

Thomas Paine

The Decline and Fall
of the
English System of Finance

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"On the verge, nay even in the gulf of bankruptcy."
Debates in Parliament.

NOTHING, they say, is more certain than death, and nothing more uncertain than the time of dying; yet we can always fix a period beyond which man cannot live, and within some moment of which he will die. We are enabled to do this, not by any spirit of prophecy, or foresight into the event, but by observation of what has happened in all cases of human or animal existence.

If then any other subject, such, for instance, as a system of finance, exhibits in its progress a series of symptoms indicating decay, its final dissolution is certain, and the period of it can be calculated from the symptoms it exhibits.

Those who have hitherto written on the English system of finance (the funding system) have been uniformly impressed with the idea that its downfall would happen *some time or other*. They took, however, no data for their opinion, but expressed it predictively, or merely as opinion, from a conviction that the perpetual duration of such a system was a natural impossibility. It is in this manner that Dr. Price has spoken of it; and Smith, in his *Wealth of Nations* has spoken in the same manner; that is, merely as opinion without data.

"The progress," says Smith, "of the enormous debts, which at present oppress, and will in the long run most probably ruin, all the great nations of Europe [he should have said governments] has been pretty uniform." But this general manner of speaking, though it might make some impression, carried with it no conviction.

It is not my intention to predict anything; but I will show from data already known, from symptoms and facts which the English funding system has already exhibited publicly, that it will not continue to the end of Mr. Pitt's life, supposing him to live the usual age of a man. How much sooner it may fall I leave to others to predict.

Let financiers diversify systems of credit as they will, it is nevertheless true, that every system of credit is a system of paper money. Two experiments have already been had upon paper money; the one in America, the other in France.

In both those cases the whole capital was emitted, and that whole capital, which in America was called Continental money, and in France assignats, appeared in circulation; the consequence of which was, that the quantity became so enormous, and so disproportioned to the quantity of population, and to the quantity of objects upon which it could be employed, that the market, if I may so express it, was glutted with it, and the value of it fell.

Between five and six years determined the fate of those experiments. The same fate would have happened to gold and silver, could gold and silver have been issued in the same abundant manner that paper had been, and confined within the country as paper money always is, by having no circulation out of it; or, to speak on a larger scale, the same thing would happen in the world, could the world be glutted with gold and silver, as America and France have been with paper.

The English system differs from that of America and France in this one particular, that its capital is kept out of sight; that is, it does not appear in circulation. Were the whole capital of the national debt, which at the time I write this is almost one hundred million pounds sterling, to be emitted in assignats, or bills, and that whole quantity put into circulation, as was done in America and in France, those English assignats, or bills, would soon sink in value as those of America and France have done; and that in a greater degree, because the quantity of them would be more disproportioned to the quantity of population in England, than was the case in either of the other two countries. A nominal pound sterling in such bills would not be worth one penny.

But though the English system, by thus keeping the capital out of sight, is preserved from hasty destruction, as in the case of America and France, it nevertheless approaches the same fate, and will arrive at it with the same certainty, though by a slower progress.

The difference is altogether in the degree of speed by which the two systems approach their fate, which, to speak in round numbers, is as twenty is to one; that is, the English system, that of funding the capital instead of issuing it, contained within itself a capacity of enduring twenty times longer than the systems adopted by America and France; and at the end of that time it would arrive at the same common grave, the potter's field of paper money.

The datum I take for this proportion of twenty to one, is the difference between a capital and the interest at five per cent. Twenty times the interest is equal to the capital. The accumulation of paper money in England is in proportion to the accumulation of the interest upon every new loan; and therefore the progress to the dissolution is twenty times slower than if the capital were to be emitted and put into circulation immediately. Every twenty years in the English system is equal to one year in the French and American systems.

Having thus stated the duration of the two systems, that of funding upon interest, and that of emitting the whole capital without funding, to be as twenty to one, I come to examine the symptoms of decay, approaching to dissolution, that the English system has already exhibited, and to compare them with similar systems in the French and American systems.

The English funding system began one hundred years ago; in which time there have been six wars, including the war that ended in 1697.

1. The war that ended, as I have just said, in 1697.
2. The war that began in 1702.
3. The war that began in 1739.
4. The war that began in 1756.
5. The American war, that began in 1775.
6. The present war, that began in 1793.

The national debt, at the conclusion of the war which ended in 1697, was twenty-one millions and an half. (See Smith's *Wealth of Nations*, chapter on Public Debts.) We now see it approaching fast to four hundred millions. If between these two extremes of twenty-one millions and four hundred millions, embracing the several expenses of all the including wars, there exist some common ratio that will ascertain arithmetically the amount of the debts at the end of each war, as certainly as the fact is known to be, that ratio will in like manner determine what the amount of the debt will be in all future wars, and will ascertain the period within which the funding system will expire in a bankruptcy of the Government; for the ratio I allude to, is the ratio which the nature of the thing has established for itself.

Hitherto no idea has been entertained that any such ratio existed, or could exist, that would determine a problem of this kind; that is, that would ascertain, without having any knowledge of the fact, what

the expense of any former war had been, or what the expense of any future war would be; but it is nevertheless true that such a ratio does exist, as I shall show, and also the mode of applying it. The ratio I allude to is not in arithmetical progression like the numbers 2, 3, 4, 5, 6, 7, 8, 9; nor yet in geometrical progression, like the numbers 2, 4, 8, 16, 32, 64, 128, 256; but it is in the series of one half upon each preceding number; like the numbers 8, 12, 18, 27, 40, 60, 90, 135.

