Law's company of the West established.

September 4, 1718. He undertakes the farm of tobacco.

September 22, 1718. The first creation of actions of the company of the West to the number of 200,000, subscribed for in state billets, at the rate of 500 livres per action.

January 1, 1719. The bank taken from Law, and vested in the King. At this time the number of bank notes coined amounted to 59 millions of livres.

April 22, 1719. A new coinage of 51 millions of notes; in which the tenure of the note was changed, and the paper declared *monnaie fixe*.

May 1719. Mr. Law's company of the West incorporated with the company of the East Indies; after which it was called the *Company of the Indies*.

4

June

June 1719. Created 50,000 new actions of the incorporated company; fold for coin at 550 livres per action.

June 10, 1719. Coined of bank notes for 50 millions of livres.

June 1719. The mint made over to the company for 50 millions.

July 1719. Created 50,000 actions as above, fold, for notes, at 1000 livres per action.

July 25, 1719. Coined of bank notes for 240 millions.

August 1719. The company obtains the general farms: promises a dividend upon every action of 200 livres: agree to lend the King sixteen hundred millions at 3 per cent. and have transferred to them 48 millions per annum for the interest of that sum.

September 12, 1719. Coined of bank notes for 120 millions.

September 13, 1719. Created no less than 100,000 actions; price fixed at 5000 livres per action.

September 28, 1719. Created 100,000 more actions, price as the former, fixed at 5000 livres each.

October 2, 1719. Created 100,000 more actions, price as the former; at 5000 livres each.

October 4, 1719. Coined by the Regent's private order, not delivered to the company, 24,000 more actions, which completed the number of 624,000 actions; beyond which they never extended.

October 24, 1719. Coined of bank notes for - 120 millions.

December 29, 1719. Coined of bank notes for - 129 millions.

January 1720. Coined of bank notes for - 21 millions.

February 1720. Coined of bank notes for - 279 millions.

February 22, 1720. Incorporation of the bank with the company of the Indies.

February 27, 1720. A prohibition by which no one was to have in his custody more than 500 livres of coin.

March 5, 1720. The coin raised to 80 livres per marc.

March 11, 1720. The coin brought down to 65 livres per marc; and gold forbid to be coined at the mint, or used in commerce.

March 1720. Coined of bank notes for	-	-	livres.
			191 803 060

April 1720. Coined of bank notes for	-	-	
			792 474 720

May 1, 1720. Coined of bank notes for	-	-	
			642 395 130

K k 2

May



May 27, 1720. The denomination of the paper diminished by *arret* of council, which, in an instant, put an end to all credit, and made the bubble burst.

At this period had been coined of bank notes to the immense  

sum of	livres.
- - - - -	2 696 400 000
Of which had been issued	2 235 083 590
<hr style="width: 50%; margin-left: auto; margin-right: 0;"/>	
Remained in the bank	461 316 410

Dutot, Vol. I. p. 144. Vol. II. p. 207.

May 27, 1720. The *arret* of the 21st of this month recalled, and the paper restored to its full denomination.

May 29, 1720. The coin raised to 82 livres 10 sols *per marc*.

June 3, 1720. 400,000 actions belonging to the Regent are burnt; and the 24,000 more, which were created October 4, 1719, suppressed; also 25 millions of the interest formerly granted to the company for their loan of 1600 millions, retroceded by the company, and constituted again upon the town-house of Paris.

October 10, 1720. All bank notes are ordered, by *arret* of this day, to be suppressed, if not brought to the bank before the 1st of December following, in order to be paid in manner therein specified.

### C H A P. XXIX.

*Continuation of the Account of the Royal Bank of France, until the time that the Company of the Indies promised a Dividend of 200 Livres per Action.*

THESE things premised, what follows will, I hope, be easily understood.

So soon as the Regent of France perceived the wonderful effects produced by Mr. Law's bank, he immediately resolved to make use  
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of that engine, for clearing the King's revenue of a part of the un-supportable load of 80 millions of yearly interest, due, though indeed very irregularly paid, to the creditors.

It was to compass this end, that he bestowed on Mr. Law the company of the West Indies, and the farm of the tobacco.

To absorb 100 millions of the most discredited articles of the King's debts, 200,000 actions or shares of this company were created. These were rated at 500 livres each, and the subscription for the actions was ordered to be paid in *billets d'etat*, so much discredited by reason of the bad payment of the interest, that 500 livres, nominal value in these billets, would not have sold upon change for above 160 or 170 livres. In the subscription they were taken for the full value. As these actions became part of the company's stock, and as the interest of the billets was to be paid to them by the King, this was effectually a loan from the company to the King of 100 millions at 4 *per cent*.

The next step was to pay the interest regularly to the company. Upon this the actions which had been bought for 170 livres, real value, mounted to par, that is, to 500 livres.

This was ascribed to the wonderful operations of the bank; whereas it was wholly owing to the regular payment of the interest.

In May following 1719, the East India company was incorporated with the West India company: and the 200,000 actions formerly created, were to be entitled to a common share of the profits of the joint trade.

But as the sale of the first actions had produced no liquid value which could be turned into trade (having been paid for in state billets) a new creation of 50,000 new actions was made in June 1719, and the subscription opened at 550 livres payable in effective coin.

The confidence of the public in Mr. Law, was at this time so great, that they might have sold for much more: but it was judged expedient to limit the subscriptions to this sum; leaving the price  
of

of the actions to rise in the market, according to demand, in favour of the original subscribers.

This money amounting to 27 500 000 livres in coin, was to be employed in building of ships, and other preparations for carrying on the trade.

The hopes of the public were so much raised by the favourable appearance of a most lucrative trade, that more actions were greedily demanded.

Accordingly in a month after (July 1719) another creation was made of 50,000 actions; and the price of them fixed at 1000 livres.

It must be observed, that all actions delivered by the company of the Indies, originally contained an obligation on the company for no more than 4 per cent. upon the value of 5000 livres, with a proportion of the profits on the trade; so that the rise of the actions proceeded entirely from the hopes of those great profits, and from the sinking of the rate of interest; a consequence of the plenty of money to be lent.

But besides the trade, what raised their value at this time, was, that just before the last creation of actions, the King had made over the mint to the company for a consideration of 50 millions of livres; and this opened a new branch of profit to every one interested.

The sale of the last coined actions taking place at 1000 livres each, so great a rise seems to have engaged the Regent to extend his views much farther than ever. To say that he foresaw what was to happen, would be doing him the greatest injustice. He foresaw it not, most certainly; for no man could foresee such complicated events. But had he conducted himself upon solid principles; or by the rules which, we now say, common honesty required, he certainly never would have countenanced the subsequent operation.

The fourth creation of actions was in the beginning of September 1719.

In the interval between the third and the fourth creation, the Regent made over the general farms to the company, who paid three millions and a half advanced rent for them. And the company

pany obliged themselves to lend the King (including the 100 millions already lent upon the first creation of actions) the immense sum of 1600 millions at 3 per cent. that is, for 48 millions interest. Now it is very plain, that before the month of September 1719, it was impossible they could lend the King so great a sum.

They had already lent him, in September 1718, 100 millions, by taking the *billets d'etat* for the subscription of the first creation of actions; the second creation had produced coin, laid out in mercantile preparations; and the third creation of actions, at the standard value, was worth no more than 50 millions of livres: this was their whole stock. Where then could they find 1500 millions more to lend?

I therefore conclude, that at this time, the combination which I am now to unfold, must have, more or less, taken place between the Regent and this great company.

The public was abundantly imbibed with the notion of the prodigious profits of the company, before they got possession of the general farms. No sooner had they got that new source of riches into their hands, than they promised a dividend of no less than 200 livres on every action, which was ten times more than was divided on them when at first created.

The consequence of this was, that (supposing the dividend permanent and secure) an action *then* became as well worth 5000 livres as at *first* it was worth 500 livres; accordingly to 5000 did it rise, upon the promise of the new dividends.

But what could be the motive of the company to promise this dividend, only three months after their establishment? Surely, not the profits upon a trade which was not as yet opened. Surely, not the profits upon the King's farms; for these profits it was greatly their interest to conceal.

Their views lay deeper. The Regent perceived that the spirit of the nation was too much inflamed, to suffer them to enter into an examination of the wonderful phenomena arising from the establishment of the bank, and company of the Indies. If the company

pany promised 200 livres dividend, the public concluded that their profits would enable them to pay it; and really in this particular the public might be excused.

The plan, therefore, concerted between the Regent and the company seems to have been, to raise the actions to this great value, in order to suspend a greater quantity of notes in circulation.

This was to be accomplished, 1. by the Regent's purchasing the actions himself from the company; 2. by borrowing back the notes he had paid for them, in order to fill up the loan which the company had agreed to make; 3. to pay off all the public creditors with those notes so borrowed back; and 4. when the nation was once filled with bank paper, to sell the actions he had purchased from the company, to withdraw his own paper, and then destroy it.

By this operation the whole debts of France were to be turned into actions; and the company was to become the public debtor, instead of the King, who would have no more to pay but 48 millions of interest to the company.

By this operation also, the Regent was to withdraw all the bank notes which he had issued for no other value but for the payment of debts; which notes were demandable at the bank; and for the future, he was to issue no more (I suppose) but for value preserved.

### CHAP. XXX.

#### *Inquiry into the Motives of the Duke of Orleans in concerting the Plan of the Mississippi.*

NOW if we examine the motives of the Regent, with regard to this plan, and suppose that he foresaw all that was to happen in consequence of it; and if we also suppose that he really believed that the company never could be in a situation to make good the dividend

dividend of 200 livres, which they had promised upon their actions; in a word, if we put the worst interpretation upon all his actions, we must conclude that the whole was a most consummate piece of knavery.

But as this does not appear evidently, either by the succeeding operations, or ultimate consequences of this scheme, I am loth to ascribe, to that great man, a sentiment so opposite to that which animated him; on his entrance upon the regency, when he nobly rejected the plan proposed to him for expunging the debts altogether.

I may therefore suppose, that he might believe that the company to whom he had given the mint, the tobacco, the farms, and the trade of France, and to whom he soon after gave the general receipt of all the revenue, might by these means be enabled to make good their engagements to the public. I say, this *may be supposed*; in which case justice was to be done to every one; and the King's debts were to be reduced to 48 millions a year, instead of 80 millions.

That this is a supposable case, I gather from Dutot, who gives us an enumeration of the revenue of the company, Vol. I. p. 162. as follows:

#### Revenue of the Company of the Indies.

Interest paid to the company <i>per annum</i>	- - -	48 000 000
Profits upon the general farms	- - -	15 000 000
Ditto upon the general receipt of other taxes	- - -	1 500 000
Ditto upon the tobacco	- - -	2 000 000
Ditto upon the mint	- - -	4 000 000
Ditto upon their trade	- - -	10 000 000

In all of yearly income - - - - - 80 500 000

Now if we suppose the interest of money at 3 *per cent.* this sum would answer to the capital of 2664 millions, which was more than all the debts of the kingdom, for which they were to become answerable.

Upon this view of the matter, I say, *it was possible*, that the Regent might form this plan, without any intention to defraud the creditors; and more I do not pretend to affirm.

