

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

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“All discord harmony not understood.”—POPE.

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

ERRATA.

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

THE CREDIT SYSTEM.

CHAPTER I.

RISE AND PROGRESS OF CREDIT.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

CHAPTER II.

OF CREDIT IN FRANCE.

IN FRANCE, the owner of a commodity has little disposition to part with it unless he can have payment therefor on delivery, and little business is therefore done upon credit. The owner of capital is not disposed to lend it, and a necessary consequence is that large quantities thereof lie idle. The amount of the precious metals in that country is estimated at six hundred millions of dollars,* being three times the quantity supposed to exist in Great Britain and Ireland, and exceeding by 60 per cent. the whole *circulation of gold, silver, and paper*. The amount of production of France does not exceed two thirds of that of the United Kingdom; and as the number of exchanges must, in consequence of the inferiority in the quality of labour, bear a still smaller proportion,† it follows that the amount of circulation required for their performance is proportionably small, and does not exceed 150 or 200 millions of dollars, or 750 to 1000 millions of francs. At least two thirds of the precious metals of France, admitting the amount to be 3000 millions, must now lie unproductive, in consequence of the want of confidence that forbids the owners to part with them.‡

* "The quantity of gold and silver that has been struck in France, of the new coinage, amounted, in 1836, to a little more than 4,000,000,000, of which nearly three fourths were of silver, and one fourth of gold. It is not probable that more than 1,000,000,000 have been exported or melted, so that there remain 3,000,000,000, (\$ 600,000,000.) A part of this immense capital is out of circulation, and rests buried in the coffers of individuals, or hoarded by the poor, unwilling to confide to any one their little savings."—Chevalier, *Lettres sur l'Amerique du Nord*, t. I. p. 403.

† When labour is of very inferior quality, as is the case in France, the chief part of the product thereof consists of articles of the first necessity, a large proportion of which is consumed by the producer, and does not become the subject of exchange. With every improvement in the quality of labour there is an increase in the *quantity* of production, and in the *proportion* of the products that are exchanged.

‡ The deposits in the Bank of France, in 1835, were only 75 millions of francs, (\$ 15,000,000); and in 1836, 48,800,000, (\$ 9,800,000.)

To this want of confidence is due the fact, that throughout France there has been, until recently, but one of those labour-saving machines termed banks, at which money is bought and sold. About twenty years since, that one made an attempt to establish branches at Lyons, Rouen, and Lille, but without success. Where commodities are not parted with except for prompt payment, there can be little inducement to establish banks, whose chief business ought to be the discount of bills given for merchandise. How little this is the case, may be judged from the fact that, in 1836, the Bank of France made a new attempt to establish branches, placing one at Rheims,* and another at St. Etienne,† and the discounts at each have been but about 200,000 francs, (\$ 40,000,) per week.

The *maximum* of the discounts of the Bank of France, in 1836, was 151,000,000, (\$ 30,000,000,) and the minimum 77,000,000, (\$ 15,000,000,) the average being about 22,000,000, or less than two thirds of the *capital* of the Bank of the United States. The *total amount* of discounts in the year was 760,000,000.‡ The number of notes discounted in the year was 406,187, giving an average of about 1870 francs = \$ 380, or about £ 80 sterling, and the average time cannot have exceeded 50 days.§ Small as is this amount, and short as is the time, the bank requires *three endorsers, or two endorsers and a deposit of property equal in value to the loan that is to be made*, showing how very small is the confidence reposed in the engagements of individuals.|| Under

* Population 100,000.

† Population 25,000.

‡ The fluctuations in the business of this institution have been exceedingly great. In 1826, the total amount of bills discounted was 689 millions. In 1831, it fell to 223 millions. In 1832, to 151 millions, or only 30 millions of dollars, being an average of 2½ millions of dollars per month, instead of above 11 millions in 1826. This course tended greatly to increase the distress then so universal in France.