Any person can perceive that the second number, 12, is produced by the preceding number 8, and half 8; and that the third number, 18, is in like manner produced by the preceding number, 12, and half 12; and so on for the rest. They can also see how rapidly the sums increase as the ratio proceeds. The difference between the two first numbers is but four; but the difference between the two last is forty-five; and from thence they may see with what immense rapidity the national debt has increased, and will continue to increase, till it exceeds the ordinary powers of calculation, and loses itself in ciphers.

I come now to apply the ratio as a rule to determine in all cases.

I began with the war that ended in 1697, which was the war in which the funding system began. The expense of that war was twenty-one millions and an half. In order to ascertain the expense of the next war, I add to twenty-one millions and a half, the half thereof (ten millions and three quarters) which makes thirty-two millions and a quarter for the expense of that war. This thirty-two millions and a quarter, added to the former debt of twenty-one millions and a half, carries the national debt to fifty-three millions and three quarters. Smith, in his chapter on Public Debts, says, that the national debt was at this time fifty-three millions.

I proceed to ascertain the expense of the next war, that of 1739, by adding, as in the former case, one-half to the expense of the preceding war. The expense of the preceding war was thirty-two millions and a quarter; for the sake of even numbers, say, thirty-two millions; the half of which (16) makes forty-eight millions for the expense of that war.

I proceed to ascertain the expense of the War of 1756, by adding, according to the ratio, one-half to the expense of the preceding war. The expense of the preceding was taken at forty-eight millions, the half of which (24) makes seventy-two millions for the expense of

that war. Smith (chapter on Public Debts) says the expense of the war of 1756 was seventy-two millions and a quarter.

I proceed to ascertain the expense of the American war, of 1775, by adding, as in the former cases, one-half to the expense of the preceding war. The expense of the preceding war was seventy-two millions, the half of which (36) makes 108 millions for the expense of that war. In the last edition of Smith (chapter on Public Debts), he says, the expense of the American war was *more than an hundred millions*.

I come now to ascertain the expense of the present war, supposing it to continue as long as former wars have done, and the funding system not to break up before that period. The expense of the preceding war was 108 millions, the half of which (54) makes 162 millions for the expense of the present war. It gives symptoms of going beyond this sum, supposing the funding system not to break up; for the loans of the last year and of the present year are twenty-two millions each, which exceeds the ratio compared with the loans of the preceding war.

It will not be from the inability of procuring loans that the system will break up. On the contrary, it is the facility with which loans can be procured that hastens that event. The loans are altogether paper transactions; and it is the excess of them that brings on, with accelerating speed, that progressive depreciation of funded paper money that will dissolve the funding system.

I proceed to ascertain the expense of future wars, and I do this merely to show the impossibility of the continuance of the funding system, and the certainty of its dissolution.

The expense of the next war after the present war, according to the ratio that has ascertained the preceding cases, will be:

		243	millions.
Expense of the	second war	364	"
"	third war	546	"
"	fourth war	819	"
"	fifth war	1228	"
		<hr/>	
		£3200	millions

which, at only four per cent will require taxes to the nominal amount of 128 millions to pay the annual interest, besides the interest of the

present debt, and the expenses of government, which are not included in this account. Is there a man so mad, so stupid, as to suppose this system can continue?

When I first conceived the idea of seeking for some common ratio that should apply as a rule of measurement to all the cases of the funding system, so far as to ascertain the several stages of its approach to dissolution, I had no expectation that any ratio could be found that would apply with so much exactness as this does.

I was led to the idea merely by observing that the funding system was a thing in continual progression, and that whatever was in a state of progression might be supposed to admit of, at least, some general ratio of measurement, that would apply without any very great variation.

But who could have supposed that falling systems, or falling opinions, admitted of a ratio apparently as true as the descent of falling bodies? I have not made the ratio any more than Newton made the ratio of gravitation. I have only discovered it, and explained the mode of applying it.

To show at one view the rapid progression of the funding system to destruction, and to expose the folly of those who blindly believe in its continuance, and who artfully endeavor to impose that belief upon others, I exhibit in the annexed table, the expense of each of the six wars since the funding system began, as ascertained by ratio, and the expense of the six wars yet to come, ascertained by the same ratio.

First Six Wars.				Second Six Wars			
1	...	21	millions	1	...	243	millions
2	...	33	"	2	...	364	"
3	...	48	" ¹	3	...	546	"

¹ The actual expense of the War of 1739 did not come UP to the sum ascertained by the ratio. But as that which is the natural disposition of a thing, as it is the natural disposition of a stream of water to descend, will, if impeded in its course, overcome by a new effort what it had lost by that impediment, so it was with respect to this war and the next (1756) taken collectively; for the expense of the War of 1756 restored the equilibrium of the ratio, as fully as if it had not been impeded. A circumstance that serves to prove the truth of the ratio more fully than if the interruption had not taken place. The War of 1739 was languid; the efforts were below the value of money at that time; for the ratio is the measure of the depreciation of

4	...	72	"	4	...	819	"
5	...	108	"	5	...	1228	"
6	...	162	"	6	...	1842	"
Total		£444		Total		£5042	

Those who are acquainted with the power with which even a small ratio, acting in progression, multiplies in a long series, will see nothing to wonder at in this table. Those who are not acquainted with that subject, and not knowing what else to say, may be inclined to deny it. But it is not their opinion one way, nor mine the other, that can influence the event. The table exhibits the natural march of the funding system to its irredeemable dissolution.

