

THE
CREDIT SYSTEM
IN
FRANCE, GREAT BRITAIN,
AND THE
UNITED STATES.

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“All discord harmony not understood.”—POPE.

“God hath made man upright, but they have sought out many inventions.”—
ECCLESIASTES.

ERRATA.

- Page 7, last line, *for* "checks" *read* "check."
19, line 19, *for* "it bears" *read* "they bear."
21, line 17, *for* "proposition" *read* "proportion."
34, Note—line 3, *for* "eight" *read* "eighty."
37, line 5, *for* "140" *read* "130."
60, line 4, *for* "were" *read* "was."
63, line 6, *for* "one-half" *read* "nearly one-half."
65, line 3, *for* "45" *read* "40."
75, line 5 from foot, *for* "landholder" *read* "labourer."
128, last line, *for* "of" *read* "for."

THE CREDIT SYSTEM.

CHAPTER I.

RISE AND PROGRESS OF CREDIT.

WHEN person and property are secure, the owners of capital are willing to apply it in various ways tending to aid the exertions of the labourer. One employs it in making rail roads or canals, secure of receiving toll for their use; another builds houses and barns; a third constructs machines by which the labour of the farmer, or that of the cotton or wollen manufacturer is rendered more productive; a fourth opens a shop at which the manufacturer and the ploughman may exchange their products; and a fifth builds wagons or ships for the transportation of such portions thereof as they may desire to exchange with persons at a distance. Unless they felt secure in so doing all would be disposed to retain their property in the most portable form, in order that it might most readily be concealed or carried off. Thus in India, exposed to plunder from the army of friend or of foe, the owner of capital would not be willing to build houses, nor would he open a shop, because he could have no security that the former would not be destroyed, or the latter plundered.

The owner of the rail road, or of the ship, or of the wagon, grants the use of his capital to the man who wishes his commodities transported to market, and the labour of the latter is thereby rendered more productive, or is improved in its *quality*. For the use of the capital so lent the former receives a portion of the commodities transported, or the value in money of that portion. The owner of a house lends it to another, and receives payment for its use, in the form of rent—as does the owner of a farm from a third who desires to cultivate it. The owner of woollen or cotton machinery lends it to the workman, who leaves in the hands of the proprietor a certain proportion of the product, as compensation

for its use; or the owner agrees to take the whole product and to pay the labourer for his share, in money, what are termed *wages*.

When the capitalist lends his capital freely credit is said to be high, and he is willing to take a small *proportion* of the product of labour for the loan of his machinery; when he does not lend it freely credit is said to be low, and he requires a large *proportion* of the product for its use. Where credit is high, labour and capital are productive, and *the small proportion* yields him a *large return*, as in the United States and England. Where credit is low, labour and capital are unproductive, and *the large proportion* of the capitalist gives him a *small return*, as in France and India.*

We have already shown† that in the infancy of society, *when cultivation is limited to the superior soils*, labour is unproductive, capital is scarce, and its owner takes a large *proportion*; but as population and capital increase, and cultivation is extended over the inferior soils, labour becomes productive, capital is accumulated with facility, and the owner takes a small *proportion*. In the first, credit is low, and the owner of capital is unwilling to lend it; whereas, in the last, credit is high, and the capitalist is not restrained by any of those doubts of the general security of property which exist in the former period. High credit is inconsistent with a scattered population, as witness Russia, Poland, and Spain, when compared with England, Scotland, and Holland. If we take the several States of the American Union, we shall find that credit is highest where population is most dense, and that the former diminishes as the latter becomes more scattered; and thus the owner of capital, in Massachusetts, prefers five per cent. at home, to the prospect of twelve per cent. in Arkansas, and with that five per cent. can obtain a larger amount of the conveniences and enjoyments of life in the former than with twelve in the latter.

* The owner of a loom in India takes more than half of the product, and lives in poverty and wretchedness. The owner of a few looms in Lyons takes one half of the product. The workman retains for his share only one half. Both are poor. The owner of looms in England and the United States takes one tenth, leaving nine tenths to the labourer. Both are enabled to live well, and constantly to improve their condition.

† Principles of Political Economy, Part the First: Of the Laws of the Production and Distribution of Wealth.

The same state of things that is observed throughout the United States, would exist throughout the world, were it not for the existence of disturbing causes. Credit should be higher in France than in Scotland; in India than in France; and in all higher than in the United States; yet such is not the fact. The capitalists of the latter are more willing to apply their capital to facilitate the operations of the labourer by the construction of rail roads, canals, houses, ships, and machinery of every description, than are those of France, and the consequence is that the labour of the former is more productive.

