constant balance of money from abroad, the circulation will become more considerable there than in foreign countries, money will be more plentiful there, and consequently Land and Labour will gradually become dearer there. It will follow that in all the branches of commerce the State in question will exchange a smaller amount of Land and Labour with the Foreigner for a larger amount, so long as these circumstances continue.

But if some Foreigner reside in the State in question he will be in about the same situation and circumstances as the Proprietor at Paris who has his Land in distant Provinces.

France, since the erection in 1646 of Manufactories of cloth and other works since set up, appeared to trade, at least in part, in the way described. Since the decay of France England has taken possession of this trade; and all States appear flourishing only by the larger or smaller part they have in it. The inequality of the circulation of Money in the different States constitutes the inequality of their respective power, other things being equal; and this inequality of circulation is always respective to the balance of Foreign Trade.

It is easy to judge from what has been said in this Chapter that the assessment by Taxes of the Royal Tithe, made by M. de Vauban, would be neither advantageous nor practicable. If the taxes on Land were levied in Money proportionable to the rents of the Proprietors, it would be fairer. But I must not wander from my subject to shew the inconvenience and impossibility of M. de Vauban's proposal.

## CHAPTER VI

### *Of the increase and decrease in the quantity of hard money in a State*

If Mines of gold or silver be found in a State and considerable quantities of minerals drawn from them, the

Proprietor of these Mines, the Undertakers, and all those who work there, will not fail to increase their expenses in proportion to the wealth and profit they make: they will also lend at interest the sums of money which they have over and above what they need to spend.

All this money, whether lent or spent, will enter into circulation and will not fail to raise the price of products and merchandise in all the channels of circulation which it enters. Increased money will bring about increased expenditure and this will cause an increase of Market prices in the highest years of exchange and gradually in the lowest.

Everybody agrees that the abundance of money or its increase in exchange, raises the price of everything. The quantity of money brought from America to Europe for the last two centuries justifies this truth by experience.

M. Locke lays it down as a fundamental maxim that the quantity of produce and merchandise in proportion to the quantity of money serves as the regulator of Market price. I have tried to elucidate his idea in the preceding Chapters: he has clearly seen that the abundance of money makes every thing dear, but he has not considered how it does so. The great difficulty of this question consists in knowing in what way and in what proportion the increase of money raises prices.

I have already remarked that an acceleration or greater rapidity in circulation of money in exchange, is equivalent to an increase of actual money up to a point. I have also observed that the increase or decrease of prices in a distant Market, home or Foreign, influences the actual Market prices. On the other hand money flows in detail through so many channels that it seems impossible not to lose sight of it seeing that having been amassed to make large sums it is distributed in the little rills of exchange, and then gradually accumulated again to make large payments. For these operations it is constantly necessary to change coins of gold, silver and copper according to the activity of exchange. It is also usually the case that the increase or decrease of actual money in a State is not perceived because it flows abroad, or is brought into the State, by such imperceptible means and proportions that it is impossible to know exactly the quantity which enters or leaves the State.

However all these operations pass under our eyes and everybody takes part in them. I may therefore venture to offer a few observations on the subject, even though I may not be able to give an account which is exact and precise.

I consider in general that an increase of actual money causes in a State a corresponding increase of consumption which gradually brings about increased prices.

If the increase of actual money comes from Mines of gold or silver in the State the Owner of these Mines, the Adventurers, the Smelters, Refiners, and all the other workers will increase their expenses in proportion to their gains. They will consume in their households more Meat, Wine, or Beer than before, will accustom themselves to wear better cloaths, finer linen, to have better furnished Houses and other choicer commodities. They will consequently give employment to several Mechanicks who had not so much to do before and who for the same reason will increase their expenses: all this increase of expense in Meat, Wine, Wool, etc. diminishes of necessity the share of the other inhabitants of the State who do not participate at first in the wealth of the Mines in question. The altercations of the Market, or the demand for Meat, Wine, Wool, etc. being more intense than usual, will not fail to raise their prices. These high prices will determine the Farmers to employ more land to produce them in another year: these same Farmers will profit by this rise of prices and will increase the expenditure of their Families like the others. Those then who will suffer from this dearness and increased consumption will be first of all the Landowners, during the term of their Leases, then their Domestic Servants and all the Workmen or fixed Wage-earners who support their families on their wages. All these must diminish their expenditure in proportion to the new consumption, which will compel a large number of them to emigrate to seek a living elsewhere. The Landowners will dismiss many of them, and the rest will demand an increase of wages to enable them to live as before. It is thus, approximately, that a considerable increase of Money from the Mines increases consumption, and by diminishing the number of inhabitants entails a greater expense among those who remain.

If more money continues to be drawn from the Mines all prices will owing to this abundance rise to such a point that not only will the Landowners raise their rents considerably when the leases expire and resume their old style of living, increasing proportionably the wages of their servants, but the Mechanics and Workmen will raise the prices of their articles so high that there will be a considerable profit in buying them from the foreigner who makes them much more cheaply. This will naturally induce several people to import many manufactured articles made in foreign countries, where they will be found very cheap: this will gradually ruin the Mechanics and Manufacturers of the State who will not be able to maintain themselves there by working at such low prices owing to the dearness of living.

When the excessive abundance of money from the Mines has diminished the inhabitants of a State, accustomed those who remain to a too large expenditure, raised the produce of the land and the labour of workmen to excessive prices, ruined the manufactures of the State by the use of foreign productions on the part of Landlords and mine workers, the money produced by the Mines will necessarily go abroad to pay for the imports: this will gradually impoverish the State and render it in some sort dependent on the Foreigner to whom it is obliged to send money every year as it is drawn from the Mines. The great circulation of Money, which was general at the beginning, ceases: poverty and misery follow and the labour of the Mines appears to be only to the advantage of those employed upon them and the Foreigners who profit thereby.