Supposing the present Government of England to continue, and to go on as it has gone on since the funding system began, I would not give twenty shillings for one hundred pounds in the funds to be paid twenty years hence. I do not speak this predictively; I produce the data upon which that belief is founded; and which data it is everybody's interest to know, who have anything to do with the funds, or who are going to bequeath property to their descendants to be paid at a future day.

Perhaps it may be asked, that as governments or ministers proceeded by no ratio in making loans or incurring debts, and nobody intended any ratio, or thought of any, how does it happen that there is one? I answer, that the ratio is founded in necessity; and I now go on to explain what that necessity is. It will always happen, that the price of labor, or of the produce of labor, be that produce what it may, will be in proportion to the quantity of money in a country, admitting things to take their natural course. Before the invention of the funding system, there was no other money than gold and silver; and as nature gives out those metals with a sparing hand, and in regular annual quantities from the mines, the several prices of things were proportioned to the quantity of money at that time, and so nearly stationary as to vary but little in any fifty or sixty years of that period.

money in consequence of the funding system; or what comes to the same end, it is the measure of the increase of paper. Every additional quantity of it, whether in bank notes or otherwise, diminishes the real, though not the nominal value of the former quantity.

When the funding system began, a substitute for gold and silver began also. That substitute was paper; and the quantity increased as the quantity of interest increased upon accumulated loans. This appearance of a new and additional species of money in the nation soon began to break the relative value which money and the things it will purchase bore to each other before.

Everything rose in price; but the rise at first was little and slow, like the difference in units between the two first numbers, 8 and 12, compared with the two last numbers, 90 and 135, in the table. It was however, sufficient to make itself considerably felt in a large transaction. When therefore Government, by engaging in a new war, required a new loan, it was obliged to make a higher loan than the former loan, to balance the increased price to which things had risen; and as that new loan increased the quantity of paper in proportion to the new quantity of interest, it carried the price of things still higher than before.

The next loan was again higher, to balance that further increased price; and all this in the same manner, though not in the same degree, that every new emission of Continental money in America, or of assignats in France, was greater than the preceding emission, to make head against the advance of prices, till the combat could be maintained no longer.

Herein is founded the necessity of which I have just spoken. That necessity proceeds with accelerating velocity, and the ratio I have laid down is the measure of that acceleration; or, to speak the technical language of the subject, it is the measure of the increasing depreciation of funded paper money, which it is impossible to prevent while the quantity of that money and of bank notes continues to multiply. What else but this can account for the difference between one war costing twenty-one millions, and another war costing one hundred and sixty millions?

The difference cannot be accounted for on the score of extraordinary efforts or extraordinary achievements. The war that cost twenty-one millions was the War of the Confederates, historically called the Grand Alliance, consisting of England, Austria and Holland in the time of William III, against Louis XIV, and in which the confederates were victorious.

The present is a war of a much greater confederacy—a confederacy of England, Austria, Prussia, the German Empire, Spain, Holland, Naples French and Sardina, eight Powers, against the Republic singly, and the Republic has beaten the whole Confederacy. But to return to my subject.

It is said in England, that the value of paper keeps equal with the value of gold and silver. But the case is not rightly stated; for the fact is, that the paper has pulled down the value of gold and silver to a level with itself. Gold and silver will not purchase so much of any purchasable article at this day as if no paper had appeared, nor so much as it will in any country in Europe where there is no paper. How long this hanging together of money and paper will continue, makes a new case; because it daily exposes the system to sudden death, independent of the natural death it would otherwise suffer.

I consider the funding system as being now advanced into the last twenty years of its existence. The single circumstance, were there no other, that a war should now cost nominally one hundred and sixty millions, which when the system began cost but twenty-one millions, or that the loan for one year only (including the loan to the Emperor) should now be nominally greater than the whole expense of that war, shows the state of depreciation to which the funding system has arrived.

Its depreciation is in the proportion of eight for one, compared with the value of its money when the system began; which is the state the French assignats stood a year ago (March, 1795) compared with gold and silver. It is therefore that I say, that the English funding system has entered on the last twenty years of its existence, comparing each twenty years of the English system with every single year of the American and French systems, as before stated.

Again, supposing the present war to close as former wars have done, and without producing either revolution or reform in England, another war at least must be looked for in the space of the twenty years I allude to; for it has never yet happened that twenty years have passed off without a war, and that more especially since the English Government has dabbled in German politics, and shown a disposition to insult the world, and the world of commerce, with her navy.

The next war will carry the national debt to very nearly seven hundred millions, the interest of which, at four per cent will be

twenty-eight millions besides the taxes for the (then) expenses of government, which will increase in the same proportion, and which will carry the taxes to at least forty millions; and if another war only begins, it will quickly carry them to above fifty; for it is in the last twenty years of the funding system, as in the last year of the American and French systems without funding, that all the great shocks begin to operate.

I have just mentioned that paper in England has pulled down the value of gold and silver to a level with itself; and that this pulling down of gold and silver money has created the appearance of paper money keeping up. The same thing, and the same mistake, took place in America and in France, and continued for a considerable time after the commencement of their system of paper; and the actual depreciation of money was hidden under that mistake.

