

**An  
Essay  
on  
Money,  
As a Medium of Commerce;**

**With Remarks on the Advantages and Disadvantages  
of Paper Admitted into General Circulation.**

From every channel of public intelligence we learn that there is a disposition, in many of the legislatures of this country, to emit bills of credit by authority of government, and to make them in some measure at least, or in some cases, a legal tender for debts already contracted. This is a matter of great delicacy and danger.

It has occasioned a controversial discussion of the subject in pamphlets and periodicals. A few plausible things have been published in defence of the measure. Many shrewd and sensible things have been offered against it, but even these have not been so satisfying as they might have been. Some of the pieces have been verbose, others have been full of witticisms which have no great tendency to convince, and some have been mingled with party politics of various states. Perhaps these different ways of writing may be very proper for several classes of readers, and have a good effect; but there are certainly others who would require a different treatment, because their mistakes are owing not to deceitful intentions, but to erroneous judgment.

This has given me a strong desire to try what can be done with the subject by dispassionate reasoning. By this I mean, trying to carry the matter back to its first principles, to explain them in so simple a manner, that the unlearned may understand them; and then deduce the practical consequences with the general theory full in view.

[What gave rise to money, its nature and use -- Barter]

It is impossible to reach my purpose, without saying many things which have been well said by others; but this must be forgiven me; because I mean to lay the whole system before the reader, and every part in its

proper order and connection. Let us then begin by considering what gave rise to money, and what is its nature and use?

If there were but one man in the earth, he would be obliged to prepare a hut for his habitation, to dig roots for his sustenance, to provide skins or fig-leaves for his covering, etc. In short, to do every thing for himself. If but one or two more joined with him, it would soon be found that one of them would be more skillful in one sort of work, and another in a different; so that common interest would direct them, each to apply his industry to what he could do best; to communicate the surplus of what he needed himself of that sort of work to the others, and to receive of their surplus in return.

This shows us indeed that barter constitutes the essence of commerce. As society increases, the partition of employment is greatly diversified; but still the fruits of well directed industry, or the things necessary and useful in life, are what can be called wealth.

[First necessity: a standard of computation]

In establishing a mutual exchange of useful things, the first thing necessary, is a standard of computation, or common measure, by which to estimate the value of the commodities that may be offered to sale, or may be desired by purchasers. Without this it is easy to see that the barter of commodities is liable to very great difficulties, and very great errors. This standard of common measure must be something that is well known to both parties, and of general or common use.

As the first attempts on any thing are generally rude and imperfect; so I think it appears from the monuments of remote antiquity, that in the early stages of society, cattle were the first things made use of as a standard. (1)

But it would soon appear that this was a most inaccurate measure; because one ox might be as good as two, from size, fatness, or circumstances. therefore in place of this succeeded measures both of dry and liquid, that is, corn, wine, and oil. The first of these was of all others the most proper standard, because universally necessary, and liable to little variation. Men, upon average, would probably eat nearly the same quantity in the most distant ages and countries.

It seems to me that this circumstance of a standard of computation being necessary in commerce, and the first thing necessary, has been in a great measure overlooked by most writers on money, or rather it

(money) has been confused with the standard value of the thing, though essentially different from it; and the equivocal use of the terms has occasioned great confusion.

I must however observe, not only that this must necessarily be understood, but that if we confine ourselves to a standard of comparison only, some known commodity, as measured grain, is better, and more intelligible and unalterable than any money whatever, that either has been or will be made. The great alteration in the value of gold and silver is known to every person who has but dipped into history; and indeed is known to many, seen by memory, in this country, since its first settlement.[\(2\)](#)

[Some sign or signs must be agreed upon]

But after a standard of computation had been agreed upon, in commerce even of the most moderate extent, something farther would be absolutely necessary. The actual and immediate barter of commodities would in few instances take place. A man might have the thing that I wanted to purchase, but he might not need or desire what I was willing to give for it. Another might want what I had to spare, but not have what I wanted to purchase with it. Besides, bulky or perishable commodities could not be carried about at an uncertainty, or with safety.

Therefore, it became very early necessary, that there should be some sign or signs agreed upon, which should represent the absent commodities, or rather should represent the standard of computation, in all its divisions and multiplications. These signs must be such as could easily be carried about, and therefore could be readily applied to every kind of transaction, which were connected with the commutation of property.

[Nature and meaning of these signs]

Let us examine the nature and meaning of these signs more particularly. They are of the nature of a tally, that is to say, they are intended to mark and ascertain a fact. Now the fact is that the person who can show those signs, having purchased them by his goods or industry, is entitled to receive from somebody a certain value, or to a certain amount, which they specify, of the standard of comparison. They have always a reference to the standard of computation, and at last, by that known reference, the distinction between them and the standard of comparison is lost, and they become a secondary standard of computation themselves.

Thus a piece is intended at first to be the value of a measure of grain; but at last men come to make their bargain by the number of pieces instead of the thing signified. Thus also, sometimes at least, an ideal measure, generated by the other two, comes to be the standard of computation; as in England, the pound sterling is the money unit, though there be no coin precisely corresponding to it. This is sufficient to explain the relation of the sign to the standard of computation.

[The sign the nature of a promissory note]

I have said above, that the person possessing the sign is entitled to receive a certain value from somebody. The reason for this is, because his debtor is not the same in every state of things. If we consider this sign as given from one individual to another, it is of the nature of a promissory note, and is a confession of having received of much property. Probably there were often such signs or tokens given in the infancy of society; and it would then signify, that if the seller were to come again, at some later time, and find the buyer in possession of goods that he wanted he would be entitled to receive the amount of the sign or token that had been given to him.

But the convenience of using signs is so great, that it would immediately occasion their being used by general consent, expressed or implied; and at last, the matter would be taken under the direction of the ruling part of the community. In both cases, but especially in the last, the society becomes bound to the person who receives the signs for his goods or industry. I will afterwards show, that this was not the first but the last step taken in the use of signs and give the reasons for it, but it is proper to mention it now, when we are considering the nature and use of signs in that single view.

[Signs facilitate commerce]

Let it be observed here that, as it was before said, if we aim at no more than a standard of computation some commodities are not only as good but better than any money, so if we confine ourselves to a sign only, separate from a standard, many things that might be named are not only as good, but far better than either the standard itself, or what we call money; because they are much more easily reckoned, transported and concealed. This appears particularly from the state of signs in modern times, after so much experience and improvement has taken place. For if we can guard sufficiently against the dangers to which they are exposed, signs conceivably facilitate commerce. We can put any value we please on an obligation written on a few inches of paper and can send it over the world itself at very little expense, and conceal it so easily that there shall be no danger of its being taken from us.

[All mere signs are deficient]

But it must have soon appeared that all mere signs are deficient. They depend ultimately on the faith or credit of the persons using or answerable for them. Whether these persons be individuals or the multitude by general custom and implied consent, or even the ruling part of the society, there is very great uncertainty.

Therefore, something farther is necessary to make a complete symbol or medium of general commerce, and that is a *pledge* or standard of value that may be a security or equivalent for the thing given for it, and at all times be sufficient to purchase a like value of any thing that may be needed by him that holds it. An absent commodity well known, or even an idea well understood, may be a standard of computation and common measure; any thing almost whatever may be a sign, though, since the art of writing has been known, paper is the best, but both are essentially defective; there is lacking a value in the sign, that shall give not only a promise or obligation, but actual possession of property for property.

[Gold and silver answer all three ends]

The mentioning of these three distinct ends to be served by the medium of commerce, and illustrating them separately, was not to convey the idea that there were three steps of this kind taken at a distance of time from each other, or that men first continued long to deal in gross barter; and after that invented signs, and were content with them for another period; and at last perfected the plan, by getting signs possessed of real value. On the contrary, it was to show that any thing used as a medium of universal or general commerce, must be able to serve all the three forementioned purposes; and that if there is any production of nature or fabrication of art, that can unite the whole, at least as far as they are capable of being united this must be the great *desideratum*.

Now it has been found in experience the precious metals, especially those now called by that name, gold and silver, do answer all the three ends in a great degree. It cannot be denied that they have been used for this purpose in fact from the earliest times, and through every nation in the old world; and indeed also in the new, with such exception only as will confirm the principles of the theory. If any man think that this has happened by accident, or through the whim or caprice of mankind, as one would suspect from the language sometimes used in speech and writing he is greatly mistaken. No accident or sham of accident ever was so uniform or so lasting. The truth is, that these metals do possess in a degree superior to every thing else, the qualities necessary for the purposes mentioned above.

