AN

INQUIRY

INTO THE

PRINCIPLES OF POLITICAL OECONOMY.

BOOK IV.

OF CREDIT AND DEBTS.

PART III.

OF EXCHANGE.

CHAP. I.

Of the first Principles of Exchange.

HAVING ended what I had to say of banks, in which most of the principles of private credit have been sufficiently deduced, I now proceed to the doctrine of exchange, which is the principal operation of mercantile credit.

The security which merchants commonly take from one another when they circulate their business, is a bill of exchange, or a note of hand: these are looked upon as payment. When they give credit to one another in account, or otherwise, the cause of confidence is of a mixed nature; established partly upon the security of their effects, partly on the capacity, integrity, and good fortune, of the person to whom the credit is given.

No man but a merchant has any idea of the extent and nature of this kind of credit. It is a thing to be felt, but cannot be reduced

to

to principles; and merchants themselves can lay down no certain rules concerning it. It is an operation which totally depends upon their own sagacity.

But when they deal by bills of exchange, the case is very different. The punctuality of acquitting those obligations is essential to commerce; and no sooner is a merchant's accepted bill protested, than he is considered as a bankrupt. For this reason, the laws of most nations have given very extraordinary privileges to bills of exchange. The security of trade is essential to every society; and were the claims of merchants to linger under the formalities of courts of law, when liquidated by bills of exchange, faith, confidence, and punctuality, would quickly disappear; and the great engine of commerce would be totally destroyed.

A regular bill of exchange is a mercantile contract, in which four persons are concerned, viz. 1. The drawer, who receives the value: 2. His debtor in a distant place, upon whom the bill is drawn, and who must accept and pay it: 3. The person who gives value for the bill, to whose order it is to be paid: and 4. The person to whom it is ordered to be paid, creditor to the third.

By this operation, reciprocal debts, due in two distant parts, are paid by a sort of transfer, or permutation of debtors and creditors.

(A) in London, is creditor to (B) in Paris, value 100 *l.* (C) again in London, is debtor to (D) in Paris for a like sum. By the operation of the bill of exchange, the London creditor is paid by the London debtor, and the Paris creditor is paid by the Paris debtor; consequently, the two debts are paid, and no money is sent from London to Paris, nor from Paris to London.

In this example, (A) is the drawer, (B) is the accepter, (C) is the purchaser of the bill, and (D) receives the money. Two persons here receive the money, (A) and (D), and two pay the money, (B) and (C); which is just what must be done when two debtors and two creditors clear accounts.

This is the plain principle of a bill of exchange. From which it appears, that reciprocal and equal debts only can be acquitted by them.

Wh...

When it therefore happens, that the reciprocal debts of London and Paris (to use the same example) are not equal, there arises a balance on one side. Suppose London to owe Paris a balance, value 100 *l.* How can this be paid? I answer, that it may either be done with or without the intervention of a bill.

With a bill, if an exchanger, finding a demand for a bill upon Paris, for the value of 100 *l.* when Paris owes no more to London, sends 100 *l.* to his correspondent at Paris in coin, at the expence, I suppose, of 1 *l.* and then, having become creditor on Paris, he can give a bill for the value of 100 *l.* upon his being repaid his expence, and paid for his risk and trouble.

Or it may be paid without a bill, if the London debtor sends the coin himself to his Paris creditor, without employing an exchanger.

This last example shews of what little use bills are in the payment of balances. As far as the debts are equal, nothing can be more useful than bills of exchange; but the more they are useful in this easy way of business, the less profit there is to any person to make a trade of exchange, when he is not himself concerned, either as debtor or creditor.

When merchants have occasion to draw and remit bills for the liquidation of their own debts, active and passive, in distant parts, they meet upon change; where, to pursue the former example, the creditors upon Paris, when they want money for bills, look out for those who are debtors to it. The debtors to Paris again, when they want bills for money, seek for those who are creditors upon it. This is a representation of what we have frequently called the money market, in which the *demand* is for *money*, or for *bills*.

This market is constantly attended by brokers, who relieve the merchant of the trouble of searching for those he wants. To the broker every one communicates his wants, so far as he finds it prudent; and by going about among all the merchants, the broker discovers the side upon which the greater demand lies, for money, or for bills.

We

We have often observed, that he who is the demander in any bargain, has constantly the disadvantage in dealing with him of whom he demands. This is no where so much the case as in exchange, and renders secrecy very essential to individuals among the merchants. If the London merchants want to pay their debts to Paris, when there is a balance against London, it is their interest to conceal their debts, and especially the necessity they may be under to pay them; from the fear that those who are creditors upon Paris would demand too high a price for the exchange over and above par.

On the other hand, those who are creditors upon Paris, when Paris owes a balance to London, are as careful in concealing what is owing to them by Paris, from the fear that those who are debtors to Paris would avail themselves of the competition among the Paris creditors, in order to obtain bills for their money, below the value of them, when at par. A creditor upon Paris, who is greatly pressed for money at London, will willingly abate something of his debt, in order to get one who will give him money for it.

It is not my intention to dip into the intricacies of exchange: all intricacies must here be banished; and instead of technical terms, which are very well adapted for expressing them, recourse must be had to plain language, for pointing out the simple operations of this trade. It is by this method that principles must be deduced, and from principles we shall draw the consequences which may be derived from them.

From the operation carried on among merchants upon Change, which we have been describing, we may discover the consequence of their separate and jarring interests. They are constantly interested in the state of the balance. Those who are creditors on Paris, fear a balance due to London; those who are debtors to Paris, dread a balance due to Paris. The interest of the first is to dissemble what they fear; that of the last, to exaggerate what they wish. The brokers are those who determine the course of the day: and the most intelligent merchants are those who dispatch their business before the fact is known.

Now

Now I ask, how trade, in general, is interested in the question, who shall outwit, and who shall be outwitted, in this complicated operation of exchange among merchants?

The interest of trade and of the nation is principally concerned in the proper method of paying and receiving the balances. It is also concerned in preserving a just equality of profit and loss among all the merchants, relative to the real state of the balance. Unequal competition among men engaged in the same pursuit, constantly draws along with it bad consequences to the general undertaking, as has often been observed; and secrecy in trade will be found, upon examination, to be much more useful to merchants in their private capacity, than to the trade they are carrying on.

Merchants, we have said, in speaking of the bank of England, endeavour to simplify their business as much as possible; and commit to brokers many operations which require no peculiar talents to execute. This of exchange is of such a nature that it is hardly possible for a merchant to carry on the business of his bills, without their assistance, upon many occasions. When merchants come upon Change, they are so full of fears and jealousies, that they will not open themselves to one another, lest they should discover what they want to conceal. The broker is a confidential man, in some degree, between parties, and brings them together.

Besides the merchants, who circulate among themselves their reciprocal debts and credits, arising from their importation and exportation of goods, there is another set of merchants who deal in exchange; which is the importation and exportation of money and bills.

Were there never any balance on the trade of nations, exchangers and brokers would find little employment: reciprocal and equal debts would easily be transacted openly between the parties themselves. No man feigns and dissembles, except when he thinks he has an interest in so doing.

But when balances come to be paid, exchange becomes intricate; and merchants are so much employed in particular branches of business, that they are obliged to leave the liquidation of their debts to a particular set of men, who make it turn out to the best advantage to themselves.

Whenever a balance is to be paid, that payment costs, as we have seen, an additional expence to those of the place who owe it, over and above the value of the debt.