I have said that he purposely made the company raise the price of their actions, in order to draw more notes into circulation.

To this it may be objected, that he might as well have paid off the creditors with bank notes, without going this round-about way to work; and have left them to purchase the actions directly from the company.

I answer, that such an operation would have appeared too barefaced, and might have endangered the credit of the bank. Whereas in buying the actions, which were run upon by every body, the state only appeared desirous of acquiring a share of the vast profits to be made by the company. Farther,

As the company appeared willing to accept of bank notes from the state, in payment of their actions, this manœuvre gave an additional credit both to the actions, and to the notes; a thing very necessary to be attended to, in a scheme which was calculated to bring about a total transformation of the security for the King's debts.

I must however observe, that at the period concerning which we are now talking, (*viz.* at the time the company promised the dividend of 200 livres *per* action) the plan we have been describing could not have been carried into execution.

There were at that time only 400,000 actions created, rated at 777 millions: of these were disposed of at least 250,000, to wit, the original 200,000; and the second creation of 50,000, sold for coin. Besides, there were then only coined in bank notes for 520 millions. So there was not a possibility of executing the plan I have mentioned, as matters then stood.

It is from the subsequent operations of the system, that it appears evident that this and this only could be the intention.

We shall see how the number of actions were multiplied, without any other view than to make the public imagine, that the funds necessary for carrying on the trade of the company were immense.

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The number of the actions sold to the public was very inconsiderable, compared with those sold to the Regent; and found in his hands at the blowing up of the system.

Besides, at the period when the number of actions was carried to the utmost, *viz.* to 624,000, the bank notes bore no proportion to their value; for, on the 4th of October 1719, when the last creation of actions was made, the bank notes did not exceed the sum above specified, to wit, 520 millions.

But in tracing the progress of the system upon the table, we perceive, that after the actions were once carried to their full number, (October 4th, 1719) then the coining of bank notes began at a most prodigious rate; in so much, that by the month of May 1720, they were increased from 520 millions, to above 2696 millions; and all this sum, except 461 millions, were found in circulation.

Farther: We shall see, that when the Regent and the company made out their accounts, there were found in the Regent's hands no less than 400,000 actions, which were burnt; and 25 millions of interest upon the sum of money due by the King to the company, extinguished.

These facts prove beyond a doubt, that these 400,000 actions had been bought with the notes coined posterior to the 4th of October 1719; otherwise the actions could not have become the property of the state.

Besides, it was acknowledged publicly, that the notes were coined for that purpose. (See Dutot, Vol. I. p. 144.) In the next place, it is evident, that the notes which had been given in payment for those actions, had been borrowed back, to fill up the loan of 1600 millions of livres; which the company never could have otherwise lent to the King. And in the last place, it is certain that the public debts were paid off with these notes, so borrowed back from the company: because we shall find the notes in circulation at the blowing up of the system, in May 1720; and we shall see how they were paid and withdrawn in October following.

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This detail I own is a little long, and perhaps too minute: but I thought it necessary to prove the solidity of my conjectures concerning the Regent's motives in concerting this plan; which no French author, that ever I saw, has pretended to unfold, except by hints too dark to be easily comprehended.

What is now to follow, will still set my conjectures in a fairer light. We have seen already from the table, with what rapidity the creation of actions went on from the 13th of September to the 4th of October 1719. No less than 324,000 were created in that interval.

Yet Dutot, vol. ii. p. 169, *et seq.* positively says, that on the 4th of October, the company had not sold for more than 182,500,000 livres of their actions. Now the total value, as they were rated when created, extended to 1,797,500,000; so there was little more than one tenth part of the value sold off.

Why therefore create such immense quantities of actions, and so far beyond the demand for them, but to throw dust in the eyes of the public; to keep up the spirit of infatuation; and to pave the way for the final execution of the plan?

The actions being brought, by four successive creations, of the 13th and 28th of September, the 2d and 4th of October, to their full number, the company, during that interval, obtained the general receipt of the whole revenue. Thus, says Dutot, vol. ii. p. 197. the company was intrusted with the whole revenue, debts and expences of the state, and all unnecessary charge was avoided in collecting and administering it.

In the month of November 1719, the credit of the bank, and of the company, was so great, that the actions rose to 10,000 livres. Notwithstanding, says Dutot, vol. ii. p. 198. that the company did what they could to keep down the price, by throwing into the market, in one week, for no less than 30 millions. He assigns seven different reasons for this, which, all put together, are not worth one; to wit, that the Regent was ready to buy up every one that lay upon hand, in concert with the company.

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If the company had been inclined to keep down the price of the actions, they had nothing more to do than to deliver part of the vast number they still had unfold, at the standard value of 5000 livres, at which they were rated when created; and this would have effectually prevented their rising to 10,000 livres.

But it was the interest of the Regent, who was at that time well provided with actions, to stock-job, and to buy with one hand, while he was selling with the other: these operations were then as well known in the street called Quinquempoix, as now in Change-alley.

As a proof of the justness of my allegation, that the Regent was doing all he could to raise the price of the actions, Dutot informs us, in the place above cited; that the bank, at this very time, was lending money, upon the security of actions, at 2 *per cent.* If that was the case, how was it possible that an action, with 200 livres dividend, should sell for less than 10,000 livres, which is the capital corresponding to 200 livres, at 2 *per cent.*?

This is evident; and were it necessary, it may be proved to demonstration, that the rise of the actions was the consequence of a political combination.

But if money, at that time, came to bear no more than 2 *per cent.* and if the company was able to afford 200 livres upon the action; where was the inequity of raising the actions to 10,000 livres? I confess I can see none, nor do I perceive either the impossibility or improbability of the two postulata, had matters been rightly conducted.

As to money's falling to 2 *per cent.* any man of 20 years old may expect to see it, without a *Mississippi*: and as for the payment of the dividends, there never were in the hands of the public, nor ever could be, had all the creditors of the 2000 millions of public debts invested in actions at 10,000 a-piece, one half of 624,000 actions disposed of: consequently, the 200 livres dividend would not have amounted, upon 312,000 actions, to more than 62,400,000 livres; and

and the revenue of the company, as we have seen, exceeded 80 millions a year.

This still tends to vindicate the Regent from the gross imputation of fraud, in the conduct of the Mississippi.

But what should still more exculpate that prince, in the eyes of every impartial man who examines the whole conduct of the affair, is the uniform sentiments of the most intelligent men in France concerning the doctrine of money and credit.

When we find Dutot, who wrote against the arbitrary change of the coin; and De Melon, the Regent's man of confidence and secretary, who wrote for it, two persons considered in France as most able financiers, both agreeing, that during the operations of the system, money never was to be considered but according to denominations; that there was nothing against good policy in changing the value of these denominations; and that paper-money, whether issued for value, or for no value, or for the payment of debts, was always good; *providing there was coin enough in France* for the changing of it, although that coin did not belong to the debtors in the paper; when these principles, I say, were adopted by the men of penetration in France; when we find them published in their writings, many years after the Regent's death, as maxims of what they call their *credit public*; I think it would be the highest injustice to load the Duke of Orleans with the gross imputation of knavery, in the Mississippi scheme.

Law no doubt saw its tendency. But Law saw also, that credit supported itself on those occasions, where it stood on the most ticklish bottom: he saw bank notes to the amount of more than two thousand millions, issued in payment of the King's debts, without occasioning any run upon the bank, or without suggesting an idea to the public that the bank should naturally have had some fund, to make them good: he saw people, who were in possession of a value in paper exceeding 6000 millions of livres, 60 to the marc, (Dutot, vol. i. p. 144.) look calm and unconcerned, when, in one day, the coin was raised in its denomination to 80 livres in  
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the marc; by which operation, the 6000 millions of the day before lost 25 *per cent.* of their real value. He saw that this operation did not in the least affect the credit of the bank paper; because people minded nothing but denominations.

He saw farther, that by the operation proposed, the whole debt of the King would be transferred upon the company. He saw that these debts, being turned into bank notes, would not be sufficient to buy above 200,000 actions, at the value they then sold for. He knew that the Regent, who had bought 400,000 of these actions at 5000 livres apiece, that is, at half price, would remain in possession of 200,000 actions, after selling enough to draw back the whole of the bank notes issued for the payment of the debts; and he saw that the company of the Indies had a yearly income of above 80 millions to enable them to make good their engagements: besides, he saw a power in the King to raise the denominations of the coin at will, without shocking the ideas of his people, by which means he might have paid the 2000 millions with one louis d'or. Put all these circumstances together, and I can imagine that Law's brain was turned; that he had lost sight of all his principles; and that he might believe that his former common sense, was, at that time, become absolute nonsense *in France*.

That common sense may become nonsense, is a thing by no means peculiar to France, but quite peculiar to *man*.

I shall offer but one argument more, to prove that the Duke of Orleans, and Law, could have no premeditated design of defrauding the public, by these wonderful operations; which is, that admitting the contrary, would be allowing them an infinite superiority of understanding over all the rest of Europe.

Until the bubble burst, no body *could* know where it was to end: every thing appeared very extraordinary indeed; and the fatal catastrophe might have been expected from the greatness of the undertaking, merely. But if there had been any roguery in the plan itself, it must have appeared palpable long before; because  
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cause the whole of the operations in which only it *could* consist, were public.

All the notes were created by public act of council; so were the actions: the loan of 1600 millions to the King, by the company, was a public deed; so was the alienation in their favour, of 48 millions for the interest of that sum. Notes were avowedly coined in order to purchase actions, (Dutot, Vol. I. p. 144.) the creditors were avowedly paid with bank notes, at a time when it was forbid to have 500 livres in coin in any person's custody; consequently, it was also forbid to demand coin for bank notes.

Now all this was going on in the months of February, March, April, and the beginning of May 1720; and no suspicion of any failure of credit. The coin also was sometimes raised, sometimes diminished in its value, and still the fabric stood firm.

Under these circumstances, to say there was knavery, is to say that all the world were absolutely blockheads, except the Regent and John Law: and to that opinion I never can subscribe.

It may seem surprizing that I should take so much pains to vindicate the two principal conductors of that scheme. My intention is not so much to do justice to their reputation, which has been grossly calumniated by many, who have written the history of those times, as to prove, that an ill concerted system of credit may bring ruin on a nation, although fraud be out of the question: and if a nation be plunged into all the calamities which a public bankruptcy can occasion, it is but a small consolation to be assured of the good intentions of those who were the cause of it.

## C H A P. XXXI.

*Continuation of the Account of the royal Bank of France, until the total Bankruptcy on the 21st of May 1720.*

**I**NOW resume the thread of my story. We left off at that period when the credit of the company and of the bank was in all its glory, (November 1719) the actions selling at 10,000 livres; dividend 200 livres a year *per* action; and the bank lending at 2 *per cent.*: all this was quite consistent with the then rate of money.

In this state did matters continue until the 22d of February 1720, when the bank was incorporated with the company of the Indies.

The King still continued guarantee of all the bank notes, none were to be coined but by his authority: and the contrroller-general for the time being, was to have, at all times, with the *Prevot des marchands* of Paris, ready access to inspect the books of the bank.