There are other modes in which credit tends to render labour productive, and which we propose now to consider. In those to which we have referred, the capitalist retains his property in possession of himself or of his agents, but in those to which we now refer, he places it out of his possession, trusting to the honesty of those to whom he lends it, that it, or an equivalent value in other commodities, will be returned, with rent, or interest, for its use. Thus the shopkeeper parts with spades and axes, or provisions, or clothing, to those who have occasion for them, trusting that out of the proceeds of their labour they will repay him. He, in his turn, obtains from the maker of axes and spades, or the grower of wheat, or the manufacturer of clothing, a quantity of those commodities, upon his assurance that he will pay him their value at a given time, and the manufacturer obtains from a bank or banker the use of money to enable him to purchase machinery, or raw materials, and to pay wages, and is thus enabled to grant credit to the retailer.

In the infancy of society little credit of this kind is given, and never unless the capitalist expects to obtain a very large return. In the fur trade the trader grants to the Indian a few goods, but he expects to have in payment that which will yield him three, or four, or five hundred per cent. The trapper thus obtains but about one third, one fourth, or one fifth* of the value of the com-

* "Three marten skins are obtained for a coarse knife, the utmost value of which, including the expense of conveying it to those distant regions, cannot be estimated at more than 6*d.*; and three of the skins were sold, last January, in London, for five guineas. With the more expensive furs, such as the black fox, or the sea-otter, the profit is more than tripled; and but a few years ago, a single skin of the former species sold for fifty guineas, while the native obtained in exchange the value of 2*s.*"
—*King's Arctic Expedition.*

modities produced by his labour, while the trader obtains but small returns for the use of his capital, on account of the large proportion of it that he is obliged to retain concealed and unproductive.* The Indian and the trapper remain in a state of poverty, and the trader is but moderately compensated for his toils and his risks. He has a large *proportion*, but the whole product is trifling in amount. As population becomes more dense and security more complete, shops increase in number, and the owners are willing to grant credit to all whom they deem likely to pay them. Labour becomes further divided, and there are shops in which capital may be had in the form of provisions; others in which it is to be found in the form of coats, hats, and shoes; and others in which it is to be had in that of gold or silver.

With the further increase in the density of population, labour becomes still more productive, and new divisions take place. One man deals in flour only—buying and selling large quantities thereof; another deals in cotton; a third in wool, &c. Confidence is increased, and the purchaser of a commodity no longer finds it necessary to verify for himself the quality of that which he has purchased, the name of an individual upon the barrel of flour, or upon the bale of cotton or wool, being sufficient guarantee for it. He finds it inconvenient to take them into his possession, and is content to take an agreement for the delivery of the quantity purchased, and thus property changes owners ten, twenty, or thirty times, without having been removed. The saving of labour that is thus caused is a diminution of the cost of production, resulting from the confidence of man in his fellow man. If that confidence did not exist, a number of persons would be

* "Captain Bonneville now made his arrangements for the autumn and the winter. The nature of the country through which he was about to travel rendered it impossible for him to proceed with wagons. He had more goods and supplies, of various kinds, also, than were required for present purposes, or than could conveniently be transported on horseback; aided, therefore, by a few confidential men, he made *caches* , or secret pits, during the night, when all the rest of the camp were asleep, and in them deposited the superfluous effects, together with the wagons. All traces of the *caches* were then carefully obliterated. This is a common expedient with the traders and trappers of the mountains. Having no established posts and magazines, they make their *caches* , or deposits, at certain points, whither they repair occasionally for supplies. It is an expedient derived from the wandering tribes of Indians."—*Rocky Mountains*, Vol. I. p. 98.

employed in removing commodities from one place to another, instead of cultivating or manufacturing others for themselves. The greater the *quantity* of commodities produced, the larger is the *proportion* retained by the labourer; and it is therefore to him of the highest importance that every man should be productively employed. With the increase in the production of commodities the *proportion of the capitalist falls*; but he finds a *constant increase of quantity*, so that he also has every reason to desire that labour should be productively employed. Both, therefore, benefit by the increase of confidence.