If, therefore, this expence be a loss to the trading man, he must either be repaid this loss by those whom he serves, that is, by the nation; or the trade he carries on will become less profitable.

Every one will agree, I believe, that the expence of high exchange upon paying a balance, is a loss to a people, no way to be compensated by the advantages they reap from enriching the few individuals among them, who gain by contriving methods to pay it off: and if an argument is necessary to prove this proposition, it may be drawn from this principle, to wit, whatever renders the profit upon trade precarious or uncertain, is a loss to trade in general: this loss is a consequence of high exchange; and although a profit does result from it upon one branch of trade, the exchange business, yet that cannot compensate the loss upon every other.

We may, therefore, here repeat what we have said above, that the more difficulty is found in paying a balance, the greater is the loss to the nation.

This being admitted, I shall here enumerate all the difficulties which occur in paying of balances. Most of them have been already mentioned from their relation to subjects already discussed; and could it be supposed, that every reader has retained the whole chain of reasoning already gone through, a repetition in this place would be superfluous: but as that cannot be expected, I shall, in as short and distinct a manner as possible, recapitulate, under four articles, what I hope will be sufficient to refresh the memory upon each of them.

1mo, The first difficulty which occurs in paying a balance, is to determine exactly the true and intrinsic value of the metals or coin in which it is to be paid; that is to say, the real par.

 2do, How

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

3tio, How to prevent the price of exchange from operating upon the whole mass of reciprocal payments, instead of affecting only the balance.

The remedies and palliatives for these three inconveniencies once discovered, comes the last question, viz. How, when other expedients prove ineffectual for the payment of a balance, the same may be paid by the means of credit, without the intervention of coin; and who are those who should conduct that operation.

CHAP. II.

How to determine exactly the true and intrinsic value of the Metals, Coin, or Money, in which a Balance to foreign Nations is to be paid.

THIS first question regards the whole mass of reciprocal payments, as well as that of the balance.

Every payment to be made of a determinate and fixed value, that is to say, of a liquidated debt, must be paid in a value equally determinate in its nature.

This I suppose to be the case, whether payment be made in the precious metals unmanufactured, bullion, or in a nation's coin, or in denominations of money of account. All payment in merchandize, except bullion, must suffer conversions of value before the debts can be liquidated.

Money of accompt, which is what we understand by denominations, we have defined to be a scale of equal parts, calculated to determine the value of things, relatively to one another. It must, therefore, be by the money of accompt of different nations, that the value of bullion and of coin can be determined.

When

When coin is introduced, the denominations of money are realized in a determinate quantity of the precious metals, and the fabrication of the bullion into coin, raises the value of that commodity, bullion, like the manufacturing of every other natural production.

When coin, therefore, is employed in paying sums according to the legal denomination which it carries, it is money, not merchandize; but when it is given at any other rate than its denomination, it is merchandize, not money.

In the third book, we have shewn how utterly impossible it is to realize with exactness, the denominations of money of accompt, in the metals which are constantly varying in their value, and exposed to waste in circulation.

We have shewn, by many examples, how, in fact, the value of the pound sterling has been subject to great vicissitudes of late, from the great disorder of the coin.

The coin of France is, indeed, upon a better footing in point of uniformity of weight, than ours; and the proportion of the metals in it comes nearer their present value in the market: but then as oft as the balance turns against France, the high imposition upon her coinage, exposes the coin to great fluctuations of value, when compared with bullion in the Paris market. This is also to be ascribed to the imperfection of the metals when used as money, while they are merchandize at the same time.

This being the case, the way to calculate the real par of exchange between nations, who have in common no determinate and invariable money, exclusive of coin, is to consider fine gold and silver as the next best standard.

This is a merchandize which never varies in its quality. Fine gold is always the same in every mass; and weight for weight, there is no difference in its value or quality any where.

This standard being once adopted, the calculation of the real par becomes an easy operation to those who know the course of the bullion market in the two places exchanging.

If

If, by the exportation of all the heavy coin of London, bills must be paid in a worn out currency, the rise in the price of gold in their market, above mint price, will mark pretty nearly how far it is light.

If, on the other hand, the wars of France, or an unfavourable balance upon her trade, shall oblige her to export her coin, that operation will *sink* the value of it, or *raise* the price of bullion, which ever way you choose to express it.

It is not here a proper place to resume the question, which of the two expressions is the most proper: we are here considering the value of the bullion as what is fixed, because it answers the purpose. But whether we say that bullion *rises* in the markets of Paris and London; or that the value of their currencies *sink*; though from very different causes, the calculation of the real par will proceed with equal accuracy. An example will illustrate this.

When *fine* gold is at the lowest price to which it can ever fall at Paris, that is to say, at the mint price, it is worth 740 livres 9 sols, or 740.45 livres *per* mark, in decimals, for the ease of calculation. The mark contains eight ounces Paris weight.

Were the ounces of Paris equal to those of troy weight, $\frac{1}{8}$ of this sum, or 92.5562 livres, would be the value of that ounce by which gold is sold at London.

But the Paris ounce is about $1\frac{1}{2}$ *per cent.* lighter than the troy ounce; and the exact proportion between them is unknown, from the confusion of weights, and the want of a fixed standard in England.

By the best calculation I have been able to make, a Paris ounce should contain 473 grains troy, which makes the proportion between the two ounces to be as 473 is to 480, which is the number of grains in the troy ounce.

Gold bullion at Paris is regulated by the mark *fine*, at London by the ounce *standard*.

When standard gold bullion is at the lowest price it can be at London, it is worth the mint price, or 3 *l.* 17 *s.* $10\frac{1}{2}$ *d.* *per* troy ounce, which, expressed

expressed in decimals, is 3.8937 *l.* sterling. Standard is to fine, as 11 is to 12; consequently, the ounce fine is 4.2476 *l.* sterling: and if the Paris ounce of *fine* bullion be worth, as has been said, 92.5562 livres, the ounce troy, according to the above proportion, will be worth 93.926 livres. Divide then the livres by the sterling money, and the quotient will give you the real par of exchange of the pound sterling, while bullion remains at that value in Paris and in London, viz. $\frac{4.2476}{93.926}$=22.112 livres for the pound, or 32.56 *d.* sterling for the French crown of 3 livres.

Gold bullion never can rise in the Paris market, at least all the last war it never *did* rise, above the value of the coin; that is, to 801.6 livres the mark fine, or 100.2 livres *per* ounce Paris, and 101.7 livres the troy ounce.

How high the price of gold bullion may rise at London no man can say; but the highest it rose to, during the last war, was, I believe, 4 *l.* 0 *s.* 8 *d.* *per* ounce standard, or to 4.3999 *l.* sterling *per* ounce fine. By this divide the value of the ounce troy fine in French livres, the real par at this rate of the metals in both cities will be $\frac{4.3999}{101.7}$=23.11 livres for the pound sterling, or 31.155 pence sterling for the French crown of 3 livres. But suppose two cases which may happen, viz. 1. That gold bullion at Paris should be at the price of coin, while at London it may be at mint price: or, 2. That at Paris it may be at mint price, when at London it is at 4 *l.* 0 *s.* 8 *d.* what will then the real par of exchange be?

I answer, that on the first supposition, it will be one pound sterling, equal to 23.939 livres, and the crown of 3 livres equal to 30.076 pence sterling. In the other, equal to 21.34 livres for the pound sterling, and for the crown of 3 livres 33.728. A difference of no less than 8.9 *per cent.*

Is it not evident that these variations *must* occur in the exchange between London and Paris? And is it not also plain, that they proceed from the fluctuation of the price of bullion, not from exchange?