It was said in America, at that time, that everything was becoming *dear*; but gold and silver could then buy those dear articles no cheaper than paper could; and therefore it was not called depreciation. The idea of *dearness* established itself for the idea of depreciation. The same was the case in France. Though everything rose in price soon after assignats appeared, yet those dear articles could be purchased no cheaper with gold and silver, than with paper, and it was only said that things were *dear*.

The same is still the language in England. They call it *deariness*. But they will soon find that it is an actual depreciation, and that this depreciation is the effect of the funding system; which, by crowding such a continually increasing mass of paper into circulation, carries down the value of gold and silver with it. But gold and silver, will, in the long run, revolt against depreciation, and separate from the value of paper; for the progress of all such systems appears to be, that the paper will take the command in the beginning, and gold and silver in the end.

But this succession in the command of gold and silver over paper, makes a crisis far more eventful to the funding system than to any other system upon which paper can be issued; for, strictly speaking, it is not a crisis of danger but a symptom of death. It is a death-stroke to the funding system. It is a revolution in the whole of its affairs.

If paper be issued without being funded upon interest, emissions of it can be continued after the value of it separates from gold and

silver, as we have seen in the two cases of America and France. But the funding system rests altogether upon the value of paper being equal to gold and silver; which will be as long as the paper can continue carrying down the value of gold and silver to the same level to which itself descends, and no longer.

But even in this state, that of descending equally together, the minister, whoever he may be, will find himself beset with accumulating difficulties; because the loans and taxes voted for the service of each ensuing year will wither in his hands before the year expires, or before they can be applied. This will force him to have recourse to emissions of what are called exchequer and navy bills, which, by still increasing the mass of paper in circulation, will drive on the depreciation still more rapidly.

It ought to be known that taxes in England are not paid in gold and silver, but in paper (bank notes). Every person who pays any considerable quantity of taxes, such as maltsters, brewers, distillers (I appeal for the truth of it, to any of the collectors of excise in England, or to Mr. Whitebread), knows this to be the case.

There is not gold and silver enough in the nation to pay the taxes in coin, as I shall show; and consequently there is not money enough in the bank to pay the notes. The interest of the national funded debt is paid at the bank in the same kind of paper in which the taxes are collected.

When people find, as they will find, a reservedness among each other in giving gold and silver for bank notes, or the least preference for the former over the latter, they will go for payment to the bank, where they have a right to go. They will do this as a measure of prudence, each one for himself, and the truth or delusion of the funding system will then be proved.

I have said in the foregoing paragraph that there is not gold and silver enough in the nation to pay the taxes in coin, and consequently that there cannot be enough in the bank to pay the notes. As I do not choose to rest anything upon assertion, I appeal for the truth of this to the publications of Mr. Eden (now called Lord Auckland) and George Chalmers, secretary to the Board of Trade and Plantation, of which Jenkinson (now Lord Hawkesbury) is president. (These sort of folks change their names so often that it is as difficult to know them as it is to know a thief.)

Chalmers gives the quantity of gold and silver coin from the returns of coinage at the mint; and after deducting for the light gold recoined, says that the amount of gold and silver coined is *about twenty millions*. He had better not have proved this, especially if he had reflected that *public credit is suspicion asleep*. The quantity is much too little.

Of this twenty millions (which is not a fourth part of the quantity of gold and silver there is in France, as is shown in Mr. Necker's treatise on the *Administration of the Finances*) three millions at least must be supposed to be in Ireland, some in Scotland, and in the West Indies, Newfoundland, etc. The quantity therefore in England cannot be more than sixteen millions, which is four millions less than the amount of the taxes. But admitting that there are sixteen millions, not more than a fourth part thereof (four millions) can be in London, when it is considered that every city, town, village and farmhouse in the nation must have a part of it, and that all the great manufactories, which most require cash, are out of London. Of this four millions in London, every banker, merchant, tradesman, in short every individual, must have some. He must be a poor shop-keeper indeed, who has not a few guineas in his till.

The quantity of cash therefore in the bank can never, on the evidence of circumstances, be so much as two millions; most probably not more than one million; and on this slender twig, always liable to be broken, hangs the whole funding system of four hundred millions, besides many millions in bank notes.

The sum in the bank is not sufficient to pay one-fourth of only one year's interest of the national debt, were the creditors to demand payment in cash, or demand cash for the bank notes in which the interest is paid, a circumstance always liable to happen.

One of the amusements that has kept up the farce of the funding system is, that the interest is regularly paid. But as the interest is always paid in bank notes, and as bank notes can always be coined for the purpose, this mode of payment proves nothing. The point of proof is, can the bank give cash for the bank notes with which the interest is paid? If it cannot, and it is evident it cannot, some millions of bank notes must go without payment, and those holders of bank notes who apply last will be worst off.

When the present quantity of cash in the bank is paid away, it is next to impossible to see how any new quantity is to arrive. None will arrive from taxes, for the taxes will all be paid in bank notes; and should the Government refuse bank notes in payment of taxes, the credit of bank notes will be gone at once. No cash will arise from the business of discounting merchants' bills; for every merchant will pay off those bills in bank notes, and not in cash. There is therefore no means left for the bank to obtain a new supply of cash, after the present quantity is paid away.