§ The very small amounts for which notes are given, is shown by the statement of the president of the bank, that "of 406,187 notes discounted in 1836, five eighths were for sums less than 1000 francs, = \$ 186 67;" and that "many thousands for sums under 100 francs, (= \$ 18 67,) figured on the books."

|| The following account of the Bank of France, by L. Goldsmith, (*Statistics of France*,) we find in the London Times, January 31, 1838.

"The operations of the Bank consist: First, In discounting bills of exchange not exceeding three months date, and bearing *three separate endorsements* of respectable persons not connected with each other. Nevertheless, the bank discounts bills which have *two respectable endorsements only, provided a deposit be made in property of equal value*.

such circumstances it would be extraordinary if the losses of the institution were not small.*

The same want of confidence which prevents individuals from parting with merchandise on credit, prevents others from applying their capital to the formation of banks, to which those who were desirous of increasing their machinery of production, might apply for aid.† Savings' banks are not popular,‡ and large sums are hoarded which under other circumstances would be most usefully applied.

*Second.—It makes advances of money on government securities.

†Third.—It makes advances on deposits of bullion, or foreign coin, diamonds, shares in public companies, &c., at the rate of one per cent. per annum. Not less than the value of 10,000 francs is received as a deposit, and discount for 45 days is deducted from the amount of the sum advanced; nor if the deposit be redeemed the next day, is any part of the discount refunded. There are very few bank notes in circulation in the departments, and those that are, if at any distance from Paris, pass at a discount of 1½ per cent., as they are not received in payment of taxes or custom house duties in sea-ports, so that *remittances must be made in hard cash, for which a premium of five per cent. is paid at the post office.*”

* The president stated that of the discounts of 1836 only a single note of 200 francs remained as a suspended debt. From other remarks it may be inferred that there is a considerable amount remaining from previous years.

† The local banks of France are six in number, with a capital of 14 millions of francs, or less than 3 millions of dollars.—*Chevalier, t. I. p. 388.*

‡ Bowring's Second Report, p. 36.

The Savings' Bank of Paris was founded in 1818, and in 1830 its deposits amounted to - - - - - 43,559,117§

This amount shows that the system was understood, and that credit had increased *in the capital*, but when we look to the provinces we find a very different state of things.

					Francs.
Brest, founded 1821, total amount of deposits to 1829,	-	-	-	-	82,000
Troyes, “ “ “ “ “ “ “ “	-	-	-	-	214,000
Rouen, “ 1820, received in 1829,	-	-	-	-	142,426
Nantes, “ 1821, “ “ “ “ “ “	-	-	-	-	176,932
Havre, “ 1822, “ “ “ “ “ “	-	-	-	-	284,864
Lyons, “ 1822, “ “ “ “ “ “	-	-	-	-	258,998
Rheims, “ 1823, “ “ “ “ “ “	-	-	-	-	16,000
Marseilles, “ 1828, “ “ “ “ “ “	-	-	-	-	407,516

Villeneuve, Economie Politique Chretienne, t. III. p. 96.

The amount deposited in Rouen, a city containing above 100,000 inhabitants, is 142,426 francs, or about 28,000 dollars, being little more than 500 dollars per week.

§ In 1836, the amount, according to M. Chevalier, (*tom. II. p. 500.*) was 45,633,182 francs, *having increased little more than two millions in six years.* The Savings' Fund of the departments amounted to 37,965,445 francs. Total, 83,598,627, or 16 millions of dollars.