We have, I think, demonstrated, in the third book, that a wrong balance upon the French trade raises bullion to the price of coin; and

and that a right balance brings it down to mint price. The price of coinage is above 8 *per cent.* So that 8 *per cent.* of fluctuation in the price of bullion is easily accounted for in the Paris market, without combining the variations in the English market.

In London, where no coinage is paid, were all the coin of full weight, and exportation free, coin and standard bullion would constantly stand at the same price: but when the heavy coin is exported, and the currency becomes light by the old remaining in circulation, the price of bullion rises in proportion.

Is it surprizing that, at London, gold in bullion should be worth as much as gold of the same standard in guineas, weight for weight? It is worth as much at the mint, why should it not be worth as much at market? Any man may offer to pay *for the ounce* of all the guineas coined by Charles II. James II. and William III. now in circulation, the highest market price that ever was given for standard gold bullion in London, and gain by the bargain.

This, I hope, will be sufficient to satisfy any body that there is a mistake in ascribing the high price paid for the French crown in the London exchange, to a wrong balance upon the trade of England with France.

From this new light in which I have placed the question, I hope the arguments used in the 16th chapter of the first part of the third book, will acquire an additional force; and that thereby the eyes of this nation may be opened with regard to the interests of the French trade; a point, I should think, of the highest concern.

To calculate, as every body does, the par of the French crown, either by the gold or the silver in the English *standard* coin, when no such *standard* coin exists; and to state all that is given for the crown above $29\frac{1}{2}$ *d.* if you reckon by the silver, or $30\frac{1}{4}$ *d.* if you reckon by the gold, for the price of a wrong balance, is an error which may lead to the most fatal consequences.

If government should think fit to impose, in their own mint, a coinage, equal to that of France, and make all their coin of equal weight, and at the due proportion, it will take off all the loss we suffer

suffer by paying coinage to France, which we at present impute to the exchange, while she pays none to us. But then it will occasion nearly the same fluctuations upon the real par of exchange as at present; only from another cause on the side of Great Britain. At present our exchange becomes favourable from the weight of our own currency, and the balance against France upon her trade; which, in Paris, raises the price of the bullion with which we pay our French debts. On the other hand, our exchange becomes unfavourable from the lightness of our own currency, from the coinage we pay to France, and balance against us; which last carries off all our new guineas; and in the Paris market, sinks the value of that bullion in which we pay our French debts.

Were matters put upon a right footing, we should gain from France the price of our coinage, when our balance is favourable, and pay coinage to France when their balance is favourable; instead of seeing our exchange turn more in our favour, only from the additional weight of the coin in which we pay.

If French coinage should appear too high a price for the interest of other branches of British trade, a question I shall not here determine, let us impose at least as much as to keep our guineas out of the melting pot, and banish all the old coin which throws us into such confusion.

What has been said is undoubtedly too much upon this subject for the generality of readers. The number of those who can go through a chapter like this with pleasure is very small. But if the idea I have been endeavouring to communicate, be found just by one man of capacity, whose opinion shall have weight in the deliberations of Great Britain, the consequences may be great to this nation; and this consideration will, I hope, plead my excuse.

I shall now set this question in another point of view, from which the stress of my arguments will be felt, and all intricate combinations will be laid aside.

Does not the price of exchange, or what is given above the par, proceed from the expence of sending the metals from one place to the

the other, the insurance of them, and the exchanger's profit? If this be true, which I believe no body will deny, must not what is paid for the bill, over and above these three articles, be considered as the real par, relative to exchange? Now does the price of the bullion which the exchanger pays in his own market, or the price he gets for that bullion in the market to which he sends it, at all enter into the account of the transportation, risk, and profit, which the exchanger has on the operation? Certainly not. May there not be a very great difference between the buying and selling the very same bullion in different markets at one time and another? Ought we not to charge that to some other accompt than to the price of exchange, which is confined to the expence of transporting *the balance only*, and when two objects totally different are included under the same term, does it not tend to perplex our notions concerning them?

The great variation in the price of bullion in France, for example, and the expence of procuring it, proceeds from three causes: The first is, the coinage imposed in France, while none is imposed in England. What, therefore, is paid upon this account, is profit to France, and loss to England.

The second cause of variation, is the debasement of the value of the pound sterling, when the heavy gold has been sent abroad. That loss affects the nation, and every man in England, in the quality of creditor for sums specified in pounds sterling, to the profit of all debtors.

The third cause of variation, is from the great expence exchangers are put to, in procuring the metals from other countries, when they cannot be got at home: the consequence of this shall be explained in a succeeding chapter.

As all these causes are combined in the exchange upon bills when they come to market, I think it is proper to analize them, before the doctrine we are upon can be distinctly understood.

I shall therefore conclude my chapter with this proposition:

 That

That the best method of determining exactly the true and intrinsic value of the metals, coin, or money, in which the balance due to or from a foreign nation is to be paid, is to compare the respective value of fine bullion with the respective denominations of the coin in the one and the other; and to state the difference as the price paid for the exchange *.

* There occurs another considerable difficulty to be removed, before the real par of exchange can be exactly determined from the price of bullion, to wit, the uncertainty of weights, and the multiplicity of them.

Every nation in Europe has a different weight, I might almost say every city. This has proceeded, in a great measure, from the inaccuracy with which they have been made formerly. I think it is highly probable, that many, at least, of the principal weights in Europe, have derived their origin from the same standard; although they are now considerably different. Those I am best acquainted with are the following, of which I shall here set down a short table, reduced to troy grains, according to the best calculation I have been able to make.

One ounce troy contains - - - - - -	480 troy grains.
One ounce Paris, or *poids de marc*, - - - - -	473
One ounce Holland troes - - - - -	473.27
One ounce Colonia - - - - - - -	449.33

These are the weights used in the mints of England, France, Holland, and Germany.

If therefore we should call the troy ounce 100, the proportion of the rest will be as follows:

Troy - - - - - - - -	100
Paris - - - - - - - -	98.541
Holland - - - - - - -	98.597
Colonia - - - - - - -	93.61

I have chosen to reduce to ounces; because it is the denomination in which the proportion of weights is best preserved.

These ounces I apprehend to have been originally taken from the old Roman pound, which was the weight adopted by the Emperor Charles the Great, who applied himself much to the establishing a general standard of weights in his dominions.

In the examples I have given, we see how the Colonia ounce deviates more than any other from the average on the whole.

This ounce is very near equal to the old Saxon ounce, established in the English mint at the Norman conquest, and there preserved, until Henry VIII. substituted

 in

in its place, the troy weight. This circumstance makes it probable that the Saxon ounce came originally from Charles the Great, who first conquered the Saxon nation, and drew them from a state of absolute barbarity. The rude manners of the Saxons may have occasioned this great deviation.

The difference, therefore, in those ounces, I ascribe to the progressive error of those who have made weights, and from the neglect of preserving a proper standard.

The best remedy for this inconvenience, would be, for any one mint to form a weight, *ad libitum*, and to send a most accurate copy of it to every mint in Europe: to mention, at the same time, the exact proportion between the weight sent, and that observed at their own mint: to beg of the other mints an equal communication of the proportion between the weight sent, and their several standards: and last of all, to publish in the news-papers of all commercial towns, every market day, as is done at Amsterdam, the price of *fine* gold and silver, according to this new weight made for the purpose. This weight may be called the mint-weight of Europe; and from the universal utility which would follow upon such a regulation, it probably might be followed: were this to happen, it might be a step towards establishing an universal conformity of weights every where.

