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THE LIFE AND WRITINGS
OF
TURGOT

COMPTROLLER-GENERAL OF FRANCE 1774-6

EDITED FOR ENGLISH READERS

BY

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LONDON
LONGMANS, GREEN, AND CO.
AND NEW YORK : 15 EAST 16th STREET
1895

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ON PAPER-MONEY¹*Letter to the Abbé de Cicé*

Paris, April 7, 1749.

. . . I HAVE not forgotten my engagements with you [to discuss certain subjects]. That I may broach at once some matter worth our study, I may tell you that I have read the three letters which the Abbé Terrasson published in favour of Law's system a few days before the famous edict of May 21, 1720,² which, as you can believe, covered it with ridicule. . . .

The main portion of the work treats of credit and of its nature, and as this is the foundation of the 'system,' or rather is the whole system, I will give you a note of the reflections that occurred to me on reading it. I believe that the principles which he sets forth are those of Law himself, for the Abbé wrote undoubtedly in concert with him. From this evidence before us I cannot help thinking that Law had really no fixed or comprehensive views in respect to the work he had undertaken.

'First,' says the Abbé, 'it is an axiom received in commerce that the credit of a well-regulated merchant amounts to tenfold his capital.' But this 'credit' is not a credit in the shape of *notes*, as in the case of Law's bank. A merchant who would buy goods to tenfold his capital and who would pay for them by notes, payable to the bearer, would soon be ruined. . . . A merchant borrows a sum of money in order to cultivate it, and he derives from this sum not only what is necessary to pay the stipulated interest and to reimburse

¹ See *supra*, pp. 11, 12.

² Which virtually announced the collapse of Law's bank.

the sum itself at the end of a certain time, but also a considerable profit for himself. This credit is not founded on any ascertained capital of the merchant, but on his probity and on his industry, and it necessarily supposes an exchange at the term foreseen and fixed in advance; for if the bills were payable at sight, the merchant would not be free to turn to use the money he had borrowed. Thus it is a contradiction in terms for a bill at sight to bear interest, and such a credit cannot exceed the capital of the borrower. Thus the gain which the merchant makes by his credit, and which it is pretended may be tenfold what he makes by his capital alone, is due entirely to his industry; it is a profit which he draws from the money which passes through his hands, due to the confidence placed in his ability and in his exactitude to restore it, and it is ridiculous to conclude, as I think I have read in 'Dutot,' that he can make bills for ten times the amount of money or of goods in his possession. . . . Observe that the State draws no interest from the sum that it borrows; it has need of it either to pay off former debts or for some extraordinary expenditure; the State consequently cannot restore the amount borrowed except from its natural revenue, hence it ruins itself if it borrows more than it possesses in reserve. . . . In a word, every credit is a borrowing, and has an essential relation to its repayment. . . . The State, the King, the Clergy, and the states of the provinces are necessarily ruined if their revenue is not sufficient to pay every year, besides current expenses, the interest and a part of the capital they have borrowed in the time of extraordinary necessity. The Abbé Terrasson thinks very differently. According to him, 'the king can exceed considerably the proportion of tenfold to which merchants or private individuals are fixed.' The bill of a merchant, he says, being liable to be refused in commerce, does not circulate like money, and consequently returns to its source; its author, in being obliged to pay, finds himself deprived of the benefit of credit. It is not the same with the king; everyone being obliged to take *his* bill, and this bill circulating

like money, 'he pays validly with his very promise.' This doctrine is manifestly an illusion.

If the note be the same as money, why promise to *pay*? If it takes the place of money absolutely, it is no longer a credit. Law had seen that, and declared that his circulating paper was truly a money, and as good as gold and silver. 'These two metals,' says Abbé Terrasson, 'are only the signs that represent real wealth, that is to say, commodities. A *crown* is a note conceived in these terms: "Any seller shall give to the bearer the article or merchandise of which he may have need to the amount of three livres, for as much of another merchandise which has been delivered to me," and the effigy of the prince stands for the signature. Now what does it signify, whether the sign be of silver or of paper? Is it not better to choose a material that costs nothing and which we are not obliged to withdraw from commerce where it is employed as merchandise—one, in fine, that is fabricated in the kingdom and does not subject us to a necessary dependence on foreigners and owners of mines, who greedily profit by the seduction into which, by the glamour of gold and of silver, other nations have fallen—a material which we can increase according to our needs, without fear of its ever being deficient? Paper has all these advantages, which render it preferable to hard money.'