The consequence is, that those who have occasion to borrow, are obliged to pay high interest, while large sums remain uninvested. Money can rarely be borrowed on a *first mortgage* at less than 6 per cent., and the small proprietors and manufacturers pay 8, 9, 12, and 15 per cent.* As we descend in the social scale, the rate of interest rises. *The workman of the towns, in his purchases, pays fifty per cent., and even one hundred per cent. per annum. For the peasant, in his dealings with the blacksmith, the tavern-keeper, and the village shopkeeper, it is sometimes one hundred per cent. per quarter. The mean rate of interest throughout France, in transactions of all descriptions, is at least 15 to 20, or perhaps 25 per cent.†* Here we have abundant evidence that where insecurity exists, the owner of capital obtains but a small return, while the workman is obliged to allow a large *proportion* for the use of it. While the government can borrow at 4 per cent. per annum, and while the *bons du tresor*, or treasury notes, bear an interest of two per cent. only, the owner of land pays 6 per cent. in addition to the heavy charges of the government, which add 1½ or 2 per cent.‡ to the cost; and the farmer pays to the dealer with whom he performs his exchanges one hundred per cent., because of that insecurity which prevents the application of capital to the increase of the number of shops, roads, canals, and all other machines that tend to facilitate his approach to market, or to give him *advantages of situation*. Under these circumstances, it is not extraordinary that capital should accumulate slowly, that production should continue to be small, and that the labourer of France should find it difficult to improve his condition.

If the owner of commodities of any description is thus unwilling to part with them, except on receiving prompt payment therefor, not less unwilling is the individual who has entitled himself to receive commodities in return for his services, *or wages*, to permit them to remain out of his possession, receiving the promise of bankers or banking companies to produce them. The labourer of France must have gold or silver, which are with him the object of regard to a degree that “is incomprehensible to an

* “The rate of interest on mortgages varies from 5 to 12, and even 15 per cent. The mean rate appears to be not less than 8 per cent.”—*Chevalier, t. II. p. 489.*

† Chevalier, t. II. p. 256.

‡ Villeneuve, t. III. p. 315.

American or an Englishman.”* The consequence of this is to be found in the vast amount of those commodities required for the exchange of the products of France, compared with the small quantity required for the purpose in Great Britain or the United States.

The same want of confidence that is thus shown by the labourer, is exhibited in trade. A single ship has sometimes several super-cargoes. Merchandise is not received on the faith of the sellers, nor is it extraordinary that such should be the case, when the foreign trade of France has been in a great measure destroyed by frauds in the preparation of commodities for exportation.† In the dealings of the smaller traders with their own countrymen,‡ as well as those of the manufacturer§ and his workmen,|| we find

* Chevalier, t. II. p. 247.

† Chevalier, t. II. p. 207. See also extract from the *Voyage of the Favourite*, given by M. Chevalier, t. II. p. 468.

‡ A recent American traveller says :

“The people of Paris have no mutual confidence in their dealings, or in any of their external relations. They watch each other when they negotiate, buy or sell, with a closeness that implies universal distrust; to *American or British strangers, the circumspection and precaution which they finally learn to be requisite, are not a little painful.* Any pledges of good faith may be asked—any will be tendered. In my purchases, *I have felt ashamed of the stipulations which tradesmen and shop-keepers have volunteered.* Any price is asked—any reduction may be deemed practicable. You can get less for much money, or more for little money, than any where else in the world. You are liable to be cheated in whatever you seek; you may be better or worse served than any where else. Your domestics will rarely steal from you directly, but all will collude with butcher, grocer, baker with every one who has to furnish you, if they can go between. No fidelity to your interests is to be expected from them, when those of their compatriots are in the way.”

§ “In the relations of master and workman, there exist at Paris, and generally in our large manufacturing towns, the most disgraceful practices. A large number of masters, to obtain those profits of which they are likely to be deprived by the competition of other manufacturers, are reduced to the employment, in relation to their workmen, of the most miserable artifices, as, for instance, advancing the clock in the morning, and putting it back in the evening. The workmen make reprisals when the opportunity occurs.”—*Chevalier, t. II. p. 408.*

|| “The mass of the American people are more fully initiated than the mass of European population, in what relates to the dignity of man, or at least in regard to their own dignity. The American workman is full of self-respect, which he manifests not only by an extreme susceptibility, and by his repugnance to use the term master, which he replaces by that of employer, but also by much greater good faith, exactitude, and scrupulousness in his transactions. He is exempt from the vices of the slave, such as lying and stealing, which are so frequent among our labourers,

a similar state of things. The necessary consequence is a vast waste of time and labour expended in the performance of operations that in the United States or England would be deemed unnecessary, and the general effect is to render labour unproductive, as it must always be where insecurity exists.*