As the intention, at the time of the incorporation, was to coin a very great quantity of notes, in order to buy up the actions; and to borrow back the money, in order to pay off the creditors; it was proper to gather together as much coin as possible, to guard against a run upon the bank: for which purpose the famous *Arret de Conseil*, of the 27th of February 1720, was published, forbidding any person to keep by them more than 500 livres in coin.

This was plainly annulling the obligation in the bank paper, *to pay to the bearer on demand the sum specified, in silver coin.*

Was it not very natural, that such an *arret* should have, at once, put an end to the credit of the bank. No such thing however happened. The credit remained solid after this as before; and no body minded gold or silver any more than if the denomination in their paper had had no relation to those metals. Accordingly, many, who had coin and confidence, brought it in, and were glad to get paper for it.



The coin being collected in about a week's time, another *Arret de Conseil*, of the 5th of March, was issued, raising the denomination from 60 livres to 80 livres the marc. Thus, I suppose, the coin which the week before had been taken in at 60 livres, was paid away at 80: and the bank gained  $33\frac{1}{3}$  per cent. upon this operation. Did this hurt the credit of the bank paper? Not in the least.

So soon as the coin was paid away, which was not a long operation, for it was over in less than a week; another *Arret de Conseil*, of the 11th of the same month of March, came out, declaring that, by the first of April, the coin was to be again reduced to 70 livres the marc, and on the first of May to 65 livres. Upon this, the coin, which had been paid away the week before, came pouring into the bank, for fear of the diminution which was to take place the first of April. In this period of about three weeks, the bank received about 44 millions of livres; and those who brought it in thought they were well rid of it.

It was during the months of February, March, and April 1720, that the great operations of the system were carried on.

We may see by the chronological anecdotes in the 36th chapter, what prodigious sums of bank notes were coined, and issued during that time. It was during this period also, that a final conclusion was put to the reimbursing all the public creditors with bank notes: in consequence of which payment, the former securities granted to them by the King, under the authority of the parliament of Paris, were withdrawn and annulled.

Here then we have conducted this scheme to the last period.

There remained only one step to be made to conclude the operation; to wit, the sale of the actions, which the Regent had in his custody to the number of 400,000.

These were to be sold to the public, who were at this time in possession of bank notes to the value of 2 235 083 590 livres. See the foregoing table.

Had the sale of the actions taken place, the notes would all have returned to the bank, and there have been destroyed: by which

operation,

operation, the company would have become debtor to the public for the dividends of all the actions in *their* hands, and to the King for all those which might have remained in the hands of the Regent. These proportions we cannot bring to any calculation, as it would have depended entirely on the price of the actions during so great an operation; and on the private conventions between the parties, the Regent and the company.

But alas! all this is a vain speculation. The system which hitherto had stood its ground in spite of the most violent shocks, was now to tumble into ruin from a childish whim.

In order to set this stroke of political arithmetic in the most ludicrous light possible, I must do it in Dutor's own words, uttered with a fore heart and in sober sadness.

He had said before, that the coin of France was equal to 1200 millions of livres at 60 livres the marc. This marc was now at 65 livres (in May 1720, as above) so the *numeraary* value, as he calls it, (that is the denomination) of the coin was now risen to 1 300 000 000; but the bank notes circulating in the month of May were carried to 2 696 400 000; then he adds,

"The 1300 millions of coin *which were in France*, were very far from 2696 millions of notes. In that case, the sum of notes was to the sum of coin, nearly as  $2\frac{2}{7}$  are to 1; that is to say, that 207 livres 8 sols  $1\frac{1}{2}$  denier in notes, was only worth 100 livres in coin; or otherwise, that a bank note of 100 livres, was only worth 48 livres 4 sols 5 deniers in coin, or thereabouts." Would not any mortal conclude from this, that the whole sum of 1300 millions had been in the bank, as the only fund for the payment of the paper?

This is a laboured equation, and from it we have a specimen of this gentleman's method of calculating the value of bank paper: but let us hear him out.

"This prodigious quantity of money in circulation, says he, had raised the price of every thing excessively: so in order to bring down prices, it was judged more expedient to diminish the denomination of the bank notes, than to raise the denomination of

“the coin; because *that* diminished the quantity of money, *this* augmented it.”

This was the grand point put under deliberation, before the famous *arret* of the 21st of May was given, viz. whether to raise the value of the coin, *which did not belong to the bank, but to the French nation*, to double the denomination it bore at that time, that is, to 130 livres the marc, by which means the 1300 millions would have made 2600 millions, or to reduce the 2600 millions of bank notes to one half, that is, to 1300 millions, the total denomination of the coin.

To some people it would have appeared more proper, to allow matters to stand as they were, as long as they would stand, at least until the actions had been all sold off; but this was not thought proper. After a most learned deliberation, it was concluded to reduce the denomination of all the paper of France, bank notes as well as actions, instead of raising the denomination of the coin; and this because prices were in proportion to the quantity of the denominations of money.

The *arret* was no sooner published than the whole paper fabric fell to nothing. The day following, the 22d of May, a man might have starved with a hundred millions of paper in his pocket.

This was a catastrophe the like of which, I believe, never happened: it is so ridiculous that it is a subject fit only for a farce.

Here Dutoit's lamentations and regrets are inimitable.

In one place he says, “Credit was too far stretched to be solid. It was therefore proper to sacrifice one part, to give a solidity to the other. Even this was done; but the consequences did not correspond to the intention. Confidence, which is the soul of credit, eclipsed itself, and the loss of the bank note, drew on the loss of the action.”

In another place he says, “This *arret* of the 21st of May, which according to some *bleffoit l'equite*” (a very mild expression!) “destroyed all confidence in the public; because the King had diminished

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“one half of that paper money (the bank notes) which had been declared fixed.”

Is it not a thousand pities that confidence should have disappeared upon so slight a wound given to equity, only in the opinion of some? For Dutoit thought the operation perfectly consistent with the principles of public credit.

He tells us, that a letter was writ to calm the minds of the people, and to shew them how absurd it was, to allow the paper to be fixed, while the coin varied: but, says he, “as there was a revenue attached to the action, the value of that paper did not depend so much upon the capital, as on the sum of the interest.” Very just. But were the dividends to stand at 200 livres, without suffering the same diminution as the action? And how was confidence to subsist in a country, where the denominations of both the paper and the coin were at the disposal of a minister?

The diminution upon the paper, by the *arret* of the 21st of May, raised a most terrible clamour; and Law became the execration of France, instead of being considered as its saviour. He was banished, and reduced to beggary the same day.

What profit could either the Regent, or Law, have reaped from the success of such an operation? Had the coin been raised to 130 livres the marc, no hurt would probably have ensued, and the same effect would have been produced.

Had matters been left without any change at all, no bad consequences would have followed: these existed only in the heads of the French theorists. There was, indeed, twice as much money in bank notes as in coin, in the whole kingdom of France: and what then?

When the Regent saw the fatal effects of his *arret* of the 21st of May, he revoked it on the 27th of the same month. On the 29th, he raised the coin to 82 livres 10 sols in the marc, and re-established all the paper at its former denomination: but, as Dutoit has said, confidence was gone, and was no more to be recalled.

Nothing

Nothing surprises me, but that she lived so long under such rough management.

Dutot, in talking of this augmentation of the coin, on the 29th of May, to 82 livres 10 sols, says, "This operation was consistent with the principles of public credit, and advantageous. They would have done better had they pushed the augmentation to 135 livres the marc; which would have made the specie of France equal to the sum of bank notes." These are his words, p. 165.

Are not these very sensible principles, coming from a man who has writ a book, which indeed few people can understand, in order to prove the great hurt of tampering with the coin of France?

#### C H A P. XXXII.

##### *Conclusion of the Mississippi Scheme.*

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

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

On the other hand, he had in his possession no less than 400,000 actions, which at 200 livres dividend, which the company was obliged to pay, amounted to 80 millions a year.

How the Regent and the company settled matters, I do not know precisely. This, however, is certain, that by the *arret* of the 3d of June 1720, the number of 400 000 actions, belonging to the Regent, were burnt; and 24 000 more which had been created by his particular order, the 4th of October 1719, and never delivered to the company, were suppressed.

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On the other hand, the company ceded 25 millions a year, of the 48 millions which had been transferred to them.

That sum was constituted anew upon the town-house of Paris, as a fund to be subscribed for by the proprietors of bank notes, at the rate of 2½ *per cent.* or as the French call it at the 40th penny. (Dutot, p. 168.) In consequence of this, 530 millions of bank notes were subscribed for, and paid in, in the month of June 1720.

After the destruction of the 400,000 actions, the credit of the bank notes languished until the 10th of October 1720.

The object for which they were created was now gone. The whole scheme of transferring the King's debts upon the company vanished in the conflagration of the actions. What was then to be done?

The bank was at an end: 2235 millions of discredited bank notes in circulation, and a small sum of coin to make them good, was a situation which no authority could long support.

The resolution then was taken to put a final conclusion to this great affair; to bid a long farewell to credit and confidence; and to return upon the old system of rents upon the town-house of Paris; and of coming at money in the best way they could.

We shall now see how this was accomplished; and from that form a pretty good guess at the extent of the fraud committed, with respect to the creditors of France; not so much, I think, from any intrinsic defect in the Mississippi scheme, as from the distress the nation was thrown into, by the ignorance of those who over-ruled John Law in conducting it.

We have seen how the actions were reduced to the number of 200,000; we must now give an account of the deplorable fate of the bank notes.

By the *arret* of 10th of October 1720, all bank notes were entirely suppressed; and it was declared, that after the 1st of December following, they were to have no course whatsoever.

Here follows the arrangement of this great affair, viz. the liquidation of 2 696 400 000 livres of bank notes as regulated by this *arret*.

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1 <sup>mo</sup> , Of the above total of notes coined, there remained in the bank at that time, for	707 327 460 livres.
2 <sup>do</sup> , Subscribed for at $2\frac{1}{2}$ per cent. in June 1720	530 000 000
3 <sup>tio</sup> , Carried to the bank by private people as a fund of credit there	200 000 000
4 <sup>to</sup> , Paid in coin by the bank	90 000 000
	1 527 327 460

This sum of notes was ordered to be burnt by the *arret* of the 10th of October.

The remainder still in the hands of the public, says the *arret*, was to the amount of 1 169 720 540 livres, and the King declares, that the holders of them might employ them as follows:

1<sup>mo</sup>, In purchasing the remainder of the subscription of 25 millions of rents on the town-house of Paris, at  $2\frac{1}{2}$  per cent. *inde*

	470 000 000 livres.
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2<sup>do</sup>, In purchasing a farther sum constituted on the town-house of Paris, of 8 millions of perpetual annuities, at the rate of 2 per cent. or at the 50th penny

	400 000 000
--	-------------

3<sup>tio</sup>, In purchasing a farther sum constituted on the town-house of Paris, of 8 millions of life-rent annuities, at 4 per cent. or at the 25th penny

	100 000 000
--	-------------

These sums amounted to	970 000 000
Sum above	1 527 327 460

Together	2 497 327 460
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There still remained outstanding about 200 millions of bank notes.