This is approximately what has happened to Spain since the discovery of the Indies. As to the Portuguese, since the discovery of the gold mines of Brazil, they have nearly always made use of foreign articles and manufactures; and it seems that they work at the Mines only for the account and advantage of foreigners. All the gold and silver which these two States extract from the Mines does not supply them in circulation with more precious metal than others. England and France have even more as a rule.

Now if the increase of money in the State proceeds from a balance of foreign trade (i.e. from sending abroad articles and manufactures in greater value and quantity than is imported and consequently receiving the surplus in money) this annual increase of money will enrich a great number of Merchants and Undertakers in the State, and will give employment to numerous Mechanicks and workmen who furnish the commodities sent to the foreigner from whom the money is drawn. This will increase gradually the consumption of these industrial inhabitants and will raise the price of Land and Labour. But the industrious who are eager to acquire property will not at first increase their expense: they will wait till they have accumulated a good sum from which they can draw an assured interest, independently of their trade. When a large number of the inhabitants have acquired considerable fortunes from this money, which enters the State regularly and annually, they will, without fail, increase their consumption and raise the price of everything. Though this dearness involves them in a greater expense than they at first contemplated they will for the most part continue so long as their capital lasts; for nothing is easier or more agreeable than to increase the family expenses, nothing more difficult or disagreeable than to retrench them.

If an annual and continuous balance has brought about in a State a considerable increase of money it will not fail to increase consumption, to raise the price of everything and even to diminish the number of inhabitants unless additional produce is drawn from abroad proportionable to the increased consumption. Moreover it is usual in States which have acquired a considerable abundance of money to draw many things from neighbouring countries where money is rare and consequently everything is cheap: but as money must be sent for this the balance of trade will become smaller. The cheapness of land and labour in the foreign countries where money is rare will naturally cause the erection of Manufactories and works similar to those of the State, but which will not at first be so perfect nor so highly valued.

In this situation the State may subsist in abundance of money, consume all its own produce and also much foreign produce and over and above all this maintain a small balance of trade against the foreigner or at least keep the balance level for many years, that is import in exchange for its work and manufactures as much money from these foreign countries as it has to send them for the commodities or products of the land it takes from them. If the State is a maritime State the facility and cheapness of its shipping for the transport of its work and manufactures into foreign countries may compensate in some sort the high price of labour caused by the too great abundance of money; so that the work and Manufactures of this State, dear though they be, will sell in foreign countries cheaper sometimes than the Manufactures of another State where Labour is less highly paid.

The cost of transport increases a good deal the prices of things sent to distant countries; but these costs are very moderate in maritime States, where there is regular shipping to all foreign ports so that Ships are nearly always found there ready to sail which take on board all cargoes confided to them at a very reasonable freight.

It is not so in States where navigation does not flourish. There it is necessary to build ships expressly for the carrying trade and this sometimes absorbs all the profit; and navigation there is always very expensive, which entirely discourages trade.

England today consumes not only the greatest part of its own small produce but also much foreign produce, such as Silks, Wines, Fruit, Linen in great quantity, etc. while she sends abroad only the produce of her Mines, her work and Manufactures for the most part, and dear though Labour be owing to the abundance of money, she does not fail to sell her articles in distant countries, owing to the advantage of her shipping, at prices as reasonable as in France where these same articles are much cheaper.

The increased quantity of money in circulation in a State may also be caused, without balance of trade, by subsidies paid to this State by foreign powers, by the expenses of several Ambassadors, or of Travellers whom political reasons or curiosity or pleasure may induce to reside there for some time, by the transfer of the property and fortune of some Families who from motives of religious liberty or other causes quit their own country to settle down in this State. In all these cases the sums which come into the State always cause an increased expense and consumption there and consequently raise the prices of all things in the channels of exchange into which money enters.

Suppose a quarter of the inhabitants of the State consume daily Meat, Wine, Beer, etc. and supply themselves frequently with Cloaths, Linen, etc. before the increase in money, but that after the increase a third or half of the inhabitants consume these same things, the prices of them will not fail to rise, and the dearness of Meat will induce several of those who formed a quarter of the State to consume less of it than usual. A man who eats three pounds of Meat a day will manage with two pounds, but he feels the reduction, while the other half of the inhabitants who ate hardly any meat will not feel the reduction. Bread will in truth go up gradually because of this increased consumption, as I have often suggested, but it will be less dear in proportion than Meat. The increased price of Meat causes diminished consumption on the part of a small section of the people, and so is felt; but the increased price of bread diminishes the share of all the inhabitants, and so is less felt. If 100,000 extra people come to live in a State of 10 millions of inhabitants, their extra consumption of bread will amount to only 1 pound in 100 which must be subtracted from the old inhabitants; but when a man instead of 100 pounds of bread consumes 99 for his subsistence he hardly feels this reduction.

When the consumption of Meat increases the Farmers add to their pastures to get more Meat, and this diminishes the arable land and consequently the amount of corn. But what generally causes Meat to become dearer in proportion than Bread is that ordinarily the free import of foreign corn is permitted while the import of Cattle is absolutely forbidden, as in England, or heavy import duties are imposed as in other States. This is the reason why the Rents of meadows and pastures go up in England, in the abundance of money, to three times more than the Rents of arable Land.

There is no doubt that Ambassadors, Travellers, and Families who come to settle in the State, increase consumption there and that prices rise in all the channels of exchange where money is introduced.

As to subsidies which the State has received from foreign powers, either they are hoarded for State necessities or are put into circulation. If we suppose them hoarded they do not concern my argument for I am considering only money in circulation. Hoarded money, plate, Church treasures, etc. are wealth which the State turns to service in extremity, but are of no present utility. If the State puts into circulation the subsidies in question it can only be by spending them and this will very certainly increase consumption and send up all prices. Whoever receives this money will set it in motion in the principal affair of life, which is the food, either of himself or of some other, since to this everything corresponds directly or indirectly.