It is impossible to look to any part of the operations of France, without being struck with the universal want of confidence in each other. No man can act as a stock-broker, attorney, or notary, without giving security for the due performance of his engagements; and personal security not being deemed sufficient, he must pay to the government, in money, the amount required as *caution.* On the first of January, 1834, the government held 61 millions of francs, or 12 millions of dollars, as security for the honour and honesty of 21,530 stock-brokers, attorneys, and notaries,† being an average of nearly 3,000 francs each. That bail should thus be demanded, is evidence of the want of confidence in each other, and the small average amount is evidence of the small amount of business to be transacted, and of the *very small* amount of confidence that would be required.

Collectors of taxes, cashiers, paymasters, receivers, retailers of tobacco, &c., place their funds in the hands of the government, and the total amount so held, on the first of January, 1834, was 225 millions,‡ or nearly 45 millions of dollars. The effect of this system is to take from those whose means are small and who desire to make a living by retailing tobacco, or by acting as brokers, or attorneys, the very capital by aid of which they might

particularly those of our cities and factories. The French workman is outwardly much more submissive, but pressed by want and surrounded by temptations, he rarely omits an opportunity of deceiving his employer, when he thinks he may do so with impunity. The workman of Lyons steals the silk that is given to him to weave. (The loss to the employers of Lyons is estimated at a million of francs, or \$200,000.) The workman of Rheims does the same by the wool. (The loss is also estimated at a million.) Frauds are also committed in America; charcoal is sold for indigo, and talc for white soap, but they are rare exceptions. The character of the American workman, considered as a labourer, is most honourable, and excites the envy of the European, who compares what he sees here, with that which he has left at home.”—*Ibid.*

* “A long time must elapse before we can enjoy in France a system of credit as extensive as that which exists in England and the United States. We are, in that respect, in a state of barbarism.”—*Chevalier, t. II. p. 248.*

† *Documens Statistiques de la France.*

‡ *Ibid.*

possibly succeed, and they are therefore compelled to leave all such employments to those who can give security, and yet retain the means with which to carry on their business—to the capitalists. The consequence is, that those *who have little capital* find it exceedingly difficult to place themselves in business, and those who are *without* find it almost impossible, and thus this uniform distrust of each other almost forbids the improvement of condition. Production is diminished, and the capitalist is enabled to take *a large proportion* thereof as compensation for the use of his capital.*

The amount of exchanges performed in France is very small. The great mass of the population is engaged in producing the commodities directly required for their own subsistence; and as the quantity produced but little exceeds that which they require for themselves, they have very few exchanges to perform with the shopkeeper. The latter has therefore but few to perform with the manufacturer, as is shown by the exceedingly limited amount of the operations of the Bank of France, although performing the chief part of the banking operations of the kingdom. As a necessary consequence, there should be a very limited amount of bankruptcy. We find, however, that in 1831, the number of bankrupts was 800; in 1835, 329; in 1836, 529. Of the latter, it was stated by the president of the Tribunal of Commerce, that

* "It is with the utmost difficulty that a poor German or a Frenchman succeeds in the acquisition of property; his progress is slow and tedious, and his facilities of credit never much in advance of his actual stock in trade. In America, the case is different. Men are there trusted in proportion to their reputation for honesty, and adaptation to business. Industry, perseverance, acquaintance with the market, enterprise—in short, every moral qualification of a merchant increases his credit as much as the actual amount of his property."—*Grund. The Americans*, p. 260.

"In a country organized for commerce, and possessing a system of credit, the dollars of the merchant, and the merchandise which he has in store, are not his whole capital; the most essential portion is that which comprises the skill which he has acquired, the relations which he has established, and the value which is attached to his word, constituting a capital which fire cannot destroy, and which can brave all risks of whatever nature. In New York, because of this moral capital, so much valued in countries possessing a genius for commerce, a merchant possessing 200,000 francs, does business to the amount of a million or a million and a half. In Paris, the same man, under the same circumstances, could with difficulty do it to the amount of half a million."—*Chevalier, t. I. p. 393.*

191	did not exceed 20,000 francs each,
57	“ 60,000 “
105	“ 200,000 “
20	exceeded 200,000 “
59	statements not made out.