These were ordered to be disposed of in several different ways, mentioned in the *arret* of the 10th of October; which it would be needless to mention, as it would require a long explanation to make the thing understood: let it suffice that there was an outlet provided for them, which brought in between 2 and 3 per cent.

Thus

Thus we see the conclusion of the whole affair.

At the beginning, the King's debts stood at 2000 millions capital, and 80 millions interest very ill paid.

At the end of the scheme there had been coined of notes about

	2696 millions.
--	----------------

Of which in the bank, October 10, 1720

	707 mil.
--	----------

And paid in coin

	90
--	----

This subtracted	797 millions.
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There remained outstanding in bank notes *	1899 millions.
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Add to this 100 millions still due by the King to the company for the *billets d'etat* withdrawn in constituting the first 200,000 actions which still subsisted, and for which the company was to receive

5 per cent.	100 millions.
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So the capital of the King's debts remained at	1999 millions.
Balance gained by the whole operation	1 million.

Consequently there was little or no fraud as to the capital

	2000 millions.
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Let us next examine the state of interest.

The interest at the last was,

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

	25 millions.
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2<sup>do</sup>, Ditto of the 10th of October 1720, at 2 per cent. or at the 50th penny

	8 millions.
--	-------------

Carry over	33 millions.
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\* There are, however, in France at this day, many persons who are still in possession of large sums of those notes. This makes some people believe, that all the paper was called down without any equivalent given. The reason of those notes remaining, is, that either the proprietors neglected the occasion offered by the *arret* of the 10th of October, or that they were in hopes that perhaps the bank might again recover its credit. They were mistaken, and the notes are lost.

Brought over	33 millions.
3 <sup>to</sup> , Ditto at ditto upon lives at 4 per cent. or at the	
25th penny	4 millions.
4 <sup>to</sup> , Due to the company upon the original stock of	
100 millions still paid them at this day at 5 per cent.	5 millions.
5 <sup>to</sup> , For the 200 millions of credit at the bank, sup-	
pose at the rate of 3 per cent.	6 millions.
6 <sup>to</sup> , For the last 200 millions provided for in different	
ways, suppose at 2½ per cent.	5 millions.
7 <sup>to</sup> , Allowed to the company to indemnify them for	
the loss they sustained by these arbitrary ways of	
reckoning with them, 80 millions at 5 per cent. still	
paid them	4 millions.
	<u>57 millions.</u>

The interest at first was 80 millions

The interest at last was 57 millions

Defrauded by the scheme 23 millions a year.

This is (as near as I can guess at it) the state of the French bankruptcy in 1720.

The creditors were *robbed* of 23 millions a year. I call it *robbed*, because the interest due to them was diminished by that sum, without their consent, and in consequence of the most arbitrary proceedings; whereas, had the system been conducted with ability, the whole of the debts would have been brought to an interest of 48 millions, instead of 57, and no body would have complained of injustice.

Money likewise might have been brought to 2 per cent. The 1600 millions borrowed of the company at 3 per cent. would then have been reduced to two; which would have brought the 48 millions of interest, upon the whole, to 32 millions: and France, from being reduced to beggary by the King's wars, would have become the most flourishing state in Europe.

Let

Let us next guess at what may reasonably be supposed to have been the largest sum of coin ever collected in this bank.

I imagine that the far greater part of all the coin supposed to be in France during the Mississippi scheme, remained in private hands, without ever coming into the bank. My reason for being of this opinion is,

Law never could have had more than the value of his original stock, and all the value of notes he had in circulation.

It is absurd to imagine he ever should have had the half, or near it; but let me suppose it,

The bank stock was	6 millions.
The notes he issued were	59 millions.
In all	<u>65 millions.</u>

This is a trifle compared with 1200 millions.

Next for the united bank. The time at which the greatest quantity of coin was collected, must have been when all credit failed, that is, on the 21st of May 1720.

At that time coin was taken out of commerce: every one was forbid to have above 500 livres in possession; and every operation had been used to call it in.

At this time, we know that all the notes coined were issued, except to the value of 461 316 410 livres.

Now we have seen that on the 10th of October following, there were in the bank to the value of 707 327 460 livres.

Let me, therefore, suppose, that from the 21st of May to the 10th of October, the bank paid away in coin; the difference between these two sums; to wit,

	246 011 050 livres.
Add to that sum what was then in the bank, viz.	95 000 000
Sum	<u>336 011 050</u>

This sum is all we possibly can suppose to have been in the bank on the 21st of May, when credit failed.

We must reckon this sum of coin at 82 livres 10 sols *per marc*, the then value; which makes about 8 146 000 *l.* sterling. A large sum,

sum, no doubt; but little more than  $\frac{1}{2}$  of 40 millions sterling, the value of 1200 millions of livres, at 60 to the marc, as has been said. Consequently, either those 40 millions sterling were not then in France, or the greatest part of the sum had remained in private hands during this whole operation.

In this light I see the Mississippi scheme. I may, no doubt, be mistaken in many things: the lights, or rather the glimmerings, by which I have been conducted through this inquiry, must plead my excuse.

But it is not so much facts as principles, I have been investigating through this whole disquisition; and the imperfect account I have been able to give of the *former*, will at least point out, I hope, the notions which the French nation, at that time, had of the *latter*. If the contrast between French principles, and those I have laid down, tend to cast any light upon the subject of paper credit in general, my end is accomplished: if they ever prove of use to mankind, I shall not think my labour lost.

### CHAPTER XXXIII.

#### *Why Credit fell, and how it might have been supported.*

I SHALL now make a few general observations upon the total and sudden fall of credit in France in May 1720: and I shall suggest the means by which, I think, it might have been sustained, even after all the preceding mismanagement.

Was it any wonder that the French should be astonished at this prodigious revolution, at this immense value of paper on the 21st of May, and at the total discredit of every bit of it the day following?

If

If there was a value, said they, what is become of it? If there never was any value, how could a nation be so deceived? This phenomenon has puzzled many a head; but the nature and principles of credit furnish an easy solution of it.

In deducing the principles of credit, we have shewn that a *permanent and well secured fund of interest is always equal in value to a corresponding capital.*

The difference between a *permanent and well secured fund*, and a *precarious and ill secured fund*, consists in this, that the first never can disappear, and the other may.

Now the fund, in this case, was at first *real* and did exist; but it was rendered *precarious*, by a blundering administration: then credit failed, and in that convulsion, the fund of interest was fraudulently diminished by an act of power.

Had the true principles of credit been understood in France, the bank notes and actions might have been supported, even after the *arret* of the 21st of May: and all the monstrous value of paper, raised so high by the low rate of interest, might have been preserved: consequently that value, in capital, *really existed* relatively to the rate of interest.

As the object of the present disquisition into the principles upon which the Mississippi scheme was conducted, is only intended as an illustration of the principles of credit in general; I shall first account for the wonderful phenomenon above mentioned, and then shew how, in the greatest of all the French distresses, their credit might have been re-established in a more solid manner than ever.

As to the wonderful phenomenon of the prodigious *wealth* created by the system, and annihilated in one day, I answer, that there had been no creation of wealth at all, except in consequence of the fall of interest.

*1mo*, We have seen that at the death of the late King of France; the interest of his debts amounted to 80 millions. Was not this a fund which ought to have been made solid and permanent? Will any

any man say, that a regular plan of paying this interest was a means of creating new wealth? Certainly not.

2do, These debts were secured by *contracts of constitution of annual rents upon the town-house of Paris*: a security taken in the name of a particular creditor, which requires a form of law to transfer.

By the scheme we have been explaining; all these securities were changed: and instead of constitutions of rent, bank notes, in which the King was equally debtor, were given.

Will any man say, that this was the means of either increasing or diminishing the wealth of France? Certainly not. A man who has a good bond in his pocket is as rich before it is paid with bank notes as after: but he has not so much money in his hands; because the bond is not *money*, and the notes are.

3tio, We have said that the interest of the King's debts amounted to 80 millions a year, at 4 *per cent*.

We have seen how the company of the Indies were provided with a fund equal to this sum, arising from the 48 millions which the King paid for the loan of the paper with which the debts were to be paid, and from many other lucrative branches of revenue; which instead of being burthensome to the King, were, on the contrary, a means of augmenting his income, by the advanced rent the company gave for the different farms which produced them.

Had the public creditors, therefore, vested their claims in actions, they would, in consequence of that operation, have become sharers in the fund of 80 millions a year, administered by themselves, (and they would then have been the company) open to be improved by trade abroad, and by a good administration at home.

Had this system been carried on in a plain easy way, consistently with common sense, the public creditors would have been paid; the King's revenue augmented; and it would have been put under a good and a cheap administration.

But

But when, by the absurd operations of changing the denominations of coin and paper, and wantonly playing with every man's property, the creditors saw themselves standing on the brink of a precipice; and finding, instead of a good contract on the town-house of Paris, a bank note put into their hands, which might be diminished in its value by one half every month, while at the same time the coin might be raised to double, it was very natural to suppose, that the intention of the King's ministers was to withdraw from them totally these 80 millions, less or more, to which they were entitled: in which case, there was an annihilation indeed of all the notes; but there was no annihilation of wealth: for in that case, the wealth was still the same, only it was transferred from the creditors to the King the debtor: that is, the creditors were defrauded.

On the other hand, stood the proprietors of the actions sold. These were in use to make a traffic of buying and selling the 200,000 actions which had been in their hands ever since September 1717, when they were first created. For we have shewn, that the posterior creation of actions by the united company, was a mere delusion, as they were all found in the custody of the Regent. The actions, I say, were immediately put into a state of stagnation; because of the discredit cast upon the bank notes, with which it had been usual to buy them.

4to, I must observe, that the stagnation of a paper which carries no interest, is equal to a temporary annihilation. The holder then is deprived of the use of his money; and he is not paid for the loss he sustains.

If, therefore, it had been possible to have given a new activity to this bank paper, without allowing it to die away, as it were, in this temporary fit of fainting, credit would have revived; all accounts would have been kept clear, for this is the use of paper money, and so short a shock would hardly have been felt.

But the great damage resulting to the public, upon every occasion of this kind, proceeds from the *delay* in applying the proper remedy.

remedy. When any paper is discredited, it immediately falls in its value. The person then who is the original and real creditor for the whole value, and in whose hands the paper is when it suffers the discredit, sells at discount: this is an irretrievable loss to him; and when the paper recovers its credit again, either in part, or on the whole, the profit then belongs to the person who had bought it at discount, and does not go to indemnify the real sufferer.

This was the case with respect to the notes of the French bank: they were allowed to languish from the 21st of May that they were discredited, until the 10th of October, when their fate was decided, as has been said.

Farther, we have seen, that this whole movement of credit had for its basis 80 millions a year, originally paid to the creditors for their interest. This sum answered to the capital of 2000 millions; because at the old King's death, interest was fixed at 4 per cent.