## CHAPTER VII

### *Continuation of the same subject*

As Gold, Silver, and Copper have an intrinsic value proportionable to the Land and Labour which enter into their production at the Mines added to the cost of their importation or introduction into States which have no Mines, the quantity of money, as of all other commodities, determines its value in the bargaining of the Market against other things.

If England begins for the first time to make use of Gold, Silver, and Copper in exchanges money will be valued according to the quantity of it in circulation proportionably to its power of exchange against all other merchandise and produce, and their value will be arrived at roughly by the altercations of the Markets. On the footing of this estimation the Landowners and Undertakers will fix the wages of their Domestic Servants and Workmen at so much a day or a year, so that they and their families may be able to live on the wages they receive.

Suppose now that the residence of Ambassadors and foreign travellers in England have introduced as much money into the circulation there as there was before; this money will at first pass into the hands of various Mechanicks, Domestic Servants, Undertakers and others who have had a share in providing the equipages, amusements, etc. of these Foreigners; the Manufacturers, Farmers, and other Undertakers will feel the effect of this increase of money which will habituate a great number of people to a larger expense than before, and this will in consequence send up Market prices. Even the children of these Undertakers and Mechanicks will embark upon new expense: in this abundance of money their Fathers will give them a little money for their petty pleasures, and with this they will buy cakes and patties, and this new quantity of money will spread itself in such a way that many who lived without handling money will now have some. Many purchases which used to be made on credit will now be made for cash, and there will therefore be greater rapidity in the circulation of money in England than there was before.

From all this I conclude that by doubling the quantity of money in a State the prices of products and merchandise are not always doubled. A River which runs and winds about in its bed will not flow with double the speed when the amount of its water is doubled.

The proportion of the dearness which the increased quantity of money brings about in the State will depend on the turn which this money will impart to consumption and circulation. Through whatever hands the money which is introduced may pass it will naturally increase the consumption; but this consumption will be more or less great according to circumstances. It will be directed more or less to certain kinds of products or merchandise according to the idea of those who acquire the money. Market prices will rise more for certain things than for others however abundant the money may be. In England the price of meat might be tripled while the price of corn went up only one fourth.

In England it is always permitted to bring in corn from foreign countries, but not cattle. For this reason however great the increase of hard money may be in England the price of corn can only be raised above the price in other countries where money is scarce by the cost and risks of importing corn from these foreign countries.

It is not the same with the price of Cattle, which will necessarily be proportioned to the quantity of money offered for Meat in proportion to the quantity of Meat and the number of Cattle bred there.

An ox weighing 800 pounds sells in Poland and Hungary for two or three ounces of silver, but commonly sells in the London Market for more than 40. Yet the bushel of flour does not sell in London for double the price in Poland and Hungary.

Increase of money only increases the price of products and merchandise by the difference of the cost of transport, when this transport is allowed. But in many cases the carriage would cost more than the thing is worth, and so timber is useless in many places. This cost of carriage is the reason why Milk, Fresh Butter, Salads, Game, etc. are almost given away in the provinces distant from the Capital.

I conclude that an increase of money circulating in a State always causes there an increase of consumption and a higher standard of expense. But the dearness caused by this money does not affect equally all the kinds of products and merchandise, proportionably to the quantity of money, unless what is added continues in the same circulation as the money before, that is to say unless those who offer in the Market one ounce of silver be the same and only ones who now offer two ounces when the amount of money in circulation is doubled in quantity, and that is hardly ever the case. I conceive that when a large surplus of money is brought into a State the new money gives a new turn to consumption and even a new speed to circulation. But it is not possible to say exactly to what extent.

## CHAPTER VIII

### *Further Reflection on the same subject*

We have seen that the quantity of money circulating in a State may be increased by working the Mines which are found in it, by subsidies from foreign powers, by the immigration of Families of foreigners, by the residence of Ambassadors and Travellers, but above all by a regular and annual balance of trade from supplying merchandise to Foreigners and drawing from them at least part of the price in gold and silver. It is by this last means that a State grows most substantially, especially when its trade is accompanied and supported by ample navigation and by a considerable raw produce at home supplying the material necessary for the goods and manufactures sent abroad.

As however the continuation of this Commerce gradually introduces a great abundance of money and little by little increases consumption, and as to meet this much foreign produce must be brought in, part of the annual balance goes out to pay for it. On the other hand the habit of spending increasing the employment of labourers the prices of Manufactured goods always go up. Without fail some foreign countries endeavour to set up for themselves the same kinds of Manufactures, and so cease to buy those of the State in question; and though these new Establishments of crafts and Manufactures be not at first perfect they slacken and even prevent the exportation of those of the neighbouring State into their own country where they can be got cheaper.

Thus it is that the State begins to lose some branches of its profitable Trade: and many of its Workmen and Mechanicks who see labour fallen off leave the State to find more work in the countries with the new Manufacture. In spite of this diminution in the balance of trade the custom of importing various products will continue. The articles and Manufactures of the State having a great reputation, and the facility of navigation affording the means of sending them at little cost into distant countries, the State will for many years keep the upper hand over the new Manufactures of which we have spoken and will still maintain a small Balance of Trade, or at least will keep it even. If however some other maritime State tries to perfect the same articles and its navigation at the same time it will owing to the cheapness of its manufactures take away several branches of trade from the State in question. In consequence this State will begin to lose its balance of trade and will be forced to send every year a part of its money abroad to pay for its importations.

Moreover, even if the State in question could keep a balance of trade in its greater abundance of money it is reasonable to suppose that this abundance will not arrive without many wealthy individuals springing up who will plunge into luxury. They will buy Pictures and Gems from the Foreigner, will procure their Silks and rare objects, and set such an example of luxury in the State that in spite of the advantage of its ordinary trade its money will flow abroad annually to pay for this luxury. This will gradually impoverish the State and cause it to pass from great power into great weakness.