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If we suppose the first class to average 10,000 francs, the second 40,000, the third 130,000, the fourth 300,000, the last 45,000, there will still remain 97 of which we have no account, and if we average them at only 30,000 francs, we shall have an aggregate of 30 millions of francs, being about $\frac{3}{7}$ of one per cent. of the total product of France,* and probably *one and a half per cent. of the amount of the commodities parted with by the producer in exchange for other commodities needed for his consumption.*†

Here we find that although want of confidence prevents individuals from parting with their property without prompt payment, the bankruptcies bear, nevertheless, *a large proportion to the whole amount of exchanges performed.* How large a proportion it bears to the amount upon which credit is given, may be inferred from the fact, that while the government can borrow at 4 per cent., the owners of capital require from 6 to 15 per cent. on loans to individuals, even on mortgage security, the difference being the charge for collecting the interest, and insuring the repayment of the debt.

* The production of France is estimated at from six to eight thousand millions of francs. We have taken seven thousand millions as being nearest the true amount.

† "If, up to the present time, failures are more frequent in the United States than with us, they are as numerous with us as in England."—*Chevalier, t. I. p. 393.*

CHAPTER III.

OF CREDIT IN ENGLAND.

IN ENGLAND, confidence is *almost* universal. The banker credits the manufacturer and the farmer. They are willing to give credit to the merchant, because they have confidence that he will pay them. He gives credit to the shopkeeper, who, in his turn, gives credit to the labourer. Almost all have it in their power to improve the machinery of production, by the use of the capital of others, who receive interest for its use. The labourer is generally willing to receive the notes of the Bank of England in lieu of coin, and to invest his savings in the savings' banks,* or to pay them over to some of the numerous friendly societies,† with full confidence that he can have coin for his notes; that his savings will be returned; that the promised aid will be rendered; or that his widow or children will receive the amount for which he has effected insurance.

The consequence of this general confidence of man in his fellow man, is, that there is little disposition to permit capital to remain unproductive—and that the quantity of coin required to perform the exchanges is much smaller than in France.

Immense masses of property change owners without examination, confidence thus producing a great saving of labour. Orders to a vast extent are given with a certainty that they will be executed with perfect good faith, and this system is continued year after year, proving that the confidence was deserved.

Almost every man who possesses capital places it in the bank, or with his banker, who lends it out to those who desire to use it, and those who have commodities are ready to part with them on receiving promise of payment from those who require them.

We have no means of showing the number or extent of the

* "The number of savings' banks in England and Wales, in 1834, was 401, and the amount invested £13,919,000, = \$66,800,000."—*Porter's Tables, Part III. p. 8.*

† "The number of friendly societies, in 1832, was 17,365."—*Porter's Tables, Part IV. p. 29.*

bankruptcies, but they are great. In Manchester, alone, 66 cotton manufacturers failed in the years from 1831 to 1835,* being an average of more than 13 per annum. One mode of testing the risks of trade is to ascertain the rate of insurance, or the amount of security required. In France we have found that the bank requires *three endorsers*, and in England we find the Northern and Central Bank requiring *two* names in addition to the drawer,† being a less amount of insurance, and indicating diminution of risk. The losses of banks in their business with individuals will enable us to form a tolerably accurate idea of the punctuality with which contracts are executed in that country—more accurate than could be obtained from any statement of the number or amount of bankruptcies.