When, by the operations of the system, all this capital was turned into money, that is, bank notes, the regorging plenty of it made interest fall to 2 per cent. consequently, the capital, which constantly draws its value from the interest paid for it, rose to 4000 millions. We have said that the total value of the paper rose to 6000 millions; but we must reflect, that above 2000 millions of these 6000 millions was in bank notes, and employed in buying of actions. So that both the notes and the actions must not be reckoned as existing together.

Had the Regent sold the actions, he would have burnt 2000 millions of bank notes, and thus the value in paper would have remained at 4000 millions, so long as interest remained at 2 per cent.; and had interest fallen still lower, and dividends remained at 200 livres per action, the value of actions, and consequently of this capital of 4000 millions, would have risen in proportion, just as the value of the capital of the debts of Great Britain rises and falls according to the rate of money; although the same sum of interest be paid to the creditors at all times.

This augmentation, therefore, upon the value of all capitals, during the Mississippi, of lands as well as actions, was in consequence of the fall of interest, and from no other artifice whatever. Lands in France, at that time, sold at 80 and 100 years purchase. [Dutot; Vol. II. p. 200.]

When credit failed, and when all the circulating paper was thrown into a state of stagnation, interest rose, in proportion to the deficiency of the supply for the demands of borrowers. The value of capitals then diminished. But this might have happened from another cause, had there been no bankruptcy, or intention to defraud the creditors: a war might have produced it; or any circumstance which might have raised the rate of interest.

The rise, therefore, upon capitals, from the fall of interest, I consider here as no acquisition of wealth: I reckon wealth to be that which is the annual produce of the capitals.

So much for the resolution of this wonderful phenomenon.

I must now shew that in the height of the distress, the confidence of the public was still to be regained, and credit recovered, even after the fatal *arret* of the 21st of May 1720.

I lay it down as a principle, that whoever has a sufficient fund, and pays interest regularly for the money he owes, runs no risk of losing his credit.

So soon, therefore, as the Regent found that by his *arret* of the 21st of May, all credit had disappeared; had he, upon the 27th of the same month, or at the time he raised the coin to 82 livres 10 sols per marc, ordered all bank notes presented to the bank, either to be paid in coin, or marked in the books of the bank as bearing interest at 2 per cent. I say, credit would not have suffered in any comparison to what it did. No body then would have sold a note at discount; and had it been necessary, he might have ordered the interest to be paid monthly.

The authority I have for this opinion is Dutot, who says, that upon opening the subscription of 25 millions in the month of June, the notes fell in their value 11 per cent. only.



Now the rate of this subscription was at  $2\frac{1}{2}$  per cent. as we have seen; consequently, if 100 livres of notes lost but  $11\frac{1}{2}$  per cent. they were worth  $88\frac{1}{2}$  livres in coin; but these 100 livres in notes were worth  $2\frac{1}{2}$  per cent. because the subscription was open at that rate: consequently  $88\frac{1}{2}$  livres in coin was also worth 2 livres 10 sols *per annum*: consequently interest, at that time, was at  $2.825$  per cent. that is, below 3 per cent. even after the bankruptcy.

Where then was the great harm? Where was the occasion to fly immediately to the destruction of actions, which were in the Regent's own hand? A little patience, and good management, would have set all to rights.

I would, therefore, have left the notes in circulation under this regulation; viz. that such as should be presented to the bank should have had a transfer of 2 per cent. paid quarterly; or a value, in actions, at 10,000 livres *per action*; which is the capital answering a dividend of 200 livres at 2 per cent. at the option of the holder: and in case interest had come to fall still lower, the price of actions might have been augmented.

I would have set before the public a full and exact account of the company's funds. I would have banished all mystery from the affairs of credit. I would have registred a declaration in parliament, setting forth,

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

2<sup>do</sup>, That all stipulations between the King and his creditors were to be inviolable: And,

3<sup>tio</sup>, That the parliament of Paris should for ever remain invested with an exclusive right to watch over those regulations in time to come; and I would have bound the parliament by a special oath for that purpose. I would even have had the King to take the same oath: and he might have ratified it at his coronation in 1725.

By these steps I should have vested a new power in the Kings of France which they never had before: a power of having money from their subjects, from their allies, and from their enemies: a power

power they have not, nor ever will have, until the principles of credit be better understood among them.

Had such a plan been followed, I have not the least doubt, but that, 1. The actions would have been sold at a very great advanced value above the standard of 5000 livres, at which the Regent had bought them: 2. That money would have come back to 2 per cent. and then, 3. Had banks been established upon a proper plan, safe, with industry, would long ere now have appeared in every corner of that kingdom.

How infinitely more easy would it have been to establish such a plan in 1720 than at present? At that time the most difficult part of the whole was executed. The creditors had taken notes for their claims: the credit then was given. There was nothing to be done but to support it. The creditors were then at the mercy of the state: at present the state is at the mercy of the creditors. Were such operations on coin to take place at present, as were then familiar; were the King at present to attempt to turn the constitutions of rent, perpetual and life-annuities, into any other form than what they have, the credit of France would be undone for a long time; and who knows what views of ambition a situation so deplorable might not stir up in certain courts of Europe.

What state would pay its debts, if it *durst* do otherwise? And what state can diminish its debts in any other way than by lowering the interest upon them? But of this more in the proper place.

## C H A P. XXXIV.

*How the diminishing the Denomination of the Paper in Circulation, by the arret of the 21st of May 1720, destroyed the Credit of France, when the same arbitrary Measures taken, with regard to the Coin, had produced no such Effect.*

THIS question is curious, and I shall endeavour to resolve it in the best way I can, before I conclude this subject.

The first thing to be done is to point out the immediate effects which resulted upon diminishing the denomination of the paper; because the destruction of the credit of France was not the immediate consequence of this *arret*; but the ultimate effect of a chain of consequences which followed indeed very quick upon one another.

The paper had been declared, against the opinion of Mr. Law; by an *Arret de Conseil* of the 22d of April 1719, *unë monnoie fixe*, as has been said. Consequently, any diminution of its denomination was a plain infraction of the public faith. From this declaration in the *arret* of the 22d of April 1719, the public reaped one notable advantage, which was, that in borrowing and lending paper, every one was sure that the obligations contracted could be dissolved by restoring the very same species of property which had been received; but by diminishing the denomination of it, by the *arret* of the 21st of May 1720, all such as were debtors, became obliged to discharge their debts at the expence of double the sum of paper borrowed.

The immediate consequence, therefore, of touching the denomination of the paper, was, to shew the public that their fortunes in paper were liable to the same inconveniences as fortunes in specie; that is, that they might be increased or diminished at pleasure. Upon this it was very natural for every one to endeavour to realize

his paper, and put it into coin: since, *in pari casu*, it was better to have it in that which had some intrinsic value, than in that which had none at all.

Of all the French paper, the notes were the most easily realized; because there was contained in them a direct obligation upon the bank to pay them in coin. The actions again were more difficult to be converted; because in order to realize them, it was necessary to find people who were willing to give either notes or coin for them.

A run upon the bank, therefore, taking place, upon the *arret* of the 21st of May, it was obliged to stop payment: this occasioned a general alarm, and destroyed the confidence which the public had in the *state*, which is what we mean by *public credit*.

This point explained, it remains to shew why the augmentations and diminutions upon the specie should not have ruined the credit of the paper.

1<sup>mo</sup>, The operations upon the specie affected the paper only indirectly; but the diminution upon the paper affected it directly.

The operations upon the specie only affected that part of the paper which was made to circulate as an equivalent for the specie; or in other words, that part which people realized, either, 1. with an intention to withdraw their funds altogether out of the scheme; or 2. to profit of the operations upon the specie; or in the last place, to procure small sums of money for common expences.

Now as to the first, the number of those who wished to withdraw their stocks were inconsiderable, in proportion to the stock-jobbers; and therefore their interest could not affect the general credit; and the last was inconsiderable in every respect.

As to the second, the government made it very difficult for the proprietors of notes to profit of the operations upon the coin. When it was to be diminished, the diminutions were advertised some time before they took place, and the diminution went on always by degrees. Thus people who had paper, with which they could trade in buying actions, constantly rising in their value, by the intrigues

of the state, when at the same time the denominations of the coin were diminishing, did not carry their notes to the bank for two reasons.

The first, that the paper really gained by every diminution upon the denomination of the specie, in an exact proportion to the diminution. A livre in a bank note, while the specie was diminishing by intervals from 80 livres the marc to 65 the marc, gained regularly in the hands of the possessor; whereas had he realized at any period but the last, the subsequent diminutions upon the specie he had acquired with his paper would have affected the value of it.

The second was, that by realizing he deprived himself of the profit of stock-jobbing.

The only way, therefore, for the proprietors of the paper to gain by the operations of the state upon the coin, was to guess the time when the coin was to be raised in its value: but this was impossible; for the rising was sudden and unexpected; whereas notice was constantly given of the fall, at some distance of time.

For example, the money was suddenly raised the 5th of March 1720, from 60 livres to 80 livres the marc; and the 11th of the same month, notice was given, that on the 1st of April following, it was to be brought down again to 70 livres *per* marc; and on the first of May following, to 65 livres. The consequence of this was, that from the 11th of March, people were glad to carry money to the bank for notes, which were to stand at the same denomination, whereas the silver was to diminish on the 1st of April.

Accordingly a great sum, above 44 millions, was brought in during this interval.

When the 1st of April came, and that the silver was brought to 70 livres the marc, those who were in possession of the paper, were still prevented from realizing; because of the future diminution which was to take place. When this term was come, people had reason to imagine that the silver would for some time stand at 65 livres the marc; consequently, there was more to be gained in stock-jobbing with the notes, than in realizing them in specie, which,

which, in order to make profit of it, must have lain dead until a new augmentation; which was a very uncertain event. In short, there was no run upon the bank from the 1st to the 21st of the month of May, when the famous *arret* in question was given. Then indeed the run came on with violence, and payment was stopt.

2do, The second reason why the effects were different when the state changed the denomination of the coin, from what they proved to be when the denomination of the paper was changed, I take to be this,

That in France the operations upon the coin had been familiar; and were expected by every body: and, perhaps, the very making the paper a *monnoie fixe*, had for this reason added to the credit of it. A most surprizing thing! The state took care always to gain, whether they raised, or whether they diminished the value of the coin. The stock-jobbers, therefore, never minded the coin at all. If they could profit by an augmentation by foreseeing it, they realized; if they could see a diminution before notice was given of it, then they bought paper.

The operations on the coin principally affected such as were either respectively debtors or creditors, to people who were obliged to pay, or to receive their debts in specie; or who had a fixed revenue specified in a number of livres. There the disorder was great, as has been frequently observed.

3tio, The operations upon the specie never could destroy the intrinsic value of it, however they might prevent the circulation of it for a fixed legal denomination; therefore it remained under all combinations of circumstances, a thing valuable to be acquired; and it still remained a commodity, desirable by all, and was therefore constantly demanded.

But a discredit cast upon the paper had a different effect. The value *there* depended entirely upon the will of the state, and every body saw that it was as easy to annihilate it, as to reduce it to one half. The discredit, therefore, had the effect of stopping *the demand*

for

for it, that is, the currency; consequently, a run upon the bank immediately took place.