When a State has arrived at the highest point of wealth (I assume always that the comparative wealth of States consists principally in the respective quantities of money which they possess) it will inevitably fall into poverty by the ordinary course of things. The too great abundance of money, which so long as it lasts forms the power of States, throws them back imperceptibly but naturally into poverty. Thus it would seem that when a State expands by trade and the abundance of money raises the price of Land and Labour, the Prince or the Legislator ought to withdraw money from circulation, keep it for emergencies, and try to retard its circulation by every means except compulsion and bad faith, so as to forestall the too great dearness of its articles and prevent the drawbacks of luxury.

But as it is not easy to discover the time opportune for this, nor to know when money has become more abundant than it ought to be for the good and preservation of the advantages of the State, the Princes and Heads of Republics, who do not concern themselves much with this sort of knowledge, attach themselves only to make use of the facility which they find through the abundance of their State revenues, to extend their power and to insult other countries on the most frivolous pretexts. And all things considered they do not perhaps so badly in working to perpetuate the glory of their reigns and administrations, and to leave monuments of their power and wealth; for since, according to the natural course of humanity, the State must collapse of itself they do but accelerate its fall a little. Nevertheless it seems that they ought to endeavour to make their power last all the time of their own administration.

It does not need a great many years to raise abundance to the highest point in a State, still fewer are needed to bring it to poverty for lack of Commerce and Manufactures. Not to speak of the power and fall of the Republic of Venice, the Hanseatic Towns, Flanders and Brabant, the Dutch Republic, etc. who have succeeded each other in the profitable branches of trade, one may say that the power of France has been on the increase only from 1646 (when Manufactures of Cloths were set up there, which were until then imported) to 1684 when a number of Protestant Undertakers and Artisans were driven out of it, and that kingdom has done nothing but recede since this last date.

To judge of the abundance and scarcity of money in circulation, I know no better measure than the Leases and Rents of Landowners. When Land is let at high Rents it is a sign that there is plenty of Money in the State; but when Land has to be let much lower it shows, other things being equal, that Money is scarce. I have read in an *État de la France* that the acre of vineyard which was let in 1660 near Mantes, and therefore not far from the Capital of France, for 200 livres tournois in money of full weight, only let in 1700 for 100 livres tournois in lighter money, though the silver brought from the West Indies in the interval should naturally have sent up the price of Land in Europe.

The Author [of the *État*] attributes this fall in Rent to defective consumption. And it seems that he had in fact observed that the consumption of Wine had diminished. But I think he has mistaken the effect for the cause. The cause was a greater rarity of money in France, and the effect of this was naturally a falling off in consumption.

In this Essay I have always suggested, on the contrary, that abundant money naturally increases consumption and contributes above everything to the cultivation of land. When abundant money raises produce to respectable prices the inhabitants make haste to work to acquire it; but they are not in the same hurry to acquire produce or merchandise beyond what is needed for their maintenance.

It is clear that every State which has more money in circulation than its neighbours has an advantage over them so long as it maintains this abundance of money.

In the first place in all branches of trade it gives less Land and Labour than it receives: the price of Land and Labour being everywhere reckoned in money is higher in the State where money is most abundant. Thus the State in question receives sometimes the produce of two acres of Land in exchange for that of one acre, and the work of two men for that of only one. It is because of this abundance of money in circulation in London that the work of one English embroiderer costs more than that of 10 Chinese embroiderers, though the Chinese embroider much better and turn out more work in a day. In Europe one is astonished how these Indians can live, working so cheap, and how the admirable stuffs which they send us cost so little.

In the second place, the revenues of the State where money abounds, are raised more easily and in comparatively much larger amount. This gives the State, in case of war or dispute, the means to gain all sorts of advantages over its adversaries with whom money is scarce.

If of two Princes who war upon each other for the Sovereignty or Conquest of a State one have much money and the other little money but many estates which may be worth twice as much as all the money of his enemy, the first will be better able to attach to himself Generals and Officers by gifts of money than the second will be by giving twice the value in lands and estates. Grants of Land are subject to challenge and revocation and cannot be relied upon so well as the money which is received. With money munitions of war and food are bought even from the enemies of the State. Money can be given without witnesses for secret service. Lands, Produce, Merchandise would not serve for these purposes, not even jewels or diamonds, because they are easily recognised. After all it seems to me that the comparative Power and Wealth of States consist, other things being equal, in the greater or less abundance of money circulating in them *hic et nunc*.

It remains to mention two other methods of increasing the amount of money in active circulation in a State. The first is when Undertakers and private individuals borrow money from their foreign correspondents at interest, or individuals abroad send their money into the State to buy shares or Government stocks there. This often amounts to very considerable sums upon which the State must annually pay interest to these foreigners. These methods of increasing the money in the State make it more abundant there and diminish the rate of interest. By means of this money the Undertakers in the State find it possible to borrow more cheaply to set people on work and to establish Manufactories in the hope of profit. The Artisans and all those through whose hands this money passes, consume more than they would have done if they had not been employed by means of this money, which consequently increases prices just as if it belonged to the State, and through the increased consumption or expense thus caused the public revenues derived from taxes on consumption are augmented. Sums lent to the State in this way bring with them many present advantages, but the end of them is always burdensome and harmful. The State must pay the interest to the Foreigners every year, and besides this is at the mercy of the Foreigners who can always put it into difficulty when they take it into their heads to withdraw their capital. It will certainly arrive that they will want to withdraw it at the moment when the State has most need of it, as when preparations for war are in hand and a hitch is feared. The interest paid to the Foreigner is always much more considerable than the increase of public revenue which his money occasions. These loans of money are often seen to pass from one Country to another according to the confidence of investors in the States to which they are sent. But to tell the truth it most commonly happens that States loaded with these loans, who have paid heavy interest on them for many years, fall at length by bankruptcy into inability to pay the Capital. As soon as distrust is awakened the shares or Public stocks fall, the Foreign shareholders do not like to realise them at a loss and prefer to content themselves with the interest, hoping that confidence will revive. But sometimes it never revives. In States which decline into decay the principal object of Ministers is usually to restore confidence and so attract foreign money by loans of this kind. For unless the Ministry fails to keep faith and to observe its engagements the money of the subjects will circulate without interruption. It is the money of the foreigners which has the power of increasing the circulating currency in the State.