While matters stand on the present footing, it is necessary to be informed of three particulars. First, Of the proportion of the different mint weights. Secondly, Of the regulations by which the coin is made. And lastly, Of the exactness of the mints in following the regulation. Every mistake in any one of these three articles, is an impediment to the just determination of the real par.

I acknowledge that, in fact, exchange business goes on smoothly, notwithstanding all the difficulties we have been enumerating. It may therefore be asked, in what would consist the great advantage of so scrupulous a nicety?

My answer is, that exchange business will always go smoothly on, as long as exchangers gain, and that trade is not interrupted.

But trading men consider their own interest only; and I am considering the interest of an intelligent state, which wants to promote the good of the whole community, without occasioning any hurt to the interest of individuals.

C H A P. III.

How to remove the inconveniences which occur in paying Balances with the Metals or Coin of a Nation.

THE inconveniences which occur when balances are to be paid in bullion or coin are these:

First, The want of secure and ready transportation, from the obstructions government throws in the way to prevent it.

Secondly, The difficulty of procuring the metals abroad when they are not to be found at home.

When we speak here of balances to be paid from one country to another, we understand, that the general amount of the whole payments to be made to the world, exceeds the sum of all that is reciprocally due from it. So far as a balance due to one country is compensated with a balance due by another, they may be mutually discharged by bills of exchange, according to the principles already laid down. All compensations being made by bills drawn for reciprocal debts, we must here suppose a balance due by the country whose interest we are considering. This, like debts between private people, must either be paid in intrinsic value, or by security for it; that is, by contracting a permanent debt bearing interest. The first is the question here before us; the second will be examined in the succeeding chapter.

The first difficulty mentioned, to wit, the want of secure and ready transportation of the metals, proceeds in a great measure from the obstruction government throws in the way, to prevent the exportation of them. To remove which difficulty, it is proper to shew how far it is the interest of government to obstruct, how far to accelerate the transportation of the metals.

We have said that it is the advantage of every state, in point of trade, to have balances paid with the least expence. If then we suppose that it is either necessary or expedient that this balance should

ſhould be paid in the metals, government, in that caſe, ſhould facilitate by every method the ſending them off in the cheapeſt and ſecureſt way.

But ſince governments do not follow that rule, we muſt examine the reaſons which engage them to prefer a contrary conduct.

The principal, the moſt general, and moſt rational objection againſt the exportation of the metals, is, that when it is permitted, without reſtriction, it engages the people, when they go to foreign markets for articles of exportation, to run to the coin, inſtead of carrying thither the product and manufactures of the country. From which a conſequence is drawn, that as long as coin and bullion are fairly allowed to be exported, the rich inhabitants will employ them for the purchaſe of foreign commodities, to the hurt of domeſtic induſtry.

This is an objection of great weight, relative to the ſituation of many nations. The Spaniards and Portugueſe feel it ſeverely. Many individuals there are very rich; the numerous claſſes of the people are either lazy or not properly bred to induſtry. In that ſituation the alternative to government is very diſagreeable. Either the rich muſt be deprived of every enjoyment with which their induſtrious neighbours alone can ſupply them, until, by very ſlow degrees, the loweſt claſſes of their countrymen can be engaged to change their way of living, and be inſpired with a ſpirit of induſtry; or they muſt be allowed to gratify the deſires which riches create, at the expence of the nation's treaſure, and the improvement of their country.

From this alternative we diſcover the principle which directs the conduct of a ſtateſman under ſuch circumſtances, viz.

To forbid the importation of every foreign manufacture whatſoever; to ſubmit to the hardſhips neceſſarily implied in the circumſtances of the nation; and to pay freely what balance may be owing upon natural produce imported for the uſes of ſubſiſtence, or manufacture.

This is a plan more rational and more eaſily executed, than a general prohibition to export the metals; becauſe with good regulations, properly executed, you may prevent the importation of manufactures; but it is hardly poſſible to prevent the exportation of the metals neceſſary to pay for what you have bought from ſtrangers, by the permiſſion of government: and on the other hand, ſuppoſe you do effectually prevent the exportation of the metals, the conſequence will be, to put an end to all foreign trade even in natural produce. What nation will trade with another who can pay only by barter? All credit will then be cut off; for who will exchange by bills, with a place which cannot pay, either in their own currency, or with the metals, the debts which they reciprocally owe?

The maxim therefore, here, is to prevent the contracting of debts with ſtrangers; but when you allow them to be contracted, to facilitate the payment of them.

This reaſoning is only calculated to direct a ſtateſman who finds himſelf at the head of a rich luxurious nobility, and an idle or ill inſtructed common people, ſurrounded by induſtrious neighbours, whoſe aſſiſtance may be neceſſary upon many occaſions, to provide ſubſiſtence, or the materials of manufacture, to his people; and this while he is forming a ſcheme of introducing induſtry at home, as a baſis for afterwards eſtabliſhing a proper foreign commerce.

But in this ſubject combinations are infinite, and the ſmalleſt change of circumſtances throws the deciſion of a queſtion on a different principle.

I will not therefore ſay, that in every caſe which can be ſuppoſed, certain reſtrictions upon the exportation of bullion or coin are contrary to good policy. This propoſition I confine to the flouriſhing trading nations of our own time.

To ſet this matter in a fair light, and as an exerciſe upon principles, I ſhall borrow two combinations, one from hiſtory, and another from a recent example in France, in which a clog upon the exportation of the metals and coin were very politically laid on.

We learn from the hiſtory of Henry VII. of England, a ſagacious Prince, that he eſtabliſhed very ſevere laws againſt the exportation of of bullion; and obliged the merchants who imported foreign commodities into his dominions, to inveſt their returns in the natural produce of England, which at that time conſiſted principally in wool and in grain.

The circumſtances of the times in which that Prince lived, muſt therefore be examined, before we can juſtly find fault with this ſtep of his political oeconomy.

In Henry the VIIth's time, the foreign trade of England was entirely in the hands of foreigners, and almoſt every elegant manufacture came from abroad.

Under ſuch circumſtances, is it not plain, that the prohibition of the exportation of bullion and coin was only a compulſion, concomitant with other regulations, to oblige foreign merchants, reſiding in his kingdom, to buy up the ſuperfluity of the Engliſh natural produce of wool and grain? Had not the King taken thoſe meaſures, the whole money of the nation would have been exported; the ſuperfluous natural produce of England would have lain upon hand; the abundance of theſe would have brought their price below the value of the ſubſiſtence of thoſe who produced them; agriculture would have been abandoned; and the nation would have been undone.

I allow that nothing is ſo abſurd as a deſire to conſume foreign productions, and to forbid the exportation of the price of them. I alſo allow, that every reſtraint laid upon exporting ſilver and gold, falls upon the conſumer of foreign goods, and obliges him to pay the dearer for them; but this additional expence to the conſumer, does not augment the maſs of foreign debts. The debt due abroad will conſtantly be paid with the ſame quantity of coin, whether the exportation of it be allowed or forbidden; becauſe the loſs of thoſe who pay the balance ariſes from the riſk of confiſcation of the money they want to export againſt law; or from the high exchange they are obliged to pay to thoſe who take that riſk upon themſelves. In both caſes, the additional expence they are put to remains in the country, and is repaid them by the conſumers; conſequently, can never

never occaſion one farthing more to be exported. Prohibitions, therefore, upon the exportation of ſpecie, are not in every caſe ſo abſurd as they appear at firſt ſight. It is very certain that no body gives money for nothing; conſequently, a ſtate may reſt aſſured that the proprietors of the ſpecie, their ſubjects, will take ſufficient care not to make a preſent of it to foreigners. The intention, therefore, of ſuch prohibitions, is not to prevent the payment of what people owe; but to prevent that payment from being made in coin or bullion; and alſo to diſcourage the buying of ſuch foreign commodities as muſt be paid in ſpecie, preferably to others which may be paid for with the returns of home produce.