But besides the impossibility of paying the interest of the funded debt in cash, there are many thousand persons, in London and in the country, who are holders of bank notes that came into their hands in the fair way of trade, and who are not stockholders in the funds; and as such persons have had no hand in increasing the demand upon the bank, as those have had who for their own private interest, like Boyd and others, are contracting or pretending to contract for new loans, they will conceive they have a just right that their bank notes should be first paid. Boyd has been very sly in France, in changing his paper into cash. He will be just as sly in doing the same thing in London, for he has learned to calculate; and then it is probable he will set off for America.

A stoppage of payment at the bank is not a new thing. Smith in his *Wealth of Nations*, book ii. chap. 2. says, that in the year 1696, exchequer bills fell forty, fifty and sixty per cent; bank notes twenty per cent; and the bank stopped payment. That which happened in 1696 may happen again in 1796.

The period in which it happened was the last year of the War of King William. It necessarily put a stop to the further emissions of exchequer and navy bills, and to the raising of new loans; and the peace which took place the next year was probably hurried on by this circumstance, and saved the bank from bankruptcy, Smith in speaking from the circumstances of the bank, upon another occasion, says (book ii. chap. 2). "This great company had been reduced to the necessity of paying in sixpences." When a bank adopts the expedient of paying in sixpences, it is a confession of insolvency.

It is worthy of observation, that every case of failure in finances, since the system of paper began, has produced a revolution in governments, either total or partial. A failure in the finances of

France produced the French Revolution. A failure in the finance of the assignats broke up the revolutionary government, and produced the present French Constitution. A failure in the finances of the Old Congress of America and the embarrassments it brought upon commerce, broke up the system of the old confederation, and produced the Federal Constitution. If, then, we admit of reasoning by comparison of causes and events, the failure of the English finances will produce some change in the government of that country.

As to Mr. Pitt's project of paying off the national debt by applying a million a year for that purpose, while he continues adding more than twenty millions a year to it, it is like setting a man with a wooden leg to run after a hare. The longer he runs the farther he is off.

When I said that the funding system had entered the last twenty years of its existence, I certainly did not mean that it would continue twenty years, and then expire as a lease would do. I meant to describe that age of decrepitude in which death is every day to be expected, and life cannot continue long. But the death of credit, or that state that is called bankruptcy, is not always marked by those progressive stages of visible decline that marked the decline of natural life.

In the progression of natural life age cannot counterfeit youth, nor conceal the departure of juvenile abilities. But it is otherwise with respect to the death of credit; for though all the approaches to bankruptcy may actually exist in circumstances, they admit of being concealed by appearances.

Nothing is more common than to see the bankrupt of to-day a man in credit but the day before; yet no sooner is the real state of his affairs known, than everybody can see he had been insolvent long before. In London, the greatest theater of bankruptcy in Europe, this part of the subject will be well and feelingly understood.

Mr. Pitt continually talks of credit, and the national resources. These are two of the feigned appearances by which the approaches to bankruptcy are concealed. That which he calls credit may exist, as I have just shown, in a state of insolvency, and is always what I have before described it to be, *suspicion asleep*.

As to national resources, Mr. Pitt, like all English financiers that preceded him since the funding system began, has uniformly

mistaken the nature of a resource; that is, they have mistaken it consistently with the delusion of the funding system; but time is explaining the delusion. That which he calls, and which they call, a resource, is not a resource, but is the anticipation of a resource. They have anticipated what would have been a resource in another generation had not the use of it been so anticipated.

The funding system is a system of anticipation. Those who established it an hundred years ago anticipated the resources of those who were to live an hundred years after; for the people of the present day have to pay the interest of the debts contracted at that time, and all debts contracted since. But it is the last feather that breaks the horse's back. Had the system begun an hundred years before, the amount of taxes at this time to pay the annual interest at four per cent (could we suppose such a system of insanity could have continued) would be two hundred and twenty millions annually; for the capital of the debt would be five thousand four hundred and eighty-six millions, according to the ratio that ascertains the expense of the wars for the hundred years that are past.

But long before it could have reached this period, the value of bank notes, from the immense quantity of them (for it is in paper only that such a nominal revenue could be collected), would have been so low or lower than Continental paper has been in America, or assignats in France; and as to the idea of exchanging them for gold and silver, it is too absurd to be contradicted.

Do we not see that nature, in all her operations, disowns the visionary basis upon which the funding system is built? She acts always by renewed successions, and never by accumulating additions perpetually progressing. Animals and vegetables, men and trees, have existed since the world began; but that existence has been carried on by succession of generations, and not by continuing the same men and the same trees in existence that existed first; and to make room for the new she removes the old.

Every natural idiot can see this; it is the stock-jobbing idiot only that mistakes. He has conceived that art can do what nature cannot. He is teaching her a new system—that there is no occasion for man to die—that the scheme of creation can be carried on upon the plan of the funding system—that it can proceed by continual additions of

new beings, like new loans, and all live together in eternal youth. Go, count the graves, thou idiot, and learn the folly of thy arithmetic!

But besides these things, there is something visibly farcical in the whole operation of loaning. It is scarcely more than four years ago that such a lot of bankruptcy spread itself over London, that the whole commercial fabric tottered; trade and credit were at a stand; and such was the state of things that, to prevent or suspend a general bankruptcy, the Government lent the merchants six millions in *Government* paper, and now the merchants lend the Government twenty-two millions in their paper; and two parties, Boyd and Morgan, men but little known, contend who shall be the lenders.

What a farce is this! It reduces the operation of loaning to accommodation paper, in which the competitors contend, not who shall lend, but who shall sign, because there is something to be got for signing.