[Qualities money should possess]

This will appear to any impartial person who will consider with a view to the preceding principles, what qualities a medium of general commerce ought to posses. It ought, then to be (1.) valuable; (2.) rare; (3.) portable; (4.) divisible; (5.) durable. Whoever will examine the matter with attention must perceive that, any one of these qualities being wholly or greatly wanting, the system would be either entirely ruined or remarkably injured. Let us examine them separately.

[Either necessary or remarkably useful or desirable]

1. It must be valuable; that is to say, it must have an intrinsic worth in itself, in substance distinct from the form. By value or intrinsic worth here, must be understood precisely the same thing that gives to every other commodity its commercial value. Do you ask what that is? I answer, its being either necessary or remarkably useful for life in a social state, or at least supposed to be so; and therefore the object of human desire. Without this it could be no more than a bare sign; nor indeed so useful in this view as many other signs. But we want something that must be not only a standard of computation, but a standard of value; and therefore capable of being a pledged and security to the holder for the property that he has exchanged for it.

It is likely some will say, "What is the intrinsic value of gold and silver? They are not wealth; they are but the sign or representative of commodities. Superficial philosophers, and even some men of good understanding, not attending to the nature of currency, have really said so. "What is gold, say some, the value is all in the fancy; you can neither eat nor wear it; it will neither feed, clothe, nor warm you." "Gold", say others, "as to intrinsic value, is not so good as iron, such can be applied to many more useful purposes."

These persons have not attended to the nature of commercial value, which is in a compound ratio of its use. If iron were as rare as gold, it would probably be as valuable, perhaps more so. How many instances are there of such things, though a certain proportion of them is not only valuable, but indispensably necessary to life itself; yet which, from their abundance, have no commercial value at all. Take for examples air and water. People do not bring these to market, because they are in superabundant plenty. But let any circumstances be obtained, and their value immediately rises above all computation. What

would one of those who were stifled of the black hole at Calcutta have given to get but near a window for a little air? And what will the crew of a ship at sea, whose water is nearly expended, give for a fresh supply?

[Ductility, durability, and other qualities, make gold and silver exceedingly fit for domestic utensils]

Gold and silver have intrinsic value as metals, because from their ductility, durability, and other qualities, they are exceedingly fit for domestic utensils, and many purposes in life. This circumstance was the foundation of their use as a medium of commerce, and was inseparable from it. No clearer proof of this can be adduced, than that in the earliest times, even when used in commerce, they were weighted before they were divided into smaller pieces, and passed in tale. They must surely then have had intrinsic value; for their value was in proportion to their bulk and quality. This circumstance as a sign made them worse, but as a valuable metal made them better. The same thing appears as clearly from the practice of modern times.

Even when they are taken into the management of the rulers of society, and stamped under various denominations, there must be an exact regard to their commercial value. The stamp upon them is the *sign*, the intrinsic worth of the metal is the *value*. It is found, and admitted by every nation, that they must give to every piece that value in legal currency that it bears in bullion; and if any do otherwise, there is neither authority nor force sufficient to make it pass.[\(3\)](#)

[Eminent contrary opinions]

The author referred to in the note has given us quotations from three persons of name in the literary world in support of a contrary opinion.

The first is Dr. Franklin, whom he makes to say, "Gold and silver are not intrinsically of equal value with iron; a metal of itself capable of many more beneficial uses to mankind. Their value rests chiefly on the estimation they *happen* to be in among the generality of nations, and the credit given to the opinion that estimation will continue; otherwise a pound of gold would not be a real equivalent for a bushel of wheat."

The second is Anderson on National Industry, who says, "Money, considered in itself, is of no value; but in many civilized nations, who have found how convenient it is for facilitating the barter or exchange of one commodity for another, it has received an artificial value; or that although all civilized nations, as a token proving that the person who is possessed of it had given something of real value in exchange for it, and is

on that account accepted by another in exchange for something that is of real utility and intrinsic worth."

The third is Sir James Stuart, who says, "By money, I understand any commodity which purely in itself is of no material use to man, but which acquires such an estimation from his opinion of it, as to become the universal measure of what is called value, and an adequate equivalent for any thing alienable."

The name of any man however great, will not have much weight with me, when I perceive that in any instance he has mistaken his subject. This I believe has been the case with all the gentlemen just mentioned. There is considerable confusion in the ideas expressed by the last two; but the thing in which they all agree, and for which they are adduced by this author, is, that they seem to dent the intrinsic value of gold and silver, and to impute the estimation in which they are held, to accidental opinion.

Now I must beg leave to observe, as to the comparison to the intrinsic worth of gold and iron, if it were possible to determine whether, of supposition of iron and gold being in equal quantity, the one or the other would be the most valuable, it would not be worth a single straw in the present question; for if iron were the most valuable, it would in that case be the money, and the gold would be but in the next degree. Accidental opinion has nothing to do with it. It arises from the nature of things.

As to a pound of gold not being, as to intrinsic value, equivalent to a bushel of wheat, it might with equal truth be affirmed, that to a man perishing with hunger, a mountain of gold would not be equivalent to half a pound of bread. But is this any argument against the intrinsic commercial value of gold, as it has taken place since the beginning of the world?

[*"Kidogo's World"* did not give a section title here, but the following paragraph was nevertheless a new paragraph in the original. Following the rule that every new paragraph in Witherspoon is a new section here, I have added this present section break here. - Michael Makovi]

As to the other two authors, they seem to say, that money is in itself of no value, and of no material use to man. If by *money* they mean gold and silver, the proposition is directly false; because they are both of material use for the purposes of social life. But what has led them into this error has been their abstraction of the idea, and taking money in the single light of a sign, without considering it as a standard. Then no doubt, even gold, while it continues in this form is of no other use than as a sign of property. But how little is this to the purpose? For it is equally true of every other commodity. A nail, while it continues a nail, is of no other use but joining boards together, or some similar purpose, and can neither be lock nor

key; but a quantity of nails, or the iron which they contain, can be easily converted into either the one or the other. So a guinea, while it continues a guinea, is of no use whatever but as an instrument of commerce; but the gold of which a guinea consists, can easily be converted into a ring, or any thing which its quantity will reach. This is what is, with perfect propriety, its *intrinsic value*.

[Rarity]

2. That which is the medium of commerce must be *rare*. It will not be necessity to say much upon this, because it has already received some illustration from what has gone before. It may however be observed, that the medium of commerce must not only be so rare as to bring it within commercial value in ordinary cases, but it must be more rare than most other things, that its value may be increased, and a small quantity of it may represent goods of considerable variety and bulk. If gold and silver were only twenty times as plentiful as they are at present, they would still have a proper value, could be bought and sold, and applied to many useful purposes, but they should be quite unfit for general circulation.

[Portability]

3. The circulating medium must be *portable*. It must be capable of being carried to a distance with little trouble or expense, and be capable of passing from hand to hand with ease and expedition. This is one of the reasons why it must be rare; but it deserves mention also by itself, because it is possible to conceive of things that may be both valuable and rare, and yet incapable of being carried about, and palling from one to another. Some precious drugs, and some curiosities, may be so rare as to have a high value, and yet may be quite improper for circulation.

[Divisibility]

4. The medium of commerce must be *divisible*. It ought to be capable of division into very small quantities. This is necessary in order to answer the division of many commodities, and the convenience of persons of different ranks. It is of such importance, that in the calculations of a complex and diversified commerce, we find divisions and fractional parts even of the smallest coins of denominations of money, that have ever yet been brought into use.

[Durability]

5. Lastly, the medium of commerce ought to be *durable*. I thought to have this quality on two accounts;

first, that in perpetually palling from hand to hand, It may not be broken or wasted; and, secondly, that if it is preserved of laid up, as may be sometimes necessary, and often agreeable or profitable, it may not be liable to be speedily corrupted or consumed.

[All united in gold and silver]

All these particulars are not of equal moment, and they have an intimate relation one to another; yet each of them is singly and separately of importance, perhaps more than will be at first view apprehended. I think it is also plain that there is nothing yet known to mankind, in which they are all so fully united, as they are in gold and silver; such is the true reason why these metals have been applied as the instruments of commerce, since the beginning of the world, or as far back as history enables us to penetrate.[\(4\)](#)

[Gold, silver, and copper, were the most ancient metals]

It will probably throw some light upon the above theory, if we take a brief view of the matter as it has taken place on face from the beginning of the world. This may be done now to the greater advantage, that the effects of particular causes, and the events that will take place on society in particular circumstances, have been so fully ascertained by the experiences of ages, and the progress of science, that were able to make a better use of the few remains of ancient history, than could have been done by those who lived nearer to the events which are recorded. It appears then, that the discovery and use of metals was one of the earliest attainments of mankind.