Here would be a benefit as grand as the philosopher's stone if all these reasonings were just. We should have need of neither gold nor silver to buy all kinds of commodities. But, has it been left to Law to remain ignorant that gold falls in value like everything else by becoming more plentiful? If he had read and studied Locke, who wrote twenty years before him, he would have known that all the commodities of a country are balanced between themselves, and with gold and silver, according to the proportion of their quantity and the demand for them; he would have learned that gold has not a value which corresponds always to a certain quantity of merchandise, but that when there is more gold it is cheaper, and one gives more of it for a

determinate quantity of merchandise ; that thus gold, when it circulates freely, suffices always to the need of the State, and that it becomes a matter indifferent to have one hundred millions of marks or one million, if we are to buy all commodities dearer in the same proportion. It is ridiculous to say that metallic money is only a *sign* of value, the credit of which is founded on the stamp of the king. This stamp is only to certify the weight and the title. Even in its relation to commodities the metal uncoined is of the same price as that coined, the marked value is simply a denomination. This is what Law seems to have been ignorant of in establishing his bank.

It is then as merchandise that coined money is (not the sign) but the common measure of other merchandise, and that not by an arbitrary convention, founded on the glamour of that metal, but because, being fit to be employed in different shapes as merchandise, and having on account of this property a saleable value, a little increased by the use made of it as money, and being besides suitable of reduction to a given standard and of being equally divided, we always know the value of it. Gold obtains its price from its rarity, and so far from its being an evil that it is employed at the same time as merchandise and as money, these two employments maintain its price.

Supposing that the king could establish paper-money, which, with all his authority, would not be easy, let us examine what he would gain by it. First, if he increased the quantity he would lower its value by the same act ; and as he reserves the power to increase it, it is impossible for people to consent to give their commodities, at the same nominal price, for a bill when by a stroke of the pen that could be made to lose its real value. 'But,' says Abbé Terrasson, 'the king, to preserve his credit, is interested in restricting the paper within just limits, and this interest of the king is sufficient to establish public confidence.' What should the just limits be ? and how are they to be determined ? Let us follow out the system into the different

suppositions that may be made, and let us see in each case what would be its solidity in respect to the utility it proposes.

I observe, first of all, that it is absolutely impossible for the king to substitute the use of paper for that of gold and silver. Gold and silver themselves, regarding them only as signs, are, by the fact of their very circulation, actually distributed among the public according to the proportion of the commodities, of the industry, lands, and real wealth of every kind existing. Now this proportion can never be primarily known, because it is hidden, and because it varies continually by a new circulation. The king will not proceed to distribute his paper-money to each person in the proportion that he holds gold and silver money, forbidding him at the same time to employ the metal in commerce ; it would be necessary for the king to take to himself the gold and silver of his subjects, giving them his paper in their place. . . . But it is a point, equally of theory and of experience, that the people would never receive the paper except as representing real money, and consequently convertible into it.

One of the ways in which the king could draw to himself metallic money in exchange, and perhaps the only way, would be for him to take back his notes, conjointly with the coin, but to give out only his notes, while keeping the coin. Then he would choose between these two expedients : either to melt the coin in order to use it as merchandise, reducing his subjects to the use of paper, or to leave the coin and to circulate conjointly with it the paper as representatives of each other. I commence by examining this last supposition.

I assume, then, that the king puts into circulation a quantity of paper-money equal to that of coin (Law would have put ten times more). Now as the total quantity of signs (instruments of exchange) always balances itself with the total of commodities, it is plain that the sign will be worth the half less, or, what is the same thing, commodities will be worth as much again more. But independently of

their function as signs of value, gold and silver possess their real value as articles of merchandise, a value which also balances itself against the commodities proportionately to the quantities of these metals, and which they do not lose by their function as money—but on the contrary ; that is to say, their value will be balanced with more merchandise as metal than the paper can be with which it was balanced as money, and, as I shall afterwards show, the king being always obliged to increase the number of his notes if he would not have them rendered useless, this disproportion will go on increasing to the point when specie and paper will be no longer reciprocally convertible, and the paper must become discredited from day to day, while the value of metallic money will be always sustained. . . .¹

¹ *Œuvres de Turgot*, i. 94–102. ‘If, more than forty years afterwards, the majority of the Constituent Assembly had had as much enlightenment on this question as Turgot already showed while almost a youth, France would have been saved from the *assignats*.’ (Dupont.)