But the resource of these borrowings which gives a present ease comes to a bad end and is a fire of straw. To revive a State it is needful to have a care to bring about the influx of an annual, a constant and a real balance of Trade, to make flourishing by Navigation the articles and manufactures which can always be sent abroad cheaper when the State is in a low condition and has a shortage of money. Merchants are first to begin to make their fortunes, then the lawyers may get part of it, the Prince and the Farmers of the Revenue get a share at the expense of these, and distribute their graces as they please. When money becomes too plentiful in the State, Luxury will instal itself and the State will fall into decay.

Such is approximately the circle which may be run by a considerable State which has both capital and industrious inhabitants. An able Minister is always able to make it recommence this round. Not many years are needed to see it tried and succeed, at least at the beginning which is its most interesting position. The increased quantity of money in circulation will be perceived in several ways which my argument does not allow me to examine now.

As for States which have not much capital and can only increase by accidents and conjuncture it is difficult to find means to make them flourish by trade. No ministers can restore the Republics of Venice and Holland to the brilliant situation from which they have fallen. But as to Italy, Spain, France, and England, however low they may be fallen, they are always capable of being raised by good administration to a high degree of power by trade alone, provided it be undertaken separately, for if all these States were equally well administered they would be great only in proportion to their respective capital and to the greater or less industry of their people.

The last method I can think of to increase the quantity of money actually circulating in a State is by Violence and Arms and this is often blended with the others, since in all Treaties of Peace it is generally provided to retain the trading rights and privileges which it has been possible to derive from them. When a State exacts contributions or makes several other States tributary to it, this is a very sure method of obtaining their money. I will not undertake to examine the methods of putting this device into practice, but will content myself with saying that all the Nations who have flourished in this way have not failed to decline, like States who have flourished through their trade. The ancient Romans were more powerful in this wise than all the other Peoples we know of. Yet these same Romans before losing an inch of the Land of their vast Estates fell into decline by Luxury and brought themselves low by the diminution of the money which had circulated among them, but which Luxury caused to pass from their great Empire into oriental countries.

So long as the luxury of the Romans (which did not begin till after the defeat of Antiochus, King of Asia about A.U.C. 564) was confined to the produce of the Land and Labour of all the vast Estates of their dominion, the circulation of money increased instead of diminishing. The Public was in possession of all the Mines of Gold, Silver, and Copper in the Empire. They had the gold Mines of Asia, Macedonia, Aquilaea and the rich mines both of gold and silver of Spain and other countries. They had several Mints where gold, silver and copper coins were struck. The consumption at Rome of all the articles and merchandise which they drew from their vast Provinces did not diminish the circulation of the currency, any more than Pictures, Statues and Jewels which they drew from them. Though the patricians laid out excessive amounts for their feasts and paid 15,000 ounces of silver for a single fish, all that did not diminish the quantity of money circulating in Rome, seeing that the tribute of the Provinces regularly brought it back, to say nothing of what Praetors and Governors brought thither by their extortions. The amounts annually extracted from the Mines merely increased the circulation at Rome during the whole reign of Augustus. Luxury was however already on a very great scale, and there was much eagerness not only for curiosities produced in the Empire but also for jewels from India, pepper and spices, and all the rarities of Arabia, and the silks which were not made with raw materials of the Empire began to be in demand there. The Money drawn from the Mines still exceeded however the sums sent out of the Empire to buy all these things. Nevertheless under Tiberius a scarcity of money was felt. That Emperor had shut up in his Treasury 2 milliards and 700 millions of sesterces. To restore abundance of circulation he had only to borrow 300 millions on the mortgage of his Estates. Caligula in less than one year spent all this treasure of Tiberius after his death, and it was then that the abundance of money in circulation was at its highest in Rome. The fury of Luxury kept on increasing. In the time of Pliny, the historian, there was exported from the Empire, as he estimated, at least 100 millions of sesterces annually. This was more than was drawn from the Mines. Under Trajan the price of Land had fallen by one-third or more, according to the younger Pliny, and money continued to decrease until the time of the Emperor Septimus Severus. It was then so scarce at Rome that the Emperor made enormous granaries, being unable to collect large treasure for his enterprises. Thus the Roman Empire fell into decline through the loss of its money before losing any of its estates. Behold what Luxury brought about and what it always will bring about in similar circumstances.

## Chapter IX

### *Of the Interest of Money and its Causes*

Just as the Prices of things are fixed in the altercations of the Market by the quantity of things offered for sale in proportion to the quantity of money offered for them, or, what comes to the same thing, by the proportionate number of Sellers and Buyers, so in the same way the Interest of Money in a State is settled by the proportionate number of Lenders and Borrowers.

Though money passes for a pledge in exchange it does not multiply itself or beget an interest in simple circulation. The needs of man seem to have introduced the usage of Interest. A man who lends his money on these different countries. The price of everything increases gradually when the nominal value of coins increases, and the actual quantity in weight and fineness of the coins, taking into account the rapidity of circulation, is the base and regulator of values. A State neither gains nor loses by the raising or lowering of these coins so long as it keeps the same quantity of them, though individuals may gain or lose by the variation according to their engagements. All people are full of false prejudice and false ideas as to the nominal value of their coinage. We have shewn in the Chapter on Exchanges that the invariable rule of them is the price and fineness of the current coins of different countries, marc for marc and ounce for ounce. If a raising or lowering of the nominal value changes this rule for a time in France it is only during a crisis and difficulty in trade. A return is always made little by little to intrinsic value, to which prices are necessarily brought both in the market and in the foreign exchanges.