When a ſtateſman, therefore, finds the balance of trade, upon the main, favourable to the country he governs, he need give himſelf no trouble about the exportation of the ſpecie, from this ſingle principle, to wit, that he is ſure it is not given for nothing. But when the balance turns againſt them, in the regular courſe of buſineſs, not from a temporary cauſe, then he may lay reſtraints upon the exportation of ſpecie, as a concomitant reſtriction, together with others, in order to diminiſh the general maſs of importations, and thereby to ſet the balance even.

In a trading nation, I allow, that no reſtriction of that kind ought to be general; becauſe it then affects the uſeful and the hurtful branches of importation equally: but in Henry's days, the ſale of corn and wool was ſufficient to procure for England all it wanted from abroad; and the intereſts of trade were not ſufficiently combined, to enable the ſtate to act by any other than the moſt general rules. Forbidding the exportation of coin was found to promote the exportation of Engliſh productions, and this was a ſufficient reaſon for making the prohibition peremptory. In this view of the matter, did not Henry judge well, when he obliged the merchants who imported foreign goods, to inveſt the price they received for them in Engliſh commodities? Once more I muſt ſay it, he was not ſo much afraid of the conſequences of the money going out, as of the corn and wool remaining at home; had he been ſure of the exportation

tation of these articles to as good purpose another way, the prohibition would have been absurd; but I am persuaded that was not the case.

The example taken from France is this.

After the fatal bankruptcy in 1720, by the blowing up of the Missisippi, the trade of France languished from the effects of the instability of their coin, until the year 1726, when it was set upon that footing on which it has remained ever since.

Upon that last general coinage, the same principles of enriching the King by the operation, directed the conduct of the minister.

The old specie was cried down, and proscribed in circulation: but it was thought, that as it was the King's coin, he had a liberty to set a price upon it, at a different rate from any other bullion of the same fineness; and that he had also a right to command the proprietors of it to bring it to the mint at his own price.

The consequence was, that those who could were very desirous to send it to Holland, in order to draw back the value they had sent in bills upon Paris.

Under such circumstances, were not prohibitions upon the exportation of this coin most consistent with the plan laid down? We shall, in the next chapter, examine the consequences of this operation upon the exchange of France.

What has been said, will, I hope, suffice to explain some of the principal motives which statesmen may have, when they lay restrictions on the exportation of the metals, with a view to favour the trade of their nation.

But besides the interests of trade, there are other reasons for laying prohibitions on the exportation of the national coin, although that of bullion be left free under certain restrictions.

As often as it happens, from whatever cause it may proceed, that the value of a nation's coin falls to par with bullion of the same fineness, that coin, if exported, may be melted down. This is a loss; because it puts the nation to the expence of coining more for the use of circulation.

When

When nations give coinage gratis, or when they allow the coin of other nations the privilege of passing current under denominations exactly proportioned to its intrinsic value, then coin never can be worth more than any other bullion of the same standard; consequently, will be exported or smuggled out upon every occasion.

If, therefore, a nation does really desire to avoid an expence to the mint, they must make it the interest of merchants to export every other thing preferably to their own coin. This is done by imposing a duty upon the coinage; and this will either prevent its going out unnecessarily, or if it be necessary to export it, the coin will return in the payments made to the nation, in consequence of its advanced value above any other bullion which can be sent.

The forbidding the exportation of coin, implies a restriction upon the exportation of bullion; because, unless the bullion be examined at the custom house, and the stamps upon it looked at, it may happen to be nothing but the nation's coin melted down, with an intention to avoid the law. For this reason, whoever brings bullion to be stamped, whether it be for exportation or not, must declare that it is not made of the nation's coin. How slender a check are all such declarations! The only one effectual is private interest; and as no man will take his wig to stuff his chair, when he can get cheaper materials equally good, so no man will melt down coin which bears an advanced value, when he can procure any other bullion.

On the whole, we may determine, that a flourishing commercial state, which has, on the average of their trade, a balance coming in from other countries, should lay it down as a general rule, to facilitate the exportation of their coin, as well as bullion: and if a very particular circumstance should occur, which may continue for a short time, they may then put a temporary stop to it, and facilitate the payment of the balance in the way of credit.

I have enlarged so much upon the methods of removing the first difficulty of paying a balance, with the coin or bullion found in a

nation,

nation, that what remains to be ſaid upon the ſecond difficulty, to wit, the procuring them from other nations, need not be long.

Were the mint weights of all countries ſufficiently determinate; were the regulations concerning the ſtandard of bullion exactly complied with; and were the current market prices of that important commodity, conſidered as a valuable piece of intelligence every where, the bullion trade would be much eaſier than it is.

We have ſaid, that when the reciprocal debts of two nations are equal, there is no occaſion for bullion to diſcharge them. But trading nations are many; and from this it may happen, that one who, upon the whole, is creditor to the world, may be debtor to a place which is alſo creditor to the world; and in this caſe bullion is neceſſary to pay the debt.

If a man owes money to a perſon who has many creditors, the perſon owing, may buy up a claim againſt him, and pay what he owes in that way: but if the perſon to whom he owes money be indebted to no body, then the debt muſt be paid with ready money. Juſt ſo of nations. For inſtance, when bullion is demanded to be exported to Holland, the Engliſh merchants, who are creditors on Spain and Portugal, take from thence their returns in bullion, for the ſake of paying a balance to Holland, which is, upon the whole, creditor to the world.

But as it ſeldom happens, that he who deals with Holland is the perſon who has credit in Spain or Portugal, he is obliged to apply to Portugal merchants to procure bullion. They again who trade thither, having profit on the returns of the commodities they bring from thence, will expect the ſame profits upon the bills they give to the man who wants to take his return in bullion. This plainly raiſes the price of bullion in the Engliſh market; becauſe it is brought home in conſequence of a demand from England. On the other hand, when the demands of England for Portugueſe commodities is leſs than the value of what Portugal owes her, the Portugal merchants in London are obliged to take the balance

lance in the metals. Theſe come to the London market, and are offered to ſale to thoſe who want them: then the price of bullion falls; becauſe the demand comes from the other ſide.

To go through all the operations which merchants employ to abbreviate the proceſs I have been deſcribing, would, indeed, better explain the practical part of exchange, than what I have ſaid; but I write, not to inſtruct merchants, but to extract from their complicated operations, the principles upon which they are founded.

CHAP. IV.

How the Price of Exchange, in a proſperous trading Nation, *may be prevented from operating upon the whole Maſs of reciprocal Payments, in place of affecting the Balance only.*

WE have taken it for granted, that the price of exchange is a hurt to trade in general.

In this chapter, we ſhall inquire more particularly than we have done, in what that hurt conſiſts. The point of view of every man, whether he be a merchant or not, is firſt honeſtly, and as far as law and fair dealing permit, to conſult his own private intereſt; and in the ſecond place, to promote that intereſt with which his own is moſt cloſely connected.