This might naturally be expected if they were within reach at all, because of their very great utility in all works of industry, and indeed for all the purposes of convenience and luxury. Therefore, I suppose this fact will not be doubted; but it is a truth neither so obvious nor so much known, that gold, silver, and brass, or rather copper, were the most ancient metals, and all of them antecedent to iron.[\(5\)](#) These metals being applied to all the purposes of life, came of course to constitute a great part of the wealth of the people of ancient times.

I have mentioned brass, because it was one of the metals earliest known, and upon the very principle above laid down, was in the beginning made use for money by many ancient nations. Its being now in a great measure left out is an illustration and proof of what has been already said. It is left out for no other reason than its having lost one of the necessary qualities, *vis. rarity*. That it was made use of for money amongst the Hebrews appears from many circumstances. We read of gold, silver and brass brought as

contributions to the tabernacle service in the time of Moses, and to build the temple in David's time. That brass was used as money in the early times of the Greeks and Romans, appear both from the assertions of historians, and from the very languages of both nations, for there it is used to signify money in general.(6) That it ceased to serve that purpose afterwards cannot be accounted for in any other way than as above, especially as the neglect of it has been just as universal as the use of it was formerly.

We are also fully supported by history in affirming that all these metals were at first estimated and passed in commerce by weight. We see that Abraham gave to Ephron for the cave of Machpelah, four hundred shekels of silver.(7) The Greek money was of different weights from the lower sorts to the talent, which was the largest. The old Roman word *Pondowas*, as it were, the standard, and the divisions of it constituted their different denominations. From this we see have derived the English word pound. Very soon however they came to have other coins, of at least small pieces reckoned by number. Abimelech gave to Abraham, as Sarah's brother, one thousand *keseph*; and Joseph was sold for twenty *keseph*, and he gave to his brother Benjamin three hundred *keseph*. As the word *keseph* signifies silver, they must have been reckoned by tale, and are probably very justly translated pieces. Agreeably to all this, the time when the Romans began to coin brass, and some hundred years afterwards silver and gold, is distinctly mentioned by the historians.(8)

#### [Use of baser metals]

It may be proper to observe here, that several antiquaries have mentioned that some barbarous nations made use of baser metals, such as lead, tin, iron, and even leather, shells and bark of trees for money. This is no way contrary to the above theory, for some nations might indeed use lead, iron and tin as things of value, upon the same principles as others used gold, silver and brass. I think it is said, and indeed is more than probable, that the nails given by our voyagers to the inhabitants of the South Sea islands, passed from hand to hand as instruments of commerce. As to leather, shells etc. I suspect some part of this is fabulous; but if it did take place in any measure, it has been a rude essay, using the sign separately from the standard, and could not be of any great extent or long duration.

We know indeed of one nation, after society had been far advanced, that made use of iron even when very plentiful, for money, vis. the Lacedemonians. But this was not at all from rudeness or ignorance; it was one of Lycurgus's extraordinary institutions, who intended by it (and did not conceal his intentions) to banish riches, or real and proper money from the state. He indeed banished industry at the same time, for none of his citizens were allowed even to be husbandmen, or to cultivate their lands. This was left to

slaves. I do not find, therefore, that there is any thing in history deserving credit, that militates against the theory above laid down.

Having thus laid down the theory of money, and having supported it by history and experience, I proceed to draw a few inferences from it, and apply them to some opinions which have taken place, and some measures which have been adopted or proposed with respect to currency and commerce in this country.

In the *first* place, the above theory will enable every intelligent person to fix in his mind precisely what is or ought to be the meaning of a *circulating medium*. This phrase is on every body's mouth, and we meet with it continually in the day, published in the news papers and the speeches of senators in public assemblies. We may say of this as controversial divines used to say long ago, that a misconception of this is the *proton pseudos*, the radical error.

Not long since a writer in one of the papers said it was agreed on all hands that there is at present a scarcity of a circulating medium. To this I answer, that it is not agreed upon on any hand, but among those who are wholly ignorant of the meaning of the expression. The circulating medium is not yours nor mine; it is not the riches of Holland, nor the poverty of Sweden. It is that indefinite quantity of the precious metals that is made use of among the nations connected in commerce. Whether any particular person, city, or nation, is rich or poor, has more or less comparatively of it, is nothing to the purpose.

Every one will receive of the circulating medium that quantity which he is entitled to by his property or industry. It has been shown that rarity, one of the qualities of a circulating medium, if it were more rare than it is, a less quantity would be sufficient to represent a stated measure of property. If it were more plentiful than it is a greater quantity would be necessary; but the comparative riches or poverty of nations or persons would be altogether the same.

Is any body ignorant that half a century ago in this country, a man might have bought a bushel of wheat for one quarter of a dollar? Was not the quarter dollar then as good a circulating medium as the whole dollar is now? And was not the man just as rich who had it in his pocket? Undoubtedly. Nay, I must further say, it was a better circulating medium, because it was of less size and weight. Has not the quantity of the precious metals increased greatly since the discovery of the mines of South America? Is not the quantity now necessary for any considerable purchase so great as to be burdensome in the transportation? The price of a good horse in silver would at present be a great encumbrance on a long journey.

How easy were it to point out places and countries in which there is a greater quantity of the circulating medium than any where else, and yet at the same time greater national and personal poverty, and probably for this very reason. What would it signify to a laborer in the mines of Peru if he should get a half johannes, of even two, for a days work, if at the same time he could hardly purchase with both as much provision as to keep body and soul together? Are they not known to be so?

What then must we say of the extreme ignorance and inattention, to say no worse, of those persons who are continually telling us that there is a want of a circulating medium? Are not gold and silver a circulating medium whose currency is universal? Are these then too scarce for that purpose, when there is hardly a negro slave, male or female, without silver buckles in their shoes, and many of them with rings and other ornaments of gold which five hundred years ago would have denoted a prince or princess?

Perhaps I have emphasized this more than necessary, but I have been induced to by the frequent complaints on this subject, and the absurd application of the phrase, a circulating medium. More reflection will occur, connected with this subject, in the subsequent parts of my discourse. In the mean time I will close by saying to my reader, you and I may be poor men, the state in which we live may be a poor state, we may want property, rents, resources and credit, but a circulating medium we want not.

[Money itself must be a commodity as well as sign and standard]

2. From the principles above laid down it will appear that money, having as one of its essential qualities, an intrinsic, that is to say, a commercial value, it must be not only a sign and standard of a medium of commerce, but be itself a commodity, or a subject of commerce. There are many transactions respecting money in a trading nation, in which it is considered singly in this view. These it is unnecessary for me to enumerate, but even where it is applied directly or principally as a medium of alienation, its value as a standard does and must always follow and accommodate itself to its value as a commodity.

Hence it follows necessarily that money must be subject to every rule that other commodities are subject to in buying and selling. One of the most important of these is, that it must rise and fall in price compared with the demand there is for it. This is an unavoidable consequence, and as necessary in the case of money as in that of any commodity whatever. If a greater quantity of money than before is brought into any country, even though brought by the fairest and most honorable means, *vis.* increasing industry and profitable trade, it will have the effect of raising the price of other commodities in general and of industry,

which is the source of all commodities.

But we must observe, that men are apt to view this in a wrong light. One commodity may rise or fall by its own plenty or of scarceness; but when there is a great and general rise of prices, of all commodities, it would be at least as proper, or rather much more so, to say that money had fallen than that goods had risen.

[Quantity increase results in irregular depreciation]

We had so large experience of this during the war, by the excessive emissions of paper money, that it needs hardly any illustration. It is true, some persons did then and do now suppose, that the depreciation of the money was owing as much to the disaffection of some inhabitants, and the counterfeiting, and other artful endeavor of our enemies to destroy it, as to the increased quantity.

But in this they were quite mistaken. Jealousy or suspicion of the money should have had very different effects from a gradual and continual rise of prices. If I meet with a suspicious piece of money I do not raise the price of my goods, but refuse to sell them. This was indeed the case with all those who doubted the money to congress in time of the war.

Besides it is plain, that the American cause was most doubtful, and its enemies most numerous in the years 1776 and 1777, and yet the currency of the money was then very general, and its depreciation slow; whereas in the three following years, when, in consequence of the French treaty and other European alliances, the confidence of the public in the cause was increased, the depreciation was accelerated in an amazing degree.

I must also here make a remark upon another opinion often expressed during the war, that the depreciation must have been owing to other causes than the quantity, because it was greater than what they called the natural depreciation, in consequence of the quantity. By this they meant, that it was not regular; but when the quantity had arisen, suppose to five for one, the depreciation was as fifteen or twenty for one. These persons did not understand the depreciation of a commodity in consequence of its quantity, for it is not regular and equable, as in arithmetical progression, but rapid and increasing so as soon to get beyond all computation. If there is in any country but one tenth part more of any commodity than there is any demand for, the price will probably fall more than one half, and if there is double or

treble the quantity needed, it will be what merchants call a drug, that cannot be sold at all, but if it be a perishable commodity, must sink in the hand of the possessor.