4to, The rendering the value of the paper precarious, made every possessor of it seek to realize it without delay. The proprietors of the bank notes ran to the bank; and a run upon the bank, at a time when it could offer payment for the notes in no other value than actions, was a declaration of bankruptcy. Now it was the run upon the bank; it was this claim which the subjects had a right to make upon the bank, for which the King was guarantee, which destroyed the credit of France; and it is very evident that no operation upon the specie could possibly produce any such effect\*.

In short, had this operation upon the paper been suspended for a few months; had the people of France been indulged in a little more time, their infatuation in favour of the actions would have carried them to employ all their bank notes in the purchase of those which remained in the hands of the state. By this operation the far greater part of the notes might have been withdrawn and destroyed, and when the bank found themselves in a situation to answer the call of all those which afterwards remained in circulation, then the state might have boldly ventured to diminish the price of actions: because if that step had occasioned a run upon the bank for the outstanding notes, there would have been coin enough to answer them at their full value; and this would have confirmed the credit of the bank more than any thing.

\* It was a capital mistake in this diminution upon the paper to make it gradual. Was it not evident that every mortal would seek to realize a note which was to diminish in its value progressively every month? A note worth 10,000 livres, for example, the 22d of May, was immediately reduced to 8000 livres, and the 1st of July, was to be worth only 7500. This was plainly soliciting a run upon the bank. The stroke should have been struck at once.

## C H A P. XXXV.

*How a Bank may be safely established in France, as Matters stand at present.*

THE prerogative of the Kings of France is limited by no written law, because he is acknowledged to be the legislature of his kingdom; and the exercise of his power is only limited by maxims of state. The first of which is, that he is to govern according to his laws, and not according to his ambulatory will.

Now, in making of laws, the parliament have a sort of negative, *de facto*; because the whole regular and legal execution of every law is committed to them: and if they refuse to register it, they refuse to execute it; and a law without execution is, in fact, no law at all.

When the King's will can be carried into execution by a single act of power, the authority of parliament is of no effect in preventing it. When this requires a train of systematical administrations, the concurrence of parliament, who hold the whole regular execution of the laws, is absolutely necessary.

Banks of deposit and of circulation, stand, it must be confessed, upon a very precarious footing, under such a government.

An order from the King is at any time sufficient to command any deposit of specie which can be made within the kingdom. While this is the case, no paper can have any solidity, which draws its security from such deposit.

Coin, therefore, must be banished from all banks in France: and the use of them should be entirely limited to that of an office, for the keeping of reckonings between people who have solid property, and who may want, on a thousand occasions, to melt it down in favour of consumption, trade, industry, agriculture, or the like.

In this light, a general bank may be established at Paris; and branched out over the whole kingdom. The stock of it should consist in land property, engaged unalienably, to make good the engagements of the bank.

Notes should be issued upon solid security, bearing no interest while they circulate as money; and when they return upon the bank, either the original securities may be withdrawn, or payments might be made by the transfer of a corresponding perpetual interest.

Every province, every considerable city in the kingdom, should be allowed to be interested in such a bank: and in every considerable city, there should be an office for transacting such credits, and for regularly receiving all payments of interest. If the King should think fit to allow his mint to supply coin, or bullion, for bank notes presented, at a determinate premium, he might by this operation advance the commercial interests of his kingdom, in facilitating the payments of a wrong balance of foreign commerce: but without that regulation, the bank will be perfectly sufficient for promoting and supporting domestic circulation. Every one who is able to give security for a certain interest, will be sure to find money: and as the expence of conducting such a bank will be very small, the interest for money will be very low.

As I said before, a bank of this kind would be no more than an office, appointed for keeping accounts between people who are possessed of any paper secured upon real and solid property: and farther, in the beginning, at least, I would not advise to carry it.

The general account of the bank would appear in a few articles, viz. Credits given, so much; *inde* of interest to be received, so much.

Notes returned, so much; *inde* of interest to be paid, so much; balance in favour of the bank, so much.

A bank of this nature would answer every purpose for promoting industry and domestic circulation.

Such a bank must neither issue, or ever receive coin in payment.

## C H A P. XXXVI.

*Of Banks of deposit and transfer.*

I NOW dismiss the subject of banks of circulation. The unspeakable advantages drawn from this institution, when properly regulated, in supplying money at all times to those who have property, for the encouragement of industry, and for improvements of all sorts, and the bad consequences which result to society, from the abuse they are exposed to, has engaged me, perhaps, in too long a discussion of particular combinations of circumstances relating to them.

I now come to treat of banks of deposit or of transfer of credit: an institution of the greatest utility for commerce.

These two species of banks differ essentially in two particulars.

1<sup>mo</sup>, That those of circulation serve the purpose of melting down unwieldy property into money; and of preserving the quantity of it at the proportion of the uses found for it. Those of deposit, are calculated to preserve a sum of coin, or a quantity of precious moveables, as a fund for carrying on the circulation of payments, with a proportional value of credit or paper money secured upon them.

2<sup>do</sup>, In the banks of circulation, the fund upon which the credit is built, is not *corporeally* in the custody of the bank; in the other it is.

The fundamental principle, then, of banks of deposit, is the faithful preservation of the fund delivered to the bank, upon which credit, in money, is taken for the value.

If at any time a bank of deposit should lend, or should, in any wise, dispose of any part of this fund, which may consist of coin, bullion, or any other precious moveable, once delivered to them, to the end that a credit in money may be writ down for it in their books of transfer, in favour of the depositor, and his assigns; by

that act, the bank departs from the principles upon which it is established. And if any bank is established which, by their regulations, may so dispose of the fund of their credit, then such a bank becomes of a mixed nature, and participates of that of a bank of circulation.

These things will be better understood by reasoning from an example of a true bank of deposit.

#### C H A P. XXXVII.

##### *Of the Bank of Amsterdam.*

**M**ANY authors have written concerning this great bank of deposit: particularly, Davenant, Sir William Temple, Ricard, in his *Traité de Commerce revu par Struyk*, the author of the *Essay sur le Commerce*, and Mr. Megens, in his book, which has been translated into English, under the title of *The Universal Merchant*.

In these authors we find a number of facts, which I shall combine with my own informations, and here apply principles to them; in order to communicate a distinct idea of this establishment. A detail of its particular operations regards practice, and falls not within my subject.

The original intention of the States of Holland, in establishing the bank of Amsterdam, was to collect a large capital in coin within that city, which might there perpetually remain, buried in a safe repository for the purposes which we are now to explain.

In order to accomplish this plan, they established the bank upon the 31st day of January 1609.

The method they fell upon to collect the coin, was to order, that all bills of exchange, for any sum exceeding 300 florins, should be paid in specie to the bank; and that the holder of such bills should,

in-

instead of receiving the coin, have the value of it writ down in the books of the bank to his credit, at his command, to be transferred to any person he should appoint; but never more to be demandable from the bank in specie.

By this operation, the mass of coin circulating constantly from hand to hand, between the merchants of Amsterdam, began, by degrees, to be heaped up in the bank; and as the heap augmented, so did the sum of credit augment upon the books of the bank.

It is evident, from this change in the mode of circulation, that no loss could be incurred from the locking up of the coin.

As long as coin is in a state of constant circulation, it can produce no interest to any person. Interest commences from the moment the coin begins to stagnate; that is to say, so soon as it comes into the hands of one who has no ready money demand upon him. When this happens the proprietor lends it at interest.

Now the credit in the books of the bank, which is every day transferable at the bank, answers every purpose of coin, either for *payment or loan*: and the proprietor has neither the trouble of receiving the species, nor any risk from robbery, or false coin.

The first advantage the city reaped from this institution, was, to secure the residence of trade in that place.

Capitals transferable only at the bank, laid the proprietors under a necessity of fixing their dwelling where their funds were, and where only they could be turned to account.

It had another excellent effect in commerce: it pointed out the men of substance. A credit in bank is no wise equivocal: it is a fund of undoubted security.

From the constitution of this bank we may form an estimate of the extent of the deposit.

It can only swallow up a sum equal to what is necessary for circulating the payments of the city of Amsterdam. Were a sum exceeding that to be shut up in the bank, and were the credits written in the books of the bank to exceed that proportion, it is plain, that the value of the bank money would sink immediately. The reason

is

is obvious: the credits transferable are of no use to those who have no occasion to transfer; that is, to pay, lend, or exchange, at Amsterdam. So soon, then, as all the demand of Amsterdam is satisfied, the proprietors of the overplus will seek to realize their superfluous credit, in order to invest the value arising from it, in some other place where a demand may arise.

In order to realize, they must sell their bank credit for coin; because the bank pays only in transfer. Coin then would be demanded preferably to credit in bank; consequently, coin would rise in its proportional value to bank money, or bank money would lose, which is the same thing. This fluctuation between bank money and coin, leads me to explain what is called the agio of the bank.

#### C H A P. XXXVIII.

##### *Of the Agio of the Bank of Amsterdam.*

WE have pointed out one motive for establishing a bank of deposit at Amsterdam, viz. that of fixing the residence of trading men in that city.

Another was, to prevent the inconveniencies to which a small state was exposed, by the introduction of bad coin, from all the neighbouring countries in Europe, with whom they traded.

In the territory of Holland there are no mines of gold and silver; consequently all they have comes from other countries, as the return of a favourable balance upon their commerce.

At the time the bank was established, the republic was in a state of infancy; and any coin they had, was that of their old masters the Spaniards. This was unequally coined; many pieces were light; many had been clipped and washed. As they extended their

traffic,

traffic, they were obliged to receive great quantities from Germany, which was still worse.

In order then to prevent the circulation of such coin, and the perplexities occasioned by it in all accounts, they established a bank, and fixed the standard upon a silver coin called the ducatoon, to which they gave the denomination of 3 florins or guilders bank money.

But as this coin also was unequal, like all the rest of the specie in Europe, before the introduction of milled coin, and the policy of weighing piece by piece at the mint, the bank appointed the ducatoons to be received in bags of 200 pieces, weighing together 26 marcs 5 ounces 10 engles of Amsterdam trocs, or gold weight; which being reduced to aces, (the lowest denomination in this weight) make 136,640 aces. This divided by 200, gives, for the weight of 1 ducatoon, 683.2 aces.

Let us now convert these aces into troy grains, according to the proportion established between Dutch aces and troy grains, in the last chapter of the third book.

The equation will stand thus,

5192.8 aces, being equal to 3840 troy-grains, 683.2 aces, therefore, will equal 505.21 troy-grains; which, consequently, is the weight of a ducatoon, or of 3 florins bank money of Amsterdam.

Next as to the fineness of this coin:

The ducatoon was coined, according to the imperial standard, of 14 loots 16 grains fine: that is to say, it is  $\frac{268}{288}$  parts fine, and  $\frac{120}{288}$  parts alloy.