Every English stock-jobber and minister boasts of the credit of England. Its credit, say they, is greater than that of any country in Europe. There is a good reason for this: for there is not another country in Europe that could be made the dupe of such a delusion. The English funding system will remain a monument of wonder, not so much on account of the extent to which it has been carried, as of the folly of believing in it.

Those who had formerly predicted that the funding system would break up when the debt should amount to one hundred or one hundred and fifty millions, erred only in not distinguishing between insolvency and actual bankruptcy; for the insolvency commenced as soon as the Government became unable to pay the interest in cash, or to give cash for the bank notes in which the interest was paid, whether that inability was known or not, or whether it was suspected or not.

Insolvency always takes place before bankruptcy; for bankruptcy is nothing more than the publication of that insolvency. In the affairs of an individual, it often happens that insolvency exists several years before bankruptcy, and that the insolvency is concealed and carried on till the individual is not able to pay one shilling in the pound.

A government can ward off bankruptcy longer than an individual: but insolvency will inevitably produce bankruptcy, whether in an individual or in a government. If then the quantity of bank notes

payable on demand, which the bank has issued, is greater than the bank can pay off, the bank is insolvent: and when that insolvency is declared, it is bankruptcy.²

I come now to show the several ways by which bank notes get into circulation: I shall afterwards offer an estimate on the total quantity or amount of bank notes existing at this moment. The bank acts in three capacities. As a bank of discount; as a bank of deposit; and as a banker for the Government.

First, as a bank of discount. The bank discounts merchants' bills of exchange for two months. When a merchant has a bill that will become due at the end of two months, and wants payment before that time, the bank advances that payment to him, deducting therefrom at the rate of five per cent per annum. The bill of exchange remains at

² Among the delusions that have been imposed upon the nation by ministers to give a false coloring to its affairs, and by none more than by Mr. Pitt, is a motley, amphibious-charactered thing called the balance of trade. This balance of trade, as it is called, is taken from the custom-house books, in which entries are made of all cargoes exported, and also of all cargoes imported, in each year; and when the value of the exports, according to the price set upon them by the exporter or by the custom-house, is greater than the value of the imports, estimated in the same manner, they say the balance of trade is much in their favor. The custom-house books prove regularly enough that so many cargoes have been exported, and so many imported; but this is all that they prove, or were intended to prove. They have nothing to do with the balance of profit or loss; and it is ignorance to appeal to them upon that account; for the case is, that the greater the loss is in any one year, the higher will this thing called the balance of trade appear to be according to the custom-house books. For example, nearly the whole of the Mediterranean convoy has been taken by the French this year; consequently those cargoes will not appear as imports on the custom-house books, and therefore the balance of trade, by which they mean the profits of it, will appear to be so much the greater as the loss amounts to; and, on the other hand, had the loss not happened, the profits would have appeared to have been so much the less. All the losses happening at sea to returning cargoes, by accidents, by the elements, or by capture, make the balance appear the higher on the side of the exports; and were they all lost at sea, it would appear to be all profit on the custom-house books. Also every cargo of exports that is lost that occasions another to be sent, adds in like manner to the side of the exports, and appears as profit. This year the balance of trade will appear high, because the losses have been great by capture and by storms. The ignorance of the British Parliament in listening to this hackneyed imposition of ministers about the balance of trade is astonishing. It shows how little they know of national affairs—and Mr. Grey may as well talk Greek to them, as to make motions about the state of the nation. They understand only fox-hunting and the game laws.

the bank as a pledge or pawn, and at the end of two months it must be redeemed.

This transaction is done altogether in paper; for the profits of the bank, as a bank of discount, arise entirely from its making use of paper as money. The bank gives bank notes to the merchant in discounting the bill of exchange, and the redeemer of the bill pays bank notes to the bank in redeeming it. It very seldom happens that any real money passes between them.

If the profits of a bank be, for example, £200,000 a year (a great sum to be made merely by exchanging one sort of paper for another, and which shows also that the merchants of that place are pressed for money for payments, instead of having money to spare to lend to government), it proves that the bank discounts to the amount of four millions annually, or £666,666 every two months; and as there never remain in the bank more than two months' pledges, of the value of £666,666, at any one time, the amount of bank notes in circulation at any one time should not be more than to that amount.

This is sufficient to show that the present immense quantity of bank notes, which are distributed through every city, town, village, and farm-house in England, cannot be accounted for on the score of discounting.

Secondly, as a bank of deposit. To deposit money at the bank means to lodge it there for the sake of convenience, and to be drawn out at any moment the depositor pleases, or to be paid away to his order. When the business of discounting is great, that of depositing is necessarily small. No man deposits and applies for discounts at the same time; for it would be like paying interest for lending money, instead of for borrowing it.

The deposits that are now made at the bank are almost entirely in bank notes, and consequently they add nothing to the ability of the bank to pay off the bank notes that may be presented for payment; and besides this, the deposits are no more the property of the bank than the cash or bank notes in a merchant's counting-house are the property of his bookkeeper. No great increase therefore of bank notes, beyond what the discounting business admits, can be accounted for on the score of deposits.

Thirdly, the bank acts as banker for the Government. This is the connection that threatens to ruin every public bank. It is through this

connection that the credit of a bank is forced far beyond what it ought to be, and still further beyond its ability to pay. It is through this connection, that such an immense redundant quantity of bank notes have gotten into circulation; and which, instead of being issued because there was property in the bank, have been issued because there was none.