[Depreciation results from industry and trade, but pernicious when from increased circulating medium not related to industry]

I have said above that the increase of money, even though in consequence of national prosperity, that is to say, internal industry and profitable trade, will yet necessarily have the effect of raising the price of industry and its fruits. This, however, must evidently be in a far higher degree, and attended with much more pernicious effects, when it is thrown into circulation without industry; as when silver is found in capacious mines, or paper is issued by the authority of a state, without measure and without end.

I verily believe that if as many millions of silver dollars had fallen from heaven and been thrown into circulation as there were paper ones issued by the United States, the disorder would have been as great or greater than it was. At least it would have been so at first, the difference would have been, that silver being current ones all, it would have soon gone abroad and found its level, so that the alteration would have been ultimately not in the United States, but in the general circulating medium over the whole earth.

Those, however, among whom it was first found, and who received it without industry, would have suffered most by it. Among them it would have produced laziness and luxury. Other nations would have drained it from them only by superior industry. The state of the Spanish monarchy at present ought to be, and indeed in a great measure has been, a lesson to the whole world. The time when they got possession of South America they were the most powerful and wealthy state in Europe. Would any man at that time have been reckoned sound in his judgment who should have affirmed that they would grow poor by means of the gold and silver mines? Yet it has happened so, and now there is hardly any politician so shallow but he can assign the reason of it. They thought that gold and silver would at once procure them every thing without working; but forgot that the more they had of it they must pay so much the more to those who were willing to work for them.

[Paper money is not money; legal tender an absurdity]

3. The above principles will clearly show that what is commonly called paper money, that is, bills bearing that the person holding them is entitled to receive a certain sum specified in them, is not, properly speaking, money at all. It is barely a sign without being a pledge of standard of value, and therefore is

effectually defective as a medium of universal commerce.

I will afterwards speak of the different kinds of it, and point out their real and proper uses; but in the mean time I observe, that to arm such bills with the authority of the state, and make them a legal tender in all payments, is an absurdity so great that is not easy to speak with propriety upon it. Perhaps it would give offence if I should say, it is an absurdity reserved for American legislatures; no such thing having ever been attempted in the old countries.

It has been found, by the experience of ages, that money must have a standard of value, and if any prince or state debase the metal below the standard, it is utterly impossible to make it succeed. How then can it be possible to make that succeed which has no value at all? In all such instances there may be great injuries done to particular persons by wiping off debt; but to give such money general currency is wholly impossible.

The measure carries absurdity in its very face. Why will you make a law to oblige men to take money when it is offered them? Are there any who refuse it when it is good? If it is necessary to force them, does not this demonstrate that it is not good? We have seen indeed this system produce a most ludicrous inversion of the nature of things. For two or three years we constantly saw and were informed of creditors running away from their debtor, and the debtors pursuing them in triumph, and paying them without mercy.

#### [Commerce founded upon Contract]

Let us examine this matter a little more fully. Money is the medium of commercial transactions. Money is itself a commodity. Therefore every transaction in which money is concerned, by being given or promised, is strictly and properly speaking a bargain, or as it is well called in some language, an agreement. To give, therefore, authority or nominal value by law to any money, is interposing by law in commerce, and is precisely the same thing which, in their full extent, we had sufficient experience during the war.

Now nothing can be more radically unjust, or more imminently absurd, than laws of that nature. Among all civilians, the transactions of commerce are ranged under the head of contracts. Without entering into the nicer distinctions of writers upon this subject, it is sufficient for me to say, that commerce, or buying and selling, is founded upon that species of contracts that is most formal and complete. They are called in the technical language, *Onerous contracts*, where the proper and just value is supposed to be given or promised on both sides. That is to say, the person who offers any thing for sale, does it because he has it to

spare, and he thinks it would be better for him to have the money, or some other commodity, than what he parts with; and he who buys, in like manner, thinks it would be better for him to receive the commodity, than to retain the money.

There may be mistakes or fraud in many transactions; but these do not affect the argument in the least. A fair and just value is always supposed or professed to be given on both sides.

[Essential condition of lawful contract is that it be free and mutual]

Well! Is it agreed that all commerce is founded on a complete contract? Let then any person who will open as many books as he pleases written upon the subject, and tell me whether he does not always find there that one of the essential conditions of a lawful contract, and indeed the first of them, is that it be *free* and *mutual*. Without this it may be something else, and have some other binding force, but it is not a contract. To make laws therefore, regulating the prices of commodities, or giving nominal value to that which had no value before the law was made, is altering the nature of the transaction altogether.

Perhaps a comparison of this with other transactions of a different kind might set this matter in a clear light. Suppose a man were to say to one of our lawgivers upon this subject as follows: When you make a law laying on a tax, and telling me I must pay so much to the public and common expenses of the state, I understand this very well. It falls under the head of *authority*. You may lay on an improper or injudicious tax that will operate unequally, or not be productive of what you expect; but still this is within your line, and if I have any complaint, I can only wish that at the next election we may get wiser men.

Again, a Justice of Peace in time of war may give a press-warrant, and take my horses and wagons to transport provisions of baggage for an army. I understand this also; writers and reasoners tell me that it falls under the head of what they call the *rights of necessity*. The meaning of this is, that no civil constitution can be so perfect but that some cases will occur, in which the property of individuals must give way to the urgent call of common utility or general danger. Thus we know that in cities, in case of a fire, sometimes a house, without the consent of its owner, will be destroyed to prevent the whole from being consumed.

But if you make a law that I shall be obliged to *sell* my grain, my cattle, or any commodity, at a certain price, you not only do what is unjust and impolitic but with all respect be it said, you speak nonsense; for I do not *sell* them at all: you take them from me. You are both buyer and seller, and I am the sufferer only

[An Attempt to apply authority to that which is not its proper object]

I cannot help observing, that laws of this kind have an inherent weakness in them; they are not only unjust and unwise, but for the most part impracticable. They are an attempt to apply authority to that which is not its proper object, or to extend it beyond its natural bounds; in both which we shall be sure to fail. The production of commodities must be the effect of industry, inclination, hope, and interest. The first of these is very imperfectly reached by authority, and the other three cannot be reached by it at all. Perhaps I ought rather to have said, that they cannot be directed by it, but they may be greatly counteracted; as people have naturally a strong disposition to resist force, and to escape from constraint.

Accordingly we found in this country, and every other society who ever tried such measures found, that they produced an effect directly contrary to what was expected from them. Instead of producing moderation and plenty, they uniformly produced dearness and scarcity.

It is worth while to observe, that some of our legislatures saw so far into these matters as to perceive that they could not regulate the price of commodities without regulating the price of the industry that produces them. Therefore they regulated the price of day-laborers. This however, though but one species of industry, was found to be wholly out their power.

[Privilege, license, and voluntary engagement]

There were some instances mentioned at the time when these measures were in vogue, which superficial reasoners supposed to be examples of regulation of the prices of chairs, hackney coaches, and ticket porters in cities, public ferries and some others. But this was quite mistaking the nature of the thing. These instances have not the least connection with law regulating prices in voluntary commerce. In all these cases the persons who are employed solicit the privilege, obtain a licence, and come under voluntary engagements to ask no higher prices; so that there is as complete a free contract as in buying and selling in open shops.

[Counter-Productive Laws]

I am so fully convinced of the truth and justice of the above principles, that I think, were it proper at this time, I could show, that even in the most enlightened nations of Europe there are still laws subsisting which work in direct opposition to the intention of their makers. Of this kind in general are the laws

against forestalling and \*regrating. They are indeed most of them asleep and what the lawyers call in desuetude; but so far as they are executed, they have the most powerful tendency to prevent, instead of promoting, full and reasonable markets.

As an example of our own skill in that branch, a law was past in Pennsylvania in time of the war precisely upon that principle. It ordained that in all imported articles there should be but one step between the importer and consumer, and therefore that none but those who bought from the ship should be allowed to sell again. I cite this instance by memory, but am certain that such was the spirit of the law.

The makers of it considered that every hand through which a commodity passed must have a profit upon it, which would therefore greatly augment the cost to the consumer at last. But could any thing in the world be more absurd? How could a family at one hundred miles distance from the seaport be supplied with what they wanted? In opposition to this principle it may be safely affirmed, that the more merchants the cheaper the goods, and that no carriage is so cheap, nor any distribution so equal of so plentiful as that which is made by those who have an interest in it, and expect a profit from it.