## CHAPTER VI

### *Of Banks and their Credit*

If a hundred economical gentlemen or Proprietors of Land, who put by every year money from their savings to buy land on occasion, deposit each one 10,000 ounces of silver with a Goldsmith or Banker in London, to avoid the trouble of keeping this money in their houses and the thefts which might be made of it, they will take from them notes payable on demand. Often they will leave their money there a long time, and even when they have made some purchase they will give notice to the Banker some time in advance to have their money ready when the formalities and legal documents are complete.

In these circumstances the Banker will often be able to lend 90,000 ounces of the 100,000 he owes throughout the year and will only need to keep in hand 10,000 ounces to meet all the withdrawals. He has to do with wealthy and economical persons; as fast as one thousand ounces are demanded of him in one direction, a thousand are brought to him from another. It is enough as a rule for him to keep in hand the tenth part of his deposits. There have been examples and experiences of this in London. Instead of the individuals in question keeping in hand all the year round the greatest part of 100,000 ounces the custom of depositing it with a Banker causes 90,000 ounces of the 100,000 to be put into circulation. This is primarily the idea one can form of the utility of Banks of this sort. The Bankers or Goldsmiths contribute to accelerate the circulation of money. They lend it out at interest at their own risk and peril, and yet they are or ought to be always ready to cash their notes when desired on demand.

If an individual has 1000 ounces to pay to another he will give him in payment the Banker's note for that amount. This other will perhaps not go and demand the money of the Banker. He will keep the note and give it on occasion to a third person in payment, and this note may pass through several hands in large payments without any one going for a long time to demand the money from the Banker. It will be only some one who has not complete confidence or has several small sums to pay who will demand the amount of it. In this first example the cash of a Banker is only the tenth part of his trade.

If 100 individuals or Landowners deposit with a Banker their income every six months as it is received, and then demand their money back as and when they have need to spend it, the Banker will be in a position to lend much more of the money which he owes and receives at the beginning of the half years, for a short term of some months, than he will be towards the end of these periods. And his experience of the conduct of his Clients will teach him that he can hardly lend during the whole year more than about one half of the sums which he owes. Bankers of this kind will be ruined in credit if they fail for one instant to pay their notes on their first presentation, and when they are short of cash in hand they will give anything to have money at once, that is to say a much higher interest than they receive on the sums they have lent. Hence they make it a rule based on their experience to keep always in hand enough to meet demands, and rather more than less. Many Bankers of this kind (and they are the greatest number) always keep in hand half the amount deposited with them and lend the other half at interest and put it into circulation. In this second example the Banker causes his notes of 100,000 ounces or écus to circulate with 50,000 écus.

If he has a great flow of deposits and great credit this increases confidence in his notes, and makes people less eager to cash them, but only delays his payments a few days or weeks when the notes fall into the hands of persons who are not accustomed to deal with him, and he ought always to guide himself by those who are accustomed to entrust their money to him. If his notes come into the hands of those of his own business they will have nothing more pressing than to withdraw the money from him.

If those who deposit money with the Banker are Undertakers and Merchants who pay in large sums daily and soon after draw them out it will often happen that if the Banker divert more than one third of his cash he will find himself in difficulty to meet the demands.

It is easy to understand by these examples that the sums of money which a Goldsmith or a Banker can lend at interest or divert from his cash are naturally proportionable to the practice and conduct of his clients; that while we have seen Bankers who were safe with a cash reserve of one-tenth, others can hardly keep less than one half or two-thirds, though their credit be as high as that of the first.

Some trust one Banker, some another. The most fortunate is the Banker who has for clients rich gentlemen who are always looking out for safe employment for their money without wishing to invest it at interest while they wait.

A general national bank has this advantage over the bank of a single Goldsmith that there is always more confidence in it. The largest deposits are willingly brought to it, even from the most remote quarters of the city, and it leaves generally to small Bankers only the deposit of petty sums in their neighbourhood. Even the revenues of the State are paid in to it in countries where the Prince is not absolute. And this, far from injuring credit and confidence in it, serves only to increase them.

If payments in a national bank are made by transfers or clearings there will be this advantage, that they are not subject to forgeries, but if the Bank gives notes false notes may be made and cause disorder. There will be also this disadvantage that those who are in the quarters of the city at a distance from the Bank will rather pay and receive in money than go thither, especially those in the country. But if the bank notes are dispersed they can be used far and near. In the national Banks of Venice and Amsterdam payment is made only in book credit, but in that of London it is made in credit, in notes, and in money at the choice of the individuals, and it is today the strongest Bank.

It will then be understood that all the advantage of Banks, public or private in a city, is to accelerate the circulation of money and to prevent so much of it from being hoarded as it would naturally be for several intervals.

## CHAPTER VII

### *Further explanations and enquiries as to the utility of a National Bank*

It is of little importance to examine why the Bank of Venice and that of Amsterdam keep their books in moneys of account different from current money, and why there is always an agio on converting these book credits into currency. It is not a point of any service for circulation. The Bank of England has not followed it in this. Its accounts, its notes and its payments are made and are kept in current coin, which seems to me more uniform and more natural and no less useful.

I have not been able to obtain exact information of the quantity of sums ordinarily brought to these Banks, nor the amount of their notes and accounts, loans, and sums kept as reserve. Some one who is better informed on these points will be better able to discuss them. As, however, I know fairly well that these sums are not so huge as commonly supposed I will not omit to give an idea of them.