In the infancy of society, the owner of sheep barter for oxen, and the owner of wheat exchanges it for labour. With the increased density of population this is found inconvenient, and a medium of exchange is adopted, as wheat, tobacco, cowrie shells, gold, or silver. As civilization increases we find the precious metals exclusively used for this purpose. The transport even of these from one country to another, is found inconvenient, and the gradual increase of confidence permits the substitution of bills of exchange, by which A., residing in Venice, and having gold in Paris, transfers the same to B., who has gold in Venice, and desires to transfer it to Paris. This species of transaction exists, however, among the mercantile class only, and a much higher degree of confidence is necessary before the labouring classes can dispense with the use of coin. By degrees the inconvenience of using the precious metals at home leads to the adoption of a similar system in smaller transactions, and A., in the Strand, having gold in Fleet street, transfers to B. the right of receiving the same, which B., in like manner, transfers to C., D., E., and F. Here the saving of labour is very considerable, as twenty payments may be made in less time than a single one could be were it necessary to count down the amount in either gold or silver. In this case there still remain two inconveniences, both of which tend to cause loss of time, and to render labour less productive than it would otherwise be. The first is that the order drawn by A. in favour of B., would not be for the sum that B. might wish to pay to C., or C. to D., and it might therefore become necessary to convert it into gold, before it could perform a second operation. The second is, that A., not being personally known to B., C., or D., might find it difficult to use his checks

without delay in sending to the place in which his gold was deposited, to ascertain that it was good. Both of these difficulties would be removed, if he were to place the gold with some person generally known, who would give him agreements to pay out the same whenever demanded—such agreements to be in certain sums—say 10, 20, 50, or 100 dollars, or pounds. Here would be a vast saving of labour, tending to render that of the community more productive, and to increase the reward of both capitalist and labourer. It would, however, be only by degrees that the labouring classes would acquire sufficient confidence in those agreements to accept them in lieu of the gold or silver which they might be entitled to receive as wages. In the commencement of such a system there would be few notes used except of the larger denominations,* such as would pass among merchants or traders on an extensive scale; but as the small shopkeeper and the labourer became accustomed to them, notes of 5, 10, 15, and 20 dollars, and perhaps even of smaller denominations, would be brought into use, and with every increase of confidence there would be found an increase in the productiveness of labour.

Increase of confidence would be manifested by the adoption of all those modes of operation by which transfers are facilitated, and the productiveness of labour augmented. The *number*† of

* The Bank of Bengal issues notes which vary in amount from 10 to 20,000 rupees, there being no limitation. *The largest portion is in notes of 100 rupees and upwards.* The average amount in circulation is £ 800,000.

† The Bank of France issues no notes of less than 500 francs. In both countries the confidence in paper is small. With the improvement in the quality of labour, small notes will take the place of the precious metals.

† With the increase in the facilities of exchange, there is a diminution in the *proportion* which the traders, or persons employed in the performance of exchanges, bear to the community. In the infancy of society, the trader collects his own merchandise, accompanies it to the great market, where he exchanges it for what he requires, and returns to attend personally to the exchange of the latter directly with the consumer. Such we see now to be the case in the east, where thousands of merchants are constantly on the road, with small quantities of merchandise. By degrees several traders unite to place their property in the hands of a third person, and a considerable portion of the property in a caravan, or in a ship, will be under the charge of persons who are not owners thereof. A further step in the progress of confidence, places the whole cargo under the care of a single individual, as is now done in the case of voyages to China, the Sandwich Islands, &c. Another and the last step is, where the trader in one city, reposing entire confidence in a

shops at which provisions, or clothing, or money could be purchased, would be increased. The facility of obtaining upon credit the use of the commodities or machinery required by the labourer would be increased, attended with a constant *diminution* in the proportion charged by the owner for the risk of payment, and a constant increase in the confidence reposed in the agreement of the seller to deliver the quantity and quality of commodities contracted for, whether wheat, cloth, wine, gold, or silver.

The increase in the facilities of intercourse and exchange that would result from an increase of the number of shops and factories, and the improvement of roads, would be attended by a diminution in the quantity of capital required to be invested in any particular commodity. The man who could draw his supplies daily from the manufacturer of cotton-cloth, would not keep on hand more than a week's supply, whereas, another, who was distant five hundred miles, would be compelled to keep sufficient for one, or two, or three months. The former could trade upon \$ 1000 to an extent as great as the latter could do with \$ 5000; and he on his part could do as much as could be done by another, distant one thousand miles, with an investment of \$ 10,000 in the same species of commodity. If the three traders possessed each a capital of \$ 10,000, the first could appropriate \$ 9000 to the purchase of other commodities—of a house in which to transact his business—or of machinery; the second would have \$ 5000; and the third would have nothing, his whole capital being employed in keeping a supply of one description of commodities sufficient to meet the *current* demand—to furnish the *currency of cotton-cloth*.