[Tender laws contradict the very first principles of commerce]

I have gone into this detail in order to show that tender laws, arming paper or any thing not valuable in itself with authority, are directly contrary to the very first principles of commerce. This was certainly the more necessary, because many of the advocates of such laws, and many of those who are instrumental in enacting them, do it from pure ignorance, with out any bad intention.

It may probably have some effect in opening their eyes to observe that no paper whatever is a tender in any nation in Europe. Even the notes of the Bank of England, which are as good as gold, and those of the bank of Holland, which are considerably better,<sup>(9)</sup> are not armed with any such sanction, and are not a legal tender in the proper sense of that word. That is to say, though I suppose both of them, or any other paper circulating in full credit may be a tender in equity, so far as that the person offering them without suspicion of their being refused, could not be condemned in any penalty or forfeiture; yet if the person who was to receive the money should say, I am going abroad, I want gold or silver; it would lie upon the debtor and not the creditor to go and get them exchanged.

Some may perhaps even say more, *vis.* that the coinage of gold and silver in any country is not a certain value, as to ascertain them that it is of the value stamped upon it. Without this, ignorant persons would be

continually at a loss to know the fineness and the weight of pieces offered to them. This will appear from the two following remarks. 1. If by any accident in the coinage, or fraud in the officers of the mint, some of the pieces had not the full quality, or were not of sufficient fineness, though the stamp were ever so genuine, if I could discover the defect, I should be justified in refusing it. 2. There is sometimes a fluctuation in the comparative value of gold and silver, and in these cases, though no doubt a debtor, till the error that has crept in be rectified by the authority, has a right to pay in any lawful money; yet if I were selling goods, and gold had fallen in its value, I might safely say to the customer, in what coin are you to pay me? I will give you a yard of this silk for twenty-one sterling silver shillings, but if you give me a guinea I must have another shilling before I will part with it. The whole of this serves to show that nothing short of real money, which is of standard value, ought to be enforced by law in a well regulated society.

[Paper circulating as a medium of commerce is a promissory note -- not money.]

4. The principles above laid down will enable us to perceive clearly what is the nature of paper circulating as a medium of commerce, what is its real and proper use, and what are its dangers and defects. As to its nature, it is a sign but not a standard. It is properly an obligation, or to use a modern commercial paper, it is a promissory note. It is not money, as has been shown above, but it is a promise of some person or body of men to pay money either on demand or at a particular time.

Obligations of this nature are of more sorts than one. Sometimes they are given by particular persons, or trading companies, who are considered as persons; and frequently in America they have been given by the legislature of the state. In the general definition I have included all kinds of negotiable paper, but it will not be necessary to insist upon more than two of them, *vis.* the notes of banking companies, and state emission.

Bills of exchange are not supposed to pass through many hands, but to proceed as speedily as may be to the place of their payment. Government securities are only bought and sold like other property, and so any bonds of other private obligations may be transferred as often as people are willing to receive them; but the notes of banking companies, and the state emissions of this country are intended to be, properly speaking, a circulating medium. They are of various regular denominations, and intended to answer all the purposes of money in the smaller transactions of society as well as the larger, and even to go to market for purchasing the necessities of life.

[It is the public opinion that must ultimately give them currency]

As to value, such obligations must plainly depend upon the credit of the subscriber or obligor, and the opinion or expectation of the receiver. These are mutually necessary to their use in commerce. Let the resources or wealth of the subscriber be what they may, it is the public opinion that must ultimately give them currency.

This opinion however may be in some instances better, and in some worse founded. That paper which may with most certainty and expedition be converted into gold and silver, seems evidently to have the advantage on this account. Therefore the notes of banking companies, while they maintain their credit, and continue to pay on demand, appear to be the best calculated for general use.

They seem also to have another advantage, that private persons and companies are upon a footing with the holder of the bills. He can arrest them, and bring them to account, and have justice done upon them; whereas he cannot call the legislature to account, but must wholly depend upon their fidelity as well as resources. Yet it must be owned there have not been wanting instances formerly in this country, in which paper emissions by the states have obtained full confidence, and met with no impediment in circulation.

#### [Proper use of paper currency]

Let us now consider what is the proper use of paper currency, or whether it be of any real use at all. Many persons in Europe have declared against it altogether as pernicious. I will endeavor to state this matter with all the clearness I am capable of, and to give the reasons for what I shall advance.

We have seen above that nothing can be more absurd than to say that we now want a circulating medium, and that paper is necessary for that purpose. A circulating medium we have already, not in too small, but in too great quantity; so that any person who understands the subject may perceive that gold and silver, especially the last, is losing at least one of the qualities necessary for that purpose, and becoming too bulky and heavy for easy and convenient transportation. Brass, as has been shown above, was once as just and proper a medium of commerce as gold and silver are now. It has all the qualities necessary for that purpose still, except rarity; so that if it were not too plentiful and too cheap, it would be money to this day.

It is probable that this circumstance of the abundance and weight of the precious metals is what gives to many such an inclination for paper money. Thus will appear strange to some, yet I believe it is at bottom just. The cry with many is, we must have paper for a circulating medium, as there is such a scarcity of gold

and silver, whereas in fact, gold and silver used as a circulating medium are so cheap, and the quantity of a moderate sum is such an encumbrance that we want paper, which can be much more easily carried, and much more effectually concealed. So that, contrary to the vulgar idea, we are obliged to have recourse to paper in several cases, not for want of gold and silver, but their too great abundance.

[Over-abundance of gold and silver]

This will appear to be a very uncouth idea to many persons. What, they will say, too great abundance of gold and silver! When I go about from day to day, and cannot collect what is due to me; when my creditors are calling upon me and I cannot satisfy them. There is a scarcity of money every where. What shall be said to satisfy these persons? I must tell them plainly. It is their poverty, or the nation's poverty, and not a want of gold and silver, and if there were a hundred times as much gold and silver in circulation as there is, their poverty and difficulties would be just the same. If these persons read the scriptures, they may there learn that in Solomon's time the silver was as plentiful as *stones in Jerusalem*; probably they will think that all the people in Jerusalem at that time must have lived like Princes, but they must be told, that it was added as necessary consequence, that *it was nothing accounted of in the days of Solomon*.

[Benefits of Paper]

What benefit arises from paper money? If paper then is not needed as a circulating medium, what benefit arises from it? I answer, the uses of paper substituted for money may be summed up under the two following heads; (1.) It is useful for facilitating commerce. (2.) It is useful for anticipating property or extending credit.

[Facilitating Commerce]

(1.) it is useful for facilitating commerce. Nothing can be more advantageous for that purpose than bills of exchange, which, without the actual transportation of money or goods, can transfer property even to the most distant places with the most perfect facility. There have been many persons who have doubted whether any other sort of paper currency is not upon the whole hurtful, but the benefit of this is beyond all question. We shall afterwards compare the advantages and disadvantages of paper money; but at present let us leave out the consideration of the evil that it does, and it is manifest that there is so great a facility and safety in the transportation of paper above that of gold and silver, that it must greatly expedite all mercantile transactions, internal and external.

Suppose one hundred thousand pounds were to be transported but three hundred miles, if it were to be carried in silver, what an immense load would it be? But besides the weight, as it could not be concealed, there would be a very great risk of inviting robbers to share in it. Let it be carefully observed, that this good effect of paper is not from the additional quantity thrown into circulation, but from its possessing some advantages superior to gold and silver, provided that the credit of it is supported. Nor must it be forgotten, that it is in great and extensive negotiations only, that this advantage is possessed by paper; for in smaller bargains and that intercourse between man and man that is carried on every hour, it possesses no advantage at all; on the contrary, it is liable to wear and waste, and therefore the smaller coins are in all respects to be preferred.

[Extension of Credit]

(2.) Another use of paper in commerce is to extend credit. Though in very large transactions the advantage of paper may be great, as it facilitates commerce; yet when we consider paper as generally circulating, and doing the office of gold and silver, it is by the extension of credit only, or chiefly, that it can be of any advantage.

It is unnecessary for me, and perhaps not in my power, to mention all the ways in which credit may be increased or facilitated by paper. Some will probably be mentioned afterwards; at present my business is to show, that giving credit is one of the advantages, and indeed in my opinion it is the principal advantage, to be derived from paper circulation of any kind.

There are many people whose industry is damped or limited by want of stock or credit, who if they were properly assisted in these respects, might do signal service to themselves, and the community of which they are members. It has been generally said, and I believe with truth, that the institution of the banks in Scotland has improved the country in the course of little more than half a century to a degree that is hardly credible. It is also probable that the manufacturers and commerce of England have been greatly promoted by the easy and regular methods of obtaining credit from the public and private banks.