According to this rule, every merchant will endeavour to manage his exchange buſineſs to the beſt advantage to himſelf. If the balance be againſt his country, he will ſell his bills to the country creditor as dear as he can; that is, he will endeavour to raiſe the price of exchange as high as he can againſt his country, whatever hurt may thereby reſult to the general trade of it; and in ſo doing, he only does what duty to himſelf requires; becauſe it is by minding

ing his businefs only, that he can trade upon equal terms with his neighbours, every one of which avail themfelves of the like fluctuations, when they happen to be in their favour.

From this I conclude, that fince the lofs upon high exchange againft a country, affects principally the cumulative intereft of the whole, relative to other trading nations; it is the bufinefs of the ftatefman, not of the merchants, to provide a remedy againft it.

The whole clafs of merchants, no doubt, exchangers excepted, would be very glad to find the courfe of exchange conftantly at par. This is alfo greatly the intereft of the ftate; becaufe it is from the *balance* in its favour, not from *the profit made in drawing that balance* from the debtor, that the ftate is a gainer. This muft be explained.

I am to fhew how it happens, that a nation is only benefited or hurt by the net balance which it receives from, or pays to her neighbours: and that the whole expence of paying or receiving that balance, is not national, but particular to individuals at home; confequently, it would be the intereft of all ftates, that balances, both favourable and unfavourable, were paid by the nation debtor, at the leaft expence poffible.

The great difficulty in communicating one's thoughts upon this fubject with diftinctnefs, proceeds from the ambiguity of the terms neceffary to exprefs them. This may be avoided by adopting the technical terms of merchants; but thefe are ftill more difficult to be comprehended by any one not converfant in commerce. I fhall acquit myfelf of this difficult tafk the beft way I can.

When we fpeak of a balance between two nations, we fhall call the nation who owes the balance the *nation-debtor*; the other to whom it is owing, the *nation-creditor*.

Balances imply reciprocal debts; confequently, reciprocal debtors and creditors. To avoid, therefore, confufion in this particular, we fhall ufe four expreffions, viz. the debtors to the nation-creditor; the debtors to the nation-debtor; the creditors to the nation-creditor; the creditors to the nation-debtor.

Let

Let me fuppofe that Paris owes a balance to London, no matter for what fum. The reciprocal debts between Paris and London are all affected by the confequence of this balance: that is to fay, fome pay or receive more than the real par; fome pay or receive lefs. To difcover where the profit centers, we are now to inquire who are thofe who receive more, who are thofe who receive lefs. And as profit and lofs are here only relative, that is to fay, the profit of the one is compenfated by the lofs of the other; we muft fee whether or not, upon the whole, the price of the exchange in this cafe be favourable to London, to which, by the fuppofition, the balance is due, and unfavourable to Paris, which is the debtor.

The queftion thus ftated, let us examine the operations of exchange at London and Paris, and the ftate of demand in both, for money or bills.

In the London market, the demand will be for money in London for bills on Paris; and he who demands, muft pay the exchange; confequently, the London merchants, creditors to the *nation-debtor*, will pay the exchange; that is to fay, they will fell their bills on Paris below par; and the London merchants, debtors to the nation-debtor, will buy them, and gain the exchange; that is, they will buy bills upon Paris below par.

Now as this negotiation is carried on at London, I muft fuppofe it to take place amongft Englifhmen; one part of whom will gain exactly what the other lofes; confequently England, in this refpect, neither gains or lofes by the exchange paid in London.

Let us next examine the intereft of the merchants, and the intereft of the nation's trade.

The creditors to the nation-debtor, who have loft by the exchange, are thofe who have exported Englifh commodities to France. Upon this profitable branch of commerce the exchange occafions a lofs, the confequence of which is, to difcourage exportation.

The debtors to the nation-debtor, who have gained by the exchange, are thofe who have imported French commodities to England. Upon this hurtful branch of commerce, the exchange occafions ſions a profit; the conſequence of which is, to encourage importation.

This is not all. The merchants exporters, who have loſt, cannot draw back their loſs upon the return of their trade; becauſe the return of their trade is the *money* due by France, the balance included. Whereas the merchants importers may draw back their loſs upon the return of their trade; becauſe that return is *merchandize*, which they can ſell ſo much the dearer to their own countrymen.

If the balance be in favour of London, importers gain, as we have ſeen; when it is otherwiſe, and when they are obliged to pay the exchange, they indemnify themſelves, by the ſale of their goods ſo much the dearer. High exchange, therefore, *may* hurt exporters, but never *can* hurt importers.

Let us next examine the operation of exchange at Paris.

In the Paris market, the demand will be for bills upon London for money in Paris; and he who demands muſt pay the exchange. The debtors, therefore, to the nation-creditor, muſt pay the exchange, and the creditors to the nation-creditor will receive it; and as both are Frenchmen, the profit and loſs to Paris exactly balance one another.

But the debtors to the nation-creditor are here the importers of Engliſh goods; conſequently, this trade, hurtful to France, would be hurtful to the importer, could he not indemnify himſelf by ſelling them ſo much the dearer to his countrymen.

The creditors, again, to the nation-creditor, who gain the exchange, are the exporters of French goods to England; ſo that here the exportation meets with an encouragement from a balance againſt the country.

From the advantage found upon exchange in favour of exporters, and the loſs upon it to the prejudice of importers, in the caſe of a wrong balance, it has been believed, that a wrong balance produced upon importations and exportations are effects equal and contrary,

contrary, which deſtroy one another, and thereby bring the balance even.

In anſwer to this, I have two ſhort arguments to offer.

The firſt is, that were the argument concluſive, it would hold good in reverſing the propoſition; to wit, that the conſequence of a favourable balance would be to deſtroy the difference alſo, and bring the balance even. This I never heard alleged.

My ſecond argument is the ſtrongeſt: that the enhancing of the prices of importations will not ſo effectually diſcourage the ſale of them at home, as the enhancing the prices of exportations will diſcourage the ſale of them abroad; for the reaſons I ſhall give preſently. But in the mean time,

If the compenſation be conſidered only in relation to the merchants importers and exporters, there, indeed, I agree, that *their* profit and loſs upon the exchange is moſt exactly balanced; becauſe what the one party gains the other loſes; and the country loſes the balance only, as has been ſaid.

The reciprocal debts thus tranſacted by bills of exchange, we ſee that no profit can be made, nor loſs incurred, either to London, or Paris, by that operation.

The profit to Frenchmen is compenſated by the loſs to Frenchmen; the ſame may be ſaid of the Engliſh merchants: but the balance due after thoſe operations are over, and the more remote conſequences of high exchange, affect the relative intereſt of the two nations.

This balance is generally ſent by the country-debtor, either to the country-creditor, or to their order in a third country, to which they are indebted.

The tranſportation and inſurance of this balance is an expence to thoſe who owe it, and the profit, if any there be on that operation, naturally falls to exchangers of the ſame nation, who conduct it. So whether exchange be paid upon bills drawn, or expence be incurred in the tranſportation of balances, no profit can accrue upon that to the nation-creditor, to the detriment of the debtor: it muſt, therefore,

therefore, do hurt to both, relatively to nations where, upon the average of trade, exchange is lower.

I come now to the method of tranſporting balances in the metals.