To find, therefore, the number of Hollands aces, and of troy grains of fine silver in the ducatoon, state the two following proportions:

$$288 : 268 :: 683.25 : 635.75 \text{ aces fine.}$$

$$288 : 268 :: 505.21 : 470.13 \text{ troy-grains fine.}$$

In the last place, if we divide the number of aces, and troy grains fine in the ducatoon, by 3, we shall see the exact weight of fine silver in 1 florin of Amsterdam bank money.

$$\frac{635.75}{3} = 211.91 \text{ aces, and } \frac{470.13}{3} = 156.71 \text{ troy-grains fine.}$$

These calculations premised, it would be an easy thing to fix the exact par of the metals, between sterling and bank money of Amsterdam, were the British coin of legal weight, and were the metals there rightly proportioned. But is it to be supposed, that any person who has bank money of Amsterdam, would exchange, at the par of the metals, with sterling silver, which is many *per cent.* too light, or against English bank notes paid in gold, always overrated with regard to the silver, and often too light also?

While, therefore, the coin of Great Britain stands upon the present footing, all calculations of the par of exchange, as it is commonly computed, upon the intrinsic value of the coins of other nations, must be delusive and of no utility whatever.

For the sake of giving an example, however, here is the real par of the two currencies, upon silver sterling coin of full weight.

One pound sterling should contain, as has been said, of fine silver 1718.7 troy grains, and contains 240 pence sterling: state, therefore, the following proportion, and you will find how many pence sterling one florin of Amsterdam banco should be worth.

$$1718.7 : 240 :: 156.71 : 21.883.$$

Thus 21.883 pence sterling is exactly the real par of an Amsterdam florin banco, supposing sterling money to be silver, at the full weight.

The florin bank money being regulated upon the ducatoon, an old species not now coined, the fineness of the silver was determined; and the weight of the 200 ducatoons being determined also, this regulation determined the weight of single pieces; and fixed the standard of the florin banco, in weight and fineness.

The current money in Holland, coined by the state, is the florin of 200.21 aces fine, as we have seen in the last chapter of the preceding book.

So soon as the state coined their current florins at 200.21 aces, it is evident, that the ducatoon, which contains three times 211.91 aces, must rise in its value. Accordingly, the piece which was in bank money, 3 florins, became 3 florins 3 stivers current money.

This

This difference is what is called the *agio* of the bank of Amsterdam.

From this it appears, that the advanced value of the bank money above the current money of Holland, is not owing to the great credit of the bank, as some imagine, but to the superior intrinsic value of the coin upon which the standard of the bank money is fixed.

Let us next determine the exact difference between the bank and the current money, which difference I shall call the *intrinsic agio*: for this purpose state this proportion;

$$200.21 : 211.91 :: 100 : 105.84$$

From which it appears, that the bank money is 5.84 *per cent.* intrinsically better than the current money of Holland.

We have seen in the chapter referred to, in what a confused state the Dutch coin is at present, and how it becomes a science to comprehend any thing concerning it. For this reason it is, that the regular *agio* of the bank money of Amsterdam is always supposed to be 5 *per cent.* Farther,

The ducatoon, upon which it is regulated, passes for 3 florins 3 stivers, which is just 5 *per cent.* better than 3 florins, at which it was rated when the bank was established; but most of the coins which circulate are light.

Those who conduct the affairs of the bank, have now lost sight of this original coin, which is rarely found circulating, in considerable sums; and they consider the florin according to its intrinsic worth of 211.91 aces of fine silver; and as the value of silver varies, they publish regulations for receiving coin, such as Spanish dollars, French crowns, &c. according as they find the proportion of their worth in bank money: and compounding the value of gold with the value of silver, they make the same regulations as to gold.

I have insisted too long already upon the subtilties of the variations in the proportion between gold and silver, to take it up again in this place. My intention is to explain the principles upon which this great bank of deposit is established, and not to descend into a

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detail



detail of the mechanism of their adapting the variable coins of Europe to their own standard.

I have said, that the sum of credit, written in the books of the bank, is in proportion to the quantity of bank money necessary for circulating the trade of Amsterdam.

Consequently, as this circulation increases, the demand for bank money increases also.

Again; in proportion as the demand for bank money increases, the agio rises; and on the other hand, as the demand for current money increases, the agio falls.

Thus we saw in the last war, *ann.* 1760, 1761, 1762, that agio was below 5 *per cent.* The reason was plain. The great circulation carried on in Amsterdam was considerably directed towards the uses of the war. *There* bank money was of no use; coin only could serve the purpose. Accordingly agio fell to *— per cent.* and as gold was much more easily transported than silver, that metal rose  $\frac{1}{2}$  *per cent.* above the ordinary proportion of 1 to 14.

Demand regulates every thing; and this demand makes the agio fluctuate; sometimes rising above, and sometimes falling below 5 *per cent.*

#### C H A P. XXXIX.

*Continuation of the same Subject; and concerning the Circulation of Coin through the Bank of Amsterdam.*

**H**ITHERTO we have represented this bank as a gulf, which is calculated to swallow up the coin of Europe; without having pointed out any faculty of throwing up a part of the treasure so secured, in case of an overcharge.

This

This has appeared a mystery to many, and a defect in the constitution of the bank.

But when the principles upon which it is established come to be compared with some branches of their administration, which are publicly known, perhaps the mysterious part may be unravelled. And although I do not pretend to give an entire satisfaction as to every minute particular, I think I can shew how, and to what extent, the treasure may circulate, so as to occasion no abuse, either from the hoarding it on one hand, or from the dissipation of it, for the service of the state, on the other: and if all these conjectures shall be found to hang together, and appear consistent with principles, without being contradicted by any known fact, then I may conclude, that such a system of banking as I describe, is at least a possible supposition, whether it exactly coincides with that of Amsterdam, or not. And who knows but my speculations may enable some person of more knowledge and more sagacity than I am possessed of, to render this curious operation of credit still more generally understood than hitherto it has been.

I have shewn how the agio rises and falls, according to the demand for bank money.

So long, therefore, as the agio does not fall below the difference between the value of the two currencies, it is a proof that all the credit writ in the books of the bank does not exceed the uses for it: consequently, the coin locked up, which never can exceed the credit on the transfer books, and which, were it not locked up, could be of no more service than the credit itself, in circulating the trade of Amsterdam, does not exceed its due proportion: consequently, it is not hurtfully withdrawn from commerce; consequently, no abuse is implied from the hoarding of it.

But let me suppose a case, which may happen; to wit, that for a certain time, the trade of Amsterdam may demand a larger supply of credit in bank, than is necessary upon an average. Will not this raise the agio? No doubt. If the agio rises so high as to afford a premium upon carrying coin to the bank, upon the foot-

ing of their own regulations, this will augment the sum of bank credit; because the money so carried to the bank, becomes incorporated with the bank stock; the value is writ in the books of the bank; and when this is done, the coin is locked up for ever.

If then it should happen, that the trade of Amsterdam should afterwards diminish, so as to return to the ordinary standard, will not this overcharge of credit depress the rate of bank money, and sink the agio too much below the par of the intrinsic value of the two currencies?

To these difficulties I answer, like one who, being ignorant of facts, which I never could get ascertained by any person in Holland to whom I had access for information, and which remained hid from most people in the deep arcana of Amsterdam politics, must have recourse to conjectures, founded upon natural sagacity.

First then, The city of Amsterdam knows, from long experience, the rate of demand for bank money; and it is not to be supposed, that upon any sudden emergency, which may *heighten* that demand for a time, they should be such novices as to increase the credit upon their books so far, as to run any risk of overstocking the market with it; especially as, on such occasions, the deficiency of bank credit might be supplied with coin, constantly to be found in the city of Amsterdam, as we shall explain presently.

Farther, Who will say, that there does not reside a power in the managers of this bank to issue coin for the superfluous credit, in case that, in spite of all precautions to prevent it, a redundancy of bank credit should at any time be found upon their books?

It is very true, that no person, having credit in bank, can demand coin for such credit; and as no demand of that sort can ever be made, it is very natural to suppose, that a redundancy of coin and credit can never be purged off.

During my stay in Holland, I was at great pains, to no purpose, to discover whether ever the bank issued any part of their credit cash upon any such occasions. Every one I conversed with was of opinion, that if ever any coin had been taken from the treasure of

the bank, it must have been by authority of the states; for national purposes: a step conducted with the greatest secrecy; and the matter of fact, I found, was extremely doubtful. But this is nothing to the present purpose. That the coin may be disposed of, I allow, though I do not believe it; but how is the superfluous credit, writ in the books, to be disposed of? There lies the difficulty.

The popular opinion is, that coin has been taken out for the service of the state: the opinion of many intelligent men is quite contrary.

I am now to give my opinion, not only as to this point, but upon the main question; and this not from information, but from conjecture; which I shall humbly submit to the better judgment of my reader.

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

*2do*, That although, by the regulations of the bank, no coin can be issued to any person who demands it in consequence of his credit in bank; yet I have not the least doubt, but that *both the credit written in the books of the bank, and the cash in their repositories which balances it, may suffer alternate augmentations and diminutions, according to the greater or less demand for bank money.* If I can prove this, all difficulties will be removed.

My reasons for being of this opinion are,

*1mo*, From principles, I must conclude, that if, upon any occasion whatever, even when the smallest demand for bank money, and the greatest demand for coin takes place, there was an impossibility of producing the least diminution of bank credit, or of procuring any supply of the metals from the bank, the consequence certainly would be felt, by an extraordinary fall in the value of bank money; or which is the same thing, in other words, by an extraordinary rise in the value of the metals, when compared with bank money.

Now,

Now, this is a case which never happens. Variations upon the rate of agio, of 2 or 3 *per cent.* perhaps more, are frequent and familiar. The demands of trade, for coin or credit, are so fluctuating, that such variations are unavoidable; but were there an overcharge of bank credit, which no power could diminish, that overcharge would quickly be perceived; because the fluctuations of the agio would entirely cease; as the balance of a scale, nearly in equilibrio, ceases from a total overcharge on one side.

*2do.* My second reason is founded upon a matter of fact, which I must now apply.

There are upon the square before the town-house of Amsterdam, (the place de-Dam) between 10 and 11 in the morning, a number of cashiers, whose business it is to buy and sell bank credit, for current coin. They bargain with all those who have occasion either to buy or sell; and according to the demand for specie, or bank credit, the agio rises or sinks: and as these cashiers must constantly gain, whether they furnish bank credit or current coin, since they are never the demanders in either operation, it is commonly found, that there is in their favour about  $\frac{1}{10}$  *per cent.* or perhaps  $\frac{1}{8}$  *per cent.* according to the revolutions in the demand: that is to say, one who would first buy specie, and then sell it, would lose  $\frac{1}{8}$ , or perhaps but  $\frac{1}{10}$  upon his operation.

From this circumstance of buying and selling of bank credit with coin, and *vice versa*, I think I can resolve the mystery mentioned above, viz. how the constant accumulation of coin in the bank of Amsterdam, should never have the effect of depreciating their bank money, by augmenting, beyond the demand for it, the quantity of their deposit, and of the credit written in their books.

It is a matter of fact, that the bank lends both coin and credit to the brokers, cashiers, or lombards, who are constantly found on the place de Dam.

Whenever, therefore, the bank finds that agio falls too low, with respect to the coin; and when, in consequence of that, the demand

demand for coin *increases*; then they lend *coin* out of their repositories to the brokers; and when it *rises*, they lend *credit*.