I am aware that some very intelligent persons in Britain have condemned the paper circulation even there, and affirmed that it does more harm than good. It is not necessary for me to enter into the arguments on either side of that question. All that I am concerned to prove is, that if it does good upon the whole, or whatever good, it does more harm than good. It is not necessary for me to inter into the arguments on

either side of that question. All that I am concerned to prove is, that if it does good upon the whole, or whatever good it does in any degree, arises from the credit which it is the occasion of extending; and this I think can hardly be denied.[\(10\)](#)

[Evil done by paper]

Let us next consider the evil that is done by paper. This is what I would particularly request the reader to pay attention to, as it was what this essay was chiefly intended to show, and what the public seems but little aware of. The evil is this: All paper introduced into circulation, and obtaining credit as gold and silver, adds to the quantity of the medium, and thereby, as has been shown above, increases the price of industry and its fruits.[\(11\)](#)

This consequence is unavoidable, and follows as certainly from good paper as bad, or rather more certainly, for the medium is increased only by that which obtains credit. At the same time this consequence is local, because the paper does not pass among other nations, and therefore it works against the interest of the people who use it, and necessarily draws off their gold and silver, which must be made use of in all foreign payments.

Men may think what they please, but there is no contending with the nature of things. Experience has every where justified the remark, that wherever paper is introduced in large quantities, the gold and silver vanishes universally. The joint sum of gold, silver and paper, current, will exactly represent your commodities, and the prices will be accordingly. It is therefore as if you were to fill a vessel brim full, making half the quantity water and the other oil, the last being specifically lightest will be at the top, and if you add more water, the oil only will run over, and continue running till there is none left.

How absurd and contemptible then is the reasoning which we have of late seen frequently in print, vis. the gold and silver is indeed going away from us, that is to say, if the balance of trade is much against us, the paper medium has a direct tendency to increase the evil, and send it away by a quicker pace.

[Doubtful paper]

I have said, that this consequence follows from all paper, as such, good and bad, so far as it enters into circulation; but every one must perceive that there is a peculiar, and indeed a different evil to be feared from paper of a doubtful kind, and especially from that which being doubtful is obliged to be supported by

coercive laws. This must raise general suspicion, and consequently bring a stagnation of commerce, from universal and mutual distrust.

For the same reason it must annihilate credit, and make every cautious person lock his real money, that is, gold and silver, as he cannot tell but he may be cheated in the repayment. This evil is very extensive indeed, for it makes people suspicious, not only of what is, but what may be. Though the injury should be but partial, or inconsiderable at present, it may become wholly ruinous by some unknown future law.

[Resolution of the question of paper money]

Hence it may be seen, that the resolution of the question, whether it is proper to have paper money at all or not, depends entirely upon another, vis. whether the evil that is done by augmenting the circulating medium, is or is not overbalanced by the facility given to commerce, and the credit given to particular persons, by which their industry and exertions are added to the common stock.

As it is upon this that the question depends, we shall find, that as the circumstances of a nation may be different, it may be for or against its interest to use a paper medium. If any nation were in such circumstances(46) as that credit were either not necessary or easily obtained; if the country were fully settled, and the inhabitants fully employed in agriculture, manufacturing, and internal commerce, with little foreign trade, any addition to the true money would be unnecessary or pernicious.

This is probably the state of China at present, perhaps in some degree also of France. On the contrary, if a nation had an extensive and complicated commerce, and extending of credit, might be highly beneficial. I do not pretend to such exact a knowledge of the state of this country, or the different parts of it, as to judge with absolute certainty of what is necessary or would be useful to it, but am inclined to think that there must be something in the state of things in America that makes it either more necessary or more expedient to have paper here than in the European states.

We are assured that in former times many of the states, then colonies, thought it a privilege to be allowed to strike paper money; and we are told by persons of good understanding, that it contributed to their growth and improvement. If this was the case, I am confident it was chiefly because it was emitted on the way of a loan-office, and by giving credit to husbandmen, accelerated the settlement and improvement of the soil.

This question I do not take upon myself to decide, and therefore in what follows, desire I may be considered as speaking only hypothetically, the rather, that at present the inclination after paper of some kind or another seems to be so strong, that it would be in vain to withstand it.

[Principles on which it ought to be conducted]

If therefore paper is to be employed in circulation, we may see from what has been said above, what are the principles on which it ought to be conducted, the ends that ought to be aimed at, and the evils that ought to be avoided. The ends to be aimed at are, the facilitating of commercial transactions, and extending of credit to those who are likely to make a proper use of it.

The plan should be so conceived, as that the increase of the circulating medium should be as little as possible, consistently with these ends. It should be perfectly secure, so as to create an absolute confidence. And as it is of the nature of an obligation, no force whatever should be used, but the reception of it left entirely to the inclination and interest of the receiver.

It may be safely affirmed, that any deviation from these principles, which are deduced from the theory above laid down, will be an essential defect in the system. If we enquire what sort of paper will best answer this description, we find that there is no other sort used in Europe than that of banking companies. The government stamping paper to pass current for coin is unknown there.

Notwithstanding the immense sums which have been borrowed by the English government, they always prefer paying interest for them, to issuing paper without value for money. The only thing resembling it in the English histories, James the Second coining half metal and affixing a price to it by proclamation; a project contemptible in the contrivance, and abortive in the execution. This seems to be a considerable presumption, that the measure is upon the whole not eligible.[\(12\)](#)

[Advantages of Bank Paper]

The paper of banking companies has many advantages. It is considered as perfectly safe, because it can be exchanged for gold and silver at any time upon demand. Having this security at bottom, it is perfectly convenient for transportation, which indeed is common to it with all paper. In addition to this, it is considered as the principal business of all banks to give credit, which, though directly only in favor of commercial, is ultimately useful to many different classes of men.

I may upon this observe, that it is the duty of banking companies so to conduct their operations as to extend their regular credit as far as is safe for themselves. If instead of this, as has been supposed at least to have been done by some banks in Britain, they circulate their notes by agents, making purchases in different and distant places, that the sum issued may very far exceed the sum necessary to be kept or probable demands; they are in that case not serving the public at all, but using the money of other people to their own profit.

It is also to be observed, that the denomination of their notes should never be very small, it should indeed be as high as is consistent with such a general use as will bring in a sufficient profit. Very small denominations of paper do the greatest injury by entering into universal circulation, and chiefly affecting the industrious part of the community. It was a very great complaint against some banks in Scotland, that they brought down the denominations of their notes as far as ten shillings, and some of them even five shillings. If this was an evil, what shall we say of paper, as has been seen in this country, as low as one shilling, six pence, or even three-pence value.

It is a rule that will hardly admit of any exception, that the higher the denominations of paper bills, the greater the benefit and less the evil; and on the contrary, the smaller the denominations, the greater the evil and the less the benefit. High sums in paper obligations may perhaps change hands once a week, but a shilling of six-penny ticket may be in fifty hands in one day.

#### [Objection Against Banks]

I must mention here what has been often objected against banks in America, which, if just, would, from the reasoning on the preceding part of this discourse, tend to their condemnation. It is that they have destroyed credit instead of extending it, and have introduced or given occasion to extensive usury.

I am not sufficiently informed to say how far this is really the case, but cannot help observing, that treating the matter theoretically, as I have all along done, and considering the nature of the thing, this does not appear to be a necessary consequence. One would rather think that the regular credit which is of or ought to be given by banks should prevent usury, by supplying all those who deserve to be trusted. Agreeably to this it was found in fact, that the institution of banks in Scotland lowered the interest of money, which indeed seems to be the natural effect of every such institution, from the increased circulation.

But if any instances more than before have happened of this kind, it may be by persons in extreme necessity applying to others who have credit with the bank, and who have so little conscientious scruple as to take advantage of their neighbor's poverty. If this is the case, it is only a particular abuse, or occasional bad consequence of a thing otherwise good and useful. It is not a just objection against any thing, that it may be or has been in some instances abused.

Besides, as it is the duty of every banking company to guard against this evil as much as possible, even by personal resentments, against those who make this use of their confidence, or it is an evil not out of the reach of legal punishment or general infamy. Wise and well executed laws against usury, would at least so far restrain it, as to make it an evil of little consequence.

[A defect in the system]

But in examining the nature and operation of different kinds of paper, I must consider an objection of much greater importance, upon the principles of this discourse, against the paper of banks, or at least, a defect in their system, that seems to call for other measures in addition to it. This is, that banking companies give credit only so as to be serviceable to merchants, and those immediately connected with them, but do not extend it to husbandmen, or those who improve the soil, by taking mortgages for a considerable time; yet according to the theory above laid down, this is not only one of the advantages, but perhaps the chief advantage to be derived from a paper circulation of any kind.