When the treasury is empty, which happens in almost every year of every war, its coffers at the bank are empty also. It is in this condition of emptiness that the minister has recourse to emissions of what are called exchequer and navy bills which continually generates a new increase of bank notes, and which are sported upon the public, without there being property in the bank to pay them.

These exchequer and navy bills (being, as I have said, emitted because the treasury and its coffers at the bank are empty, and cannot pay the demands that come in) are no other than an acknowledgment that the bearer is entitled to receive so much money. They may be compared to the settlement of an account, in which the debtor acknowledges the balance he owes, and for which he gives a note of hand; or to a note of hand given to raise money upon it.

Sometimes the bank discounts those bills as it would discount merchants' bills of exchange; sometimes it purchases them of the holders at the current price; and sometimes it agrees with the ministers to pay an interest upon them to the holders, and keep them in circulation. In everyone of these cases an additional quantity of bank notes gets into circulation, and are sported, as I have said, upon the public, without there being property in the bank, as banker for the Government, to pay them; and besides this, the bank has now no money of its own; for the money that was originally subscribed to begin the credit of the bank with, at its first establishment, has been lent to government and wasted long ago.

"The bank" says Smith, (book ii, chapter 2) "acts not only as an ordinary bank, but as a great engine of state; it receives and pays a greater part of the annuities which are due to the creditors of the public." (It is worth observing, that the public, or the nation, is always put for the Government, in speaking of debts.) "It circulates" says Smith, "exchequer bills, and it advances to government the annual amount of the land and malt taxes, which are frequently not paid till several years afterwards." (This advancement is also done in

bank notes, for which there is not property in the bank.) "In those different operations" says Smith, "*its duty to the public* may sometimes have obliged it, without any fault of its directors, *to overstock the circulation with paper money*"—bank notes.

How its duty to the public can induce it to overstock that public with promissory bank notes which it cannot pay, and thereby expose the individuals of that public to ruin, is too paradoxical to be explained; for it is on the credit which individuals give to the bank, by receiving and circulating its notes, and not upon its own credit or its own property, for it has none, that the bank sports.

If, however, it be the duty of the bank to expose the public to this hazard, it is at least equally the duty of the individuals of that public to get their money and take care of themselves; and leave it to placemen, pensioners, government contractors, Reeves's Association, and the members of both Houses of Parliament, who have voted away the money at the nod of the minister, to continue the credit if they can, and for which their estates individually and collectively ought to answer, as far as they will go.

There has always existed, and still exists, a mysterious, suspicious connection, between the minister and the directors of the bank, and which explains itself no other ways than by a continual increase in bank notes. Without, therefore, entering into any further details of the various contrivances by which bank notes are issued, and thrown upon the public, I proceed, as I before mentioned, to offer an estimate on the total quantity of bank notes in circulation.

However disposed governments may be to wring money by taxes from the people, there is a limit to the practise established by the nature of things. That limit is the proportion between the quantity of money in a nation, be that quantity what it may, and the greatest quantity of taxes that can be raised upon it.

People have other uses for money besides paying taxes; and it is only a proportional part of the money they can spare for taxes, as it is only a proportional part they can spare for house-rent, for clothing, or for any other particular use. These proportions find out and establish themselves; and that with such exactness, that if any one part exceeds its proportion, all the other parts feel it.

Before the invention of paper money (bank notes), there was no other money in the nation than gold and silver, and the greatest

quantity of money that was ever raised in taxes during that period never exceeded a fourth part of the quantity of money in the nation. It was high taxing when it came to this point. The taxes in the time of William III never reached to four millions before the invention of paper, and the quantity of money in the nation at that time was estimated to be about sixteen millions.

The same proportions established themselves in France. There was no paper money in France before the present Revolution³, and the taxes were collected in gold and silver money. The highest quantity of taxes never exceeded twenty-two millions sterling; and the quantity of gold and silver money in the nation at the same time, as stated by M. Necker, from returns of coinage at the mint, in his treatise on the *Administration of the Finances*, was about ninety millions sterling. To go beyond this limit of a fourth part, in England, they were obliged to introduce paper money; and the attempt to go beyond it in France, where paper could not be introduced, broke up the Government. This proportion, therefore, of a fourth part, is the limit which the thing establishes for itself, be the quantity of money in a nation more or less.

The amount of taxes in England at this time is full twenty millions; and therefore the quantity of gold and silver, and of bank notes, taken together, amounts to eighty millions. The quantity of gold and silver, as stated by Lord Hawkesbury's secretary, George Chalmers, as I have before shown, is twenty millions; and, therefore, the total amount of bank notes in circulation, all made payable on demand, is sixty millions. This enormous sum will astonish the most stupid stock-jobber, and overpower the credulity of the most thoughtless Englishman: but were it only a third part of that sum, the bank cannot pay half a crown in the pound.

There is something curious in the movements of this modern complicated machine, the funding system; and it is only now that it is beginning to unfold the full extent of its movements. In the first part of its movements it gives great powers into the hands of government, and in the last part it takes them completely away.

The funding system set out with raising revenues under the name of loans, by means of which government became both prodigal and

³ What about John Law's paper money in 1715-18? /pma

powerful. The loaners assumed the name of creditors, and though it was soon discovered that loaning was government-jobbing, those pretended loaners, or the persons who purchased into the funds afterwards, conceived themselves not only to be creditors, but to be the only creditors.