It is stated that *of the bills re-discounted in London* for account of the Bank of Manchester, "only 7s. 4d. in every £100" was dishonoured, many of which were afterwards paid,‡ and the smallness of this proposition is adduced and received as indisputable evidence of the prudence and judgment of the directors.§ If we suppose the time to average ninety days, we shall have bills dishonoured to the amount of £1 9s. 4d., (or nearly 1½ per cent.,) per annum upon the average amount of capital loaned.|| The bills re-discounted are usually those of the best description, and their character is above the average.¶ That such is the case we have evidence in the fact that at the Northern and Central Bank, although requiring, as we have stated, *two endorsers*, the discounted bills on hand, *overdue and unpaid, fluctuated, during the first 11 months of 1836*, between 43 and 95 thousand pounds, while the whole amount of bills varied from 293 to 483 thousand pounds. In the early part of the year, *at a period of the highest prosperity*, the past due bills exceeded 60 thousand pounds, being more than one fifth of all the discounted

* Wheeler's Manchester, p. 244.

† Report of Committee on Joint-Stock Banks, 1836, p. 110.

‡ Ibid. p. 7.

§ Ibid. p. 10.

|| If the average amount of capital lent be one million, and all loans be for a period of 90 days, the total annual amount of loans in the year will be four millions. A loss of one half of one per cent. upon the *amount of loans*, (four millions,) would give a loss of two per cent. upon the *capital*.

¶ "Bankers, in general, do not re-discount bills that are at all doubtful in their estimation; they re-discount bills that they think to be good, and therefore the risk upon their return is not great."—*Evidence of P. M. James, Report, 1836, p. 54.*

bills on hand.* At the close of the year the bills on hand not at maturity, amounted to £192,678, and the past due bills to £115,703.† The losses of that institution, in four years, amounted to £160,000,‡ being an average of £40,000. The capital was £800,000, and if we take its average amount of loans to have been £1,500,000, the losses are $2\frac{2}{3}$ per cent. per annum upon the capital lent. Large as is this proportion, it was stated before the Committee of Parliament that it was “notorious,” that the institution “had made fewer losses than any other joint-stock bank.”§ This view is not materially different from that which we obtain from the evidence of Paul Moon James, Esq., for twenty-three years a private banker, and upwards of five years manager of the Birmingham Banking Company. That gentleman states, as the result of his experience, that the losses had not averaged one per cent. upon the *amount of loans*.|| If we suppose them to have been three fourths per cent., it will amount to three per cent. per annum *upon the capital employed*; if we take them at a half per cent., it will give two per cent. as the average loss. That it does not vary materially from this we have evidence in the fact that the average annual loss of the Branches of the Bank of England, from 1828 to 1831, was £12,400, or nearly one and a half per cent. upon the average amount of loans, which was £866,000.¶

The average number of private banks, from 1808 to 1818, was 691,** and from 1824 to 1827, 765.†† Of these the bankruptcies were

From 1809 to 1814, 6 years, 91, being an average of $15\frac{1}{6}$ per annum.

1815	1820,	“	87,	“	“	$14\frac{1}{2}$	“
1821	1826,	“	97,††	“	“	$16\frac{1}{8}$	“
1827	1830,	4 “	28,	“	“	7	“

The proportion, in the first period, was	-	-	2.20	per cent.
do. do. second do.	-	-	2.10	“
do. do. third do.	-	-	2.12	“
do. do. fourth do.	-	-	0.92	“

* Report, 1837, Appendix, p. 161.

† Report, 1837, p. 97.

‡ Ibid. p. 91.

§ Ibid. p. 48.

|| “In-point of fact it has not averaged, within my own experience, one per cent.”—*Report*, 1836, p. 53.

¶ Report on Bank Charter, Appendix, p. 51.

** Supplement to Encyclopædia Britannica. Article, Money.

†† M'Culloch's Commercial Dictionary, p. 88.

‡‡ Ibid. p. 85.

Exclusive of the above, many others stopped payment that afterwards resumed, and the affairs of some bankrupt concerns were arranged without a commisson. In 1814, 1815, and 1816, no less than 240 stopped, *being more than one third of the whole number*. This, too, was at a time when they were not required to redeem their notes in specie. It is obvious that the losses of the bankers must be very heavy, but of this we have further evidence in the statements of the Bank of England.