Now, I admit, that the settlement and cultivation of the soil is the radical source of the prosperity of this country. It is indeed the source or the prosperity of every country, but comparatively more so of that of this country than most others. I also admit that credit, properly extended, to industrious persons in this way should be exceedingly beneficial. For this reason, and for this alone, Dr. Franklin and others perhaps judged right when they said, the country received great benefit from the loan-office paper of former times. I am also sensible, that it is not practicable nor proper for banking companies to give credit upon mortgages on distant lands. They being bound to prompt payment, must expect the same; therefore they are not to be blamed for refusing it in this form.<sup>(13)</sup> For all these reasons, I do not take upon me wholly to condemn a measure in America, which would be unnecessary to improper in Europe.

We hear from every quarter, that is to say, from almost every state, a loud cry for paper money. Now, when there is a great and universal complaint, it is seldom without some foundation and though I have

taken much pains in the preceding discourse to show that they mistake their own wants, that they do not want a circulation medium, but use that phrase without understanding its meaning; yet they certainly do want something. They want particular *credit*; and they look back with desire to the former times when they had paper money, which, by its name itself, pointed out its nature and use, the notes being then called bills of credit. I will therefore proceed keeping a steady eye upon the principles above laid down, to state in what manner a loan-office may be established within moderate bounds,(14)that shall render a service probably greater than the evils necessarily consequent upon it.

[Proposal]

I would therefore propose, that any state that thinks it necessary, should emit a sum of suppose one hundred thousand pounds, and that the following rules should be laid down in the law, and invariably adhered to.

1. That not a shilling of that money should issue from the loan-office treasury, but upon mortgage of land to the amount of double the sum in value.
2. That it should not be a legal tender for any debts contracted or to be contracted, but receivable in all taxes within the state, and payable for the wages of Council and Assembly, and the fees and perquisites of all public officers, after it has been so received.
3. That at the end of twelve calender months, a sum precisely equal to the interest that had accrued of become due in that time, should be consumed by fire, and public intimation given of its being done. The same thing should be done every subsequent year.
4. That at no time any part of this money should be made use of in the payment of the public debts, but that which had been first levied in taxes. It would not be proper even to borrow from the stock for this purpose by anticipation.(15)

["Kidogo's World" did not give a section title here, but the following paragraph was nevertheless a new paragraph in the original. Following the rule that every new paragraph in Witherspoon is a new section here, I have added this present section break here. - Michael Makovi]

If these rules were observed, credit would be given to some persons, who needed and deserved it, to the amount of the whole sum. The bills current would be diminished in quantity every year so as not to load the circulation, which would have a sensible effect upon the public opinion, and indeed, from the nature of the thing, would increase their value, of rather confirm it from year to year.(16) At the end of fourteen or fifteen years they would be wholly taken out of circulation, and that not by any tax laid on for the

purpose, but by the hire or use of the money itself, and after all, the principal sum would be still due to the state in good money, which might bear interest for ever. It would be an important addition to this scheme, if no bills less than two dollars, or perhaps three, or five, should be emitted, as this would still keep silver at least in circulation on the above principles, all the good that can be produced by paper would be effected, vis. facilitation commerce, and giving credit; and as little of the evil as possible, because the quantity would be fixed and moderate at first, and continually decreasing, so as at last to vanish altogether; and then another emission of the same kind might be made, if the utility of the first should recommend it.

#### [Answer to Objection]

Perhaps it will be said, that this money not being a legal tender, would not answer the purpose of borrowers by paying their debts, nor get at all into circulation. To this I answer, that it would not answer the purpose of those who want to pay their debts with half nothing, and cheat their creditors; nor do I wish to see any thing attempted that would produce that effect. But I affirm, that it would get better into circulation than by a tender law, which creates general and just suspicion.

Tender laws, as has been already proved, may be made use of by deceitful persons to do particular acts of injustice, but are not sufficient to procure general circulation, nor to excite and reward industry, without the opinion and approbation of the public. Such money as I have described would excite no alarm, it might easily be tried. It would, in my opinion, certainly be tried, for all would know that it would pay every tax to government, and even borrowers of large sums might make trial of it, without any risk at all, because if it would not answer their end, they might after a few months, repay it, and take up their mortgage. But I cannot help thinking that the principles of it are so just, and the plan so certain, that all understanding persons would perceive and approve it.

I must here take the occasion and the liberty of saying, that it were greatly to be wished that those who have in their hands the administration of affairs in the several states of America, would take no measures, either on this, or any other subject, but what are founded upon justice, supported by reason, and warranted to be safe by the experience of former ages, and of other countries.

The operation of political causes is as uniform and certain as that of natural causes. And any measure which in itself has a bad tendency, though its effects may not be instantly discernable, and their progress may be but slow, yet it will be fallible; and perhaps the danger will then only appear when a remedy is

impossible.

This is the case, in some degree, with all political measures, without exception, yet I am mistaken if it is not eminently so with respect to commercial dealings. Commerce is excited, directed, and carried on by interest. But do not mistake this, it is not carried on by general universal interest, not even by well informed national interest, but by immediate, apparent, and sensible personal interest.

I must also observe that there is in mankind a sharp-sightedness upon this subject that is quite astonishing. All men are not philosophers, but they are generally good judges of their own profit in what is immediately before them, and will uniformly adhere to it. It is not uncommon to see a man who appears to be almost as stupid as a stone, and yet he shall be as adroit and dextrous in making a bargain, or even more so, than a man of the first rate understanding, who, probably for that very reason, is less attentive to trifling circumstances, and less under the government of mean and selfish views. As to currency, which has been our general subject, if coins of any particular species happen, as is sometimes the case, to pass at a rate, ever so little higher, in one country, or corner of a country than another, thither they will immediately direct their course; and if the matter is not attended to, nor the mistake rectified, they will be all there in a very short time, and the place which receives them must bear the loss.

#### [Summing Up]

I will now sum up, in single propositions, the substance of what has been asserted, and I hope sufficiently proved, in the preceding discourse.

1. It ought not to be imputed to accident or caprice, that gold, silver, and copper, formerly were and the two first continue to be, the medium of commerce; but to their inherent value, joined with other properties, that fit them for circulation. Therefore, all the speculations, formed upon a contrary supposition, are inconclusive and absurd.
2. Gold and silver are far from being in too small quantity at present for the purpose of a circulating medium, in the commercial nations. The last of them, vis. silver, seems rather to be in too great quantity, so as to become inconvenient for transportation.
3. The people of every nation will get the quantity of these precious metals, that they are entitled to by their industry, and no more. If by any accident, as plunder in war, of borrowing from other nations, or even finding it in mines, they get more, they will not be able to keep it. It will, in a short time find its level. Laws against exporting the coin will not prevent this. Laws of this kind, though they are still in force in some nations, supposed to be wise, yet are in themselves ridiculous. If you import more than you export,

you must pat the balance or give up the trade.

4. The quantity of gold and silver at any time in a nation, is no evidence of national wealth, unless you take into consideration the way in which it came there, and the probability of its continuing.

5. No paper of any kind is, properly speaking, money. It ought never to be made a legal tender.

It *ought* not to be forced upon *any* body, because it *cannot* be forced upon *everybody*.

6. Gold and silver, fairly acquired, and likely to continue, are real national, as well as personal wealth. If twice as much paper circulates with them, though in full credit, particular persons may be rich by possessing it, but the nation in general is not.

7. The cry of the scarcity of money, is generally putting the effect for the cause. No business can be done, say some, because money is scarce. It may be said with more truth, money is scarce, because little business is done. Yet their influence, like that of many other causes and effects is reciprocal.

8. The quantity of current money, of whatever kind, will have an effect in raising the price of industry, and bringing goods dearer to market, therefore the increase of the currency in any nation paper, which will not pass among other nations, makes the first cost of every thing they do greater, and of consequence the profit less.

9. It is however possible, that paper obligations may so far facilitate commerce, and extend credit, as by the additional industry, that they excite to overbalance the injury which they do in other respects. Yet even the good itself may be overdone. Too much money may be emitted even upon loan, but to emit money any other way than upon loan, is to do all evil and no good.

10. The executive quantity of paper emitted by the different states of America, will probably be a loss to the whole. They cannot however take advantage of one another in that way. That state which emits most will lose most, and *vice versa*.

11. I can see no way in which it can do good but one, which is, to deter other nations from trusting us, and thereby lessen our importations; and I sincerely wish, that in that way, it may prove in some degree a remedy for its own evils.

12. Those who refuse doubtful paper, and thereby disgrace it, or prevent its circulation, are not enemies, but friends to their country.

#### [Conclusion]

To draw to a conclusion, it is probable that those who perceive, which it will be easy to do, that the author of this tract is not a merchant or trader by profession, will be ready to say, what has this gentleman to do with such a subject? Why should he write upon what he has no practical knowledge of, money and commerce?