In like manner a man who lived near a shop at which money was bought and sold—or a bank—and who felt entire confidence that he could draw from it a daily supply, would not keep on

trader of another city, places his property in his hands for sale, with orders to purchase in return such commodities as are required. Such is now the case between the different parts of the United States, and between the United States and England. *With each of these changes there is a diminished proportion of the labour of a community required for the performance of exchanges*, leaving a larger proportion to be directly engaged in the cultivation or manufacture of commodities, the consequence of which is that labour becomes more productive, to the great advantage of both labourer and capitalist.

hand more than sufficient for his daily demands; whereas, others, living at a distance of five hundred or one thousand miles, would be compelled to keep on hand as much as would meet the demands for weeks, or perhaps months. A single hundred dollars might be sufficient for the first, whereas the last might find it necessary to keep \$1000 or \$5000 employed in furnishing the *currency of money*, whether of paper or of gold and silver.

Money is used for facilitating exchanges. So are wagons. When the facilities of intercourse are small, a large quantity of money is required for performing a small amount of exchanges. When the roads are bad many wagons are required for transporting a small quantity of commodities. As the facilities of intercourse are increased—as shops for dealing in money increase in number—there is a constant decrease in the quantity of money required, attended with a constant increase in the quantity of exchanges to be performed; and as turnpikes and rail roads appear there is a constant decrease in the quantity of wagons employed in transportation, and an equally constant increase in the quantity of merchandise transported. A single guinea in London will perform as many exchanges as would be performed by ten in most of the villages of England—by twenty in the counties of Cumberland or Westmoreland—by one hundred in the Highlands—or by one thousand in the Orkneys. A single car on a rail road transports as much as would be transported by a dozen wagons on the best turnpike—or by five hundred in the neighbourhood of the Rocky Mountains.

Every increase in the facilities of intercourse, resulting from the increase of population and of capital, would thus be attended with a diminution in the quantity of currency required for the performance of any given number of exchanges. Every increase of confidence in bank notes would tend to diminish the *proportion* of the currency required to be in gold or silver. Further increase of confidence would be attended with the substitution of individual checks, drafts, &c., for bank notes, gold, or silver. Here would be a further decrease in the quantity of *currency* required, and in the quantity of *capital* required for its support, attended with a further increase in the quantity that might be applied to production, and in the quantity of commodities to be exchanged. Millions of exchanges are performed in London, daily, without the necessity for using as much currency, in the form of gold,

silver, or bank notes, as are required for the purchase of a few thousand horse hides at Buenos Ayres.

The smaller the quantity of capital required to be kept in the form of money for the purpose of facilitating *exchanges*, the larger will be the quantity that may be applied to the construction of machinery for aiding *production*. And thus with the increase of population and of capital, and of confidence, *there is a constant increase in the quantity of production without a corresponding increase in the quantity of currency. There is, therefore, a constant decrease in the proportion of currency to production.*

Credit cannot exist without confidence in the security of property* and in the disposition of the purchaser of a commodity to pay for it at the time appointed. No man parts with his property except when he believes that an equivalent will be returned. No man accepts a note, check, or draft in return for his commodities except when he believes that it will be duly paid. In accepting it he gives evidence that he believes the party purchasing means to pay him, and will have the ability so to do. *The existence of a system of general credit is evidence that the people composing the community in which it exists believe that their neighbours are honest and will pay the debts they may contract.* Referring to the history of England and of France, we see that a few centuries since credit had no existence, but that as population became more dense, it arose, and that it has steadily increased with the growth of population and increased security of property.

We shall now proceed to inquire into its actual state in France, England, and the United States, and afterwards endeavour to ascertain the causes of the differences that are observed.

* In India credit has scarcely any existence, except among the merchants and traders of the principal cities. The owner of seed lends it to the agriculturist, on condition of receiving one hundred per cent. for its use until the time of harvest. † Three, four, and five per cent. per month, ‡ are the ordinary charges for the use of capital, but the great majority of the people of that country cannot obtain it on any terms whatever.

At the Bank of Bengal, government bills are discounted at 4 per cent., government paper 5 per cent., private bills 7 per cent. The difference marks the extent of risk, which is obviously very great, and accordingly we are informed that the Bank 'has lost considerably by bad debts and forgeries.'—See *Martin's Colonial Library. East Indies. Vol. II. p. 136.*

† Colebrooke, *Husbandry of Bengal*, p. 101. ‡ Rickard's *India*, Vol. II. p. 196.