We have ſeen how the creditors of the nation-debtor pay exchange upon the ſale of their bills on Paris, which owes the balance. If by the operations of exchangers, this exchange ſhould riſe, to their detriment, higher than the expence, trouble, and inſurance, of bringing the balance from Paris, then they will appoint ſome factor at Paris, to whoſe order they will draw bills upon their debtors in that city; and as what the Paris-debtors owe to London is ſtated in pounds ſterling, the London-creditors will value the pound ſterling, according to the rate of exchange, in their favour; and in their bills upon their Paris-debtor, they will convert the ſum into livres, including the exchange.

By this operation, we ſee how the tranſportation of the balance may become the buſineſs of the creditors to the nation-debtor: which is a combination we have not as yet attended to: a few words will explain it.

When the creditors of the nation-debtor ſell their bills, they muſt pay the exchange, as has been ſaid. When they draw bills to the order of a friend in the place where the balance is owing, they ſuperadd the exchange. This their debtors pay: but then they themſelves muſt be at the trouble and expence of bringing home the money.

It is from this alternative which both parties have of either ſending what they owe to their creditors in bullion, or of allowing them to draw for it at the additional expence of paying the exchange, that a check upon the extravagant profit of exchangers ariſes: and from this combination ariſes all the delicate operations of drawing and remitting.

Into theſe we ſhall not inquire: the principle on which they depend appears ſufficiently plain, and this is the principal object of our attention.

I proceed

I proceed now to conſider how far thoſe reciprocal profits and loſſes, between merchants in the ſame country, affect the trade of it in general.

When the balance is favourable, we have ſaid that the exporters loſe the exchange, and the importers gain it; and both being citizens, the country would not be concerned in their relative intereſts, were it not that theſe intereſts are connected with that of the country, which reaps great benefit from the trade of thoſe who deal in exportations, and loſs from the other.

If, therefore, exchange is found to hurt exportation, when the balance is favourable, in this reſpect the country has an intereſt in bringing it as low as poſſible. But as it may be ſaid that ſince the return of an unfavourable balance hurts in its turn the intereſts of importation, and favours the other, exchange thereby operates a national compenſation; it will not be improper, in this place, to throw out one reflection more, in order to deſtroy the ſtrength of that argument.

Were this propoſition admitted, as I am afraid it cannot, from what we have already ſaid, it affords no argument againſt doing what can be done, to render exchange as little hurtful as poſſible to exportation, during the favourable balance. But as to the queſtion itſelf, of national compenſation, I cannot allow that even *exporters* and *importers* are thereby brought on a level in point of trade: for this reaſon, that the exchange affecting the exporters, in proportion as it augments, diſcourages manufacturers, who muſt have regular, and even growing profits, according to the increaſe of demand. Theſe the merchant exporter cannot afford; becauſe he *cannot* draw back from his foreign correſpondents, any advance upon manufactures at home, ariſing from domeſtic circumſtances. But when the merchant importer is affected by the exchange againſt him; this additional expence he *can* draw back; becauſe he ſells to thoſe who are affected by all domeſtic circumſtances.

Let us therefore determine, that it is the intereſt of a ſtate to diſregard that compenſation which is given to exportation by a wrong

Xx 2 balance,

balance, which does so much harm; and to avoid the discouragement given to it by a right balance, which does so much good. The only way to compass those ends, is to keep exchange as near to par as possible.

Could reciprocal debts be always exchanged at par, and could the expence of bringing home, and sending a balance abroad, be defrayed by the state, I think it would prove a great advantage to the trade of a nation. I do not pretend to say that, as matters stand, the thing is practicable; but as it is a question which relates to my subject, and seems both curious and interesting, I shall here examine it.

At first sight, this idea will appear chimerical; and some readers may despise it too much, to be at the trouble to read what may be said for it. I shall therefore set out by informing them that the scheme has been tried, in a great kingdom in Europe, under a great minister: I say it was attempted in France, in the year 1726, under the administration of Cardinal Fleuri, and produced its effect; although it was soon given up, from a circumstance which, I think, never can occur in Great Britain.

After the last general coinage in France, 1726, exchange became so unfavourable to that kingdom, that there was a general outcry. The Cardinal, to put a stop to the clamour, and set trade to rights, as he thought, ordered Samuel Bernard, at that time a man of great credit, to give bills on Holland at par, to all the merchants. To enable him to place funds in Amsterdam, for the payment of his bills, the Cardinal supplied this exchanger with sufficient quantities of the old coin, then cried down, and paid for the exportation of it to Holland.

Upon this exchange on Holland came to par; and all exchangers at Paris looked on the operation with amazement. The minister, however, in a short time discovered, that by this he was undoing with one hand, what he wanted to establish with the other. He therefore stopped in his career, after having paid, perhaps, ten times the balance due to Holland.

By

By unfolding the combination of this operation, I shall be better able to cast light on the question before us, than in any other way.

When the general coinage was made in France, by the arret of the month of January 1726, all the old coin was cried down, and ordered to be recoined. The mint price of fine gold *per* marc was fixed at 536 livres 14 sols 6 deniers; and the silver at 37 livres 1 sol 9 deniers. These were the prices at which the mint paid for bullion, when offered to be coined. But the King, as if he had a right upon the metal in the old coin, commanded it to be delivered at the mint at no higher rate than 492 livres for the marc of fine gold, and at 34 livres for the marc of fine silver: and to compel the possessors of it to bring it in, all exportation and melting down was made highly penal; the avenues from France were beset with guards to prevent the going out; and the melting pots were strictly watched. Upon this, the possessors of the old coin, rather than sell it to the mint at so great an undervalue, had recourse to exchangers for bills upon Holland for it: and these being obliged to send it thither at a great expence and risk, exacted a very high exchange, which, consequently, affected the whole trade of France.

Politicians persuaded the Cardinal, that exchange had got up so high, not from the discredit cast on the old coin, but because of the wrong balance, and the alteration which had been made at that time upon the denomination of the new: and that so soon as the balance against France was paid, exchange would return to par. Upon this the Cardinal set Bernard to work, but he soon discovered his mistake; and by arret of the 15th of June the same year, raised the mint price of the old coin, and then exchange became favourable.

These are all facts mentioned by Dutot, and yet he never will ascribe the rise of exchange in France to any other cause than to the tampering with the denominations of their coin: an operation which may rob one set of people in favour of another; but which has very little effect upon exchange, when other circumstances do not concur, as in the case before us.

Now

Now had the high exchange againſt France been owing to a wrong balance upon her trade, is it not evident that the Cardinal's operation would have ſucceeded, that all demands for bills at Samuel Bernard's office would have been confined to the exact extent of that balance; that the reciprocal debts would have been negotiated between the merchants at par; and, conſequently, that all expence upon exchange would have been ſaved to individuals, at the ſmall charge to government of tranſporting the balance paid for the bills by the merchants at Paris?

Were proſperous trading ſtates, therefore, conducted by ſtateſmen, intelligent, capable, and uninfluenced by motives of private intereſt, they would make it a rule to be at the expence of ſending off, and bringing home all balances, without the charge of exchange to traders: but the conſequence of either neglect, or incapacity in the man at the helm, would then become ſo fatal that it might be dangerous to attempt, at once, ſo great a change in the preſent method of paying balances: but I never make allowances for the defects of a ſtateſman, while I am deducing the principles which ought to direct his conduct.

I ſhall next ſlightly point out the bad conſequences which, *upon an unfavourable ſtate of commerce*, might reſult from ſuch a plan; and without recommending any thing to practice, leave the reader to judge of the expediency.