To these I answer, that I have written, not as a merchant, but as a scholar. I profess to derive my opinions from the best civilians of this and the last age, and from the history of all ages, joined with a pretty considerable experience and attention to the effects of political causes, within the sphere of my own observation.

It is not even too much to say, that one of the mercantile profession, unless his views were very enlarged indeed, is not so proper to handle a general subject of this kind as some others. His attention is usually confined to the business, and to that branch of that business in which he is employed. In that his discernment will be clear, and he will find out, if possible, where he can buy cheapest and sell dearest, but as to the theory of commerce, of the great subject of national interest or connection, he can have no advantage at all over a person given to study and reflection, who has some acquaintance with public life. With these remarks, by way of apology, and having no interest in the matter but what is common to every citizen, I freely commit the whole to the judgment of the impartial public.

*finis.*

**(1)** Servius Tullius, one of the Roman kings, is said to have stamped some pieces with the figure of cattle; an ox, or a sheep. This was as much to say, this piece is of the value of an ox or a sheep. Hence it is said the Roman word *pecunio*, comes from *pecus*, cattle. Others have thought it was from the use of leather for money, *quasi pecudum corio*. But the first etymologys eems to be the best. See a subsequent note. [\(return\)](#)

**(2)** There are two estates near one of the colleges in Scotland, which were originally taxed an equal number of bolls of grain (a boll is about 6 bushels) to that institution. In very remote times it pleased the proprietor of one of these estates, with consent of the college, to convert the payment into money, according to the then current value, which was a groat, or four pence sterling for a boll. At this present time, the one of these farms pays the same number of bolls that the other does of groats; which is about thirty two for one. There is also said to be existing an old lease of a burrow acre near a town in Scotland, for which the tenant was to pay a boll of wheat and a boll of barley, or if he did not bring the grain between Christmass and Candlemass, the proprietor was not obliged to accept of it, but he must pay a sum which is now 10 12ths of a penny sterling for the boll of wheat, and 8-12ths for the boll of barley. [\(return\)](#)

**(3)** An author on this subject in a pamphlet lately published says, "The value of the precious metals is

however enhanced by their peculiar aptitude to perform the office of an universal money beyond any real inherent value they possess. This extrinsic value of gold and silver, which belongs to them under the modification of coin or bullion, is totally distinct from their inherent value as a commodity." I do not very well comprehend what this gentleman means by the intrinsic value of gold and silver. Perhaps it is the stamp or nominal value affixed to them by the state; but whatever it is, I will venture to assure him, that their value as coin is so far from being totally distinct from that it must be precisely the same with, their value as a commodity. [\(return\)](#)

(4) It has been suggested to me by a friend, that gold and silver possess another quality different from all the above, which in an eminent degree, fits them for circulation as a medium, *viz.* that they are *equable*. The meaning this expression is, that the metal of each of these species, when pure, is of the same fineness and worth, and perfectly similar, from whatever different mines, or whatever distant parts it may have been procured; which, it is said, is not the case with any other metal. It is affirmed, that the copper or lead that comes from one mine, will be preferable to that which comes from another, even after this last has been refined to as high a degree as is possible; but that all gold and silver completely refined are perfectly alike, whether they come from Asia, Africa, or America. I do riot pretend to a certain knowledge of this; but if it be true, it is well worthy of being mentioned in this disquisition. [\(return\)](#)

(5) See upon this subject President Goguet's Rise and Progress of Laws, Arts and Sciences. He has not only sufficiently proved the fact, but also assigned the most probable reason for it, that these metals were found in many places of the earth almost pure, so as to need very little art in refining; whereas extracting iron from the ore is neither so easy nor so obvious. We learn from Homer, that in the wars of Troy, the weapons of war, offensive and defensive, were of copper; and some historians tell us that they had a method of tempering or hardening it so as to make it tolerably fit for the purpose, though certainly not equal to iron or steel. [\(return\)](#)

(6) In the Roman language, *aes* signifies not only brass, but money in general, and from it many other words are derived; as *ararium*, the treasury; *aes alienum*, debt; *aere mutare*, to buy or sell money &c. So in the Greek tongue, *chalkos* signifies brass, *achalkos* and *achalkein*, to be without money or poor. When the other metals came to be in use as money, the words received the same meaning in the language, as *Argenti sitis - auri sacra fames*, the desire of money. Things proceeded in a way perfectly similar in the three ancient nations of whom we have the distinctest accounts, the Hebrews, Greeks and Romans, *Nahus keseph zahaw*, in Hebrew; *chalkos arguros* and *chrusos* in Greek; and *aes argentum* and *aurum*, in Latin, are all used for money in general. [\(return\)](#)

(7) See Gen. xxiii. 16. And Abraham weighed to Ephron, the money that he had said, in the presence of the sons of Heth, 400 shekels of silver, current money with the merchant. [\(return\)](#)

**(8)** We have the express testimony of Pliny upon this subject, lib. 33. cap. 3. "Servius rex primus signavit æs. Antea rudi usos Romæ Timaus tradit. Signatum est nota pecudum unde et pecunia appellanta. - Servius first coined brass. Timaus says they used it formerly rough or uncoined at Rome. It was marked with the figure of cattle, whence also it was called *pecunia*." The same author tells us, that silver began to be coined at Rome in the 485th year of the city, and gold 72 years after. [\(return\)](#)

**(9)** Perhaps it may be proper to inform some readers what this expression refers to. It refers to the agio of the bank of Holland. A bill of that bank generally goes for a little more in payment with any dealer than the sum it specifies, and this advance or difference is called the agio of the Bank, and rises or falls like the rate of exchange. This probably arises from its perfect security, and the very great advantage in point of ease and expedition, in transferring, reckoning, and concealing of paper above gold and silver. It gives occasion to the vulgar saying in that country, That money goes into the bank but never comes out. [\(return\)](#)

**(10)** That I may state the matter with fairness and fulness, I will just observe, that the enemies of paper say, the improvement was only coeval with the banks, but not caused by them in whole, nor in any great degree. The banks happened to be nearly coeval with the revolution, and the union of England and Scotland; both which important events are supposed to have been causes of improvement to Scotland. However the experience of the last thirty or forty years appears to be considerably in favour of banks and dealers in money and bills, which I consider as essentially the same. [\(return\)](#)

**(11)** This will perhaps be misapprehended by some readers. They will say, a high price for our industry! This is just what we want, and what all desire. But the price I mean here is not the price which you get for your industry, but that which you pay for it. A high price, by a great demand from foreign nations, is your profit; but the cost which you pay for servants, tools, rent of land, &c. lessens that profit, and it is this which is increased by increasing the circulating medium and not the other. Make as much money as you please, this will not make foreign nations call for any more of your grain, fish, lumber, tobacco, rice, &c. but it will just as certainly make them cost you more before you can bring them to the markrt, as adding two to three will make five. [\(return\)](#)

**(12)** It seems to me, that those who cry out for emitting paper money by the legislatures, should take some pains to state clearly the difference between this and the European countries, and point out the reasons why it would be serviceable here, and hurtful there; or else insist that it would be a wise measure every where, and recommend the use of it to the states of England, France, Holland, &c. who will be much indebted to them for the discovery. [\(return\)](#)

**(13)** I must here observe, that the banks of Scotland neves gave credit upon mortgages, but personal security only, and yet they were universally supposed to put it in the power of landed men to improve their estates; so that the money transactions must have been, though not directly, yet remotely in their

favour. ([return](#))

(14) I am not ignorant that there has been in one of our states, I mean Pennsylvania, a violent controversy for and against the bank, between the political factions which divide that state. On this account, I am sorry I was obliged to mention banks at all? but it was impossible for me to do justice to the subject, without considering their general nature and effects; and I will not so much as name any of the arguments on either side of this question, what is necessarily connected with money in general as a currency, and its effects upon the national interest. ([return](#))

(15) The paying of the public creditors is one of the most common and popular arguments for paper emissions, but to pay them with money not loaned, is not paying, but continuing the debt upon the state, and only make it change hands. All such bills so paid must be accounted for by the public. It is better, therefore, that by the loans men may be enabled easily to pay their taxes; and then let the public creditors be paid by money demanded equally from the whole for that purpose. ([return](#))

(16) I cannot help observing here, that the titles of most of the acts for emitting money, do unawares confess the justice of all that has been said above; they run thus, "An act for emitting - thousand pounds in bills of credit, and directing the manner of *sinking the same.*" Does not this shew what sort of a circulating medium they are? Does it not admit, that they will do evil if they continue to circulate? When you coin gold and silver, do you provide for sinking it? ([return](#))

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