But such has been the operation of this complicated machine, the funding system, that it has produced, unperceived, a second generation of creditors, more numerous and far more formidable and withal more real than the first generation; for every holder of a bank note is a creditor, and a real creditor, and the debt due to him is made payable on demand. The debt therefore which the government owes to individuals is composed of two parts; the one about four hundred millions bearing interest, the other about sixty millions payable on demand. The one is called the funded debt, the other is the debt due in bank notes.

The second debt (that contained in the bank notes) has, in a great measure, been incurred to pay the interest of the first debt; so that in fact little or no real interest has been paid by Government. The whole has been delusion and fraud. Government first contracted a debt, in the form of loans, with one class of people, and then ran clandestinely into debt with another class, by means of bank notes, to pay the interest. Government acted of itself in contracting the first debt, and made a machine of the bank to contract the second.

It is this second debt that changes the seat of power and the order of things; for it puts it in the power of even a small part of the holders of bank notes (had they no other motives than disgust at Pitt and Grenville's sedition bills), to control any measure of government they found to be injurious to their interest; and that not by popular meetings, or popular societies, but by the simple and easy operation of withholding their credit from that government; that is, by individually demanding payment at the bank for every bank note that comes into their hands.

Why should Pitt and Grenville expect that the very men whom they insult and injure, should, at the same time, continue to support the measures of Pitt and Grenville, by giving credit to their promissory notes of payment? No new emissions of bank notes could go on while payment was demanding on the old, and the cash in the bank wasting daily away; nor any new advances be made to

Government, or to the Emperor, to carry on the war; nor any new emission be made on exchequer bills.

"*The bank*," says Smith, (book ii, chapter 2) "*is a great engine of State.*" And in the same paragraph he says, "*The stability of the bank is equal to that of the British Government;*" which is the same as to say that the stability of the Government is equal to that of the bank, and no more. If then the bank cannot pay, the *arch-treasurer of the Holy Roman Empire* (S. R. I. A.⁴) is a bankrupt. When folly invented titles, she did not attend to their application; for ever since the Government of England has been in the hands of arch-treasurers, it has been running into bankruptcy; and as to the arch-treasurer apparent, he has been a bankrupt long ago. What a miserable prospect has England before its eyes!

Before the War of 1755 there were no bank notes lower than £20. During that war, bank notes of £15 and of £10 were coined; and now, since the commencement of the present war, they are coined as low as £5. These £5 notes will circulate chiefly among little shop-keepers, butchers, bakers, market-people, renters of small houses, lodgers, etc.

All the high departments of commerce and the affluent stations of life were already overstocked, as Smith expresses it, with the bank notes. No place remained open wherein to crowd an additional quantity of bank notes but among the class of people I have just mentioned, and the means of doing this could be best effected by coining £5 notes. This conduct has the appearance of that of an unprincipled insolvent, who, when on the verge of bankruptcy to the amount of many thousands, will borrow as low as £5 of the servants in his house, and break the next day.

But whatever momentary relief or aid the minister and his bank might expect from this low contrivance of £5 notes, it will increase the inability of the bank to pay the higher notes, and hasten the destruction of all; for even the small taxes that used to be paid in money will now be paid in those notes, and the bank will soon find itself with scarcely any other money than what the hair-powder guinea-tax brings in.

⁴ Part of the inscription on an English guinea.

The bank notes make the most serious part of the business of finance: what is called the national funded debt is but a trifle when put in comparison with it; yet the case of the bank notes has never been touched upon. But it certainly ought to be known upon what authority, whether that of the minister or of the directors, and upon what foundation, such immense quantities are issued. I have stated the amount of them at sixty millions; I have produced data for that estimation; and besides this, the apparent quantity of them, far beyond that of gold and silver in the nation, corroborates the statement. But were there but a third part of sixty millions, the bank cannot pay half a crown in the pound; for no new supply of money, as before said, can arrive at the bank, as all the taxes will be paid in paper.

When the funding system began, it was not doubted that the loans that had been borrowed would be repaid. Government not only propagated that belief, but it began paying them off. In time this profession came to be abandoned: and it is not difficult to see that bank notes will march the same way; for the amount of them is only another debt under another name; and the probability is that Mr. Pitt will at last propose funding them. In that case bank notes will not be so valuable as French assignats.

The assignats have a solid property in reserve, in the national domains; bank notes have none; and, besides this, the English revenue must then sink down to what the amount of it was before the funding system began—between three and four millions; one of which the arch-treasurer would require for himself, and the arch-treasurer apparent would require three-quarters of a million more to pay his debts. "*In France*," says Sterne, "*they order these things better*."

I have now exposed the English system of finance to the eyes of all nations; for this work will be published in all languages. In doing this, I have done an act of justice to those numerous citizens of neutral nations who have been imposed upon by that fraudulent system, and who have property at stake upon the event. As an individual citizen of America, and as far as an individual can go, I have revenged (if I may use the expression without any immoral meaning) the piratical depredations committed on the American commerce by the English Government. I have retaliated for France

on the subject of finance: and I conclude with retorting on Mr. Pitt the expression he used against France, and say, that the English system of finance "Is ON THE VERGE, NAY EVEN IN THE GULF OF BANKRUPTCY."

THOMAS PAINE.

Paris, nineteenth Germinal, fourth year of the Republic, April 8, 1796.