That institution until within a few years has limited its transactions to the city of London, and a very large proportion has been with *the bankers* in and out of the city, to whom it advanced money on the security of the bills which they had previously discounted, the advantage to the latter being that of borrowing at a rate somewhat lower than that at which they had loaned. Here the bank has had the security of *drawer, endorser or endorsers, and banker*, and could lose nothing until all of those parties were ruined. We have no means of ascertaining what is the general proportion its loans to bankers bear to those to individual traders, but in the year 1831 they amounted to 55 per cent. of the whole.* For many years past there has been a constant increase in the facilities afforded to individuals in doing business directly with the bank, accompanied by an increase in the proportion which their business bears to that of the bankers. It is fair, therefore, to estimate, that during the previous forty years three fourths of the discounts have been guarantied by bankers. As a consequence of this increased guaranty obtained by the Bank of England, we find that, in the 37 years from 1795 to 1831, both inclusive, during which time the average amount of loans on commercial paper was £7,500,000, the average amount of losses was only £31,696, or $\frac{4\frac{2}{3}}{1000}$ of one per cent. upon the capital employed. If we suppose the bills to have averaged three months, the loss has been one tenth of one per cent. upon *the total amount of bills discounted*, whereas the losses by the private banks can hardly be taken at less than one half of one per cent., as proved by the experience of the witnesses examined by the committee, and by the proportion of failures among those institutions. It must be obvious that their losses must be very much heavier than those of the Bank of England, which, upon a very

* Report on Bank Charter, Appendix, p. 46.

large portion of its business, can sustain none unless the private banker is ruined.

The amount of past due bills held by one of the joint-stock banks in 1836, as above given, bears a small proportion to the amount held on another occasion, by the Bank of England. The average amount of the loans on personal security, of that institution, for September and December, 1825, was £6,900,000, and the amount protested for non-payment from December 1, 1825, to April 30, 1826, a period of five months, was £208,487, *being about 4½ per cent. of the whole amount of loans.*

In comparing the bankruptcies of England and France, it must always be borne in mind, that although the production of England, with 15 millions of inhabitants, is but little more than equal to that of France, with 33 millions, the *proportion* that is exchanged is vastly greater, and is probably not less than three fourths of the whole, or 200 millions of pounds sterling. The products thus exchanged give rise to an amount of credit operations many times greater than arise in France, and the superior confidence of man in his fellow man, is shown in the fact that the difference between the rate of interest paid by the government, and that paid by individuals, is very small. British stocks pay about 3½ per cent. interest, while tradesmen and farmers obtain loans readily at 5 per cent., showing how small in comparison with France is the charge for the collection of interest, and for insurance of the repayment of the money loaned.

CHAPTER IV.

OF CREDIT IN THE UNITED STATES.

As confidence grows with population and capital, it should be found to a greater extent in Massachusetts, and in New England generally, than in any other part of the UNITED STATES, and gradually diminishing as we pass south and west to those States and Territories in which population is widely scattered, and where the superior soils only are cultivated. Such we shall find to be the case. Following the order of density of population, it should increase as we go from Massachusetts to France and England, in both of which it should be at a much higher point than in any part of the United States. How far this is the case, we propose to examine.

There are few circumstances connected with the American Union more worthy of remark than the credit system, which extends itself over the whole of their vast territory. The traders of Missouri and Arkansas—of Mississippi and Alabama—of Illinois and Michigan—distant 1000 or 1500 miles, and returning but once in 12 or 18 months, are supplied with merchandise on credit, and the small difference charged in consideration thereof is evidence of the punctuality with which they fulfil their engagements. Those traders give credit to the farmer, the planter, and the small storekeeper, who in turn grants it to the labourer, and the charge that is made therefor is exceedingly small. As the credit system is the offspring of confidence, and as no man reposes confidence where he deems it likely to be abused, the existence of this extensive and universal system of credit may be taken as evidence of a *general belief* among those who have commodities for sale, that those who desire to obtain them, have the disposition, and will have the means of paying for them, in such manner and at such times as may be agreed upon.* Desiring, however, to show from actual returns, what is the nature of the

* "There is, probably, no other country in which credit is so purely personal as in the United States."—*Grund's Americans*, p. 259. † See page 114, *ante*.