If the bills and notes of the Bank of England which seems to me the most considerable, amount weekly on an average to 4,000,000 ounces of silver or about 1 million sterling, and if they are content to keep regularly in reserve a quarter or £250,000 sterling or 1 million ounces of silver in coin, the utility of this Bank to circulation corresponds to an increase of the money of the State by 3 million ounces or £750,000 sterling which is without doubt a very large sum and of very great utility for the circulation when it has need to be speeded up: for I have remarked elsewhere that there are cases where it is better for the welfare of the State to retard the circulation than to accelerate it. I have heard that the notes and bills of the Bank of England have risen in some cases to 2 millions sterling, but it seems to me this can only have been by extraordinary accident. And I think the utility of this Bank corresponds in general only to about one tenth part of all the money in circulation in England.

If the explanations given to me in round figures in 1719 on the receipts of the Bank of Venice are correct it may be said of national banks generally that their utility never corresponds to the tenth part of the current money circulating in a State. This is approximately what I ascertained there.

The revenues of the State of Venice may amount annually to 4 million ounces of silver, which must be paid in Bank money, and the Collectors set up for that purpose who receive at Bergamo and in the most distant places taxes in money, are obliged to change them into bank money when they make payment of them to the Republic.

All payments at Venice for negociations, purchases and sales above a certain modest sum must by law be made in Bank money. All the retailers who have collected current money in their dealings are compelled to buy Bank money with it to make their payments for large amounts. And those who need for their expenses or for the detail of small circulation to get back current money have to sell their Bank money to obtain it.

It is found that the sellers and buyers of the Bank money are regularly equal when the total of all the credits or inscriptions on the books of the Bank do not exceed the value of 800,000 ounces of silver or thereabout.

Time and experience (according to my informant) have given this knowledge to the Venetians. When the Bank was first set up individuals brought their money to the Bank to have credit in Bank money of the same value. This money deposited at the Bank was later on spent for the needs of the Republic and yet the Bank money preserved its original value because there were as many people who had need to buy it as those who had need to sell it. Finally the State being pressed for money gave to the War Contractors credits in Bank money instead of silver and doubled the amount of its credits.

Then the number of sellers of Bank money being much greater than the buyers Bank money began to be at a discount against silver and fell 20 per cent. below. By this discredit the revenue of the Republic fell off one fifth and the only remedy found for this disorder was to pledge part of the State revenue to borrow Bank money at interest. By these borrowings of Bank money half of them were cancelled and then the sellers and buyers being about equal the Bank regained its original credit and the total of Bank money was brought back to 800,000 ounces of silver.

It is thus that it has been ascertained that the utility of the Bank of Venice as regards circulation corresponds to about 800,000 ounces of silver: and if it is supposed that all the current money in the States of that Republic amount to 8 million ounces of silver the utility of the Bank corresponds to one tenth of that silver.

A national Bank in the capital of a great Kingdom or State must, it seems, contribute less to the utility of circulation because of the distance of its provinces, than in a small State. And when money circulates there in greater abundance than among its neighbours a national Bank does more harm than good. An abundance of fictitious and imaginary money causes the same disadvantages as an increase of real money in circulation, by raising the price of Land and Labour, or by making works and manufactures more expensive at the risk of subsequent loss. But this furtive abundance vanishes at the first gust of discredit and precipitates disorder.

Towards the middle of the reign of Louis XIV there was more money in circulation in France than in neighbouring countries, and the King's revenue was collected there without the help of a Bank, as easily and conveniently as it is collected today in England with the help of the Bank of England.

If the clearings at Lyons in one of its four Fairs amount to 80 millions of livres, if they are begun and finished with a single million of ready money, they are doubtless of great convenience in saving the trouble of an infinity of transports of silver from one house to another. But with that exception it seems that with this same million of cash which began and ended these clearings it would be quite feasible to conduct in three months all the payments of 80 millions.

The Paris bankers have often observed that the same bag of money has come back to them 4 or 5 times in the same day when they had a good deal to pay out and receive.

I think public banks of very great utility in small States and those where silver is rather scarce, but of little service for the solid advantage of a great State.

The Emperor Tiberius, a Prince strict and economical, had saved up in the Imperial Treasury 2700 millions of sesterces, equal to 25 millions sterling or 100 million ounces of silver, an enormous sum in coin for those times and even for today. It is true that in tying up so much money he embarrassed the circulation and that silver became scarcer at Rome than it had been.

Tiberius, who attributed this scarcity to the monopoly of Contractors and Financiers who farmed the Imperial revenues, ordered by an edict that they should buy land up to at least two thirds of their capital. This Edict, instead of animating the circulation threw it completely into disorder. All the Financiers hoarded and called in their capital under the pretext of putting themselves into a position to obey the Edict by buying land, which instead of rising in value sunk to a much lower price owing to the scarcity of silver in circulation. Tiberius remedied this scarcity by lending to individuals on good security only 300 million sesterces, a ninth part of the money which he had in his Treasury.

If the ninth part of the Treasury sufficed at Rome to re-establish the circulation it would seem that the establishment of a general Bank in a great Kingdom where its utility would never correspond to the tenth part of the money in circulation when it is not hoarded, would be of no real and permanent advantage, and that considered in its intrinsic value it can only be regarded as an expedient for gaining time.

But a real increase in the quantity of circulating money is of a different nature. We have already spoken of it and the Treasure of Tiberius gives us again occasion to say a word of it here. This treasure of 2700 millions of sesterces, left at the death of Tiberius, was squandered by the Emperor Caligula his successor in less than a year. Money was never seen so abundant at Rome. What was the result? This mass of money plunged the Romans into luxury and into all sorts of crimes to pay for it. More than 600,000 pounds sterling left the Empire every year for the merchandise of the Indies, and in less than 30 years the Empire grew poor and silver became very scarce there without any dismemberment or loss of a Province.

Though I consider a general Bank is in reality of very little solid service in a great State I allow that there are circumstances in which a Bank may have effects which seem astonishing.