This coin the brokers dispose of to those who have bank money, and who want to convert it into coin. They sell the coin for bank credit: the purchaser writes off the transfer in favour of the broker, and he again repays the value of the coin to the bank, by transferring the credit he obtained for the coin, in favour of the bank.

This done, the bank may expunge this credit from their books; by which means their deposit of coin is diminished, and also the sum of credit which was found superfluous.

If, on the other hand, the circulation of the trade of the city should, in a short time afterwards, begin to increase, those who have coin, which in that case would not so well serve the uses of circulation as the bank credit, come with it to the brokers, who sell them bank credit for it; this coin the brokers deliver to the bank, which writes off the credit lent to the broker, in favour of him who has paid his coin for it.

This is, as far as I can guess, the nature of the circulation of the coin in the bank of Amsterdam.

It is a curious method of preserving an exact proportion between the coin in deposit, the credit written in their books of transfer, and the demand for bank money.

The plan is quite consistent with principles, and checks exactly with those matters of fact which are known to all the world. Whether the operation be conducted exactly in the way I have represented it, or not, is a matter of small consequence to us, who aim at nothing more than the investigation of the principles upon which such operations may be conducted.

When we compare this operation with those of the bank of circulation, which we have already explained, we find a great analogy between them.

We have seen how the notes issued by banks of circulation increase and diminish according to demand: and now we see how the demand

the same principle operates in banks of deposit, which issue no coin on demand. In the first case, the mass of securities, or coin of the bank, is diminished, without the consent of the bank, by the act of their creditors; that is, the holders of the notes. In the last case, the creditors, or persons who have credit in bank, cannot, by their own act, diminish the quantity of the coin deposited, nor of the credit written; but the bank itself, by the help of those interposed persons, the brokers on the place de Dam, is enabled to preserve an exact balance between bank money and the demand for it; augmenting it as it is demanded, and diminishing it when it is found to regorge.

From this I conclude, that the treasure of the bank of Amsterdam is not near so great as some authors, from mere conjecture, have asserted.

The author of the Essay on commerce, reckons it at four hundred millions of guilders; and the Amsterdam edition carries in the margin a correction, which gives us to understand, that it amounts to between eight and nine hundred millions. Davenant esteems it at 36 millions sterling. Mr. Megens, an author of great judgment and sagacity, esteems this treasure at no more than about 60 millions of guilders, or about 5,500,000 *l.* sterling; a sum (says he) wherewith great things may be done. Univerf. Merchant, sect. 61. I agree entirely with him, that for the ready-money demands of the trade of Amsterdam, that sum, constantly in circulation, may go a great length.

What has misled most people in their estimation of this treasure, is the appearance of a constant accumulation, without any restitution: but that there is a constant egress, as well as ingress of coin to this bank, I think I have rendred pretty evident.

Besides the permanent credit written in the books of transfer, concerning which we have been speaking, the bank of Amsterdam receives, in deposit, vast sums of coin every year, which are not incorporated with the bank treasure, but remain in the bags in which

which they are delivered, under the joint seals of the bank and of the person who delivers them.

This operation comes next to be explained.

The trade of Holland draws a constant flux of coin and bullion into the country; and that trade sends a constant flux out of it. The establishment of the bank of Amsterdam renders the use of this coin and bullion, upon many occasions, superfluous, as money.

It therefore remains as a commodity, the value of which rises according to exigencies, or the demand for it.

When the precious metals come from Spain, Portugal, and other nations, who owe a balance to the Dutch, they are lodged in the bank of Amsterdam in the following manner.

The proprietors carry them to the bank in sacs composed of a determinate number of pieces, and the sac must be of a determinate weight, according to the regulations of the bank, from time to time; for which the bank writes off credit in bank, at certain rates, according to the coin lodged, to the account of the proprietor.

But as this coin is received, upon condition that it may be drawn out again, so soon as the depositor shall demand it; instead of writing off the *whole value* upon the books of the bank, they only write off a *certain part*, (suppose 90 per cent.) and for the remaining 10 per cent. they deliver what they call a *recipisse*, which is an obligation by the bank to re-deliver, upon demand, the individual sacs, sealed with the seals of the bank and of the depositor. This *recipisse* is transferable at the will of the person to whom it is delivered. Farther,

He who has put his coin so in deposit, becomes bound to pay to the bank  $\frac{1}{2}$ ,  $\frac{1}{4}$ , or  $\frac{1}{8}$  per cent. every six months, according to the coin: that is, upon gold  $\frac{1}{2}$  per cent. on pieces of eight and rix-dollars  $\frac{1}{4}$ ; on ducatoons  $\frac{1}{8}$  per cent. and in case he neglects so to do, then the coin becomes consolidated with the treasure of the bank, and can no more be drawn out, in virtue of the *recipisse*.

This being performed, the depositor may transfer, at will, all the 90 per cent. of his credit, in the course of his business; and so

soon as the *value of coin* rises in the market, he must fill up his credit in bank to the full value of the 90 *per cent.* and then presenting his *recipisse*, he receives back his own individual coin, sealed with his own seal, as when at first delivered.

If he finds that it is either inconvenient for him to fill up his credit, or that he has no occasion for his coin, upon the rise in its value, he may then sell his *recipisse* to another, who has credit in bank equal to the value of the deposit; and he, in virtue of the *recipisse* transferred to him, withdraws the coin, as the person might have done who put it in deposit.

The *recipisse* itself, which is what gives a right to the coin to any one who is the proprietor of that paper, and who has credit in bank for the sum contained in it, rises and sinks in its value, according to the price of the coin to which it carries a right.

In this manner coin, which otherwise would be dead in a warehouse, is made to circulate, in favour of the owner, during the deposit, remaining at the same time always at his command; and the keeping of the coin brings into the bank a small profit, but which, by constant accumulation, becomes considerable.

I have said above, that the bank of Amsterdam puts forth, from time to time, what regulations they think fit, as to the rate at which they receive the different species of coin. These regulations are formed according to the fluctuation of the value of the metals. When silver rises above the proportion it had before, with respect to gold, then the silver species is received at a higher rate than formerly. When gold rises in proportion to silver, then the gold coins are received at a higher rate than formerly.

This regulation produces the same effect as that, which I formerly recommended in the third book, would do, in fixing a standard for the unit of the money of Great Britain, according to the mean proportion of the metals: and it was for this reason, that [Book III. part I. chap. 1.] I asserted the bank money of Amsterdam to be an invariable unit, which the art of man had invented; that

that it stood like a rock in the sea, immoveable by the fluctuating proportion between the metals.

It is no objection against this, to allege the variation of the agio, and the fluctuation of the value of bank money according to demand. These variations ought to be referred to the coin, not to the bank money: the bank money is to be considered as fixed, because it has all the characters of invariability.

If, indeed, the affairs of the bank came to be ill administered, and that the credit written in the bank were allowed to swell so far beyond the demand for it, as to sink the value of bank money so far below the rate of coin as to make it impossible to recover itself; then I should allow that the bank money was no longer an invariable standard: but in this case, I should consider the bank as in a kind of political disease, because it would then be withdrawn from under the influence of its own principles, which hitherto has never been the case.

It has been imagined by many, that the treasure of the bank of Amsterdam has been, upon certain occasions, made use of for the public service. This is a conjecture merely; and perhaps it has been owing to the opinion which commonly prevails, that the treasure far exceeds all the uses which it can serve for. But as I am persuaded, *1mo*, That this opinion is void of all foundation; *2do*, That the treasure never can exceed the credits written; and, *3tio*, That the credits never can exceed the uses those merchants have for them: so I am of opinion, that a value, in coin, to the full extent of those credits, actually exists in the repositories of the bank; because if I should suppose the contrary, it would imply a notorious infidelity in the bank administration: an infidelity, which, if ever it should be discovered, would overturn the whole credit of the bank, and, at one stroke, destroy the whole trade of that city. Now the use of three or four millions sterling, to the states of Holland, which they can procure when they will, at a very moderate interest, is not an object in the eyes of that sagacious government, sufficient to engage them to tamper with the

bank treasure: and the rather, that were they driven to the necessity of having recourse to the bank, I make not the least doubt but that so great a company would be of more service to the state in writing off upon an occasion a *temporary, untransferable credit at interest*, which might afterwards be expunged, in order to procure coin within the country, than by delivering the coin corresponding to the credit of private merchants, which they must look upon as a most sacred deposit.

If we compare the credit of the bank of Amsterdam, with the credit of the bank of England, we shall find the first infinitely inferior to the latter as to extent, though not one bit inferior with respect to the solidity of it.

The extent of the credit of the bank of Amsterdam is limited to the sum of the credits written in their books, either in permanent transfer, as I shall call it, or in credit on cash deposited upon *recipisse*. All this credit put together, cannot extend beyond the limits of the circulation of the city of Amsterdam, in their domestic dealings, and in their exchange business; which last is indeed very great.

But the credit of the bank of England is equal (in a manner) to all the circulation and exchange business of London, and all the taxes paid in Great Britain. This bank, in circulating its paper, is not limited to the weight of coin in England. The whole interest of the national debt, and expence of the state, may be paid in the paper of the bank, and be perfectly well secured, although their treasure in coin may seldom amount to above four millions sterling.

We must however allow, that banks of circulation, when ill conducted, are liable to great abuse; as has been abundantly explained in treating of the Mississippi. But how is abuse to be prevented, while men conduct? And disasters may happen to a bank of deposit, to which the other is not so much exposed. May not the treasure of the bank of Amsterdam be lent out on bad security? May not the state lay hold of it? May not an earthquake swallow

up

up the stadthouse? May not the sea break in, and demolish it? May not another invader, like the late King of France, in 1672, be more successful, and carry off the bank?

These are abuses and calamities to which the bank of Amsterdam is exposed; and from many of which the bank of England is in a great measure protected.

Besides the banks I have mentioned, not so much with a view to give an historical account of their operations, as to illustrate the principles on which they are established, there are many others in Europe of great and extensive credit; such as that of Hamburg, Venice, Genoa (until the state spent the treasure deposited) Nuremberg, &c. Every one of these participate more of the nature of that of Amsterdam; than of those in Great Britain. They are more calculated for preserving the standard of their bank money, against the adulterations of coin, and for providing a fund of cash, transferable in bank credit, than for the assistance of government, or the melting down of solid property, which are the great advantages peculiar to *banks of circulation*.

These last are also infinitely more lucrative to the bankers than those of deposit, from the interest they draw from credits given, discount of bills, and loans to government.

The profits on the bank of Amsterdam are very trifling. They are confined to the small emoluments of 2 stivers for every transfer; besides the interest they draw from the brokers on the place *de Dam*, for the coin and credit they furnish them with; and, in the last place, the  $\frac{1}{2}$ ,  $\frac{1}{4}$ , or  $\frac{1}{8}$  per cent. every six months, for the coin deposited, in order to be afterwards drawn out. But on the other hand, they are freed from the enormous expence of providing coin for the payment of foreign balances, and from the great detail of business which the circulation of paper implies.

END OF THE SECOND PART.