We ſee, that by a ſtateſman's giving bills at par, *on all occaſions*, and being himſelf at the expence of tranſportation and inſurance, in bringing home and ſending off all balances, exchange would of itſelf come to par.

The firſt conſequence of this would be, the total annihilation of the exchange buſineſs; and if, after that, any interruption ſhould happen by neglect in the ſtateſman, trade might ſuffer conſiderably.

Another conſequence is, that the moſt deſtructive trade would go forward without a check, as long as merchants could pay the par of the bills they demanded upon foreign parts: and this they would conſtantly be enabled to do, while there was either coin or paper in circulation, as has been explained in treating of banks of circulation upon mortgage.

The conſequence of this would be, to oblige the ſtate to pledge the revenue of the country to ſtrangers, in proportion to the balance owing, over and above the extent of the metals to diſcharge it.

Now the queſtion is, and this I ſhall leave to the ſagacity of my reader to determine, whether, as matters ſtand, there be any check proceeding from high exchange which can prevent the bad conſequences here ſet forth. I ſuſpect there is not. We ſee the moſt enormous ſums lent by nations to nations; raiſing the exchange againſt the lenders; turning it in favour of the borrowers, but never preventing the loan from going forward. Does not Great Britain, as well as France, owe amazing ſums to other nations, at the expence of paying the intereſt out of their revenue? And have not all thoſe ſums been tranſacted by exchangers, who have made great fortunes by it? Are not the moſt unfavourable balances paid in the ordinary method? Are there not, therefore, already, inſtruments in the hands of all nations, ſufficient for their undoing? How could their ruin be accelerated by this alteration in the mode of performing the ſame thing?

But let it be obſerved, that our buſineſs, in this chapter, is to ſearch for methods to advance the proſperity of flouriſhing nations, who have a balance owing to them; and here we have been ſetting forth the bad conſequences which reſult from *theſe*, to others who are in decay. Every argument, therefore, drawn againſt this ſcheme, in favour of the idle or prodigal, is an argument in favour of it, with reſpect to the induſtrious and frugal. As all nations are liable to alternate viciſſitudes of proſperity and adverſity, the principles here laid down require to be carefully combined with domeſtic circumſtances, before they be applied to practice.

It was with a view to this diſtinction, that, in the title of this chapter, I pointed out the queſtion there propoſed, as relative to the ſtate of it in a *proſperous trading nation*; and I am not quite clear how far it might not be advantageous in every caſe: but this queſtion I ſhall

ſhall not here enlarge upon. What has been ſaid, will, I hope, be ſufficient to point out the principles upon which the deciſion depends; and if any ſtateſman inclines to try the conſequences of it by an experiment now and then, nothing is ſo eaſy as to do it, without any detriment. This is proved from the operation performed by the French cardinal, on the occaſion of a very unfavourable and high exchange.

CHAP. V.

How, when other expedients prove ineffectual for diſcharging of Balances, the ſame may be paid by the Means of Credit, without the Intervention of Coin or Bullion; and who are thoſe who ought to conduct that Operation.

WE have now applied the principles formerly laid down, towards diſcovering the moſt proper expedients for removing or palliating the three inconveniences to be ſtruggled with in regulating exchange-property. 1. How to eſtimate the value of a balance due: 2. How to pay it with the coin or bullion of the country: and laſtly, How to prevent the price of exchange from affecting any thing more than the balance to be paid, after all reciprocal debts have been compenſated.

It remains to inquire, what are the moſt proper methods to acquit what a nation may owe, after it has done all it can to pay the value of their balance in the other way.

At firſt ſight, it muſt appear evident that the only method here is to give ſecurity, and pay intereſt for what cannot be paid in any other value. This is conſtantly done by every nation; but as the ordinary methods are very perplexed, and are attended with expences which raiſe exchange to a great height, and thereby prove a prodigious diſcouragement to trade in general: it would be no ſmall advantage, could all this loſs on exchange be equally thrown upon every claſs within the ſtate, inſtead of being thrown entirely upon its commerce.

As this is the expedient to be propoſed, it will not be amiſs to obſerve, that foreign balances ariſe chiefly upon four articles. 1. The great importation and conſumption of foreign productions. 2. The payment of debts and intereſt due to foreigners. 3. The lending money to other nations. And 4. the great expence of the ſtate, or of individuals, abroad.

Could all the bad conſequences ariſing from theſe four cauſes, and the high exchange occaſioned by them, be caſt upon that intereſt alone which occaſions them, I would not propoſe to lay the whole body of the nation under contribution for repairing the loſs.

But if from the nature of the thing, as matters ſtand, the whole be found to fall upon trade, without a poſſibility of preventing it, in this caſe, I think, it is better for the nation, *in cumulo*, to lend its aſſiſtance, and ſhare the burdens, than to allow it to fall upon that part of the body politic from which the whole draws its vigour and proſperity.

It cannot be denied, that when a heavy balance is due by a nation, it has the effect of raiſing exchange upon every draught or remittance. When bills are demanded to pay a foreign claim, it cannot be determined from what cauſe the claim has ariſen. Whether for national purpoſes or not, the exchange is the ſame, and equally affects the whole intereſt of trade.

If this be a fair ſtate of the caſe, I think we may determine, that ſuch balances are to be paid by the aſſiſtance and intervention of a ſtateſman's adminiſtration.

The object is not ſo great as at firſt ſight it may appear. We do not propoſe that the value of this balance ſhould be advanced by the ſtate: by no means. They who owe the balance muſt, as at preſent, find a value for the bills they demand. Neither would I propose such a plan for any nation who had, upon the average of their trade, a balance against them; but if, on the whole, the balance be favourable, I would not, for the sake of saving a little trouble and expence, suffer the alternate vibrations of exchange to disturb the uniformity of profits which tends so much to encourage every branch of commerce.

We have abundantly explained the fatal effects of a wrong balance to banks which circulate paper; and we have shewn how necessary it is that they should perform what we here recommend. There is therefore nothing new in this proposal: it is only carrying the consequences of the same principle one step farther, by pointing out, as a branch of policy, how government should be assisting to trade in the payment of balances, where credit abroad is required; and this assistance should be given out of the public money.

The greatest, and indeed, I think, the only objection to this scheme, is, that by it the condition of our foreign creditors will be bettered, for no value received from them. This I allow will be the case when the balance is against England: but it will be compensated to the creditors by the loss they will sustain when the balance is in her favour. But supposing there should be a benefit to foreign creditors, will not this circumstance raise the confidence of all the world in the English funds? If there was a proposal made for lowering the rate of money, by refunding the debts which bear a higher interest than what money can be procured for, were the continent to pour her wealth into our subscription, might we not then more readily expect a supply from that quarter? Besides, is not all the interest due to foreign creditors paid in bank paper? Is not this demandable in coin, and will not this coin be exported, if credit be not found? Were the bank of England to keep a subscription open, at all times, in Amsterdam, for money to be borrowed there, on the payment of the interest in that city, who doubts but loans might be procured at much less expence than at present, when we beat about for credit every where, until by the return of a favourable balance upon the trade of England, she shall be enabled to fill up the void.

I feel my own insufficiency to unfold the many combinations which such an operation must imply. I therefore shall not attempt what, at any rate, I must leave imperfect. What has been said, combined with what has been thrown out on the same subject, in treating of other matters, is sufficient to give a hint, as to the expediency of the plan in general. And as to the objection which arises from the payments to the public creditors abroad, I shall reserve the more ample discussion of it till I come to consider the doctrine of public credit.

End of the Third Part.