In a city where there are public debts for considerable amounts the facility of a Bank enables one to buy and sell capital stock in a moment for enormous sums without causing any disturbance in the circulation. If at London a person sells his South Sea stock to buy stock in the Bank or in the East India Company, or hoping that in a short time he will be able to buy at a lower price stock in the same South Sea Company, he always takes Banknotes, and generally money is not asked for in respect of these Notes but only for the interest on them. As one hardly spends one's capital there is no need to change it into coin, but one is always forced to ask the Bank for money for subsistence since cash is needed for small dealings.

If a Landowner who has 1000 ounces of silver pays 200 of them for the interest of public stock and spends 800 ounces of them himself, the thousand ounces will always require coinage. This proprietor will spend 800 and the Owners of the funds will spend 200 of them. But when these Proprietors are in the habit of speculation, selling and buying public stock, no ready silver is needed for these operations, bank notes suffice. If it were necessary to draw hard cash out of circulation to serve in these purchases and sales it would amount to a great sum and would often impede the circulation, or rather it would happen in that case that the stocks could not be sold and bought so often.

It is doubtless the origin of these capitals or money deposited in the Bank and drawn out only on rare occasions, such as when an owner of capital engages in some transaction or needs cash for small purchases, which explains why the Bank keeps in reserve only the fourth or sixth part of the silver against which it issues notes. If the Bank had not the funds of many of these capitals it would in the ordinary course of circulation find itself compelled like private banks to keep half its deposits in hand to be solvent. It is true that the Bank books and its dealings do not distinguish those capitals which pass through several hands in the sales and purchases made in Change Alley. These notes are often renewed at the Bank and changed against others in purchases. But the experience of purchases and sales of stock show clearly that the total of them is considerable, and without these purchases and sales the sums deposited at the Bank would be certainly smaller.

This means that when a State is not in debt and has no need of purchases and sales of stock the help of a Bank will be less necessary and less important.

In 1720 the capital of public stock and of Bubbles which were snares and enterprises of private companies at London, rose to the value of 800 millions sterling, yet the purchases and sales of such pestilential stocks were carried on without difficulty through the quantity of notes of all kinds which were issued, while the same paper money was accepted in payment of interest. But as soon as the idea of great fortunes induced many individuals to increase their expenses, to buy carriages, foreign linen and silk, cash was needed for all that, I mean for the expenditure of the interest, and this broke up all the systems.

This example shews that the paper and credit of public and private Banks may cause surprising results in everything which does not concern ordinary expenditure for drink and food, clothing, and other family requirements, but that in the regular course of the circulation the help of Banks and credit of this kind is much smaller and less solid than is generally supposed. Silver alone is the true sinews of circulation.

## CHAPTER VIII

### *Of the refinements of Credit of General Banks*

The national Bank of London* is composed of a large number of shareholders who make choice of Directors to govern its operations. Their primitive advantage consisted in making a yearly distribution of the profits made by interest on the money lent out of the Bank deposits. Later the public debt was incorporated with it, on which the State pays an annual interest.

In spite of such a solid foundation when the Bank had made large advances to the State and the holders of notes were apprehensive that the Bank was in difficulties, a run on the Bank has been seen and holders of notes went in crowds to the Bank to draw out money. The same thing happened on the collapse of the South Sea Company in 1720.

The refinements introduced to support the Bank and

* The Bank of England is alluded to here and in the previous chapter as the *Banque de Londres*.

moderate its discredit were first to set up a number of clerks to count out the money to those bringing notes, to pay out large amounts in sixpences and shillings to gain time, to pay some part to individual holders who had been waiting whole days to take their turn; but the most considerable sums were paid to friends who took them away and brought them back secretly to the Bank to repeat the same manœuvre the next day. In this way the Bank saved its appearance and gained time until the panic should abate. But when that did not suffice the Bank opened a subscription engaging trusty and solvent people to join as guarantors of large amounts to maintain the credit and circulation of the Bank notes.

It was by this last refinement that the credit of the Bank was maintained in 1720 when the South Sea Company collapsed. As soon as it was publicly known that the subscription list was filled by wealthy and powerful people, the run on the Bank ceased and deposits were brought in as usual.

If a Minister of State in England, seeking to lower the rate of interest or for other reasons, forces up the price of public stock in London and if he has enough credit with the Directors of the Bank (under the obligation of indemnifying them in case of loss) to get them to issue a quantity of bank notes without backing, begging them to use these notes themselves to buy several blocks and capitals of the public stock, this stock will not fail to rise in price through these operations. And those who have sold stock, seeing the high price continue, will perhaps decide (so as not to leave their bank notes idle and thinking from the rumours spread about that the rate of interest will fall and the stock go up further in price) to buy it back at a higher price than they sold it for. If several people seeing the agents of the Banks buy this stock step in and do likewise, thinking to profit like them, the public funds will increase in price to the point which the Minister wishes. And it may happen that the Bank will cleverly resell at a higher price all the stock it has purchased at the Minister's request, and will not only make a large profit on it but will retire and cancel all the extraordinary banknotes which it had issued.

If the Bank alone raises the price of public stock by buying it, it will by so much depress it when it resells to cancel its excess issue of notes. But it always happens that many people wishing to follow the Agents of the Bank in their operations help to keep up the price. Some of them get caught for want of understanding these operations, in which there enter infinite refinements or rather trickery which lie outside my subject.

It is then undoubted that a Bank with the complicity of a Minister is able to raise and support the price of public stock and to lower the rate of interest in the State at the pleasure of this Minister when the steps are taken discreetly, and thus pay off the State debt. But these refinements which open the door to making large fortunes are rarely carried out for the sole advantage of the State, and those who take part in them are generally corrupted. The excess banknotes, made and issued on these occasions, do not upset the circulation, because being used for the buying and selling of stock they do not serve for household expenses and are not changed into silver. But if some panic or unforeseen crisis drove the holders to demand silver from the Bank the bomb would burst and it would be seen that these are dangerous operations.